

President & Chief Executive Officer's Report

Robert (Bob) B. Gallaway
President & C.E.O.



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Fiscal 2004 proved to be every bit as demanding as 2003 for Ridley. The Company continued to deal with many of the same difficult circumstances that characterized the previous year.

The combination of poor producer economics in most sectors, a weaker U.S. dollar, the ongoing impact of Bovine Spongiform Encephalopathy (BSE) on the North American cattle industry, a reduction in the number of animals on feed, and the after-effects of the USDA Drought Assistance Program, continued to hamper our performance.

Confronted with this list of challenges, our net earnings from continuing operations declined to \$12.4 million in 2004 from \$23.3 million in 2003. After deducting the losses of the discontinued Cotswold operations, \$1.5 million in 2004 and \$13.0 million in 2003, we reported net earnings of \$10.9 million in fiscal 2004, a slight increase over the \$10.4 million reported for 2003. Diluted earnings per share rose by \$0.04 to \$0.79. Our performance, although certainly not satisfactory, was achieved in the face of a very tough business climate.

Simply put, our customers were hurting through much of the year, and Ridley shared in the hurt. When the economics of livestock production are poor, as they were for most of this past year, livestock producers either leave the field or reduce the size of their herds or flocks, and as a result, Ridley's sales volumes decline. Unfortunately, we also experienced higher costs in some areas over which we have little control – insurance, utilities, freight and regulatory compliance. The details of our operating results are provided in Management's Discussion & Analysis, beginning on page 22 of this report.

Going forward, Ridley's management team is committed to improving the efficiency and profitability of the Company on a long-term basis, attaining the earnings potential of this Company and building an enterprise capable of thriving even in the toughest environment.

A number of initiatives were undertaken in fiscal 2004 that contributed to earnings for the year and for the future. We continued to optimize the allocation of our capital resources during the year, vacating and closing or selling several office, warehouse or retail facilities within the Company, as well as taking advantage of opportunities to increase our plant utilization rates. We are reviewing other facilities for optimization of assets deployed.

One of Ridley's primary goals is to improve profitability by expanding into selected new markets and growth segments

During the year, we refined our inventory and credit management practices, with the objective of reducing funds employed. We reduced inventory levels and dealt with inventory obsolescence issues, resulting in improved inventory turns. Our accounts and loans receivable policies and practices were reviewed and revised, resulting in improvements in receivables outstanding. Ridley continues to generate strong cash flow from operations, allowing us to reduce bank debt by over \$20.0 million. All of these steps have helped strengthen our balance sheet and give us the flexibility to finance future growth, whether internally or through acquisitions.

We introduced several exciting new products to the marketplace in fiscal 2004, each of which was very successful and generated significant enthusiasm from dealers and customers. The product launches also produced a spillover effect, increasing customers' interest in Ridley's entire product line, and invigorating the sales team.

Ridley also recognizes the value of investing in our people, and over the past several years we have followed through with several different programs to improve our employees' skill set. This year's training programs are described in the Ridley Feed Operations and Ridley Block Operations sections.

The best way to rebuild sales volumes is to ensure that Ridley provides superior products and outstanding customer service, technical advice and product support. We intend to keep doing that.

One of Ridley's primary goals is to improve profitability by expanding into selected new markets and growth segments. In fiscal 2004 we made significant progress, completing one acquisition during the year and another just after our year-end, and substantially completing construction of an all-equine feed manufacturing facility.

In August 2003 we acquired the assets and business of Heartland, Inc. in Bismarck, North Dakota, a business we knew well because of our involvement with them in a successful feed marketing joint venture. The acquisition included the other half of the joint venture, a feed mill, warehouse and retail farm supplies outlet, as well as grain merchandising and birdseed packaging businesses.

Photo: Ridley's Equine Business Unit is building an all-equine feed facility in Chambersburg, Pennsylvania to serve the growing equine market in the Mid-Atlantic region.



The feed mill is the principal production source for serving Ridley's customers in North Dakota and parts of Montana and South Dakota, and is a key distribution point for Ridley's Low Moisture Blocks in the upper Midwest. The Bismarck business was integrated with our existing operations, allowing us to more effectively serve customers in the region and realize a number of synergies. Its results in the first year exceeded projections.

Just after our fiscal year-end, in July 2004, we acquired the assets and business of Sweetlix, LLC. This initiative positions Ridley as one of the largest manufacturers of free-choice feed supplement blocks in North America, and enhances our sales presence and distribution system in the southern and eastern U.S. The Sweetlix® line of products, including several that are proprietary, broadens the range of our product offerings and the expanded manufacturing capability of the three production plants that came with the acquisition improves our flexibility and adds capacity for future growth.

We also started construction of an all-equine plant in Chambersburg, Pennsylvania during the year, with completion scheduled for late November. The plant will produce superior equine feeds and nutritional supplements under the McCauley brand for the high growth Mid-Atlantic equine markets of Pennsylvania, Maryland, New Jersey and Delaware.

Our block operations expect to benefit from a strong cattle economy, and the exciting new products introduced last year will generate additional earnings

Outlook

The watchword for fiscal 2005 continues to be vigilance. The entire Ridley organization will have to exercise discipline and show strong commitment to our strategic priorities. We face some of the same uncertainties that buffeted our operations during the year – the U.S. - Canadian dollar exchange rate, potentially higher interest rates, the impact of BSE and resulting border closing, and the threat of other disease issues such as avian influenza.

That said, we have a number of reasons for optimism. Our feed operations are strong and are capturing new volume and maintaining reasonable margins. Cost containment efforts started last year will continue to bear fruit. The unusual level of charges for bad debts we incurred in fiscal 2004 will not be a factor in 2005. Our block operations expect to benefit from a strong cattle economy, and the exciting new products introduced last year will generate additional earnings. The Sweetlix® line of feed supplement blocks will have a positive impact on earnings and market share.

Most importantly, we have a strong management team and a dedicated group of employees who have shown their mettle in challenging times. I would like to recognize and thank them for their contributions in a very difficult year, and I look forward to their continued commitment and support in the coming year.



Robert B. Gallaway
President & Chief Executive Officer