



RIDLEY Inc.

RIDLEY ANNUAL REPORT 2003



A higher standard

RIDLEY INC. PROFILE

RIDLEY Inc. is one of the largest commercial animal nutrition businesses in North America serving customers mainly in the United States and Canada. Ridley manufactures and/or distributes a full range of animal nutrition products including formulated feeds, premixes, supplements, low-moisture blocks, animal health products, feed ingredients, animal care and livestock handling equipment.

RIDLEY'S customers include livestock breeders and growers who produce meat, dairy and poultry products that are processed into consumer food products, as well as consumers who own or breed animals for recreational or companionship purposes. We create value for our customers by helping them to be more profitable in their own businesses through applied animal science and production technology.

RIDLEY'S operations in the United States include 29 mills with an annual production capacity of 1,535,000 tons (1,393,000 metric tonnes) of feed. Its Canadian operations comprise 15 mills with annual production capacity of 905,000 metric tonnes. Ridley's products are marketed under a number of highly regarded trade names, including Hubbard Feeds, Feed-Rite, Wayne Feeds, Ridley Block Operations, Ridley Feed Ingredients, Ridley Specialty Products, Daco Western Canada, Farmix, McCauley Bros., Inc. and CRYSTALYX®.

THE Cotswold Swine Genetics division is a leader in the swine genetics industry, marketing its advanced Cotswold swine breeding stock and services to pork producing customers in the United States and Canada.

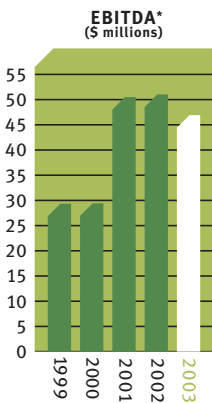
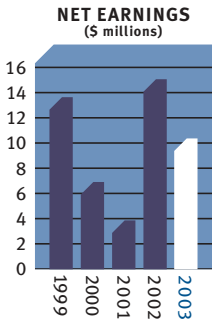
RIDLEY'S strategy for increasing shareholder value is to build on its leadership position in animal nutrition markets, and to develop growth opportunities in related businesses where it can meet its profitability and investment return objectives as a high-quality, efficient producer.

RIDLEY Corporation Limited, Australia's largest livestock feed manufacturer, owns approximately 70 percent of Ridley Inc.'s outstanding shares.

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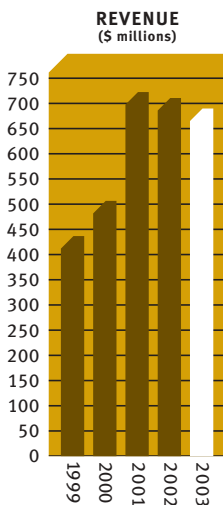
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OPERATING HIGHLIGHTS



* Earnings before interest, taxes, depreciation and amortization.

EBITDA and Revenue include the results of discontinued operations to date of disposition.



FEED OPERATIONS REORGANIZED

Ridley announced the reorganization of its U.S. Feed Operations and Canadian Feed Operations during fiscal 2003 to bring the two divisions under common management. This is a key element in Ridley's strategy to leverage their combined resources and improve accessibility to technical expertise for all of Ridley's livestock-producing customers.

USDA DROUGHT ASSISTANCE

Prolonged drought in the West led to the USDA introducing a drought assistance program for livestock producers, helping to generate extra sales volumes for the U.S. Feed Operations and pushing Ridley Block Operations to another record year for sales volumes.

QUALITY AND FOOD SAFETY

Ridley's industry-leading commitment to quality and food safety was strengthened in 2003. All of the Ridley Feed Operations facilities are registered to the ISO 9001 quality standard and have received HACCP (Hazard Analysis and Critical Control Points) certification. Ridley also launched *Food Sentry*, a magazine focused on food safety issues.

STRATEGIC ACQUISITIONS

Ridley acquired Shamrock Feeds in August 2002 and the assets of Heartland, Inc. in August 2003. These strategic acquisitions offer new growth opportunities and enhanced profitability for Ridley.

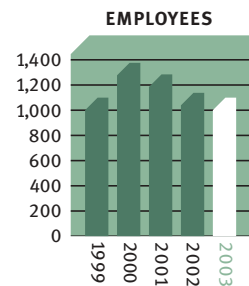
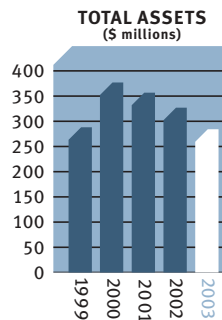
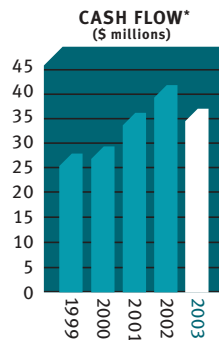
COTSWOLD SWINE GENETICS TO BE DIVESTED

Ridley announced on July 16, 2003 that it will divest Cotswold Swine Genetics and focus on growing its core feed and animal nutrition businesses. The Cotswold assets will be divested in an orderly process expected to conclude in mid-2004.

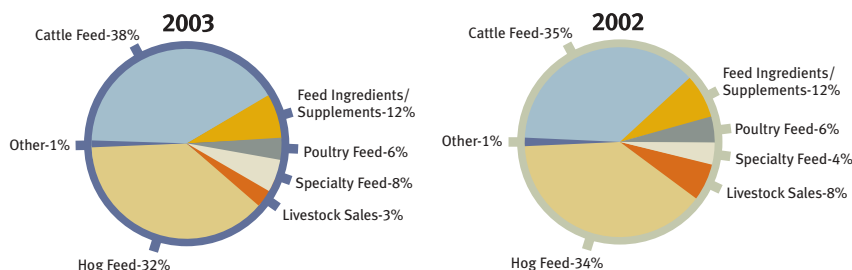
BANK DEBT REDUCED

Ridley generated strong cash flows from operations again in 2003, reducing bank debt from \$98.3 million to \$75.9 million, and further strengthening the balance sheet. Lower bank debt, combined with favorable interest rates, reduced interest expense by \$2.5 million, from \$9.2 million in 2002 to \$6.7 million in 2003.

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



SALES BY PRODUCT LINE - FISCAL 2003 AND 2002



RIDLEY'S animal nutrition businesses continued to make progress, with satisfactory results in fiscal 2003, despite poor economic conditions for livestock production in North America.

FARM gate receipts in the U.S. for meat, milk and egg production in calendar year 2002 were at their lowest level in many years, and they continued to be poor in virtually every production segment as we continued into calendar year 2003. Conditions were similarly weak for beef and pork production in Canada, with exceptions in the dairy and poultry sectors that operate under a

CHAIRMAN'S REPORT



Ridley continues to invest significantly in research & development, producing superior products for our customers.

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supply management system. Pork production in both countries was impacted by low market prices for hogs, while beef production was hampered by the prolonged drought. The discovery in May of a single case of bovine spongiform encephalopathy (BSE) in a cow in Alberta has had a devastating effect on the Canadian beef industry.

DESPITE an unfavorable operating environment, our animal nutrition businesses performed well and produced satisfactory results. Feed sales volumes increased slightly overall, with the U.S. Division reporting increased volumes, aided by a drought assistance program introduced by the USDA. Sales volumes declined in the Canadian Division where there was no corresponding government drought assistance.

REVENUES increased in fiscal 2003 to \$664.5 million from \$663.5 million in fiscal 2002. The increased sales volume is not reflected in our reported sales dollars for two reasons: feed ingredient

costs were lower in the U.S., where there were record corn and soybean crops, and the U.S. – Canada exchange rate also was lower, affecting the conversion of U.S. revenues to Canadian equivalent.

NET earnings for 2003 were \$10.4 million compared with \$15.0 million in 2002. Each year's reported earnings are net of a loss on the discontinued Cotswold swine genetics businesses. In 2002, Ridley sold its Cotswold Europe swine genetics business, and just after year-end in 2003 we announced our intention to divest the Cotswold Swine Genetics business in North America. The losses on the discontinued operations were \$13.0 million in 2003 and \$12.3 million in 2002.

CLEARLY, we are disappointed that our restructuring efforts for Cotswold, while successful from an operating standpoint, were cancelled out by the prolonged period of poor hog market prices. Although there are signs that North American hog market prices are recovering, we are convinced that divesting Cotswold Swine Genetics is the right decision, and we can now focus our attention on our core animal nutrition businesses.

THE animal nutrition businesses are very healthy and have posted several consecutive years of good earnings and growth. Having eliminated Ridley's exposure to the risks associated with pork production, we expect to be able to return future earnings to more satisfactory and predictable levels.

OPERATIONALLY, much was achieved throughout the Company in fiscal 2003. Ridley continues to invest significantly in research and development, producing superior products for our customers. We are determined to be the industry leader in food safety, and in fiscal 2003 we undertook several initiatives to stake our claim. Ridley is the first and only animal nutrition company in North America that is registered to the ISO 9001 quality standard as well as being HACCP certified.

THE recent acquisitions of McCauley Bros., Inc. and Shamrock Feeds give Ridley greater geographic reach and allow us to address the needs of the market with a wider range of products. We are confident that the Heartland acquisition in August will produce similarly beneficial results. Ridley made significant investments again in fiscal 2003 to upgrade and expand our manufacturing capabilities. As we move forward, further prudent capital investments will be made to strengthen Ridley's business, either through internal growth or with strategic acquisitions.

THERE are significant challenges ahead in fiscal 2004, but we are ready to meet them. Ridley has aggressive plans for the future, and we have assembled the building blocks that will enable us to achieve our goals and to deliver improved financial results.

IN closing, I would like to thank our shareholders and the Board of Directors for their continued support. As always, I wish to recognize and thank our employees for their contributions in a difficult year. It is their energy and dedication that ensure our future success.



Dr. J.S. Keniry
Chairman

IN many respects, fiscal 2003 was a difficult year for the feed industry, as customers in each of our major market segments dealt with weak production economics and challenging conditions for their industry. Prices were generally low for meat, milk and eggs through most of our fiscal year, and the effects of drought in the West and a reported case of BSE in Canada combined to create increased risk and uncertainty in the marketplace.

BUT it was also a year of progress for Ridley Inc. We focused on improving our animal nutrition businesses, implementing a number of elements of our strategic plan that will help to drive Ridley to future profitability.

PRESIDENT & CHIEF EXECUTIVE OFFICER'S REPORT



Ridley is aggressively managing costs, improving processes and increasing efficiency.

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AMONG our accomplishments in fiscal 2003, we:

- **BEGAN** a process of rationalizing our organization structure, reorganizing our U.S. and Canadian feed divisions and putting them under common management. The combined business unit, renamed Ridley Feed Operations, will provide better customer service and improve customers' accessibility to technical expertise.
- **IMPROVED** the skills and depth of our management team, introducing a management training program for sales staff and a new sales compensation system with incentives focused on key products. We also recruited new executives in key functional areas, improving our bench strength and our ability to pursue new growth, both organically and through acquisitions.
- **ENSURED** that we provided support for our sales, customer service and production initiatives by implementing new product pricing, feed formulation, inventory management and performance measurement systems.

- **MADE** strategic investments that will lead to continued growth and profitability. In August 2002, we acquired Shamrock Feeds in Saskatoon, and during the fiscal year integrated it with our existing Saskatoon plant. Subsequent to the fiscal 2003 year-end, we acquired the assets and business of Heartland, Inc. in Bismarck, ND. Capital expansion projects were undertaken at several production facilities in response to growth opportunities or to improve production efficiency and flexibility. Other strategic investments are being investigated or are in the planning stages.

EACH of the initiatives above was identified in our long-term strategic plan as being important to Ridley's ability to achieve continued growth and profitability. We made very satisfactory progress toward achieving our objectives in these areas in fiscal 2003, and you can read about these achievements in more detail on the pages that follow.

IN view of the very challenging operating environment this year, Ridley reported satisfactory results. Net earnings were \$10.4 million in fiscal 2003 compared with \$15.0 million in 2002. Sales volumes were up in the U.S. Division, as both the U.S. Feed Operations and Ridley Block Operations benefited from a drought assistance program introduced by the United States Department of Agriculture. McCauley Bros. had a strong year in fiscal 2003, the first full year that it has been a part of Ridley. Sales volumes in the Canadian Division declined, primarily as a result of the prolonged drought conditions, and with no government programs for drought relief.

U.S. Division operating income was slightly down in 2003, to \$37.0 million from \$39.9 million in 2002, primarily due to a lower exchange rate in 2003 between the U.S. and Canadian dollars, and to a \$3.4 million provision for impaired loans receivable. Operating income for the Canadian Division also declined, to \$10.5 million from \$10.9 million in 2002, driven by reduced sales volumes as a consequence of the drought.

THE biggest influence on earnings in 2003, as was the case in 2002, was the effect of the discontinued operations of Cotswold. As you will read in more detail later in the Cotswold Swine Genetics (CSG) section of this Annual Report, CSG has suffered significant and sustained losses over several years. Restructuring and downsizing of Ridley's swine genetics and swine production businesses has been taking place over the past three years to reduce Ridley's exposure to the price risks inherent in commercial pork production. Despite the restructuring efforts and a more efficient production model, CSG has been unable to overcome an operating environment of poor swine production economics.

ON July 16, 2003 Ridley announced its decision to divest Cotswold Swine Genetics, and recorded a loss in 2003 to reflect impairment of the Cotswold assets. Combined with CSG's operating losses, a tax recovery recorded on amalgamation of Ridley with the Cotswold Canada subsidiary, and other expenses, the impact of the discontinued operations was \$13.0 million. In 2002, Ridley sold its Cotswold Europe operations, and the comparative 2002 results, including the operating losses of both Cotswold Europe and CSG, and the loss on disposal of Cotswold Europe, reflect a loss of \$12.3 million on discontinued operations.

THE decision to divest Cotswold was a difficult one, but in our judgement the interests of our shareholders are best served by returning to our core competencies in animal nutrition. The divestiture of Cotswold completely eliminates Ridley's direct ownership of pigs through its involvement in swine genetics and commercial swine production.



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OUTLOOK

SEVERAL major factors influence the outlook for fiscal 2004. Poor livestock production economics played a large part in our operating results for 2003. When our customers are unable to sell their products at a profit, their resulting financial distress impacts on Ridley's sales volumes and requires greater vigilance in monitoring credit exposures. Fortunately, there are signs that market prices are improving and that fiscal 2004 will bring a better environment for producers of meat, milk and eggs.

ANOTHER concern that is carrying over from fiscal 2003 relates to the persistent drought conditions in the western part of our trading area. Fiscal 2004 is starting out to be less severe than the previous year, but after good spring conditions, very hot and dry mid-summer weather presents cause for concern. The drought conditions of 2002 – 2003 caused many ranchers to cull their herds or move their cattle to areas with better moisture conditions. Should moisture conditions not return to normal, there may be an impact on Ridley's feed sales volumes.

ON the regulatory front, the Country of Origin Labeling (COOL) legislation introduced in the U.S. Farm Bill has added to the unsettled environment in the meat, milk and egg production industries. The legislation, which is described more fully in the Ridley Feed Operations section, may influence the agricultural sector significantly in the future, but the magnitude of its potential impact is not yet known.

ALTHOUGH the economic forces impacting our industry are significant, Ridley enters the new year with confidence and cautious optimism. The combination of fragile production economics, a tighter regulatory environment, and increasing costs will make fiscal 2004 another challenging year. However, we believe we have built a solid foundation for our business, and we expect steady improvement as we continue to focus on those fundamentals that will make the business stronger.

RIDLEY is aggressively managing costs, improving processes, and increasing efficiency. We will continue to make strategic investments in growth opportunities, in improving customer service, in food safety and the integrity of our production processes.

WE enter fiscal 2004 with a strong, experienced management team, dedicated people, safe and efficient facilities, and superior product lines. While we still face considerable challenges, we are committed to pursuing our long-term strategic plan, and to creating value for our shareholders.



Robert B. Gallaway
President & Chief Executive Officer

1. The management team of Ridley Feed Operations is focused on implementing its U.S. – Canada integration plan.

2. A capital expansion project at the Shamrock Feeds plant in Saskatoon gave Ridley more production flexibility to serve its markets in Saskatchewan.



RIDLEY INC. OPERATIONS

KEY TO TYPES OF FACILITIES

- Primary Feed Plants
- Macro Premix Plants
- Retail Store Only
- Ridley Block Operations
- Ridley Feed Ingredients
- ▲ Cotswold Swine Genetics
- Micro Premix, Macro Premix, Primary Feed Plant, Retail Store
- ◆ McCauley Bros., Inc.

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| <ol style="list-style-type: none"> 1. Rocky Mountain House, Alberta 2. Rimbey, Alberta 3. Lacombe, Alberta 4. Linden, Alberta 5. Fort Macleod, Alberta 6. Lethbridge, Alberta 7. St. Paul, Alberta 8. Lloydminster, Alberta 9. Swift Current, Saskatchewan 10. Saskatoon, Saskatchewan 11. Prince Albert, Saskatchewan 12. Humboldt, Saskatchewan 13. Reston, Manitoba | <ol style="list-style-type: none"> 14. Brandon, Manitoba 15. Austin, Manitoba 16. Killarney, Manitoba 17. Manitou, Manitoba 18. Arborg, Manitoba 19. Malonton, Manitoba 20. Winnipeg, Manitoba 21. Grunthal, Manitoba 22. Mitchell, Ontario 23. Grandin, North Dakota 24. Lusk, Wyoming 25. Bismarck, North Dakota 26. Rapid City, South Dakota | <ol style="list-style-type: none"> 27. Huron, South Dakota 28. Watertown, South Dakota 29. Columbus, Nebraska 30. Beloit, Kansas 31. Alexandria, Minnesota 32. Worthington, Minnesota 33. Mankato, Minnesota 34. Sioux City, Iowa 35. Storm Lake, Iowa 36. Atlantic, Iowa 37. Iowa City, Iowa 38. Appleton, Wisconsin 39. Bushnell, Illinois | <ol style="list-style-type: none"> 40. Castleton, Indiana 41. Shippshewana, Indiana 42. Hopkinsville, Kentucky 43. Botkins, Ohio 44. Chambersburg, Pennsylvania 45. Lancaster, Pennsylvania 46. Selma, North Carolina 47. Mendota, Illinois 48. Versailles, Kentucky 49. Stockton, California 50. Whitewood, South Dakota 51. Worthington, Minnesota 52. Buffalo, Texas |
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