


**RIDLEY** Block Operations (RBO) is the market leader in low-moisture block manufacturing, marketing, distribution and research. Ridley demonstrated its industry leadership again in fiscal 2003, seizing marketplace opportunities to deliver record performance in terms of sales volume and profitability. Sales volume increased by 15% – the sixth consecutive year of record sales volumes – and profitability was also up by a significant, although lesser, amount.

**KEY** to this performance was the ability of the RBO team to react quickly to the challenges brought on by a severe drought in the U.S. Midwest and the Canadian Prairie Provinces, and turn the challenges into opportunities.

## **RIDLEYBLOCKOPERATIONS**



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**PROLONGED** drought conditions made it impossible for pastures to support livestock needs. The United States Department of Agriculture responded to the crisis by introducing a drought assistance program in August that was initially focused on Nebraska, South Dakota, Wyoming and Colorado, and later expanded to additional states. The program involved using USDA surplus stocks of non-fat dry milk as a protein source in feed rations, and required that livestock producers, feed manufacturers and feed dealers sign up to qualify for the program.

**RIDLEY** Block Operations reacted quickly, registering its plants for the program, assisting producers and dealers in qualifying, and formulating new low-moisture blocks to include non-fat dry milk. The diligence of the RBO team was rewarded, as RBO became one of the suppliers of choice among drought-stricken farmers, with record sales in late calendar year 2002. Importantly, many buyers were first time users of Ridley's low-moisture blocks, and having been introduced to the improved performance and labor savings attainable by using Ridley's low-moisture blocks, a significant number should become long-term customers.

**RIDLEY** Block Operations took full advantage of the opportunity to offer product to its existing and new customers, although it created unprecedented distribution and manufacturing challenges. To meet the drought-driven demand, RBO kept its plants operating around the clock, moving product between plants to satisfy customers' requirements and incurring substantial costs for overtime, equipment maintenance, transportation and increased energy consumption.

**A** drought-induced shortage of sugar beets, combined with processing changes in the sugar industry, led to a reduced supply of beet molasses and drove up prices. Many competitors were unable to get sufficient quantities of molasses, but Ridley Block Operations, working closely with its suppliers and taking advantage of its purchasing power, was able to secure an adequate supply for its customers' needs.

**RECORD** sales volumes led to operating income for fiscal 2003 increasing to record levels as well, but because of higher ingredient, production and energy costs, the percentage increase was lower than the increase in volume.

**MOLASSES** suppliers anticipated that dry weather this past spring would reduce beet plantings and squeeze molasses supplies in fiscal 2004. RBO has begun to build its beet molasses inventories at the Worthington and Whitewood plants to help ensure adequate supplies of molasses in the event of a small beet crop.



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## RESEARCH STUDIES

**THE** market leadership of Ridley Block Operations was also demonstrated through its continuing research and new product development in fiscal 2003. The goal of RBO is to produce the finest product in the marketplace with the safest ingredient profile. To that end, it has formed several research alliances with universities and private livestock operations in order to test the efficacy of its products in the field, and further stretch the lead over its competitors.

**DURING** the year, Ridley Block Operations continued to support research into the use of low-moisture blocks to influence grazing patterns as a way of improving range management. This emphasis on Cattle Grazing Distribution Research (CGDR) has led to several patent applications.

**RECENT** research conducted on U.S. Forest Service (USFS) allotments in central and western Montana demonstrated that CRYSTALYX® low-moisture blocks are a powerful tool for attracting cattle to graze underutilized areas, ensuring uniform and efficient use of pasture and grazing land. This is especially valuable to producers who depend on public land grazing allotments.

**THE** improved environmental stewardship that resulted from using CRYSTALYX® low-moisture blocks is a win-win solution for everyone. It enables the producers to graze more days on public lands or to graze more animals. Government land regulatory agencies such as the USFS now have a positive alternative other than to simply restrict grazing, which will protect sensitive riparian areas and improve wildlife habitat.

**POSITIVE** testimonials from both producers and USFS employees as a result of the research were used in producing a pamphlet and video called "A Public Lands Grazing Solution." A new web site, Beefgraze.com, was set up to provide additional information on CGDR and to provide a site to order the video or pamphlet and locate the nearest dealer.

**RIDLEY** Block Operations is also focusing on diversifying its product line to provide a convenient and effective means of free-choice supplementation in a variety of pasture conditions as well as for other species.

1. Robert E. Frost, Executive Vice-President, Ridley Inc., and General Manager, Ridley Block Operations.

2. In very dry conditions, Ridley's low-moisture blocks are an excellent way to improve the digestibility of low quality forage, helping producers maximize forage utilization and meet the nutrient needs of cattle.

3. RBO's newest web site, Beefgraze.com, provides ranchers with a wealth of grazing information and access to research reports on the benefits of CRYSTALYX® Brand Supplements.

**AN** example of this initiative is the dairy research conducted at the U.S. Dairy Forage Research Center in Wisconsin. The research showed that using CRYSTALYX® Buffer-lyx™ low-moisture block supplement as a free-choice dietary buffer for dairy cows helped control subacute ruminal acidosis (SARA), a disorder that occurs when the pH is too low in a dairy cow's rumen. This newly designed formulation with patent pending technology has demonstrated increased milk production and dry matter intake for high-producing, lactating dairy cows.

**TO** further separate itself from competing low-moisture block manufacturers, Ridley Block Operations built a new laboratory at its Worthington plant. This facility will allow consultant research personnel to conduct testing related to many areas of new product development, manufacturing process control, the evaluation and screening of new ingredient applications, and other new areas of product discovery. The instrumentation and equipment provided in the laboratory will allow for a much more controlled experimentation environment to enhance testing procedures and make ingredient and end-product evaluations.

## PATENTS

**MUCH** of the market strength of Ridley Block Operations lies in its intellectual property, and RBO is improving its position by pursuing patents for new products and extending existing patents in several areas. There are also ongoing efforts to protect the intellectual property and leverage the advantage it provides to increase business with existing customers and develop new markets. Several new products are being developed using RBO's extensive knowledge in the manufacturing of low-moisture blocks.

**IN** fiscal 2002 RBO acquired the rights for "Pound-A-Day," a solid nutritional feed in bar form. This product has significant potential in several markets, with the equine market being the first one targeted. During fiscal 2003, an equine product manager was hired to develop and launch this product. An eight-ounce equine nutrient bar was developed to deliver supplemental nutrients for endurance and stress relief. Based on positive test market results, various packaging options were evaluated and then appropriate equipment was obtained to manufacture product at the Worthington, Minnesota plant. EquineHP™ Performance Bar, the first product to be developed, should be in the market by the first quarter of fiscal 2004.

**AN** important component of Ridley Block Operations' marketing efforts is ongoing marketing support activities to educate distributors and producers on the value of low-moisture blocks. Several new field positions were added in fiscal 2003 to enable RBO to maintain its high level of support in all market segments. A significant number of producer meetings were held and this continues to be a very important function in maintaining and growing volume.

**PRODUCER** meetings present an opportunity to obtain feedback from the field, enabling RBO to be responsive to end-user needs. RBO introduced a new sixty-pound container size to meet the needs of the sheep, goat and equine markets, specialty products and smaller producers.

**PRODUCER** feedback led to the expansion of the ROLYX™ fly control line with a new product that includes a magnesium supplement. ROLYX™ Fescue Mag is designed to provide fly control for cattle grazing in fast growing fescue pastures that are low in available magnesium, and where grass tetany can be a concern. Several other proprietary new products are in the pipeline and scheduled for introduction in 2004.

**RIDLEY** Block Operations focused on other key areas of operations in fiscal 2003 – sales training and risk management.



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**THE** RBO sales force is very knowledgeable about how its products can most effectively meet its customers' needs, and it is well supported by technical information, product research, advertising and promotional material. To ensure the sales force continues to perform at the highest level, a leading authority on sales and sales management was contracted to conduct an advanced sales training program designed to enhance the team's skills.

**RIDLEY** Block Operations recognizes the need to be vigilant in ensuring the safety of its employees and the products it manufactures. All RBO plants are ISO 9001 registered and have received FCI certification. In 2003, all RBO plants underwent a complete program of risk assessments by its insurance underwriter, with a focus on loss prevention and quality assurance. In addition, RBO staff were involved in an internal risk profiling process designed to identify the most significant potential loss exposures facing the business, and to develop plans and programs to eliminate or manage these risks.

## FISCAL 2004 OUTLOOK

**FISCAL** 2003 was a challenging year, with much of the activities of Ridley Block Operations being dictated by the need to respond to drought conditions. While the drought was responsible in part for increased sales of low-moisture blocks, it also resulted in producers either liquidating cattle or moving them from drought-stricken areas of the U.S. and Canada into states and provinces that had received rainfall.



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**BOTH** cattle liquidation and their movement are a concern to Ridley Block Operations since there are now fewer cattle in those areas in which we have a strong market presence, and more cattle in areas in which we do not have the same high level of product recognition nor representation by distributors and dealers.

**IN** addition, most of our market area received adequate rainfall this spring and producers did not have to purchase as much feed supplement for their cattle through the summer. The combination of these factors, plus expected molasses shortages and continued higher prices, will make it difficult for Ridley Block Operations to match the volume and operating income levels of fiscal 2003.

**THE** environment in the year ahead will not be as favorable as fiscal 2003 was for low-moisture block sales, since most areas received adequate moisture this spring. However, we know that our strategies in fiscal 2003 were sound and well executed, and they will serve us well again in fiscal 2004. The strong brand recognition of RBO products, and our commitment to quality, consistency and excellence in customer service will allow Ridley Block Operations to sustain its position as the industry leader.

*1. CRYSTALYX® Brand Supplements are the leading low-moisture block supplements on the market. They are highly palatable and their hygroscopic nature allows animals to consume them on a regular but controlled basis.*

*2. Dr. Dan Dhuyvetter and a consultant confer on a project in the Worthington laboratory. Dr. Dhuyvetter is involved in new product development for Ridley Block Operations.*

*3. CRYSTALYX® low-moisture blocks are effective in attracting cattle away from riparian areas to graze on higher slopes, resulting in more uniform grazing and improved sustainability of the forage base.*