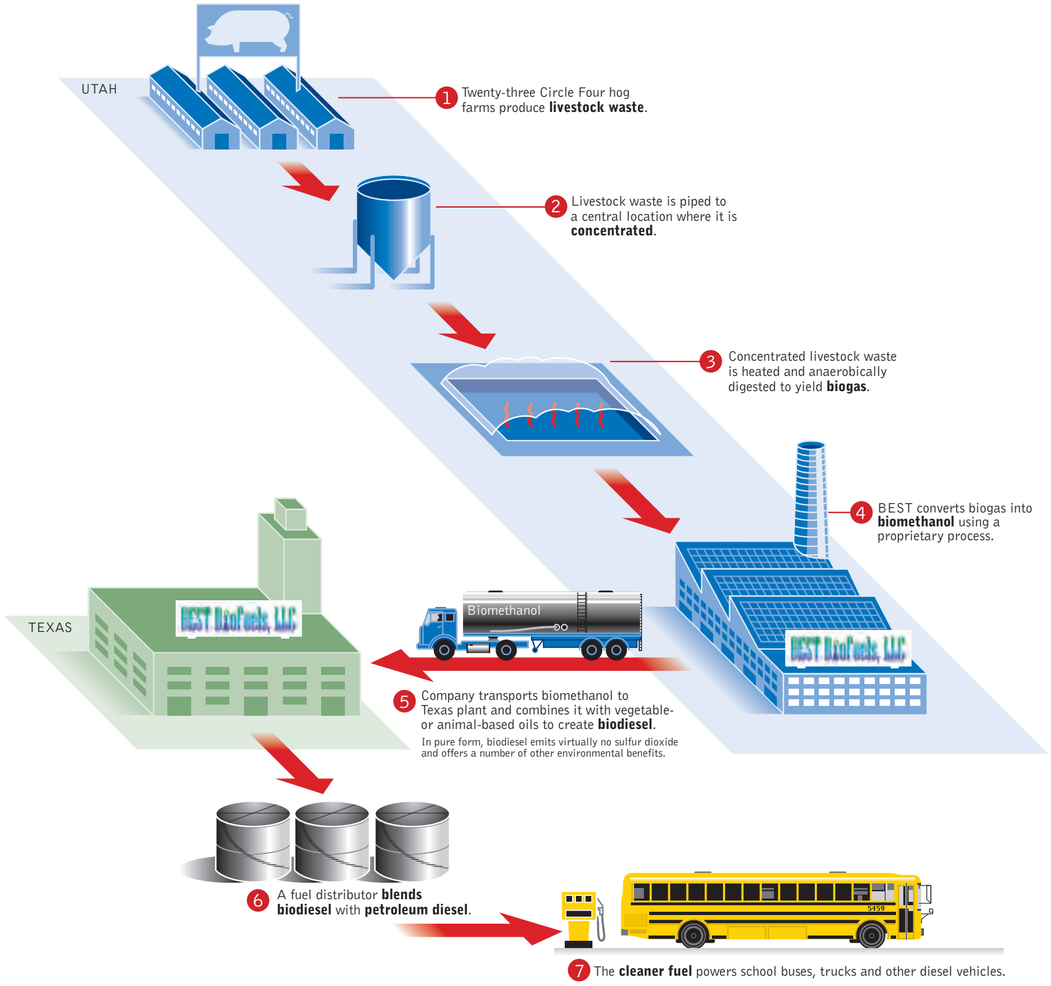
# Livestock Waste to Biodiesel: Seven Steps Toward Cleaner Fuel




PLEASE TURN TO PAGES 4 AND 36 TO LEARN MORE ABOUT SMITHFIELD'S ALTERNATIVE FUEL INITIATIVE.

"Our renewable energy project at Circle Four Farms incorporates state-of-the-art technology to create saleable biofuels. When operational, the system will generate several thousand gallons of biomethanol per day that, in part, will be further processed into biodiesel. Grounded in environmental stewardship and as a unique business model, we are optimistic that this will support the nation's efforts in reducing dependence on foreign oil."

**ROBERT F. URELL**
**SENIOR VICE PRESIDENT, CORPORATE ENGINEERING AND ENVIRONMENTAL AFFAIRS**
**SMITHFIELD FOODS**

*Cover: Cape Fear River north of Wilmington, North Carolina*

**SMITHFIELD FOODS, INC., 2003 STEWARDSHIP REPORT**
**ENVIRONMENT, EMPLOYEE SAFETY AND ANIMAL WELFARE**

## Table of Contents



## Close-Ups



## Report Scope

**The Smithfield Foods, Inc., 2003 Stewardship Report provides environmental, employee safety and animal welfare-related performance information for our U.S. operations for the 2003 calendar year, with baseline environmental metrics for fiscal years 2002 (May 2001 to April 2002) and 2003 (May 2002 to April 2003) for our first and further processing facilities; baseline water metrics for fiscal years 2002 and 2003 for our farms; and baseline safety metrics for calendar year 2003 for all of Smithfield's U.S. facilities. Environmental data related to our regulatory reporting obligations are for calendar years 2002 and 2003. Our performance information does not include metrics for our international subsidiaries or joint ventures, or information related to our copackers or contract growers.**

*(Please note: First processing facilities primarily provide products to other facilities for further processing, as well as case-ready items that usually require cooking or further preparation. Further processing facilities receive raw meat products from first processing facilities and produce convenient-to-prepare products, such as precooked hams, for consumers.)*

## Forward-Looking Information

**This publication may contain forward-looking statements within the meaning of federal securities laws. In light of the risks and uncertainties involved, we invite you to read the Risk Factors and Forward-Looking Information sections of the Smithfield Foods Form 10-K for fiscal year 2003.**

## WELCOME TO THE SMITHFIELD FOODS, INC., 2003 STEWARDSHIP REPORT

As a diversified food production and marketing company, Smithfield is dedicated to producing the highest-quality products for our customers' tables and businesses. As an ethical and responsible company, we are also dedicated to keeping our stakeholders—employees, customers, shareholders, governmental and regulatory authorities, suppliers, nongovernmental organizations, peer companies and the communities where we do business—informed about Smithfield's ongoing efforts to protect the natural environment, the safety of our employees and the welfare of the animals we raise.

We want to be recognized as the meat industry's stewardship leader. More than this, we want to play a primary role in facilitating improved performance for the industry as a whole. We recognize that realizing this vision depends on our ability to demonstrate effective management in all of these areas of our business. We are pleased to report that Smithfield made every effort in 2003 to fulfill this mission.

Smithfield's ongoing efforts did more than improve performance last year; they also helped us effectively manage many of the challenges faced by our company. For example, the environmental management systems (EMSs) that we have implemented over the past few years have positioned us to adapt more easily to new Concentrated Animal Feeding Operations (CAFO) regulations introduced in 2003. We also credit our EMSs, which include emergency action planning, for helping Smithfield's operations in North Carolina weather fierce storms without compromising animal care or environmental integrity. Everyone's concerted effort to deliver on our company's strong performance and communications commitment helped Smithfield respond credibly to stakeholder inquiries about our operation's environmental impact and animal welfare policies. Stewardship has proven to be a critical investment in our business.

We were pleased to see that many of you took the time to read our report last year and tell us what you thought. We hope this year you'll do the same. The highlights of this report include the following:

- All subsidiary first and further processing facilities—excluding those acquired in 2003 and smaller further processing facilities representing less than 1 percent of the metrics totals—submitted baseline environmental metrics so that we could assess performance in certain areas. For our farms east of the Mississippi River, we collected water metrics. These measures are provided in this year's report.
- We formed BEST BioFuels, LLC, investing $20 million in the aggressive implementation of a livestock waste-to-biofuel system at our Utah-based Circle Four Farms.
- As part of the Smithfield Agreement, we continued to fund and participate in the environmentally superior waste management research and development efforts being overseen by North Carolina State University. In addition, approximately $2 million in grants were distributed to organizations dedicated to environmental enhancement projects.
- Our Tar Heel plant piloted a model health care clinic on site, taking a proactive approach to supplementing employee health care and managing the rising costs of workers' health insurance.
- Murphy-Brown, LLC, continued implementing a comprehensive Animal Welfare Management System (AWMS) on all company-owned and contract grower farms. Through its Process Verified program, the U.S. Department of Agriculture certified the AWMS for the Rose Hill Division of Murphy-Brown.
- Smithfield assembled a Sustainability Committee. As we move forward, this senior leadership team will help us determine the optimal balance for our financial, social and environmental responsibilities.
- We also facilitated and took part in productive conversations with many stakeholders this year to promote positive change in our own company and the meat industry.

Fiscal year 2003 was not an easy year for our industry. The combination of low hog prices and weak fresh meat prices brought on by an excess supply of protein in the marketplace negatively affected our financial performance. However, our commitment to being recognized as a stewardship leader in our industry remains steadfast, as evidenced in the time, money and human resources that we dedicate to these efforts. We believe that stewardship is not just an ethical responsibility. It's also a critical investment for building trust with our stakeholders and positioning our company for responsible growth now and in the years to come.

Joseph W. Luter, III
Chairman and Chief Executive Officer

C. Larry Pope
President and Chief Operating Officer


## PUTTING GREENER FUEL ON THE FREEWAY

You may soon have Smithfield Foods to thank for the clean-burning fuel powering your child's school bus or the delivery truck rolling through your neighborhood. That's because the company has invested $20 million—through its majority ownership in BEST BioFuels, LLC—to build a facility in Southwestern Utah that converts livestock waste into biomethanol. The latter can be processed with a variety of vegetable- or animal-based oils to create biodiesel, an environmentally friendly alternative to petroleum diesel.

"The waste-to-energy facility will be connected by an underground sewage network to 23 area farms and receive waste from approximately 257,000 hogs over the course of a year," notes BEST BioFuels President Jerrel Branson. "After being concentrated, the livestock waste will ultimately be converted into biomethanol using proprietary technology we developed."

The biomethanol plant is scheduled for completion in early 2004, around the same time that a BEST biodiesel plant will begin operation in Texas. BEST will ship much of the 2.7 million gallons of biomethanol it expects to produce annually to the new Texas facility, processing it with used cooking oil, rendered animal fat or other oil feedstock to produce biodiesel.

How clean is biodiesel fuel? Burning it in pure form generates virtually no sulfur dioxide, a major component of acid rain. Biodiesel also emits nearly 50 percent less carbon monoxide and hazardous particulate matter than petroleum diesel fuel. With fewer hydrocarbon emissions, city dwellers will appreciate the decreased potential for smog and ozone formation.

PLEASE TURN TO FOLDOUT ON INSIDE FRONT COVER AND TO PAGE 36
TO LEARN MORE.

*Photo location: Service station, Garner, North Carolina*

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"BEST BioFuels has demonstrated a keen sense of vision in the development of alternative waste technologies. BEST has developed an efficient technology that will convert the methane from animal waste into biomethanol, an alcohol which can be used in the production of biodiesel. The individuals I have dealt with at BEST BioFuels have shown a clear commitment to the development of the biodiesel industry. As a relatively new member of the National Biodiesel Board, BEST representatives have contributed insight and leadership to our discussions and policy efforts. BEST has impressed me with its honest and solutions-oriented approach. I can only conclude that it will apply that same commonsense formula to the successful implementation of its energy technology business plan."

**JOSEPH JOBE**
**EXECUTIVE DIRECTOR**
**NATIONAL BIODIESEL BOARD**



## STRATEGY FOR RESPONSIBLE GROWTH

**Over the past few years, our company has set the foundations for continuous improvement in our stewardship responsibilities, which include our environmental, employee safety and animal welfare-related performance. We have firmly established the necessary policies, organizations, management systems, programs, funding and expertise.**

**This foundation is now in place within the majority of our U.S. operations. We continue to move forward guided by the principles of accountability, transparency and sustainability, and by our primary objectives:**

- **Achieve 100 percent regulatory compliance, 100 percent of the time.**
- **Move well beyond compliance in stewardship responsibilities.**
- **Reduce the frequency and severity of injuries to employees.**
- **Enhance communications and transparency with external stakeholders.**
- **Continue to expand community involvement.**

**We also have a more ambitious vision, and that is to be recognized as the industry leader for stewardship. To do this, we will continue to explore approaches to the issues that are unique to our industry. We will continue to find ways to participate productively in key industry and multi-stakeholder groups where we can help facilitate win-win solutions. We will share our experiences and best practices with our peers and other interested parties. We will also work toward policy changes that promote industry innovation and enable our company to better deliver financial, environmental and social value.**

**In 2003, Smithfield embarked on a major project, committing to invest $20 million to implement technology beneficial to the environment and that will also play a key role in the solution for our global energy needs. We are using the untapped energy stored in livestock waste to create a fully renewable motor fuel—biodiesel. Our renewable fuel project at Circle Four Farms in Utah will produce in excess of 7,000 gallons of biomethanol per day. Blended with rendered fats, this biomethanol**

is converted to biodiesel that would meet the daily fuel requirements for about 300 over-the-road trucks, offsetting the need to import crude oil to produce that quantity of traditional diesel fuel. The project is highlighted in more detail in other sections of this report and is expected to be in full operation in late spring 2004.

We are very encouraged by the results we have seen over the past few years. Moving forward, Smithfield's strategy for responsible growth can be summed up as follows: more of the same. And by that we mean more management systems, more measurement and target setting, more innovative thinking and partnering, further support of environmentally superior waste management technologies, more communication, transparency and relationship building, more improvement—and more listening. This is what Smithfield will strive to accomplish.

We hope you find this year's account of our efforts informative. We look forward to your comments and suggestions.

**Robert F. Urell**
**Senior Vice President, Corporate Engineering and Environmental Affairs**

**Dennis H. Treacy**
**Vice President, Environmental, Community and Government Affairs**



## ABOUT SMITHFIELD

## A DIVERSIFIED FOOD PRODUCTION AND MARKETING COMPANY

Based in Smithfield, Virginia, United States, Smithfield Foods, Inc., produces hogs and processes pork, beef and specialty products. Our sales for fiscal year 2003 totaled $7.9 billion.

The majority of our 50,000 employees and our operations are located in the United States. We also have operations in France and Poland, as well as joint ventures in Brazil, China and Mexico.

During 2003, Smithfield acquired Farmland Foods, a processor of fresh pork and processed meats; Cumberland Gap, a processor of premium-branded processed pork products; and two hog production companies, Vall, Inc., and Alliance Farms. We have reached an agreement with Canadian-based Maple Leaf Foods, Inc., for the sale of our Schneider Corporation subsidiary. The sale is anticipated to close in spring 2004.

Excluding acquisitions, last year Smithfield's hogs were produced by approximately 650 company-owned farms and 1,900 contract growers worldwide. U.S. operations and contract growers produced approximately 14.5 million hogs, and international operations and contract growers produced 1 million hogs. To produce fresh pork and processed meats products, we processed 19.2 million hogs last year in our U.S. operations and 1.8 million in our international operations. Smithfield processes 2 million cattle per year in our U.S. operations for beef and processed meats products.

*(Performance information within Smithfield's 2003 Stewardship Report does not include metrics for our international operations, joint ventures, copackers or contract growers.)*

### Structure of Our Main Businesses

NORTH AMERICA

**Our North American operations are made up of three industry segments: Murphy-Brown, LLC, our hog production group; and the Pork and Beef Processing segments.**

*Pork and Beef Processing Segments*

**Companies in Smithfield's Pork and Beef Processing segments process hogs and cattle into pork and beef. Other facilities further process pork and beef into meat products, such as ham, bacon, hot dogs, sausages and salami.**

In the United States, Smithfield's fresh pork processing plants are located in Illinois, Iowa, Nebraska, North Carolina, South Dakota and Virginia. Beef processing plants are located in Arizona, Michigan, Nebraska, Pennsylvania and Wisconsin. Facilities that process meats can be found in California, Florida, Illinois, Iowa, Kansas, Kentucky, Maryland, Massachusetts, North Carolina, Ohio, Pennsylvania, Texas, Utah, Virginia and Wisconsin.

The following is a list of Smithfield's major North American operating subsidiaries:

Cumberland Gap Provision
Farmland Foods, Inc.
Gwaltney of Smithfield, Ltd.
John Morrell & Co.
Moyer Packing Co.
Murphy-Brown, LLC
North Side Foods Corp.
Packerland Holdings, Inc.
Patrick Cudahy Inc.
Quik-to-Fix Foods, Inc.
RMH Foods, Inc.
Schneider Corp.
Showcase Foods, Inc.
The Smithfield Packing Co., Inc.
Stefano Foods, Inc.

In the United States, Smithfield's national brand of fresh pork cuts is Smithfield Lean Generation Pork. We also market our processed meats products under the following brand names: Smithfield Premium, Gwaltney, Patrick Cudahy, John Morrell, Dinner Bell, Ember Farms, Esskay, Great, Kretschmar, Lykes, Patrick's Pride, Rath, Valleydale, Farmland and Carando.

*Murphy-Brown, LLC*

Murphy-Brown is the largest producer of hogs worldwide. It owns and operates hog farms in the following states: Colorado, Illinois, North Carolina, Oklahoma, South Carolina, Texas, Utah and Virginia. (Contract production exists in a few other states as well.)

## INTERNATIONAL

The following represent Smithfield's major wholly owned international operations and joint ventures:

Our holdings in France, known collectively as Smithfield France S.A.S., include Société Bretonne de Salaisons S.A. (SBS) and Société Financière de Gestion et de Participation S.A. (SFGP), which are both wholly owned. SBS in Lampaul-Guimiliau employs approximately 1,250 people and carries such major brands as SBS Restauration (food service), Petit Rose (export), Julo and Jean d'Erguet. Its fiscal 2003 sales totaled $208 million.

Smithfield owns 86 percent of Warsaw-based Animex, Sp. z o.o., the largest meat and poultry processing company in Poland with roughly 5,300 employees. In the United States, it sells Krakus brand ham. Its other markets include Poland, Germany, Russia, Great Britain, Spain, Sweden and Korea. Fiscal 2003 sales totaled $338 million.

Smithfield owns 50 percent of AFG Company, Ltd., Heshan, Guangdong, China. With 450 employees, AFG produces, sells and distributes processed meats to retail and food service customers. Its major brands are Maverick and Haslett.

Through Smithfield of Mexico, our Mexican subsidiary, Smithfield is a 50 percent partner in Agroindustrial del Noroeste S. de R. L. de C.V., located in Hermosillo, Sonora, Mexico. Employing approximately 1,650 people, the company is a hog producer and processor. Its major brands are Alpro, Norson and Sakura.

Through Murphy-Brown, Smithfield is a 50 percent partner in Granjas Carroll de Mexico, S. de R.L. de C.V., in Perote, Veracruz, Mexico. The company employs 450 people and produces hogs.

Through Carroll's Foods of Brazil LLC, Smithfield is a 50 percent partner in the Brazilian entity, Carroll's Food do Brasil, S.A., which employs 200 people and produces hogs.

## PROVIDING A SANCTUARY FOR DECLINING WILDLIFE

Thanks to the efforts of Smithfield's Murphy-Brown subsidiary, the song of the Bobwhite quail (pictured) is poised to become more prevalent on farmland across North Carolina and Virginia. Not to mention the welcoming sounds of Bachman's sparrows, eastern meadowlarks and prairie warblers.

Over the past year, Murphy-Brown began implementing a comprehensive land management program on 43,000 acres of company-owned land in both states. Birds, small mammals, fish and waterfowl will be among the beneficiaries of Murphy-Brown's efforts to protect wildlife habitats, wetlands and other ecologically sensitive areas. The program also provides protection for mature longleaf pines, bald cypress trees and bottomland hardwoods.

"Of course, many of the practices that are part of the new program have long been common practice on our farms," notes Kraig Westerbeek, Murphy-Brown's director of environmental compliance. "For example, we maintain vegetated buffers around each farm to decrease soil erosion, prevent nutrient runoff and enhance water quality."

In August 2003, Murphy-Brown also teamed up with the North Carolina Wildlife Resources Commission to assist in the latter's Cooperative Upland-habitat Restoration and Enhancement (CURE) program. CURE will increase and enhance early-successional wildlife habitat on private and public lands throughout the state. To help accomplish this, Murphy-Brown is providing CURE with access to 40,000 acres of North Carolina property.

The expected growth of tall grasses, weeds, shrubs and vines should shelter and feed a variety of declining wildlife species. Ultimately, the commission hopes to convert 5 percent of Murphy-Brown's North Carolina acreage to early-successional habitat.

PLEASE TURN TO PAGE 37 TO LEARN MORE.

### NSIBLY

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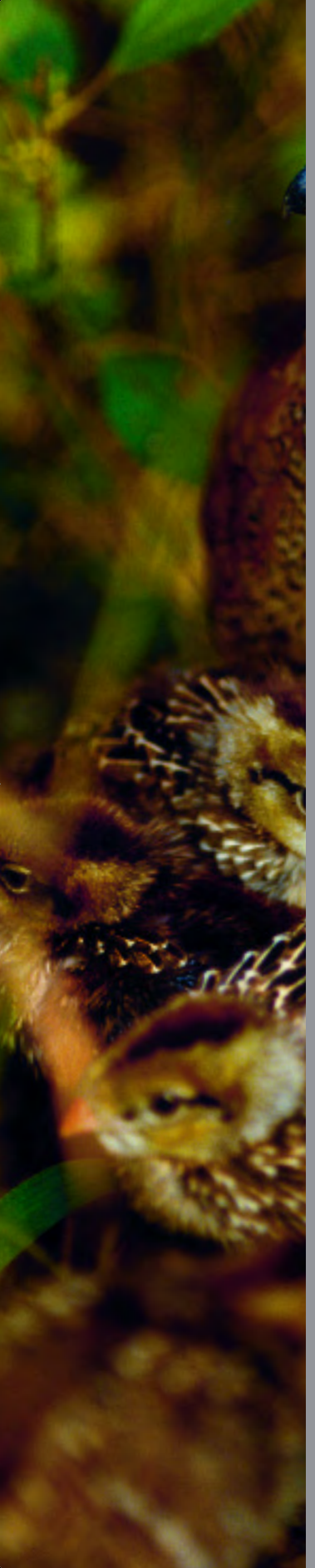

"The integrated land management plan that Murphy-Brown has outlined and is implementing is an example of a corporation trying to identify ways to be both fiscally responsive to its shareholders while addressing conservation and environmental concerns. We've worked with Murphy-Brown for over a year now on several different fronts related to our CURE program, and the experience has been extremely positive."

**DR. DAVID COBB**
**CHIEF, DIVISION OF WILDLIFE MANAGEMENT**
**NORTH CAROLINA WILDLIFE RESOURCES COMMISSION**

**"We have been working cooperatively with Smithfield Foods to foster positive wildlife habitat on properties owned by Smithfield. Healthy wildlife populations provide a positive benefit both to private landowners and the general public. We are pleased that Smithfield recognizes this and is working with our department on habitat improvements."**

**WILLIAM L. WOODFIN, JR.**
**DIRECTOR**
**VIRGINIA DEPARTMENT OF GAME AND INLAND FISHERIES**

## CORPORATE GOVERNANCE

### MANAGING OUR BUSINESS ETHICALLY AND RESPONSIBLY

**Governance concerns how we manage our business responsibly and make decisions that protect the interests of our shareholders and other key stakeholders. It includes the people and organizational structures we have in place to make these decisions and clearly identifies accountability for our company's overall performance.**

**Smithfield is committed to responsible corporate governance, which begins with our board of directors. Elected by our shareholders, all directors have experience relevant to our operations and understand the complexities of the environment in which we operate. The majority of our eight-member board are independent* directors, including the Audit Committee chair. Smithfield will continue moving toward increased board and director independence in the future.**

**The board is responsible for overseeing Smithfield's affairs. Its duties include the following:**

- **Establishing proper governance, which includes a periodic review of the Governance Guidelines by the Nominating and Governance Committee;**
- **Approving major corporate decisions and overseeing, developing and implementing broad policies, including our stewardship-related policies;**
- **Periodically reviewing Smithfield's legal compliance programs and procedures;**
- **Monitoring and assessing performance and asking appropriate questions of management to address accountability for established goals; and**
- **Reviewing and approving major capital allocation recommendations of management.**

**To assist in its oversight duties, the board establishes committees. There are currently five: Executive, Audit, Compensation, Pension and Investment, and Nominating and Governance. The environmental and safety functions ensure that the Audit Committee is apprised of performance.**

**On a fundamental level, the board is charged with exemplifying our company's core values—integrity and ethical behavior—and reinforcing these values throughout Smithfield. Our Code of Business Conduct and Ethics clearly describes Smithfield's policies and practices related to these values, including compliance with all applicable laws in the countries where we operate. Smithfield employees are expected to conduct business in accordance with the code, which also provides employees with clear guidelines for decision-making and key contact information.**

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** "Independent" means independent within the meaning of the independence standards of the New York Stock Exchange.*

This includes an ethics and legal hot line number if they are uncertain about the legal or ethical implications of a decision.

Established in late fall 2003, Smithfield's Sustainability Committee is responsible for helping our company better understand the integration of the financial, environmental and social aspects of our business, and for improving related decision-making. A team of representatives from senior management, this committee meets regularly to discuss what sustainability may mean to our business, and how our stewardship activities support this broader, multifaceted concept.

In 2003, we made our Governance Guidelines, Code of Business Conduct and Ethics, Articles of Incorporation, bylaws, descriptions of board members, and committee charters available on our Web site: www.smithfieldfoods.com. We invite you to visit and read them in full.

"Smithfield is committed to ensuring the well-being of our workers, the people living and working in communities near our facilities, and the environment and will provide the human, physical and financial resources necessary to meet this commitment. These resources will be used to enable employees and contractors to work safely and comply with the law, to prevent pollution and to protect the environment.

"Smithfield's activities are subject to many health, environmental and safety laws and regulations addressing releases to air, discharges to water, disposal of hazardous and nonhazardous wastes, transportation of hazardous materials, management of chemical substances, and emergency planning. Internationally, our employees are expected to comply fully with company policies and to adhere, at a minimum, to the applicable health, environmental and safety legal requirements of their host country. Regulations, such as those issued by the U.S. Environmental Protection Agency (EPA), Occupational Safety and Health Administration (OSHA), and similar agencies in overseas locations, contain exacting requirements and standards that set the minimum legal standards for Smithfield facilities and employees in the country where the referenced regulations apply. Industry recommended practices provide additional guidance to help local management set standards for the unique conditions at each facility."

*—Excerpted from Part III: Health, Environment and Safety of the Code of Business Conduct and Ethics*



## Engaging with Stakeholders and Promoting Communication

One of the ways we are learning how to improve our stewardship efforts is by listening to our stakeholders. During 2003, we had many productive dialogues that enabled us to better understand their concerns. We were also able to share with them our approach to addressing some of these issues and provided additional information from a company perspective. The goal of these dialogues was not necessarily to reach a consensus. Although this is desirable, there are many issues where we will not always see eye to eye. Our goal is to broaden knowledge and understanding on both sides. We hope to continue these conversations.

The following are a few of the issues that arose during the year. Discussion of other important issues, such as animal welfare and antibiotics, can be found later in the report in a dedicated section. We have also provided highlights of our broader communications efforts during 2003.

### SPECIFIC ISSUES

*Contract Growers' Performance*

During its lifetime, a typical Smithfield hog will spend time on a sow breeding farm, a nursery farm and a finishing farm, either company-owned or independently-owned. In 2003, Smithfield subsidiaries contracted with approximately 1,900 farmers to produce hogs. To be a Smithfield contract grower, farmers must comply with all applicable environmental laws. During 2003, some stakeholders asked whether we would report on our contract growers' environmental performance. Smithfield does not measure or publicly report their performance because these farmers are independent businesses. As with company-owned farms, contract growers are monitored by governmental regulatory agencies. Smithfield is committed, though, to sharing best practices with our contract farmers.

*GRI Guidelines**

This year, the Nathan Cummings Foundation, Amalgamated Bank and Sierra Club put forth a shareholder resolution to be included in a proxy statement asking Smithfield to prepare a report based on the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines. The Securities and Exchange Commission (SEC) ruled that the company could exclude the resolution from the proxy. Smithfield believes that the GRI guidelines are a useful tool for shaping a company's public reporting, but their complete adoption is not, at this time, practical for our company. The voluntary GRI guidelines contain a wide range of "core" economic, environmental and social indicators, many of which we do not currently have the

** The Global Reporting Initiative's (GRI) latest version of the Sustainability Reporting Guidelines can be found on the GRI's Web site: www.globalreporting.org.*

systems in place to track. Over the next few years, our new Sustainability Committee will help determine what the multifaceted concept of sustainability might mean to Smithfield and which performance indicators would be appropriate.

We have researched the guidelines and have used them to help shape some sections of our report. We also feature information and indicators in our report that are unique to our business and stewardship efforts, such as animal welfare. As we move along our performance improvement and public reporting journey, we will continue to expand the information that is relevant to our business, communicate with our stakeholders to understand the issues that are important to them and continue the dialogue that we have opened with our stakeholders on this issue.

*International Performance and Reporting*

Smithfield's 2003 Stewardship Report provides performance information for our U.S. operations only. We are currently developing a standardized method for collecting performance-related information within our international facilities as we do for our U.S. facilities. In the coming year, we will focus on expanding reporting of our international subsidiaries and on which best practices in our U.S. operations would be of value.

All our U.S. and international subsidiaries are expected to comply with Smithfield's Code of Business Conduct and Ethics. This code is communicated to our international subsidiaries, and they independently manage compliance, which is monitored by their country's regulatory agencies.

During 2003, a number of our international facilities explored innovative ways to enhance performance. For example, our Animex facilities in Poland were awarded Smithfield Environmental Excellence Awards for implementing environmental performance improvement projects. Employees from Animex's Constar facility implemented projects that reduced their water usage per pound of product produced by more than 25 percent. Animex's Mazury plant personnel implemented water recycling and energy-efficiency projects that helped them realize reductions of 40 percent in plant water usage, 18 percent in electrical usage and 28 percent in coal usage. Both facilities also realized the related cost savings and environmental improvements associated with reduced wastewater discharges.

Smithfield is committed to helping our international subsidiaries improve stewardship performance, build better relations with their neighboring communities and respond effectively to concerns of other important stakeholders. Through efforts made in 2003, we will provide expanded performance information for these operations in future reports.

COMMUNICATING WITH OUR STAKEHOLDERS IN 2003

During 2003, Smithfield representatives communicated with our stakeholders, listened to their ideas and concerns, and partnered for improvement:

- We distributed thousands of Smithfield's 2002 Environmental and Safety reports to shareholders, employees, regulators and legislators, citizens and environmental groups, customers, competitors, environmental, health and safety professionals, and the press—and we received feedback.
- We spoke with a number of nongovernmental organizations—labor, animal welfare and environmental—in meetings and conference calls.
- Smithfield employees worked hand-in-hand with volunteers from around the world to test water quality on World Water Monitoring Day.
- We received and answered thousands of letters from customers and the general public on animal welfare, antibiotics and other issues.
- We expanded our Web site content to increase access to information on these important areas of our business.
- Smithfield representatives took leadership roles and participated in a number of conferences and meetings associated with our memberships—including the American Meat Institute, the National Association of Manufacturers, the National Pork Producers Council and the Global Environmental Management Initiative—to share ideas with our peers and to further performance improvement in our industry.
- We engaged a number of our large customers to understand their needs and concerns, and to share our efforts.

These communications efforts have proved invaluable in shaping our stewardship efforts and performance reporting.

Contact Us

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## KEEPING A WATCHFUL EYE ON OUR WATERS

What do the Cape Fear River Assembly (CFRA), the Green Trust Alliance and North Carolina Coastal Land Trust have in common? In 2003, they were among five beneficiaries of $2 million earmarked annually by Smithfield Foods for the State of North Carolina's environmental enhancement grant process.

CFRA received $200,000 to fund ongoing monitoring and analysis in the middle and lower Cape Fear River basins. With nearly $500,000, the Green Trust Alliance will restore and protect 364 acres of wetlands near Flat Water Creek, a tributary of the Neuse River and Pamlico Sound. The Coastal Land Trust will apply its $500,000 grant to purchase environmental buffer land along the lower Neuse River.

Smithfield's involvement in water quality efforts doesn't stop there.

"We were a sponsor of World Water Monitoring Day 2003, which offered people around the world an opportunity to monitor the quality of their local watersheds and enter the results into an international database," explains Bill Gill, Smithfield's assistant vice president for environmental affairs. "In addition to funding testing kits for classrooms, we also coordinated monitoring by employees from facilities across the United States and in Poland."

Among the waterways tested, the Black River runs through North Carolina's most densely populated hog production area. It's common to find area residents swimming in the Black River or one of its many tributaries, such as Six Runs Creek (pictured), on a hot summer day.

PLEASE TURN TO PAGES 17 AND 30 TO LEARN MORE.



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tive dialogues.

"There is a strong commitment on the part of many in the agricultural community to examine emerging waste disposal technologies and adopt a better system. We greatly appreciate the fact that Smithfield is helping fund these efforts and others that should improve the environment throughout North Carolina. The company recognizes that all of us have some impact on the environment and that environmental sustainability should be part of its philosophy."

**DON FREEMAN**
**EXECUTIVE DIRECTOR**
**CAPE FEAR RIVER ASSEMBLY, INC.**

"Based on its corporate commitment to enhance environmental protection activities, I was enthusiastic about having Smithfield Foods be a primary sponsor of World Water Monitoring Day. We launched this international effort in 2003 to involve the public in the monitoring and protection of world water resources. As a financial sponsor, Smithfield contributed to the enhancement of our water quality database. It also provided monitoring kits for classrooms in communities where the schools could not afford them and involved its employees in monitoring efforts."

**ROBERTA HALEY SAVAGE**
**PRESIDENT AND CHIEF EXECUTIVE OFFICER**
**AMERICA'S CLEAN WATER FOUNDATION**

## ENVIRONMENTAL STEWARDSHIP

### WORKING TOWARD TRANSFORMING THE IMPACT OF OUR ACTIVITIES

From the operations involved in livestock production and meat processing to the materials required for marketing and distributing wholesome food products, Smithfield's operations utilize energy. Our environmental stewardship goal is not just 100 percent compliance with environmental regulations. We are also firmly committed to exploring the potential for creating renewable energy fuel sources from waste products.

Funding projects that enhance environmental quality and partnering with multiple stakeholders is also an important part of our strategy for improvement. For example, as part of the landmark Smithfield Agreement adopted in 2000 between Smithfield and the North Carolina Office of the Attorney General, Smithfield has committed $2 million per year for 25 years to a fund used for environmental enhancement projects. These may include constructing and maintaining wetlands, preserving environmentally sensitive lands and promoting similar projects. In 2003, the attorney general distributed these funds in grants to five recipients: the Cape Fear River Assembly, Save Our State, the Green Trust Alliance, the North Carolina Coastal Land Trust and the North Carolina Foundation for Soil and Water Conservation Districts. Through this agreement, Smithfield has also committed millions of dollars to the research and development of candidates for environmentally superior technologies.

In 2003, Smithfield took many steps forward on our performance improvement journey. We invested in and implemented new technologies and programs. We collected a number of metrics for our first and further processing facilities, and water metrics for our farms east of the Mississippi River. Smithfield also committed to playing a leadership role in moving our industry forward. During the year, we participated in industry associations and business organizations, sharing our challenges and solutions, and participating in committees dedicated to environmental issues. We took advantage of our memberships in environmentally focused organizations, such as the Global Environmental Management Initiative (GEMI), Environmental Law Institute and the Corporate Environmental Enforcement Council to learn more about leading-edge approaches in other industries. Smithfield also communicated considerably more with our stakeholders on environmental issues, opening up a number of productive dialogues.

## Organization, Policies, Accountability and Communication

Smithfield's Corporate Environmental Affairs Group is structured to promote company-wide accountability for environmental performance, compliance with the Code of Business Conduct and Ethics, and continuous improvement and innovation. The group's senior management reports directly to our president and chief operating officer. For legal advice, insight and guidance, the group has a dedicated associate general counsel for environmental affairs. Each of our subsidiaries has an environmental coordinator and the subsidiaries' senior management is held strictly accountable for decision-making and regulatory compliance. A facility environmental coordinator is assigned to each processing facility to ensure environmental objectives are understood and met, and plant managers are responsible for environmental performance.

All serious incidents in our company are reviewed at the executive level. Smithfield's Communication Protocol ensures that the Corporate Environmental Affairs Group is promptly notified of all environmental incidents or any situation requiring immediate reporting to regulatory agencies. Following the reporting of any incident, the group also performs a review of the management steps taken to avoid a recurrence of the problem.

To review company-wide compliance, current and upcoming program activities, and issues, the Environmental Compliance Committee—made up of subsidiary environmental coordinators, senior representatives from the subsidiaries and corporate—meets quarterly.

Smithfield's Corporate Environmental Affairs Group also features a dedicated research and development unit responsible for identifying environmentally responsible and economical technologies for our operations. The director of environmental technology and the senior environmental engineer for technology development work closely with our internal operations and with external stakeholders to assess waste treatment technologies and other innovative technologies that may help reduce environmental impact.

Ongoing communication among Smithfield's environmental professionals and within our company generally is encouraged through a number of formal and informal networks. An important component of the Environmental Management Systems requires each facility to develop internal and external communications strategies for sharing information with key stakeholders. Every year, we also hold an annual training conference, where subsidiary environmental coordinators and representatives from the Corporate Environmental Affairs Group provide training and refresher education for the facility environmental coordinators. These conferences ensure that our environmental professionals understand Smithfield's expectations and corporate policies and programs. In addition, the conferences provide participants with opportunities to share experiences and learn new skills. In 2003, more than 60 subsidiary and facility coordinators attended the two-day conference. We also take full advantage of the corporate environmental intranet site through which we share performance and best practices among our professionals and within the company generally.

Everyone in our company is strongly encouraged to find ways to improve our environmental performance. The annual Smithfield Foods Environmental Excellence Awards, our internal awards program, also recognizes those teams that have made exceptional efforts to reduce our environmental footprint. (The award winning projects for 2003 are featured throughout this report.)

### ENVIRONMENTAL POLICIES

Smithfield's Code of Business Conduct and Ethics provides an overview of employees' legal and ethical business responsibilities. Our Employee Accountability Policy and Environmental Policy Statement further clarify environmental performance responsibilities. Below are our current policies, which are undergoing review. During the first quarter of calendar year 2004, these will be revised and made available through our Web site.

*Employee Accountability Policy*

Smithfield employees are expected and directed to comply with all laws and all Smithfield policies related to the environment. We expect 100 percent compliance, 100 percent of the time. It is also each employee's responsibility to know and understand legal and policy requirements as they apply to his/her job, and to notify management when he/she believes a violation of law or Smithfield policies has occurred. The job performance of our employees and managers is based in part upon their effectiveness in furthering our Environmental Policy.

*Environmental Policy Statement*

It is the corporate policy of Smithfield Foods, Inc., and its subsidiaries to conduct business in an ethical manner consistent with continual improvement in regard to protecting human health and the environment.

The following management principles are adopted to ensure that this policy is endorsed and implemented throughout our organization:

- Maintaining an effective organizational and accountability structure for environmental performance;
- Establishing policies and practices for conducting operations in compliance with environmental laws, regulations and other organizational policies;
- Training and motivating facility operators to conduct all activities in an environmentally responsible manner;
- Assessing the environmental impacts of changes in operations;
- Encouraging the operation of facilities with diligent consideration to pollution prevention and the sustainable use/reuse of energy and materials;
- Encouraging prompt reporting of any environmentally detrimental incidents to regulators and management;
- Providing facility operators with information relating to specific local or regional conditions, current and/or proposed environmental regulations, technologies and stakeholder expectations;
- Providing for environmental performance goals, assessing performance, conducting audits and sharing appropriate performance information throughout our organization;
- Promoting the adoption of these principles by suppliers, consultants and others acting on behalf of the company; and
- Documenting development, implementation and compliance efforts associated with these principles.

## ENVIRONMENTAL MANAGEMENT SYSTEMS

**At the heart of our strategy for continuous improvement is the use of Environmental Management Systems (EMSs). An EMS is a comprehensive system for identifying and managing parts of an organization's activities that have, or could have, an impact on the environment. By identifying each of the organization's significant environmental aspects, it is possible through the EMS to monitor environmental performance, focus on any nonconformance and implement any needed preventive and corrective action. Conformance to the requirements of the EMS is verified through a series of internal and external audits. EMSs are the most important tool for reducing Smithfield's environmental footprint because they enable us to obtain objective information for accurate decision-making, target-setting and reporting to our internal and external stakeholders.**



**Two years ago, all of Murphy-Brown's company-owned swine production farms in North Carolina, South Carolina and Virginia implemented EMSs, and then went the extra step to achieve ISO 14001 certification.* We were the first livestock operation in the world to do so. Since that time, Murphy-Brown has completed EMS implementation and achieved ISO 14001 certification for all company-owned farms in the United States. (This does not include facilities acquired or constructed within the previous 12 months; these will be brought into the program within a 12-month period.) During 2003, our meat processing subsidiaries continued implementing their EMSs. Following the implementation of an EMS, independent third-party auditors will audit these facilities in conformance with the EMS program. We plan to seek ISO 14001 certification for these systems in 2004. Acquisitions in 2003, such as Smithfield's Farmland acquisition, will achieve certification in 2005.**

**Subsidiary environmental coordinators have been trained in their EMS responsibilities to provide our operations with assistance in the implementation and ongoing maintenance of their EMSs. The EMS coordinators utilize intranet-based systems to help them with their responsibilities. For our processing facilities, we completed an EMS guidance manual to assist them in developing their own EMS guidance documents.**

**Simply having an EMS is not a guarantee of good performance. An EMS, to be optimally effective, requires a commitment that must be diligently upheld by the employees of our facilities. To ensure that our system is maintained properly and that our company benefits fully from these programs, we conduct internal audits of our EMS annually in compliance with the ISO 14001 standard. In order to become ISO 14001 certified, an organization must have its EMS audited for conformance to the ISO standard by accredited third-party auditors at least annually. We also recognize that certification renewal depends on our ability to uphold a high standard of performance. In order to ensure EMS compliance and to obtain maximum benefit from our EMSs, Smithfield has elected to conduct external surveillance audits on a six-month cycle.**

**Maintaining our ISO 14001 certifications is one measure of our ongoing commitment to effectively manage Smithfield's environmental footprint.**

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** Established by the Swiss-based International Organization for Standardization, the ISO 14001 Standard comprises a set of accepted environmental management requirements that must be met before an organization can become "certified." Certification is achieved only after an ISO accredited third-party auditor determines that all elements of the ISO 14001 standard have been met by the organization.*

## TAKING A SENSIBLE APPROACH TO ANTIBIOTICS

Whenever a child sits down to enjoy some delicious cold cuts or any other Smithfield pork product, parents can rest easy. After all, every hog on the farm was raised under the industry's most rigorous health care regimen. That includes a sensible approach to antibiotic use. Smithfield's Murphy-Brown hog production subsidiary recently published its official Antibiotic Usage Policy, which outlines many of the procedures that have long been common practice on its farms from North Carolina to Utah.

"I think the main thing people need to know is that we use therapeutic antibiotics primarily to prevent suffering and to treat illness," explains Murphy-Brown President Jerry Godwin. "That decision is always made by a licensed veterinarian. We do not routinely feed antibiotics to our hogs over the course of their lives."

Instead, Murphy-Brown employs sound management practices that provide hogs with a proper diet, good air quality, protection from the elements and all the fresh water they need. Hogs receive appropriate vaccinations as well, such as the swine influenza vaccine given annually to every sow. To keep injuries to a minimum, each production specialist undergoes training in animal behavior and proper handling methods.

"We will continue to analyze our practices to ensure that antibiotics are only used in appropriate ways throughout our organization," adds Godwin.

PLEASE TURN TO PAGE 50 TO LEARN MORE.

NTAL

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O 14001 STANDARD

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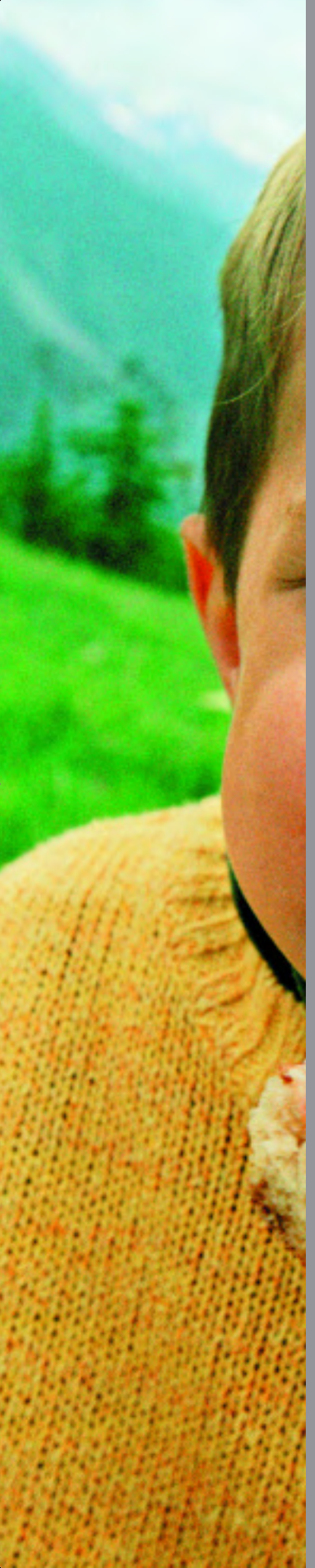


"Smithfield Foods, through its Murphy-Brown subsidiary, has led the way in our industry in putting an antibiotic usage policy in place. The company has taken a proactive, science-based approach and one that is consistent with the guidelines put forth by the federal government. I also think that Smithfield has been responsive to the concerns of its customers and consumers in this area."

**NEIL DIERKS**
**CHIEF EXECUTIVE OFFICER**
**NATIONAL PORK PRODUCERS COUNCIL**

## BEYOND STRATEGIC PLANNING: THE VALUE OF ENVIRONMENTAL MANAGEMENT SYSTEMS

**The importance of Smithfield's Environmental Management Systems and emergency action planning were clearly demonstrated in the wake of severe weather during 2003. First, our North Carolina operations were hit with more spring rain than ever recorded by the U.S. Weather Service for the state, and our hog farm lagoons weathered the storm without any compromise to their structural integrity. Then in September, Hurricane Isabel directly hit our operations in North Carolina and Virginia. Although we lost utility power, our feed and water systems for the animals continued uninterrupted. No animal was lost, and no lagoon breaches occurred at any of the facilities. Equally important, none of our processing facilities incurred any environmental violations as a result of the hurricane's impact.**

## THE ANATOMY OF THE SMITHFIELD EMS MODEL AND THE ISO 14001 STANDARD

**Environmental management systems that conform to the ISO 14001 standard require three important commitments: ensuring compliance with applicable environmental rules and regulations, preventing pollution and ensuring continuous environmental improvement. The EMS follows a Plan-Do-Check-Act (PDCA) cycle. The process includes the following: 1) developing an environmental policy, 2) planning the EMS, 3) implementing the system and 4) verifying conformance with environmental goals. The EMS includes a systematic method to ensure ongoing compliance with these commitments through a series of inspections, internal and external EMS audits, the identification of non-conformances, corrective action measures, and timely management review to ensure adequacy and effectiveness. The EMS also includes the development of an emergency action plan, which provides employees with clear instructions on what they should do in the event of an emergency. An up-to-date emergency action plan is available in a convenient location within each facility, and employees are trained in its proper execution. All employees receive general training about the role of the EMS, and the EMS implementation team receives specific training. The system requires ongoing communication of information about the EMS throughout the organization, as well as ongoing communication with the public.**

## Environmental Programs and Performance

To support Smithfield's Environmental Policy, we have developed and continue to implement a number of practical and highly innovative programs to reduce our impact and bring value to shareholders and the communities where we operate. During 2003, we continued partnering with academics, industry experts and government to further the development of environmentally superior—which encompasses the concept of economic feasibility—waste management technologies through participation and funding. We also provided support to environmental organizations and volunteered in activities to help keep the natural areas around our facilities clean.

Historically, Smithfield has collected metrics required by law, such as our Toxics Release Inventory (TRI) data and permitting information. With the implementation of Environmental Management Systems (EMSs) in the majority of our U.S. operations, we are now better able to understand our impact as a company and to begin gathering performance metrics—such as water usage, electricity usage and solid waste metrics—for our production and processing operations. With this information, we will be able to set targets for improvement, as well as pinpoint areas for innovation. Importantly, for many areas that we are unable to measure currently, our systems are providing the foundation to understand where these gaps exist, and what aspects we might measure in the future.

### SCOPE OF SMITHFIELD'S ENVIRONMENTAL METRICS

Smithfield's water, energy, air emissions and solid waste metrics are divided into "first processing facilities" and "further processing facilities."

- First processing facilities primarily provide products to other facilities for further processing, as well as case-ready items that usually require cooking or further preparation. Production is measured in "animal units" because the primary input for these facilities is the number of animals that enter for processing.
- Further processing facilities receive raw meat products from first processing facilities and produce convenient-to-prepare products, such as precooked hams, for consumers. Production is measured in pounds because the primary input for these facilities is pounds of raw meat.
- Smithfield Foods, Inc., is a growing, vibrant company. With this in mind, our metrics are "normalized" to adjust for production and plant acquisitions. By normalizing, each year's data can be directly compared to the previous year's to determine the efficiency of our company. We expect overall numbers to grow as the company continues to grow, but we expect each plant to improve continually on the efficiency with which it consumes natural resources.

Unless otherwise indicated, our metrics represent Smithfield's first and further processing facilities in the United States, with the exception of those that were acquired in 2003, and some smaller further processing facilities representing less than 1 percent of the metrics totals. Each year, we will strive to provide improved metrics to better track the company's use of natural resources. The metrics provided for our first and further processing facilities represent 95 percent of the company's total usage for these facilities.

### COMPLIANCE AND LITIGATION

*Notices of Violation*

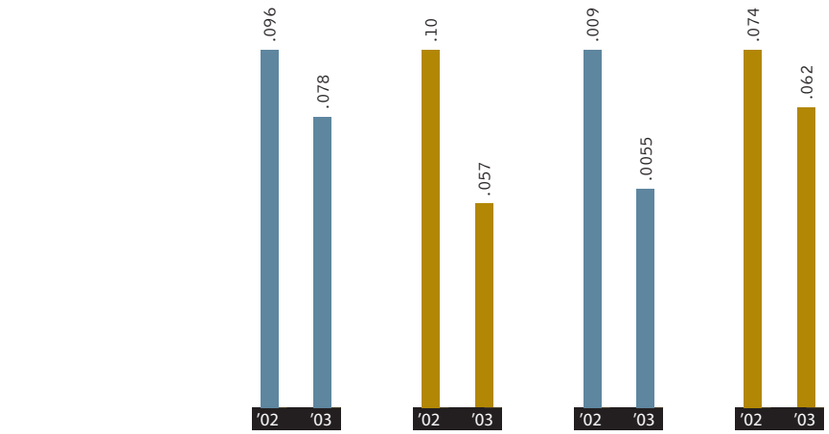
In 2003, Smithfield's facilities received 77 Notices of Violation or Notices of Noncompliance (NOVs) resulting in $124,204 in fines. The largest fine was $77,000, which was the result of a wastewater incident at a Moyer plant in 2002, and has since been resolved. In addition, at one of our North Side facilities, in Cumming, Georgia, we paid a $17,875 fine related to an ammonia release. No one was injured during this incident, and Smithfield responded immediately and proactively to resolve the matter. For all NOVs, we took prompt corrective actions, or have set in place ongoing corrective actions, to prevent recurrence.

Because NOVs are used consistently in all states by the state environmental agencies, Smithfield provides NOV data in our report rather than both NOV and Notice of Deficiency (NOD) data. Not all state agencies issue NODs.

During Spring 2003, North Carolina experienced the highest seasonal rainfall in recorded history. This resulted in elevated lagoon levels for many farms across the state, including Smithfield's. Farmers reported the levels to the state agency, as is the standard practice. The state sent out hundreds of NOVs; 55 of these were sent to Smithfield's operations. The elevated lagoon levels did not compromise the structural integrity of the lagoons but did decrease the reserve designated for storage of rainfall accumulated over a 24-hour period from intense storms. Many farmers and legislative leaders protested the number of NOVs issued, which led to the Department of Environment and Natural Resources' reconsideration of the issuance of these NOVs, and subsequent reclassification of these NOVs as NODs. Our NOVs for 2003 do not include the number of NOVs that were issued to our facilities in North Carolina and subsequently reclassified as NODs. Through rigorous management efforts, Smithfield's elevated lagoon levels were lowered to permissible levels following the severe weather, and no further regulatory action was required.

## U.S. TOXICS RELEASE INVENTORY DATA

**The Toxics Release Inventory (TRI) regulations require industrial facilities that use chemicals above a threshold quantity to report data on the release of hazardous chemicals, as well as the location and quantities of stored chemicals. TRI legislation is designed to inform nearby communities and other interested stakeholders of possible public health concerns. The following represents Smithfield's TRI data for our first and further processing facilities governed by these regulations. The Tier II data below represent the amount of chemicals kept on site and the Form R data represent releases to the environment over the calendar year. These facilities are divided into first and further processing facilities.**




### Tier II Ammonia

*(Pounds per animal unit)*

19%
REDUCTION

### Tier II Ammonia

*(Pounds per 100 pounds)*

43%
REDUCTION

### Tier II Chlorine

*(Pounds per animal unit)*

39%
REDUCTION

### Tier II Chlorine

*(Pounds per 100 pounds)*

16%
REDUCTION

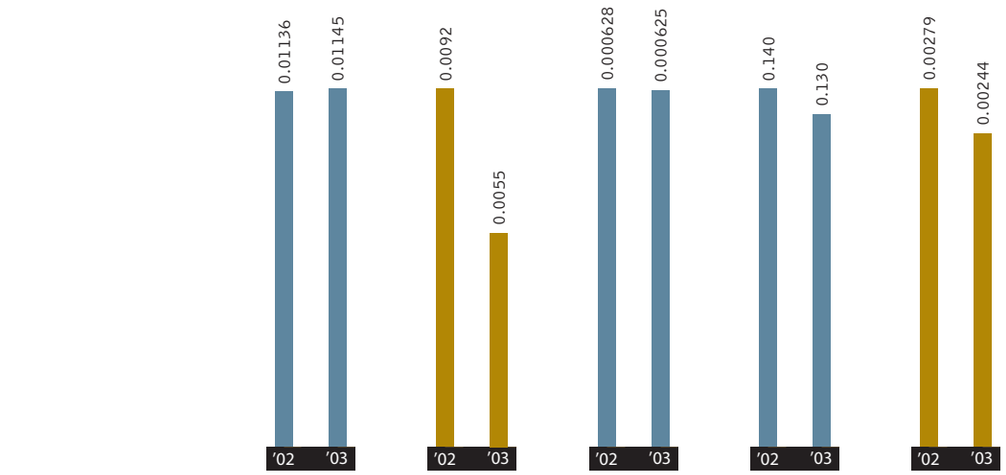
### Tier II Totals

| | *2002* | *2003* |
|---|---|---|
| Ammonia | 2.4 million pounds | 1.3 million pounds |
| Chlorine | 2.0 million pounds | 1.1 million pounds |

*During the Tier II filing process, opportunities to decrease the amount of chemicals stored on site are always considered. This reduces the amount of chemical available for any potential environmental incident. It also positively impacts the safety of employees and emergency response personnel during any other type of emergency such as fire, tornado or hurricane.*



**For our first and further facilities that must report TRI data, we have also provided normalized data to indicate related efficiency improvements in these facilities. It is important to note that the normalized data do not pertain to all of our first and further processing facilities, but only those that must report TRI data.**




### Form R Ammonia

*(Pounds per animal unit)*

1%
INCREASE

### Form R Ammonia

*(Pounds per 100 pounds)*

40%
REDUCTION

### Form R Chlorine

*(Pounds per animal unit)*

0.5%
REDUCTION

### Form R Nitrate

*(Pounds per animal unit)*

9%
REDUCTION

### Form R Nitrate

*(Pounds per 100 pounds)*

13%
REDUCTION

### Form R Totals

| | *2002* | *2003* |
|---|---|---|
| Ammonia | 259,000 pounds | 213,000 pounds |
| Chlorine | 19,000 pounds | 21,000 pounds |
| Nitrates | 8.5 million pounds | 7.8 million pounds |

## MAKING ENVIRONMENTAL GAINS IN MAZURY

Mazury's Lake Sniardwy (pictured) is the scenic centerpiece of Poland's lake district and a popular source of recreation for locals and tourists alike. At its Mazury meat plant, Smithfield's Animex subsidiary has been doing its part to be a good environmental neighbor. Since 2001, plant personnel have been working on a series of initiatives that have lowered consumption of electricity by 18 percent, coal by 28 percent and water by 40 percent. For its efforts, the plant was one of two Animex facilities honored with a Smithfield Foods 2003 Environmental Excellence Award.

"We implemented a number of changes in Mazury to accomplish our goals," notes Animex President Morton Jensen. "To reduce coal use, for example, we installed a water heater that works on heat generated by boiler exhaust. As part of our water consumption reduction plan, we now reuse water to pre-rinse trays. That way, we save fresh water for final rinsing and sterilization."

The Mazury plant's energy reduction initiatives have lowered emissions of pollutants such as sulfur dioxide, nitrogen oxide and carbon monoxide. In fact, its coal-based boiler now emits less than half the carbon monoxide and dust than it did in 2000.

Animex's Constar plant in central Poland also took environmental honors in 2003. Its achievement? Reducing water use per pound of product by 25 percent. Plant personnel accomplished this feat by, among other things, recycling equipment cooling water, using thermal insulation more effectively and switching to electric knife sterilizers.

"Animex is probably best known as the maker of Krakus hams," adds Jensen. "We would like to be known for our responsible approach to the environment as well."

PLEASE TURN TO PAGE 14 TO LEARN MORE.

*Photo location: Lake Sniardwy, Mazury, Poland*

USTRY

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## MAZURY, CZYLI JAK ZYSKAĆ NA OCHRONIE ŚRODOWISKA

**Mazurskie Śniardwy (patrz zdjęcie) położone w malowniczym centrum Wielkich Jezior Mazurskich są popularnym miejscem rekreacji dla tutejszych mieszkańców oraz turystów. Położone właśnie w sercu Mazur, Zakłady Mięsne w Ełku, spółka należąca do Grupy Animex, wprowadza na szeroką skalę działania na rzecz środowiska naturalnego. Od roku 2001, pracownicy Zakładów opracowali wiele inicjatyw, dzięki którym obniżono zużycie energii o 18 procent, węgla o 28 procent oraz wody o 40 procent. W zasłudze dla środowiska, zakład jako jedna z dwóch nagrodzonych spółek Animex, uhonorowana została Nagrodą Doskonałości w zakresie Ochrony Środowiska Smithfield Foods 2003 (Smithfield Foods 2003 Environmental Excellence Award).**

**"Zdołaliśmy wdrożyć szereg zmian w Zakładach Mięsnych Mazury, realizując w ten sposób nasze cele", przyznaje Morten Jensen, Prezes Animex. "Na przykład, aby obniżyć zużycie węgla zainstalowaliśmy podgrzewacz wody wykorzystujący ciepło odlotowe spalin. Częścią naszego programu redukcji zużycia wody jest założenie ponownego użycia wody do wstępnego płukania. W ten sposób zdołaliśmy oszczędzić czystą wodę do końcowego płukania i sterylizacji."**

**Inicjatywy Mazur w zakresie redukcji zużycia energii pozwoliły na zmniejszenie emisji zanieczyszczeń takich jak dwutlenek siarki, tlenek azotu, tlenek węgla. W rzeczywistości, emisja tlenku węglowego oraz pyłu z kotła węglowego zmniejszyła się o połowę w porównaniu z rokiem 2000.**

**Inny zakład z Grupy Animex, Constar z siedzibą w Starachowicach, w centralnej Polsce, został również nagrodzony w 2003 roku. Osiągnięcia? Zmniejszenie zużycia wody w przeliczeniu na funt produktu gotowego o 25 procent. Zespół Constaru dokonał tego osiągnięcia między innymi poprzez zastosowanie urządzeń odzyskujących wodę do chłodzenia, efektywne wykorzystywanie izolacji cieplnej, oraz zainstalowanie elektrycznych sterylizatorów noży.**

**"Animex jest przypuszczalnie najbardziej znany z produkcji szynek KRAKUS", dodaje Jensen. "Teraz chcielibyśmy zostać przedsiębiorstwem znanym również z odpowiedzialnego podejścia do kwestii ochrony środowiska."**

WIĘCEJ INFORMACJI NA STRONIE 14.

*New U.S. Regulations*

EFFLUENT LIMITATION GUIDELINES FOR THE RED MEAT INDUSTRY

**The U.S. Environmental Protection Agency (EPA) originally developed Effluent Limitation Guidelines* (ELGs) for the red meat industry (which includes beef and pork) more than 20 years ago. Based on third-party litigation and the requirements of the Clean Water Act, the EPA was ordered by the court to review and potentially revise the original limits. In early 2002, a Meat and Poultry Products (MPP) rule was proposed by the EPA that added poultry operations, and included significantly more stringent effluent limits, as well as effluent limits for parameters not previously included in the ELGs.**

**Because of concerns regarding the EPA's understanding of current wastewater technologies and the industry, the red meat industry formed a coalition, of which Smithfield was a part, and provided comments to the EPA on the details and requirements that were proposed. These comments have generated additional data for the EPA and promoted a better understanding of the industry's use of wastewater technologies. This in turn, has helped to promote a more informed approach to the development of effluent limits.**

**The EPA also continues to assess the impact and effectiveness of other existing water quality regulations to determine the effectiveness of other ELGs applicable to the red meat industry. A final rule is expected in late February 2004. Although there are still significant issues to be resolved, Smithfield hopes that the final rule will address the shared goal of cost-effective environmental protection.**

CONCENTRATED ANIMAL FEEDING OPERATIONS (CAFO) REGULATIONS

**In February 2003, the EPA promulgated new regulations under the Clean Water Act governing concentrated animal feeding operations (CAFOs). Among the obligations imposed by these new regulations, CAFOs must manage livestock waste in ways that reduce impact on water quality. Generally, the new rule maintains a three-tiered permitting structure for what constitutes a CAFO. It also establishes a mandatory duty for all CAFOs to apply for National Pollutant Discharge Elimination System (NPDES) permits, and develop and implement nutrient management plans. The new Effluent Limitations Standards and Guidelines establish performance requirements designed to ensure that sound livestock waste management practices are followed, and set forth expectations for proper land application practices.**

**The EPA has also been focusing on the potential regulation of air emissions from CAFOs. During 2002, the EPA engaged the National Academy of Sciences to undertake a study to assist the agency in making that determination. The study**

** The Clean Water Act includes provisions for the development of industry-specific wastewater Effluent Limitation Guidelines, which are regularly reviewed by the U.S. Environmental Protection Agency and provide guidance to states for developing wastewater discharge permit limits for various industries.*

identified a need for more research and better information on how to measure emissions. Smithfield has been actively involved in efforts to promote sound scientific research into appropriate emissions factors and methodologies, and is supportive of the EPA's efforts to advance the state of this science. We also recognize the importance of these issues to a variety of our stakeholders, and we are committed to a proactive approach in addressing these concerns.

## LITIGATION

Periodically, Smithfield receives notices from regulatory authorities and others asserting that the company is not in compliance with certain environmental laws and regulations. In some instances, litigation ensues. Discussion of litigation matters can be found in the Smithfield Foods, Inc., Annual Report 2003, which is available online at www.smithfieldfoods.com/Investor/Ars.

## WATER

Water is critical to the effective operation of our farming and processing operations. We require a continuing supply, whether it is for maintaining the health of our animals, for cleaning facilities or for use in Smithfield processing plants. The availability and quality of this resource is also of concern in the communities where we do business. Therefore, using water conscientiously and protecting water quality is an environmental focus for our company.

To help promote global awareness of water quality issues, employees from Smithfield's subsidiaries in Poland and 10 U.S. states joined volunteers from more than 12 countries around the world to test water samples from rivers and lakes. These efforts, which took place on Oct. 18, 2003, were part of World Water Monitoring Day. Smithfield helped to sponsor this event, which was created by America's Clean Water Foundation to engage the public, governments and corporate leaders in a global effort to heighten water quality awareness.

Our Environmental Management Systems (EMSs) play a critical role in helping us identify opportunities for water conservation and reuse. Since 2000, a number of our facilities have implemented innovative water strategies and technologies, saving hundreds of millions of gallons of water per year. Our Tar Heel plant alone continues to reuse over 1 million gallons of treated wastewater per day, which represents more than 30 percent of the plant's average daily usage. During 2003, the Smithfield facilities below were recognized with Smithfield's Environmental Excellence Award for their water conservation projects.

*Smithfield Packing Company, Kinston, North Carolina, United States*

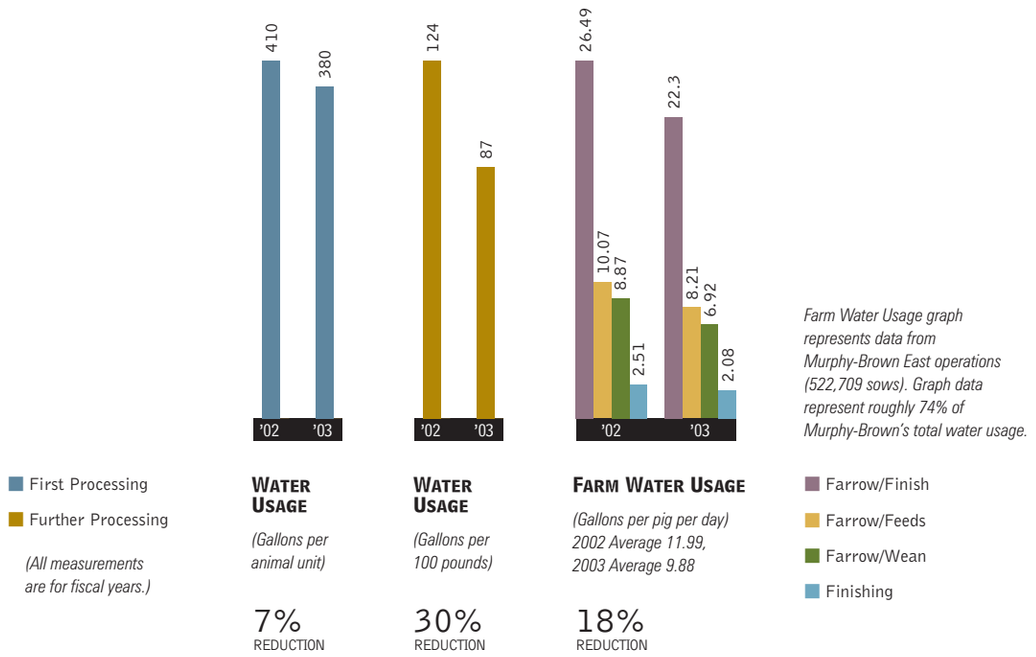
A team from Smithfield Packing Company's Kinston processing facility reduced the plant's total fresh water usage by 11 percent, a water savings of over 14.8 million gallons per year, and achieved a similar reduction in wastewater discharges. This reduced the burden on the City of Kinston's wastewater treatment system. The project involved modifications to the facility's belt filter press—a machine that removes water from wastewater residuals, and must be washed continuously—so that the belt could be washed with treated wastewater effluent rather than fresh water from the plant's well.

*John Morrell, Sioux Falls, South Dakota, United States*

A team at John Morrell's Sioux Falls facility partnered with an operations subcontractor to develop a process that collects, filters, reheats and recycles water from its on-site operations. Water usage and wastewater discharge at the Sioux Falls facility has been reduced by over 28 million gallons per year, which is 5 percent of the plant's total annual usage.

*Water Metrics*

Smithfield's water metrics represent the potable water entering first and further processing facilities for all purposes, including processing, cooling and sanitation requirements, washrooms, truck washing, and use in our products. Since fiscal year 2002, Smithfield has increased water usage efficiency. Total water usage increased slightly from 5.4 billion gallons to 5.5 billion gallons. However, when normalized for production increases, first processing showed a reduction of 7 percent with further processing yielding a 30 percent decrease. As most company facilities have some form of water conservation program in place, it is likely that the decrease in water use is due, at least in part, to this effort.



## WASTE MANAGEMENT

**As a producer and processor of millions of animals every year, waste management is perhaps our greatest challenge—and opportunity. The types of waste produced by Smithfield operations range from livestock waste, wastewater residuals and packaging to wastewater to air emissions (such as methane, ammonia and other gases). Our goal, however, is to reduce all forms of waste produced by our operations and transform as many of these as is economically feasible into valuable commodities.**

**Livestock waste from Smithfield's hog farms is managed in various ways depending upon a number of variables, such as climate differences, types of production facility construction, agricultural and cropping practices, and state and federal regulatory requirements. Generally speaking, livestock waste is managed in one of the following three ways:**

1. **Anaerobic treatment and land application system, which treats effluent and then applies it to crops as fertilizer. (This is the primary system employed east of the Mississippi River.)**
2. **Livestock waste collection and storage system, where livestock waste is collected in the production barns or in above-ground storage vessels. (Typically, livestock waste is pumped out of the storage vessel and either land applied or incorporated into the soil in conjunction with seasonal crop planting cycles. These systems are typical in the Midwest region.)**
3. **Evaporative systems, which are employed in climates where seasonal evaporation rates exceed annual rainfall totals. (This system is utilized in the arid desert environment of Utah.)**

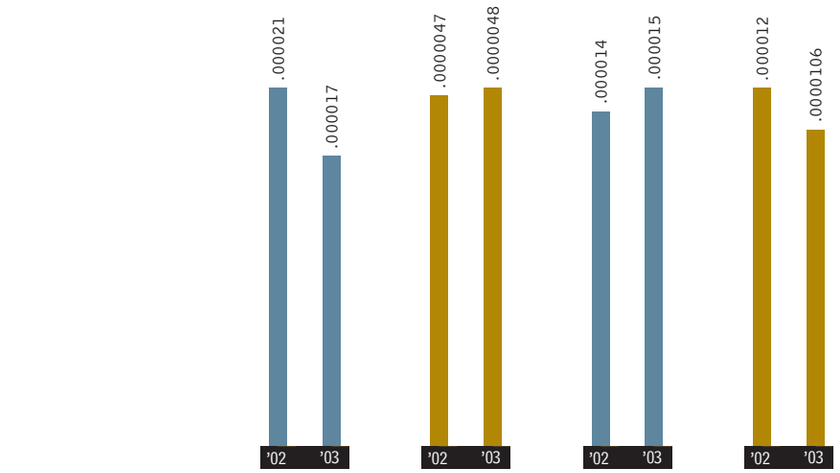
**These three waste management approaches have been widely researched, accepted and recommended by university, state and federal agricultural engineers. Permits were issued, in every instance, by state environmental agencies.**

**In 2003, we collected metrics for air emissions for first and further processing facilities that require air permits, and for solid waste from our first and further prrocessing facilities.**



### *Air Emissions*

**Smithfield's air emissions metrics include those for sulfur oxide (SOx), a primary constituent of acid rain, and nitrogen oxides (NOx). Both emissions are byproducts of burning fuel, primarily natural gas, for Smithfield's operations. They have increased over the past year as our fuel demand has grown with increased production levels.**




*(All measurements are for calendar years.)*

**SOx**
*(Tons per animal unit)*
19%
REDUCTION

**SOx**
*(Tons per 100 pounds)*
2%
INCREASE

**NOx**
*(Tons per animal unit)*
7%
INCREASE

**NOx**
*(Tons per 100 pounds)*
12%
REDUCTION

**AIR EMISSIONS**

| | *2002* | *2003* |
|---|---|---|
| SOx | 793 tons | 575 tons |
| NOx | 364 tons | 380 tons |

## EMPOWERING EMPLOYEES TO MAKE A DIFFERENCE

John Morrell & Co.'s facility in Sioux Falls, South Dakota, in conjunction with an operations subcontractor, recently developed a method for recycling water that will reduce annual use by more than 28 million gallons. That accomplishment earned a team of John Morrell engineers one of seven Environmental Excellence Awards given out by Smithfield Foods in 2003. It also spelled good news for nearby Sioux Falls Park (pictured). That's because winners are given, along with their own cash award, $3,000 to donate to a not-for-profit organization of their choice. Three-time winners, the Sioux Falls team has selected the Falls Park Foundation each time.

"The foundation has used the $9,000 we donated as part of a major cleanup and beautification campaign," notes Steve Dravland, manager of environmental engineering for John Morrell. "It has made a big difference to the people who live in the area."

John Morrell's contribution mirrors others being made around the country by Smithfield award winners. Many are expanding their efforts by giving to organizations with environmental missions. For example, a winning team at Smithfield Packing Company's Landover facility donated $3,000 to Citizens Concerned for a Cleaner County. This organization provides environmental education and outreach services in Maryland's Prince Georges County.

After winning for reducing annual water use by 14.8 million gallons, the team at Smithfield Packing's Kinston operation singled out nearby Lenoir Community College for its gift.

"We helped set up a scholarship for undergraduates in the field of water management," says Plant Engineer Robert Mozingo. "It was a natural fit."

PLEASE TURN TO PAGE 31 TO LEARN MORE.

*Photo location: Sioux Falls Park, Sioux Falls, South Dakota*

to a landfill, including
d, etc.), paper and
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s, first processing showed a
a 42 percent decrease. The
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superior technologies
we hope to demonstrate
taining competitive value

ent with the North Carolina
earmarked to pursue a
uperior technologies for

nvironmental stewardship

"We've had a strong relationship with Smithfield Packing's Kinston operation over the years. Some of its employees have taken classes here, and we have placed cooperative education students there as well. Still, we were overwhelmed when the plant's environmental award winners donated $3,000 to support our water resources management curriculum. We plan on using the money to award $500 scholarships to six students preparing for careers in water purification, wastewater treatment and the treatment of industrial wastes."

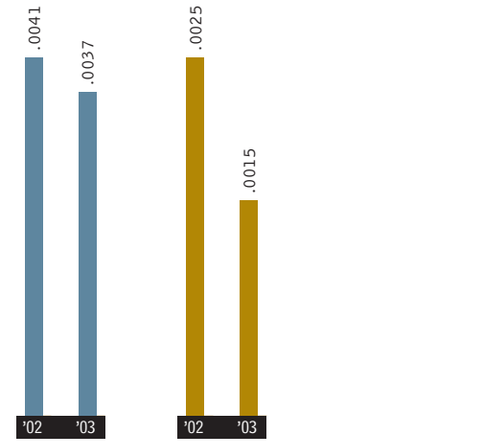
**RICHY GREEN**
**DIRECTOR OF MARKETING AND RECRUITING**
**LENOIR COMMUNITY COLLEGE**

"The City of Sioux Falls has been investing a substantial amount of money in improvements to Falls Park, and John Morrell has been very supportive of our efforts. The company recently made a series of contributions, which we used to help fund a major cleanup project along the Big Sioux River that winds through the park."

**MIKE COOPER**
**DIRECTOR OF PARKS AND RECREATION**
**CITY OF SIOUX FALLS**

SOLID WASTE

**Smithfield's solid waste metrics represent all waste sent to a landfill, including packaging materials (plastic film, unrecyclable cardboard, etc.), paper and strapping material. Total solid waste increased slightly from 50,000 tons to 53,000 tons. However, when normalized for production increases, first processing showed a reduction of 11 percent with further processing yielding a 42 percent decrease. The larger decrease shown for further processors is attributed to company-wide efforts to reduce film and packaging waste.**




**SOLID WASTE**
*(Tons per animal unit)*
11%
REDUCTION

**SOLID WASTE**
*(Tons per 100 pounds)*
42%
REDUCTION

*(All measurements are for fiscal years.)*

*The Quest for Environmentally Superior Technologies*

**By playing a critical role in funding research and development, and in testing, adopting and promoting candidates for environmentally superior technologies (which encompass the concept of economic feasibility), we hope to demonstrate environmental performance improvement, all while maintaining competitive value for our shareholders.**

*Update on the Smithfield Agreement*

**In summer 2000, Smithfield reached a voluntary agreement with the North Carolina Office of the Attorney General in which $15 million was earmarked to pursue a research and development program of environmentally superior technologies for**

treating livestock waste. North Carolina State University (NCSU) is conducting the program. A 23-member multi-stakeholder team—made up of representatives from environmental groups, the swine industry, academia and the engineering, regulatory and economics communities—selected 18 technologies for testing from approximately 100 proposals received from around the world. The technologies selected are candidates for enhancing current methods of livestock waste treatment, recycling and disposal. Several of these technologies are being tested on the NCSU campus, Smithfield's and Premium Standard's farms, and other locations. Descriptions of these technologies can be found on our Web site at www.smithfieldfoods.com/Enviro/Technology.

Over the past three years, the multi-stakeholder team has been meeting at least twice a year and issuing progress reports on the technologies. In 2003, the NCSU team issued its three-year progress report on the status of the research, which can be found online at: www.cals.ncsu.edu/waste_mgt. This team has also kept abreast of our BEST BioFuels, LLC, venture (see details below), which will be evaluated along with the 17 other technologies as an environmentally superior technology candidate.

In both 2004 and 2005, the program designee will make decisions regarding which technologies, if any, are determined to be "environmentally superior," as defined by the Smithfield Attorney General Agreement. We plan to implement those technologies determined to be environmentally superior on all company-owned farms in North Carolina in accordance with the terms of the determinations.

*BEST BioFuels, LLC*

In addition to our participation in the Smithfield Agreement, our company also has a process for evaluating waste management technologies and piloting their applicability to our operations. One of the major efforts has been the creation of BEST BioFuels, LLC, a venture in which Smithfield is a major partner. In 2003, we committed up to $20 million to the building of a waste collection system and a central treatment complex at our Circle Four Farms in southwestern Utah for the generation of "biomethanol." The system transports waste to the central treatment facility where it is then converted to biogas, a necessary component of biomethanol. Circle Four Farms was an ideal location for implementing a full-scale Biomass Energy Sustainable Technology (BEST) system because of the high concentration of animals. The construction will be completed during spring 2004. The actual production of biomethanol will soon follow.

At Circle Four Farms, the waste is piped through roughly 40 miles of pipe from multiple farm locations to four centrally located digesters, which convert the organic material into biogas. A biomethanol plant adjacent to the digesters processes the biogas into biomethanol using a patented thermo-catalytic process.


**CARDBOARD RECYCLED ALL PLANTS**

*(Tons)*

2.4%
INCREASE

*(Measurements are for fiscal years.)*

The facility at Circle Four Farms is anticipated to generate a tanker-load of biomethanol per day for use in developing such products as biodiesel. (Biodiesel is a clean-burning renewable fuel that is typically blended with conventional petroleum diesel at a 20/80 ratio.) Slated for completion in 2004, Smithfield is also building a facility that will convert biomethanol to biodiesel.

BEST BioFuels, LLC, presents many opportunities for reducing waste volume—and capturing and transforming methane, a potent greenhouse gas, to create a valuable commodity. Future reports will address the success of this venture and its potential application in other geographic locations of the country.

*Recycling*

In 2003, Smithfield partnered with our primary corrugated suppliers to maximize cardboard recycling in our operations. Programs are being developed at the Smithfield Packing Company plants in Kinston, North Carolina, and Smithfield, Virginia, and the Gwaltney plants in Portsmouth and Smithfield, Virginia.

Recycling programs have been in effect at plants in Tar Heel, North Carolina; Landover, Maryland; and Bedford and Valleydale, Virginia, for a number of years. Since March 2002, these programs have prevented more than 24,500 tons of cardboard from entering landfills.

Our cardboard recycling metric represents the amount of cardboard recycled company-wide.

## BIODIVERSITY

Over the past two years, our company has adopted a more proactive role in protecting and enhancing wildlife habitat, protecting surface and groundwater quality, and preventing soil erosion on our company-owned U.S. farms. To carry out these objectives, Murphy-Brown developed the Integrated Land Management Program in 2001. During 2003, we allocated more than $650,000 to the program and began implementation on all our company-owned farms. The Integrated Land Management Program provides site-specific Best Management Practices designed to meet these objectives, maximize conservation and minimize environmental impacts. This program provides additional protection to upland woods, wetlands, buffer areas and other unique natural areas around our farms. This year, we awarded the Murphy-Brown team responsible for the program's development a Smithfield President's Award, a yearly award that recognizes outstanding environmental achievement.

ENERGY

**Energy—how we consume and produce it—is an area of our business where we see considerable opportunity. Our goal is to make our operations as energy efficient as possible. We are also committed to funding and finding creative ways to capture the waste products of our livestock waste, wastewater residuals, etc.—and transforming them into cleaner-burning, renewable energy sources. Over the past few years, some of our facilities have converted parts of their operations to run on their waste products. Our southern Pennsylvania-based Moyer Packing Company, for example, powers some of its facilities using an environmentally superior mixture of animal fats and vegetable oils from its rendering operations. Last year, several proactive facilities also received cash awards based on energy cost savings achieved in the previous fiscal year. In all cases, the major portion of such cash awards were donated to local charities.**

**Hand-in-hand with finding productive uses for livestock waste have been our efforts to influence energy policy. We want to encourage the adoption of renewable energy sources, such as electricity generated from combusting biogas derived from anaerobic digesters. Policy support is critical to making many of the innovative waste-to-energy technologies cost-effective and viable. During 2003, Smithfield continued these efforts, as well as our involvement (through service on the board and financial contributions) in North Carolina GreenPower, an independent, nonprofit program that uses voluntary contributions to purchase electricity generated from renewable energy sources to add to the state's power supply. (More on the program can be found on GreenPower's Web site: www.ncgreenpower.org.)**

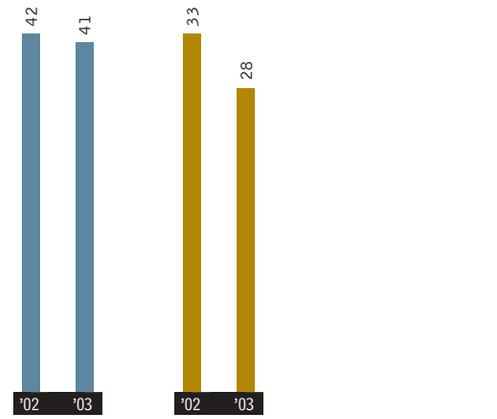
**In 2002, we set the foundation for measuring energy usage at our first and further processing facilities. In 2003, we gathered metrics and set energy reduction targets for Smithfield's U.S. facilities. We also challenged each facility to develop at least one energy reduction project per year. Smithfield has contracted with Minnesota-based U.S. Energy to provide energy procurement services and support for these goals.**



*Energy Usage at Smithfield*

ELECTRICITY METRICS

**Smithfield's electricity metrics represent electricity usage at our facilities. Total electrical usage increased slightly from 701 million kilowatts to 725 million kilowatts. However, when normalized for production increases, first processing showed a reduction of 3 percent with further processing yielding a 14 percent decrease. Conservation programs are in effect at all facilities and likely had some effect.**




**ELECTRICITY USAGE**

*(Kilowatt hours per animal unit)*

3%
REDUCTION

**ELECTRICITY USAGE**

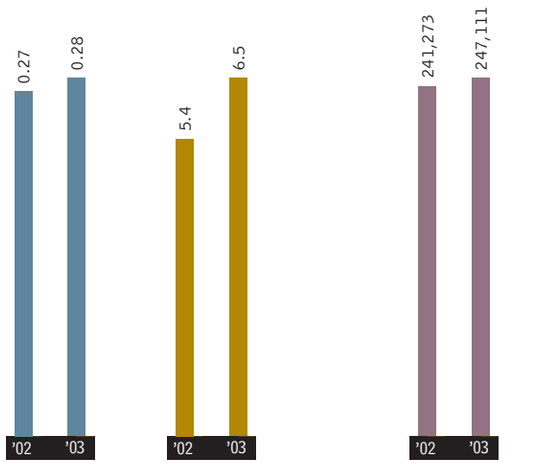
*(Kilowatt hours per 100 pounds)*

14%
REDUCTION

*(All measurements are for fiscal years.)*

NATURAL GAS METRICS

**Our natural gas metrics represent the natural gas used at our facilities for all purposes, including comfort heating, boilers and process ovens. The use of natural gas increased in both types of facilities. The totals were 80 million decatherms for 2002 and 90 million decatherms for 2003. Every opportunity to utilize natural gas in place of fuel oil is captured.**




**Natural Gas Usage**

*(Decatherms per animal unit)*

4%
INCREASE




**Natural Gas Usage**

*(Decatherms per 100 pounds)*

20%
INCREASE




**Total Biogas Usage**

*(Decatherms)*

*(Measurements are for fiscal years.)*

■ First Processing

■ Further Processing

*(All measurements are for fiscal years.)*

BIOGAS METRICS

**Smithfield's biogas metrics (above) represent the amount of biogas—a fuel source derived from our wastewater—used by our operations. This fuel source partially offsets our need to purchase other fuel sources and enables us to productively reuse a waste product.**



*Schneider's Corporate Energy Efficiency Program*

**Schneider Corporation personnel teamed with the government-sponsored Canadian Industrial Program for Energy Conservation, the Ontario Center for Environmental Technology Advancement, an engineering consultant and utility companies to develop a company-wide Energy Efficiency Program. A team audit of Schneider's Courtland facility was conducted to test the process and a list of projects generating roughly $293,000 was developed and implemented. This effort has been recognized by several government agencies through presentations and publications, and was awarded a Smithfield Environmental Excellence Award.**

## External Recognition for Environmental Performance

**During 2003, we were honored to receive a number of certificates of recognition from our partnership efforts with parent-teacher associations and community organizations. These partnerships mean a great deal to our company and demonstrate how good things happen when everyone works together. We were also pleased to be recognized for environmental performance improvement efforts at a number of our plants.**

**The Smithfield Middle School Parent-Teacher Association awarded Smithfield a Certificate of Recognition for participating in the association's Recycle Rewards Program to recycle spent printer cartridges. (2002 and 2003)**

**The Hampton Roads Sanitation District in Virginia presented Smithfield Packing/Gwaltney of Smithfield with a Pollution Prevention Partner Certificate for significant pollution prevention achievements related to storm water management. The district also recognized Gwaltney of Smithfield in Portsmouth with a Silver Pretreatment Excellence Award for the plant's exemplary wastewater compliance record. (2003)**

**The City of Wilson in North Carolina recognized Smithfield Packing with its City of Wilson Gold Award for achieving no wastewater violations. (2002 and 2003)**

**At their 11th annual meeting, the James City County of Virginia presented Gwaltney of Smithfield (Williamsburg Foods) with their Business Environmental Award for the plant's cardboard recycling program. (2003)**

**The Lake Lanier Association of Cumming, Georgia, bestowed the Plaque of Appreciation on North Side Foods for participating in Shore Sweep 2003, a community effort to clean up the lakeshore. (2003)**

## GUIDING SAFETY PERFORMANCE TO THE NEXT LEVEL

When the American Meat Institute (AMI) handed out its 2003 Golden Star Awards for worker safety, five Smithfield Foods facilities took home top honors and more than a dozen others also received recognition. Smithfield's strong showing should come as no surprise. After all, OSHA (U.S. Occupational Safety and Health Administration) recordable safety incidents run 54 percent below the meatpacking industry average.

"Education has been the largest contributor to our strong performance," explains Mike Hartley, director of safety and health for Smithfield Packing Company. "We have 425 front-line supervisors at our 16 East Coast facilities. Since every one is well-trained in safety protocols, that's like having 425 safety directors on site."

In late 2003, Smithfield Foods took its safety efforts to the next level by launching a company-wide certification program for on-site safety personnel. This program will certify safety professionals at five different levels—from entry to senior—with the first batch of certifications to be completed by June 2004.

"I joined Smithfield in March 2003, but I've been a safety professional for 20 years," says David Innes, safety manager at Smithfield Packing's processed meats operation in Plant City, Florida (pictured far left with Hartley in the facility's ham packaging area). "This is one of the most comprehensive programs I've seen."

For its part, Plant City's OSHA recordables declined 40 percent over the past year. And Smithfield Packing isn't alone when it comes to strong safety performance. John Morrell's Great Bend, Kansas, plant was among the company's five AMI Golden Star winners. Moreover, its Sioux City, Iowa, plant received Smithfield's 2003 President's Safety Award for a variety of safety accomplishments.

PLEASE TURN TO PAGE 43 TO LEARN MORE.

*Photo location: Smithfield Packing Company, Plant City, Florida*

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"Progress toward worker and workplace safety improvements at Smithfield Packing Company have been both significant and continuous for the past several years. Smithfield safety results have exhibited consistent improvement and are currently running at about 50 percent of the aggregate industry average for OSHA recordable incidents. In other words, a Smithfield employee has half the likelihood of incurring an injury at work as the average meat industry worker. This is a tremendous benefit to the thousands of employees at Smithfield. In addition, Smithfield facilities have consistently been recognized for safety excellence in the AMI Safety Awards Program administered by the National Safety Council. Smithfield plants have won literally dozens of awards in recent years and are expected to continue this trend when the 2003 awards are presented at the AMIF Worker Safety and Human Resources Conference in Phoenix on April 20, 2004. Smithfield Packing Company is clearly a leader in worker safety for the entire U.S. meat industry. We count on their participation in AMI Safety programs to provide expertise and assistance for the entire industry."

**J. DAN McCAUSLAND**
**DIRECTOR, WORKER SAFETY AND HUMAN RESOURCES**
**AMERICAN MEAT INSTITUTE**

## EMPLOYEE SAFETY

## PROTECTING OUR WORKFORCE IS A TOP PRIORITY

Work environments associated with livestock operations and the meat processing industry can be challenging. At Smithfield, protecting our employees in the various capacities they work for us has historically been—and continues to be—a top priority. Our starting point is mandatory compliance with employee protection laws. However, our ongoing commitment has been to go beyond meeting these critical legal obligations to implementing a safety culture that supports our employees in their jobs and proactively addresses employee well-being. Smithfield is also committed to participating in industry organizations like the American Meat Institute to share our experiences and promote safer practices for our industry. In 2003, management focused on finding solutions for a number of challenges, particularly the rising cost of workers' compensation and health care.

Many of Smithfield's safety professionals belong to organizations such as the American Association of Safety Engineers, which enables us to share our safety experiences and broaden our knowledge of best practices. During 2003, we took the lead on a number of initiatives that could help improve safety performance in the industry. For example, the director of safety for the Smithfield Packing Company served as chairperson of the American Meat Institute's (AMI) Safety and Ergonomics Committee and AMI's liaison with the Occupational Safety and Health Administration (OSHA). As a liaison, our representative is responsible for negotiating feasible ergonomics regulations in the meatpacking industry.

### Organization, Policy, Accountability and Communication

The company's safety organization is structured for accountability, communication and performance. Smithfield's president oversees Corporate Risk Management, which is responsible for establishing and communicating performance standards, and monitoring and measuring company-wide safety performance responsibilities for all our facilities. Corporate Risk Management ensures alignment between Smithfield's safety goals and our subsidiaries' safety programs and activities. Each subsidiary has a safety organization accountable for ensuring that all operations abide by Smithfield's corporate safety policy and comply with all regulations. In addition, each subsidiary is responsible for establishing operations-specific safety responsibilities and effective programs for reducing overall risk of injuries to employees and managing compliance responsibilities.

For the past three years, Smithfield has been aligning the goals and objectives of our safety planning process with those of our business planning process. This has enabled us to better focus our efforts on areas where the most significant and frequent injuries take place, and strive for improved safety performance, which

we benchmark internally. We have also embarked on a new model for safety management, which incorporates additional performance metrics, new approaches to safety orientation and training, and monitoring of employees' application of safety practices.

Our safety professionals are strongly encouraged to share ideas, best practices and program-related information for promoting safer working environments. On a company-wide level, we facilitate communication through our annual safety conference, held last year in Toronto, Canada, with 55 employees attending—as well as our secure safety intranet site. Many of our subsidiaries also host their own annual safety conferences that address general company topics and issues unique to their operations. For example, Murphy-Brown's safety conference this year addressed animal handling safety techniques.

### SMITHFIELD'S SAFETY POLICY

This policy was endorsed and promulgated by C. Larry Pope, Smithfield's president and chief operating officer.

"At Smithfield Foods, the safety, health and well-being of our employees is of primary importance. It is the responsibility of all employees, from entry-level to senior management, to ensure that each and every Smithfield Foods employee has a safe working environment. To that end, we have developed safety rules, work practices and training programs to ensure employees understand the workplace and are properly trained to function safely in their jobs. We expect 100 percent compliance, 100 percent of the time with these rules and practices. By working together, we can succeed in providing a safe work experience. Safety is not only your job. It is your social responsibility."

## Programs and Performance

Corporate Risk Management sets high safety standards and goals for top-tier performance, with an eye toward establishing the leading industry standard. Consistently, our company has demonstrated above-average safety performance. The benchmarks that we establish are set to improve upon the recognized U.S. industry safety metrics by at least 30 percent. Although our performance for 2003 continued to be better than the industry standard, it was not at the level we would have liked. We did experience a 10 percent reduction in incidents; however, the incidents that we did experience were serious. To prevent recurrences, we implemented new policies and monitored them closely.

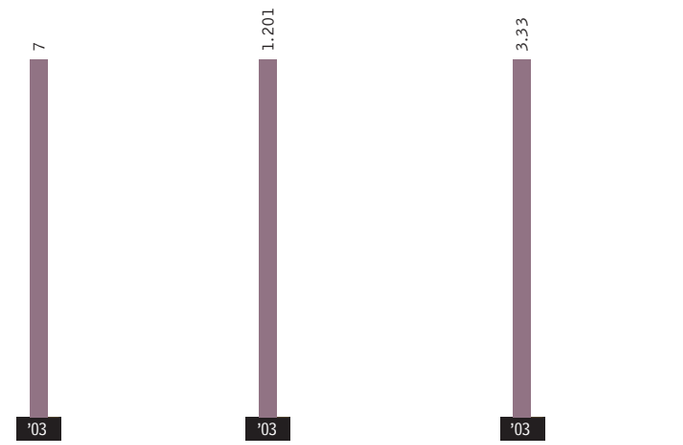
In 2003, a high turnover in safety personnel posed a challenge to our performance. Over the past few years, our safety organization has experienced a 35 percent turnover in safety personnel, resulting in the loss of valuable corporate memory and experience for particular facilities. This has necessitated hiring and training many new safety personnel and acquainting them with the business, culture of the organization and employees. This can present a steep learning curve. In response to this challenge, the Corporate Risk Management and Human Resources organizations partnered to develop a Career Path Planning Program to better enable safety personnel to develop professionally at Smithfield. Our human resources representatives assess employees' skill sets, and work closely with safety personnel to develop a rewarding training plan and career path. The first training program related to the program was held in November 2003 in Smithfield, Virginia.

We also encourage our facilities to compete among themselves to improve performance, and we annually recognize those safety teams that have demonstrated exceptional performance. This year, the Sioux City, Iowa-based John Morrell plant—which employs 1,400 people and processes on average 10,000–12,000 animals per day—was awarded Smithfield's President's Safety Award for achieving the highest score for reducing injuries year over year, meeting benchmarks for safety performance in key accident types and claim management.

### *Safety Metrics*

In relation to our industry peers, Smithfield's health and safety performance compares favorably and places us in the top tier for our industry.

*(All measurements are for calendar years.)*




**OSHA Recordable Rate**

*The OSHA Recordable Rate is the number of work-related injuries and illnesses per 100 employees.*

**Lost Workday Case Rate**

*The Lost Workday Case Rate is the number of work-related injuries and illnesses that result in a lost workday per 100 employees.*

**Restricted Duty Case Rate**

*The Restricted Duty Case Rate represents the number of work-related injuries and illnesses that result in a day of restricted work activity per 100 employees.*

*The Corporate Fleet Safety Program*

**Smithfield's fleet numbers 1,500 vehicles that are used on our farms and for transporting livestock, supplies and products. The Corporate Fleet Safety Program was designed to monitor the safety performance of the fleet and develop training programs that ensure employees are well versed in driver safety procedures. The 2003 safety conference was well attended by our fleet safety professionals. Training encompassed the science of accident investigation and reconstruction, updates on drug and alcohol testing, and record keeping. Governmental representatives also presented on a number of timely topics, including bio-terrorism and the New Hours-of-Service regulations of the U.S. Department of Transportation (DOT).**

**To keep each fleet safety department in compliance with state and federal regulations, Smithfield employs a third party to conduct audit scenarios within our subsidiaries that are similar to those conducted by the DOT. All Smithfield fleets that have DOT safety ratings were rated as satisfactory in 2003.**

A DIFFERENT APPROACH TO EMPLOYEE HEALTH CARE AT TAR HEEL

**In fall 2003, Smithfield opened a health care facility adjacent to our Tar Heel plant to provide employees with an additional health care option beyond the traditional plan already being offered.**

**Staffed in part by a bilingual (Spanish/English) physician, the Tar Heel facility offers health care services and programs to our plant employees and their dependents. It also offers reduced co-payments for office visits, prescription drugs and other ancillary services, such as x-rays and laboratory tests. Thus far, employees' responses to this new program have been encouraging.**

**In the future, Smithfield plans to expand the scope of services offered by the facility to include minor surgery, physical therapy, day care and rotating specialists. If this program proves successful, we hope to expand this concept at additional plant locations.**



EXTERNAL RECOGNITION FOR SAFETY PERFORMANCE

**For achievement in workplace safety, Smithfield's subsidiaries received a number of safety awards from the American Meat Institute (AMI) in 2003. The AMI Foundation Safety Recognition and Awards Program, administered by the nonprofit National Safety Council, recognizes AMI members' efforts to demonstrate sound safety and health programs and achieve a high level of safety performance.**

### 2003 Golden Star Awards

**The Golden Star Award recognizes safety performance that is a 60 percent or greater improvement upon the industry safety average.**

- GWALTNEY, HANCOCK PLANT **(Franklinville, NC)**
- GWALTNEY, HOLBROOK PLANT **(Bedford, VA)**
- GWALTNEY, W.V. JOYNER PLANT **(Smithfield, VA)**
- JOHN MORRELL, GREAT BEND PLANT **(Great Bend, KS)**
- SMITHFIELD PACKING, TAR HEEL PLANT **(Tar Heel, NC)**

### 2003 Award of Honor

- GWALTNEY, HOLBROOK PLANT **(Bedford, VA)**
- GWALTNEY, W.V. JOYNER PLANT **(Smithfield, VA)**
- GWALTNEY, HANCOCK PLANT **(Franklinville, NC)**

### 2003 Award of Merit

- SMITHFIELD PACKING, TAR HEEL PLANT **(Tar Heel, NC)**

### 2003 Award of Commendation

- GWALTNEY, SMITHFIELD PLANT **(Smithfield, VA)**
- JOHN MORRELL, GREAT BEND PLANT **(Great Bend, KS)**

### Award of Recognition

- GWALTNEY, PORTSMOUTH PLANT **(Portsmouth, VA)**
- SMITHFIELD HAM AND PRODUCTS PLANT **(Smithfield, VA)**
- GWALTNEY, STADLER COUNTY HAMS PLANT **(Elon, NC)**
- GWALTNEY, VALLEYDALE PLANT **(Salem, NC)**
- PATRICK CUDAHY **(Cudahy, WI)**
- SMITHFIELD PACKING, SMITHFIELD PLANT **(Smithfield, VA)**
- GWALTNEY, PRUDEN PACKING PLANT **(Suffolk, VA)**

## STRENGTHENING STANDARDS FOR ANIMAL WELL-BEING

It's a common sight on Murphy-Brown farms to find veterinarian Mary Battrell (pictured) or one of many production specialists tending to the individual needs of a pregnant sow. Careful attention to animal well-being has been a longstanding Murphy-Brown practice. Over the past year, though, the Smithfield subsidiary took its efforts in this area to the next level. The company unveiled the swine industry's most comprehensive Animal Welfare Management System (AWMS) for implementation on all its farms.

"We've really learned a lot from the successful rollout of the environmental management system (EMS) on all our farms," explains Don Butler, Murphy-Brown's director of government relations and public affairs. "We looked at the scope of our activities and determined whether we had effective practices and procedures in place to ensure animal well-being."

Developed by a committee of experts in areas such as animal behavior, animal handling, veterinary medicine, reproductive physiology, production management and logistics, Murphy-Brown's AWMS ensures that its hogs are kept safe and comfortable and that they receive proper medical attention throughout their life spans.

Recognizing the importance of independent third-party audits, Murphy-Brown is currently having its AWMS processes verified by the U.S. Dept. of Agriculture (USDA). The company's Rose Hill division in North Carolina received USDA "Process Verified" certification in 2003, with certification of all remaining U.S. farms expected in 2004.

"As with our EMS, our AWMS includes a commitment to continual improvement," adds Butler. "That's part of our culture."

PLEASE TURN TO PAGE 49 TO LEARN MORE.

*Photo location: NC Wolf farm in Willard, North Carolina*

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"Smithfield Foods, through its Murphy-Brown subsidiary, was the first major hog producer to take a serious look at formalizing its animal welfare efforts. Its Animal Welfare Management System (AWMS) is now serving as a model for other companies in the industry. In developing its AWMS, Murphy-Brown involved people in every aspect of the production process. As a result, the company was able to ensure that processes discussed in meetings could actually be implemented in the barn and elsewhere. As is always the case in such efforts, the commitment of top management is absolutely essential to ensure success. I saw that in the case of Murphy-Brown."

**DR. STANLEY CURTIS**
**PROFESSOR OF ANIMAL SCIENCES**
**UNIVERSITY OF ILLINOIS AT URBANA-CHAMPAIGN**



## PROVIDING A PROGRESSIVE MODEL FOR OUR INDUSTRY

**A significant segment of our business involves raising healthy animals to produce wholesome food products. Increasingly, key stakeholders have expressed concern about the welfare of the animals raised by today's swine industry and by our company, as well as the administration of antibiotics to the animals. These are important concerns that we continue to address proactively. Smithfield complies with all current animal welfare and antibiotics regulations. Over the past few years, we have gone beyond these minimum standards to ensure a stringent systematic approach to the humane treatment of the animals raised by our company and contract growers. Smithfield is committed to providing a progressive model for our industry in the area of animal welfare management and has given educational presentations at industry associations on the use of an Animal Welfare Management System (AWMS).**

### ANIMAL WELFARE MANAGEMENT SYSTEMS AND POLICY

**Smithfield's comprehensive AWMS formalizes our approach to ensuring the health, well-being and humane treatment of animals raised on our company-owned and contract grower farms. (Each of our first processing facilities also has a comprehensive animal welfare program.) During 2003, the AWMS was implemented on all company-owned farms and contract grower farms east of the Mississippi. Our goal is to extend the AWMS to all remaining company and contract grower farms in 2004. In fall 2003, the United States Department of Agriculture (USDA) issued its "Process Verified" program certification of the AWMS within the Rose Hill Division of Murphy-Brown, LLC. By the end of 2004, our company will have the AWMS within company-owned and contract grower-owned farms Process Verified by the USDA. The USDA will audit our AWMS periodically to verify compliance and maintain certification. For more information about the USDA's Process Verified program, please visit the USDA's Web site at http://processverified.usda.gov.**

**Our AWMS was created in 2002 by an animal welfare committee that drew from the talents of experts in various disciplines, including veterinary medicine, reproductive physiology, production management, marketing, management system administration, legal, logistics and public affairs to promote the evaluation of animal well-being issues from many different perspectives. To ensure that the AWMS was credible, science-based and auditable, Smithfield also retained the services of two independent and internationally recognized experts in the fields of animal behavior and animal handling: Dr. Stan Curtis of the University of Illinois and Dr. Temple Grandin of Colorado State University.**

The practices and procedures within the AWMS are designed to monitor animal well-being at all stages of an animal's life through a series of checklists, inspections and audits. As part of the program, swine production personnel receive specific training in the proper methods and practices to ensure animals are cared for properly. Animals are checked routinely for a variety of well-being indicators, including lesions, lameness and body condition. The program includes special procedures for appropriately handling and transporting healthy animals and for non-ambulatory animal management.

Smithfield's Animal Welfare Management System ensures that our facilities provide the following:

- Shelter designed and maintained to meet the animals' needs;
- Access to adequate water and high-quality feed;
- Humane treatment that enhances animal well-being and complies with applicable laws and regulations;
- Identification and appropriate treatment of animals in need of health care;
- Humane methods to euthanize sick or injured animals not responding to care and treatment; and
- Humane handling of animals during the production process.

## ANTIBIOTICS

Smithfield is committed to responsible antibiotics use in animal husbandry. Antibiotics are required to maximize animal health, prevent disease, maintain the highest standards of food safety and ensure animal well-being. We limit antibiotic use through strict management practices, the use of vaccines, and veterinarian supervision.

Our company's antibiotics policy prohibits the routine administration, as defined by our policy, of human-classed antibiotics to healthy animals. Murphy-Brown does use, on a non-routine basis, drugs that may be in the same class as human antibiotics. The use of these categories of drugs is based on the best judgment of a veterinarian depending on what is best for the well-being of the animal. In all cases, the dosage, treatments, duration and withdrawal period requirements of these agents are followed.



The use of antibiotics as feed additives is reviewed at least quarterly by a veterinarian and adjusted as necessary. The primary criteria for adjusting dosages are disease prevention and control needs.

Murphy-Brown strictly complies with all antibiotic withdrawal timelines established by the U.S. Food and Drug Administration and the Food Animal Residue Avoidance Databank.

*Murphy-Brown, LLC, Antibiotic Usage Policy*

Compliance with applicable laws, regulations and other requirements to which Murphy-Brown subscribes is the responsibility of every Murphy-Brown associate. The antibiotic usage policy refers to all employees responsible for dispensing, delivering and administering antibiotics.

Murphy-Brown's antibiotic usage policy calls for the following:

1. The responsible use of therapeutic antibiotics for the specific purpose of treating animals with disease or illness.
2. The responsible use of preventative antibiotics to help prevent the spread or onset of a disease or illness with proper diagnostic confirmation.
3. Adherence to all applicable laws including the Food and Drug Administration's (FDA) Animal Medicinal Drug Use Clarification Act regarding any extra-label drug use.
4. No routine administration of antibiotics used in human medicine to healthy animals. For purposes of this policy, "routine" means consistent use of an antibiotic in the context of an individual animal over its entire life.
5. Strict or extended adherence to all antibiotic withdrawal timelines established by the FDA and the Food Animal Residue Avoidance Databank.
6. No consistent use of feed-grade antimicrobials of human health significance over the life of a healthy animal. Use of particular antimicrobials as additives in feeds will be reviewed at least quarterly by a veterinarian and will be adjusted as appropriate, depending on disease prevention and control needs.
7. Antibiotics used and antibiotic administration practices to be approved by licensed professional veterinarians.

Adherence to the principles of this policy is a responsibility and requirement of those who interact with the animals owned or managed by Murphy-Brown. Improper acquisition or usage of antibiotics will result in a minimum of a final written warning. Willful neglect or abuse of animals will not be tolerated and will result in immediate disciplinary action up to and including termination or prosecution.

## ORGANIZATIONAL MEMBERSHIPS

### NATIONAL ORGANIZATIONS

America's Clean Water Foundation
American Meat Institute (AMI)
Corporate Environmental Enforcement Council
Environmental Law Institute (ELI)
Global Environmental Management Initiative (GEMI)
International Foundation for the Conservation of Natural Resources
Multi-State Working Group (MSWG) Policy Academy
National Association of Manufacturers (NAM)
National Biodiesel Board
National Pork Producers Council
National Renderer's Association

### STATE AND REGIONAL ORGANIZATIONS

Alliance for the Chesapeake Bay
Businesses for the Bay
Cape Fear River Assembly
James River Association
Virginia Manufacturers Association
Federation of Animal Science Societies
North Carolina Sustainable Energy Association
Lower Cape Fear River Program
North Carolina Green Power
USDA Agricultural Air Quality Task Force
North Carolina Pork Council

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"Increasingly, both public and private organizations are using comprehensive environmental management systems (EMSs) to ensure sound environmental management. Smithfield Foods and its livestock production subsidiary, Murphy-Brown LLC, are pioneers in the use of EMSs for the pork industry. In North Carolina, the company was the first to develop an ISO 14001-certified EMS for a livestock operation. Murphy-Brown, working with our Division of Pollution Prevention and Environmental Assistance, has also developed an EMS that is appropriate for use by individual pork producers. This EMS tool will be available free of charge to any pork producer who wishes to use it from the Web sites of both the North Carolina Department of Environment and Natural Resources and Smithfield Foods. Furthermore, Smithfield has developed and is implementing an EMS at its large processing plant in Tar Heel, North Carolina, and it has committed to incorporating ISO 14001-certified EMSs in all its production plants in the U.S. by the end of 2004. This cooperation and these commitments are good examples of positive public/private environmental management efforts."

**BILL ROSS**
**SECRETARY**
**NORTH CAROLINA DEPARTMENT OF ENVIRONMENT AND NATURAL RESOURCES**

"Smithfield Foods is making a great effort to become one of the Commonwealth's best environmental citizens. The company has been working to identify ways in which it can be a good steward of the environment, from improving water quality to preserving wetlands and wildlife habitats. It has dealt with any problems in a proactive, constructive manner and has made sure that all its employees understand the importance of the environmental component of their jobs."

**W. TAYLOE MURPHY, JR.**
**SECRETARY OF NATURAL RESOURCES**
**COMMONWEALTH OF VIRGINIA**

"One of the goals of the Virginia Naturally network is to give all students in the Commonwealth meaningful environmental education experiences. We facilitate learning about the environment in authentic out-of-doors settings. Smithfield has provided the funding to make this happen. As a result, we've gotten older students out onto Chesapeake Bay or their local tributary or to one of our state parks. Elementary schools have developed outdoor classrooms where, for example, students are investigating science in specialty gardens."

**ANN REGN**
**DIRECTOR, VIRGINIA OFFICE OF ENVIRONMENTAL EDUCATION**
**VIRGINIA DEPARTMENT OF ENVIRONMENTAL QUALITY**

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