

**LIFE**  
Powered by Tyson

Thinking about the big presentation

Going to a meeting

Running errands

Headed to class

Enjoying retirement





**Robert L. Peterson 1932-2004** Bob Peterson, a legendary figure in the protein industry, built the former IBP, inc. into the world leader in the beef and pork industries. He served as chairman and chief executive officer for more than 20 years until Tyson Foods acquired IBP in September 2001. Bob remained active in the new company, serving on the Tyson Foods Board of Directors until he retired in November 2003. "Bob was a giant in our industry, and a key figure in IBP's rise to greatness," Chairman and CEO John Tyson said. "His vision and dedication helped IBP grow from its roots as a small regional company to the world's largest producer of beef and pork."

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Tyson Foods, Inc., founded in 1935 with headquarters in Springdale, Arkansas, is the world's largest processor and marketer of chicken, beef and pork and the second-largest food company in the *Fortune* 500. The Company produces a wide variety of protein-based and prepared food products, which are marketed under the "Powered by Tyson™" strategy. Tyson is the recognized market leader in the retail and foodservice markets it serves, providing products and service to customers throughout the United States and more than 80 countries. Tyson has approximately 114,000 Team Members employed at 300 facilities and offices in 27 states and 20 countries.

Our vision is to be the world's first choice for protein solutions while maximizing shareholder value.

## 2004 FINANCIAL HIGHLIGHTS

TYSON FOODS, INC. 2004 ANNUAL REPORT

in millions, except per share data	2004	2003	2002
Sales	\$26,441	\$24,549	\$23,367
Gross profit	1,891	1,744	1,817
Operating income	925	837	887
Income before income taxes	635	523	593
Provision for income taxes	232	186	210
Net income	403	337	383
Diluted earnings per share	1.13	0.96	1.08
Shareholders' equity	4,292	3,954	3,662
Book value per share	12.19	11.21	10.37
Total assets	10,464	10,486	10,372
Depreciation and amortization	490	458	467
Total debt	3,362	3,604	3,987
Cash provided by operating activities	932	820	1,174
Capital expenditures	\$ 486	\$ 402	\$ 433
Year end shares outstanding	353	353	353
Diluted average shares outstanding	357	352	355

## POWERED BY TYSON

Our promise – “Tyson. Proudly Powering the World” – is the foundation of our new branding and communication strategy which communicates the strengths of Tyson Foods: Tyson = Protein = Power. Energy from protein powers people longer than sugar and carbohydrates. And nobody produces and markets trusted quality, branded chicken, beef and pork protein in more ways than Tyson Foods. Our products enable people to do the things they *have* to do and *want* to do.

Our new tagline, “Powered by Tyson,” brings our promise to life, demonstrating how Tyson protein helps people live their lives and achieve their dreams.

Energy from protein  
powers people  
longer than sugar  
and carbohydrates.



## TO OUR SHAREHOLDERS



John Tyson  
Chairman and  
Chief Executive  
Officer

Tyson Foods is more than the world's largest protein company. We are a company that powers people's lives. Through our products, our services and the *Tyson* brand, we give people the strength and energy to help them live their lives and achieve their dreams. This is because our products are protein-packed, and the sustainable energy from protein powers people longer than sugar and carbohydrates. Tyson = Protein = Power. In August, we launched a new \$75 million "Powering" marketing and communications strategy designed to market our full range of chicken, beef and pork products under the *Tyson* brand and the new slogan, "Powered by Tyson." At Tyson, we are united to "Power" people everywhere. We're embarking on a new era in our company, one that will be marked by opportunity and potential success for our team members, customers, consumers and shareholders.

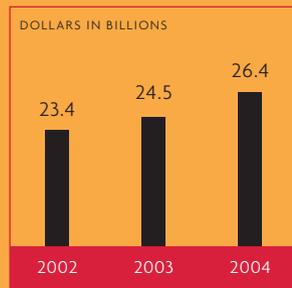
In July 2004, we celebrated the 100th anniversary of the birth of my grandfather, John Tyson, the founder of what is now Tyson Foods, Inc. In 2005, we will celebrate our

70th anniversary as a company. If my grandfather were alive today, he would be pleased to see what Tyson Foods has become under the current management team and those who came before us. I think he would be especially proud of what we accomplished this year.

Tyson Foods ranked 44th in *Fortune* magazine's list of the 100 fastest growing companies. *Fortune* cited our 49 percent revenue growth, 41 percent earnings per share growth and 32 percent total market return during a three-year period. This simply is the result of a lot of hard work by many talented people. We have built the foundation and created opportunities for growth now and in the future.

I am satisfied with the results we posted in 2004. Our financial performance reflects our position as the world's leading processor and marketer of chicken, beef and pork. We have the size, scale and balance of proteins to succeed during difficult times in the industry.

## SALES



## EARNINGS PER SHARE



Tyson Foods reported record sales and earnings in 2004.

Reported diluted earnings per share (EPS) were \$1.13 compared to \$0.96 last year, an 18 percent increase. Our long-term goal is to achieve average double-digit EPS growth. Sales were \$26.4 billion in 2004 compared to \$24.5 billion in 2003. Strong cash flow allowed us to pay down debt by \$242 million this year and \$1.5 billion since August 2001. One of the goals we set for fiscal 2004 was to achieve a debt-to-capital ratio of 45 percent in 12 to 18 months. Not only did we achieve our goal within 12 months, we exceeded it by reaching 44 percent at year's end. Our new debt-to-capital goal for 2005 is 40 percent.

Our return on invested capital (ROIC) was 12.2 percent, up from 11.0 percent last year.\* Our ROIC goal for 2005 is 14 percent. Our stock price finished the year 18 percent higher than 2003 and outperformed the S&P 500 over the three-year period from fiscal 2002 to fiscal 2004.

*\* Adjusted ROIC increased from 9.9 percent in 2003 to 14.1 percent in 2004. Fiscal 2003 adjustments included costs related to plant closings, amounts received in connection with vitamin antitrust litigation and impairment of an equity interest in a live swine operation. Fiscal 2004 ROIC adjustments included costs related to plant closings, BSE-related charges, fixed asset write-downs and impairment of various intangible assets.*

We set a goal to increase the percentage of sales of value-added products to 50 percent over the next five years. We finished 2004 at 38 percent value-added, and our goal for 2005 is 40 percent. Our company developed 400 new products this fiscal year to meet the changing needs of customers and consumers. However, adding value means more to us than creating new, higher margin products. Value also is providing a set of services to our customers and consumers. Service is what separates us from our competition.

We are creating value and growth by filling in the gaps in our current product offerings, by creating new and innovative products to expand existing categories and by creating new categories. We are focused on penetrating markets for these products as well as the hundreds of products we introduced in 2003.

We are the leading product innovator in our industry. I believe emphasizing innovation will bring great new products to the consumer, increase value for our



The Tyson Foods Discovery Center will house expanded product development kitchens, a new pilot production plant, consumer insights and team member development.

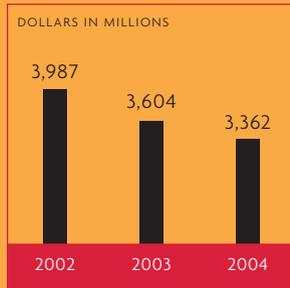
customers, improve margins and increase value for our shareholders. To support our efforts, we announced a new 184,000 square foot Discovery Center here in Springdale.

When the Discovery Center is operational in late 2005, it will house expanded product development kitchens and provide space for our consumer insights group and team member development activities. An important part of this new facility is a state-of-the-art USDA-inspected pilot plant capable of developing and testing chicken, beef, pork and prepared food products and processes. This will enable us to shorten the time from product concept to introduction. The Discovery Center underscores our continued commitment to innovation and forward thinking. As a leader in the food industry, we believe the discovery of new products, processes and consumer insights and helping our people discover their unique gifts and talents is crucial for the continued success of our company.

Also, key to our success is cost management. To maintain our position as the best-cost producer in the meat and poultry processing industry, we are focused on improving our manufacturing efficiencies, capabilities and capacity through automation and “steel to the floor” capital improvement projects. Our initiatives in this area include increased operating efficiencies, plant automation and rationalization. Primarily through attrition, we accomplished our goal of reducing our plant staffing by 5 percent or 6,000 people, and we did not send jobs overseas.

We are controlling costs by increasing efficiencies through automation and yield improvement. We approved approximately \$200 million in capital spending in 2004 for cost savings and income producing projects. Out of these expenditures, we identified more than \$63 million in annual savings. All of this has been accomplished while maintaining our focus on quality, food safety, people safety and service to our customers.

**TOTAL DEBT**



**DEBT TO CAPITAL RATIO**



Tyson Foods has reduced debt by \$1.5 billion since August 2001.

Our company is stronger today because of our asset rationalization. While maintaining capacity, we closed and consolidated seven operations in the past two years. In the future, we will continue to evaluate more opportunities for improving efficient use of our assets.

An on-going goal we have at Tyson Foods is to develop our people. We made strides this year in identifying and preparing team members to become our future leaders through our Emerging Leaders development and mentoring program. As I see team members learning and growing in their careers, I am confident Tyson Foods will be in capable hands for years to come.

Another extremely capable person is now part of Tyson Foods. Albert Zapanta has been elected to the Board of Directors. He is our first Hispanic board member, and his appointment brings the total number on the Tyson Foods board to 10, with five members being considered "independent." Leland Tollett was named lead director.

Sadly, we lost a valued member of our board and a pioneer in our industry when Bob Peterson passed away in May. His wisdom and experience were crucial in forming the new company, and he will be missed.

I am proud of the hard work our team members do every day to make Tyson Foods a great food company and to create long-term value for you, our shareholders. We will continue building on our success and our position as the world's leading protein company. This has been a good year for us, and we're looking forward to another good year in 2005.

John Tyson  
Chairman and Chief Executive Officer



Labor of love

All about me

Whether you need a little help in the kitchen or a lot, Tyson has products to meet your needs and fit your lifestyle.

**CONSUMERS**  
Powered by Tyson

## MEET TODAY'S CONSUMERS

In-depth ethnographic research has given Tyson Foods an extraordinary depth of information about our consumers. Today we better understand not just their demographics but also their mindsets. We not only know who they are and what they eat but also their relationship with food and protein in particular. This richness of information enables us to more effectively create and market products to meet consumer needs and power their lives.

### HOW DO YOU THINK ABOUT FOOD?

- **Pragmatists** Food = Fuel  
Wants meals to be quick, easy and affordable to leave time for more important things in their lives
- **Labor of Love** Food = Caring  
Cooks from scratch because it's the best way to eat, and it shows others they care
- **Culinary Chaotics** Food = Friction  
Thinks cooking is hard work. Doesn't really know how to cook from scratch and doesn't have time to plan ahead for meals
- **Dissatisfied Diners** Food = Frustration  
Believes a real meal should be homemade, but is disappointed there is never enough time to cook from scratch
- **Fun Loving Foodies** Food = Connection  
Enjoys sharing a great meal with friends or family, either at a restaurant or cooked at home. Likes trying new foods and new places to eat
- **The Young and The Restless** Food = Accessory  
Always on the go. Usually grabs takeout and eats on the run
- **All About Me** Food = Indulgence  
Doesn't care whether food is homemade or made by someone else. Just wants the best and is willing to pay for quality



In 2003, Tyson Foods conducted a strategic analysis of the *Tyson* brand, its potential and its relevance to today's consumers. From the research, we developed an in-depth consumer segmentation, and a simple, but very elegant truth emerged: protein = energy = power. As the world's largest protein company, Tyson is uniquely positioned to deliver this message in a real and meaningful way.

**Brand Awareness** With an already high brand awareness of 95 percent of consumers recognizing the *Tyson* brand for chicken, we needed to develop a fun and interesting way to tell people that we are beef and pork, too.

After extensive testing, we introduced the "Powered by Tyson" campaign in August 2004. The largest fully integrated marketing campaign in Tyson history includes television, radio, online and print ads that use humorous situations showing how *Tyson* chicken, beef and pork products can help people do things just a little better than others. This campaign uses audience specific messages for general market, African American and Hispanic consumers. In addition to advertising, our new campaign includes grass roots marketing and high visibility sponsorships to build strong relationships with consumers, continually inviting them to bring the power of *Tyson* into their lives.



Tyson is known for protein, but we also make soups, sauces and tortillas.

## FOOD SERVICE Powered by Tyson



Beef Petite Tenders offer quality and flavor rivaling premium tenderloin at a lower price point, a big plus for food-service operators.

Powering dining establishments from the smallest to the largest, the *Tyson* brand adds value to our customers. Through value based systems, Tyson supplies chicken, beef, pork and prepared foods to restaurants, national chains, distributors, schools, universities, healthcare facilities and the military. Our commitment to customer growth means we also provide innovation, individualized marketing programs and a unique, exclusive category management program using the most sophisticated system in foodservice today.

**Award Winning Innovation** In 2004, we developed more than 200 value-added foodservice products offering quality, convenience and new menu solutions. For the second year in a row, Tyson ranked #1 in the Cannondale Benchmarking Study, which identifies top manufacturers and operators as evaluated by their trading partners. Tyson ranked #1 in all 10 categories and leads nearly every segment of business we serve.

**Success-Driving Insights** With groundbreaking consumer and market research, we provide valuable insights to our customers. The Tyson Maximizing the Occasion Series is a system of programs to help our customers increase

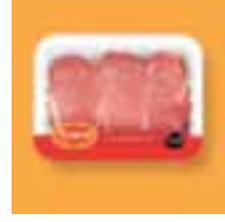
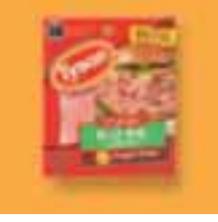
their appetizer and protein entrée sales. Whatever our customers' needs or the latest consumer trends, Tyson will find new ways to reach people whenever and wherever they are ready to eat.

Powering healthy living is important to consumers, and Tyson is a leader here as well. Whether patrons are watching calories, sodium, carbohydrates or trans-fat, there are *Tyson* products right for them.

**Making Great Choices** The Tyson Meat Max system is a business tool that assesses how our customers are using protein and where we can help them create new opportunities to serve protein. This proprietary system is used to develop market strategies, identify selling opportunities and maximize our penetration in the market one customer at a time. Meat Max analyzes the customer's product mix, identifies gaps in the market and predicts volume based on market data. No other foodservice manufacturer has combined market knowledge in this way to benefit customers. It illustrates our commitment to the industry and results in a more effective growth strategy for Tyson Food Service. It is just one of the key points in how we make a difference to our customers.



The next time you order pizza, remember Tyson is one of the largest producers of pizza toppings and crusts in the United States.





## RETAIL Powered by Tyson

Tyson is the leading brand of chicken, beef and pork. In 2004, the presence of the Tyson brand grew as we increased distribution and market penetration of a wide variety of value-added products introduced in 2003. This year also marked the roll out of nearly 100 new retail products including new versions of old favorites like chicken nuggets, patties and tenders now with zero trans-

fat. We not only developed new products, we found ways to reach customers in areas of the grocery store other than the meat and freezer cases.

**Ready to Cook** Tyson has long been the leader in case-ready chicken, with a 33 percent market share. Tyson is also the industry leader in case-ready beef and pork. With a growth rate of about 20 percent in 2004, case-ready is 9 percent of our total beef and pork sales. Case-ready products help our customers better manage their meat cases because case-ready has a longer shelf life, improves food safety, reduces the need for skilled labor and offers product consistency.

Tyson sliced meats have created new opportunities to expand the Tyson brand into other areas of the refrigerated foods case. Our self-serve deli meats are in the deli/take-out area of grocery stores, saving shoppers' time while offering true deli-quality chicken, beef, pork and turkey. We're also in the lunch meat section with a wide variety of lunch meats in boxes and resealable bags.

We introduced two new varieties to our successful line of fully-cooked refrigerated dinner meats in 2004 – pork roast and beef tips in gravy. Along with our market leading roasted chicken products, Tyson has a 24 percent market share in the multi-protein dinner meats category. We also rolled out two new ingredient meats – fully-cooked chicken breast strips and beef steak strips that can be used in salads or entrees and make cooking at home easier.

Tyson bacon is the fastest growing brand of bacon. Including our Wright brand and private label, bacon has become a \$300 million business for Tyson. Our pre-cooked bacon is a success. Because it doesn't need refrigeration, it can be found in other areas of the grocery store, in convenience stores or even sporting goods stores. Other Tyson products found outside the refrigerated and frozen food cases are our chicken and beef broths and bouillons, canned chicken and chicken breast chunks in pouches.

Tyson offers consumers the products they want, when they want them and where they want them to power their busy lives.





## INTERNATIONAL Powered by Tyson



Tyson Foods is expanding our international business by diversifying our customer base through exports, in-country presence and joint ventures. Today, about half of our international sales are exported from U.S.-based facilities. We sell our products in more than 80 countries, and including our sales offices, Tyson has a presence in 20 countries.

**International Operations** Our Canadian subsidiary, Lakeside Packers, is a leader in the Canadian beef industry. Our Mexican subsidiary, Tyson de Mexico, is the largest producer of value-added chicken for both the

retail and foodservice sectors in Mexico. Tyson Foods has joint ventures in China and Canada, which produce a range of value-added products as we get more involved in selling and manufacturing our foods in other countries. Our newest joint venture in Canada is supplying fully-cooked chicken products to the Canadian market.

We continue to look for in-country production, either through joint ventures or direct ownership. By prioritizing markets and targeting acquisitions of low cost-of-entry joint ventures, Tyson Foods is positioned for profitable international growth.

Team members power Tyson Foods, and Tyson powers the world. The 114,000 people of our company are dedicated to producing trusted foods for the world while serving as stewards of the animals, land and environment entrusted to them. This dedication is rooted in the Company's core values, an integral part of the Tyson culture.

**Doing What's Right** All team members are required to receive annual training in and comply with a company-wide code of conduct. Behaving ethically and responsibly, being stewards of animals and the environment and treating people with dignity and respect are not just part of our company's culture – it is who we are.

Protecting the environment is key to everything we do. We want the environment of the future to be better than it is today. For the Company to prosper, the land must be productive, the air clean and the water pure. Toward this goal, Tyson developed an all-encompassing environmental policy, setting the standards all team members must meet.

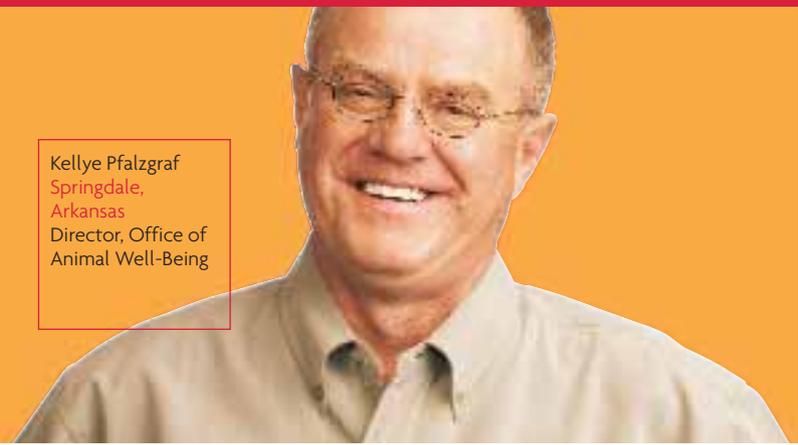


**Safety First** Another fundamental responsibility team members live every day is safety – safety of the products we produce and safety of our workplace. Each year at the Tyson annual meeting of shareholders, we honor production facilities that set the standard for a safe work environment by presenting the Excellence in Safety awards and the Chairman's Safety Circle awards. At the 2004 shareholders meeting, the Randall Road chicken processing plant in Springdale, Arkansas, was honored for achieving four million consecutive work hours without a lost-time accident. Meanwhile, the hatchery in Morrilton, Arkansas, celebrated 20 years with a perfect safety record. It is this type of dedication and commitment from our team members that makes Tyson a great company and the industry leader.



Animal stewardship is part of Tyson Core Values, and Dr. Pfalzgraf ensures the animals entrusted to us are treated properly while under our care.

Kellye Pfalzgraf  
Springdale,  
Arkansas  
Director, Office of  
Animal Well-Being



**TYSON CORE VALUES**

We are a company of people engaged in the production of food, seeking to pursue truth and integrity, and committed to creating value for our shareholders, our customers and our people in the process.

**Who We Are:**

- We are a company of people gathered to produce food.
- We strive to be honorable people.
- We strive to be a faith-friendly company.

**What We Do:**

- We feed our families, the nation and the world with trusted food products.
- We serve as stewards of the animals, land and environment entrusted to us.

**How We Do It:**

- We strive to earn consistent and satisfactory profits for our shareholders and to invest in our people, products and processes.
- We strive to operate with integrity and trust in all we do.
- We strive to honor God and be respectful of each other, our customers and other stakeholders.

Above, left to right:  
Marisol Lopez Ramirez  
Storm Lake, Iowa  
Team Member Liaison  
  
Tuan Tran  
Emporia, Kansas  
Production Supervisor  
  
Mary Walker  
Shelbyville, Tennessee  
Receptionist

Libby Lawson  
Springdale, Arkansas  
Vice President,  
Public and  
Community  
Relations



## COMMUNITIES Powered by Tyson

Helping others is part of our corporate culture at Tyson Foods. The Company has taken a leadership role in helping those less fortunate by providing 100 million meals to the hungry through Share Our Strength® and by sending food to disaster stricken areas. The Company supports U.S. troops by providing differential pay for team members serving in the military and by organizing family support groups and recognition programs.

It is our team members, working on a grass roots level in their own communities, who make the biggest difference. With 114,000 team members in 300 facilities in 27 states, it would take this entire annual report to list all the ways our team members have made life a little better in their communities, but here are a few things they accomplished this year.

**Children and schools** Team members in Louisa County, Iowa, celebrated Earth Day with local first-graders by planting flowers. A group from Gadsden, Alabama, mentored school children and renovated playground equipment. The team at Columbia, South Carolina, held a bake sale to raise money for school supplies. Tyson's International division collected toys and sports equipment for children in the Marshall Islands.

Volunteers from the Norfolk, Nebraska, plant served as interpreters for parent-teacher conferences.

**Charitable works** Groups from Grannis/Broken Bow, Oklahoma, the Randall Road plant in Springdale, Arkansas, and the vehicle accounting department at the corporate offices in Springdale produced cookbooks to raise money for charity. Team members in 41 plants, including Amarillo, Texas, Joslin, Illinois and Dakota Dunes, South Dakota, participated in The Great American Bake Sale® to help end childhood hunger. Tyson team members have walked or run hundreds of miles while participating in Race For The Cure®, Relay For Life® and Heart Walk™ events across the country.

**Supporting our troops** Buena Vista, Georgia, and Dardanelle, Arkansas, team members have been sending care packages to fellow team members serving in Iraq and Afghanistan. Joslin, Illinois, team members sent cards and letters to more than 250 troops to make them feel more connected to home.

In these and countless other ways, Tyson team members help others and contribute to the communities in which they live and work.

Team members recognized for service to their communities (from left):

Esteban Barajas  
Dakota City, Nebraska  
General Production Supervisor

Arlene Standridge  
Dardanelle, Arkansas  
Human Resources Manager

Felita Bailey  
Amarillo, Texas  
Production/Safety Committee



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## □ MANAGEMENT'S DISCUSSION AND ANALYSIS

TYSON FOODS, INC. 2004 ANNUAL REPORT

### RESULTS OF OPERATIONS

#### OVERVIEW

Tyson Foods is the world's largest protein company and the second largest publicly traded food company in the *Fortune* 500 with one of the most recognized brand names in the food industry. Tyson produces, distributes and markets chicken, beef, pork and prepared foods and related allied products. The Company's primary operations are conducted in four segments: Chicken, Beef, Pork and Prepared Foods. Some of the key factors that influence the Company's business are customer demand for the Company's products, the ability to maintain and grow relationships with customers and introduce new and innovative products to the marketplace, accessibility of international markets, market prices for the Company's chicken, beef and pork products, the cost of live cattle and hogs, raw materials and grain and operating efficiencies of the Company's facilities.

In August 2004, the Company introduced a new marketing and communication campaign "Powered by Tyson." This is the largest fully integrated marketing campaign in Tyson history and is supported by an investment of \$75 million from the Company's annual marketing budget. To support the Company's goals of building its value-added product portfolio, Tyson developed 400 new products this year. Additionally, the Company broke ground at its Corporate Center for the construction of facilities that will house expanded product development kitchens, a new pilot production plant, provide space for the consumer insights group and make provisions for team member development activities.

In fiscal 2004, the Company achieved record sales and earnings, driven largely by the strong performance of the Company's Chicken and Pork segments. The Company continued to generate strong cash flow in fiscal 2004, as cash flow from operations increased \$112 million from the prior year. This allowed the Company to pay down debt by \$242 million in fiscal 2004, and exceed the debt-to-capital ratio goal of 45% by reaching 44% at year end. Earnings for fiscal 2004 were \$403 million, or \$1.13 per diluted share, compared to \$337 million, or \$0.96 per diluted share, in fiscal 2003. The increase in earnings primarily was due to higher average selling prices, improved operating efficiencies in the Chicken segment, increased demand in the Chicken and Pork segments and improvements to the mix of our value-added products. Earnings were negatively impacted by higher grain costs, partially offset by the Company's on-going commodity risk management activities, higher raw material costs and the continued limited access to export markets. Also,

fiscal 2004 pretax earnings included \$40 million of costs, or \$0.07 per diluted share, related to plant closings, \$61 million of costs, or \$0.11 per diluted share, of BSE-related charges, \$21 million of costs, or \$0.04 per diluted share, related to fixed asset write-downs and \$25 million of costs, or \$0.04 per diluted share, related to the impairment of various intangible assets. Fiscal 2003 pretax earnings included \$167 million received in connection with vitamin antitrust litigation, \$76 million of costs related to plant closings and \$10 million of charges related to the impairment of an equity interest in a live swine operation.

The Company's accounting cycle resulted in a 53-week year for fiscal year 2004, and a 52-week year for fiscal years 2003 and 2002.

#### OUTLOOK

The Company's goals for fiscal 2005 are to reduce the debt-to-capital ratio to 40%, improve the mix of value-added products to over 40% of sales and improve the return on invested capital to 14%. Additionally, the Company anticipates expenses related to interest, foreign exchange and other charges to be approximately \$250 million and the effective tax rate to be in the range of 36% to 37%.

Although uncertainty in global market conditions continues to make it difficult to predict future product demand, the Company believes the Chicken, Pork and Prepared Foods segments will be strong in fiscal 2005; however, the Beef segment operations will continue to be difficult. The Company anticipates stronger export demand for chicken in fiscal 2005 due to the recent openings of the China and Japan markets, the liberalization of the Taiwanese market and the continuing emergence of the middle-eastern and African markets. The Canadian border continues to be closed for live cattle; however, the U.S. government has recently initiated a review process to re-open the Canadian border. Also, while there is a framework of an agreement for the resumption of trade with Japan, it appears trade will not resume for several months. Currently live weights of cattle being slaughtered are considerably higher than last year, indicating supplies of cattle in the near term will be more abundant; however, until international market access is restored and live cattle are permitted from Canada, margins in the Beef segment will be negatively impacted.

## □ MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

TYSON FOODS, INC. 2004 ANNUAL REPORT

### 2004 VS. 2003

Certain reclassifications have been made to prior periods to conform to current presentations.

**Sales** increased \$1.9 billion or 7.7%, with a 9.4% increase in average price and a 1.5% decrease in volume. The increase in sales primarily is due to higher average selling prices. Volumes declined due to a reduction in international export activity related to the Chicken and Beef segments resulting from import restrictions imposed by various countries. Additionally, the Company's Beef segment domestic volumes decreased due to tightened supply of live cattle, the effects of higher beef pricing and significant competing protein supplies in the marketplace.

**Cost of sales** increased \$1.7 billion or 7.7%. As a percent of sales, cost of sales decreased from 92.9% to 92.8%. The increase in cost of sales is due primarily to increases in grain costs in the Chicken segment, which were partially offset by gains resulting from the Company's on-going commodity risk management activities related to grain purchases, and in the Beef segment, higher live cattle prices and BSE-related charges. Also included in 2004 cost of sales were \$18 million to reduce self insurance reserves to the actuarially determined range. The reserves are compared to actuarial estimates semi-annually. The prior year had a \$6 million reduction in self insurance reserves. Additionally, fiscal 2003 cost of sales included \$167 million received in connection with vitamin antitrust litigation.

**Selling, general and administrative expenses** increased \$49 million or 5.9%. As a percent of sales, selling, general and administrative expenses decreased from 3.4% to 3.3%. The increase in expenses primarily was due to an increase in personnel and incentive-based compensation of approximately \$40 million, an increase of approximately \$20 million related to information system technology improvements, an increase of approximately \$21 million in employee benefit costs, primarily due to prior year actuarial gains of \$13 million related to certain retiree medical benefit plans and current year increases in healthcare-related costs. The increases were partially offset by a reduction in auditing, legal and professional fees of approximately \$27 million, which included \$12 million received in fiscal 2004 related to legal settlements from the Company's insurance providers.

**Other charges** include plant closing costs of \$40 million and \$76 million recorded in fiscal years 2004 and 2003, respectively. Fiscal 2004 costs were related primarily to the closings of the Company's Jackson, Mississippi, Manchester, New Hampshire and Augusta, Maine, facilities. As part of its on-going plant rationalization efforts, the Company announced in February 2004 its decision to consolidate its manufacturing operations in Jackson, Mississippi, into the Company's Carthage, Mississippi, facility. The Company acquired the Carthage facility when it purchased Choctaw Maid Farms in the fourth quarter of fiscal 2003 and, since that time,

performed a comprehensive analysis of all operations in the area and determined this consolidation would most effectively maintain the Company's competitiveness in its Mississippi operations. In December 2003, the Company announced its decision to close its Manchester, New Hampshire, and Augusta, Maine, Prepared Foods operations to further improve long-term manufacturing efficiencies. After thorough analysis, the Company determined that the amount of capital required to bring the Manchester and Augusta facilities to a competitive level and to maintain appropriate food safety standards, would be better spent to accommodate production in newer more modern facilities. The majority of the Manchester and Augusta production was consolidated into other Company facilities. The prior year costs were related to the closings of the Company's Berlin, Maryland, Stilwell, Oklahoma and Jacksonville, Florida, facilities. Also included in other charges for fiscal 2004 were \$25 million in charges related to the impairment of various intangible assets and \$21 million related to fixed asset write-downs. The impairment charges apply primarily to trademarks acquired in the acquisition of Tyson Fresh Meats, Inc. (TFM; formerly known as IBP, inc.) in 2001. These impairment charges resulted primarily from lower product sales under some of the Company's regional trademarks as products are increasingly being sold under the Tyson trademark. The fair value of the Company's trademarks is determined using a royalty rate method based on expected revenues by trademark. The trademarks, as well as all other intangible assets, are reviewed at least annually for impairment. The fixed asset write-down was the result of the Company implementing a control whereby all plant facilities conduct fixed asset inventories on a recurring basis.

**Interest expense** decreased \$21 million or 7.1%, primarily resulting from an 8.2% decrease in the Company's average indebtedness. The Company incurred \$13 million of expenses in each fiscal year of 2004 and 2003, related to the on-going efforts to buy back bonds at attractive prices when available in the market and to the early redemption of Tyson de Mexico preferred shares. The overall weighted average borrowing rate increased to 7.7% from 7.4%, primarily due to the fiscal 2004 reduction of short-term debt which carried lower interest rates.

**Other expense** decreased \$3 million from the same period last year, primarily resulting from the \$10 million write-down related to the impairment of an equity interest in a live swine operation recorded in fiscal 2003. This decrease was partially offset by increased foreign exchange losses of approximately \$9 million from the Company's Canadian operation in fiscal 2004.

**The effective tax rate** increased from 35.5% in fiscal 2003 to 36.6% in fiscal 2004. The estimated Extraterritorial Income Exclusion (ETI) amount reduced the 2004 effective tax rate by 0.5% compared to 1.9% in fiscal 2003. The decrease in the 2004 estimated ETI benefit

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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resulted from a reduction in the estimated 2004 profit from export sales primarily due to the effects of BSE and avian influenza, along with an adjustment to the estimated 2003 benefit. The 2004 estimated rate also increased due to the expiration of certain general business credits. On October 22, 2004, the President signed into law the American Jobs Creation Act of 2004 which provides, among other things, for the repeal of the ETI benefit phased in from 2004 through 2006. The Act also provided for a domestic production deduction which will be available to the Company beginning in the 2006 fiscal year. The Company is currently in the process of evaluating the Act.

### SEGMENT INFORMATION

Tyson operates in five business segments: Chicken, Beef, Pork, Prepared Foods and Other. The Company measures segment profit as operating income.

**Chicken segment** is involved primarily in the processing of live chickens into fresh, frozen and value-added chicken products. The Chicken segment markets its products domestically to food retailers, foodservice distributors, restaurant operators and noncommercial foodservice establishments such as schools, hotel chains, healthcare facilities, the military and other food processors, as well as to international markets throughout the world. The Chicken segment also includes sales from allied products and the chicken breeding stock subsidiary.

**Beef segment** is involved primarily in the processing of live fed cattle and fabrication of dressed beef carcasses into primal and sub-primal meat cuts and case-ready products. It also involves deriving value from allied products such as hides and variety meats for sale to further processors and others. The Beef segment markets its products domestically to food retailers, foodservice distributors, restaurant operators and noncommercial foodservice establishments such as schools, hotel chains, healthcare facilities, the military and other food processors, as well as to international markets throughout the world. Allied products are also marketed to manufacturers of pharmaceuticals and technical products.

**Pork segment** is involved primarily in the processing of live market hogs and fabrication of pork carcasses into primal and sub-primal meat cuts and case-ready products. This segment also represents the Company's live swine group and related allied product processing activities. The Pork segment markets its products domestically to food retailers, foodservice distributors, restaurant operators and noncommercial foodservice establishments such as schools, hotel chains, healthcare facilities, the military and other food processors, as well as to international markets throughout the world. It also sells allied products to pharmaceutical and technical products manufacturers, as well as live swine to pork producers.

**Prepared Foods segment** includes the Company's operations that manufacture and market frozen and refrigerated food products. Products include pepperoni, beef and pork toppings, pizza crusts, flour and corn tortilla products, appetizers, prepared meals, ethnic foods, soups, sauces, side dishes and meat dishes, as well as branded and processed meats. The Prepared Foods segment markets its products domestically to food retailers, foodservice distributors, restaurant operators and noncommercial foodservice establishments such as schools, hotel chains, healthcare facilities, the military and other food processors, as well as to international markets throughout the world.

**Other segment** includes the logistics group and other corporate activities not identified with specific protein groups.

### Sales by Segment

in millions	2004	2003	Change	Volume Change	Avg. Price Change
Chicken	\$ 8,397	\$ 7,427	\$ 970	3.5%	9.2%
Beef	11,951	11,935	16	(9.8)%	11.0%
Pork	3,185	2,470	715	7.3%	20.2%
Prepared Foods	2,857	2,662	195	0.2%	7.1%
Other	51	55	(4)	N/A	N/A
Total	\$26,441	\$24,549	\$1,892	(1.5)%	9.4%

### Operating Income by Segment

in millions	2004	2003	Change	Margin 2004	Margin 2003
Chicken	\$548	\$158	\$390	6.5%	2.1%
Beef	127	320	(193)	1.1%	2.7%
Pork	140	75	65	4.4%	3.0%
Prepared Foods	28	57	(29)	1.0%	2.1%
Other	82	227	(145)	N/A	N/A
Total	\$925	\$837	\$88	3.5%	3.4%

**Chicken segment** sales increased 13.1% in fiscal 2004 as compared to the same period last year. Foodservice chicken sales increased 11.3%, retail chicken sales increased 16.2% and international chicken sales increased 14.5%. Excluding plant closing related accruals of \$13 million and \$76 million recorded in fiscal 2004 and 2003, respectively, and fixed asset write-downs of \$13 million recorded in fiscal 2004, operating income increased \$340 million. Sales and operating income increases primarily are due to increased average selling prices and sales volumes, as well as improvements in product mix and operating efficiencies. Operating income was negatively impacted by approximately \$239 million of increased grain costs, partially offset by a benefit of approximately \$127 million from the Company's on-going commodity risk management activities related

## □ MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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to grain purchases. The increase in the Company's domestic Chicken segment sales volumes in fiscal 2004 was partially offset by decreased international sales volumes due to import restrictions by various countries caused by the avian influenza outbreaks in the United States.

**Beef segment** sales increased 0.1% in fiscal 2004 as compared to the same period last year. Domestic fresh meat beef sales increased 6.0%, international beef sales decreased 31.6% and case-ready beef sales increased 18.0%. Operating income for fiscal 2004 includes BSE-related charges of \$61 million and \$5 million of charges related to the impairment of various intangible assets and fixed asset write-downs. Additionally, operating income was negatively impacted by increases in live cattle prices, production declines and decreased capacity utilization. These decreases were partially offset by higher average selling prices and increased volumes and margins at the Company's Lakeside operation in Canada.

**Pork segment** sales increased 28.9% in fiscal 2004 as compared to the same period last year. Domestic fresh meat pork sales increased 26.1%, international pork sales increased 60.2%, case-ready pork sales increased 29.4% and live swine sales of Company owned hogs decreased 14.8%. The increase in the Pork segment's operating income primarily was due to higher average selling prices and increased demand as pork benefited from stronger domestic and international markets, more than offsetting increases in live hog costs. Operating income was negatively impacted by approximately \$1 million related to fixed asset write-downs recorded in the fourth quarter of fiscal 2004.

**Prepared Foods segment** sales increased 7.3% in fiscal 2004 as compared to the same period last year. Foodservice prepared foods sales increased 13.2%, international prepared foods sales increased 16.0% and retail prepared foods sales increased 0.5%. Fiscal 2004 operating income increased \$25 million, excluding plant closing costs of approximately \$27 million, the impairment of various intangible assets of \$22 million and fixed asset write-downs of \$5 million, all of which were recorded in fiscal 2004. The increase in the Prepared Foods segment's operating income primarily was due to higher average selling prices and increased volumes, partially offset by increased raw material prices.

**Other segment** operating income decreased \$145 million primarily due to settlements of \$167 million received in 2003 in connection with vitamin antitrust litigation. Additionally in 2003, operating income was affected positively by actuarial gains of \$13 million resulting from certain retiree medical benefit plans.

### 2003 vs. 2002

Certain reclassifications have been made to prior periods to conform to current presentations.

**Sales** increased \$1.2 billion or 5.1%, with a slight increase in volume and a 5.0% increase in price.

**Cost of sales** increased \$1.3 billion or 5.8%. As a percent of sales, cost of sales was 92.9% for 2003 compared to 92.2% for 2002. This increase primarily is due to higher live cattle prices in the Beef segment, increases in grain costs in the Chicken segment and increased accruals related to on-going litigation, partially offset by \$167 million received in connection with vitamin antitrust litigation.

**Selling, general and administrative expenses** decreased \$46 million or 5.4%. As a percent of sales, selling, general and administrative expenses decreased from 3.8% to 3.4%. The decrease primarily is due to the expense reductions of approximately \$42 million related to the sale of Specialty Brands, Inc. in the fourth quarter of fiscal 2002, and approximately \$16 million associated with the integration of Tyson and Tyson Fresh Meats corporate functions. Additional decreases were due to favorable investment returns of approximately \$18 million on Company owned life insurance, actuarial gains of \$13 million related to certain retiree medical benefit plans and decreased litigation costs of approximately \$19 million resulting primarily from the reversal of certain legal accruals which are no longer required due to cases being closed. The decreases in selling, general and administrative expenses were partially offset by increased professional fees of approximately \$26 million, primarily related to the Company's on-going integration and strategic initiatives, and increased sales promotions and marketing costs of approximately \$45 million, primarily due to the introduction and rollout of several new products.

**Other charges** include \$76 million of plant closing costs incurred in fiscal 2003, and \$53 million of charges incurred in fiscal 2002 related to the discontinuation of the Thomas E. Wilson brand and the restructuring of the Company's live swine operations.

**Interest expense** decreased \$9 million or 2.8% compared to 2002, primarily resulting from an 8.2% decrease in the Company's average indebtedness. As a percent of sales, interest expense was 1.2% compared to 1.3% for 2002. The overall weighted average borrowing rate increased to 7.4% from 7.0%, primarily resulting from premiums paid on bonds repurchased in the first and fourth quarters of fiscal 2003. Excluding the premiums paid, interest expense decreased \$21 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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**Other expense** increased \$29 million, primarily resulting from the \$10 million write-down related to the impairment of an equity interest in a live swine operation recorded in fiscal 2003, and the gain of \$22 million from the sale of the Specialty Brands, Inc. subsidiary recorded in fiscal 2002.

The **effective tax rate** was 35.5% in both 2003 and 2002. Several factors impacted the effective tax rate including average state income tax rates, the tax rates for international operations and the ETI for foreign sales. Taxes on international earnings were comparable for 2003 and 2002. Average state taxes added 2.2% and 3.0% to the effective tax rate for 2003 compared to 2002, and ETI reduced the effective rate by 1.9% in 2003 compared to a 1.4% reduction in 2002.

### Sales by Segment

in millions	2003	2002	Change	Volume Change	Avg. Price Change
Chicken	\$ 7,427	\$ 7,222	\$ 205	3.3%	(0.4)%
Beef	11,935	10,488	1,447	0.5%	13.2%
Pork	2,470	2,503	(33)	(4.1)%	2.9%
Prepared Foods	2,662	3,072	(410)	(8.0)%	(5.9)%
Other	55	82	(27)	N/A	N/A
Total	\$24,549	\$23,367	\$1,182	0.1%	5.0%

### Operating Income by Segment

in millions	2003	2002	Change	Margin 2003	Margin 2002
Chicken	\$158	\$428	\$(270)	2.1%	5.9%
Beef	320	220	100	2.7%	2.1%
Pork	75	25	50	3.0%	1.0%
Prepared Foods	57	158	(101)	2.1%	5.1%
Other	227	56	171	N/A	N/A
Total	\$837	\$887	\$(50)	3.4%	3.8%

**Chicken segment** sales increased 2.8% compared to fiscal 2002. Foodservice chicken sales increased 4.2%, retail chicken sales increased 2.3% and international chicken sales decreased 3.6%. Excluding plant closing costs of \$76 million recorded in fiscal 2003, operating income decreased \$194 million. This decrease results primarily from higher grain costs as compared to fiscal 2002.

**Beef segment** sales increased 13.8% compared to fiscal 2002. Domestic fresh meat beef sales increased 11.8%, international beef sales increased 19.4% and case-ready beef sales increased 20.4%. Beef segment operating income increased \$100 million. The Beef segment sales and operating income increases were caused by strong demand during the second half of fiscal 2003 caused in part by the U.S. ban on Canadian beef. However, these increases were partially offset by an increase in live cattle prices.

**Pork segment** sales decreased 1.3% compared to fiscal 2002. Domestic fresh meat pork sales decreased 3.5%, international pork sales increased 2.8%, case-ready pork sales increased 52.3% and live swine sales decreased 42.6%. Excluding the fourth quarter 2002 live swine restructuring charge of \$26 million, operating income increased \$24 million. The decline in sales primarily is due to a reduction in live swine sales as a result of the fiscal 2002 live swine restructuring and lower average selling prices for our finished product. Operating income was positively affected by the restructuring of the live swine operation, partially offset by higher live hog prices.

**Prepared Foods segment** sales decreased 13.4% compared to fiscal 2002. Excluding fiscal 2002 Specialty Brands, Inc. sales of \$244 million, segment sales decreased \$166 million and 5.9% and volume declined slightly. Segment operating income decreased \$128 million excluding the Thomas E. Wilson brand write-down of \$27 million recorded in fiscal 2002. This decrease results primarily from the increases in raw material prices, lower average selling prices, increased costs related to the introduction of more than 75 new products in fiscal 2003 and temporary operating inefficiencies at certain plants.

**Other segment** operating income increased \$171 million primarily due to settlements received in connection with vitamin antitrust litigation. Fiscal 2003 operating income includes \$167 million as compared to \$30 million received in fiscal 2002. Additionally, operating income was positively affected by actuarial gains recorded in fiscal 2003 of \$13 million resulting from certain retiree medical benefit plans.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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### ACQUISITIONS

In September 2003, the Company purchased Choctaw Maid Farms, Inc. (Choctaw), an integrated poultry processor. Since 1992, Tyson had been purchasing all of Choctaw's production under a "cost plus" supply agreement, which was scheduled to expire in 2007. The Company had previously negotiated a purchase option with Choctaw's owners, which initially became exercisable in 2002. The Company decided to exercise its purchase option rather than continue under the "cost plus" arrangement of the supply agreement. The acquisition was recorded as a purchase in accordance with Statement of Financial Accounting Standards No. 141, "Business Combinations" (SFAS No. 141). Accordingly, the assets and liabilities were adjusted for fair values with the remainder of the purchase price, \$18 million, recorded as goodwill. The purchase price consisted of \$1 million cash to exercise the purchase option in Tyson's supply agreement with Choctaw and the settlement of \$85 million owed to Tyson by Choctaw. In addition, the Company assumed approximately \$4 million of Choctaw's debt to a third party. In June 2003, the Company exercised a \$74 million purchase option to acquire assets leased from a third party which the Company had subleased to Choctaw. Pro forma operating results reflecting the acquisition of Choctaw would not be materially different from the Company's actual results of operations.

In May 2002, the Company acquired the assets of Millard Processing Services, a bacon processing operation, for approximately \$73 million in cash. The acquisition was accounted for as a purchase, and goodwill of approximately \$14 million was recorded.

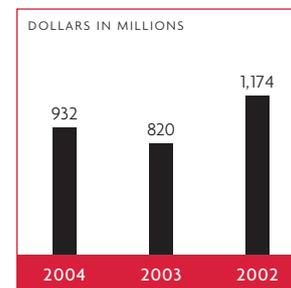
### DISPOSITION

In September 2002, the Company completed the sale of its Specialty Brands, Inc. subsidiary. The subsidiary had been acquired with the TFM acquisition, and its results of operations were included in the Company's Prepared Foods segment. The Company received cash proceeds of approximately \$131 million, which were used to reduce indebtedness, and recognized a pretax gain of \$22 million. Specialty Brands, Inc.'s sales and operating income for the year ended September 28, 2002, were \$244 million and \$2 million, respectively.

### LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operations continues to be the Company's primary source of funds to finance operating requirements and capital expenditures. In 2004, net cash of \$932 million was provided by operating activities, up \$112 million from 2003. The increase from fiscal 2003 primarily is due to the increase of \$98 million from net income, excluding the non-cash effect of depreciation and amortization. The Company's foreseeable cash needs for operations growth and capital expenditures are expected to continue to be met through cash flows provided by operating activities. Additionally, at October 2, 2004, the Company had borrowing capacity of \$1.1 billion consisting of \$640 million available under its \$1 billion unsecured revolving credit facilities and \$450 million under its accounts receivable securitization. At October 2, 2004, the Company had construction projects in progress that will require approximately \$492 million to complete. Capital spending for fiscal 2005 is expected to be in the range of \$600 to \$680 million, which reflects additional spending for a third fully dedicated case-ready plant, a new Corporate Center and a variety of projects that will increase automation and support value-added product growth. The Company continues to evaluate potential international and domestic growth opportunities.

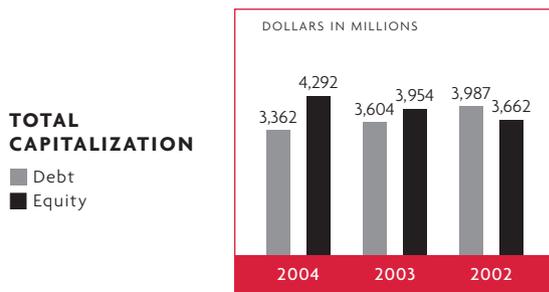
#### CASH PROVIDED BY OPERATING ACTIVITIES



## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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Total debt at October 2, 2004, was \$3.4 billion, a decrease of \$242 million from September 27, 2003. The Company has unsecured revolving credit facilities totaling \$1 billion that support the Company's commercial paper program, letters of credit and other short-term funding needs. During the third quarter of fiscal 2004, the Company restructured and extended its revolving credit facilities. These \$1 billion in facilities now consist of \$250 million that expire in September 2006 and \$750 million that expire in June 2009. At October 2, 2004, there were no borrowings outstanding under these facilities. Outstanding debt at October 2, 2004, consisted of \$2.8 billion of debt securities, \$300 million under the receivables purchase agreement, \$86 million of commercial paper and other indebtedness of \$160 million.



The revolving credit facilities, senior notes, notes and accounts receivable securitization contain various covenants, the more restrictive of which contain a maximum allowed leverage ratio and a minimum required interest coverage ratio. The Company is in compliance with all of its covenants at fiscal year end.

### OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements that are material to its financial position or results of operations. The off-balance sheet arrangements the Company has are guarantees of debt of outside third parties involving a lease, grower loans and residual value guarantees covering certain operating leases for various types of equipment. See Note 10 to the Consolidated Financial Statements for further discussions of these guarantees.

### CONTRACTUAL OBLIGATIONS

The following table summarizes the Company's contractual obligations as of October 2, 2004:

in millions	Payments Due by Period				Total
	Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years	
<b>Debt and capital lease obligations:</b>					
Principal payments <sup>(1)</sup>	\$ 338	\$1,309	\$105	\$1,610	\$3,362
Interest payments <sup>(2)</sup>	213	297	295	456	1,261
Guarantees <sup>(3)</sup>	2	3	2	48	55
<b>Operating lease obligations<sup>(4)</sup></b>					
Purchase obligations <sup>(5)</sup>	220	58	4	5	287
Capital expenditures <sup>(6)</sup>	347	121	24	–	492
<b>Other long-term liabilities<sup>(7)</sup></b>					
Total contractual commitments	\$1,187	\$1,865	\$462	\$2,171	\$5,685

<sup>(1)</sup> In the event of a default on payment or violation of debt covenants, acceleration of the principal payments would occur. At October 2, 2004, the Company was in compliance with all of its debt covenants.

<sup>(2)</sup> Interest payments include only interest payments on fixed-rate and fixed-term debt, based on the expected payment dates. The Company has other interest obligations on variable-rate, non-term debt; however, these obligations have been excluded, as the timing of payments and expected interest rates cannot be reasonably estimated.

<sup>(3)</sup> Amounts included are for the guarantees of outside third parties, which involve a lease and grower loans, all of which are substantially collateralized by the underlying assets. The amounts included are the maximum potential amount of future payments.

<sup>(4)</sup> Amounts included in operating lease obligations are minimum lease payments under lease agreements, as well as residual guarantee amounts.

<sup>(5)</sup> Amounts included in purchase obligations are agreements to purchase goods or services that are enforceable and legally binding on the Company that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Included in the purchase obligations amount are future purchase commitments for corn, soybeans, livestock and natural gas contracts that provide terms that meet the above criteria. The Company has excluded future purchase commitments for contracts that do not meet these criteria. Purchase orders have not been included in the table, as a purchase order is an authorization to purchase and is not considered an enforceable and legally binding contract. Contracts for goods or services that contain termination clauses without penalty have also been excluded.

<sup>(6)</sup> Amounts included in capital expenditures are estimated amounts to complete construction projects in progress as of October 2, 2004.

<sup>(7)</sup> Amounts included in other long-term liabilities are items that meet the definition of a purchase obligation and are recorded in the Company's Consolidated Balance Sheets.

**RECENTLY ISSUED ACCOUNTING STANDARDS AND REGULATIONS**

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 151, "Inventory Costs" (SFAS No. 151). SFAS No. 151 requires abnormal amounts of inventory costs related to idle facility, freight handling and wasted material expenses to be recognized as current period charges. Additionally, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The standard is effective for fiscal years beginning after June 15, 2005. The Company believes the adoption of SFAS No. 151 will not have a material impact on its consolidated financial statements.

On October 22, 2004, the President signed into law the American Jobs Creation Act of 2004 (the Bill). The Company is currently in the process of evaluating the Bill.

In March 2004, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings per Share." This issue involves the computation of earnings per share for companies that have multiple classes of common stock or have issued securities other than common stock that participate in dividends with common stock (participating securities). The EITF concluded that companies having participating securities are required to apply the two-class method to compute earnings per share. The two-class method is an earnings allocation method under which earnings per share is calculated for each class of common stock and participating security considering both dividends declared (or accumulated) and participation rights in undistributed earnings as if all such earnings had been distributed during the period. The Company adopted EITF Issue No. 03-6 in the fourth quarter of fiscal 2004. As required by EITF Issue No. 03-6, prior period earnings per share have been restated as follows:

	2003	2002
Earnings per share as previously reported		
Basic	\$0.98	\$1.10
Diluted	0.96	1.08
Earnings per share, restated in accordance with EITF Issue No. 03-6		
Class A Basic	1.00	1.13
Class B Basic	0.90	1.02
Diluted	0.96	1.08

In December 2003, the FASB revised Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" (SFAS No. 132). The revision of SFAS No. 132 requires expanded disclosures for defined benefit plans. The standard's

revisions are effective for fiscal years ending after December 15, 2003, and for interim periods beginning after December 15, 2003. See Note 15 to the Consolidated Financial Statements for pensions and other postretirement benefits disclosures.

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed. The Act allows a possible subsidy to retirement health plan sponsors to help offset the costs of participant prescription drug benefits. In March 2004, the FASB issued Staff Position No. 106-2, "Accounting and Disclosure Requirements Related to the Act" (the Position). The Position is effective for interim or annual periods beginning after June 15, 2004. The Position allows plan sponsors to recognize or defer recognizing the effects of the Act in its financial statements. Specific accounting guidance for this federal subsidy is pending and, when issued, could require the Company to change previously reported information. The Company's accumulated postretirement benefit obligation and net periodic pension cost do not reflect the effects of the Act. The Company has elected to defer accounting for the Act and has estimated any future effect on its consolidated financial statements will not be material.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" (the Interpretation). The Interpretation requires the consolidation of variable interest entities (VIE) in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. Previously, entities were generally consolidated by an enterprise that had a controlling financial interest through ownership of a majority voting interest in the entity. In December 2003, the FASB issued a revision of the Interpretation (the Revised Interpretation 46). Revised Interpretation 46 codifies both the proposed modifications and other decisions previously issued through certain FASB Staff Positions and supersedes the original Interpretation to include: (1) deferring the effective date of the Interpretation's provisions for certain variable interests, (2) providing additional scope exceptions for certain other variable interests, (3) clarifying the impact of troubled debt restructurings on the requirement to reconsider (a) whether an entity is a VIE or (b) which party is the primary beneficiary of a VIE and (4) revising Appendix B of the original Interpretation to provide additional guidance on what constitutes a variable interest. Under the new guidance, application of the Revised Interpretation 46 is required in financial statements of public entities that have interests in structures that are commonly referred to as special-purpose entities for periods ending after December 15, 2003, and for all other types of variable interest entities is required in financial statements for periods ending after March 15, 2004. The Company's adoption of Revised Interpretation 46 did not have a material impact on its consolidated financial statements.

### **CRITICAL ACCOUNTING ESTIMATES**

The preparation of consolidated financial statements requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The following is a summary of certain accounting estimates considered critical by the Company.

**Financial Instruments** The Company uses derivative financial instruments to manage its exposure to various market risks, including certain livestock, interest rates, grain and feed costs, natural gas and other commodities used in the normal course of operations. The Company may also hold positions for which hedge accounting, as defined by Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), as amended, is not applied. Derivative financial instruments must be marked-to-market as of the end of each quarter in which the positions exist. As the commodities underlying the Company's derivative financial instruments can experience significant price fluctuations, any requirement to mark-to-market the positions that have not been designated or do not qualify as hedges under SFAS No. 133 could result in volatility in the Company's results of operations. See Market Risks on page 27.

**Contingent Liabilities** The Company is subject to lawsuits, investigations and other claims related to wage and hour/labor, livestock procurement, securities, environmental, product, taxing authorities and other matters, and is required to assess the likelihood of any adverse judgments or outcomes to these matters, as well as potential ranges of probable losses. A determination of the amount of reserves required, if any, for these contingencies are made after considerable analysis of each individual issue. These reserves may change in the future due to changes in the Company's assumptions, the effectiveness of strategies or other factors beyond the Company's control. See Note 22 to the Consolidated Financial Statements.

**Accrued Self Insurance** Insurance expense for health and welfare, workers' compensation, auto liability and general liability risks are estimated using historical experience and actuarial estimates. The assumptions used to arrive at periodic expenses are reviewed regularly by management. However, actual expenses could differ from these estimates and could result in adjustments to be recognized.

**Impairment of Long-Lived Assets** The Company is required to assess potential impairments to its long-lived assets, which are primarily property, plant and equipment. If impairment indicators are present, the Company must measure the fair value of the assets in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets," to determine if adjustments are to be recorded.

**Goodwill and Other Intangible Asset Impairment** In assessing the recoverability of the Company's goodwill and other intangible assets, management must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates and related assumptions change in the future, the Company may be required to record impairment charges not previously recorded. The Company assesses its goodwill and other intangible assets for impairment at least annually in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets." See Note 1 to the Consolidated Financial Statements.

### **CAUTIONARY STATEMENTS RELEVANT TO FORWARD-LOOKING INFORMATION FOR THE PURPOSE OF "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

This report and other written reports and oral statements, made from time to time by the Company and its representatives, contain forward-looking statements with respect to their current views and estimates of future economic circumstances, industry conditions, Company performance and financial results, including, without limitation, debt-levels, return on invested capital, value-added product growth, capital expenditures, tax rates, access to foreign markets and dividend policy. These forward-looking statements are subject to a number of factors and uncertainties that could cause the Company's actual results and experiences to differ materially from the anticipated results and expectations expressed in such forward-looking statements. The Company wishes to caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made. Tyson undertakes no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

## □ MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

TYSON FOODS, INC. 2004 ANNUAL REPORT

Among the factors that cause actual results and experiences to differ from the anticipated results and expectations expressed in such forward-looking statements are the following: (i) fluctuations in the cost and availability of raw materials, such as live cattle, live swine or feed grains; (ii) market conditions for finished products, including the supply and pricing of alternative proteins, and the demand for alternative proteins; (iii) risks associated with effectively evaluating derivatives and hedging activities; (iv) access to foreign markets together with foreign economic conditions, including currency fluctuations and import/export restrictions; (v) outbreak of a livestock disease which could have an effect on livestock owned by the Company, the availability of livestock for purchase by the Company, or the Company's ability to access certain markets; (vi) successful rationalization of existing facilities, and the operating efficiencies of the facilities; (vii) changes in the availability and relative costs of labor and contract growers; (viii) issues related to food safety, including costs resulting from product recalls, regulatory compliance and any related claims or litigation; (ix) adverse results from litigation; (x) risks associated with leverage, including cost increases due to rising interest rates or changes in debt ratings or outlook; (xi) changes in regulations and laws (both domestic and foreign), including changes in accounting standards, environmental laws and occupational, health and safety laws; (xii) the ability of the Company to make effective acquisitions, and successfully integrate newly acquired businesses into existing operations; (xiii) effectiveness of advertising and marketing programs; and (xiv) the effect of, or changes in, general economic conditions.

### MARKET RISKS

Market risks relating to the Company's operations result primarily from changes in commodity prices, interest rates and foreign exchange rates, as well as credit risk concentrations. To address certain of these risks, the Company enters into various derivative transactions as described below. If a derivative instrument is a hedge, as defined by SFAS No. 133, as amended, depending on the nature of the hedge, changes in the fair value of the instrument will be either offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings, or recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of an instrument's change in fair value, as defined by SFAS No. 133, as amended, will be immediately recognized in earnings as a component of cost of sales. Additionally, the Company holds certain positions, primarily in grain and livestock futures which do not meet the criteria for SFAS No. 133 hedge accounting. These positions are marked to fair value and the unrealized gains and losses are reported in earnings at each reporting date. The changes in market

value of derivatives used in the Company's risk management activities surrounding inventories on hand or anticipated purchases of inventories are recorded in cost of sales. The changes in market value of derivatives used in the Company's risk management activities surrounding forward sales contracts are recorded in sales.

The sensitivity analyses presented on the following page are the measures of potential losses of fair value resulting from hypothetical changes in market prices related to commodities. Sensitivity analyses do not consider the actions management may take to mitigate the Company's exposure to changes, nor do they consider the effects that such hypothetical adverse changes may have on overall economic activity. Actual changes in market prices may differ from hypothetical changes.

**Commodities Risk** The Company is a purchaser of certain commodities, such as corn, soybeans, livestock and natural gas in the course of normal operations. The Company uses commodity futures to reduce the effect of changing prices and as a mechanism to procure the underlying commodity. However, as the commodities underlying the Company's derivative financial instruments can experience significant price fluctuations, any requirement to mark-to-market the positions that have not been designated or do not qualify as hedges under SFAS No. 133 could result in volatility in the Company's results of operations. Generally, contract terms of a hedge instrument closely mirror those of the hedged item providing a high degree of risk reduction and correlation. Contracts that are designated and highly effective at meeting this risk reduction and correlation criteria are recorded using hedge accounting. The following table presents a sensitivity analysis resulting from a hypothetical change of 10% in market prices as of October 2, 2004, and September 27, 2003, respectively, on fair value of open positions. The fair value of such positions is a summation of the fair values calculated for each commodity by valuing each net position at quoted futures prices. The market risk exposure analysis includes hedge and non-hedge positions. The underlying commodities hedged have a correlation to price changes of the derivative positions such that the values of the commodities hedged based on differences between commitment prices and market prices and the value of the derivative positions used to hedge these commodity obligations are inversely correlated. The following sensitivity analysis reflects an inverse impact on earnings for changes in the fair value of open positions for livestock and natural gas and a direct impact on earnings for changes in the fair value of open positions for grain.

## □ MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

TYSON FOODS, INC. 2004 ANNUAL REPORT

### Effect of 10% Change in Fair Value

in millions	2004	2003
Livestock:		
Cattle	\$12	\$28
Hogs	18	12
Grain	5	26
Natural Gas	13	11

**Interest Rate Risk** The Company has exposure to changes in interest rates on its fixed-rate, long-term debt. Market risk for fixed-rate, long-term debt is estimated as the potential increase in fair value, resulting from a hypothetical 10% decrease in interest rates, and amounts to approximately \$51 million at October 2, 2004, and \$62 million at September 27, 2003. The fair values of the Company's long-term debt were estimated based upon quoted market prices and/or published interest rates.

The Company hedges exposure to changes in interest rates on certain of its financial instruments. Under the terms of various leveraged equipment loans, the Company enters into interest rate swap agreements to effectively lock in a fixed interest rate for these borrowings. The maturity dates of these leveraged equipment loans range from 2005 to 2008 with interest rates ranging from 4.7% to 6.0%. Because of the positions taken with respect to these swap agreements, an increase in interest rates would have a minimal effect on the fair value for fiscal years 2004 and 2003.

**Foreign Currency Risk** The Company has non-cash foreign exchange gain/loss exposure from fluctuations in foreign currency exchange rates as a result of certain receivables and payable balances. The primary currency exchanges the Company has exposure to are the Canadian dollar, the Mexican peso, the European euro, the British pound sterling and the Brazilian real. The Company periodically enters into foreign exchange forward contracts to hedge some of its foreign currency exposure. There were no such contracts outstanding at October 2, 2004, and September 27, 2003.

**Concentrations of Credit Risk** The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash equivalents and trade receivables. The Company's cash

equivalents are in high quality securities placed with major banks and financial institutions. Concentrations of credit risk with respect to receivables are limited due to the large number of customers and their dispersion across geographic areas. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. At October 2, 2004, and September 27, 2003, approximately 15.0% and 10.3%, respectively, of the Company's net accounts receivable balance was due from one customer. No other single customer or customer group represents greater than 10% of net accounts receivable.

### NON-GAAP FINANCIAL MEASURES

This report and other public communications issued by the Company from time to time include certain non-GAAP financial measures, which are defined as numerical measures of a company's financial performance, financial position or cash flows that exclude (or include) amounts that are included in (or excluded from) the most directly comparable measures calculated and presented in accordance with GAAP in the Company's financial statements.

Non-GAAP financial measures utilized by the Company include presentations of operating income and other GAAP measures of operating performance that exclude or include the effect of the closings of selected operations, BSE-related charges, fixed asset write-downs, impairment charges related to various intangible assets, litigation settlements and other similar events. The Company's management believes these non-GAAP financial measures provide useful information to investors by removing the effect of variances in GAAP reported results of operations that are not indicative of fundamental changes in the Company's earnings. Management also believes that the presentation of these non-GAAP financial measures is consistent with its past practice, as well as industry practice in general, and will enable investors and analysts to compare current non-GAAP measures with non-GAAP measures presented in prior periods. The non-GAAP financial measures used by the Company should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

## □ CONSOLIDATED STATEMENTS OF INCOME

TYSON FOODS, INC. 2004 ANNUAL REPORT

Three years ended October 2, 2004  
in millions, except per share data

	2004	2003	2002
Sales	\$26,441	\$24,549	\$23,367
Cost of Sales	24,550	22,805	21,550
	1,891	1,744	1,817
Operating Expenses:			
Selling, general and administrative	880	831	877
Other charges	86	76	53
Operating Income	925	837	887
Other Expense (Income):			
Interest	275	296	305
Other	15	18	(11)
	290	314	294
Income Before Income Taxes	635	523	593
Provision for Income Taxes	232	186	210
Net Income	\$ 403	\$ 337	\$ 383
Weighted Average Shares Outstanding:			
Class A Basic	243	244	246
Class B Basic	102	102	102
Diluted	357	352	355
Earnings Per Share:			
Class A Basic	\$ 1.20	\$ 1.00	\$ 1.13
Class B Basic	\$ 1.08	\$ 0.90	\$ 1.02
Diluted	\$ 1.13	\$ 0.96	\$ 1.08

See accompanying notes.

## □ CONSOLIDATED BALANCE SHEETS

TYSON FOODS, INC. 2004 ANNUAL REPORT

October 2, 2004 and September 27, 2003  
in millions, except per share data

	2004	2003
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 33	\$ 25
Accounts receivable, net	1,240	1,280
Inventories	2,063	1,994
Other current assets	196	72
Total Current Assets	3,532	3,371
Net Property, Plant and Equipment	3,964	4,039
Goodwill	2,558	2,652
Intangible Assets	149	182
Other Assets	261	242
Total Assets	<b>\$10,464</b>	<b>\$10,486</b>
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities:		
Current debt	\$ 338	\$ 490
Trade accounts payable	945	838
Other current liabilities	1,010	1,147
Total Current Liabilities	2,293	2,475
Long-Term Debt	3,024	3,114
Deferred Income Taxes	695	722
Other Liabilities	160	221
Shareholders' Equity:		
Common stock (\$0.10 par value):		
Class A-authorized 900 million shares: Issued 268 million shares in 2004 and 267 million shares in 2003	27	27
Class B-authorized 900 million shares: Issued 102 million shares in 2004 and 2003	10	10
Capital in excess of par value	1,849	1,861
Retained earnings	2,728	2,380
Accumulated other comprehensive loss	(12)	(15)
	4,602	4,263
Less treasury stock, at cost – 17 million shares in 2004 and 16 million shares in 2003	264	252
Less unamortized deferred compensation	46	57
Total Shareholders' Equity	4,292	3,954
Total Liabilities and Shareholders' Equity	<b>\$10,464</b>	<b>\$10,486</b>

See accompanying notes.

## □ CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

TYSON FOODS, INC. 2004 ANNUAL REPORT

Three years ended October 2, 2004 in millions	Common Stock		Capital in Excess of Par Value	Retained Earnings	Treasury Stock		Unamortized Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity		
	Class A Shares	Class B Amount			Shares	Amount					
Balance – September 29, 2001	267	\$27	103	\$10	\$1,920	\$1,770	21	\$(333)	\$ (5)	\$(35)	\$3,354
Comprehensive Income:											
Net income						383					383
Other comprehensive income (loss)											
net of tax of \$(5) million											
Derivative gain recognized in cost of sales (net of \$2 million tax)										5	5
Derivative unrealized loss (net of \$(1) million tax)										(2)	(2)
Unrealized loss on investments (net of \$(1) million tax)										(2)	(2)
Currency translation adjustment										(7)	(7)
Additional pension liability (net of \$(5) million tax)										(8)	(8)
Total Comprehensive Income											369
Purchase of Treasury Shares							1	(19)			(19)
Restricted Shares Issued					(41)		(6)	90	(50)		(1)
Restricted Shares Canceled					2		(3)	3			2
Dividends Paid						(56)					(56)
Amortization of Deferred Compensation									15		15
Other			(1)		(2)						(2)
Balance – September 28, 2002	267	27	102	10	1,879	2,097	16	(265)	(37)	(49)	3,662
Comprehensive Income:											
Net income						337					337
Other comprehensive income (loss)											
net of tax of \$8 million											
Derivative loss recognized in cost of sales (net of \$(1) million tax)										(2)	(2)
Derivative unrealized gain (net of \$7 million tax)										11	11
Unrealized gain on investments (net of \$1 million tax)										1	1
Currency translation adjustment										21	21
Additional pension liability (net of \$2 million tax)										3	3
Total Comprehensive Income											371
Purchase of Treasury Shares							4	(41)			(41)
Restricted Shares Issued					(19)		(4)	55	(37)		(1)
Restricted Shares Canceled					1		(1)	1			1
Dividends Paid						(54)					(54)
Amortization of Deferred Compensation									16		16
Balance – September 27, 2003	267	27	102	10	1,861	2,380	16	(252)	(57)	(15)	3,954
Comprehensive Income:											
Net Income						403					403
Other comprehensive income (loss)											
net of tax of \$(13) million											
Derivative loss recognized in cost of sales (net of \$(26) million tax)										(40)	(40)
Derivative unrealized gain (net of \$12 million tax)										19	19
Currency translation adjustment										23	23
Additional pension liability (net of \$1 million tax)										1	1
Total Comprehensive Income											406
Purchase of Treasury Shares							4	(72)			(72)
Stock Options Exercised					(2)		(3)	44			42
Restricted Shares Issued					1			6	(7)		-
Restricted Shares Canceled					1			(4)	2		(1)
Dividends Paid						(55)					(55)
Amortization of Deferred Compensation									16		16
Reclassification and Other		1			(12)			14			2
Balance – October 2, 2004	268	\$27	102	\$10	\$1,849	\$2,728	17	\$(264)	\$(46)	\$(12)	\$4,292

See accompanying notes.

## □ CONSOLIDATED STATEMENTS OF CASH FLOWS

TYSON FOODS, INC. 2004 ANNUAL REPORT

Three years ended October 2, 2004  
in millions

	2004	2003	2002
Cash Flows From Operating Activities:			
Net income	\$ 403	\$ 337	\$ 383
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	458	427	431
Amortization	32	31	36
Plant closing related charges	28	22	-
Impairment and write-down of assets	46	-	27
Gain on sale of subsidiary	-	-	(22)
Deferred taxes	8	113	22
Other	4	36	20
(Increase) decrease in accounts receivable	67	(179)	44
Increase in inventories	(65)	(78)	(4)
Increase (decrease) in trade accounts payable	109	60	(30)
Net change in other current assets and liabilities	(158)	51	267
Cash Provided by Operating Activities	932	820	1,174
Cash Flows From Investing Activities:			
Additions to property, plant and equipment	(486)	(402)	(433)
Proceeds from sale of assets	27	30	14
Proceeds from sale of subsidiary	-	-	131
Acquisition of assets	-	-	(73)
Investment in marketable securities	(99)	-	-
Sale of investment in commercial paper	-	4	94
Net change in other assets and liabilities	(42)	7	(61)
Cash Used for Investing Activities	(600)	(361)	(328)
Cash Flows From Financing Activities:			
Net change in debt	(242)	(387)	(789)
Purchase of treasury shares	(72)	(41)	(19)
Dividends	(55)	(54)	(56)
Stock options exercised and other	43	-	(2)
Cash Used for Financing Activities	(326)	(482)	(866)
Effect of Exchange Rate Change on Cash	2	(3)	1
Increase (Decrease) in Cash and Cash Equivalents	8	(26)	(19)
Cash and Cash Equivalents at Beginning of Year	25	51	70
Cash and Cash Equivalents at End of Year	\$ 33	\$ 25	\$ 51

See accompanying notes.

## □ NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TYSON FOODS, INC. 2004 ANNUAL REPORT

01

### NOTE ONE : BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Description of Business:** Tyson Foods, Inc. (collectively, “the Company” or “Tyson”), founded in 1935 with world headquarters in Springdale, Arkansas, is the world’s largest processor and marketer of chicken, beef and pork and the second largest food company in the *Fortune* 500. Tyson produces a wide variety of brand name protein-based and prepared food products marketed in the United States and more than 80 countries around the world. Tyson is the recognized market leader in the retail and foodservice markets it serves. The Company has approximately 114,000 team members and more than 300 facilities and offices in 27 states and 20 countries.

**Consolidation:** The consolidated financial statements include the accounts of all majority-owned and wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

**Fiscal Year:** The Company utilizes a 52- or 53-week accounting period that ends on the Saturday closest to September 30. The Company’s accounting cycle resulted in a 53-week year for fiscal year 2004, and a 52-week year for fiscal years 2003 and 2002.

**Reclassifications:** Certain reclassifications have been made to prior periods to conform to current presentations.

**Cash and Cash Equivalents:** Cash equivalents consist of investments in short-term, highly liquid securities having original maturities of three months or less, which are made as part of the Company’s cash management activity. The carrying values of these assets approximate their fair market values. The Company primarily utilizes a cash management system with a series of separate accounts consisting of lockbox accounts for receiving cash, concentration accounts that funds are moved to, and several “zero-balance” disbursement accounts for funding of payroll, accounts payable and grower payments. As a result of the Company’s cash management system, checks issued, but not presented to the banks for payment, may create negative book cash balances. Checks outstanding in excess of related book cash balances totaling approximately \$359 million at October 2, 2004, and \$313 million at September 27, 2003, are included in trade accounts payable and accrued salaries, wages and benefits.

**Accounts Receivable:** The Company records trade accounts receivable at net realizable value. This value includes an appropriate allowance for estimated uncollectible accounts to reflect any loss anticipated on the trade accounts receivable balances and charged to the provision for doubtful accounts. The Company calculates this allowance based on a history of write-offs, level of past due accounts and relationships with and economic status of the customers.

**Inventories:** Processed products, livestock (excluding breeders) and supplies and other are valued at the lower of cost (first-in, first-out) or market. Livestock includes live cattle, live chicken and live swine. Cost includes purchased raw materials, live purchase costs, growout costs (primarily feed, contract grower pay and catch and haul costs), labor and manufacturing and production overhead, which are related to the purchase and production of inventories. Live chicken consists of broilers and breeders. Breeders are stated as cost less amortization. The costs associated with breeders, including breeder chicks, feed and medicine, are accumulated up to the production stage and amortized to broiler inventory over the productive life of the flock using a standard unit of production.

Total inventory consists of:

in millions	2004	2003
Processed products	\$1,197	\$1,167
Livestock	545	532
Supplies and other	321	295
Total inventory	\$2,063	\$1,994

**Depreciation:** Depreciation is provided primarily by the straight-line method using estimated lives for buildings and leasehold improvements of 10 to 39 years, machinery and equipment of three to 12 years and other of three to 20 years.

**Long-Lived Assets:** The Company reviews the carrying value of long-lived assets at each balance sheet date if indication of impairment exists. Recoverability is assessed using undiscounted cash flows based upon historical results and current projections of earnings before interest and taxes. The Company measures impairment using discounted cash flows of future operating results based upon a discount rate that corresponds to the Company’s cost of capital. Impairments are recognized in operating results to the extent that carrying value exceeds discounted cash flows of future operations.

□ **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

TYSON FOODS, INC. 2004 ANNUAL REPORT

**Goodwill and Other Intangible Assets:** Goodwill and indefinite life intangible assets are recorded at fair value and not amortized, but are reviewed for impairment at least annually or more frequently if impairment indicators arise, as required by the Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142). In the Company's assessment of goodwill, management makes assumptions by segment regarding estimated future cash flows and other factors to determine the fair value of the respective assets. The fair value of the Company's trademarks is determined using a royalty rate method based on expected revenues by trademark. Goodwill has been allocated to and tested for impairment by reporting unit based on fair value of identifiable assets. This goodwill is not deductible for income tax purposes. At October 2, 2004, and September 27, 2003, the accumulated amortization of goodwill was \$286 million.

Amount of goodwill by segment at October 2, 2004, and September 27, 2003, was as follows:

in millions	2004	2003
Chicken	\$ 933	\$ 936
Beef	1,235	1,306
Pork	330	350
Prepared Foods	60	60
Total	<b>\$2,558</b>	<b>\$2,652</b>

The change in the goodwill balance is due primarily to a \$91 million adjustment of pre-acquisition tax liabilities assumed as part of the Tyson Fresh Meats, Inc. (TFM; formerly known as IBP, inc.) acquisition. The Company received formal approval during fiscal 2004 from The Joint Committee on Taxation of the U.S. Congress for issues relating to certain pre-acquisition years. As a result of this approval, the accrual of \$91 million of pre-acquisition tax liability was no longer needed.

In the fourth quarter of fiscal 2004, the Company recorded charges of approximately \$25 million related to the impairment of various intangible assets, of which \$22 million was recorded in the Prepared Foods segment and \$3 million was recorded in the Beef segment. The impairment charges apply primarily to trademarks acquired in the acquisition of TFM in 2001. These impairment charges are included in other charges on the Company's Consolidated Statements of Income and resulted primarily from lower product sales under some of the Company's regional trademarks as products are increasingly being sold under the Tyson trademark.

At October 2, 2004, the gross carrying value of intangible assets consisted of \$80 million of trademarks, \$85 million of patents and \$11 million of supply contracts with accumulated amortization of \$19 million and \$8 million for patents and supply contracts, respectively. At September 27, 2003, the gross carrying value of intangible assets consisted of \$100 million of trademarks, \$87 million of patents and \$13 million of supply contracts with accumulated amortization of \$12 million and \$6 million for patents and supply contracts, respectively. The reductions in the carrying value of intangible assets in fiscal 2004 as compared to the prior year resulted from the impairments recorded in fiscal 2004, as trademarks, patents and supply contracts were impaired \$20 million, \$3 million and \$2 million, respectively. Amortization expense on combined patents and supply contracts of \$8 million was recognized during 2004 and 2003 and \$9 million was recognized in 2002. Amortization expense on intangible assets is estimated to be \$7 million for 2005, 2006, and \$6 million for 2007, 2008 and 2009. Patents and supply contracts are amortized using the straight-line method over their estimated period of benefit of 15 years and five years, respectively.

**Investments:** The Company has investments in joint ventures and other entities. The Company uses the cost method of accounting where its voting interests are less than 20 percent, and the equity method of accounting where its voting interests are in excess of 20 percent but not greater than 50 percent. The Company's underlying share of each entity's equity is reported in the Consolidated Balance Sheets in the line item other assets.

During fiscal 2004, the Company purchased \$99 million of marketable debt securities. Of this amount, \$63 million are due in one year or less and are classified in other current assets in the Consolidated Balance Sheets, and \$36 million are due in two years and are classified in other assets in the Consolidated Balance Sheets. The Company has applied Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS No. 115), and has determined that all of its marketable debt securities are available-for-sale investments. These investments are reported at fair value based on quoted market prices as of the balance sheet date, with unrealized gains and losses, net of tax, recorded in other comprehensive income. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization will be recorded in interest income. The cost of securities sold is based on the specific

□ **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

TYSON FOODS, INC. 2004 ANNUAL REPORT

identification method. Realized gains and losses on the sale of debt securities and declines in value judged to be other than temporary are recorded in other income, net. Interest and dividends on securities classified as available-for-sale are recorded in interest income.

**Accrued Self Insurance:** The Company uses a combination of insurance and self-insurance mechanisms to provide for the potential liabilities for health and welfare, workers' compensation, auto liability and general liability risks. Liabilities associated with the risks that are retained by the Company are estimated, in part, by considering historical claims experience demographic factors, severity factors and other actuarial assumptions.

**Capital Stock:** The Company has two classes of capital stock, Class A common stock (Class A stock) and Class B common stock (Class B stock). Holders of Class B stock may convert such stock into Class A stock on a share-for-share basis. Holders of Class B stock are entitled to 10 votes per share while holders of Class A stock are entitled to one vote per share on matters submitted to shareholders for approval. Cash dividends cannot be paid to holders of Class B stock unless they are simultaneously paid to holders of Class A stock. The per share amount of the cash dividend paid to holders of Class B stock cannot exceed 90% of the cash dividend simultaneously paid to holders of Class A stock. The Company pays quarterly cash dividends to Class A and Class B shareholders. The Company paid Class A dividends per share of \$0.16 and Class B dividends per share of \$0.144 in fiscal years 2004, 2003 and 2002.

According to the Emerging Issues Task Force Issue No. 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings per Share" (EITF Issue No. 03-6), the Class B stock is considered a participating security requiring the use of the two-class method for the computation of basic earnings per share, rather than the if-converted method as previously used. The two-class computation method for each period reflects the cash dividends paid per share for each class of stock, plus the amount of allocated undistributed earnings per share computed using the participation percentage which reflects the dividend rights of each class of stock. Basic earnings per share reflect the application of EITF Issue No. 03-6 and was computed using the two-class method for all periods presented. The shares of Class B stock are considered to be participating convertible securities since the shares of Class B stock are convertible on a share-for-share basis into shares of Class A stock. Diluted earnings per share have been computed assuming the conversion of the Class B shares into Class A shares as of the beginning of each period.

**Stock Compensation:** On December 29, 2002, the Company adopted Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" (SFAS No. 148). SFAS No. 148, which amended Financial Accounting Standards Board (FASB) Statement No. 123, "Accounting for Stock-Based Compensation," does not require use of the fair value method of accounting for stock-based employee compensation. The Company applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its employee stock compensation plans. Accordingly, no compensation expense was recognized for its stock option issuances as stock options are issued with an exercise price equal to the closing price at the date of the grant. The Company does issue restricted stock and records the fair value of such awards as deferred compensation amortized over the vesting period. Had compensation expense for the employee stock compensation plans been determined based on the fair value method of accounting for the Company's stock compensation plans, the tax-effected impact would be as follows:

in millions, except per share data	2004	2003	2002
Net income as reported	\$ 403	\$ 337	\$ 383
Stock-based employee compensation expense included in net income, net of tax	16	16	15
Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(22)	(20)	(19)
<b>Pro forma net income</b>	<b>\$ 397</b>	<b>\$ 333</b>	<b>\$ 379</b>
<b>Earnings per share</b>			
As reported			
Class A Basic	\$1.20	\$1.00	\$1.13
Class B Basic	1.08	0.90	1.02
Diluted	1.13	0.96	1.08
Pro forma			
Class A Basic	1.18	0.99	1.12
Class B Basic	1.06	0.89	1.01
Diluted	\$1.11	\$0.95	\$1.07

The pro forma disclosures may not be representative of the effects on net income for future years.

## □ NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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**Financial Instruments:** The Company is a purchaser of certain commodities, such as corn, soybeans, livestock and natural gas in the course of normal operations. The Company uses derivative financial instruments to reduce its exposure to various market risks. Generally, contract terms of a hedge instrument closely mirror those of the hedged item, providing a high degree of risk reduction and correlation. Contracts that are designated and highly effective at meeting the risk reduction and correlation criteria are recorded using hedge accounting, as defined by Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), as amended. If a derivative instrument is a hedge, as defined by SFAS No. 133, depending on the nature of the hedge, changes in the fair value of the instrument will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of an instrument's change in fair value will be immediately recognized in earnings as a component of cost of sales. Instruments the Company holds as part of its risk management activities that do not meet the criteria for hedge accounting, as defined by SFAS No. 133, as amended, are marked to fair value with unrealized gains or losses reported currently in earnings. The Company generally does not hedge anticipated transactions beyond 12 months.

**Revenue Recognition:** The Company recognizes revenue when title and risk of loss are transferred to customers, which is generally upon delivery based upon terms of sale. Revenue is recognized as the net amount estimated to be received after deducting estimated amounts for discounts, trade allowances and product terms.

**Litigation Reserves:** There are a variety of legal proceedings pending or threatened against the Company. Accruals are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated based on current law, progress of each case, opinions and views of legal counsel and other advisers, the Company's experience in similar matters and management's intended response to the litigation. These amounts, which are not discounted and are exclusive of claims against third parties, are adjusted periodically as assessment efforts progress or additional information becomes available. The Company expenses amounts for administering or litigating claims as incurred. Accruals for legal proceedings are included in other current liabilities in the accompanying balance sheets.

**Freight Expense:** Freight expense associated with products shipped to customers is recognized in cost of products sold.

**Advertising and Promotion Expenses:** Advertising and promotion expenses are charged to operations in the period incurred. Advertising and promotion expenses for fiscal 2004, 2003 and 2002 were \$465 million, \$504 million and \$396 million, respectively.

**Use of Estimates:** The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States, which require management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

**Recently Issued Accounting Standards and Regulations:** In December 2004, the FASB issued Statement of Financial Accounting Standards No. 151, "Inventory Costs" (SFAS No. 151). SFAS No. 151 requires abnormal amounts of inventory costs related to idle facility, freight handling and wasted material expenses to be recognized as current period charges. Additionally, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The standard is effective for fiscal years beginning after June 15, 2005. The Company believes the adoption of SFAS No. 151 will not have a material impact on its consolidated financial statements.

On October 22, 2004, the President signed into law the American Jobs Creation Act of 2004 (the Bill). The Company is currently in the process of evaluating the Bill.

In March 2004, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings per Share." This issue involves the computation of earnings per share for companies that have multiple classes of common stock or have issued securities other than common stock that participate in dividends with common stock (participating securities). The EITF concluded that companies having participating securities are required to apply the two-class method to compute earnings per share. The two-class method is an earnings allocation method under which earnings per share is calculated for each class of common stock and participating security considering both dividends declared (or accumulated) and participation rights in undistributed earnings as if all such earnings had been distributed during the period. The Company adopted EITF Issue No. 03-6 in the fourth quarter of fiscal 2004. As required by EITF Issue No. 03-6, prior period earnings per share have been restated as follows:

	2003	2002
Earnings per share as previously reported		
Basic	\$0.98	\$1.10
Diluted	0.96	1.08
Earnings per share, restated in accordance with EITF Issue No. 03-6		
Class A Basic	1.00	1.13
Class B Basic	0.90	1.02
Diluted	0.96	1.08

## □ NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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In December 2003, the FASB revised Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" (SFAS No. 132). The revision of SFAS No. 132 requires expanded disclosures for defined benefit plans. The standard's revisions are effective for fiscal years ending after December 15, 2003, and for interim periods beginning after December 15, 2003. See Note 15 to the Consolidated Financial Statements for pensions and other postretirement benefits disclosures.

In December 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed. The Act allows a possible subsidy to retirement health plan sponsors to help offset the costs of participant prescription drug benefits. In March 2004, the FASB issued Staff Position No. 106-2, "Accounting and Disclosure Requirements Related to the Act" (the Position). The Position is effective for interim or annual periods beginning after June 15, 2004. The Position allows plan sponsors to recognize or defer recognizing the effects of the Act in its financial statements. Specific accounting guidance for this federal subsidy is pending and, when issued, could require the Company to change previously reported information. The Company's accumulated postretirement benefit obligation and net periodic pension cost do not reflect the effects of the Act. The Company has elected to defer accounting for the Act and has estimated any future effect on its consolidated financial statements will not be material.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51" (the Interpretation). The Interpretation requires the consolidation of variable interest entities (VIE) in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity. Previously, entities were generally consolidated by an enterprise that had a controlling financial interest through ownership of a majority voting interest in the entity. In December 2003, the FASB issued a revision of the Interpretation (the Revised Interpretation 46). Revised Interpretation 46 codifies both the proposed modifications and other decisions previously issued through certain FASB Staff Positions and supersedes the original Interpretation to include: (1) deferring the effective date of the Interpretation's provisions for certain variable interests, (2) providing additional scope exceptions for certain other variable interests, (3) clarifying the impact of troubled debt restructurings on the requirement to reconsider (a) whether an entity is a VIE or (b) which party is the primary

beneficiary of a VIE, and (4) revising Appendix B of the original Interpretation to provide additional guidance on what constitutes a variable interest. Under the new guidance, application of the Revised Interpretation 46 is required in financial statements of public entities that have interests in structures that are commonly referred to as special-purpose entities for periods ending after December 15, 2003, and for all other types of variable interest entities is required in financial statements for periods ending after March 15, 2004. The Company's adoption of Revised Interpretation 46 did not have a material impact on its consolidated financial statements.

### 02 NOTE TWO : ACQUISITIONS

In September 2003, the Company purchased Choctaw Maid Farms, Inc. (Choctaw), an integrated poultry processor. Since 1992, Tyson had been purchasing all of Choctaw's production under a "cost plus" supply agreement, which was scheduled to expire in 2007. The Company had previously negotiated a purchase option with Choctaw's owners, which initially became exercisable in 2002. The Company decided to exercise its purchase option rather than continue under the "cost plus" arrangement of the supply agreement. The acquisition was recorded as a purchase in accordance with Statement of Financial Accounting Standards No. 141, "Business Combinations." Accordingly, the assets and liabilities were adjusted for fair values with the remainder of the purchase price, \$18 million, recorded as goodwill. The purchase price consisted of \$1 million cash to exercise the purchase option in Tyson's supply agreement with Choctaw and settlement of \$85 million owed to Tyson by Choctaw. In addition the Company assumed approximately \$4 million of Choctaw's debt to a third party. In June 2003, the Company exercised a \$74 million purchase option to acquire assets leased from a third party, which the Company had subleased to Choctaw. Pro forma operating results reflecting the acquisition of Choctaw would not be materially different from the Company's actual results of operations. During 2004, goodwill was reduced \$3 million due to an adjustment of pre-acquisition liabilities assumed as part of the Choctaw acquisition.

In May 2002, the Company acquired the assets of Millard Processing Services, a bacon processing operation, for approximately \$73 million in cash. The acquisition was accounted for as a purchase and goodwill of approximately \$14 million was recorded.

## □ NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

TYSON FOODS, INC. 2004 ANNUAL REPORT

### 03 NOTE THREE : DISPOSITION

In September 2002, the Company completed the sale of its Specialty Brands, Inc. subsidiary. The subsidiary had been acquired with the TFM acquisition, and its results of operations were included in the Company's Prepared Foods segment. The Company received cash proceeds of approximately \$131 million, which were used to reduce indebtedness, and recognized a pretax gain of \$22 million, which was included in other income on the Consolidated Statement of Income of fiscal 2002.

### 04 NOTE FOUR : OTHER CHARGES

In the fourth quarter of fiscal 2004, the Company implemented a control whereby all plant facilities conduct fixed asset inventories on a recurring basis. As a result, the Company recorded fixed asset write-down charges of approximately \$21 million in the fourth quarter of fiscal 2004, of which approximately \$13 million was recorded in the Chicken segment, \$5 million in the Prepared Foods segment, \$2 million in the Beef segment and \$1 million in the Pork segment. Additionally, as discussed in Note 1, "Business and Summary of Significant Accounting Policies," the Company recorded \$25 million related to the impairment of various intangible assets.

In February 2004, the Company announced its decision to consolidate its manufacturing operations in Jackson, Mississippi, into the Company's Carthage, Mississippi, facility. The Company acquired the Carthage facility when it purchased Choctaw Maid Farms in the fourth quarter of fiscal 2003 and, since that time, performed a comprehensive analysis of all operations in the area and determined this consolidation would most effectively maintain the Company's competitiveness in its Mississippi operations. The Jackson location employed approximately 800 people and was a poultry processing facility, including processing and deboning operations. As a result of this decision, the Company has recorded total costs of approximately \$9 million (\$8 million in the second quarter of fiscal 2004 and \$1 million in the third quarter of fiscal 2004) that includes approximately \$8 million of estimated impairment charges for assets to be disposed of and \$1 million of employee termination benefits. The Company is accounting for the closing of the Jackson operation in accordance with Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS No. 146) and Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). This amount is

reflected in the Chicken segment as a reduction of operating income and included in the Consolidated Statements of Income in other charges. The Jackson location ceased operations in August 2004. As of October 2, 2004, the Company had fully paid its estimated termination benefits of \$1 million.

In December 2003, the Company announced its decision to close its Manchester, New Hampshire, and Augusta, Maine, Prepared Foods operations to further improve long-term manufacturing efficiencies. The Manchester operation employed approximately 550 people and primarily produced sandwich meat for foodservice customers. The Augusta facility employed approximately 170 people and produced hot dogs, sausages, boneless hams and deli turkey products. These locations ceased operations during the second quarter of fiscal 2004. As a result of this decision, the Company recorded total costs of \$24 million (\$21 million in the first quarter of fiscal 2004 and \$3 million in the second quarter of fiscal 2004) that included \$4 million of costs related to closing the plants and \$20 million of estimated impairment charges for assets to be disposed. These amounts are reflected in the Prepared Foods segment as a reduction of operating income and included in the Consolidated Statements of Income in other charges. The costs related to closing the plants include \$2 million of employee termination benefits and \$2 million of other plant closing related costs. The Company is accounting for the closing of the Manchester and Augusta operations in accordance with SFAS No. 146 and SFAS No. 144. At October 2, 2004, \$2 million related to employee termination benefits had been paid and \$2 million of other plant closing related costs had been paid.

In April 2003, the Company announced its decision to close its Berlin, Maryland, poultry operation. The Berlin poultry operation employed approximately 650 people and included a hatchery, a feed mill, live production and a processing facility. The facility ceased processing chickens November 12, 2003. As a result of this decision, the Company recorded total costs of \$29 million (\$4 million in the first quarter of fiscal 2004 and \$25 million in fiscal 2003) that included \$14 million related to closing the plant and \$15 million of estimated impairment charges for assets to be disposed. These amounts are reflected in the Chicken segment as a reduction of operating income and included in the Consolidated Statements of Income in other charges. The costs related to closing the plant include \$9 million for estimated liabilities for the resolution of the Company's obligations under 209 grower contracts, and \$5 million of other related costs associated with the closing of the operation, including plant clean-up costs and employee termination benefits. The Company is accounting

## □ NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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for the closing of the Berlin operation in accordance with SFAS No. 146 and SFAS No. 144. At October 2, 2004, \$9 million of obligations under grower contracts and \$3 million of other closing costs had been paid. Additionally, a \$2 million decrease to the original accrual was recorded in the fourth quarter of fiscal 2004.

In the first quarter of fiscal 2003, the Company recorded \$47 million of costs related to the closing of its Stilwell, Oklahoma, and Jacksonville, Florida, plants that included \$26 million of costs related to closing the plants and \$21 million of estimated impairment charges for assets to be disposed. The costs related to closing the plants include \$17 million for estimated liabilities for the resolution of the Company's obligations under grower contracts, and \$9 million of other related costs associated with the closing of the plants including plant clean-up costs and employee termination benefits. The Company accounted for the closing of the Stilwell, Oklahoma, and Jacksonville, Florida, operations in accordance with Emerging Issues Task Force No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity" (EITF 94-3) and SFAS No. 144. The costs are reflected in the Chicken segment as a reduction of operating income and included in the Consolidated Statements of Income in other charges. As of October 2, 2004, the remaining accrual balance was \$1 million, as \$16 million of obligations under grower contracts and \$13 million of other closing costs had been paid. Additionally, a \$4 million increase to the original accrual amount was recorded in the fourth quarter of fiscal 2004. No material adjustments to the total accrual are anticipated at this time.

In the fourth quarter of fiscal 2002, the Company recorded \$26 million of costs related to the restructuring of its live swine operations that consists of \$21 million of estimated liabilities for resolution of Company obligations under producer contracts and \$5 million of other related costs associated with this restructuring, including lagoon and pit closure costs and employee termination benefits. In the fourth quarter of 2004, the Company recorded an additional reserve of \$6 million related to lagoon and pit closures costs. At October 2, 2004, the remaining accrual balance was \$18 million, as \$6 million of obligations under grower contracts and \$8 million of other related costs had been paid. The Company is accounting for the restructuring of its live swine operations in accordance with EITF 94-3 and SFAS No. 144. No material adjustments to the total accrual are anticipated at this time.

In August 2002, the Company made the decision to capitalize on the strong recognition of the Tyson brand by expanding the Tyson brand to beef and pork. Thus, in the fourth quarter of fiscal 2002, the Company recorded a write-down of \$27 million related to the discontinuation of the Thomas E. Wilson brand. This amount is reflected in the Prepared Foods segment as a reduction to operating income and included on the Consolidated Statements of Income in other charges.

### 05 NOTE FIVE : BSE-RELATED CHARGES

On December 23, 2003, the U.S. Department of Agriculture (USDA) announced that a single case of BSE had been diagnosed in a Washington State dairy cow. The effect on the Company's Beef segment caused by that announcement, along with the decision of various countries to restrict imports of U.S. beef products, resulted in the Company recording BSE-related pretax charges of approximately \$61 million in fiscal 2004. These charges were included in cost of sales and primarily related to the decline in value of finished product inventory destined for international markets, whether in-transit, located at the shipping ports or located within domestic storage, as well as live cattle inventory and open futures positions. No material adjustments were made subsequent to the initial BSE-related accruals recorded in first quarter of fiscal 2004, and none are anticipated in the future.

### 06 NOTE SIX : ALLOWANCE FOR DOUBTFUL ACCOUNTS

At October 2, 2004, and September 27, 2003, the allowance for doubtful accounts was \$11 million and \$16 million, respectively.

### 07 NOTE SEVEN : FINANCIAL INSTRUMENTS

The Company purchases certain commodities in the course of normal operations such as corn, soybeans, livestock and natural gas. As part of the Company's on-going commodity risk management activities, the Company uses derivative financial instruments, primarily futures and swaps, to reduce its exposure to various market risks related to these purchases. Generally, contract terms of a financial instrument qualifying as a hedge instrument closely mirror those of the hedged item, providing a high degree of risk reduction and correlation. Contracts that are designated and highly effective at meeting the risk reduction and correlation criteria are recorded using hedge accounting, as defined by Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), as amended. If a derivative instrument is a hedge, as defined by SFAS No. 133, changes in the fair value of the instrument will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of an instrument's change in fair value will be immediately recognized in earnings as a component of cost of sales.

## □ NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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The Company had derivative related balances of \$87 million and \$20 million recorded in other current assets at October 2, 2004, and September 27, 2003, respectively, and \$83 million and \$37 million in other current liabilities at October 2, 2004, and September 27, 2003, respectively.

**Cash Flow Hedges:** The Company uses derivatives to moderate the financial and commodity market risks of its business operations. Derivative products, such as futures and option contracts, are considered to be a hedge against changes in the amount of future cash flows related to commodities procurement. The Company also enters into interest rate swap agreements to adjust the proportion of total long-term debt and leveraged equipment loans that are subject to variable interest rates. Under these interest rate swaps, the Company agrees to pay a fixed rate of interest times a notional principal amount and to receive in return an amount equal to a specified variable rate of interest times the same notional principal amount. These interest rate swaps are considered to be a hedge against changes in the amount of future cash flows associated with the Company's variable rate interest payments.

The effective portion of the cumulative gain or loss on the derivative instrument is reported as a component of other comprehensive income (loss) in shareholders' equity and recognized into earnings in the same period or periods during which the hedged transaction affects earnings (for grain commodity hedges when the chickens that consumed the hedged grain are sold). The remaining cumulative gain or loss on the derivative instrument in excess of the cumulative change in the present value of the future cash flows of the hedged item, if any, is recognized in earnings during the period of change. No ineffectiveness was recognized on cash flow hedges during fiscal 2004, 2003 or 2002.

Derivative products related to grain procurement, such as futures and option contracts that meet the criteria for SFAS No. 133 hedge accounting, are considered cash flow hedges, as they hedge against changes in the amount of future cash flows related to commodities procurement. The Company applies SFAS No. 133 hedge accounting to derivative products related to grain procurement that are hedging physical grain contracts that have previously been purchased. The Company does not purchase derivative products related to grain procurement in excess of its physical grain consumption requirements. The Company expects that the after tax losses, net of gains, totaling approximately \$22 million recorded in other comprehensive income (loss) at October 2, 2004, related to cash flow hedges, will be recognized within the next 12 months. The Company generally does not hedge cash flows related to commodities beyond 12 months.

The Company's open mark-to-market SFAS No. 133 hedge positions were not significant as of October 2, 2004.

**Fair Value Hedges:** The Company designates certain futures contracts as fair value hedges of firm commitments to purchase livestock for slaughter and natural gas for the operation of its plants. From time to time, the Company also enters into foreign currency forward contracts to hedge changes in fair value of receivables and purchase commitments arising from changes in the exchange rates of foreign currencies; however, the Company has not entered into any such contracts in fiscal years 2004 or 2003. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a fair value hedge, along with the loss or gain on the hedged asset or liability that is attributable to the hedged risk (including losses or gains on firm commitments), are recorded in current period earnings. Ineffectiveness results when the change in the fair value of the hedge instrument differs from the change in fair value of the hedged item. Ineffectiveness recorded related to the Company's fair value hedges was not significant during fiscal 2004, 2003 or 2002.

**Undesignated Positions:** The Company holds positions as part of its risk management activities, primarily certain grain and livestock futures for which it does not apply SFAS No. 133 hedge accounting, but instead marks these positions to fair value through earnings at each reporting date. Changes in market value of derivatives used in the Company's risk management activities surrounding inventories on hand or anticipated purchases of inventories are recorded in cost of sales. Changes in market value of derivatives used in the Company's risk management activities surrounding forward sales contracts are recorded in sales. The Company generally does not enter into undesignated positions beyond 12 months.

Based on the Company's evaluation of the grain markets, the Company has at times entered into a portion of its derivative products related to grain procurement prior to purchasing the physical grain contracts. The Company has not applied SFAS No. 133 hedge accounting treatment for these derivative positions. In connection with these risk management activities, the Company recognized pretax net gains of approximately \$58 million and pretax net losses of approximately \$4 million in cost of sales for fiscal years ended October 2, 2004, and September 27, 2003, respectively. The current year derivative gains were due primarily to the increase in grain futures prices during the second fiscal quarter and the Company having a higher number of derivative positions in place at that time as compared to the same period in the prior year.

## □ NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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Additionally, the Company enters into certain forward sales of boxed beef and pork at fixed prices and has positions in livestock futures to mitigate the market risk associated with these fixed price forward sales. The fixed price sales contract locks in the proceeds from a sale in the future, although, the cost of the livestock and the related boxed beef and pork market prices at the time of the sale will vary from this fixed price, creating market risk. Therefore, as fixed forward sales are entered into, the Company also enters into the appropriate number of livestock futures positions. The Company believes this is an effective economic hedge; however, the correlation does not qualify for SFAS No. 133 hedge accounting. Consequently, changes in market value of the open livestock futures positions are marked to market and reported in earnings at each reporting date even though the economic impact of the Company's fixed sales price being above or below the market price is only realized at the time of sale. In connection with these livestock futures, the Company had unrealized pretax gains on open mark-to-market futures positions of approximately \$15 million as of October 2, 2004, and \$16 million as of September 27, 2003.

Fair Values of Financial Instruments:

in millions	Asset (Liability)	
	2004	2003
Commodity derivative positions	\$ 5	\$ (13)
Interest-rate derivative positions	(1)	(4)
Total debt	<b>\$(3,700)</b>	<b>\$(4,011)</b>

Fair values are based on quoted market prices or published forward interest rate and natural gas curves. Carrying values for derivative positions equal the fair values as of October 2, 2004, and September 27, 2003, and the carrying values of total debt was \$3.4 billion and \$3.6 billion, respectively. All other financial instruments' fair values approximate recorded values at October 2, 2004, and September 27, 2003.

**Concentrations of Credit Risk:** The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash equivalents and trade receivables. The Company's cash equivalents are in high quality securities placed with major banks and financial institutions. Concentrations of credit risk with respect to receivables are limited due to the large number of customers and their dispersion across geographic areas. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. At October 2, 2004, and

September 27, 2003, approximately 15.0% and 10.3%, respectively, of the Company's net accounts receivable balance was due from one customer. No other single customer or customer group represents greater than 10% of net accounts receivable.

### 08 NOTE EIGHT : PROPERTY, PLANT AND EQUIPMENT

The major categories of property, plant and equipment and accumulated depreciation at cost, at October 2, 2004, and September 27, 2003, are as follows:

in millions	2004	2003
Land	\$ 111	\$ 113
Buildings and leasehold improvements	2,307	2,293
Machinery and equipment	3,981	3,886
Land improvements and other	194	184
Buildings and equipment under construction	218	177
	<b>6,811</b>	<b>6,653</b>
Less accumulated depreciation	<b>2,847</b>	<b>2,614</b>
Net property, plant and equipment	<b>\$3,964</b>	<b>\$4,039</b>

The Company's total depreciation expense was \$458 million, \$427 million and \$431 million in fiscal years 2004, 2003 and 2002, respectively. The Company capitalized interest costs of \$3 million in 2004 and 2003, and \$9 million in 2002 as part of the cost of major asset construction projects. Approximately \$492 million will be required to complete construction projects in progress at October 2, 2004.

### 09 NOTE NINE : OTHER CURRENT LIABILITIES

Other current liabilities at October 2, 2004, and September 27, 2003, include:

in millions	2004	2003
Accrued salaries, wages and benefits	\$ 270	\$ 263
Self insurance reserves	248	243
Income taxes payable	149	244
Other	343	397
Total other current liabilities	<b>\$1,010</b>	<b>\$1,147</b>

## □ NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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### 10 NOTE TEN : COMMITMENTS

The Company leases certain farms and other properties and equipment for which the total rentals thereon approximated \$111 million in 2004, \$104 million in 2003 and \$105 million in 2002. Most leases have terms ranging from one to seven years with varying renewal periods. The most significant obligations assumed under the terms of the leases are the upkeep of the facilities and payments of insurance and property taxes.

Minimum lease commitments under non-cancelable leases at October 2, 2004, totaled \$158 million composed of \$63 million for fiscal 2005, \$39 million for fiscal 2006, \$29 million for fiscal 2007, \$16 million for fiscal 2008, \$9 million for fiscal 2009 and \$2 million for later years.

The Company guarantees debt of outside third parties, which involve a lease and grower loans, all of which are substantially collateralized by the underlying assets. Terms of the underlying debt range from seven to 11 years and the maximum potential amount of future payments as of October 2, 2004, was \$55 million. The Company also maintains operating leases for various types of equipment, some of which contain residual value guarantees for the market value for assets at the end of the term of the lease. The terms of the lease maturities range from one to seven years. The maximum potential amount of the residual value guarantees is approximately \$110 million, of which approximately \$28 million would be recoverable through various recourse provisions and an undeterminable recoverable amount based on the fair market value of the underlying leased assets. The likelihood of payments under these guarantees is not considered probable. At October 2, 2004, and September 27, 2003, no liabilities for guarantees were recorded.

Additionally, the Company also enters into future purchase commitments for various items such as corn, soybeans, livestock and natural gas contracts. At October 2, 2004, the commitments totaled \$287 million, composed of \$220 million for fiscal 2005, \$50 million for fiscal 2006, \$8 million for fiscal 2007, \$2 million for fiscal 2008, \$2 million for fiscal 2009 and \$5 million for later years.

### 11 NOTE ELEVEN : LONG-TERM DEBT

The Company has unsecured revolving credit facilities totaling \$1 billion that support the Company's commercial paper program, letters of credit and other short-term funding needs. During the third quarter of fiscal 2004, the Company restructured and extended its revolving credit facilities. These facilities now consist of \$250 million that expire in September 2006 and \$750 million that expire in June 2009. At October 2, 2004, the Company had outstanding letters of credit totaling approximately \$274 million issued primarily in support of workers' compensation insurance programs, derivative activities and leveraged equipment loans. There were no draw downs under these letters of credit at October 2, 2004. At October 2, 2004, and September 27, 2003, there were no amounts drawn under the revolving credit facilities; however, the outstanding letters of credit reduce the amount available under the revolving credit facilities.

The Company has a receivables purchase agreement with three co-purchasers to sell up to \$750 million of trade receivables. These agreements were restructured and extended in the fourth quarter of fiscal 2004 and now consist of \$375 million expiring in August 2005, and \$375 million expiring in August 2007. The receivables purchase agreement has been accounted for as a borrowing and has an interest rate based on commercial paper issued by the co-purchasers. Under this agreement, substantially all of the Company's accounts receivable are sold to a special purpose entity, Tyson Receivables Corporation (TRC), which is a wholly-owned consolidated subsidiary of the Company. TRC has its own separate creditors that are entitled to be satisfied out of all of the assets of TRC prior to any value becoming available to the Company as TRC's equity holder. At October 2, 2004, there was \$150 million outstanding under the receivables purchase agreement expiring in August 2005 and \$150 million under the agreement expiring August 2007, while at September 27, 2003, there was no outstanding balance.

Under the terms of the leveraged equipment loans, the Company had cash deposits totaling approximately \$57 million, which was included in other assets at October 2, 2004. Under these leveraged loan agreements, the Company entered into interest rate swap agreements to effectively lock in a fixed interest rate for these borrowings.

□ **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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Annual maturities of long-term debt for the five fiscal years subsequent to October 2, 2004, are: 2005 – \$338 million; 2006 – \$261 million; 2007 – \$1,048 million; 2008 – \$14 million; 2009 – \$91 million.

The revolving credit facilities, senior notes, notes and accounts receivable securitization contain various covenants, the more restrictive of which contain a maximum allowed leverage ratio and a minimum required interest coverage ratio. The Company is in compliance with all of its covenants at fiscal year end.

Industrial revenue bonds are secured by facilities with a net book value of \$41 million and \$159 million at October 2, 2004, and September 27, 2003, respectively, as three industrial revenue bonds were paid off in fiscal 2004.

Long-term debt consists of the following:

in millions	Maturity	2004	2003
Commercial paper (2.05% effective rate at 10/2/04 and 1.38% effective rate at 9/27/03)	2009	\$ 86	\$ 32
Revolving Credit Facilities	2006 – 2009	–	–
Senior notes and Notes (rates ranging from 6.13% to 8.25%)	2005 – 2028	2,816	3,316
Accounts Receivable Securitization Debt (2.51% effective rate at 10/2/04)	2005, 2007	300	–
Institutional notes (10.84% effective rate at 10/2/04 and 9/27/03)	2005 – 2006	20	40
Leveraged equipment loans (rates ranging from 4.67% to 5.99%)	2005 – 2008	85	111
Other	Various	55	105
<b>Total debt</b>		<b>3,362</b>	3,604
<b>Less current debt</b>		<b>338</b>	490
<b>Total long-term debt</b>		<b>\$3,024</b>	\$3,114

There were no short-term notes payable at October 2, 2004. Included in current debt at September 27, 2003, are short-term notes payable totaling \$23 million, which carried a weighted average interest rate of 1.5%.

The Company has fully and unconditionally guaranteed \$476 million of senior notes issued by Tyson Fresh Meats, Inc. (TFM; formerly known as IBP, inc.), a wholly-owned subsidiary of the Company.

The following condensed consolidating financial information is provided for the Company, as guarantor, and for TFM, as issuer, as an alternative to providing separate financial statements for the issuer.

□ **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

TYSON FOODS, INC. 2004 ANNUAL REPORT

Condensed Consolidating Statement of Income for the year ended October 2, 2004

in millions	Tyson	TFM	Adjustments	Consolidated
Sales	\$9,257	\$17,204	\$(20)	\$26,441
Cost of Sales	8,033	16,537	(20)	24,550
	1,224	667	-	1,891
Operating Expenses:				
Selling, general and administrative	567	313		880
Other charges	33	53		86
Operating Income	624	301		925
Interest and Other Expense	240	50		290
Income Before Income Taxes	384	251		635
Provision for Income Taxes	140	92		232
Net Income	\$ 244	\$ 159	\$ -	\$ 403

Condensed Consolidating Statement of Income for the year ended September 27, 2003

in millions	Tyson	TFM	Adjustments	Consolidated
Sales	\$8,092	\$16,477	\$(20)	\$24,549
Cost of Sales	7,135	15,690	(20)	22,805
	957	787	-	1,744
Operating Expenses:				
Selling, general and administrative	524	307		831
Other charges	76	-		76
Operating Income	357	480		837
Interest and Other Expense	226	88		314
Income Before Income Taxes	131	392		523
Provision for Income Taxes	47	139		186
Net Income	\$ 84	\$ 253	\$ -	\$ 337

Condensed Consolidating Statement of Income for the year ended September 28, 2002

in millions	Tyson	TFM	Adjustments	Consolidated
Sales	\$7,848	\$15,563	\$(44)	\$23,367
Cost of Sales	6,900	14,694	(44)	21,550
	948	869	-	1,817
Operating Expenses:				
Selling, general and administrative	509	368		877
Other charges	26	27		53
Operating Income	413	474		887
Interest and Other Expense	243	51		294
Income Before Income Taxes	170	423		593
Provision for Income Taxes	53	157		210
Net Income	\$ 117	\$ 266	\$ -	\$ 383

□ **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

TYSON FOODS, INC. 2004 ANNUAL REPORT

Condensed Consolidating Balance Sheet as of October 2, 2004

in millions	Tyson	TFM	Adjustments	Consolidated
<b>Assets</b>				
Current Assets:				
Cash and cash equivalents	\$ 19	\$ 14	\$ -	\$ 33
Accounts receivable, net	579	875	(214)	1,240
Inventories	1,258	805		2,063
Other current assets	149	47		196
Total Current Assets	2,005	1,741	(214)	3,532
Net Property, Plant and Equipment	2,237	1,727		3,964
Goodwill	957	1,601		2,558
Intangible Assets	-	149		149
Other Assets	3,074	93	(2,906)	261
Total Assets	\$8,273	\$5,311	\$(3,120)	\$10,464
<b>Liabilities and Shareholders' Equity</b>				
Current Liabilities:				
Current debt	\$ 337	\$ 1	\$ -	\$ 338
Trade accounts payable	456	489		945
Other current liabilities	917	1,999	(1,906)	1,010
Total Current Liabilities	1,710	2,489	(1,906)	2,293
Long-Term Debt	2,525	499		3,024
Deferred Income Taxes	469	226		695
Other Liabilities	16	144		160
Shareholders' Equity	3,553	1,953	(1,214)	4,292
Total Liabilities and Shareholders' Equity	\$8,273	\$5,311	\$(3,120)	\$10,464

□ **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

TYSON FOODS, INC. 2004 ANNUAL REPORT

Condensed Consolidating Balance Sheet as of September 27, 2003

in millions	Tyson	TFM	Adjustments	Consolidated
<b>Assets</b>				
Current Assets:				
Cash and cash equivalents	\$ 15	\$ 10	\$ -	\$ 25
Accounts receivable, net	699	747	(166)	1,280
Inventories	1,049	945		1,994
Other current assets	40	32		72
<b>Total Current Assets</b>	<b>1,803</b>	<b>1,734</b>	<b>(166)</b>	<b>3,371</b>
Net Property, Plant and Equipment	2,222	1,817		4,039
Goodwill	960	1,692		2,652
Intangible Assets	-	182		182
Other Assets	3,045	103	(2,906)	242
<b>Total Assets</b>	<b>\$8,030</b>	<b>\$5,528</b>	<b>\$(3,072)</b>	<b>\$10,486</b>
<b>Liabilities and Shareholders' Equity</b>				
Current Liabilities:				
Current debt	\$ 487	\$ 3	\$ -	\$ 490
Trade accounts payable	401	437		838
Other current liabilities	611	2,394	(1,858)	1,147
<b>Total Current Liabilities</b>	<b>1,499</b>	<b>2,834</b>	<b>(1,858)</b>	<b>2,475</b>
Long-Term Debt	2,590	524		3,114
Deferred Income Taxes	486	236		722
Other Liabilities	55	166		221
Shareholders' Equity	3,400	1,768	(1,214)	3,954
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$8,030</b>	<b>\$5,528</b>	<b>\$(3,072)</b>	<b>\$10,486</b>

□ **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

TYSON FOODS, INC. 2004 ANNUAL REPORT

Condensed Consolidating Statement of Cash Flows for year ended October 2, 2004

in millions	Tyson	TFM	Adjustments	Consolidated
<b>Cash Flows From Operating Activities:</b>				
Net income	\$ 244	\$ 159	\$ -	\$ 403
Depreciation and amortization	295	195		490
Plant closing related charges	35	(7)		28
Impairment and write-down of assets	14	32		46
Deferred taxes	(24)	32		8
Other	(4)	8		4
Net changes in working capital	(160)	113		(47)
<b>Cash Provided by Operating Activities</b>	<b>400</b>	<b>532</b>		<b>932</b>
<b>Cash Flows From Investing Activities:</b>				
Additions to property, plant and equipment	(372)	(114)		(486)
Proceeds from sale of assets	22	5		27
Investment in marketable securities	(99)	-		(99)
Net change in other assets and liabilities	(28)	(14)		(42)
<b>Cash Used for Investing Activities</b>	<b>(477)</b>	<b>(123)</b>		<b>(600)</b>
<b>Cash Flows From Financing Activities:</b>				
Net change in debt	(215)	(27)		(242)
Purchase of treasury shares	(72)	-		(72)
Dividends	(55)	-		(55)
Stock options exercised and other	42	1		43
Net change in intercompany balances	380	(380)		-
<b>Cash Used for Financing Activities</b>	<b>80</b>	<b>(406)</b>		<b>(326)</b>
Effect of Exchange Rate Change on Cash	1	1		2
Increase in Cash and Cash Equivalents	4	4		8
Cash and Cash Equivalents at Beginning of Year	15	10		25
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 19</b>	<b>\$ 14</b>	<b>\$ -</b>	<b>\$ 33</b>

□ **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

TYSON FOODS, INC. 2004 ANNUAL REPORT

Condensed Consolidating Statement of Cash Flows for year ended September 27, 2003

in millions	Tyson	TFM	Adjustments	Consolidated
<b>Cash Flows From Operating Activities:</b>				
Net income	\$ 84	\$ 253	\$ -	\$ 337
Depreciation and amortization	271	187		458
Plant closing related charges	22	-		22
Deferred taxes	82	31		113
Other	3	33		36
Net changes in working capital	26	(172)		(146)
<b>Cash Provided by Operating Activities</b>	<b>488</b>	<b>332</b>		<b>820</b>
<b>Cash Flows From Investing Activities:</b>				
Additions to property, plant and equipment	(316)	(86)		(402)
Proceeds from sale of assets	25	5		30
Sale of investment in commercial paper	4	-		4
Net change in other assets and liabilities	(34)	41		7
<b>Cash Used for Investing Activities</b>	<b>(321)</b>	<b>(40)</b>		<b>(361)</b>
<b>Cash Flows From Financing Activities:</b>				
Net change in debt	(340)	(47)		(387)
Purchase of treasury shares	(41)	-		(41)
Dividends	(54)	-		(54)
Stock options exercised and other	(2)	2		-
Net change in intercompany balances	239	(239)		-
<b>Cash Used for Financing Activities</b>	<b>(198)</b>	<b>(284)</b>		<b>(482)</b>
Effect of Exchange Rate Change on Cash	4	(7)		(3)
Increase (Decrease) in Cash and Cash Equivalents	(27)	1		(26)
Cash and Cash Equivalents at Beginning of Year	42	9		51
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 15</b>	<b>\$ 10</b>	<b>\$ -</b>	<b>\$ 25</b>

□ **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

TYSON FOODS, INC. 2004 ANNUAL REPORT

Condensed Consolidating Statement of Cash Flows for year ended September 28, 2002

in millions	Tyson	TFM	Adjustments	Consolidated
<b>Cash Flows From Operating Activities:</b>				
Net income	\$ 117	\$ 266	\$ -	\$ 383
Depreciation and amortization	295	172		467
Impairment and write-down of assets	-	27		27
Gain on sale of subsidiary	-	(22)		(22)
Deferred taxes	(19)	41		22
Other	7	13		20
Net changes in working capital	256	21		277
<b>Cash Provided by Operating Activities</b>	<b>656</b>	<b>518</b>		<b>1,174</b>
<b>Cash Flows From Investing Activities:</b>				
Additions to property, plant and equipment	(272)	(161)		(433)
Proceeds from sale of assets	12	2		14
Proceeds from sale of subsidiary	-	131		131
Acquisition of assets	(73)	-		(73)
Sale of investment in commercial paper	94	-		94
Net change in other assets and liabilities	(73)	12		(61)
<b>Cash Used for Investing Activities</b>	<b>(312)</b>	<b>(16)</b>		<b>(328)</b>
<b>Cash Flows From Financing Activities:</b>				
Net change in debt	(701)	(88)		(789)
Purchase of treasury shares	(19)	-		(19)
Dividends	(56)	-		(56)
Stock options exercised and other	2	(4)		(2)
Net change in intercompany balances	424	(424)		-
<b>Cash Used for Financing Activities</b>	<b>(350)</b>	<b>(516)</b>		<b>(866)</b>
Effect of Exchange Rate Change on Cash	1	-		1
Decrease in Cash and Cash Equivalents	(5)	(14)		(19)
Cash and Cash Equivalents at Beginning of Year	47	23		70
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 42</b>	<b>\$ 9</b>	<b>\$ -</b>	<b>\$ 51</b>

□ **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

TYSON FOODS, INC. 2004 ANNUAL REPORT

**12 NOTE TWELVE : COMPREHENSIVE INCOME (LOSS)**

The components of accumulated comprehensive income (loss) are as follows:

in millions	2004	2003
Accumulated other comprehensive income (loss):		
Currency translation adjustment	\$ 21	\$ (2)
Unrealized net hedging losses, net of taxes	(30)	(9)
Unrealized net gain on investment, net of taxes	1	1
Minimum pension liability adjustment, net of taxes	(4)	(5)
Total accumulated comprehensive loss	\$ (12)	\$ (15)

**13 NOTE THIRTEEN : STOCK OPTIONS AND RESTRICTED STOCK**

The shareholders approved the Tyson Foods, Inc. 2000 Stock Incentive Plan (Incentive Plan) in January 2001. The Incentive Plan is administered by the Compensation Committee of the Board of Directors and permits awards of shares of Class A stock, awards of derivative securities related to the value of Class A stock and tax reimbursement payments to eligible persons. The Incentive Plan provides for the award of a variety of equity-based incentives such as incentive stock options, nonqualified stock options, stock appreciation rights, dividend equivalent rights, performance unit awards and phantom shares. The Incentive Plan provides for granting incentive stock options for shares of Class A stock at a price not less than the fair market value at the date of grant. Nonqualified stock options may be granted at a price equal to, less than or more than the fair market value of Class A stock on the date that the option is granted. Stock options under the Incentive Plan generally become exercisable ratably over three to eight years from the date of grant and must be exercised within 10 years from the date of grant.

The following table summarizes information about stock options outstanding at October 2, 2004:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Shares Outstanding	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price	Shares Exercisable	Weighted Average Exercise Price	
\$ 5.43 – 8.03	825,661	3.6	\$ 6.23	817,572	\$ 6.23	
8.13 – 10.73	5,287,821	6.3	9.59	2,156,710	9.69	
10.75 – 13.33	7,374,422	7.7	12.18	1,643,999	11.48	
13.41 – 15.17	1,017,140	1.1	14.95	1,017,140	14.95	
15.96 – 18.00	5,859,537	6.9	16.74	2,285,900	17.92	
	20,364,581			7,921,321		

A summary of the Company's stock option activity is as follows:

	Shares Under Option	Weighted Average Exercise Price Per Share
Outstanding, September 29, 2001	16,318,203	\$12.27
Exercised	(800,596)	9.50
Canceled	(997,816)	12.97
Granted	2,509,695	9.45
Outstanding, September 28, 2002	17,029,486	12.01
Exercised	(775,682)	8.99
Canceled	(1,697,581)	13.38
Granted	6,316,704	11.69
Outstanding, September 27, 2003	20,872,927	11.94
Exercised	(3,329,555)	11.49
Canceled	(704,928)	12.41
Granted	3,526,137	15.96
Outstanding, October 2, 2004	20,364,581	\$12.72

The number of options exercisable was as follows: October 2, 2004 – 7,921,321, September 27, 2003 – 9,135,306 and September 28, 2002 – 9,373,360. The remainder of the options outstanding at October 2, 2004, are exercisable ratably through September 2009. The number of shares available for future grants was 17,703,157 and 21,327,929 at October 2, 2004, and September 27, 2003, respectively.

## □ NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

TYSON FOODS, INC. 2004 ANNUAL REPORT

The weighted average fair value of options granted during 2004 was approximately \$5.99. The fair value of each option grant is established on the date of grant using the Black-Scholes option-pricing model. Assumptions include an expected life ranging from five to six years, risk-free interest rate ranging from 3.09% to 3.27%, expected volatility ranging from 37.7% to 40.1% and dividend yield of 1.00%.

At October 2, 2004, the Company had outstanding approximately eight million restricted shares of Class A stock with restrictions expiring over periods through July 1, 2020. The unearned portion of the restricted stock is classified on the Consolidated Balance Sheets as unamortized deferred compensation in shareholders' equity. The Company issues restricted stock at the market value as of the date of grant. The weighted average fair value of restricted stock granted was \$15.69 per share during 2004 and \$11.20 per share during 2003.

### 14 NOTE FOURTEEN : DEFERRED COMPENSATION

In July 2003, the Compensation Committee authorized the Company to award performance-based shares of the Company's Class A stock to certain senior executive officers on the first business day of each of the Company's 2004, 2005 and 2006 fiscal years having an initial maximum aggregate value of \$4.4 million on the date of each award. The vesting of the performance-based shares for the 2004 and 2005 awards is over three years, and the vesting of the 2006 award is over two and one-half years (the Vesting Period), each award being subject to the attainment of Company goals determined by the Compensation Committee prior to the date of the award. Each quarter during the Vesting Period, the Company reviews progress toward attainment of Company goals and determines if it is appropriate to record any adjustment to the deferred compensation liability for the anticipated vesting of the shares. The attainment of Company goals can be finally determined only at the end of the Vesting Period. If the shares vest, the ultimate expense to the Company recognized over the Vesting Period will be equal to the Class A stock price on the date the shares vest times the number of shares awarded.

### 15 NOTE FIFTEEN : PENSIONS AND OTHER POSTRETIREMENT BENEFITS

The Company has both funded and unfunded noncontributory defined benefit pension plans covering specific groups of employees. Two plans provide benefits based on a formula using years of service and a specified benefit rate. Effective January 1, 2004, the Company implemented a new defined benefit plan for certain contracted officers that uses a formula based on years of service and final average salary. The Company also has other postretirement benefit plans for which substantially all of its employees may receive benefits

if they satisfy applicable eligibility criteria. The postretirement healthcare plans are contributory with participants' contributions adjusted when deemed necessary.

The Company has defined contribution retirement and incentive benefit programs for various groups of Company personnel. Company contributions totaled \$55 million, \$48 million and \$50 million in 2004, 2003 and 2002, respectively.

The Company uses a September 30 measurement date for its defined benefit plans and one postretirement medical plan and a July 31 measurement date for its remaining postretirement medical plans.

Other postretirement benefits include postretirement medical costs and life insurance.

### BENEFIT OBLIGATIONS AND FUNDED STATUS

The following table provides a reconciliation of the changes in the plans' benefit obligations, assets and funded status as of fiscal year ends October 2, 2004, and September 27, 2003:

in millions	Pension Benefits		Other Postretirement Benefits	
	2004	2003	2004	2003
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 67	\$ 70	\$ 66	\$ 91
Service cost	3	1	1	1
Interest cost	5	4	4	6
Plan participants' contributions	-	-	3	2
Amendments	9	-	-	(10)
Actuarial (gain)/loss	(1)	(2)	5	(13)
Benefits paid	(6)	(6)	(13)	(11)
Benefit obligation at end of year	77	67	66	66
Change in plan assets				
Fair value of plan assets at beginning of year	50	43	-	-
Actual return on plan assets	6	9	-	-
Employer contributions	9	4	10	9
Plan participants' contributions	-	-	3	2
Benefits paid	(6)	(6)	(13)	(11)
Fair value of plan assets at end of year	59	50	-	-
Funded status	(18)	(17)	(66)	(66)
Amounts not yet recognized:				
Unrecognized prior service cost	8	-	(9)	(10)
Unrecognized actuarial loss	6	8	-	-
Net amount recognized	\$ (4)	\$ (9)	\$ (75)	\$ (76)

□ **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

TYSON FOODS, INC. 2004 ANNUAL REPORT

Amounts recognized in the Consolidated Balance Sheets consist of:

in millions	Pension Benefits		Other Postretirement Benefits	
	2004	2003	2004	2003
Accrued benefit liability	\$ (10)	\$ (17)	\$ (75)	\$ (76)
Accumulated other comprehensive loss	6	8	–	–
Net amount recognized	\$ (4)	\$ (9)	\$ (75)	\$ (76)

At October 2, 2004, and September 27, 2003, all pension plans had an accumulated benefit obligation in excess of plan assets. Information related to these plans is as follows:

in millions	Pension Benefits	
	2004	2003
Projected benefit obligation	\$77	\$67
Accumulated benefit obligation	76	67
Fair value of plan assets	59	50

The increase (decrease) in the pretax minimum liability related to the Company's pension plans that is included in other comprehensive income was \$(2) million, \$(6) million and \$14 million in fiscal years 2004, 2003 and 2002, respectively.

**NET PERIODIC BENEFIT COST**

Components of net periodic benefit cost for these plans that was recognized in the Consolidated Statements of Income were as follows:

in millions	Pension Benefits			Other Postretirement Benefits		
	2004	2003	2002	2004	2003	2002
Service cost	\$ 3	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1
Interest cost	5	4	5	4	6	6
Expected return on plan assets	(5)	(4)	(6)	–	–	–
Amortization of prior service cost	1	–	–	(1)	–	–
Recognized actuarial (gain)/loss	–	–	–	5	(13)	–
Net periodic benefit cost	\$ 4	\$ 1	\$ –	\$ 9	\$ (6)	\$ 7

**ASSUMPTIONS**

Weighted average assumptions used are as follows:

in millions	Pension Benefits			Other Postretirement Benefits		
	2004	2003	2002	2004	2003	2002
Discount rate to determine net periodic benefit cost	6.75%	6.75%	7.25%	6.75%	6.75%	7.25%
Discount rate to determine benefit obligations	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%
Rate of compensation increase	4.00%	N/A	N/A	N/A	N/A	N/A
Expected return on plan assets	8.50%	8.50%	8.50%	N/A	N/A	N/A

To determine the rate-of-return on assets assumption, the Company first examined actual historical rates of return for the various asset classes. The Company then determined a long-term projected rate-of-return based on expected returns over the next five to 10 years. Prior to fiscal year 2004, the Company only had defined benefit

plans which provided a retirement benefit based on the number of years of service multiplied by a benefit rate. During 2004, a plan was added with a 4% compensation increase inherent in its benefit obligation calculation.

## □ NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

TYSON FOODS, INC. 2004 ANNUAL REPORT

The Company has four postretirement health plans. Two of these consist of fixed, annual payments by the Company and account for \$36 million of the Company's postretirement medical obligation at October 2, 2004. A healthcare cost trend is not required to determine this obligation. A third plan has a negotiated annual maximum payment by the Company and accounts for \$12 million of the Company's postretirement medical obligation at October 2, 2004. Claims in excess of the Company's negotiated annual maximum payment are paid by the plan participants. Since current medical claims exceed the annual maximum cap for this plan, the liability was calculated assuming that annual claims will be equal to the total annual maximum cap for all future years. A healthcare cost trend is not required to determine this obligation. The fourth plan, which accounts for \$18 million of the Company's postretirement medical obligation at year end, uses a healthcare cost trend of 9% in the current year that grades down to 5% in fiscal year 2009. Assumed healthcare cost trend rates have a significant effect on the amounts reported for this healthcare plan. A one-percentage-point change in assumed healthcare cost trend rates would have the following effects:

in millions	One-Percentage- Point Increase	One-Percentage- Point Decrease
Effect on total of service and interest cost	\$ 1	\$ –
Effect on postretirement benefit obligation	18	14

### PLAN ASSETS

The fair value of plan assets for the Company's pension benefit plans was \$59 million and \$50 million as of October 2, 2004, and September 27, 2003, respectively. The following table sets forth the actual and target asset allocation for the Company's pension plan assets:

	2004	2003	Target Asset Allocation
Cash	0.8%	6.1%	0.0%
Fixed income securities	24.7%	26.7%	25.0%
US Stock Funds—Large- and Mid-Cap	49.6%	31.5%	50.0%
US Stock Funds—Small-Cap	10.0%	16.8%	10.0%
International Stock Funds	14.9%	18.9%	15.0%
Total	100.0%	100.0%	100.0%

The Plan Trustees have established a set of investment objectives related to the assets of the pension plans and regularly monitor the performance of the funds and portfolio managers. Objectives for the pension assets are (1) to provide growth of capital and income, (2) to achieve a target weighted average annual rate of return that is competitive with other funds with similar investment objectives and (3) to diversify in order to reduce risk. The investment objectives and target asset allocation were updated in January 2004.

### CONTRIBUTIONS

The Company's policy is to fund at least the minimum contribution required to meet applicable federal employee benefit and local tax laws. In its sole discretion, the Company may from time to time fund additional amounts. Expected contributions to the Company's pension plans for fiscal year 2005 are approximately \$9 million. For the fiscal years ended 2004, 2003 and 2002, the Company funded \$9 million, \$4 million and \$5 million, respectively, to its defined benefit plans.

### ESTIMATED FUTURE BENEFIT PAYMENTS

The following benefit payments are expected to be paid:

in millions	Pension Benefits	Other Postretirement Benefits
2005	\$ 6	\$ 6
2006	6	6
2007	6	6
2008	6	6
2009	6	6
2010–2014	30	29

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### NOTE SIXTEEN : SUPPLEMENTAL CASH FLOW INFORMATION

The following non-cash transaction was excluded from the Consolidated Statements of Cash Flows for fiscal year 2004. The \$91 million change in goodwill in fiscal 2004 from the September 27, 2003, balance and the corresponding change in other current liabilities is due to an adjustment of pre-acquisition tax liabilities assumed as part of the TFM acquisition. The Company received formal approval during fiscal 2004 from The Joint Committee on Taxation of the U.S. Congress for issues relating to certain pre-acquisition years. As a result of this approval, the accrual of \$91 million of pre-acquisition tax liability was no longer needed.

□ **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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The following table summarizes cash payments for interest and income taxes:

in millions	2004	2003	2002
Interest	<b>\$316</b>	\$269	\$208
Income taxes, net of refunds	<b>244</b>	36	90

Cash payments for interest in fiscal year 2004 increased, despite lower debt levels, due to the timing of interest payments made related to the senior notes caused by fiscal 2004 ending in October rather than September. The increase in income taxes paid from 2003 to 2004 is due primarily to a refund received in fiscal 2003.

**17 NOTE SEVENTEEN : TRANSACTIONS WITH RELATED PARTIES**

The Company has operating leases for farms, equipment and other facilities with Don Tyson, a director of the Company, certain members of his family and the Randal W. Tyson Testamentary Trust. Total payments of \$8 million in 2004 and 2003, and \$9 million in 2002, were paid to entities in which these parties had an ownership interest. Additionally, other facilities have been leased from other officers and directors. Rentals paid to entities in which these parties had an ownership interest totaled \$1 million in 2004 and \$2 million in 2003 and 2002.

A former director who resigned from the Board of Directors during 2003 received, from the sale of cattle to a subsidiary of the Company, \$10 million in fiscal years 2003 and 2002.

Certain officers and directors were engaged in chicken and swine growout operations with the Company whereby these individuals purchased animals, feed, housing and other items to raise the animals to market weight. The total value of these transactions, which were discontinued during fiscal 2003, amounted to \$11 million in each fiscal year of 2003 and 2002.

On May 21, 2004, the Company purchased a parcel of land adjacent to the Company's Corporate Center for approximately \$356,000 from JHT, LLC, a limited liability company of which Don Tyson, a director of the Company, and the Randal W. Tyson Testamentary Trust are members. The purchase was approved by the Governance Committee of the Board of Directors on April 29, 2004, and the land is to be used for construction of facilities that will house expanded product development kitchens, a new pilot production plant, provide space for the consumer insights group and make provisions for team member development activities.

In the second quarter of fiscal 2004, the Company purchased 1,028,577 shares of Class A stock in a private transaction with Don Tyson, a director and managing partner of the Tyson Limited Partnership, a principal shareholder of the Company. The purchase of

those shares from Mr. Tyson, which was approved by the Governance Committee of the Board of Directors on January 29, 2004, was based on the closing price of the Class A stock on the New York Stock Exchange on the date of such approval.

During fiscal 2004, the Company received cash payments from Don Tyson, a director of the Company, totaling approximately \$1.5 million, as reimbursement for certain perquisites and personal benefits received during fiscal years 1997 through 2003.

**18 NOTE EIGHTEEN : INCOME TAXES**

Detail of the provision for income taxes consists of:

in millions	2004	2003	2002
Federal	<b>\$183</b>	\$156	\$173
State	<b>12</b>	10	17
Foreign	<b>37</b>	20	20
	<b>\$232</b>	\$186	\$210
Current	<b>\$224</b>	\$ 73	\$188
Deferred	<b>8</b>	113	22
	<b>\$232</b>	\$186	\$210

The reasons for the difference between the effective income tax rate and the statutory U.S. federal income tax rate are as follows:

	2004	2003	2002
U.S. federal income tax rate	<b>35.0%</b>	35.0%	35.0%
State income taxes	<b>1.8</b>	2.2	3.0
Extraterritorial income exclusion	<b>(0.5)</b>	(1.9)	(1.4)
Other	<b>0.3</b>	0.2	(1.1)
	<b>36.6%</b>	35.5%	35.5%

During the fourth quarter of fiscal 2004, the Company adjusted the tax rates used to record deferred taxes at one of its Mexican subsidiaries resulting in a reduction of deferred tax liabilities of \$16 million. This adjustment is included in "Other" in the above table for fiscal 2004. Other items included in "Other" are miscellaneous nondeductible expenses, general business credits and amounts relating to on-going examinations by taxing authorities.

Deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

□ **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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The tax effects of major items recorded as deferred tax assets and liabilities are:

in millions	2004 Deferred Tax		2003 Deferred Tax	
	Assets	Liabilities	Assets	Liabilities
Property, plant and equipment	\$ 4	\$ 513	\$ 4	\$543
Suspended taxes from conversion to accrual method	-	138	-	138
Intangible assets	31	24	28	28
Inventory	12	77	5	86
Accrued expenses	114	4	120	2
Net operating loss carryforwards	83	-	77	-
International items	18	104	-	68
All other	103	148	93	122
	<b>\$365</b>	<b>\$1,008</b>	<b>\$327</b>	<b>\$987</b>
Valuation allowance	\$ (66)		\$ (49)	
Net deferred tax liability		<b>\$ 709</b>		<b>\$709</b>

Net deferred tax liabilities are included in other current liabilities and deferred income taxes on the Consolidated Balance Sheets.

The deferred tax liability for suspended taxes from conversion to accrual method represents the 1987 change from the cash to accrual method of accounting and will be paid down by 2017, subject to income limitations.

The Company has accumulated but undistributed earnings of foreign subsidiaries aggregating approximately \$387 million at October 2, 2004, that are expected to be permanently reinvested in the business. If those earnings were distributed in the form of dividends or otherwise, the Company would be subject to U.S. income taxes (subject to an adjustment for foreign tax credits), state income taxes and withholding taxes payable to the various foreign countries. It is not currently practicable to estimate the tax liability that might be payable on the repatriation of these foreign earnings.

The valuation allowance totaling \$66 million consists of \$15 million for state tax credit carryforwards, which have been fully reserved, \$36 million for U.S. federal net operating loss carryforwards and \$15 million for international net operating loss carryforwards. The state tax credit carryforwards expire in the years 2005 through 2009. At October 2, 2004, after considering utilization restrictions, the Company's federal tax loss carryforwards approximated \$209 million. The net operating loss carryforwards, which are subject to utilization limitations due to ownership changes, may be utilized to offset future taxable income subject to limitations. These carryforwards expire during years 2005 through 2023.

**19 NOTE NINETEEN : EARNINGS PER SHARE**

The weighted average common shares used in the computation of basic and diluted earnings per share were as follows:

in millions, except per share data	2004	2003	2002
<b>Numerator:</b>			
Net Income	<b>\$ 403</b>	\$ 337	\$ 383
Less Dividends:			
Class A (\$0.16/share)	<b>40</b>	40	41
Class B (\$0.14/share)	<b>15</b>	14	15
Undistributed earnings	<b>348</b>	283	327
Class A undistributed earnings	<b>253</b>	206	239
Class B undistributed earnings	<b>95</b>	77	88
Total undistributed earnings	<b>\$ 348</b>	\$ 283	\$ 327
<b>Denominator:</b>			
Denominator for basic earnings per share:			
Class A weighted average shares	<b>243</b>	244	246
Class B weighted average shares, and shares under if-converted method for diluted earnings per share	<b>102</b>	102	102
Effect of dilutive securities:			
Stock options and restricted stock	<b>12</b>	6	7
Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversions	<b>357</b>	352	355
Class A Basic earnings per share	<b>\$1.20</b>	\$1.00	\$1.13
Class B Basic earnings per share	<b>\$1.08</b>	\$0.90	\$1.02
Diluted earnings per share	<b>\$1.13</b>	\$0.96	\$1.08

Approximately two million, 11 million and seven million of the Company's option shares were antidilutive and were not included in the dilutive earnings per share calculation for fiscal years 2004, 2003 and 2002, respectively.

## □ NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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### 20 NOTE TWENTY : SEGMENT REPORTING

The Company operates in five business segments: Chicken, Beef, Pork, Prepared Foods and Other. The Company measures segment profit as operating income.

**Chicken segment** is involved primarily in the processing of live chickens into fresh, frozen and value-added chicken products. The Chicken segment markets its products domestically to food retailers, foodservice distributors, restaurant operators and non-commercial foodservice establishments such as schools, hotel chains, healthcare facilities, the military and other food processors, as well as to international markets throughout the world. The Chicken segment also includes sales from allied products and the chicken breeding stock subsidiary.

**Beef segment** is involved primarily in the processing of live fed cattle and fabrication of dressed beef carcasses into primal and sub-primal meat cuts and case-ready products. It also involves deriving value from allied products such as hides and variety meats for sale to further processors and others. The Beef segment markets its products domestically to food retailers, foodservice distributors, restaurant operators and noncommercial foodservice establishments such as schools, hotel chains, healthcare facilities, the military and other food processors, as well as to international markets throughout the world. Allied products are also marketed to manufacturers of pharmaceuticals and technical products.

**Pork segment** is involved primarily in the processing of live market hogs and fabrication of pork carcasses into primal and sub-primal cuts and case-ready products. This segment also represents the Company's live swine group and related allied product processing activities. The Pork segment markets its products domestically to food retailers, foodservice distributors, restaurant operators and noncommercial foodservice establishments such as schools, hotel chains, healthcare facilities, the military and other food processors, as well as to international markets throughout the world. It also sells allied products to pharmaceutical and technical products manufacturers, as well as live swine to pork processors.

**Prepared Foods segment** includes the Company's operations that manufacture and market frozen and refrigerated food products. Products include pepperoni, beef and pork toppings, pizza crusts, flour and corn tortilla products, appetizers, prepared meals, ethnic foods, soups, sauces, side dishes and meat dishes, as well as branded and processed meats. The Prepared Foods segment markets its products domestically to food retailers, foodservice distributors, restaurant operators and noncommercial foodservice establishments such as schools, hotel chains, healthcare facilities, the military and other food processors, as well as to international markets throughout the world.

**Other segment** includes the logistics group and other corporate activities not identified with specific protein groups. This segment also includes proceeds of \$167 million received in fiscal 2003 related to the settlement of vitamin antitrust litigation.

□ **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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in millions	Chicken	Beef	Pork	Prepared Foods	Other	Consolidated
<b>Fiscal year ended October 2, 2004</b>						
Sales	\$8,397	\$11,951	\$3,185	\$2,857	\$ 51	\$26,441
Operating income	548	127	140	28	82	925
Other expense						290
Income before income taxes						635
Depreciation	239	106	30	66	17	458
Total assets	4,556	3,195	895	970	848	10,464
Additions to property, plant and equipment	298	90	22	61	15	486
<b>Fiscal year ended September 27, 2003</b>						
Sales	\$7,427	\$11,935	\$2,470	\$2,662	\$ 55	\$24,549
Operating income	158	320	75	57	227	837
Other expense						314
Income before income taxes						523
Depreciation	217	90	26	54	40	427
Total assets	4,322	3,385	879	1,141	759	10,486
Additions to property, plant and equipment	286	40	9	15	52	402
<b>Fiscal year ended September 28, 2002</b>						
Sales	\$7,222	\$10,488	\$2,503	\$3,072	\$ 82	\$23,367
Operating income	428	220	25	158	56	887
Other expense						294
Income before income taxes						593
Depreciation	226	80	26	48	51	431
Total assets	4,221	3,234	834	1,261	822	10,372
Additions to property, plant and equipment	229	82	19	53	50	433

The Pork segment had sales of \$473 million, \$365 million and \$369 million for fiscal years 2004, 2003 and 2002, respectively, from transactions with other operating segments of the Company. The Beef segment had sales of \$75 million, \$77 million and \$63 million for fiscal years 2004, 2003 and 2002, respectively, from transactions with other operating segments of the Company. The aforementioned sales from intersegment transactions, which are sold at market prices, were excluded from the segment sales in the above table.

The Company's largest customer, Wal-Mart Stores, Inc., accounted for approximately 11.6%, 9.6% and 8.2% of consolidated sales in 2004, 2003 and 2002, respectively. Sales to Wal-Mart Stores, Inc. were included in the Chicken, Beef, Pork and Prepared Foods segments. Any extended discontinuance of sales to this customer could, if not replaced, have a material impact on the Company's operations; however, the Company does not anticipate any such occurrences due to the demand for its products.

The majority of the Company's operations are domiciled in the United States. Approximately 94%, 95% and 94% of sales to external customers for fiscal years ending 2004, 2003 and 2002, respectively, were sourced from the United States. Approximately \$6.4 billion of long-lived

assets were located in the United States at fiscal year ending 2004, and \$6.5 billion at fiscal years ending 2003 and 2002. Approximately \$171 million, \$185 million and \$193 million of long-lived assets were located in foreign countries, primarily Canada and Mexico, at fiscal years ended 2004, 2003 and 2002, respectively.

The Company sells certain of its products in foreign markets, primarily Canada, China, European Union, Japan, Mexico, Puerto Rico, Russia, Taiwan and South Korea. The Company's export sales for 2004, 2003 and 2002 totaled \$2.1 billion, \$2.6 billion and \$2.0 billion, respectively. Substantially all of the Company's export sales are facilitated through unaffiliated brokers, marketing associations and foreign sales staffs. Foreign sales, which are sales of products produced in a country other than the United States, were less than 10% of total consolidated sales for 2004, 2003 and 2002. Approximately 28%, 15% and 11% for 2004, 2003 and 2002, respectively, of income before taxes were from foreign operations. The increase in fiscal 2004 primarily was due to increased volumes and margins at the Company's Lakeside operation in Canada.

□ **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

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**NOTE TWENTY-ONE : QUARTERLY FINANCIAL DATA (UNAUDITED)**

in millions, except per share data

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>2004</b>				
Sales	\$6,505	\$6,153	\$6,634	\$7,149
Gross profit	394	485	550	462
Operating income	161	263	323	178
Net income	57	119	161	66
Class A basic earnings per share	\$0.17	\$0.35	\$0.48	\$0.20
Class B basic earnings per share	\$0.15	\$0.32	\$0.43	\$0.18
Diluted earnings per share	\$0.16	\$0.33	\$0.45	\$0.19
<b>2003</b>				
Sales	\$5,802	\$5,845	\$6,330	\$6,572
Gross profit	400	380	438	526
Operating income	145	183	201	308
Net income	39	72	79	147
Class A basic earnings per share	\$0.12	\$0.21	\$0.23	\$0.44
Class B basic earnings per share	\$0.10	\$0.19	\$0.21	\$0.40
Diluted earnings per share	\$0.11	\$0.20	\$0.23	\$0.42

The fourth quarter of 2004 was a 14-week period, while the remaining quarters in the above table were 13-week periods.

First quarter 2004 gross profit includes \$61 million in BSE-related charges and operating income includes \$21 million and \$4 million in charges related to the closing of prepared foods facilities and poultry operations, respectively. Second quarter 2004 operating income includes charges of \$6 million and \$8 million related to the closing of prepared foods facilities and poultry operations, respectively. Third quarter 2004 operating income includes charges of \$1 million related to the closing of a poultry operation. Fourth quarter 2004 gross profit includes \$18 million to reduce self insurance reserves to the actuarially determined range. The reserves are compared to actuarial estimates semi-annually. Fourth quarter 2004 operating income includes charges of \$25 million related to the impairment of various intangible assets and \$21 million related to fixed asset write-downs.

First quarter 2003 gross profit includes \$28 million received in connection with vitamin antitrust litigation and operating income includes charges of \$47 million related to the closing of poultry operations. Second quarter 2003 gross profit includes \$94 million received in connection with vitamin antitrust litigation. Third quarter 2003 gross profit includes \$42 million received in connection with

vitamin antitrust litigation and operating income includes charges of \$19 million related to the closing of poultry operations. Additionally, net income includes a pretax charge of \$10 million related to the write-down of an equity interest in a live swine operation. Fourth quarter 2003 gross profit includes \$3 million received in connection with vitamin antitrust litigation and operating income includes \$10 million of charges related to the closing of poultry operations.

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**NOTE TWENTY-TWO : CONTINGENCIES**

Listed below are certain claims made against the Company and its subsidiaries. In the Company's opinion, it has made appropriate and adequate reserves and accruals where necessary and the Company believes the probability of a material loss beyond the amounts accrued to be remote; however, the ultimate liability for these matters is uncertain, and if accruals and reserves are not adequate, an adverse outcome could have a material effect on the consolidated financial condition or results of operations of the Company. The Company believes it has substantial defenses to the claims made and intends to vigorously defend these cases.

**Wage and Hour/Labor Matters:** In 2000, the Wage and Hour Division of the U.S. Department of Labor (DOL) conducted an industry-wide investigation of poultry producers, including the Company, to ascertain compliance with various wage and hour issues. As part of this investigation, the DOL inspected 14 of the Company's processing facilities. On May 9, 2002, the Secretary of Labor filed a civil complaint against the Company in the U.S. District Court for the Northern District of Alabama. The complaint alleges that the Company violated the overtime provisions of the federal Fair Labor Standards Act (FLSA) at the Company's chicken-processing facility in Blountsville, Alabama. The complaint does not contain a definite statement of what acts constituted alleged violations of the statute, although the Secretary of Labor has indicated in discovery that the case seeks to require the Company to compensate all hourly chicken processing workers for pre- and post-shift clothes changing, washing and related activities and for one of two unpaid 30-minute meal periods. The Secretary of Labor seeks unspecified back wages for all employees at the Blountsville facility for a period of two years prior to the date of the filing of the complaint, an additional amount in unspecified liquidated damages, and an injunction against future violations at that facility and all other chicken processing facilities operated by the Company. The parties are in the process of concluding discovery. The Secretary of Labor's motion to extend certain case deadlines is pending before the court.

## □ NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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On June 22, 1999, 11 current and former employees of the Company filed the case of *M.H. Fox, et al. v. Tyson Foods, Inc. (Fox)* in the U.S. District Court for the Northern District of Alabama claiming the Company violated requirements of the FLSA. The suit alleges the Company failed to pay employees for all hours worked and/or improperly paid them for overtime hours. The suit specifically alleges that (1) employees should be paid for time taken to put on and take off certain working supplies at the beginning and end of their shifts and breaks and (2) the use of “mastercard” or “line” time fails to pay employees for all time actually worked. Plaintiffs seek to represent themselves and all similarly situated current and former employees of the Company, and plaintiffs seek reimbursement for an unspecified amount of unpaid wages, liquidated damages, attorney fees and costs. At filing, 159 current and/or former employees consented to join the lawsuit and, to date, approximately 5,100 consents have been filed with the court. Plaintiff’s motion for conditional collective treatment and court-supervised notice to additional putative class members was denied on February 27, 2004. The plaintiffs refiled their motion for conditional collective treatment and court-supervised notice to additional putative class members on April 2, 2004. Discovery in this case is largely completed. No trial date has been set.

On August 22, 2000, seven employees of the Company filed the case of *De Asencio v. Tyson Foods, Inc.* in the U.S. District Court for the Eastern District of Pennsylvania. This lawsuit is similar to *Fox* in that the employees claim violations of the FLSA for allegedly failing to pay for time taken to put on, take off and sanitize certain working supplies, and violations of the Pennsylvania Wage Payment and Collection Law. Plaintiffs seek to represent themselves and all similarly situated current and former employees of the poultry processing plant in New Holland, Pennsylvania, and plaintiffs seek reimbursement for an unspecified amount of unpaid wages, liquidated damages, attorney fees and costs. Currently, there are approximately 560 additional current or former employees who have filed consents to join the lawsuit. The court, on January 30, 2001, ordered that notice of the lawsuit be issued to all potential plaintiffs at the New Holland facilities. On July 17, 2002, the court granted the plaintiffs’ motion to certify the state law claims. On September 23, 2002, the Third Circuit Court of Appeals agreed to hear the Company’s petition to review the court’s decision to certify the state law claims. On September 8, 2003, the Court of Appeals reversed the district court’s certification of a class under the Pennsylvania Wage Payment & Collection Law, ruling that those claims could not be pursued in federal court. The appellate court further ruled that the Company must reissue notice of their potential FLSA claims to approximately 2,170 employees who did not previously receive notice. The Court of Appeals remanded the matter to the

district court to proceed accordingly on September 30, 2003, and notice was reissued. Further proceedings in the district court are pending, and no trial date has been set.

Substantially similar suits have been filed against several other integrated poultry companies. In addition, organizing activity conducted by representatives or affiliates of the United Food and Commercial Workers Union against the poultry industry has encouraged worker participation in *Fox v. Tyson* and the other lawsuits.

On November 5, 2001, a lawsuit entitled *Maria Chavez, et al. v. IBP, Lasso Acquisition Corporation and Tyson Foods, Inc. (Chavez)* was filed in the U.S. District Court for the Eastern District of Washington against TFM and the Company by several employees of TFM’s Pasco, Washington, beef slaughter and processing facility alleging various violations of the FLSA, 29 U.S.C. Sections 201–219, as well as violations of the Washington State Minimum Wage Act, RCW chapter 49.46, Industrial Welfare Act, RCW chapter 49.12, and the Wage Deductions-Contribution-Rebates Act, RCW chapter 49.52. The *Chavez* lawsuit alleges TFM and/or the Company required employees to perform unpaid work related to the donning and doffing of certain personal protective clothing and equipment, both prior to and after their shifts, as well as during meal periods. Plaintiffs further allege that similar prior litigation entitled *Alvarez, et al. v. IBP (Alvarez)*, which resulted in a \$3.1 million final judgment against TFM, supports a claim of collateral estoppel and/or is res judicata as to the issues raised in this new litigation. Plaintiffs are seeking reimbursement for an unspecified amount of damages, exemplary damages, liquidated damages, prejudgment interest, attorney fees and costs. TFM filed a timely Notice of Appeal in *Alvarez* and plaintiffs filed a timely notice of Cross-Appeal. On August 5, 2003, the Ninth Circuit Court of Appeals affirmed the lower court’s decision in part and reversed the lower court’s decision in part, and remanded the case to the lower court for recalculation of damages. If the ruling of the Ninth Circuit Court of Appeals is upheld in its entirety, TFM will have additional exposure in *Alvarez* of approximately \$5 million. TFM filed a petition for rehearing by the panel of the Ninth Circuit Court of Appeals that heard *Alvarez* or, in the alternative, a rehearing en banc, which was denied on December 2, 2003. It also filed a petition to certify state law claims to the Washington Supreme Court which was denied on September 23, 2003. On December 5, 2003, TFM filed a Petition to Stay the Mandate indicating it would file a Petition for Certiorari with the U.S. Supreme Court seeking the Court’s review of the Ninth Circuit’s adverse opinion. A Stay of the Mandate was ordered by the Ninth Circuit

## □ NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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on December 10, 2003. A Petition for Certiorari was filed with the U.S. Supreme Court on February 26, 2004. Briefing on the Petition is now complete, and, on May 3, 2004, the Court invited the U.S. Solicitor General to express its views on the pending Petition. On October 25, 2004, the Solicitor filed its response which acknowledged the issues warranted review but advised that a First Circuit case would be better suited for the Court's consideration of the issues. *Chavez* initially was pursued as an opt-in, collective action under 29 U.S.C. 216(b), but the U.S. District Court for the Eastern District of Washington granted plaintiff's motion seeking certification of a class of opt-out, state law plaintiffs under Federal Rule of Civil Procedure 23 and notice was sent to potential state law claim class members. The state-law class is closed and contains approximately 3,900 class members, including approximately 1,200 on the federal claim. The trial was held from September 7, 2004, through October 4, 2004. The District Court issued its proposed findings of fact and conclusions of law on December 8, 2004. The District Court has informed the parties they have until January 13, 2005, to provide the District Court with briefs on the proposed findings of fact and conclusions of law and until January 28, 2005, to file reply briefs. The District Court intends to hear oral arguments on February 24, 2005, before issuing its final order. The damages phase of the trial will then commence before a judgment is entered.

On November 21, 2002, a lawsuit entitled *Emily D. Jordan, et al. v. IBP, inc. and Tyson Foods, Inc.*, was filed in the U.S. District Court for the Middle District of Tennessee. Ten current and former hourly employees of TFM's case-ready facility in Goodlettsville, Tennessee, filed a complaint on behalf of themselves and other unspecified, allegedly "similarly situated" employees, claiming that the defendants have violated the overtime provisions of the FLSA. The suit alleges that the Company has failed to pay employees for all hours worked from the plant's commencement of operations under TFM's control in April 2001. The Company acquired the plant as part of its acquisition of TFM. In particular, the suit alleges that employees should be paid for the time it takes to collect, assemble and put on, take off and wash their health, safety and production gear at the beginning and end of their shifts and during their meal period. The suit also alleges that the Company deducts 30 minutes per day from employees' paychecks regardless of whether employees obtain a full 30-minute period for their meal. Plaintiffs are seeking a declaration that the defendants did not comply with the FLSA, and an award for an unspecified amount of back pay compensation and benefits, unpaid entitlements, liquidated damages, prejudgment and post-judgment interest, attorney fees and costs. On January 10, 2003, another 31 employees from Tennessee filed consents to join the lawsuit as plaintiffs. On January 15, 2003, the Company filed an

answer to the complaint denying any liability. On January 14, 2003, the named plaintiffs filed a motion for expedited court-supervised notice to prospective class members. The motion sought to conditionally certify a class of similarly situated employees at all of TFM's non-union facilities that have not been the subject of FLSA litigation. Plaintiffs then withdrew a request for conditional certification of similarly situated employees at all of TFM's non-union facilities and rather sought to include all non-exempt employees that have worked at the Goodlettsville facility since its opening on April 1, 2001. On June 9, 2003, the Company filed a Motion for Summary Judgment seeking the applicability of the injunction entered by the U.S. District Court for the District of Kansas and affirmed by the U.S. Court of Appeals for the Tenth Circuit (*Metzler v. IBP, inc. 127 F. 3rd 959, 10th Cir. 1997*), which the Company contends has a preclusive effect as to plaintiffs' claims based on pre- and post-shift activities. The plaintiffs conducted discovery limited to that issue and responded to said Motion on June 18, 2004. The Company filed its reply on July 2, 2004. On October 12, 2004, the District Court denied the Company's motion for summary judgment. On November 17, 2003, the District Court conditionally certified a collective action composed of similarly situated current and former employees at the Goodlettsville facility based upon clothes changing and washing activities and unpaid production work during meal periods, since the plant operations began in April 2001. Class Notices to approximately 4,500 prospective class members were mailed on January 21, 2004. Presently, approximately 525 current and former employees have opted into the class. The District Court stayed discovery on November 8, 2004, pending the Supreme Court's decision on certiorari in *Alvarez*.

**Environmental Matters:** On October 23, 2001, a putative class action lawsuit was filed in the District Court for Mayes County, Oklahoma, against the Company by R. Lynn Thompson and Deborah S. Thompson on behalf of all owners of Grand Lake O' the Cherokee's littoral (lakefront) property. The suit alleges that the Company "or entities over which it has operational control" conduct operations in such a way as to interfere with the putative class action plaintiffs' use and enjoyment of their property, allegedly caused by diminished water quality in the lake. Plaintiffs are seeking injunctive relief and an unspecified amount of compensatory damages, punitive damages, attorney fees and costs. Simmons Foods, Inc. (Simmons) and Peterson Farms, Inc. (Peterson) have been joined as defendants. The Company and Simmons are seeking leave to file a third party complaint against entities that contribute

## □ NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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wastes and wastewater into Grand Lake. The class certification hearing was held in October 2003. On December 11, 2003, the trial court entered an order which granted class certification. On January 12, 2004, the Company, Simmons and Peterson filed a Petition in Error (the Petition) in the Oklahoma Supreme Court which challenges and seeks appellate level review of the trial court's certification order. The Oklahoma Supreme Court has not yet scheduled proceedings on the Petition.

**Securities Matters:** Between June 22 and July 20, 2001, various plaintiffs commenced actions (the Delaware Federal Actions) against the Company, Don Tyson, John Tyson and Les Baledge in the U.S. District Court for the District of Delaware, seeking monetary damages on behalf of a purported class of those who sold IBP, inc. (IBP) stock from March 29, 2001, when the Company announced its intention to terminate its merger agreement with IBP, through June 15, 2001, when a Delaware state court rendered its Post-Trial Opinion ordering the merger to proceed. Plaintiffs in the various actions alleged that the defendants violated federal securities laws by making, causing or allowing to be made, certain allegedly false and misleading statements in a March 29, 2001, press release issued in connection with the Company's attempted termination of the Merger Agreement. The plaintiffs alleged that, as a result of the defendants' alleged conduct, purported class members were harmed by an alleged artificial deflation in the price of IBP's stock during the proposed class period. The various actions were subsequently consolidated under the caption *In re Tyson Foods, Inc. Securities Litigation* and, on December 4, 2001, the plaintiffs in the consolidated action filed a Consolidated Class Action Complaint. On January 22, 2002, the defendants filed a motion to dismiss the consolidated complaint. By memorandum order dated October 23, 2002, the court granted in part and denied in part the defendants' motion to dismiss. On October 6, 2003, the court certified a class consisting of those who purchased IBP securities on or before March 29, 2001, and subsequently sold such securities from March 30 through June 15, 2001, inclusive, and sustained damages as a result of such transaction. Following the conclusion of discovery in the case, plaintiffs and defendants each filed motions for summary judgment. On June 17, 2004, the court rendered an opinion in favor of defendants and against plaintiffs on all of plaintiffs' claims, and entered an order to that effect. On June 28, 2004, defendants filed a motion requesting the court to modify its order to include judgment in defendants' favor against the class and on July 30, 2004, the court entered such an order. On August 6, 2004, plaintiffs filed a Notice of Appeal. No hearing date on the appeal has been set.

**General Matters:** In July 1996, certain cattle producers filed *Henry Lee Pickett, et al. v. IBP, inc.* in the U.S. District Court, Middle District of Alabama, seeking certification of a class of all cattle producers. The complaint alleged that TFM used its market power and alleged "captive supply" agreements to reduce the prices paid by TFM on purchases of cattle in the cash market in alleged violation of the Packers and Stockyards Act (PSA). Plaintiffs sought injunctive and declaratory relief, as well as actual and punitive damages. Plaintiffs submitted an amended expert report on November 19, 2003, showing alleged damages on all cash market purchases by TFM of approximately \$2.1 billion. Trial of this matter began on January 12, 2004, and concluded on February 10, 2004. On February 17, 2004, a jury returned a verdict against TFM on liability and gave an "advisory" verdict on damages that estimated the impact on the cash market (i.e., a group larger than the class) to be \$1.28 billion. On February 25, 2004, TFM filed a renewed motion requesting the Court to enter a judgment as a matter of law (JMOL) for TFM. On March 1, 2004, the plaintiffs filed motions asking the Court to enter the \$1.28 billion advisory verdict as an award of damages to the plaintiffs and requesting prejudgment interest. On March 22, 2004, the Court denied the plaintiff's motions for entry of a damages award. On April 23, 2004, the Court granted TFM's JMOL motion, and held (i) TFM had legitimate business reasons for using "captive supplies," (ii) there was "no evidence before the Court to suggest that [TFM's] conduct is illegal," and (iii) "plaintiffs failed to present evidence at trial to sustain their burden with respect to liability and damages." The plaintiffs have appealed the Court's entry of judgment in favor of TFM to the 11th Circuit Court of Appeals, and oral arguments are scheduled to be heard by the Circuit Court on December 17, 2004.

On September 12, 2002, 82 individual plaintiffs filed *Michael Archer, et al. v. Tyson Foods, Inc. and The Pork Group, Inc.*, CIV 2002-497, in the Circuit Court of Pope County, Arkansas. On August 18, 2002, the Company announced a restructuring of its live swine operations which, among other things, resulted in the discontinuance of relationships with approximately 130 contract hog producers, including the plaintiffs. In their complaint, the plaintiffs allege that the Company committed fraud and should be promissorily estopped from terminating the parties' relationship. The plaintiffs seek an unspecified amount of compensatory damages, punitive damages, attorney fees and costs. The Company filed a motion to Stay All Proceedings and Compel Arbitration which was denied. That decision was appealed to the Arkansas Supreme Court by the Company and affirmed. The case was remanded to the Circuit Court and discovery is proceeding. Trial is currently scheduled to begin March 25, 2005.

□ **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

TYSON FOODS, INC. 2004 ANNUAL REPORT

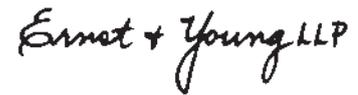
**BOARD OF DIRECTORS AND SHAREHOLDERS**

We have audited the accompanying consolidated balance sheets of Tyson Foods, Inc. as of October 2, 2004, and September 27, 2003, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended October 2, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly in all material respects, the consolidated financial position of Tyson Foods, Inc. at October 2, 2004, and September 27, 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended October 2, 2004, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the financial statements, in 2004 the Company adopted Emerging Issues Task Force Issue No. 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings per Share."

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

Rogers, Arkansas  
December 8, 2004

□ **REPORT OF MANAGEMENT**

TYSON FOODS, INC. 2004 ANNUAL REPORT

The management of Tyson Foods, Inc., (the Company) has the responsibility of preparing the accompanying financial statements and is responsible for their integrity and objectivity. The statements were prepared in conformity with accounting principles generally accepted in the United States applied on a consistent basis. Such financial statements are necessarily based, in part, on best estimates and judgments.

The Company maintains a system of internal accounting controls, and a program of internal auditing designed to provide reasonable assurance that the Company's assets are protected and that transactions are executed in accordance with proper authorization, and are properly recorded. This system of internal accounting controls is continually reviewed and modified in response to changing business conditions and operations and to recommendations made by the independent auditors and the internal auditors. The Company has a code of conduct and an experienced full-time compliance officer. The management of the Company believes that the accounting and control systems provide reasonable assurance that assets are safeguarded and financial information is reliable.

December 8, 2004



John Tyson  
Chairman of the Board and  
Chief Executive Officer

The Audit Committee of the Board of Directors meets regularly with the Company's financial management and counsel, with the Company's internal auditors and with the independent auditors engaged by the Company. These meetings include discussions of internal accounting controls and the quality of financial reporting. The Audit Committee has discussed with the independent auditors matters required to be discussed by Statement of Auditing Standards No. 61 (Communication with Audit Committees). In addition, the Committee has discussed with the independent auditors, the auditors' independence from the Company and its management, including the matters in the written disclosures required by the Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). The independent auditors and the Internal Audit Department have free and independent access to the Audit Committee to discuss the results of their audits or any other matters relating to the Company's financial affairs.

Ernst & Young LLP, independent auditors, have audited the accompanying consolidated financial statements.



Dennis Leatherby  
Senior Vice President, Finance  
and Treasurer and Interim  
Chief Financial Officer

## □ ELEVEN-YEAR FINANCIAL SUMMARY

TYSON FOODS, INC. 2004 ANNUAL REPORT

in millions, except per share and ratio data

	2004	2003	2002	2001
<b>Summary of Operations</b>				
Sales	\$26,441	\$24,549	\$23,367	\$10,563
Cost of sales	24,550	22,805	21,550	9,660
Gross profit	1,891	1,744	1,817	903
Operating income	925	837	887	316
Interest expense	275	296	305	144
Provision for income taxes	232	186	210	58
Net income (loss)	\$ 403	\$ 337	\$ 383	\$ 88
Year end shares outstanding	353	353	353	349
Diluted average shares outstanding	357	352	355	222
Diluted earnings (loss) per share	\$ 1.13	\$ 0.96	\$ 1.08	\$ 0.40
Class A basic earnings (loss) per share	1.20	1.00	1.13	0.42
Class B basic earnings (loss) per share	1.08	0.90	1.02	0.38
Dividends per share:				
Class A	0.160	0.160	0.160	0.160
Class B	0.144	0.144	0.144	0.144
Depreciation and amortization	\$ 490	\$ 458	\$ 467	\$ 335
<b>Balance Sheet Data</b>				
Capital expenditures	\$ 486	\$ 402	\$ 433	\$ 261
Total assets	10,464	10,486	10,372	10,632
Net property, plant and equipment	3,964	4,039	4,038	4,085
Total debt	3,362	3,604	3,987	4,776
Shareholders' equity	\$ 4,292	\$ 3,954	\$ 3,662	\$ 3,354
<b>Other Key Financial Measures</b>				
Return on sales	1.5%	1.4%	1.6%	0.8%
Annual sales growth (decline)	7.7%	5.1%	121.2%	45.3%
Gross margin	7.2%	7.1%	7.8%	8.5%
Return on beginning shareholders' equity	10.2%	9.2%	11.4%	4.0%
Return on invested capital	12.2%	11.0%	11.2%	5.3%
Effective tax rate	36.6%	35.5%	35.5%	35.4%
Total debt to capitalization	43.9%	47.7%	52.1%	58.7%
Book value per share	\$ 12.19	\$ 11.21	\$ 10.37	\$ 9.61
Closing stock price high	21.06	14.42	15.56	14.19
Closing stock price low	\$ 12.59	\$ 7.28	\$ 8.75	\$ 8.35

### NOTES TO ELEVEN-YEAR FINANCIAL SUMMARY

- Fiscal years 2004, 1998 and 1994 were 53-week years, while the other years presented were 52-week years.
- The results for 2004 include \$61 million of pretax BSE-related charges, \$40 million of pretax charges related to closing two poultry and three prepared foods operations, \$25 million of pretax charges related to the impairment of intangible assets and \$21 million of pretax charges related to fixed asset write-downs.
- The results for 2003 include \$167 million of pretax gains related to vitamin antitrust litigation settlements received and \$76 million of pretax charges related to closing four poultry operations.
- The results for 2002 include a \$27 million pretax charge related to the identifiable intangible asset write-down of the Thomas E. Wilson brand, \$26 million pretax charge for live swine restructuring charge, \$22 million pretax gain related to the sale of Specialty Brands, Inc. and \$30 million pretax gain related to vitamin antitrust litigation settlements received.
- The results for 2001 include \$26 million of pretax charges for expenses related to the TFM acquisition, loss on sale of swine assets, and product recall losses.
- The results for 2000 include a \$24 million pretax charge for a bad debt write-off related to the January 2000 bankruptcy filing of AmeriServe Food Distribution, Inc. and a \$9 million pretax charge related to Tyson de Mexico losses.
- Certain costs for years 1999 and prior have not been reclassified as the result of the application of EITF 00-14 and EITF 00-25.
- The results for 1999 include a \$77 million pretax charge for loss on sale of assets and impairment write-downs.

□ **ELEVEN-YEAR FINANCIAL SUMMARY (CONTINUED)**

TYSON FOODS, INC. 2004 ANNUAL REPORT

2000	1999	1998	1997	1996	1995	1994
\$7,268	\$7,621	\$7,414	\$6,356	\$6,454	\$5,511	\$5,110
6,453	6,470	6,260	5,318	5,506	4,423	4,149
815	1,151	1,154	1,038	948	1,088	961
349	487	204	400	269	472	195
116	124	139	110	133	115	86
83	129	46	144	49	131	121
\$ 151	\$ 230	\$ 25	\$ 186	\$ 87	\$ 219	\$ (2)
225	229	231	213	217	217	218
226	231	228	218	218	218	222
\$ 0.67	\$ 1.00	\$ 0.11	\$ 0.85	\$ 0.40	\$ 1.01	\$ (0.01)
0.70	1.05	0.12	0.90	0.42	1.06	(0.01)
0.63	0.94	0.10	0.81	0.38	0.95	(0.01)
0.160	0.115	0.100	0.095	0.080	0.053	0.047
0.144	0.104	0.090	0.086	0.072	0.044	0.039
\$ 294	\$ 291	\$ 276	\$ 230	\$ 239	\$ 205	\$ 188
\$ 196	\$ 363	\$ 310	\$ 291	\$ 214	\$ 347	\$ 232
4,841	5,083	5,242	4,411	4,544	4,444	3,668
2,141	2,185	2,257	1,925	1,869	2,014	1,610
1,542	1,804	2,129	1,690	1,975	1,985	1,455
\$2,175	\$2,128	\$1,970	\$1,621	\$1,542	\$1,468	\$1,289
2.0%	3.0%	0.3%	2.9%	1.4%	4.0%	0.0%
(4.6)%	2.8%	16.7%	(1.5)%	17.1%	7.9%	8.6%
11.2%	15.1%	15.6%	16.3%	14.7%	19.7%	18.8%
7.1%	11.7%	1.5%	12.1%	5.9%	17.0%	(0.2)%
9.1%	12.1%	5.5%	11.7%	7.7%	15.2%	7.6%
35.6%	34.9%	64.7%	43.6%	37.0%	38.1%	101.8%
41.5%	45.9%	51.9%	51.0%	56.2%	57.5%	53.0%
\$ 9.67	\$ 9.31	\$ 8.53	\$ 7.60	\$ 7.09	\$ 6.76	\$ 5.92
18.00	25.38	24.44	23.63	18.58	18.17	16.67
\$ 8.56	\$15.00	\$16.50	\$17.75	\$13.83	\$13.83	\$12.50

9. Significant business combinations accounted for as purchases: TFM, Hudson Foods, Inc. and Arctic Alaska Fisheries Corporation in August 2001 and September 2001, January 1998 and October 1992, respectively.

10. The results for 1998 include a \$215 million pretax charge for asset impairment and other charges.

11. The results for 1997 include a \$41 million pretax gain (\$4 million after tax) from the sale of the beef division assets.

12. The results for 1994 include a \$214 million pretax charge (\$205 million after tax) due to the write-down of certain long-lived assets of Arctic Alaska Fisheries Corporation.

13. Earnings per share for all years presented have been restated to reflect the Company's adoption of EITF Issue No. 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings per Share."

14. Return on invested capital is calculated by dividing operating income by the sum of the average of beginning and ending total debt and shareholders' equity.

## □ CORPORATE INFORMATION

TYSON FOODS, INC. 2004 ANNUAL REPORT

### CLOSING PRICE OF COMPANY'S COMMON STOCK

	Fiscal Year 2004		Fiscal Year 2003	
	High	Low	High	Low
First Quarter	<b>\$14.49</b>	<b>\$12.59</b>	\$12.77	\$9.64
Second Quarter	<b>18.13</b>	<b>12.99</b>	11.85	7.28
Third Quarter	<b>20.81</b>	<b>17.58</b>	10.90	7.75
Fourth Quarter	<b>21.06</b>	<b>15.73</b>	14.42	10.62

As of October 30, 2004, the Company had approximately 42,600 Class A common shareholders of record and 15 Class B common shareholders of record.

### DIRECTSERVICE™ SHAREHOLDER INVESTMENT PROGRAM

Tyson has authorized EquiServe Trust Co., N.A. to implement its program for dividend reinvestment and direct purchase of shares for current as well as new investors of Tyson Class A Common Stock. This program provides alternatives to traditional retail brokerage methods of purchasing, holding and selling Tyson stock. All inquiries concerning this program should be directed to:

DirectSERVICE™ Program for Shareholders  
of Tyson Foods, Inc.  
c/o EquiServe Trust Co., N.A.  
P.O. Box 43081  
Providence, RI 02940-3081  
1-877-498-8861 (current shareholders)  
1-800-822-7096 (non-shareholders)

### CHANGE OF ADDRESS

If your Tyson stock is registered in your own name(s), send change of address information to the Company's transfer agent, EquiServe Trust Co., N.A.

### MULTIPLE DIVIDEND CHECKS AND DUPLICATE MAILINGS

If your Tyson stock is registered in similar but different names (e.g., Jane A. Doe and J.A. Doe) we are required to create separate accounts and mail dividend checks and proxy materials separately, even if the mailing addresses are the same. To consolidate accounts, contact the Company's transfer agent, EquiServe Trust Co., N.A.

### LOST OR STOLEN STOCK CERTIFICATES OR LEGAL TRANSFERS

If your stock certificates are lost, stolen or in some way destroyed, or if you wish to transfer registration, notify the Company's transfer agent, EquiServe Trust Co., N.A., in writing. Include the exact name(s) and Social Security or tax identification number(s) in which the stock is registered and, if possible, the numbers and issue dates of the certificates.

### STOCK EXCHANGE LISTINGS

The Class A common stock of the Company is traded on the New York Stock Exchange under the symbol TSN.

### CORPORATE HEADQUARTERS

2210 West Oaklawn Drive  
Springdale, Arkansas 72762-6999  
Telephone (479) 290-4000

### AVAILABILITY OF FORM 10-K

A copy of the Company's Form 10-K, as filed with the Securities and Exchange Commission for fiscal 2004, may be obtained by Tyson shareholders by writing to:

Vice President of Investor Relations  
Tyson Foods, Inc.  
P.O. Box 2020  
Springdale, Arkansas 72765-2020  
Telephone (479) 290-4826  
Fax (479) 757-6577  
E-mail: tysonir@tyson.com

## □ BOARD OF DIRECTORS

TYSON FOODS, INC. 2004 ANNUAL REPORT



1. **Don Tyson**, 74, retired as Senior Chairman of the Board in October 2001. He served as Senior Chairman from 1995 until 2001. Mr. Tyson has been a member of the Board since 1952.<sup>1</sup>

2. **John Tyson**, 51, is Chairman of the Board and Chief Executive Officer of the Company and has held his current title since October 2001. He served as Chairman, President and CEO from April 2000 to October 2001, as Chairman from 1998 to April 2000 and in other executive capacities prior to 1998. Mr. Tyson has been a member of the Board since 1984.<sup>1</sup>

3. **Leland E. Tollett**, 67, a private investor, served as Chairman of the Board and CEO from 1995 to 1998 when he retired after employment with the Company since 1959. Mr. Tollett has been a member of the Board since 1984.<sup>1</sup>

4. **Barbara A. Tyson**, 55, was a Vice President of the Company from 1988 until 2002. Ms. Tyson has been a member of the Board since 1988.

5. **Lloyd V. Hackley**, 64, is President and CEO of Lloyd V. Hackley and Associates, Inc. and was President of the North Carolina Community College System. Mr. Hackley has been a member of the Board since 1992.<sup>3,4</sup>

6. **Jim Kever**, 52, is the Founding Partner of Voyent Partners, LLC, an investment partnership. Previously, Mr. Kever served as a director of Quintiles Transnational and had served as CEO of Envoy Corporation, a subsidiary of Quintiles. Mr. Kever has been a member of the Board since 1999.<sup>2,4</sup>

7. **David A. Jones**, 55, is Chairman and CEO of Rayovac Corp. Previously, Mr. Jones served as President, CEO and Chairman of Thermoscan, Inc. and President, CEO and Chairman of Regina Co. He was previously with Electrolux Corp. and General Electric Co. Mr. Jones has been a member of the Board since 2000.<sup>2,3</sup>

8. **Richard L. Bond**, 57, is President and Chief Operating Officer of the Company. Mr. Bond served as Co-Chief Operating Officer and Group President, Fresh Meats and Retail of the Company from 2001 to 2003 and as President and COO of IBP, inc. from 1997 until the merger of IBP into the Company. He was a director of IBP from 1995 to 2001. Mr. Bond has been a member of the Board since 2001.

9. **Jo Ann R. Smith**, 65, is President of Smith Associates, an agricultural marketing business. Previously, Ms. Smith served as Assistant Secretary for Marketing and Inspection Services for the U.S. Department of Agriculture. She is a former President of the National Cattlemen's Beef Association and has chaired the Cattlemen's Beef Promotion and Research Board. She was a director of IBP from 1993 to 2001. Ms. Smith has been a member of the Board since 2001.<sup>2,3,4</sup>

10. **Albert C. Zapanta**, 63, is President and CEO of the United States-Mexico Chamber of Commerce. Gen. Zapanta is Chairman of the Reserve Forces Policy Board, an independent policy adviser to the Secretary of Defense. He is also Chairman of the Board of the U.S.-Mexico Cultural and Educational Foundation. Gen. Zapanta has been a member of the Board since May 2004.<sup>3,4</sup>

1. Executive Committee 2. Audit Committee 3. Compensation Committee 4. Governance Committee

## □ CORPORATE AND EXECUTIVE OFFICERS

TYSON FOODS, INC. 2004 ANNUAL REPORT

### Mike Baker

Group Vice President, Technical Services

### Jean Mrha Beach

Senior Vice President, Commodity and Trading Risk Management

### Richard L. Bond

President and Chief Operating Officer

### Howell P. Carper

Senior Vice President, Corporate Research and Development

### Bob Corscadden

Senior Vice President and Chief Marketing Officer

### Jeri R. Dunn

Senior Vice President and Chief Information Officer

### J. Alberto Gonzalez-Pita

Executive Vice President and General Counsel

### Louis C. Gottsponer, Jr.

Vice President, Investor Relations and Assistant Secretary

### Craig Hart

Senior Vice President, Chief Accounting Officer and Controller

### R. Read Hudson

Secretary and Vice President, Legal

### Greg Huett

Group Vice President, Tyson International

### Kenneth J. Kimbro

Senior Vice President, Human Resources

### John S. Lea

Group Vice President, Consumer Products

### Dennis Leatherby

Senior Vice President, Finance and Treasurer and Interim Chief Financial Officer

### Greg W. Lee

Chief Administrative Officer and International President

### Eugene D. Leman

Senior Group Vice President, Tyson Fresh Meats, Inc.

### James V. Lochner

Group Vice President, Tyson Fresh Meats, Inc.

### William W. Lovette

Group Vice President, Food Service

### Kenneth L. Rose

Senior Vice President, Indirect Purchasing, Aviation and Travel

### Archie Schaffer III

Senior Vice President, External Relations

### Donnie Smith

Senior Vice President, Supply Chain Management

### John Tyson

Chairman and Chief Executive Officer

### David L. Van Bebber

Deputy General Counsel and Senior Vice President

## □ CORPORATE INFORMATION

TYSON FOODS, INC. 2004 ANNUAL REPORT

### ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 10 a.m. Friday, February 4, 2005, at the Walton Arts Center, Fayetteville, Arkansas. A live audio webcast will be available at: <http://ir.tysonfoodsinc.com>

To listen live via telephone, call (888) 455-3612. International callers dial (517) 308-9002. (The passcode is Tyson Foods, and the leader's name is Louis Gottsponer.) Shareholders who cannot attend the meeting are urged to exercise their right to vote by proxy on the Internet, by phone or by mail.

### DIVIDENDS

Tyson currently pays dividends four times a year on March 15, June 15, September 15 and December 15. The dividend is paid to everyone who holds shares on the record date.

### INDEPENDENT AUDITORS

Ernst & Young LLP  
5414 Pinnacle Point Drive  
Suite 102  
Rogers, AR 72758  
Telephone (479) 254-6300

### TRANSFER AGENT

EquiServe Trust Co., N.A.  
P.O. Box 43069  
Providence, RI 02940-3069  
Telephone (800) 317-4445  
Hearing Impaired Telephone TDD (201) 222-5599  
E-mail: [equiserve@equiserve.com](mailto:equiserve@equiserve.com)  
[www.equiserve.com](http://www.equiserve.com)

### INVESTOR RELATIONS

Financial analysts and others seeking investor-related information should contact:

Louis C. Gottsponer, Jr.  
Vice President of Investor Relations  
Tyson Foods, Inc.  
P.O. Box 2020  
Springdale, AR 72765-2020  
Telephone (479) 290-4826  
Fax (479) 757-6577  
E-mail: [tysonir@tyson.com](mailto:tysonir@tyson.com)

### MEDIA RELATIONS

Members of the news media seeking information about Tyson Foods should contact:

Gary Mickelson  
Director of Media Relations  
Tyson Foods, Inc.  
P.O. Box 2020  
Springdale, AR 72765-2020  
Telephone (479) 290-6111  
Fax (479) 757-7984  
E-mail: [gary.mickelson@tyson.com](mailto:gary.mickelson@tyson.com)

### TYSON ON THE INTERNET

Information about Tyson Foods, Inc. is available on the Internet at [www.tysonfoodsinc.com](http://www.tysonfoodsinc.com). Information about Tyson products is available at [www.tyson.com](http://www.tyson.com). The Investor Relations Web site is <http://ir.tysonfoodsinc.com>.

### TRADEMARKS

Tyson®, Wright®, Powered by Tyson™, Have You Had Your Protein Today?™, Proudly Powering the World™, Doing What's Right™, Maximizing the Occasion™, Meat Max™

Share Our Strength® and The Great American Bake Sale® are registered trademarks of Share Our Strength Corporation.

Race For The Cure® is a registered trademark of The Susan G. Komen Breast Cancer Foundation, Inc.

Relay For Life® is a registered trademark of The American Cancer Society, Inc.

Heart Walk™ is a trademark of The American Heart Association, Inc.

### USE OF TERMS

The term "Tyson" and such terms as "the Company," "our," "we" and "us" may refer to Tyson Foods, Inc., to one or more of its consolidated subsidiaries or to all of them taken as a whole. These terms are used for convenience only and are not intended as a precise description of any of the separate companies, each of which manages its own affairs.

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♻️ Printed on recycled paper



Meeting friends

Window Shopping

Walking to school

Going to work



Have you had your protein today?

Tyson Foods, Inc. 2210 West Oaklawn Drive Springdale, Arkansas 72762-6999 www.tysonfoodsinc.com