CONAGRA FOODS INC /DE/
Form 10-K/A
April 29, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(AMENDMENT NO. 1)

(Mark One)

ý	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended May 30, 2004

OR

o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File No. 1-7275

CONAGRA FOODS, INC.

(Exact name of registrant, as specified in its charter)

A Delaware Corporation (State or other jurisdiction of incorporation or organization)	**47-0248710** (I.R.S. Employer Identification No.)
One ConAgra Drive **Omaha, Nebraska** (Address of principal executive offices)	**68102-5001** (Zip Code)

Registrant s telephone number, including area code **(402) 595-4000**

Securities registered pursuant to section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $5.00 par value	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act: None

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ý No o

The aggregate market value of the voting common stock of ConAgra Foods, Inc. held by non-affiliates on November 23, 2003 was approximately $12.93 billion based upon the closing sale price on the New York Stock Exchange.

At July 26, 2004, 518,176,351 common shares were outstanding.

Documents incorporated by reference are listed on page 1.

Documents Incorporated by Reference

Portions of the Registrant s definitive Proxy Statement filed for Registrant s 2004 Annual Meeting of Stockholders (the 2004 Proxy Statement) are incorporated into Part III, Items 10, 11, 12, 13 and 14.

EXPLANATORY NOTE

This Amendment No. 1 to this Annual Report on Form 10-K/A (Form 10-K/A) is being filed in order to correct the previously issued historical consolidated financial statements of ConAgra Foods, Inc. (the company) as of May 30, 2004 and May 25, 2003 and for the fiscal years ended May 30, 2004, May 25, 2003 and May 26, 2002, initially filed with the Securities and Exchange Commission (the SEC) on August 5, 2004, for errors in previously reported amounts related to income tax matters. The company is filing contemporaneously with this Form 10-K/A its restated Forms 10-Q/A for the first two quarters of fiscal 2005. The correction of the errors results in an aggregate net increase in income tax expense of approximately $105 million (including approximately $2 million reflected in results from discontinued operations) for fiscal years 2004, 2003, and 2002 and the first two quarters of fiscal 2005 and an aggregate net decrease in income tax expense of approximately $46 million for years prior to fiscal 2002. The company estimates additional federal and state cash payments in the range of $70 million to $90 million will be made in the near term in connection with these matters. The restatement adjustments result in a $45.6 million reduction of ending stockholders equity as of May 30, 2004.

During fiscal 2005, the company has systematically conducted reviews of financial controls as a part of its Sarbanes-Oxley 404 pre-certification process and in connection with pending tax audits, as well as part of operational improvement efforts by new financial management. During the third quarter of fiscal 2005, those reviews resulted in the discovery of errors relating to accounting for income taxes, as described below:

The company made errors in its fiscal 1997 tax return in the calculation of tax basis upon the formation of a pork subsidiary. Additional less significant tax basis calculation errors also occurred. Upon the sale of the beef and pork businesses in fiscal 2003, as a result of the basis calculation errors, the company incorrectly calculated a capital loss and recognized a deferred tax asset with an offsetting valuation allowance. The company incorrectly recognized an income tax benefit when it applied the erroneous capital loss carryforward against capital gain transactions in fiscal 2004.

The company made historical errors in accounting for income taxes for foreign operations, which resulted in errors in the amount of foreign tax credit benefits recorded and the calculation of tax expense on foreign source income and gains for tax purposes on foreign dispositions. The company also incorrectly calculated the amount of deferred tax assets and related valuation allowance for the foreign tax credit carryforwards available in fiscal 2003, 2004 and 2005.

The Internal Revenue Service issued a report of its preliminary findings for its audit of the company s fiscal 2000-2002 tax returns subsequent to the end of the third quarter of fiscal 2005. In connection with this audit, the company had incorrectly recorded adjustments to the financial statements for the impact of computational errors made by the company related to its fiscal 2000-2002 tax returns.

The company also made errors in 1) recording deferred taxes resulting in net overstatement of income tax expense in years prior to fiscal 2002; 2) the calculation of fiscal 2003 and fiscal 2004 tax expense which resulted in the company recognizing tax expense or benefits related to certain transactions in the incorrect periods; and 3) calculating the reserve for state tax contingencies, principally related to years prior to fiscal 2003.

The reviews of tax matters also resulted in the correction of the gain recognized on the sale of the company s minority investment in Swift Foods, which is included in selling, general and administrative expenses in the second quarter of fiscal 2005.

The principal financial statement impact of such errors noted above is summarized as follows:

For periods prior to fiscal 2002, increased retained earnings by $45.8 million.

For fiscal 2002, increased income tax expense $11.3 million; decreased net income $11.3 million; decreased diluted earnings per share $0.02.

For fiscal 2003, increased income tax expense $11.0 million; decreased net income $11.0 million; decreased diluted earnings per share $0.02.

For fiscal 2004, decreased selling, general and administrative expenses $1.4 million; increased income tax expense $72.3 million; increased income from discontinued operations $2.4 million; decreased net income $68.5 million; decreased diluted earnings per share $0.13.

For the first half of fiscal 2005, decreased selling, general and administrative expenses $10.1 million; increased income tax expense $9.0 million; decreased income from discontinued operations $4.1 million; decreased net income $3.0 million; decreased diluted earnings per share $0.01.

The company has also changed the presentation of cash flows from discontinued operations to separately present cash flows from discontinued operations for operating, investing and financing activities for all periods presented.

The company has changed its presentation of equity method investment earnings to present such amounts below income tax expense for all periods presented. Certain other reclassifications have been made to amounts previously reported in the company s Form 10-K for the fiscal year ended May 30, 2004 to conform with amounts reported in the company s Form 10-Q for the thirty-nine weeks ended February 27, 2005.

See Note 21 to the consolidated financial statements for further information.

This Form 10-K/A amends and restates only Items 6, 7, 8, 9A of Part II and Item 15 of Part IV of the original filing to reflect the effects of this restatement of the company s financial statements for the periods presented. The remaining Items contained within this Amendment No. 1 on Form 10-K/A consist of all other Items originally contained on Form 10-K for the fiscal year ended May 30, 2004. These remaining Items are not amended hereby. Except for the forgoing amended information, this Form 10-K/A continues to describe conditions as of the date of the original filing, and the company has not updated the disclosures contained herein to reflect events that occurred at a later date. Accordingly, this Form 10-K/A should be read in conjunction with company filings made with the Securities and Exchange Commission subsequent to the filing of the original Form 10-K, including any amendments of those filings.

PART I

ITEM 1. BUSINESS

a) General Development of Business

ConAgra Foods, Inc. (ConAgra Foods or the company) is a leading packaged food company serving a wide variety of food customers. Over time, the company, which was first incorporated in 1919, has grown through acquisitions, operations and internal brand and product development. The company s more significant acquisitions have included Beatrice Company in 1990, Golden Valley Microwave Foods in 1992 and International Home Foods in 2001. In recent years, ConAgra Foods has been pursuing an acquisition and divestiture strategy to shift its focus toward its core branded and value-added food products.

Over the past few years, the company has strategically repositioned its portfolio to focus on higher-margin, branded and value added businesses because that mix is expected to better serve consumers, customers, and shareholders over the long run. Executing that strategy has involved acquiring branded operations and divesting commodity-related businesses. The acquisitions included the fiscal 2001 purchase of International Home Foods and its Chef Boyardee, Gulden s, Libby s, PAM, and Louis Kemp brands. These divestitures included the company s chicken business, its U.S. and Canadian crop inputs businesses (UAP North America), a Spanish feed business, a controlling interest in its fresh beef and pork business (fresh beef and pork divestiture), its canned seafood operations, and its processed cheese operations. Subsequent to fiscal year end 2004, the company disposed of its Portuguese poultry business. The company is actively marketing the remaining international portion of its crop inputs business (UAP International) and plans to dispose of this operation during fiscal 2005.

b) Financial Information about Reporting Segments

For fiscal 2004, the company s operations are classified into three reporting segments: Retail Products, Foodservice Products and Food Ingredients. The company historically aggregated its retail and foodservice operations within a Packaged Foods reporting segment. As a result of the strategic portfolio changes discussed above and management realignments in fiscal 2004, the company now reports its retail and foodservice operations as two separate reporting segments: Retail Products and Foodservice Products. For fiscal 2003 and 2002, the company s operations also include a Meat Processing reporting segment which reflects results associated with the company s fresh beef and pork operations prior to the company selling a controlling interest in the operations during fiscal 2003. The contributions of each reporting segment to net sales and operating profit, and the identifiable assets attributable to each reporting segment are set forth in Note 19 Business Segments and Related Information to the consolidated financial statements.

c) Narrative Description of Business

The company competes throughout the food industry and focuses on adding value for customers who sell into the retail food, foodservice and ingredients channels.

ConAgra Foods reporting segments are described below. The ConAgra Foods companies and locations, including distribution facilities, within each reporting segment, are described in Item 2.

Retail Products

The Retail Products reporting segment includes branded foods in the shelf-stable, frozen and refrigerated temperature classes which are sold in various retail channels.

Shelf-stable products include tomato products, cooking oils, popcorn, soup, puddings, meat snacks, canned beans, canned pasta, canned chili, cocoa mixes and peanut butter for retail and deli customers. Shelf-stable major brands include Hunt s, Healthy Choice, Chef Boyardee, Wesson, Orville Redenbacher s, PAM, Slim Jim, ACT II,

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Peter Pan, Van Camp s, Gulden s, Beanee Weenee, Manwich, Hunt s Snack Pack, Swiss Miss, Knott s Berry Farm, La Choy, Gebhardt, DAVID, Wolf Brand, Pemmican, Penrose and Andy Capp s.

Frozen food products include dinners, pizzas, turkeys, entrees, snacks, desserts, ice cream, potato products, hand-held dough-based products and seafood for retail and deli customers. Frozen food major brands include Healthy Choice, Golden Cuisine, Banquet, Marie Callender s, Butterball, Kid Cuisine, MaMa Rosa s, Rosarita, Morton, Patio, La Choy, Artel and Wolfgang Puck.

Refrigerated food products include hot dogs, bacon, ham, sausages, cold cuts, turkey products, ethnic foods, kosher products, meat alternative products (e.g., soy-based hot dogs and patties), tablespreads, egg alternatives and dessert toppings for retail and deli customers. Refrigerated food major brands include Armour, Butterball, Cook s, Decker, Eckrich, Healthy Choice, Louis Kemp, Ready Crisp, Hebrew National, Brown N Serve, Lightlife, National Deli, Parkay, Blue Bonnet, Fleischmann s, Egg Beaters and Reddi-wip.

Foodservice Products

The Foodservice Products reporting segment includes branded and customized food products, including meals, entrees, prepared potatoes, meats, seafood, sauces, and a variety of custom-manufactured culinary products packaged for sale to restaurants and other foodservice establishments.

Major brands include Armour, Butterball, County Line, Cook s, Decker, Longmont, Eckrich, Margherita, Texas BBQ, Signature, Hebrew National, Parkay, Blue Bonnet, Fleischmann s, Egg Beaters, Reddi-wip, Angela Mia, Hunt s, Healthy Choice, Chef Boyardee, Banquet, Gilardi s, Lamb Weston, Holly Ridge, Fernando s, Rosarita, The Max, Singleton, Wesson, PAM, Peter Pan, Van Camp s, Gulden s, J. Hungerford Smith, Manwich, Hunt s Snack Pack, Swiss Miss, Knott s Berry Farm, La Choy, Gebhardt and Wolf Brand.

Food Ingredients

The Food Ingredients segment includes certain branded and commodity food ingredients, including milled grain ingredients, seasonings, blends and flavorings, which are sold to food processors, as well as certain commodity sourcing and merchandising operations.

Unconsolidated Equity Investments

The company has a number of unconsolidated equity investments. The more significant equity investments are involved in fresh beef and pork processing, barley malting, and potato production. The company s fresh beef and pork joint equity investment was established in fiscal 2003 when the company sold a controlling interest in its fresh beef and pork operations.

Discontinued Operations

During fiscal 2004, the company completed the divestitures of its chicken business, its U.S. and Canadian crop inputs businesses and its Spanish feed business. Subsequent to fiscal year end 2004, the company disposed of its Portuguese poultry business. The company is actively marketing UAP International and plans to dispose of these operations during fiscal 2005. Accordingly, the company now reflects the results of operations for each of these businesses as discontinued operations for all periods presented.

General

The following comments pertain to each of the company s reporting segments.

ConAgra Foods is a food company that operates in many different areas of the food industry, with a significant focus on the sale of branded and value-added consumer products. ConAgra Foods uses many different raw materials, the bulk of which are commodities. The prices paid for raw materials used in the products of ConAgra Foods generally reflect factors such as weather, commodity market fluctuations, currency fluctuations and the effects of governmental

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agricultural programs. Although the prices of raw materials can be expected to fluctuate as a result of these factors, the company believes such raw materials to be in adequate supply and generally available from numerous sources. The company uses hedging techniques to minimize the impact of price fluctuations in its principal raw materials. However, it does not fully hedge against changes in commodity prices and these strategies may not fully protect the company or its subsidiaries from increases in specific raw material costs.

The company experiences intense competition for sales of its principal products in its major markets. The company s products compete with widely advertised, well-known, branded products, as well as private label and customized products. The company has major competitors in each of its reporting segments.

Quality control processes at principal manufacturing locations emphasize applied research and technical services directed at product improvement and quality control. In addition, the company conducts research activities related to the development of new products.

Many of ConAgra Foods facilities and products are subject to various laws and regulations administered by the United States Department of Agriculture, the Federal Food and Drug Administration and other federal, state, local and foreign governmental agencies relating to the quality of products, sanitation, safety and environmental control. The company believes that it complies with such laws and regulations in all material respects, and that continued compliance with such regulations will not have a material effect upon capital expenditures, earnings or the competitive position of the company.

At May 30, 2004, ConAgra Foods and its subsidiaries had approximately 39,000 employees, primarily in the United States.

d) Foreign Operations

Foreign operations information is set forth in Note 19 Business Segments and Related Information to the consolidated financial statements.

e) Available Information

The company makes available, free of charge through its Internet website at http://www.conagrafoods.com, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission.

Risk Factors

The following factors could affect the company s operating results and should be considered in evaluating the company.

The company must identify changing consumer preferences and develop and offer food products to meet their preferences.

Consumer preferences evolve over time and the success of the company s food products depends on the company s ability to identify the tastes and dietary habits of consumers and to offer products that appeal to their preferences. The company introduces new products and improved products in all of its business segments from time to time and incurs significant development and marketing costs. If the company s products fail to meet consumer preference, then the company s strategy to grow sales and profits with new products will be less successful.

If the company does not achieve the appropriate cost structure in the highly competitive food industry, its profitability could decrease.

The company s success depends in part on its ability to achieve the appropriate cost structure and be efficient in the highly competitive food industry. The company is currently implementing profit-enhancing initiatives that impact its marketing, sales, operations and information systems functions. These initiatives include: elimination of duplicative costs and overhead; consolidation of selected plants and support functions; efforts to streamline and improve the company s ability to do business with its customers, distributors and brokers; and realignment of business organizations. If the company does not continue to manage costs and achieve additional efficiencies, its competitiveness and its profitability could decrease.

Increased competition may result in reduced sales for the company.

The food industry is highly competitive, and increased competition can reduce sales for the company.

The consolidation of the company s retail customers has resulted in large sophisticated customers with increased buying power.

The company s retail customers, such as supermarkets and warehouse clubs, have consolidated in recent years and consolidation is expected to continue. These consolidations have produced large, sophisticated customers with increased buying power who are more capable of resisting price increases and operating with reduced inventories. These customers may also in the future use more of their shelf space, currently used for company products, for their private label products. If the larger size of these customers results in additional negotiating strength or less shelf space for company products, the company s profitability could decline.

The company may be subject to product liability claims and product recalls, which could negatively impact its profitability.

The company sells food products for human consumption, which involves risks such as product contamination or spoilage, product tampering and other adulteration of food products. The company may be subject to liability if the consumption of any of its products causes injury, illness or death. In addition, the company will voluntarily recall products in the event of contamination or damage. In the past, the company has issued recalls and has from time to time been involved in lawsuits relating to its food products. A significant product liability judgment or a widespread product recall may negatively impact the company s profitability for a period of time depending on product availability, competitive reaction and consumer attitudes. Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that company products caused illness or injury could adversely affect the company s reputation with existing and potential customers and its corporate and brand image.

Commodity price increases will increase operating costs and may reduce profits.

The company uses many different commodities including wheat, corn, oats, soybeans, beef, pork, poultry and energy. Commodities are subject to price volatility caused by commodity market fluctuations, supply and demand, currency fluctuations, and changes in governmental agricultural programs. Commodity price increases will result in increases in raw material costs and operating costs. The company may not be able to increase its product prices to offset these increased costs; and increasing prices may result in reduced sales volume and profitability. The company has many years experience in hedging against commodity price increases; however, hedging practices reduce but do not eliminate the risk of increased operating costs from commodity price increases. For example, higher commodity prices in fiscal 2004, which were not fully offset by higher selling prices, negatively affected the company s operating profit.

If the company fails to comply with the many laws applicable to its business, it may incur significant fines and penalties.

The company s facilities and products are subject to many laws and regulations administered by the United States Department of Agriculture, the Federal Food and Drug Administration, and other federal, state, local, and foreign governmental agencies relating to the processing, packaging, storage, distribution, advertising, labeling, quality, and safety of food products. The company s failure to comply with applicable laws and regulations could subject it to administrative penalties and injunctive relief, civil remedies, including fines, injunctions and recalls of its products. The company s operations are also subject to extensive and increasingly stringent regulations administered by the Environmental Protection Agency, which pertain to the discharge of materials into the environment and the handling and disposition of wastes. Failure to comply with these regulations can have serious consequences, including civil and administrative penalties and negative publicity.

ITEM 2. PROPERTIES

The company s headquarters are located in Omaha, Nebraska. In addition, certain shared service centers are located in Omaha, Nebraska, including a product development facility, customer service center, financial service center and information technology center. The general offices and location of principal operations are set forth in the following list of ConAgra Foods locations.

The company maintains a number of stand-alone distribution facilities. In addition, there is warehouse space available at substantially all of its manufacturing facilities.

Utilization of manufacturing capacity varies by manufacturing plant based upon the type of products assigned and the level of demand for those products. In general, ConAgra Foods operates most of its manufacturing facilities in excess of 70% of available capacity, as measured by standard industry utilization calculation practices. These practices range from a base of 40 hours per week to 120 hours per week depending upon the nature of the manufacturing location.

The company owns most of the manufacturing facilities. However, a limited number of plants and parcels of land with the related manufacturing equipment are leased. Substantially all of ConAgra Foods transportation equipment and forward-positioned distribution centers containing finished goods are leased.

RETAIL PRODUCTS REPORTING SEGMENT

Domestic general offices in Omaha, Nebraska, Lincoln, Nebraska, Irvine, California, Lakeville, Minnesota, Edina, Minnesota, Downers Grove, Illinois and Jericho, New York. International general offices in Toronto, Canada, Mexico City, Mexico and San Juan, Puerto Rico.

Sixty-one manufacturing facilities in Arkansas, Ohio, Iowa, Missouri, Pennsylvania, Tennessee, Wisconsin, California, Georgia, Illinois, North Carolina, Minnesota, New Jersey, Indiana, Michigan, Nebraska, Maryland, Massachusetts and Kentucky. Five international manufacturing facilities in Canada, Mexico and the United Kingdom.

FOODSERVICE PRODUCTS REPORTING SEGMENT

General offices in Omaha, Nebraska, Eagle, Idaho, Tri-Cities, Washington, Tampa, Florida and Santa Fe Springs, California.

Twenty-six domestic manufacturing facilities in Idaho, Oregon, Washington, North Carolina, Minnesota (50% owned), Illinois, Indiana, California, Alabama, Texas, Colorado, Tennessee and Florida. Three international manufacturing facilities in The Netherlands (50% owned).

FOOD INGREDIENTS REPORTING SEGMENT

Domestic general, marketing and merchandising offices in Omaha, Nebraska and Savannah, Georgia. International general and marketing offices in Canada, Mexico, Italy, China, Brazil, United Kingdom, Switzerland and Australia.

Domestic production facilities in Illinois, Oklahoma, California, Ohio, Colorado, Alabama, Nebraska, Minnesota, Pennsylvania, South Dakota, Georgia, Texas, Florida, New Jersey, Utah, New Mexico, Nevada, Oregon and Iowa. International production facility in Chile.

ITEM 3. LEGAL PROCEEDINGS

In fiscal 1991, ConAgra Foods acquired Beatrice Company (Beatrice). As a result of the acquisition and the significant pre-acquisition contingencies of the Beatrice businesses and its former subsidiaries, the consolidated post-acquisition financial statements of the company reflect significant liabilities associated with the estimated resolution of these contingencies. These include various litigation and environmental proceedings related to businesses divested by Beatrice prior to its acquisition by the company. The environmental proceedings include litigation and administrative proceedings involving Beatrice s status as a potentially responsible party at 39 Superfund, proposed Superfund or state-equivalent sites; these sites involve locations previously owned or operated by predecessors of Beatrice that used or produced petroleum, pesticides, fertilizers, dyes, inks, solvents, PCBs, acids, lead, sulfur, tannery wastes, and / or other contaminants. Beatrice has paid or is in the process of paying its liability share at 34 of these sites. Reserves for these matters have been established based on the company s best estimate of its undiscounted remediation liabilities, which estimates include evaluation of investigatory studies, extent of required cleanup, the known volumetric contribution of Beatrice and other potentially responsible parties and its experience in remediating sites. The reserves for Beatrice environmental matters totaled $115.2 million as of May 30, 2004, and $121.2 million as of May 25, 2003, a majority of which relates to the Superfund and state equivalent sites referenced above. Expenditures for these matters are expected to occur over a period of 5 to 20 years.

On June 22, 2001, the company filed an amended annual report on Form 10-K for the fiscal year ended May 28, 2000. The filing included restated financial information for fiscal years 1997, 1998, 1999 and 2000. The restatement, due to accounting and conduct matters at United Agri Products, Inc. (UAP), a former subsidiary, was based upon an investigation undertaken by the company and the Audit Committee of its Board of Directors. The restatement was principally related to revenue recognition for deferred delivery sales and vendor rebates, advance vendor rebates, and bad debt reserves. The Securities and Exchange Commission (SEC) issued a formal order of nonpublic investigation dated September 28, 2001. The company is cooperating with the SEC investigation, which relates to the UAP matters described above, as well as other aspects of the company s financial statements, including the level and application of certain of the company s reserves.

The company is currently conducting discussions with the SEC Staff regarding a possible settlement of these matters. Based on discussions to date, the company established a $25 million reserve in fiscal 2004 in connection with matters related to this investigation. Due to the nature of the ongoing discussions, the company cannot predict whether the discussions will result in a settlement and is unable to determine the ultimate cost the company may incur in order to resolve this matter. Any final resolution could result in charges greater than the amount currently estimated and recognized in the company s financial statements.

On August 10, 2001, a purported class action lawsuit, Gebhardt v. ConAgra Foods, Inc., et. al. Case No. 810CV427, was filed in United States District Court for Nebraska against the company and certain of its executive officers alleging violations of the federal securities laws in connection with the events resulting in the company s restatement of its financial statements. The complaint seeks a declaration that the action is maintainable as a class action and that the plaintiff is a proper class representative, unspecified compensatory damages, reasonable attorneys fees and any other relief deemed proper by the court. On July 23, 2002, the federal district court granted the defendants motion to dismiss the lawsuit and entered judgment in favor of the company and the executive officers. On June 30, 2003, the Eighth Circuit Court of Appeals reversed the dismissal. The defendants thereafter renewed their motion to dismiss in the district court on the issues not previously addressed by the district court in its prior dismissal of the lawsuit. On December 10, 2003, the district court denied the defendants motion to dismiss on these other issues. The company believes the lawsuit is without merit and plans to vigorously defend the action.

On September 26, 2001, a shareholder derivative action was filed, purportedly on behalf of the company, by plaintiffs Anthony F. Rolfes and Sandra S. Rolfes in the Court of Chancery for the State of Delaware in New Castle County, Case No. 19130NC. The complaint alleges that the defendants, directors of the company during the relevant times, breached fiduciary duties in connection with events resulting in the company s restatement of its financial statements. The action seeks, inter alia, recovery to the company, which is named as a nominal defendant in the action, of damages allegedly sustained by the company and a direction to the defendants to establish programs to prevent wrongful and illegal practices. On October 9, 2001, a second shareholder derivative action was filed, purportedly on behalf of the company, by plaintiff Harbor Finance Partners in the United States District Court for the District of Nebraska, Case No. 401CV3255. The complaint contains allegations and seeks relief similar to the Delaware derivative action. The directors named as defendants in these actions intend to vigorously defend the allegations and believe the actions are without merit.

The company is a party to a number of other lawsuits and claims arising out of the operation of its businesses. After taking into account liabilities recorded for all of the foregoing matters, management believes the ultimate resolution of such matters should not have a material adverse effect on the company s financial condition, results of operations or liquidity.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT AS OF AUGUST 1, 2004

Name	Title & Capacity	Age	Year Assumed Present Office
Bruce C. Rohde	Chairman, Chief Executive Officer and President	55	1998
Dwight J. Goslee	Executive Vice President, Strategic Development	54	2004
Owen C. Johnson	Executive Vice President, Organization and Administration and Corporate Secretary	58	2004
Michael A. Fernandez	Senior Vice President, Corporate Affairs and Chief Communications Officer	47	2003
John F. Gehring	Senior Vice President and Corporate Controller	43	2004
Scott E. Messel	Senior Vice President, Treasurer and Assistant Secretary	45	2004
Peter M. Perez	Senior Vice President, Human Resources	50	2003
Patricia Verduin	Senior Vice President and Director, Office of Product Quality and Development	44	2002
Michael D. Walter	Senior Vice President, Economic and Commercial Affairs	55	2000
Anita L. Wheeler	President, ConAgra Foods Foundation	58	2004
Christopher W. Klinefelter	Vice President, Investor Relations	37	2000

The foregoing executive officers have held the specified positions with ConAgra Foods for the past five years, except as follows:

Dwight J. Goslee joined ConAgra Foods in 1985, and from 1997 through 2000 was Senior Vice President, Mergers and Acquisitions. He was named Executive Vice President, Operations Control and Development in March 2001, and to his current position in May 2004.

Owen C. Johnson joined ConAgra Foods as Senior Vice President, Human Resources and Administration in June 1998, was named Executive Vice President in 2001, and Executive Vice President, Organization and Administration and Corporate Secretary in May 2004.

Michael A. Fernandez was Vice President of Public Relations with US West from 1996 to 2000, and Senior Vice President Public Affairs with Cigna Corporation from 2000 to 2003. He joined ConAgra Foods in his current position in September 2003.

John F. Gehring joined ConAgra Foods in 2002 as Vice President of Internal Audit and became Senior Vice President in 2003. In July 2004, Mr. Gehring was named to his current position. Prior to ConAgra Foods, he was a partner at Ernst and Young from 1997 to 2001.

Scott E. Messel was Vice President and Treasurer of Lennox International from 1999 to 2001. He joined ConAgra Foods in 2001 as Vice President and Treasurer, and in July 2004 was named to his current position.

Peter M. Perez was Senior Vice President Human Resources of Pepsi Bottling from 1995 to 2000, Chief

Human Resources Officer for Alliant Foodservice in 2001, and Senior Vice President Human Resources of W.W. Granger from 2001 to 2003. He joined ConAgra Foods in his current position in December 2003.

Dr. Patricia Verduin was named to her current position in February 2002. Prior to that she was Senior Vice President Research and Development, ConAgra Foods Grocery Products Group from 2000 to 2002, and Vice President Manufacturing at International Home Products from 1999 to 2000.

Michael D. Walter joined ConAgra Foods in 1989 as President of ConAgra Specialty Grain Products. He was named Senior Vice President, Trading and Procurement in October 1996, Senior Vice President Commodity Procurement and Economic Strategy in February 2000, and to his current position in May 2004.

Anita L. Wheeler was Director of Staffing of Allied Signal from 1996 to 1998. She joined ConAgra Foods in 1999 as Vice President, Executive Staffing and Development, became Vice President, Leadership Development and Planning in 2002 and was named to her current position in May 2004.

Christopher W. Klinefelter held various positions, including Assistant Vice President, Corporate Development of Brown-Forman from 1996 to 2000. He joined ConAgra Foods in January 2000 as Vice President, Investor Relations.

OTHER SIGNIFICANT EMPLOYEES OF THE REGISTRANT AS OF AUGUST 1, 2004

Name	**Title & Capacity**	**Age**	**Year Assumed Present Office**
Kevin P. Adams	Senior Vice President, Enterprise System Implementation	37	2003
J. Chris Adderton	Vice President, Customer Service	52	2002
Rick D. Blasgen	Senior Vice President, Integrated Logistics	45	2003
William G. Caskey	President, ConAgra Foodservice Sales	54	2003
Gregory A. Heckman	President and Chief Operating Officer, ConAgra Food Ingredients Group	42	2003
Douglas A. Knudsen	President, Retail Sales Development	50	2003
Allan B. Lutz	President and Chief Operating Officer, ConAgra Foods Foodservice Company	47	2003
Dennis F. O Brien	President and Chief Operating Officer, ConAgra Foods Retail Products Company	46	2004
Kevin W. Tourangeau	Senior Vice President, Manufacturing Effectiveness	52	1999

Kevin P. Adams joined ConAgra Foods in 2000 as Vice President Channelized Business Practice, became Senior Vice President Finance Operations Retail Products Company in 2002, and was named to his current position in November 2003. He was Vice President, Operations Finance and Business Practice with International Home Foods (acquired by ConAgra Foods) from 1997 to 2000.

J. Chris Adderton joined the company as Vice President Retail Sales Frozen Foods Group in 2001, and was named to his current position in July 2002. Prior to joining ConAgra Foods, he was President Western Division Marketing Specialists from 2000 to 2001, Vice President Advantage Sales and Marketing from 1999 to 2000, and President Source One Sales and Marketing from 1998 to 1999.

Rick D. Blasgen joined the company in his current position in August 2003. Prior to that, Mr. Blasgen was Vice President Supply Chain for Kraft from 2002 to 2003, and was Vice President Supply Chain as his last assignment with Nabisco where he was employed from 1983 to 2002.

William G. Caskey joined the company in 1998 as Vice President Sales, Foodservice, and was named to his current position in June 2003. Prior to joining the company, Mr. Caskey was President of Manufacturing at Rykoff Sexton.

Gregory A. Heckman joined the company in 1984 and served as President and Chief Operating Officer, ConAgra Trade Group, from 1998 to 2001 and as President and Chief Operating Officer, ConAgra Agricultural Products Company in 2002. He was named to his current position in early 2003.

Douglas A. Knudsen was named to his current position in 2003. Prior to that, Mr. Knudsen was President, Retail Sales, from 2001 to 2003, and was President of Grocery Product Sales from 1995 to 2001.

Allan B. Lutz was named to his current position upon joining the company in June 2003. Prior to that, Mr. Lutz was President, Foodservice Division of Nestle from 1997 to 2003.

Dennis F. O Brien was named to his current position in March 2004. Previously he was President, Store Brands from 2000 to 2001, Executive Vice President and General Manager, Grocery Products from July 2001 to December 2001, and President and Chief Operating Officer Grocery Products from January 2002 to March 2004. Prior to joining the company, Mr. O Brien was Senior Vice President, Marketing and Product Development for Armstrong Industries from 1996 to 2000.

Kevin W. Tourangeau joined ConAgra Foods in his current position in March 1999. Previously he was with Randol Management Consultants, which he founded in 1998, where he worked with major corporations, including ConAgra Foods, to improve operations and profitability.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

ConAgra Foods common stock is listed on the New York Stock Exchange where it trades under the ticker symbol: CAG. At the end of fiscal 2004, 520.9 million shares of common stock were outstanding, including 1.1 million shares held in the company s Employee Equity Fund. There were approximately 33,000 shareholders of record, 25,000 holders via ConAgra Foods 401(k) plan for employees and more than 271,000 street-name beneficial holders whose shares are held in names other than their own. During fiscal 2004, 467.6 million shares were traded, a daily average of approximately 1.8 million shares.

Quarterly sales price and dividend information is set forth in Note 20 Quarterly Results (Unaudited) to the consolidated financial statements.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On December 4, 2003, the company announced a share repurchase program of up to $1 billion, authorized by the company s Board of Directors. During the fourth quarter of fiscal 2004, the company purchased 7.0 million shares at a cost of $200 million under this program. From the inception of the program through May 30, 2004, the company has purchased 15.3 million shares at a cost of $419 million.

The following table presents the total number of shares purchased during the fourth quarter of fiscal 2004, the average price paid per share, the number of shares that were purchased as part of a publicly announced repurchase program, and the approximate dollar value of the maximum number of shares that may yet be purchased under the $1 billion dollar program:

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (2)	Approximate Dollar Value of Shares that may yet be Purchased under the Program (2)
February 23 through March 21, 2004	81,413	$ 27.32		$ 781,600,000
March 22 through April 18, 2004	2,659,624	$ 27.98	2,487,500	$ 712,000,000
April 19 through May 30, 2004	4,542,777	$ 29.17	4,478,800	$ 581,400,000
Total Fiscal 2004 Fourth Quarter	7,283,814	$ 28.71	6,966,300	$ 581,400,000

(1) In addition to shares purchased as part of a publicly announced program, amounts include shares delivered to the company to pay the exercise price under stock options or to satisfy tax withholding obligations upon the exercise of stock options or vesting of restricted shares.

(2) Pursuant to the share repurchase plan announced on December 4, 2003 of up to $1 billion. This program has no expiration date.

ITEM 6. SELECTED FINANCIAL DATA (AS RESTATED, SEE NOTE 21 TO THE CONSOLIDATED FINANCIAL STATEMENTS)

FOR THE FISCAL YEARS ENDED MAY Dollars in millions, except per share amounts		2004[6]		2003[1,6]		2002[6]		2001[2,6]		2000[3,6]
Net sales[4]	$	14,522.1	$	16,939.1	$	22,335.5	$	21,867.5	$	20,842.5
Income from continuing operations before cumulative effect of changes in accounting[4]	$	725.1	$	796.0	$	751.1	$	675.3	$	340.1
Net income	$	811.3	$	763.8	$	771.7	$	641.8	$	382.7
Basic earnings per share:										
Income from continuing operations before cumulative effect of changes in accounting[4]	$	1.37	$	1.50	$	1.41	$	1.32	$	0.71
Net income	$	1.54	$	1.44	$	1.45	$	1.25	$	0.80
Diluted earnings per share:										
Income from continuing operations before cumulative effect of changes in accounting[4]	$	1.36	$	1.50	$	1.41	$	1.32	$	0.71
Net income	$	1.53	$	1.44	$	1.45	$	1.25	$	0.80
Cash dividends declared per share of common stock	$	1.0275	$	0.9775	$	0.9300	$	0.8785	$	0.7890
At Year End										
Total assets	$	14,222.2	$	15,118.7	$	15,568.7	$	16,480.8	$	12,196.6
Senior long-term debt (noncurrent)[4,5]	$	4,878.4	$	4,632.2	$	4,973.7	$	3,340.9	$	1,797.5
Subordinated long-term debt (noncurrent)	$	402.3	$	763.0	$	752.1	$	750.0	$	750.0
Preferred securities of subsidiary company[5]	$		$	175.0	$	175.0	$	525.0	$	525.0

1 2003 amounts reflect the fresh beef and pork divestiture (see Note 2 to the consolidated financial statements).

2 2001 amounts reflect the acquisition of International Home Foods (IHF).

3 2000 amounts include restructuring plan related pre-tax charges of $621.4 million ($557.5 million reflected in continuing operations and $63.9 million reflected in discontinued operations).

4 Amounts exclude the impact of discontinued operations of the Agricultural Products segment, the chicken business and the feed businesses in Spain and poultry business in Portugal.

5 2004 amounts reflect the adoption of FIN No. 46R which resulted in increasing long-term debt by $419 million, increasing other noncurrent liabilities by $25 million, increasing property, plant and equipment by $221 million, increasing other assets by $46 million and decreasing preferred securities of subsidiary company by $175 million. The subsidiary preferred securities remain outstanding and are now classified as debt.

6 As Restated, see Note 21 to the consolidated financial statements.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is intended to provide a summary of significant factors relevant to the company s financial performance and condition. The discussion should be read together with the company s financial statements and related notes beginning on page 31.

Restatement of Consolidated Financial Statements

On March 24, 2005, the company announced that it would restate certain historical results to correct errors in previously reported amounts related to income tax matters. This Form 10-K/A includes restated financial information. The correction of the errors results in an aggregate net increase in income tax expense of approximately $92 million (including approximately $2 million of tax benefit reflected in results from discontinued operations) for fiscal years 2004, 2003 and 2002, and an aggregate net decrease in income tax expense of approximately $46 million for years prior to fiscal 2002. The restatement adjustments result in a $45.6 million reduction of ending stockholders equity as of May 30, 2004.

During fiscal 2005, the company has systematically conducted reviews of financial controls as a part of its Sarbanes-Oxley 404 pre-certification process and in connection with pending tax audits, as well as part of operational improvement efforts by new financial management. During the third quarter of fiscal 2005, those reviews resulted in the discovery of errors relating to accounting for income taxes, as described below:

The company made errors in its fiscal 1997 tax return in the calculation of tax basis upon the formation of a pork subsidiary. Additional less significant tax basis calculation errors also occurred. Upon the sale of the beef and pork businesses in fiscal 2003, as a result of the basis calculation errors, the company incorrectly calculated a capital loss and recognized a deferred tax asset with an offsetting valuation allowance. The company incorrectly recognized an income tax benefit when it applied the erroneous capital loss carryforward against capital gain transactions in fiscal 2004.

The company made historical errors in accounting for income taxes for foreign operations, which resulted in errors in the amount of foreign tax credit benefits recorded and the calculation of tax expense on foreign source income and gains for tax purposes on foreign dispositions. The company also incorrectly calculated the amount of deferred tax assets and related valuation allowance for the foreign tax credit carryforwards available in fiscal 2003 and 2004.

The Internal Revenue Service issued a report of its preliminary findings for its audit of the company s fiscal 2000-2002 tax returns subsequent to the end of the third quarter of fiscal 2005. In connection with this audit, the company had incorrectly recorded adjustments to the financial statements for the impact of computational errors made by the company related to its fiscal 2000-2002 tax returns.

The company also made errors in 1) recording deferred taxes resulting in net overstatement of income tax expense in years prior to fiscal 2002; 2) the calculation of fiscal 2003 and fiscal 2004 tax expense which resulted in the company recognizing tax expense or benefits related to certain transactions in the incorrect periods; and 3) calculating the reserve for state tax contingencies, principally related to years prior to fiscal 2003.

The principal financial statement impact of such errors noted above is summarized as follows:

For periods prior to fiscal 2002, increased retained earnings by $45.8 million.

For fiscal 2002, increased income tax expense $11.3 million; decreased net income $11.3 million; decreased diluted earnings per share by $0.02.

For fiscal 2003, increased income tax expense $11.0 million; decreased net income $11.0 million; decreased diluted earnings per share $0.02.

For fiscal 2004, decreased selling, general and administrative expenses $1.4 million; increased income tax expense $72.3 million; increased income from discontinued operations $2.4 million; decreased net income $68.5 million; decreased diluted earnings per share $0.13.

Management s Discussion and Analysis (continued)

The company has also changed the presentation of cash flows from discontinued operations to separately present cash flows from discontinued operations for operating, investing and financing activities for all periods presented.

The company has changed its presentation of equity method investment earnings to present such amounts below income tax expense for all periods presented. Certain other reclassifications have been made to amounts previously reported in the company s Form 10-K for the fiscal year ended May 30, 2004 to conform with amounts reported in the company s Form 10-Q for the thirty-nine weeks ended February 27, 2005.

See Note 21 to the consolidated financial statements for additional information. The accompanying Management s Discussion and Analysis of Financial Condition and Results of Operations gives effect to such restatement.

EXECUTIVE OVERVIEW

ConAgra Foods is one of North America s largest packaged food companies, serving grocery retailers, restaurants and other foodservice establishments, as well as food processors. Popular ConAgra Foods consumer brands include: ACT II, Armour, Banquet, Blue Bonnet, Brown N Serve, Butterball, Chef Boyardee, Cook s, Crunch n Munch, DAVID, Decker, Eckrich, Egg Beaters, Fleischmann s, Gulden s, Healthy Choice, Hebrew National, Hunt s, Kid Cuisine, Knott s Berry Farm, La Choy, Lamb Weston, Libby s, Lightlife, Louis Kemp, Lunch Makers, MaMa Rosa s, Manwich, Marie Callender s, Orville Redenbacher s, PAM, Parkay, Pemmican, Peter Pan, Reddi-wip, Rosarita, Ro*Tel, Slim Jim, Snack Pack, Swiss Miss, Van Camp s, Wesson, Wolf and many others.

Diluted earnings per share were $1.53 in fiscal 2004, compared with $1.44 in fiscal 2003. The earnings performance reflects progress with the company s strategic portfolio reshaping program and key operating initiatives.

Over the past few years, the company has strategically repositioned its portfolio to focus on higher-margin, branded and value-added businesses because that business mix is expected to better serve consumers, customers and shareholders over the long run. Executing that strategy has involved acquiring branded operations and divesting commodity-related businesses. The company is also implementing initiatives to improve the operating performance of its core business segments through more effective sales, marketing and supply chain functions.

Divestitures

During fiscal 2004, the company divested its chicken business, the U.S. and Canadian crop inputs businesses of United Agri Products (UAP North America) and its Spanish feed business. These divestitures, combined with prior year divestitures of the company s fresh beef and pork, canned seafood and cheese operations substantially complete a multi-year program aimed at divesting the company s significant non-core businesses in order to strategically reshape the company and focus the company s capital on branded, value-added foods.

Selected fiscal 2004 divestiture information is summarized below:

($ in millions)	PROCEEDS			
DIVESTED OPERATION	**CASH**	**COMMON STOCK**	**PREFERRED STOCK**	**TOTAL**
Chicken Business	$ 301	$ 246	$	$ 547
UAP North America	503		60	563
Spanish Feed Business	83			83
Total	$ 887	$ 246	$ 60	$ 1,193

As part of the chicken business divestiture, the company received 25.4 million shares of Class A common stock of Pilgrim s Pride Corporation valued at $246 million at the time of the transaction, with a total carrying value of $392 million at the end of fiscal 2004 (see Liquidity and Capital Resources). The actual gains realized from the sale of the Pilgrim s Pride shares will be subject to various risks, including timing of the sales and related fluctuations in market price.

The final sales price of the chicken business was subject to a purchase price adjustment based on determination of the final net assets sold, which occurred in the first quarter of fiscal 2005. As part of settling the final purchase price adjustment, the company paid $34 million to Pilgrim s Pride. The company made adequate provisions for this final settlement in the fiscal 2004 financial statements.

As part of the UAP North America divestiture, the company received $60 million of preferred securities from the buyer, Apollo Management, L.P. (Apollo). The fair value of these securities was determined to equal the face value as of the transaction date. Apollo later repurchased $26 million of the preferred securities for cash. The remaining preferred securities may be redeemed by Apollo early, but in no case later than December 2012.

The final sales price of UAP North America was subject to a purchase price adjustment based on determination of the final net assets sold, which occurred in the first quarter of fiscal 2005. As part of settling the final purchase price adjustment, the company received $60 million from Apollo.

As of the end of fiscal 2004, each of the businesses in the above table is reported as discontinued operations within the company s consolidated financial statements for all periods presented. Also included in discontinued operations are the remaining businesses of the company s Agricultural Products segment (UAP International) and the Portuguese poultry operations. The Portuguese poultry operation was divested at the beginning of the first quarter of fiscal 2005. The company continues to actively market the UAP International operations and believes they will be divested during fiscal 2005.

Management s Discussion and Analysis (continued)

Sales and Marketing Initiatives

To strengthen brand equities and better allocate marketing investments, the company is implementing standardized, fact-based marketing methods to better assess brand opportunities and evaluate marketing programs.

To better serve customers and capitalize on growth opportunities, the company consolidated its retail sales force and established a team-based approach for customers. Customers are now served by dedicated ConAgra Foods teams representing the entire portfolio of ConAgra Foods products. This approach improves customer service and provides the company with product bundling opportunities. In addition, the company substantially reduced the role of brokers during the year.

The company believes these initiatives are beginning to favorably influence brand performance as sales of the company s top thirty consumer brands increased by 5% in fiscal 2004, including an estimated benefit of 2% from one additional week in fiscal 2004.

The company also believes that continued focus on these sales and marketing initiatives, in combination with other operational initiatives related to improving customer service, will have a positive effect on sales growth and margin improvement over the next several years.

Operational Initiatives

The company has several operational initiatives underway to improve customer service and profit margins.

Logistics: To improve customer service and supply chain efficiency, the company is retooling its logistics network. The company is transitioning from a network of hundreds of shipping locations across America to a network defined by fourteen geographically optimized mixing centers comprised of seven ambient temperature-state facilities and seven temperature-controlled facilities that will support all Retail and Foodservice operations. A mixing center is a large facility where multiple brands and products of a similar temperature-state (shelf-stable, refrigerated or frozen) are consolidated and shipped out together. As of the end of fiscal 2004, the company had completed and commissioned seven ambient state-of-the-art temperature centers and three state-of-the-art temperature-controlled centers. The remaining centers will be completed during calendar 2005. Management believes this new logistics network will improve customer service, lower operating costs and lower working capital requirements.

Information Systems: To link the information flow among key operating functions such as manufacturing, marketing, sales and logistics, the company is implementing strategic technology initiatives (using SAP software) known as project Nucleus. Management believes that project Nucleus will, in combination with other initiatives, be a key contributor to profitable future growth.

Research and Development: To share research and development ideas more effectively, the company brought together technical expertise and food analytics testing capabilities into common locations known as Centers of Excellence. The Centers of Excellence are designed to improve the company s ability to create, modify and improve products and provide customer solutions.

Operational Efficiency Initiatives: During fiscal 2004, the company implemented certain operational efficiency initiatives. These initiatives are intended to improve the company s cost structure, margins and competitive position through the elimination of duplicative costs and overhead, consolidation of selected plants and support functions and realignment of businesses. Costs associated with the implementation of such initiatives are being recognized as incurred and are expected to continue into fiscal 2005. During fiscal 2004, the company recognized charges associated with these initiatives of approximately $62 million. The company anticipates additional charges of approximately $28 million will be recognized during fiscal 2005. The company believes it will generate benefits to its cost structure, as well as synergies related to other sales and customer service initiatives, in fiscal 2005 and beyond which will more than offset these costs.

Share Repurchase Program

As a result of the company s favorable cash position resulting primarily from divestitures and cash flows generated from operations, in fiscal 2004 the company initiated a share repurchase program with authority to purchase up to $1 billion. As of the end of fiscal 2004, the company had repurchased approximately 15 million common shares at a total cost of $419 million. Management currently believes this program to be an appropriate use of the available cash and plans to continue the share repurchase program during fiscal 2005.

Additional Items Affecting Comparability

Certain other significant items affect the year-over-year comparability of the company s results of operations, as described below:

The company s fiscal 2004 results include fifty-three weeks of operations, while fiscal 2003 results include fifty-two weeks of operations. The estimated impact of the extra week in fiscal 2004 is additional net sales of approximately $289 million and additional operating profit of approximately $41 million.

The results of discontinued operations reflect income of $99 million in fiscal 2004 and a loss of $36 million in fiscal 2003.

Management s Discussion and Analysis (continued)

Fiscal 2003 results include net sales of approximately $3.1 billion and operating profit of $149 million related to the businesses divested during fiscal 2003, including the fresh beef and pork, canned seafood and processed cheese operations.

Opportunities and Challenges

The company believes that its sales, marketing and operating initiatives will favorably influence future profits, profit margins and returns on capital.

The company is facing increased costs for many of its significant raw materials, packaging and energy inputs. When appropriate, the company uses long-term purchase contracts, futures and options to reduce the volatility of these costs. The company has also recently implemented sales price increases for certain products and will continue to evaluate further price increases based on raw material cost trends, expected impact on sales volumes and other factors.

Changing consumer preferences may impact sales of certain of the company s products. The company offers a variety of food products which appeal to a range of consumer preferences and utilizes innovation and marketing programs to develop products that fit with changing consumer trends. As part of these programs, the company introduces new products and product extensions. Products introduced in fiscal 2004 included: Life Choice, Banquet Crock-Pot Classics, Healthy Choice Frozen Desserts and many others.

Consolidation of many of the company s customers continues to result in increased buying power, negotiating strength and complex service requirements for those customers. This trend, which is expected to continue, may negatively impact gross margins, particularly in the Retail Products segment. In order to effectively respond to this customer consolidation, during fiscal 2004 the company consolidated its sales force to more efficiently service its customers and to appropriately leverage the company s scale. In fiscal 2003, the company s retail customer service centers were consolidated into one specialized facility to service all retail channel customers. The company continues to streamline its distribution network in order to reduce costs and increase its responsiveness to customer needs.

SEGMENT REVIEW

The company s operations are organized into three reporting segments: Retail Products, Foodservice Products and Food Ingredients. The company historically aggregated its retail and foodservice operations within the company s Packaged Foods reporting segment. As a result of the recent strategic portfolio changes and management realignment in fiscal 2004, the company now reports its retail and foodservice operations as two separate reporting segments. The Retail Products reporting segment includes branded foods which are sold in various retail channels and includes frozen, refrigerated and shelf-stable temperature classes. The Foodservice Products reporting segment includes branded and customized food products, including meals, entrees, prepared potatoes, meats, seafood, sauces and a variety of custom-manufactured culinary products packaged for sale to restaurants and other foodservice establishments. The Food Ingredients reporting segment includes both branded and commodity food ingredients, including milled grain ingredients, seasonings, blends and flavorings, which are sold to food processors, as well as certain commodity sourcing and merchandising operations.

2004 vs. 2003

Net Sales

($ in millions) REPORTING SEGMENT		FISCAL 2004 NET SALES		FISCAL 2003 NET SALES	% INCREASE/ (DECREASE)
Retail Products	$	8,434	$	8,668	(3)%
Foodservice Products		3,714		3,598	3%
Food Ingredients		2,374		2,204	8%
Meat Processing				2,469	(100)%
Total	$	14,522	$	16,939	(14)%

Overall company net sales declined $2.4 billion to $14.5 billion, primarily reflecting the impact of the fresh beef and pork divestiture in fiscal 2003 and the sale of the canned seafood and processed cheese-related operations in the fourth quarter of fiscal 2003. Prior year sales included approximately $3.1 billion from the divested businesses, while current year sales included none. These decreases were partially offset by the $289 million estimated impact on net sales of one additional week included in the results of operations for fiscal 2004. The company believes that its sales and marketing initiatives (discussed in the Executive Overview) have begun to favorably influence brand performance.

Retail Products net sales declined $234 million for the year to $8.4 billion. Included in results for fiscal 2003 were net sales of $493 million from the canned seafood business, which was divested in fiscal 2003. This decrease was partially offset by the estimated impact of one additional week included in the results of operations for fiscal 2004, an increase to net sales of approximately $165 million. Sales of the company s key branded products showed mixed results, as sales of some of the company s most significant brands including Banquet, Chef Boyardee, Wesson, Slim Jim, PAM, Egg Beaters and Reddi-wip grew on a comparable fifty-two week basis. Major brands

Management s Discussion and Analysis (continued)

posting sales declines for the year included Healthy Choice, Butterball, Armour, ACT II and Orville Redenbacher s. In addition to the sales and marketing initiatives previously discussed, new products and product extensions in the frozen meals and entrees category, such as Banquet Crock-Pot Classics and Life Choice, positively impacted the Retail Products segment net sales for the year. Weak sales volume in popcorn products, driven by intense competition in the category and consumer trends, negatively impacted the segment s performance.

Net sales in the Foodservice Products segment were $3.7 billion, an increase of $116 million. Included in results for fiscal 2003 were net sales of $93 million from divested businesses. The estimated impact of the inclusion of one additional week of net sales in fiscal 2004 was an increase of approximately $70 million. Sales of specialty potato products and shelf-stable and specialty meats within the culinary product line achieved increased sales volumes during fiscal 2004. Improved unit pricing within the specialty potato and specialty meats products also contributed to increased net sales.

Food Ingredients net sales increased $170 million to $2.4 billion. The increase in sales was primarily driven by the pass-through of increases in commodity raw material costs, favorable results from commodity (including energy) merchandising and approximately $55 million related to the additional week in fiscal 2004.

Due to the fresh beef and pork divestiture, the Meat Processing segment includes no sales for fiscal 2004. Net sales in fiscal 2003 were $2.5 billion.

Gross Profit

(Net sales less cost of goods sold)

($ in millions) **REPORTING SEGMENT**	**FISCAL 2004 GROSS PROFIT**	**FISCAL 2003 GROSS PROFIT**	**% INCREASE/ (DECREASE)**
Retail Products	$ 2,289	$ 2,455	(7)%
Foodservice Products	570	540	6%
Food Ingredients	348	291	20%
Meat Processing		83	(100)%
Total	$ 3,207	$ 3,369	(5)%

The company s gross profit for fiscal 2004 was $3.2 billion, a decrease of $162 million, or 5%, from the prior year. The decrease reflects $168 million of gross profit in fiscal 2003 related to businesses the company no longer owns, $34 million of costs incurred in fiscal 2004 to implement the company s operational efficiency initiatives and higher input costs, which were not fully offset by higher selling prices, offset by an estimated $60 million of gross profit related to the additional week in fiscal 2004.

Retail Products gross profit for fiscal 2004 was $2.3 billion, a decrease of $166 million from fiscal 2003. Included in the prior year gross profit was $75 million from the divested canned seafood operations. Costs of implementing the company s operational efficiency initiatives reduced gross profit by $20 million. The estimated impact of the inclusion of one extra week in the current fiscal year was an increase in gross profit of approximately $42 million. Additionally, the segment s gross profit decreased due to a less favorable product mix, increased input costs, which were not fully offset by increased selling prices, primarily in refrigerated meat products and an extremely competitive environment for popcorn products.

Foodservice Products gross profit for fiscal 2004 was $570 million, an increase of $30 million over the prior fiscal year. Included in the prior year gross profit was $10 million from businesses divested in that year and a charge of approximately $24 million resulting from the reduction of the values of certain refrigerated foodservice meat inventory. Costs of implementing the company s operational efficiency initiatives reduced gross profit by $13 million. The estimated impact of the inclusion of one extra week in the current fiscal year was an increase of approximately $11 million.

The Food Ingredients segment generated gross profit of $348 million in fiscal 2004, an increase of $57 million over the prior fiscal year. The estimated impact of the inclusion of one extra week in the current fiscal year was an increase of approximately $7 million. Also favorably impacting fiscal 2004 gross profit was improved performance from certain value-added food ingredient businesses, which included a $22 million lower-of-cost or market adjustment to inventory in fiscal 2003 and better results for commodity merchandising operations due to market volatility.

Gross profit in the Meat Processing segment was $83 million in fiscal 2003.

REPORTING SEGMENT	FISCAL 2004 GROSS MARGIN	FISCAL 2003 GROSS MARGIN
Retail Products	27%	28%
Foodservice Products	15%	15%
Food Ingredients	15%	13%
Meat Processing		3%
Total	22%	20%

The company s gross margin (gross profit as a percentage of net sales) for fiscal 2004 increased two percentage points as compared to fiscal 2003, which reflects the company s divestitures of low margin operations and improvement in value-added food ingredient products, offset by the impact of higher input costs, which were not fully offset by selling price increases, principally in the Retail Products segment.

Management s Discussion and Analysis (continued)

Selling, General and Administrative Expenses, includes General Corporate Expense (SG&A)

SG&A expenses decreased $86 million, or 4%, to $1.8 billion for fiscal 2004. Prior year SG&A expenses included approximately $10 million from divested businesses and $38 million of transaction costs related to the fresh beef and pork divestiture. Costs of implementing the company s operational efficiency initiatives increased SG&A expenses by $27 million in fiscal 2004. The estimated impact of the inclusion of one extra week in fiscal 2004 was an increase of approximately $34 million. The results for fiscal 2004 include $25 million of litigation expense related to a former choline chloride joint venture with E.I. du Pont Nemours and Co. that was sold in 1997. In addition, in fiscal 2004 the company established a $25 million reserve in connection with matters related to an SEC investigation (see Other discussion within MD&A). These items were partially offset by a gain of $21 million recognized upon the sale of the company s cost-method investment in a venture. Lower selling costs, marketing-related costs and various other legal and insurance costs resulted in a favorable comparison with fiscal 2003.

Operating Profit

(Earnings before general corporate expense, interest expense, income taxes and equity method investment earnings)

($ in millions) **REPORTING SEGMENT**	**FISCAL 2004 OPERATING PROFIT**	**FISCAL 2003 OPERATING PROFIT**	**% INCREASE/ (DECREASE)**
Retail Products	$ 1,218	$ 1,298	(6)%
Foodservice Products	321	345	(7)%
Food Ingredients	197	125	58%
Meat Processing		99	