Hormel Foods

Where Tradition Meets Trend

19 ANNUAL REPORT 99
Hormel Foods Corporation

Where Tradition Meets Trend. Today, as always, balancing traditional values with marketplace trends is key to business success. In strong and enduring businesses, traditions and core values provide the foundation for responding to changing customer preferences and needs.

For over 108 years, Hormel Foods Corporation has adhered to strong core values while also adapting to constantly changing market needs. At once classic and contemporary, Hormel Foods builds on traditions of quality, innovation, brand strength, reliability and value while staying current with new trends.

This is why Hormel Foods offers high-quality products that encompass a variety of tastes and nutritional needs, why we continually innovate to deliver new flavors and enhanced convenience and why we extend our strong brands – and create new ones – to meet demand for variety and emerging preferences for ethnic cuisine. Steeped in tradition, yet forward looking – this is Hormel Foods.

BUSINESS DESCRIPTION

Hormel Foods Corporation is a multinational manufacturer and marketer of consumer-branded meat and food products, many of which are among the best known and trusted in the food industry. The company enjoys a strong reputation among consumers, retail grocers, foodservice and industrial customers for products highly regarded for quality, taste, nutrition, convenience and value. Hormel Foods Corporation is owned by approximately 11,200 shareholders and comprised of more than 12,200 employees, including subsidiaries.

TRADEMARKS

Throughout this Annual Report to Shareholders, references in *italic* represent valuable trademarks owned or licensed by Hormel Foods Corporation or its subsidiaries.

Financial Highlights

	1999	1998
Net Sales	$3,357,757,000	$3,261,045,000
Net Earnings	$ 163,438,000	$ 139,291,000
Per Share of Common Stock (Diluted)	$ 2.22	$ 1.85
Percent of Sales	4.87%	4.27%
Dividends to Shareholders	$ 47,986,000	$ 47,473,000
Per Share of Common Stock	$ .66	$ .64
Capital Additions	$ 79,121,000	$ 75,774,000
Depreciation and Amortization	$ 64,656,000	$ 60,273,000
Working Capital	$ 414,736,000	$ 449,714,000
Shareholders' Investment	$ 841,142,000	$ 813,315,000

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As we approach the end of the millennium, I'm pleased to report Hormel Foods recorded its strongest year ever in volume and financial performance. All core operating units contributed to these superior results.

For the fiscal year ended October 30, reported net earnings rose 17.3 percent to $163,438,000, a gain of $24,147,000, from earnings of $139,291,000 attained one year earlier. Reported earnings per share were $2.22, an increase of $.37 over last year's figure of $1.85.

Fiscal 1999 earnings included a gain of $3,808,000, or $.05 a share, for the sale of land by Campofrio Alimentacion, S.A., Madrid, Spain, a company in which Hormel Foods has a 21.4 percent ownership interest. Excluding this one-time gain, operating earnings for the year were $159,630,000, or $2.17 a share. Fiscal 1998 earnings, on the other hand, included a gain of $17,402,000, or $.23 a share, for the sale of the company's gelatin/specialized proteins plant in Davenport, Iowa. Excluding this gain, operating results for fiscal 1998 were $121,889,000, or $1.62 per share. Thus, Hormel Foods operating results improved 31.0 percent in fiscal 1999, or $.55 per share over fiscal 1998.

Let me review briefly our individual business groups. The Meat Products Group registered exceptional gains in dollar sales, gross margin and total profits. In addition to the *Always Tender* line of flavored pork, fresh pork and *Consumer Ready* fresh pork, *Hormel* microwave bacon and *Hormel* fully cooked bacon exceeded goals and have recently been expanded from regional to national distribution. Retail hams, led by the company's signature *Cure 81* ham brand, had double-digit volume gains. Industry category leader *Hormel* pepperoni, benefiting from a national media campaign and successful consumer promotions, achieved a sixth consecutive year of increased volume.

Within the Prepared Foods Group, sales of *Hormel* chili and *Stagg* chili grew more than three times the pace of the total category while other established brands such as *SPAM* luncheon meat, *Dinty Moore* stew, *Mary Kitchen* hash, *Kid's Kitchen* shelf-stable entrees and *Hormel* chunk meats also achieved strong volume gains. The launch in southern California by Herdez Corporation, our 50 percent owned joint venture, of the *El Torito* line of restaurant-authentic Mexican foods has surpassed early expectations. Within our Mexican, Asian, Indian and Mediterranean lines, we have added new ethnic foods in response to strong consumer trends toward greater variety in home-cooked meals.

To Our Shareholders,

Sources of Growth Worldwide dollar sales increased 3.0 percent to $3,357,757,000 from $3,261,045,000, despite the fact fiscal 1999 was a 52-week year compared to last year's 53 weeks. Tonnage growth for the year was 7.1 percent on top of last year's strong 10.3 percent increase. Domestically and internationally, the gain reflects increases in virtually every major category in which we compete, attesting to the success of company marketing initiatives and consumer acceptance of both new and established product lines.

Hormel Foods has aggressively supported its lines of value-added branded meats and food products. Our company has some of the strongest and most recognizable brands in the industry with *SPAM* luncheon meat, *Cure 81* ham, *Hormel* chili, *Hormel* pepperoni, *Dinty Moore* stew, *Black Label* bacon and many others. These branded products enhance the company's reputation for quality and reliability. They provide a foundation for the introduction of new, contemporary products to satisfy demands for increasing variety, convenience and range of tastes. With *Always Tender* flavored pork, *Hormel* fully cooked bacon, *Bread Ready* presliced meats, *El Torito* Mexican sauces and foods and *Jennie-O* turkey breast tenderloins, turkey grillers, turkey burgers and boneless and bone-in rotisserie turkey products, we continue to extend our trademarks to include products that move us further from unbranded commodities.

By focusing on adding value for foodservice operators, the company's Foodservice Group was able to advance further its industry leadership. The Foodservice Group recorded double-digit tonnage growth and excellent financial results. *Bread Ready* ham, poultry, beef and sausage enjoyed strong volume gains as foodservice operators looked to reduce labor in sandwich preparation and ensure accurate portion control. Sales of cooked beef and portion-controlled fresh pork benefited from foodservice operators' efforts to balance costs and customer expectations.

Jennie-O marked its 50th anniversary year by becoming the world's largest turkey processor. Turkey industry pricing improved throughout the year and margins benefited from low feed grain prices. Jennie-O has an exciting product development program that focuses on a mix of new value-added, higher margin items. Special concentration was given to the deli with the introduction or expanded distribution of three rotisserie products, a presliced three-pound package of turkey deli breasts for in-house sandwich preparation and a *Jennie-O* VIP turkey roast for center-of-the-plate entrees.

Double-digit export volume for Hormel Foods International (HFI) reflects improvement in all major product categories and in all regions of the world. Processed meats and fresh pork and turkey were important contributors to the gain as were *SPAM* luncheon meat and *Stagg* chili. A new alliance formed early in the first quarter, called the Purefoods-Hormel Company, gives HFI a strong partner in the Philippines with whom to market a variety of canned foods and refrigerated meat products.

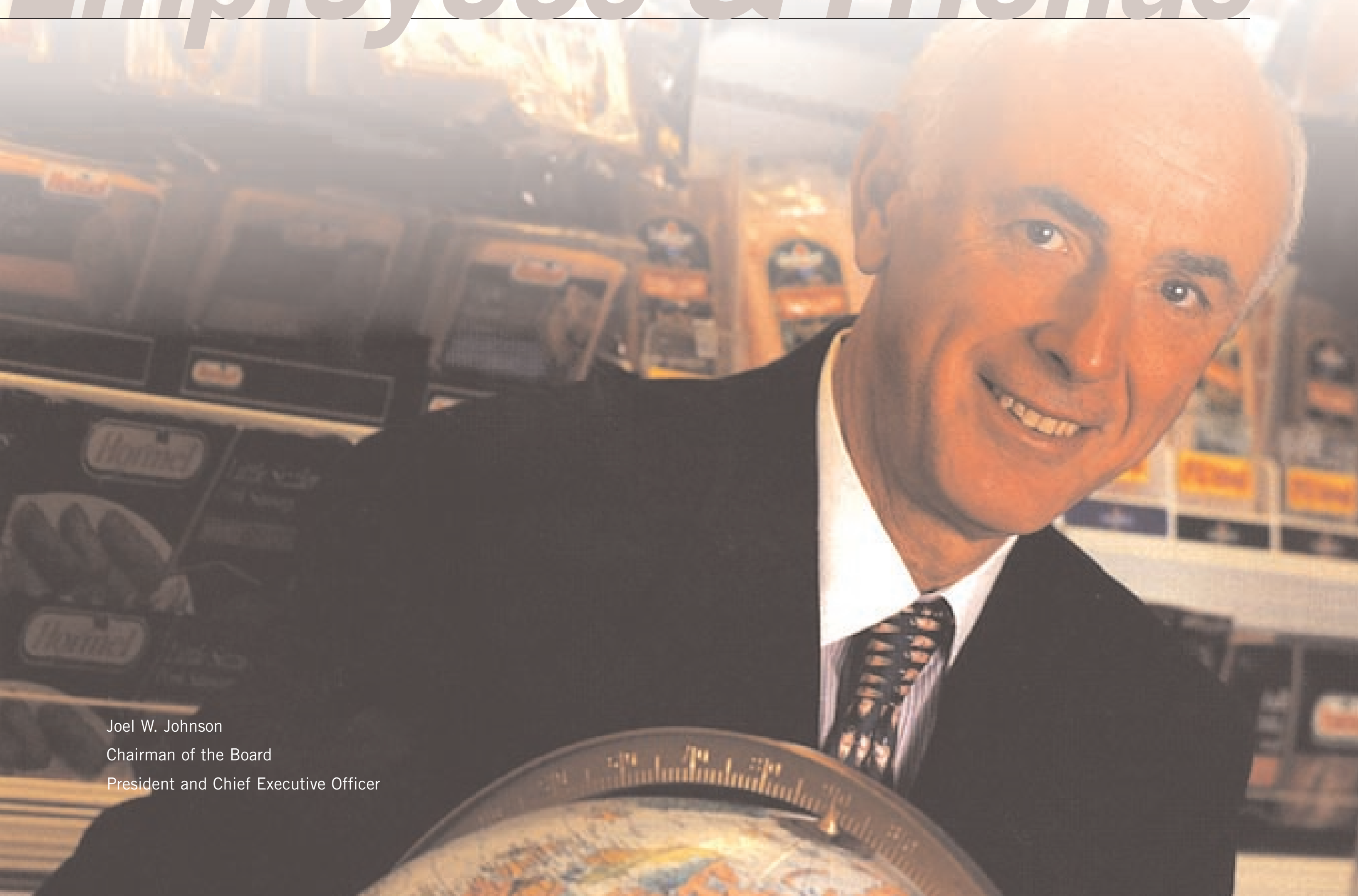
Supporting our Businesses The company's many product initiatives received record support levels. Marketing expense, which includes media, advertising and promotions, reached $307,376,000 in 1999, 11.0 percent greater than the year before. These expenditures are evidence of Hormel Foods commitment to establish new products and contemporize existing brands.

Research and development is also a vital ingredient in ensuring continued growth. Spending in this area has grown from $7.8 million in 1995 to a record $9.6 million in 1999. This R&D investment has led to improved products and facilities and the development of new products, manufacturing processes, productivity gains and packaging technology.

Capital Investment In recent years, most of our capital spending has been for plant renewal, cost reduction, increased productivity, quality improvement and employee safety and ergonomic needs. In fiscal 1999, $79,121,000 was expended to bring the total for the past five years to $491,399,000, confirming the company's ongoing commitment to modernization of its facilities. Hormel Foods is determined to be prepared for future market opportunities.

In a move to meet the excellent consumer response to *Always Tender* fresh and flavored pork products and *Always Tender Consumer Ready* fresh pork, capacities were expanded in Austin, Minn., Fremont, Neb., Rochelle, Ill., and Osceola, Iowa. The popularity of the company's microwave-ready and fully cooked bacon products required capital expenditures in excess of $10 million. A new customized slicing line in Austin raised production of *Black Label* microwave-ready bacon by more than 50 percent. In Atlanta, Ga., the addition of a four-lane bacon transfer system resulted in

Employees & Friends



Joel W. Johnson
Chairman of the Board
President and Chief Executive Officer

higher capacity levels for *Black Label* fully cooked bacon. Reopening a 93,000 square foot meat products plant in Houston, Texas, will help fulfill demand for fully cooked bacon and *Cure 81* bone-in spiral-sliced ham.

Late in the first quarter, the conversion to a two-piece lithographed *SPAM* luncheon meat can was completed at the Austin plant. A similar conversion had been completed in 1998 at the Fremont facility. The changeover provides improved packaging graphics and important cost savings.

Also in the year, the company aggressively pursued initiatives to further automate its pork slaughtering operations. More than $5 million was spent to add an automatic loin-pulling system in Austin and install specially designed robots to perform heavy manual labor functions. These advances are expected to enhance quality, increase yields, improve working conditions and reduce costs.

At Jennie-O, a 33,000 square foot expansion of the Pelican Rapids, Minn., plant is scheduled for completion in the summer of 2000. New technologically advanced processing equipment will add 40 million pounds to this plant's yearly output. In September, Jennie-O purchased a 23,000 square foot facility in Golden Valley, Minn. This facility processes boneless turkey thigh meat which is shipped to other Jennie-O plants for further processing into branded products.

Measuring Our Business There are a number of ways to evaluate the progress of a company, including growth in profits, return on capital and return on equity. A method receiving increasing attention in recent years is economic value added (EVA) which measures success as the difference between net operating profit after tax and the cost of capital used to generate that profit.

Late in the 1999 fiscal year, Hormel Foods announced the adoption of EVA as the basis on which it would make capital allocation decisions. The system was implemented October 31, the beginning of fiscal year 2000. We believe EVA will provide the measurement and incentive tools necessary to optimize the performance of our various business functions and thereby create additional shareholder value. As witnessed by the results reported in this Annual Report, Hormel Foods is performing well. We do believe, however, implementation of EVA will support our drive for even better performance and increased shareholder value in the future.

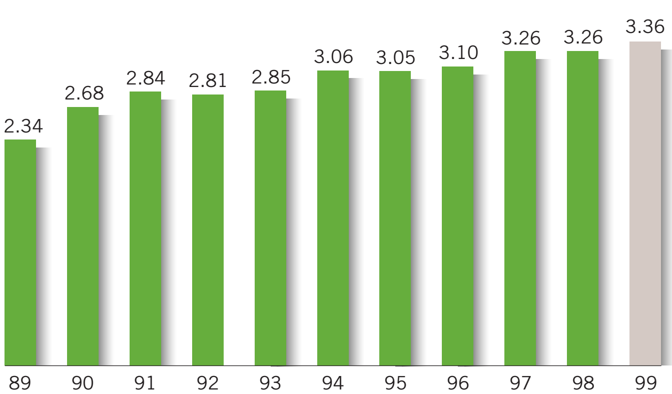
The adoption of EVA led to a reorganization of the company's major operations into units better able to streamline accountability and increase overall organizational effectiveness. The restructuring led to a number of significant promotions addressed later in this letter.

Cash Dividends and Share Repurchase In September 1998, the company announced a plan to repurchase up to five million shares of common stock. Given the company's continuing surplus cash position and strong balance sheet, the Board of Directors determined a share repurchase program delivers added value to shareholders by improving return on equity while demonstrating management's confidence in the future performance of the company. Under this program 2,248,100 shares of common stock were purchased on the open market in 1999 at an average price of $39 per share.

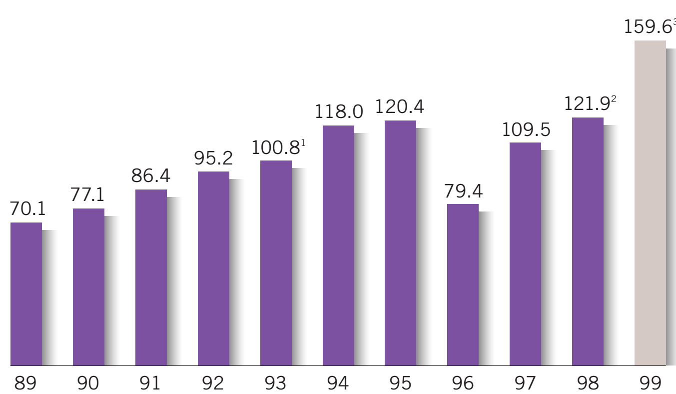
For the 33rd consecutive year, the company's annual cash dividend rate on the common stock of the corporation was raised. The new increase amounted to a 3.1 percent improvement which increased the annual payment from $.64 to $.66 per share. This consistency of performance is shared by fewer than 100 of the more than 15,000 publicly held U.S. companies. Also of significance is the fact that Hormel Foods has never missed a dividend payment to stockholders since becoming a public company in 1928.

Senior Management Changes I would like to recognize the career contributions of Stanley E. Kerber, group vice president of the Meat Products Group, and James N. Rieth, Ph.D., Hormel Foods vice president and president and chief executive officer of Jennie-O. Stan retired December 31, 1999, after serving the company for 44 years.

Net Sales *(billions of dollars)*



Net Earnings *(millions of dollars)*



[1]Before cumulative reduction due to adopting SFAS No. 106 and SFAS No. 109 of $127.5.
[2]Before gain on sale of Davenport Plant of $17.4.
[3]Before gain on sale of land by Campofrio Alimentacion of $3.8.

He was a member of the company's Executive Committee and Board of Directors. Jim, another long-term veteran with 36 years of service, will conclude his company tenure early next year. Prior to moving to Jennie-O in his current capacity, Jim held executive positions within Hormel Foods as vice president of strategic planning and development, vice president of manufacturing and vice president of engineering, respectively. Both Stan and Jim made significant contributions to the company's success and their leadership and commitment will be missed.

I mentioned earlier that implementation of EVA led to a number of changes within our top management team. We have, for a long time, been committed to superior training and personnel development programs. This has proven valuable in providing a flow of capable candidates for the many opportunities which are occurring. Within the newly formed Refrigerated Foods Group, Gary J. Ray was given overall responsibility for fresh pork, processed meats and foodservice sales and marketing functions. Ronald W. Fielding was elected group vice president of meat products. He was named a company vice president nearly three years ago and had served as president of our Hormel Foods International (HFI) subsidiary since January 1996. Ron was replaced as president of HFI by Richard A. Bross who previously served as a vice president within the company's Grocery Products Division. Also within the Refrigerated Foods Group, William F. Snyder was named vice president of operations, Kurt F. Mueller, vice president of sales and marketing for fresh pork, and Joe C. Swedberg, vice president of marketing for processed meats.

In the Prepared Foods Group, Eric A. Brown's responsibilities were expanded to full profit and loss responsibility, including manufacturing operations. Gary C. Paxton, vice president, assumed direct production responsibility for prepared foods. Larry L. Vorpahl was named vice president of grocery products marketing and Douglas R. Reetz, vice president of grocery products sales.

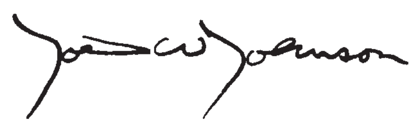
James A. Jorgenson was advanced from vice president of human resources to senior vice president of corporate staff. While continuing to have responsibility for all personnel and human resource functions, Jim now has reporting to him all purchasing, logistics, customer service, industrial engineering, company air and fleet transportation services and engineering operations. Larry J. Pfeil was promoted from director to vice president of engineering.

Mahlon C. Schneider, vice president and general counsel for the company, was elected a senior vice president in charge of external affairs. He continues to serve as general counsel and assumed additional supervisory duties for marketing services and public relations. V. Allan Krejci advanced from director to vice president of public relations within the newly formed external affairs business group.

Jeffrey M. Ettinger, named treasurer in early 1998, was elected a company vice president and will become president and chief executive officer of Jennie-O following Jim Reith's retirement early in fiscal year 2000. James N. Sheehan, president of Hormel Financial Services Corp., was elected treasurer of Hormel Foods.

In the first quarter of fiscal 1999, Fred D. Halvin advanced to assistant controller. Fred joined Hormel Foods in 1985 and most recently served as manager of state and local taxes.

With the depth and quality of our management and employees, we are enthusiastic about the year 2000 and the continuing opportunities ahead. Proud of our past, we approach the future with enthusiasm. Our objective is to remain an industry leader. Our purpose is to improve performance. Our goal is to increase shareholder value.



Joel W. Johnson
Chairman of the Board
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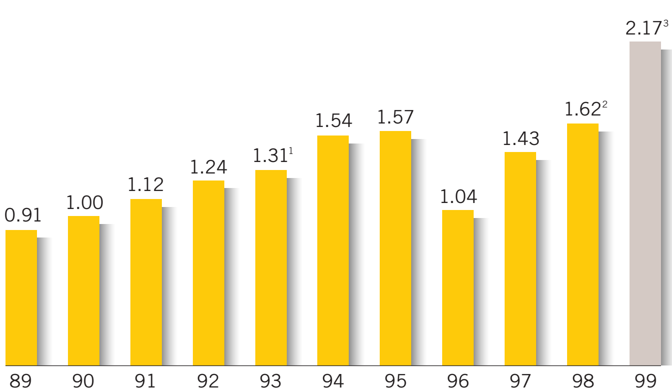
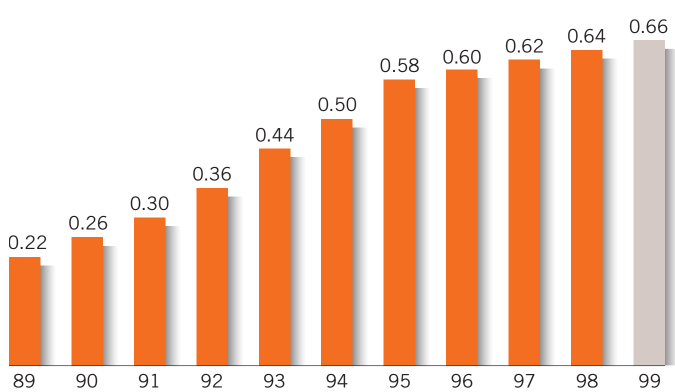
Earnings per Share *(dollars)*



[1]Before cumulative reduction due to adopting SFAS No. 106 and SFAS No. 109 of $1.66.
[2]Before gain on sale of Davenport Plant of $.23.
[3]Before gain on sale of land by Campofrio Alimentacion of $.05.

Dividends per Share *(dollars)*



Hormel Foods Corporation, en route to recording new levels of financial achievement, concentrated in fiscal 1999 on strengthening its strong brands, extending distribution and geographic reach and establishing a presence in promising niche markets. Many familiar and traditional products as well as innovative new offerings, supported by record marketing expense for media and consumer-targeted promotions, enjoyed solid volume growth and increased category share.

The quickening pace of modern life and a marketplace known for its rapid and ever-shifting changes required Hormel Foods to be sensitive to differing consumer expectations and lifestyles. This led to the marketing to today's contemporary consumer products that are convenient to use, high in quality and offering good value – products that were respectful of tradition but entrepreneurial in approach.

Extending Strong Brands In its third year, *Always Tender* fresh pork continued its exceptional growth. All categories – *Always Tender* fresh pork, *Always Tender* flavored pork and *Always Tender Consumer Ready* fresh pork – achieved record sales dollars and tonnage volume. New products added to the *Always Tender* flavored pork line included an original pork loin filet to complement the mesquite barbecue, lemon garlic, honey mustard and salsa filet varieties. A new *Chef's Prime* boneless pork roast, available in apple cinnamon and southwestern-style seasonings, was launched regionally as were a new Goya Mojo picnic roast and pork loin filet. Late in the year, an *Always Tender* fresh pork crown roast was introduced as a special occasion product and marketed to consumers as "The Prime Rib of Pork."

Cure 81 ham had an outstanding year with all varieties contributing to new levels of sales growth. The boneless *Cure 81* ham, core product of this signature Hormel Foods brand, experienced double-digit growth while the spiral-sliced *Cure 81* ham developed solid

Brand Strength

TRADITION

When you think of brand strength, what better name comes to mind than *SPAM*, named by BRAND MARKETING magazine as one of the 100 brands that changed America.

Synonymous with speed and convenience is the company's line of wholesome, kid-friendly microwave meals under the *Kid's Kitchen* brand. Three *Pizza Wedges* microwave meals were introduced in 1999.

Convenience

TREND

volume and distribution increases. Newer introductions to the line, an endless deli-style *Cure 81* ham and a center-cut *Cure 81* ham steak, also scored notable gains. Record investments in advertising and promotion, centered around the Christmas and Easter holidays as well as a "Great on the Grill" summer program and key in-store product tie-ins, aided the brand's overall performance. The national *Hams for the Holidays* promotion reached a record level of giving in 1999 with a company donation to local charities of *Cure 81* hams having a retail value of more than $1.5 million.

Hormel pepperoni, one of the flagship products of the company, recorded its sixth consecutive year of increased volume and category share growth. With a dollar category share exceeding 50 percent, brand awareness at both trade and consumer levels is unmatched. In fiscal 1999, a new creative strategy in both print and television emphasized the convenience of *Hormel* pepperoni as a snack food. Other successful initiatives involved a "Pizza Partner" tie-in promotion with PILLSBURY pizza crust, RAGU pizza sauce and SARGENTO cheese, a "Pizza Pit Stop" campaign with MAMA MARY'S pizza crust and a back-to-school program with SARGENTO cheese.

Jennie-O Foods, having processed approximately 850 million pounds in 1999, enjoyed recognition as the largest turkey processor in the world. The number one ranking occurred as Jennie-O Foods celebrated its 50th anniversary year. Contributing to this twofold milestone was the continued transition from a commodity-based operation to a marketer of branded, value-added and higher margin products sold to retail, deli and foodservice channels. New product introductions, including *Jennie-O* turkey breast tenderloins and *Jennie-O Turkey Grillers*, were rolled out nationally and helped fuel this progress.

Strengthening Big Brands Fiscal 1999 represented another year in which Hormel Foods focused on revitalizing some of the nation's best-known brands. *SPAM* luncheon meat enjoyed a gain in dollar sales as consumers reacted positively to an advertising campaign in major weekly magazines and on network cable television which featured a contemporary "great taste" message. An innovative summer grilling program, a *SPAM* Stuff consumer promotion, development of a new easy-open, pull-tab container and introduction of a three- or six-unit, regular or less sodium variety, multipack offer also stimulated sales growth. The importance of *SPAM* luncheon meat was underscored when BRAND MARKETING magazine named it one of the 100 brands that changed America.

SPAM oven roasted turkey entered six test markets late in fiscal 1999. The 100 percent white turkey meat is 96 percent fat free with only 2.5 grams of fat per 2-oz. serving. This flavorful, low-fat introduction is a further step in revitalizing the product category and is expected to improve *SPAM* luncheon meat purchase interest across all consumer segments.

Hormel chili attained record tonnage volume for the year, surpassing 100 million pounds. Together, the company's *Hormel* and *Stagg* chili brands enjoyed greater sales volume than the next eight competitors combined. In a move to increase volume and brand awareness, new varieties of *Hormel* chili no beans and *Hormel* chili with beans were introduced with TABASCO brand pepper sauce as an ingredient. This co-brand launch, combining the two strong category leaders, occurred late in the year.

Another priority brand, *Dinty Moore* beef stew, strengthened its category leadership en route to recording a strong increase in volume. Innovative multipacks helped drive sales of this well-known product reformulated in 1998 to reduce fat and calories. The rollout one year ago of a new 50 percent reduced fat *Mary Kitchen* corned beef hash, offering improved quality, taste and nutrition attributes, has been equally successful. Sales of *Hormel* ham, breast of chicken and turkey chunk meats benefited from marketing tie-ins and cross-promotions with KRAFT dressing, SUCCESS rice and AZTECA flour tortillas.

Herb-Ox bouillon recorded double-digit sales growth as consumers responded enthusiastically to the newly developed quick-dissolving cube. Three new flavored bouillons, garlic chicken, Italian herb and spicy chicken, and six dry soup varieties, chicken noodle, wild rice, black bean, beef noodle & vegetable, potato leek and split pea, were introduced late in the year.

Innovation and Convenience Delivering speed and convenience to "time-starved" consumers, *Hormel* microwave-ready bacon and *Hormel* fully cooked bacon posted healthy double-digit volume gains. Sales of original *Black Label* bacon, one of the company's

Quality

TRADITION

When seeking traditional quality, *Cure 81* ham, an industry megabrand, is the standard by which many ham products are judged. This flagship line had an outstanding year with all varieties contributing to new sales growth.

Jennie-O VIP turkey breast is a highly nutritious, low in fat and calories product that has become the premier turkey breast item in service delis of major retail chains in the western United States.

Health & Nutrition

TREND

classic products, were strong as were two other well-known brands, *Range Brand* bacon and *Dubuque* Classic bacon. As a product group, *Hormel* bacon showed outstanding growth in volume and category share, outperforming the competition. In the bacon topping category, *Hormel* real bacon bits and *Hormel* real bacon pieces became the number one dollar share brand with strong sales growth resulting from positioning these products as "real" bacon delivering superior flavor with low fat.

Within the shelf-stable microwave foods category, both dollar sales and market share increased in fiscal 1999 for the family of *Kid's Kitchen* shelf-stable entrees. These products, which require no refrigeration and are ready to eat in minutes, are ideal for home or away-from-home consumption and fit today's active lifestyles. The introduction of *Pizza Wedges* microwave meals in pepperoni, three cheese and cheeseburger varieties contributed to the fine results. At the other end of the population spectrum, *Dinty Moore American Classics* entrees and *Dinty Moore* prepared entrees were marketed to mass merchandisers as complete, easy and nutritionally balanced meal solutions for adults. Sales of this line of microwaveable products, in trays and cups, added to the company's category leadership.

New Product Offerings *Light & Lean* roast beef, presliced and sold in an 8-oz. or 1-lb. package, was developed to capitalize in the retail meat case on the popularity this key favorite enjoys in the service delicatessen. *Light & Lean* roast beef has 44 percent fewer calories when compared to regular roast beef products and joins an ever-growing lineup of lunch meats that includes ham, honey ham, oven roasted turkey and smoked turkey.

A new *Hormel* thin cut and thick cut bone-in smoked pork chop was introduced in February, complementing the original boneless variety offered in black pepper and honey mustard flavors. Also moved into national distribution was a line of *Hormel* beef jerky, teriyaki beef jerky and turkey breast filet, developed as an alternative to other traditional snack products.

Wranglers smoked franks with cheese and jalapeño peppers, a sizzling taste combination designed to meet consumer demands for unique, hearty and spicy flavors, made its market debut in the second quarter. *Wranglers* smoked franks, available in original, beef and cheese varieties, recorded gains in both dollar sales and tonnage shipped. A second new item was the summertime introduction of *Hormel* Old-Fashioned beef franks. Developed to offer the ultimate in consumer convenience and satisfaction, this premium all-beef frank is now available in selected regions of the country.

Ethnic Food Categories As an industry leader in the introduction of new and interesting ethnic foods, Hormel Foods meets growing consumer interests by bringing gourmet ingredients and ready-to-serve, easy-to-prepare meals to America's tables. For south-of-the-border cravings, the company offers three Mexican brands – *Chi-Chi's, Herdez* and *El Torito*. Product line extensions for the *Chi-Chi's* brand included two new salsas, Fiesta roasted tomato salsa and Fiesta garden salsa; three new seasonings, burrito, fajita and taco; three additional dinner kits, soft taco, burrito and fajita, and a sweet corn cake mix. *Chi-Chi's* Original Recipe salsa, in mild and medium varieties, was reintroduced late in the year due to continuing consumer appeal for a uniquely fresh flavor never too thick or too sweet.

The *Herdez* line of authentic Mexican foods, aided by wider distribution of 16- and 24-oz. salsas, continued its positive growth with a third consecutive year of double-digit volume increases. *Doña María* mole once again reported strong volume improvement. The recent market introduction of one-liter bottles of *Bufalo* jalapeño and botanera hot sauces also strengthened the brand's overall performance.

Under a licensing agreement with El Torito Restaurants, Inc., Irvine, Calif., Hormel Foods began marketing a second line of restaurant-authentic Mexican sauces and foods under the *El Torito* brand. The *El Torito* line includes four salsas, three enchilada sauces, three seasoning mixes, a sweet corn cake mix and three salad dressings, including the restaurant's signature Cilantro Pepita Caesar. Aided by consumer familiarity with the El Torito restaurant chain, the *El Torito* brand had an exceptionally strong sales launch in southern California.

New Flavors

TREND

Flavorful and nutritious also describe the line of *Always Tender* pork products that have met with enormous trade and consumer acceptance. Hormel Foods is the pacesetter in providing this new generation of value-added pork.

Hormel Foods has long been known for its product innovation. *Hormel* fully cooked bacon, ready to eat with no mess or after meal cleanup, is one of the company's newest examples of entrepreneurial product development.

Product Innovation

TRADITION

Distribution and volume gains for *Marrakesh Express* couscous were enhanced by successful product line extensions. An unflavored *Marrakesh Express* couscous, sold in a 25.2-oz. resealable canister with a handy portion scoop, was well received as was a five-item line of *Marrakesh Express Cocorico!* breakfast cereals packaged in convenient, ready-to-go cups. Six *Marrakesh Express* Zuppa! Mediterranean soups also showed good progress.

Also within the Mediterranean foods category, Hormel Foods introduced four *Peloponnese* spread items in Kalamata olive, red pepper and almond, muffaletta and Mediterranean salsa varieties. A salsa aubergina with roasted eggplant, salsa Mediterranean with lentils, peppers & green olives and a salsa Kalamata, all under the *Peloponnese* brand, are new value-added, recipe-ready products designed for snacking, picnics or at-your-desk lunchtime enjoyment. Four *Peloponnese* bean stufado varieties debuted as hearty and flavorful dishes that could be served as a main entree or as out-of-the-jar toppers and salsas.

Patak's, the world's number one brand of Indian foods, offers a diversified lineup of cooking sauces, chutneys, vegetable curries, soups, curry pastes, marinades and relishes that eliminate the need for consumers to visit restaurants in search of perfect Indian cuisine. Newly designed, easier-to-read labels help clarify ingredients and uses, define the heat level, provide recipe suggestions and offer background information on what region in India the product comes from and how it originated. This helped educate consumers and increased their comfort level with this relatively new entrant into the American kitchen. New products introduced in 1999 included a mild curry, Tikka Masala and Tandoori marinade.

Asian cuisine is one of America's favorite ethnic foods to prepare at home. Several new *House of Tsang* product additions are planned for fiscal 2000, complementing a wide variety of sauces and oils.

Foodservice, Deli and Other Specialty Businesses Consumers continue to spend a higher portion of food dollars on food prepared and eaten away from home. The Foodservice Group successfully continued to outpace industry growth and took advantage of the enormous opportunities available to service major fast-food, hospitality, upscale, family-style and coffee shop restaurants, airlines, health care and educational institutions, pizzerias and other industry segments. In 1999, all major foodservice product categories experienced strong growth, most of them enjoying double-digit gains.

Bread Ready presliced meats reported especially strong volume as increasing numbers of foodservice operators turned to the more convenient, less labor intensive preparation of sandwiches. *Fast 'N Easy* precooked hamburgers and sausage, *Grill Perfect* bacon and *Old Smokehouse* bacon also had a noteworthy volume year.

Growth in the fresh pork category, including boneless pork loins, pork spareribs and loin back ribs, continued strong. The popularity of barbecue meats and the new and creative ways restauranteurs are using pork on their menus contributed to this growth. In August, the *Always Tender* pork line was introduced to foodservice customers as a new, enhanced product which outperforms conventional pork. In the initial rollout were center-of-the-plate *Always Tender* ham and pork loin roasts, loin back ribs, St. Louis-style ribs and pork tenderloins.

The desire for new and bolder flavors pushed other foodservice initiatives. *House of Tsang Bangkok Padang* peanut sauce attained popularity as a marinade or salad ingredient at national family-style dining establishments. *Old Smokehouse Applewood* smoked bacon, double-smoked with real applewood chips, provided a totally distinctive flavor and aroma profile and a unique eating experience. Other new products and line extensions included *Griddlemaster* breakfast sausage, *Dairy Brand* bratwurst, *Hormel* Country Brand bacon, *Rosa Grande* large diameter sliced pepperoni, *Bread Ready* hot ham capocollo and *Masterpieces* roasted and diced chicken for pizzerias. Military accounts, casinos and ski resorts created new growth opportunities for *Stagg* chili and *Stagg* corned beef hash.

The deli meat category continued to expand with flavorful dry sausages like *Homeland* hard salami and *Di Lusso* Genoa salami leading the way. *Hormel* honey ham, *Hormel* Virginia-style ham and *Hormel* mesquite-smoked turkey breast were deli ham and poultry pacesetters. A Sonoma-style tomato basil flavor was added to the *Jennie-O* Regional Favorites deli turkey breast line. Other flavors include hot red pepper, garlic pepper, Cajun cayenne pepper, maple spice and smoked pepper. Three varieties of *Jennie-O* turkey burgers – savory, Mediterranean and southwestern seasoned – made their market debut to foodservice operators seeking a tasty, reduced-

Reliability

TRADITION

Foodservice operators trust and rely on the consistent quality, flavor and convenience of *Bread Ready* presliced meats, *Old Smokehouse Applewood* smoked bacon and *Peloponnese* roasted red bell peppers and sun-dried tomatoes used in sandwich preparation.

For south-of-the-border cuisine, Hormel Foods offers three Mexican brands – *Chi-Chi's*, *Herdez* and the newly launched *El Torito* line of restaurant-authentic sauces and foods.

Ethnic Foods

TREND

fat alternative to traditional hamburgers. *Jennie-O* rotisserie turkey, merchandised alone or as home meal replacement within supermarket delis, builds off the need for increased consumer convenience and a familiarity with rotisserie chicken. Included in the service deli rotisserie program were *Jennie-O* bone-in breasts, thighs, drumsticks, boneless breast roasts and fully cooked turkey breasts.

Within the Specialty Products Division, strong demand continued for the company's family of all-natural flavored soup stocks under the *Great Beginnings* and *Building Blocks* brand names. In the area of private label gelatin desserts and puddings, an increasing number of new grocery accounts and the introduction of 12 premium instant puddings, a sugar free/fat free pudding and sugar free gelatin desserts produced another year of volume gains.

Gourmet America, the company's specialty foods importer, achieved strong growth by sourcing new products and brands. *La Forestiere* exotic dried mushrooms, truffles and truffle oil were introduced into retail and foodservice outlets. *Laurent du Clos* Dijon and flavored mustards and *Laurent du Clos* wine vinegars, produced in France's Charente region, were well received. *El Pescador* anchovies from Chile were sold to national pizza chain operators and Italian pasta to major restaurant chains.

Dan's Prize presliced roast beef, corned beef and pastrami products, marketed through foodservice distributors and private brand arrangements, again produced double-digit results. A new extra lean pot roast with gravy, Mojo cooked ham and peppered pastrami were introduced.

Hormel HealthLabs, Inc., formerly known as American Institutional Products (AIP), attained another record volume year and experienced impressive distribution gains. A leading supplier of foods for the growing health care segment of the foodservice industry, Hormel HealthLabs achieved significant gains from the *Thick & Easy* thickened beverage line, KEMPS *Plus-2* nutritional supplement, *FiberCare* all-natural fruit fibers and *ProPass* protein supplements. Recent additions to the line include fiber-added drinks, thickened reduced-fat milk and instant soluble fiber, all of which are expected to positively impact sales in fiscal 2000.

Across all regions in which it competes and involving nearly all product categories and major brands, Hormel Foods International (HFI) experienced outstanding growth during fiscal 1999. During the year, new alliances with global partners brought local sales and marketing knowledge to complement Hormel Foods strong consumer brands. In May, HFI held its first Partner Conference, bringing together 25 partners from 16 countries on five continents. The meeting enabled new and longstanding partners to learn more about Hormel Foods and to exchange ideas on building the business.

Asia-Pacific Region In the Philippines, a joint venture with Pure Foods Corporation led to the creation of the Purefoods-Hormel Company, 40 percent of which is owned by HFI. The new joint venture produces and markets a variety of canned foods and refrigerated meats and has a talented and experienced management team dedicated to improving distribution of the Purefoods and Hormel Foods brands in the Philippines.

KR Hormel Foods of Brisbane, Australia, successfully introduced 14 varieties of *Stagg* chili and tamales in 1999. Enthusiastic consumer acceptance led to sales 20 percent over projections and double-digit sales gains for KR Hormel Foods. Australia is the second largest export market for *Stagg* chili, trailing only Canada.

A new partnership with Snow Brands Foods, Tokyo, Japan, resulted in exports to that country of pork loins and pork tenderloins produced at Hormel Foods manufacturing facilities in the U.S. The economic recovery in South Korea, combined with HFI's marketing expertise and licensee Cheil Jedang's distribution capabilities, led to record sales of *SPAM* luncheon meat in that country.

China Extensive consumer promotion and in-store merchandising generated strong growth for branded hot dog sales. With the Hot Dog Road Show and the Mr. Hot Dog mascot increasing recognition of the *Hormel* brand, HFI gained the leading category share in hot dogs, luncheon meats and bacon in Beijing and Shanghai. Leadership in the hot dog category was propelled by the successful introduction of *Hormel* "one bite," or cocktail-size hot dogs in three flavors – chicken, pork and beef.

Variety

TRADITION

Marketing a comprehensive array of branded shelf-stable and refrigerated products to more than 50 countries worldwide, Hormel Foods International (HFI) is steadily expanding its business and operations around the globe.

In China, the introduction of hot dogs, cocktail-size hot dogs, luncheon meats, bacon and other western-style meat products continues to gain increased local consumer acceptance.

Global

TREND

Europe Campofrio Alimentacion, S.A., Madrid, Spain, made several strategic acquisitions in 1999. Newly acquired operations in Spain, Poland, Romania and France will improve access to key European and eastern European markets. Hormel Foods has a 21 percent ownership in Campofrio Alimentacion, S.A.

In conjunction with Tulip International A/S, HFI's licensee in Arhus, Denmark, eight varieties of *Stagg* chili were launched into the United Kingdom. The brand's debut involved an aggressive advertising campaign and extensive public relations support. Trade acceptance has been strong. Tulip International also continued to build upon its success with *SPAM* chopped pork and ham in the U.K., attaining record sales growth and record category shares exceeding 50 percent.

Americas Exports to Latin America and Canada increased substantially in fiscal 1999, the result of strong partner companies in these regions. Cinta Azul, joint venture partner in Costa Rica, was purchased by Cargill Incorporated, creating an HFI alliance with the Minneapolis, Minn.-based worldwide conglomerate. This joint venture continues to increase the *Hormel* brand presence throughout Costa Rica, Nicaragua, El Salvador, Guatemala, Honduras and Belize.

In Panama, alliances with Blue Ribbon Products, S.A., and Groceries Trade, Inc., led to a 60 percent tonnage increase. *Hormel* refrigerated and dry sausage products, *Jennie-O* whole and processed turkey and *Black Label* luncheon meat were major contributors. In the Caribbean, volume nearly tripled with existing distributors building category share of established products and new distributors in Haiti, the Dominican Republic, Curacao and Jamaica successfully introducing *SPAM* luncheon meat, *SPAM* Spread and *Hormel* Vienna sausage to the islands.

Hormel Alimentos S.A. de C.V., HFI's Mexican joint venture, entered the packaged meats category with four dry sausage products – pepperoni, hot pepperoni, Italian salami and Genoa salami. Three new flavors of *SPAM* Spread – mushroom, jalapeño and red peppers – debuted late in the fiscal year. Also in 1999, HFI, in partnership with Distributor Internacional de Alimentos, began servicing the Mexican foodservice industry, a move that resulted in the development of several significant hotel and restaurant customers.

Exports to Canada reached record levels with expanded foodservice business helping generate the growth. *Stagg* chili enjoyed another year of outstanding tonnage improvement to build upon its category leadership among major Canadian retailers. To take advantage of the brand's popularity and strength, meatball, chicken, beef and turkey stew products and ham, chicken and turkey chunk meat items were introduced under the *Stagg* brand.

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(4) Executive Committee
(5) Nominating Committee
(6) Employee Benefits Committee
(7) Personnel Committee
* Denotes Chairperson

Management's Discussion and Analysis of Financial Condition and Results of Operations

(IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)

Fiscal Years 1999 and 1998: The year 1999 was a particularly strong year for Hormel Foods. Company marketing efforts and strong consumer demands generated record sales levels across all major operating units. This allowed company facilities to operate at optimum efficiencies. Abundant supplies of live hogs at reasonable costs supported the sales increases.

The company benefited from relatively low hog markets for cash hog purchases. However, we continued to pay substantially more than quoted markets for hogs purchased under procurement contracts. These contract costs have been fully reflected in the company's financial results. Similar market conditions were experienced in 1998.

The company continues to expand its line of consumer-branded products. Increased sales of branded products helped to reduce exposure to fluctuating commodity prices. The company made considerable progress in 1999 with the expansion of consumer-branded pork products which reduces the effect of fluctuating commodity prices on the company's principal raw materials.

Net earnings for the year increased 17.3 percent to $163,438 from $139,291 in 1998. Results for 1999 include an after-tax gain in the first quarter of $3,808 for the sale of land by Campofrio Alimentacion, S.A., Madrid, Spain, a company in which Hormel Foods has a 21.4 percent ownership interest. Results for 1998 include an after-tax gain of $17,402 for the sale of the company's Davenport, Iowa, gelatin plant to Goodman Fielder Limited, Sydney, Australia. Excluding these one-time gains, company net earnings from continuing operations in 1999 of $159,630 exceeded 1998 earnings by $37,741, or 31.0 percent. Net sales in 1999 increased 3.0 percent to $3,357,757 from $3,261,045 last year. Tonnage for the year increased 7.1 percent compared to 1998. Fiscal 1999 was a 52-week year compared to a 53-week year in 1998.

Net earnings for the fourth quarter of 1999 were $59,674, an increase of 32.2 percent over earnings of $45,152 for the same period last year. Sales for the quarter were $950,839, a 4.3 percent increase from $912,037 in 1998. Tonnage volume increased 1.4 percent for the quarter compared to last year.

The company's core branded business continued to be the major contributor to earnings as virtually all divisions and subsidiaries contributed to the record performance. All major divisions experienced volume growth which, in many cases, exceeded category growth. Increased market share and distribution by some of the company's best-known brands resulted in record sales volume and profits for the Foodservice, Meat Products and Prepared Foods Groups.

Jennie-O also had its best year ever with record sales, tonnage volume and profits. Generally favorable market conditions, including both feed costs and commodity turkey prices, contributed to the results. Jennie-O experienced increased brand distribution for a number of their best-known branded products.

Hormel Foods International experienced record sales and export tonnage volume for the year while earnings improved over 1998. Sales of *Jennie-O* whole turkeys, *Stagg* chili and *SPAM* luncheon meat were significant contributors to growth in the international market.

Selling and delivery expenses for the fourth quarter and year were $95,683 and $356,553, respectively, compared to $102,028 and $328,050 last year. As a percentage of sales, selling and delivery expenses were 10.1 and 10.6 percent for the quarter and year compared to 11.2 and 10.1 percent in 1998.

Marketing expenses increased to $82,774 for the quarter and $307,376 for the year compared to $77,232 and $276,826 last year. These expenditures emphasize the company's continued commitment to expanding sales of branded consumer products. As a percentage of sales, marketing expenses increased to 8.7 from 8.5 percent for the quarter and to 9.2 from 8.5 percent for the year.

Administrative and general expenses were $20,381 and $73,196 for the quarter and year, respectively, compared to $10,813 and $72,331 in 1998. As a percentage of sales, administrative and general expenses for the quarter and year were 2.1 and 2.2 percent compared to 1.2 and 2.2 percent for the same periods last year.

Research and development continues to be an important part of the company's strategy to extend existing brands and expand its offerings of new consumer-branded items. Research and development expenses for the quarter and year were $2,457 and $9,566 compared to $2,412 and $9,037 for the same periods last year.

The company's effective tax rate declined to 35.0 percent from 35.9 percent in 1998. The reduction is primarily due to a decrease in state and local taxes and foreign equity earnings which are net of tax.

Fiscal Years 1998 and 1997: During 1998, hog producers brought the largest supply of live hogs to market in history. This huge supply of hogs produced near record low market prices for live hogs on the spot cash market. A significant portion of the resulting positive effect of lower raw material prices on company margins was offset by long-term supply agreements designed to buy hogs through purchasing contracts rather than the spot cash market. While the company's cost for live hogs was lower than in 1997, it was not as low as would be indicated by the spot cash market. Purchasing contracts are used by the company as a means of assuring a stable supply of raw materials while minimizing extreme fluctuation in costs over the long term.

During much of 1998, live market prices were below the floor levels guaranteed by our contracts. These contract costs, which were higher than spot market prices, were fully reflected in the company's reported financial results. As live hog prices rebound during the term of these contracts, the company's cost for hogs will be less than the spot market to the extent that it exceeds contract prices.

Net earnings for 1998 increased 27.2 percent to $139,291 from $109,492 in 1997. Results for the year include an after-tax gain of $17,402 for the sale of the company's Davenport, Iowa, gelatin plant to Goodman Fielder Limited, Sydney, Australia. Excluding this one-time gain, company net earnings of $121,889 exceeded 1997 by 11.3 percent. Net sales for the year of $3,261,045 were virtually unchanged from 1997 sales of $3,256,551. Tonnage volume increased 10.3 percent compared to 1997. Fiscal 1998 was a 53-week year compared to a 52-week year in 1997.

Net earnings for the fourth quarter were $45,152, an increase of 1.1 percent over earnings of $44,669 for the same period in 1997. Sales for the quarter were $912,037, a 5.1 percent increase from $868,108 the previous year. Tonnage for the quarter increased 18.2 percent compared to a year ago.

The company's core branded business continued to be the major contributor to earnings. All major divisions experienced volume growth and increased market share, resulting in record profits for the Foodservice, Meat Products and Prepared Foods Groups.

Hormel Foods International's export tonnage for the year increased 8.0 percent from 1997. Major growth areas included fresh pork, *Jennie-O* turkey products and *Stagg* chili. The Beijing, China, joint venture began operations in February. Both the Beijing venture and the Shanghai venture, which came on line in 1997, continued to experience gains in distribution and volume. The profitability of the equity investment in Campofrio during the fourth quarter was negatively impacted by the depressed Russian economy.

Jennie-O tonnage for 1998 increased 23.3 percent over 1997. Profitability was below expectations as highly competitive selling prices reduced margins. Jennie-O's efficient operations and continued growth in distribution and volume of value-added turkey products should position the company to return to more historical margins when competitive pressure on selling prices moderates.

Selling and delivery expenses for the fourth quarter and year were $102,028 and $328,050, respectively, as compared to $74,210 and $297,294 last year. As a percentage of sales, selling and delivery expenses increased to 11.2 and 10.1 percent for the quarter and year compared to 8.6 and 9.1 percent in 1997. The increase in these expenses is consistent with the increase in tonnage volume for the quarter and year.

Marketing expenses increased to $77,232 for the quarter and $276,826 for the year compared to $51,063 and $217,637 last year. As a percentage of sales, marketing expenses increased to 8.5 from 5.9 percent for the quarter and to 8.5 from 6.7 percent for the year.

Administrative and general expenses were $10,813 and $72,331 for the quarter and year, respectively, compared to $24,744 and $75,788 in 1997. As a percentage of sales, administrative and general expenses for the quarter and year were 1.2 and 2.2 percent compared to 2.9 and 2.3 percent in 1997.

Recognizing the importance of developing, maintaining and protecting its intangible asset base of trademarks, brands and patents, the company during 1998 moved its research activities and responsibility for its intangible assets into a new subsidiary, Hormel Foods L.L.C. Research and development expenses for the quarter and year were $2,412 and $9,037, respectively, compared to $2,212 and $8,580 for the same periods last year.

The company's effective tax rate for 1998 and 1997 was 35.9 percent.

Liquidity: The company continues to have an exceptionally strong balance sheet. Cash, cash equivalents and short-term marketable securities were $248,562 at the end of 1999, as compared to $238,032 last year. Long-term debt consists of small issue Industrial Revenue Bonds of varying maturities; debt used for investment in the Federal Affordable Housing Program; $110,000 in Senior Notes maturing in 2002 and 2006; $52,200 of long-term notes denominated in Spanish pesetas, used to purchase a 21.4 percent equity interest in Campofrio in Spain, and $22,647 in medium-term notes denominated in euros, used to purchase a 40.0 percent equity interest in Purefoods-Hormel Company in the Philippines. The strong balance sheet provides the company with the ability to take advantage of expansion or acquisition opportunities that may arise.

During 1999, cash provided by operating activities was $239,536, as compared to $229,020 last year. The increase in cash provided by operating activities was the result of an increase in net earnings, excluding the one-time gains and changes in working capital items which were in the normal course of business.

Cash required for investing activities in 1999 increased to $144,132 from $58,825 in 1998. The increase in cash required for investing activities reflects several construction projects primarily at Hormel Foods; Jennie-O; Park Ten Foods LTD, a subsidiary which is renovating and reopening the Houston, Texas, plant, and the cash required for the equity investment in Purefoods-Hormel Company in the Philippines. At the end of the year, the company had commitments to expend approximately $66,400 to complete construction in progress at various locations.

During the year, the company repurchased 2,248,100 shares of its common stock at an average price per share of $38.98 under a Repurchase Plan approved in September 1998. During the fourth quarter, 1,102,100 shares were repurchased under the plan at an average price per share of $41.79.

Financial ratios for 1999 and 1998 are presented below:

	1999	1998
Liquidity Ratios		
Current ratio	**2.1**	2.7
Receivables turnover	**13.7**	14.3
Days sales in receivables	**28.9**	25.4
Inventory turnover	**9.3**	9.5
Days sales in inventory	**41.5**	37.1
Leverage Ratio		
Long-term debt to equity (including current maturities)	**26.9%**	25.9%
Operating Ratios		
Pretax profit to net worth	**30.4%**	26.9%
Pretax profit to total assets	**15.5%**	14.1%

Year 2000: For many years, the company's internally developed software has been designed in ways that largely eliminate the need for major revisions for the year 2000. As of the end of the third quarter, the review of major computer systems had been completed and any known required changes had been made. The company's operating system software is also year 2000 compliant. Additional system testing was performed during the fourth quarter. Management does not anticipate any problems in this area.

The company continues to review the impact of the year 2000 on its software purchased from third-party vendors. All systems have been evaluated and needed upgrades have been identified and implemented.

The company has queried its significant customers and suppliers regarding their exposure to potential year 2000 problems. Based upon this investigation, the company is not aware of any supplier or customer with significant year 2000 issues. However, the company has no means of ensuring that customers and suppliers will be year 2000 ready.

The company has a contingency plan in place to prevent problems related to the year 2000 and to deal with unforeseen problems which may arise. The contingency plan includes:

- Special operational schedules for plant operations at year-end to ensure smooth transition.
- Provisions for manual methods of order fulfillment in the event of problems with automated systems or external network providers.
- Establishment of target year-end inventory levels for key products and manufacturing supplies to help maintain a high level of order fulfillment in the event disruptions in the supply chain occur in places outside the company's control.

Total historical and anticipated remaining costs to remedy year 2000 problems are not material.

Market Risk: The principal market risk affecting the company is the exposure to changes in interest rates on the company's 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 10.0 percent decrease in interest rates, and amounts to approximately $2,600. The fair values of the company's long-term debt were estimated using discounted future cash flows based on the company's incremental borrowing rates for similar types of borrowing arrangements.

While the company does have international operations and operates in international markets, it considers its market risk in such activities to be immaterial.

RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The accompanying financial statements were prepared by the management of Hormel Foods Corporation which is responsible for their integrity and objectivity. These statements have been prepared in accordance with generally accepted accounting principles appropriate in the circumstances and, as such, include amounts that are based on our best estimates and judgments.

Hormel Foods Corporation has developed a system of internal controls designed to assure that the records reflect the transactions of the company and that the established policies and procedures are adhered to. This system is augmented by well-communicated written policies and procedures, a strong program of internal audit and well-qualified personnel.

These financial statements have been audited by Ernst & Young LLP, independent auditors, and their report appears on page 32. Their audit is conducted in accordance with generally accepted auditing standards and includes a review of the company's accounting and financial controls and tests of transactions.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets periodically with the independent auditors, management and the internal auditors to assure that each is carrying out its responsibilities. Both Ernst & Young LLP and our internal auditors have full and free access to the Audit Committee, with or without the presence of management, to discuss the results of their audit work and their opinions on the adequacy of internal controls and the quality of financial reporting.

Joel W. Johnson
Chairman of the Board
President and Chief Executive Officer

Don J. Hodapp
Executive Vice President
Chief Financial Officer

Selected Financial Data

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	1999	1998*	1997	1996
Operations				
Net Sales	**$3,357,757**	$3,261,045	$3,256,551	$3,098,685
Net Earnings Before Cumulative Effect of Accounting Changes	**163,438**	139,291	109,492	79,408
Percent of Sales	**4.87%**	4.27%	3.36%	2.56%
Cumulative Effect of Accounting Changes				
Net Earnings (Loss)	**163,438**	139,291	109,492	79,408
Wage Costs	**503,890**	498,973	435,789	398,824
Total Taxes (Excluding Payroll Tax)	**100,381**	89,816	73,115	56,992
Depreciation and Amortization	**64,656**	60,273	52,925	42,700
Financial Position				
Working Capital	**$ 414,736**	$ 449,714	$ 410,774	$ 456,850
Properties (Net)	**505,624**	486,907	488,738	421,486
Total Assets	**1,685,585**	1,555,892	1,528,535	1,436,138
Long-term Debt Less Current Maturities	**184,723**	204,874	198,232	127,003
Shareholders' Investment	**841,142**	813,315	802,202	785,551
Per Share of Common Stock				
Net Earnings Before Cumulative Effect of Accounting Changes – Basic	**$ 2.24**	$ 1.86	$ 1.43	$ 1.04
Net Earnings Before Cumulative Effect of Accounting Changes – Diluted	**2.22**	1.85	1.43	1.04
Cumulative Effect of Accounting Changes				
Net Earnings (Loss) – Basic	**2.24**	1.86	1.43	1.04
Net Earnings (Loss) – Diluted	**2.22**	1.85	1.43	1.04
Dividends	**0.66**	0.64	0.62	0.60
Shareholders' Investment	**11.79**	11.07	10.59	10.13

**53 Weeks*
***Adoption of SFAS No. 106 and No. 109*

Common Stock Data The high and low closing price of the company's common stock and the dividends per share declared for each fiscal quarter of 1999 and 1998, respectively, are shown below:

1999	High	Low	Dividend
First Quarter	35 1/2	29 9/16	$.165
Second Quarter	38	34 5/16	$.165
Third Quarter	40 7/16	36 3/4	$.165
Fourth Quarter	45 1/4	38 1/4	$.165

1998	High	Low	Dividend
First Quarter	32 15/16	28 5/8	$.16
Second Quarter	38 7/8	32 11/16	$.16
Third Quarter	36 15/16	32 1/16	$.16
Fourth Quarter	34 1/2	26 3/16	$.16

1995	1994	1993	1992*	1991	1990	1989
$3,046,195	$3,064,793	$2,853,997	$2,813,651	$2,836,222	$2,681,180	$2,340,513
120,436	117,975	100,770	95,174	86,393	77,124	70,114
3.95%	3.85%	3.53%	3.38%	3.05%	2.88%	3.00%
		(127,529)**				
120,436	117,975	(26,759)	95,174	86,393	77,124	70,114
373,901	351,096	325,115	304,696	278,537	267,391	254,449
84,329	82,915	70,026	64,968	60,035	51,990	48,983
37,220	36,611	32,174	38,972	36,269	35,554	36,863
$ 441,452	$ 443,298	$ 392,846	$ 401,216	$ 346,164	$ 293,818	$ 232,941
333,084	270,886	244,987	216,390	231,817	235,026	244,362
1,223,860	1,196,718	1,093,559	913,015	856,835	799,422	727,429
16,959	10,300	5,700	7,624	22,833	24,535	19,228
732,047	661,089	570,888	644,284	583,408	513,832	470,929
$ 1.57	$ 1.54	$ 1.31	$ 1.24	$ 1.13	$ 1.01	$ 0.91
1.57	1.54	1.31	1.24	1.12	1.00	0.91
		(1.66)**				
1.57	1.54	(0.35)	1.24	1.13	1.01	0.91
1.57	1.54	(0.35)	1.24	1.12	1.00	0.91
0.58	0.50	0.44	0.36	0.30	0.26	0.22
9.54	8.62	7.45	8.41	7.61	6.70	6.14

Consolidated Statements of Financial Position

(IN THOUSANDS)	October 30, 1999	October 31, 1998
Assets		
Current Assets		
Cash and cash equivalents	$ 188,310	$ 203,934
Short-term marketable securities	60,252	34,098
Accounts receivable	266,059	222,919
Inventories	270,239	239,548
Deferred income taxes	9,526	8,894
Prepaid expenses	5,757	7,972
Total Current Assets	800,143	717,365
Deferred Income Taxes	60,051	65,606
Intangibles	98,544	105,244
Investments in and Receivables from Affiliates	142,879	114,665
Other Assets	78,344	66,105
Property, Plant and Equipment		
Land	13,108	13,080
Buildings	286,662	275,445
Equipment	652,723	616,109
Construction in progress	49,693	33,947
	1,002,186	938,581
Less allowance for depreciation	(496,562)	(451,674)
	505,624	486,907
Total Assets	$1,685,585	$1,555,892

(IN THOUSANDS)	**October 30, 1999**	October 31, 1998
Liabilities and Shareholders' Investment		
Current Liabilities		
Accounts payable	**$ 162,585**	$ 119,836
Accrued expenses	**37,255**	33,699
Accrued marketing expenses	**34,882**	26,140
Employee compensation	**73,050**	54,314
Taxes, other than federal income taxes	**12,333**	14,599
Dividends payable	**11,902**	11,774
Federal income taxes	**12,186**	1,172
Current maturities of long-term debt	**41,214**	6,117
Total Current Liabilities	**385,407**	267,651
Long-term Debt – less current maturities	**184,723**	204,874
Accumulated Postretirement Benefit Obligation	**252,236**	248,201
Other Long-term Liabilities	**22,077**	21,851
Shareholders' Investment		
Preferred Stock, par value $.01 a share – authorized 40,000,000 shares; issued – none		
Common Stock, nonvoting, par value $.01 a share – authorized 40,000,000 shares; issued – none		
Common Stock, par value $.1172 a share – authorized 200,000,000 shares;		
issued 71,362,435 shares October 30, 1999		
issued 73,614,546 shares October 31, 1998	**8,364**	8,628
Accumulated other comprehensive loss	**(6,305)**	(3,911)
Retained earnings	**839,083**	812,157
	841,142	816,874
Shares held in treasury		(3,559)
Total Shareholders' Investment	**841,142**	813,315
Total Liabilities and Shareholders' Investment	**$1,685,585**	$1,555,892

See notes to consolidated financial statements.

Consolidated Statements of Operations

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	FISCAL YEAR ENDED October 30, 1999	October 31, 1998	October 25, 1997
Sales, less returns and allowances	**$3,357,757**	$3,261,045	$3,256,551
Cost of products sold	**2,379,725**	2,400,333	2,497,662
Gross Profit	**978,032**	860,712	758,889
Expenses and gain on plant sale:			
Selling and delivery	**356,553**	328,050	297,294
Marketing	**307,376**	276,826	217,637
Administrative and general	**73,196**	72,331	75,788
Gain on plant sale		(28,379)	
Restructuring charges			(5,176)
Operating Income	**240,907**	211,884	173,346
Other income and expense:			
Interest and investment income	**17,317**	14,821	9,156
Equity in earnings of affiliates	**6,995**	4,323	3,402
Interest expense	**(13,746)**	(13,692)	(15,043)
Earnings Before Income Taxes	**251,473**	217,336	170,861
Provision for income taxes	**88,035**	78,045	61,369
Net Earnings	**$ 163,438**	$ 139,291	$ 109,492
Net Earnings Per Share (basic)	**$ 2.24**	$ 1.86	$ 1.43
Net Earnings Per Share (diluted)	**$ 2.22**	$ 1.85	$ 1.43

See notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Investment

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Investment
	Shares	Amount	Shares	Amount				
Balance at October 26, 1996	77,534	$ 9,087	(24)	$ (535)	$ 32,214	$746,443	$ (1,658)	$785,551
Comprehensive income								
Net earnings						109,492		109,492
Adjustment in minimum pension liability							(140)	(140)
Comprehensive income								109,352
Purchases of Common Stock			(1,748)	(45,457)				(45,457)
Exercise of stock options			15	368		(132)		236
Shares retired	(1,757)	(206)	1,757	45,624	(32,281)	(13,137)		0
Tax benefit of stock options					67			67
Cash dividends – $.62 per share						(47,547)		(47,547)
Balance at October 25, 1997	75,777	8,881	0	0	0	795,119	(1,798)	802,202
Comprehensive income								
Net earnings						139,291		139,291
Foreign currency translation							(2,034)	(2,034)
Adjustment in minimum pension liability							(79)	(79)
Comprehensive income								137,178
Purchases of Common Stock			(2,372)	(80,104)				(80,104)
Exercise of stock options			91	3,074		(1,562)		1,512
Shares retired	(2,162)	(253)	2,162	73,471		(73,218)		0
Cash dividends – $.64 per share						(47,473)		(47,473)
Balance at October 31, 1998	73,615	8,628	(119)	(3,559)	0	812,157	(3,911)	813,315
Comprehensive income								
Net earnings						163,438		163,438
Foreign currency translation							(3,206)	(3,206)
Adjustment in minimum pension liability							812	812
Comprehensive income								161,044
Purchases of Common Stock			(2,249)	(87,678)				(87,678)
Exercise of stock options			116	4,401		(1,954)		2,447
Shares retired	(2,252)	(264)	2,252	86,836		(86,572)		0
Cash dividends – $.66 per share						(47,986)		(47,986)
Balance at October 30, 1999	71,363	$ 8,364	0	$ 0	$ 0	$839,083	$ (6,305)	$841,142

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(IN THOUSANDS)	FISCAL YEAR ENDED October 30, 1999	October 31, 1998	October 25, 1997
Operating Activities			
Net earnings	$ 163,438	$ 139,291	$ 109,492
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation	57,956	53,159	44,915
Amortization of intangibles	6,700	7,114	8,010
Equity in earnings of affiliates	(6,995)	(4,323)	(3,402)
Provision for deferred income taxes	1,968	4,516	(444)
Loss (gain) on property/equipment sales and plant facilities	1,293	(15,346)	50
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable	(43,140)	11,047	(3,097)
(Increase) decrease in inventories and prepaid expenses	(28,476)	25,276	4,864
Increase in accounts payable and accrued expenses	86,792	8,286	2,101
Net cash provided by operating activities	239,536	229,020	162,489
Investing Activities			
Sale of held-to-maturity securities	82,502	86,301	62,394
Purchase of held-to-maturity securities	(108,656)	(114,866)	(53,285)
Acquisitions of businesses			(140)
Purchases of property/equipment	(79,121)	(75,774)	(116,381)
Proceeds from sales of property/equipment	1,155	39,792	4,163
(Increase) decrease in investments, equity in affiliates and other assets	(42,177)	4,052	(83,011)
Dividends from affiliates	2,165	1,670	1,206
Net cash used in investing activities	(144,132)	(58,825)	(185,054)
Financing Activities			
Proceeds from long-term debt	26,100	17,589	77,625
Principal payments on long-term debt	(4,778)	(4,312)	(4,349)
Dividends paid on Common Stock	(47,858)	(47,678)	(47,178)
Share repurchase	(87,636)	(80,076)	(45,457)
Other	3,144	1,363	304
Net cash used in financing activities	(111,028)	(113,114)	(19,055)
(Decrease) increase in cash and cash equivalents	(15,624)	57,081	(41,620)
Cash and cash equivalents at beginning of year	203,934	146,853	188,473
Cash and cash equivalents at end of year	$ 188,310	$ 203,934	$ 146,853

See notes to consolidated financial statements.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business Overview: Hormel Foods is engaged in a single business segment designated as "meat and food processing." As a federally inspected food processor, Hormel Foods is engaged in the processing of meat and poultry products, production of prepared foods and the marketing of those products to food wholesalers, retailers and foodservice distributors in the United States. The principal raw materials for the company's products are pork and turkey. The company's earnings are influenced by the cyclical nature of these raw material costs.

Segment Reporting: In June 1997, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. It also establishes standards for related disclosures about products and services, geographic areas and major customers. The company operated in only one segment in fiscal 1999, 1998 and 1997.

Principles of Consolidation: The consolidated financial statements include the accounts of Hormel Foods Corporation and all of its majority-owned subsidiaries after elimination of all significant intercompany accounts, transactions and profits. Certain reclassifications of previously reported amounts have been made to conform with the current year presentation. The reclassifications had no impact on the net earnings as previously reported.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Fiscal Year: The company's fiscal year ends on the last Saturday in October. Fiscal year 1999 consisted of 52 weeks, fiscal year 1998 consisted of 53 weeks and fiscal year 1997 consisted of 52 weeks.

Inventories: Inventories are stated at the lower of cost or market. Livestock and the materials portion of products are valued on the first-in, first-out method with the exception of the materials portion of turkey products which are valued on the last-in, first-out method. Substantially all inventoriable expenses, packages and supplies are valued by the last-in, first-out method. Allowances for slow-moving, obsolete, unsaleable or unusable inventories are not material.

Property, Plant and Equipment: Property, plant and equipment are stated at cost. The company generally uses the straight-line method in computing depreciation for financial reporting purposes and generally uses accelerated methods for income tax purposes. The annual provisions for depreciation have been computed principally in accordance with the following ranges of asset lives: buildings 20 to 40 years, machinery and equipment 5 to 10 years.

Software development and implementation costs are expensed until the company has determined that the software will result in probable future economic benefits, and management has committed to funding the project. Thereafter, all direct, external implementation costs and purchased software costs are capitalized and amortized using the straight-line method over the remaining estimated useful lives, not exceeding five years.

Intangibles: Goodwill and other intangibles are recorded at their estimated fair values at date of acquisition and are amortized on a straight-line basis over periods ranging up to 40 years. Accumulated amortization at October 30, 1999, and October 31, 1998, was $42.1 million and $35.4 million, respectively.

Impairment of Long-Lived Assets: The company reviews the long-lived assets, including identifiable intangibles and associated goodwill, for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If impairment indicators are present and the estimated future undiscounted cash flows are less than the carrying value of the assets and any related goodwill, the carrying value is reduced to the estimated fair value as measured by the discounted cash flows.

Foreign Currency Translation: Assets and liabilities denominated in foreign currency are translated at the current exchange rate as of the balance sheet date, and income statement amounts are translated at the average monthly exchange rate. Translation adjustments resulting from fluctuations in exchange rates are recorded as a component of "Accumulated Other Comprehensive Loss" in shareholders' investment. Gains and losses from foreign currency transactions are not material.

Equity Method Investments: The company has a number of investments in joint ventures and other entities where its voting interests are in excess of 20 percent but no greater than 50 percent. The company accounts for such investments under the equity method of accounting, and its underlying share of each investee's equity is reported in the consolidated balance sheet as part of investments in affiliates.

The company's only material equity investments are in the common stock of a Spanish company, Campofrio Alimentacion, S.A. (Campofrio), and a joint venture in the Purefoods-Hormel Company in the Philippines. The company purchased a 21.4 percent interest in Campofrio in 1997 for $64.3 million, which resulted in the recording of $17.9 million of goodwill. The fair value of such publicly traded securities was $101.3 million at October 30, 1999. The company purchased a 40.0 percent interest in Purefoods-Hormel Company in 1999 for $22.2 million, which resulted in the recording of $11.7 million of goodwill. The company recorded a $3.8 million gain, or $.05 a share, for the sale of land by Campofrio in the first quarter of 1999.

Divestitures and Acquisitions: The company recorded a $28.4 million gain ($17.4 million after tax, or $.23 per share) in the first quarter of 1998 related to the sale of its Davenport (Iowa) gelatin/specialized proteins plant.

Revenue Recognition: The company follows a policy of recognizing sales at the time of product shipment.

Advertising Expenses: Advertising costs are expensed when incurred. Advertising expenses include all media advertising but exclude the costs associated with coupons, samples and market research. Advertising costs for fiscal years 1999, 1998 and 1997 were $273.2 million, $246.1 million and $190.1 million, respectively.

Research and Development Expenses: Research and development expenses incurred for fiscal years 1999, 1998 and 1997 were $9.6 million, $9.0 million and $8.6 million, respectively.

Income Taxes: The company records income taxes in accordance with the liability method of accounting. Deferred taxes are recognized for the estimated taxes ultimately payable or recoverable based on enacted tax law. Changes in enacted tax rates are reflected in the tax provision as they occur.

Employee Stock Options: The company uses the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for employee stock options. Under the intrinsic value method, compensation expense is recognized only to the extent the market price of the common stock exceeds the exercise price of the stock option at the date of the grant.

Earnings Per Share: During the second quarter of fiscal 1998, the company adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share." All current and prior year earnings per share data have been restated to conform to the provisions of SFAS 128.

The company's basic net earnings per share is computed by dividing net earnings by the weighted-average number of outstanding common shares. The company's diluted net earnings per share is computed by dividing net earnings by the weighted-average number of outstanding common shares and the dilutive effect of stock options, when applicable.

The following table presents information necessary to calculate basic and diluted earnings per common share and common share equivalent:

(IN THOUSANDS, EXCEPT PER SHARE DATA)	1999	1998	1997
Net earnings	$163,438	$139,291	$109,492
Weighted-average shares outstanding for basic earnings per share	72,897	74,743	76,495
Dilutive effect of stock options	608	460	234
Adjusted weighted-average shares outstanding and assumed conversions for diluted earnings per share	73,505	75,203	76,729
Basic earnings per share	$ 2.24	$ 1.86	$ 1.43
Diluted earnings per share	$ 2.22	$ 1.85	$ 1.43

On November 22, 1999, the Hormel Foods Corporation Board of Directors authorized a two-for-one split of the company's common stock that is subject to shareholder approval at the Annual Meeting on January 25, 2000. The calculation of earnings per share in the above table and elsewhere in this Annual Report does not reflect the impact from this split.

Comprehensive Income: Comprehensive income for all periods consists of net income, minimum pension liability adjustments and foreign currency translations. There are no reclassification adjustments to be reported in periods presented.

Accounting Changes and Recent Accounting Pronouncements: In fiscal 1999, the company adopted Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." This standard expanded and modified the disclosure and had no effect on the company's consolidated financial position, results of operations or cash flows. See Note E.

In June 1998, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement, which is required to be adopted for annual periods beginning after June 15, 2000, requires a company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the hedged assets, liabilities or firm commitments are recognized through earnings or in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The company has concluded that the adoption of SFAS 133 will not have an impact on the financial statements.

B. CASH AND CASH EQUIVALENTS AND SHORT-TERM MARKETABLE SECURITIES

The company considers all investments with an original maturity of three months or less on their acquisition date to be cash equivalents. The company classifies investments with an original maturity of more than three months on their acquisition date as short-term marketable securities. The company's cash and cash equivalents and short-term marketable securities at October 30, 1999, and October 31, 1998, consisted of the following (cost approximates fair value):

	October 30, 1999		October 31, 1998	
(IN THOUSANDS)	Cash and Cash Equivalents	Short-term Marketable Securities	Cash and Cash Equivalents	Short-term Marketable Securities
Held-to-maturity securities:				
Commercial paper	$ 25,339	$54,256	$ 29,808	$27,198
Municipal securities	38,151	996	33,791	
Preferred securities	33,642	5,000	60,647	4,400
Taxable securities	3,702		31,609	2,500
Cash	87,476		48,079	
Total	$188,310	$60,252	$203,934	$34,098

C. INVENTORIES

Principal components of inventories are:

(IN THOUSANDS)	October 30, 1999	October 31, 1998
Finished products	$158,824	$137,444
Raw materials and work-in-process	76,639	68,653
Materials and supplies	62,143	60,820
LIFO reserve	(27,367)	(27,369)
Total	$270,239	$239,548

Inventoriable expenses, packages and supplies and turkey products amounting to approximately $92.7 million at October 30, 1999, and $82.6 million at October 31, 1998, are stated at cost determined by the last-in, first-out method and are $27.4 million and $27.4 million lower in the respective years than such inventories determined under the first-in, first-out method.

D. LONG-TERM DEBT AND OTHER BORROWING ARRANGEMENTS

Long-term debt consists of:

(IN THOUSANDS)	October 30, 1999	October 31, 1998
Industrial revenue bonds with variable interest rates, due 2005	$ 4,700	$ 5,700
Promissory notes, principal and interest due annually through 2007, interest at 6.5%, 7.23% and 8.9%, secured by limited partnership interests in affordable housing	5,789	8,528
Medium-term unsecured notes, $35,000 maturing in 2002 and $75,000 maturing in 2006, with interest at 7.16% and 7.35%, respectively	110,000	110,000
Medium-term unsecured note, denominated in Spanish pesetas, with variable interest rate, principal and interest due annually through 2003	52,200	59,222
Medium-term unsecured note, denominated in euros, with variable interest rate, principal and interest due annually through 2004	22,647	
Medium-term secured notes with variable rates, principal and interest due annually through 2005, secured by various equipment	14,096	16,106
Variable rate – revolving credit agreements	14,150	10,551
Other	2,355	884
	225,937	210,991
Less current maturities	41,214	6,117
	$184,723	$204,874

The company has various lines of credit which have a maximum available commitment of $27.3 million. As of October 30, 1999, the company has unused lines of credit of $13.1 million which bear interest at variable rates below prime. A fixed fee is paid for the availability of credit lines.

Aggregate annual maturities of long-term debt for the five fiscal years after October 30, 1999, are as follows:

(IN THOUSANDS)	
2000	$41,214
2001	41,845
2002	41,695
2003	31,178
2004 and thereafter	70,005

Total interest paid during fiscal 1999, 1998 and 1997 was $14.8 million, $13.6 million and $14.9 million, respectively. Based on borrowing rates currently available to the company for long-term financing with similar terms and average maturities, the fair value of long-term debt, including current maturities, utilizing discounted cash flows is $228 million.

E. PENSION AND OTHER POSTRETIREMENT HEALTH CARE BENEFITS

The company has several noncontributory defined benefit plans and defined contribution plans covering most employees. Total costs associated with the company's defined contribution benefit plans in 1999, 1998 and 1997 were $10.9 million, $9.9 million and $9.0 million, respectively. Benefits for defined benefit pension plans covering hourly employees are provided based on stated amounts for each year of service while plan benefits covering salaried employees are based on final average compensation. The company's funding policy is to make annual contributions of not less than the minimum required by applicable regulations.

The company provides medical and life insurance benefits to certain retired employees. Eligible employees who retired prior to January 1, 1987, remain on the medical plan in effect when they retired. The medical plan for eligible employees who retired after January 1, 1987, is automatically modified to incorporate plan benefit and plan provision changes whenever they are made to the active employee plan. Employees hired after January 1, 1990, are eligible for postretirement medical coverage but must pay the full cost of the coverage.

The following is a reconciliation of the beginning and ending balances of the benefit obligation and the fair value of plan assets:

(IN THOUSANDS)	Pension Benefits 1999	Pension Benefits 1998	Other Benefits 1999	Other Benefits 1998
Change in benefit obligation:				
Benefit obligation at beginning of year	$492,614	$466,773	$ 274,205	$ 262,441
Service Cost	10,921	9,567	2,920	3,438
Interest Cost	33,298	32,628	18,555	18,384
Actuarial (gain) loss	(17,712)	16,111	(10,137)	7,440
Benefits paid	(33,184)	(32,465)	(18,867)	(17,498)
Benefit obligation at end of year	485,937	492,614	266,676	274,205
Change in plan assets:				
Fair value of plan assets at beginning of year	566,216	543,344		
Actual return on plan assets	35,684	53,031		
Employer contributions	2,525	2,306		
Benefits paid	(33,184)	(32,465)		
Fair value of plan assets at end of year	571,241	566,216		
Funded status	85,304	73,602	(266,676)	(274,205)
Unrecognized net transition liability	2,947	3,750		
Unrecognized actuarial (gain) loss	(66,406)	(66,180)	10,866	22,449
Unrecognized prior service cost	7,990	9,143	(2,734)	(3,085)
Benefit payments subsequent to measurement date	193	51	6,308	6,640
Net amount recognized	$ 30,028	$ 20,366	$(252,236)	$(248,201)

As of the 1999 valuation date, plan assets included Common Stock of the company having a market value of $70.3 million. Dividends paid during the year on shares held by the plan were $1.2 million.

Amounts recognized in the Consolidated Balance Sheets as of October 30, 1999, and October 31, 1998, were as follows:

(IN THOUSANDS)	Pension Benefits 1999	Pension Benefits 1998	Other Benefits 1999	Other Benefits 1998
Prepaid benefit cost	$ 68,662	$ 55,975		
Accrued benefit liability	(44,263)	(43,259)	$(258,544)	$(254,841)
Intangible asset	3,891	4,586		
Accumulated other comprehensive income	1,545	3,013		
Benefit payments subsequent to measurement date	193	51	6,308	6,640
Net amount recognized	$ 30,028	$ 20,366	$(252,236)	$(248,201)

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligation in excess of plan assets were $49.5 million, $44.3 million and $0, respectively, as of October 30, 1999, and $46.8 million, $43.2 million and $0, respectively, as of October 31, 1998.

Weighted-average assumptions for pension and other benefits were as follows:

	1999	1998	1997
Discount rate	7.50%	7.00%	7.25%
Rate of future compensation increase	5.00%	5.00%	5.00%
Expected long-term return on plan assets	9.50%	9.50%	9.50%

For measurement purposes, a 5.9% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2000. The rate was assumed to decrease to 5.5% for 2004 and remain at that level thereafter.

Net periodic cost of defined benefit plans included the following:

Pension Benefits (IN THOUSANDS)	1999	1998	1997
Service cost	$10,921	$ 9,567	$ 8,737
Interest cost	33,298	32,628	32,780
Expected return on plan assets	(52,293)	(50,137)	(39,863)
Amortization of transition obligation	803	803	803
Amortization of prior service cost	1,153	1,153	1,153
Recognized actuarial (gain) loss	(878)	(1,967)	952
Net periodic benefit cost	$(6,996)	$ (7,953)	$ 4,562

Other Benefits (IN THOUSANDS)	1999	1998	1997
Service cost	$ 2,920	$ 3,438	$ 2,639
Interest cost	18,555	18,384	18,237
Amortization of prior service cost	(351)	(351)	(351)
Recognized actuarial loss	1,446	1,362	480
Net periodic benefit cost	$22,570	$22,833	$21,005

Assumed health care cost trend rates have a significant impact on the amounts reported for the health care plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

(IN THOUSANDS)	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost components	$ 1,515	$ (1,376)
Effect on the postretirement benefit obligation	$18,349	$(16,684)

F. INCOME TAXES

The components of the provision for income taxes are as follows:

(IN THOUSANDS)	1999	1998	1997
Current:			
U.S. Federal	$80,621	$62,823	$51,978
State	9,098	10,049	9,538
Foreign	154	653	220
	89,873	73,525	61,736
Deferred:			
U.S. Federal	(1,657)	4,080	(329)
State	(181)	440	(38)
	(1,838)	4,520	(367)
	$88,035	$78,045	$61,369

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The company believes that, based upon its lengthy and consistent history of profitable operations, it is probable that the net deferred tax assets of $69.6 million will be realized on future tax returns, primarily from the generation of future taxable income. Significant components of the deferred income tax liabilities and assets were as follows:

(IN THOUSANDS)	October 30, 1999	October 31, 1998
Deferred tax liabilities:		
Tax over book depreciation	$(31,961)	$(31,364)
Prepaid pension	(26,620)	(21,631)
Other, net	(19,690)	(14,475)
Deferred tax assets:		
Vacation accrual	4,467	4,207
Insurance accruals	6,107	5,072
Deferred compensation	7,834	7,171
Postretirement benefits	97,792	96,227
Pension accrual	14,999	13,776
Other, net	16,649	15,517
Net deferred tax assets	$ 69,577	$ 74,500

Reconciliation of the statutory federal income tax rate to the company's effective tax rate is as follows:

	1999	1998	1997
U.S. statutory rate	35.0%	35.0%	35.0%
State taxes on income, net of federal tax benefit	2.3	3.1	3.6
All other, net	(2.3)	(2.2)	(2.7)
Effective tax rate	35.0%	35.9%	35.9%

Total income taxes paid during fiscal 1999, 1998 and 1997 were $76.4 million, $76.5 million and $66.5 million, respectively.

G. COMMITMENTS AND CONTINGENCIES

In order to ensure a steady supply of hogs and turkeys and to keep the cost of products stable, the company has entered into contracts with producers for the purchase of hogs and turkeys at formula-based prices over periods of up to 15 years. Under these contracts, the company is committed at October 30, 1999, to purchase hogs and turkeys, assuming current price levels, as follows:

(IN THOUSANDS)	
2000	$ 784,022
2001	696,888
2002	631,396
2003	605,006
2004	589,606
Later years	1,422,668
Total	$4,729,586

Estimated purchases under these contracts for fiscal 1999, 1998 and 1997 were $582.1 million, $514.4 million and $422.1 million, respectively.

The company has noncancelable operating lease commitments on facilities and equipment at October 30, 1999, as follows:

(IN THOUSANDS)	
2000	$ 6,319
2001	5,712
2002	3,857
2003	3,274
2004	2,910
Later years	8,942
Total	$31,014

The company has commitments to expend approximately $66.4 million to complete construction in progress at various locations at October 30, 1999. The company has also pledged $32.9 million of securities as collateral guaranteeing loans at October 30, 1999.

The company is involved on an ongoing basis in litigation arising in the ordinary course of business. In the opinion of management, the outcome of litigation currently pending will not materially affect the company's results of operations, financial condition or liquidity.

H. STOCK OPTIONS

The company has stock option plans for employees and nonemployee directors. The company's policy is to grant options with the exercise price equal to the market price of the common stock on the date of grant. The company follows APB opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its employee stock options. Under APB opinion No. 25, when the exercisable price of employee stock options equals the underlying stock on the date of grant, no compensation expense is recorded. Options are exercisable upon grant and expire at various dates ranging from fiscal 2001 to 2009.

Following is a summary of stock option activity:

(IN THOUSANDS, EXCEPT PER SHARE DATA)	Shares	Weighted-Average Option Price
Balance October 26, 1996	2,560	$22.78
Granted	8	23.88
Exercised	(22)	21.57
Balance October 25, 1997	2,546	22.79
Granted	413	29.39
Exercised	(187)	20.96
Balance October 31, 1998	2,772	23.90
Granted	458	31.93
Exercised	(196)	21.86
Forfeitures	(9)	25.46
Balance October 30, 1999	**3,025**	**$ 25.24**

Pro forma information regarding net income and earnings per share is required by SFAS 123, assuming the company accounted for its employee stock options using the fair value method. The fair value of options was estimated at the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for 1999, 1998 and 1997, respectively: risk free interest rate of 6.3%, 4.5% and 5.9%; a dividend yield of 1.8% in 1999 and 2.0% in 1998 and 1997; expected volatility of 23.4%, 24.3% and 22.2%; and an expected option life of seven years. The weighted-average fair value of options granted in fiscal 1999, 1998 and 1997 was $10.86, $8.53 and $8.17, respectively. Exercise prices ranged from $19.75 to $35.18 with a remaining average contractual life of six years at October 30, 1999. Pro forma net earnings and diluted earnings per share are as follows (because SFAS 123 is applicable only to options granted subsequent to fiscal 1995, its pro forma effect will not be fully reflected until fiscal 2000):

(IN THOUSANDS, EXCEPT PER SHARE DATA)	1999	1998	1997
Pro forma net income	$160,205	$137,036	$109,454
Pro forma diluted earnings per share	2.18	1.82	1.43
Diluted earnings per share – as reported	2.22	1.85	1.43

The number of shares available for future grants were 69,122, 639,727 and 1,214,606 at October 30, 1999, October 31, 1998, and October 25, 1997, respectively.

I. RESTRUCTURING CHARGE

The company recorded an $8.7 million restructuring charge ($5.4 million after tax or $.07 per share) in the fourth quarter of 1996 related to the exit from its catfish business. The restructuring charge included accruals related to the estimated costs associated with closing the fish farms and processing plants and liquidating the business. The amount accrued included $3.6 million to close the farms and fish processing plants, $2.7 million and $1.7 million of write-downs to estimated net realizable value related to fixed assets and live fish inventory, respectively, and $600,000 of employee related costs.

Although the accruals that were established in 1996 were based upon a complete business liquidation which was likely at the time, the company was ultimately able to sell the catfish business in 1997. The sale of the catfish business resulted in a change in estimate of the restructuring accrual to $3.5 million, requiring the reversal of $5.2 million ($3.2 million after tax or $.04 per share) of the reserve in 1997.

J. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following tabulations reflect the unaudited quarterly results of operations for the years ended October 30, 1999, and October 31, 1998, (the total of quarterly diluted income per share amounts for fiscal 1998 does not agree to the total for the year due to the calculation of the weighted-average shares outstanding for the quarter as compared to the weighted-average shares outstanding for the year):

(IN THOUSANDS, EXCEPT PER SHARE DATA)	Net Sales	Gross Profit	Net Earnings	Diluted Earnings Per Share
1999				
First quarter	$ 799,005	$ 241,765	$ 42,380	$ 0.57
Second quarter	791,095	227,023	31,834	0.43
Third quarter	816,818	221,005	29,550	0.40
Fourth quarter	950,839	288,239	59,674	0.82
	$ 3,357,757	$ 978,032	$ 163,438	$ 2.22
1998				
First quarter	$ 814,914	$209,718	$ 46,849	$0.61
Second quarter	778,325	200,516	26,296	0.34
Third quarter	755,769	194,625	20,994	0.28
Fourth quarter	912,037	255,853	45,152	0.61
	$3,261,045	$860,712	$139,291	$1.85

REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors
Hormel Foods Corporation
Austin, Minnesota

We have audited the accompanying consolidated statements of financial position of Hormel Foods Corporation as of October 30, 1999 and October 31, 1998, and the related consolidated statements of operations, changes in shareholders' investment and cash flows for each of the three years in the period ended October 30, 1999. 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 generally accepted auditing standards. 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 Hormel Foods Corporation at October 30, 1999 and October 31, 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended October 30, 1999, in conformity with generally accepted accounting principles.

Ernst & Young LLP

Minneapolis, Minnesota
November 22, 1999

Shareholder Information

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	Ending Jan. 29	Ending April 29	Ending July 29	Ending Oct. 28
Dividends (estimated dates)				
Declaration Date	Nov. 22, 1999	March 27, 2000	May 22, 2000	Sept. 25, 2000
Ex-Dividend Date	Jan. 19, 2000	April 19, 2000	July 19, 2000	Oct. 18, 2000
Record Date	Jan. 22, 2000	April 22, 2000	July 22, 2000	Oct. 21, 2000
Payable Date	Feb. 15, 2000	May 15, 2000	Aug. 15, 2000	Nov. 15, 2000
Quarterly Earnings Releases/ Quarterly Reports (estimated date)	Feb. 17, 2000	May 18, 2000	Aug. 17, 2000	*Nov. 22, 2000

*See Reports and Publications

Corporate Headquarters
Hormel Foods Corporation
1 Hormel Place
Austin, MN 55912-3680
(507) 437-5611

Internet
Hormel Foods Corporation has a presence on the Internet through four sites: www.hormel.com, www.spam.com, www.jennieo.com and www.hormelhealthlabs.com.

Independent Auditors
Ernst & Young LLP
1400 Pillsbury Center
Minneapolis, MN 55402-1491

HRL Listed NYSE

Stock Listing. Hormel Foods Corporation's common stock is traded on the New York Stock Exchange. The company's symbol is HRL and is often shown as Hormel in the New York Stock Exchange listing found in the financial section of most daily newspapers. Here, shareholders are able to find the corporation's daily trading activity, stock price and dividend information.

Transfer and Registrar Agent
Norwest Bank Minnesota, N.A.
161 North Concord Exchange
P.O. Box 64854
South St. Paul, MN 55164-0854

For the convenience of shareholders, a toll-free number (1-877-536-3559) can be used whenever questions arise regarding changes in registered ownership, lost or stolen certificates, address changes or other matters pertaining to the transfer of stock or shareholder records. When requesting information, shareholders must provide their tax identification number, the name(s) in which their stock is registered and their record address.

If you hold stock in more than one account, duplicate mailings of financial information may result. You can help eliminate the added expense by requesting only one copy be sent. Please supply the transfer agent with the names in which all accounts are registered and the name of the account for which you wish to receive mailings. This will not in any way affect dividend check mailings.

Hormel Foods Corporation's DIVIDEND REINVESTMENT PLAN, available to record shareholders, allows for full dividend reinvestment and voluntary cash purchases with brokerage commissions or other service fees paid by the company. AUTOMATIC DEBIT FOR CASH CONTRIBUTION is also available. This is a convenient method to have money automatically withdrawn each month from a checking or savings account and invested in your DIVIDEND REINVESTMENT PLAN account. To enroll in the plan or obtain additional information, contact Norwest Bank Minnesota, N.A., using the address or telephone number provided with its listing in this section as company transfer agent and registrar.

An optional DIRECT DIVIDEND DEPOSIT service offers shareholders a convenient method of having quarterly dividend payments electronically deposited into their personal checking or savings account. The dividend payment is made in the account each payment date, providing shareholders with immediate use of their money. For information about the service and how to participate, contact Norwest Bank Minnesota, N.A., transfer agent.

Dividends. The declaration of dividends and all dates related to the declaration of dividends are subject to the judgment and discretion of the Board of Directors of Hormel Foods Corporation. Therefore, there can be no assurance the events indicated in the table above will occur or occur on the indicated dates. The Declaration Date is the day on which the Board of Directors votes to declare the dividend. The Ex-Dividend Date is the date which the New York Stock Exchange sets to quote the price of the stock without the dividend. The Record Date is the date on which you must be a shareholder of record on the company's books to receive the dividend. The Payable Date closely follows the day of mailing of the checks. If a check is not received on this date, please wait at least one week to allow for possible postal delays before contacting the company.

Reports and Publications. Copies of the company's Form 10-K annual report to the Securities and Exchange Commission (SEC), the Form 10-Q quarterly reports to the SEC, proxy statement, quarterly earnings releases and other printed corporate literature are available free of charge upon request. Telephone (507) 437-5164 or access financial and other information on the Internet at www.hormel.com.

*As part of our ongoing effort to reduce costs, and recognizing the company's Annual Report to Shareholders is mailed approximately one month following the fourth quarter earnings release date, no quarterly report will be produced and mailed to shareholders. If desired, shareholders may contact (507) 437-5164 to obtain a copy of the fourth quarter earnings release made available to both the media and security analysts.

Questions about Hormel Foods
Shareholder Inquiries
(507) 437-5669
Analyst/Investor Inquiries
(507) 437-5950
Media Inquiries
(507) 437-5345

Annual Meeting. The Annual Meeting of Shareholders will be held Tuesday, January 25, 2000, in the Richard L. Knowlton Auditorium at Austin (Minn.) High School. The meeting will convene at 8:00 p.m.

Consumer Affairs. Inquiries regarding products of Hormel Foods Corporation should be addressed:
Consumer Affairs Department
Hormel Foods Corporation
1 Hormel Place
Austin, MN 55912-3680
or call 1-800-523-4635

Forward-Looking Information. This report may contain "forward-looking" information within the meaning of the federal securities laws. The "forward-looking" information may include statements concerning the company's outlook for the future as well as other statements of beliefs, future plans, strategies or anticipated events and similar expressions concerning matters that are not historical facts. "Forward-looking" statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in, or implied by, the statements. These risks and uncertainties include but are not limited to availability and prices of live hogs, raw materials and supplies, live turkey production costs, product pricing, the competitive environment and related market conditions, operating efficiencies, consumer perceptions and actions of domestic and foreign governments.

Hormel Foods Corporation
1 Hormel Place
Austin, MN 55912-3680