

Hormel
DiSusso
GENOA
0.94 LB. WITH CITRIC ACID ADDED TO HELP PROTECT FLAVOR
KEEP REFRIGERATED
U.S. DEPT. OF AGRICULTURE
INSPECTED & PASSED BY
DEPARTMENT OF AGRICULTURE

FRESH
ENNIE-O
Natural Chopped
NATURAL
Special Trim

EXTRA LEAN
Turkey Bacon
& Cured Mostly White & Dark Turkey • Chopped & Smoked Flavoring Added • Fully Cooked • Contains No Pork • Keep Refrigerated
95% Fat Free
Hormel
Always Tender
READY TO COOK
KEEP REFRIGERATED
Hormel Foods Corporation, Corporate Office, Austin, TX 78761
© Hormel Foods Corporation Patent Pending 2/7/99-01
FRESH PORK
Guaranteed

Hormel
Pepperoni
MEDIUM
CITRIC ACID ADDED TO HELP PROTECT FLAVOR

Hormel
NET WT. 16 OZ. (1 LB.) 454g

Black Label
ORIGINAL
KEEP REFRIGERATED

FI-CHI'S
RESTAURANTE
Fiesta
SALSA
GREAT NEW TASTE
MEDIUM

Spiral Sliced
GLAZE MIX INCLUDED
Hormel
Cure 81
REGISTERED • GUARANTEED
BONE-IN HAM
with Natural Juices
FULLY COOKED
Honey Glaze
INGREDIENTS: This ham is fully cooked to be at its best, served hot or cold, sliced, and eaten. A powerful combination of natural flavors... it's ready. *Ad. Hormel* L019701001

Dinty
Beef
STILL MADE WITH
Fresh potatoes

SPAM
U.S. DEPARTMENT OF AGRICULTURE
INSPECTED & PASSED BY
DEPARTMENT OF AGRICULTURE

Hormel
Kid's Kitchen
PIZZA WEDGES
THREE CHEESE
PASTA AND PIZZA SAUCE
WITH THREE CHEESES
Good Source of Protein

Hormel
Chili
WITH BEANS

F I N A N C I A L H I G H L I G H T S

	1998	1997
Net Sales	\$3,261,045,000	\$3,256,551,000
Net Earnings	\$ 139,291,000	\$ 109,492,000
Per Share of Common Stock (Diluted)	\$ 1.85	\$ 1.43
Percent of Sales	4.27%	3.36%
Dividends to Shareholders	\$ 47,473,000	\$ 47,547,000
Per Share of Common Stock	\$.64	\$.62
Capital Additions	\$ 75,774,000	\$ 116,381,000
Depreciation and Amortization	\$ 60,273,000	\$ 52,925,000
Working Capital	\$ 449,714,000	\$ 410,774,000
Shareholders' Investment	\$ 813,315,000	\$ 802,202,000

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 and foodservice and industrial customers for products highly regarded for quality, taste, nutrition, convenience and value. Hormel Foods Corporation is owned by approximately 11,800 shareholders and comprised of more than 11,200 employees, including subsidiaries.

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

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To our Shareholders, Employees and Friends:

Fiscal 1998 was an active and rewarding year for Hormel Foods Corporation. Overall, the company's financial performance was strong, highlighted by net earnings at an all-time high. Long-term strategies were validated by many specific achievements during the year.

Hormel Foods performed well in fiscal 1998 with earnings rising 27.2 percent to \$139,291,000. Excluding gains from the sale of the company's nonstrategic gelatin and specialized proteins plant in Davenport, Iowa, Hormel Foods earned \$121,889,000, an increase of 11.3 percent. For the year, tonnage improved 10.3 percent with significant increases in further-processed, consumer-branded product lines. While dollar sales of \$3,261,045,000 set a new company record, it should be noted fiscal 1998 consisted of a 53-week year compared to 52 weeks one year ago.

Most importantly, however, the results of our operating units validated many of the company's long-term strategies. All major units increased tonnage in fiscal 1998. Margins were improved because our product mix was enhanced with more value-added products for Hormel Foods trade customers and consumers. We do not sell just pork loins; we sell *Hormel Always Tender* brand marinated, flavored and precut pork loins and tenderloins. We do not sell just bacon; we sell *Hormel* brand microwaveable, precooked and specially trimmed bacon. We do not sell just turkeys; we sell *Jennie-O* brand basted whole birds, turkey ham, turkey bacon and delicatessen-style slicing breasts. We do not sell just chili; we sell *Hormel* and *Stagg* brands of meat, turkey and vegetarian chilies.



I'm pleased to review some highlights from our major individual marketing groups. The Meat Products Group realized breakthrough results, approximately doubling the profits of its best previous year. The performance was driven by strong sales of established branded items, excellent margins and the continued dramatic growth of new, branded fresh pork items under the *Hormel Always Tender* trademark.

Grocery Products completed a record year driven by tonnage gains and excellent margins. Established brands *SPAM* luncheon meat, *Dinty Moore* stew, *Hormel* chili, *Stagg* chili and our family of microwaveable products all enjoyed tonnage growth and margin improvement in 1998. All ethnic lines (e.g., *House of Tsang* Oriental foods, *Chi-Chi's* and *Herdez* Mexican products, *Patak's* Indian foods and the *Marrakesh Express* and *Peloponnese* Mediterranean items) made additional distribution gains to support growing consumer demand.

The proven strategies for growth in our Foodservice Group continued to yield success. We reviewed these strategies in detail at last year's Annual Meeting and our direction continued to prove highly effective in 1998. Foodservice growth was more than three times the industry rate due to our excellent product line and strong working relationships with distributors and operators.

Dramatically revised strategies in established Hormel Foods International (HFI) markets yielded improved results in 1998 and afforded the resources necessary to invest in the high-potential Chinese market. HFI has, over the past several years, established or refined alliances with one dozen companies worldwide to help build the *Hormel* branded presence in many markets. These successful alliances enabled HFI to have its best year ever in established worldwide markets. Thus, HFI was able to support our growing ventures in Beijing and Shanghai, China, where the name *Hormel* has become the leading premium brand of processed meats in its first year of operation.

Jennie-O Foods grew turkey tonnage and dollar sales dramatically, due principally to the 1997 acquisition of the Heartland Foods Co. plant in Marshall, Minn. Earnings levels were below plan and 1997 results, however, due to excessive industry capacity and resulting low prices. Fortunately, Jennie-O operating efficiencies allowed continued profitability despite these industry pressures. Pricing pressures have eased somewhat as we exit 1998, and Jennie-O value-added, branded tonnage continues to grow. Consequently, we are optimistic that our strategies focused on high-quality, branding and competitive costs will yield strong results into the future.

The dynamics of pork procurement added considerable complexity to Hormel Foods results for the year. Like most other major slaughter and process operators, Hormel Foods has in recent years entered into contract arrangements with the best pork producers in the geographies surrounding major plants. During much of 1998, live market prices were below the floor levels guaranteed by our contracts. The difference in these pricing levels is fully reflected in our reported financial results for the year and creates compensating balances with our hog producers. Should live hog prices rebound during the term of these contracts, Hormel Foods will benefit to the extent the compensating balances offset the higher live market prices.

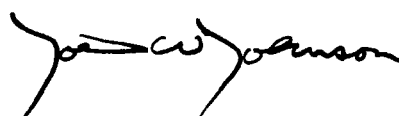
During 1998, Hormel Foods provided substantial assistance in the form of product donations to several countries hit hard by extraordinary natural disasters. The citizens of Guam, the Dominican Republic, Honduras and Nicaragua are all major long-term consumers of company products. We

acknowledged and acted upon our corporate responsibility by providing meaningful aid to families whose lives were disrupted by these devastating storms.

Four long-time officers of the company retired this year. James W. Cole, group vice president and member of the Board of Directors, retired with more than 35 years of service. Jim guided our foodservice business to industry leadership and built a strong team to continue his legacy. Jerry C. Figenskau, vice president for specialty products, completed an outstanding 37-year career during which he served in many sales and marketing capacities. Richard W. Schlange retired as vice president and controller after 40 years of stellar service. Kenneth P. Regner, vice president of engineering, completed 41 years of service with his year-end retirement. Many of our plants and engineering breakthroughs endure as clear evidence of his great professional skill.

Several important senior management changes were made during the year. Michael J. McCoy was named vice president and controller. He had previously served as vice president and treasurer of the corporation. He was succeeded as company treasurer by Jeffrey M. Ettinger, a nine-year employee, who had previous experience in the company's Law Department and as a product marketing manager for the Grocery Products Division. Steven G. Binder was elected a vice president to succeed Jim Cole in leading our growing foodservice business. Steve is a 19-year veteran with an excellent track record of business growth in many different assignments, most recently as director of sales for the Foodservice Group.

The successes of 1998 allow us to approach 1999 and the future with confidence in our fundamental strategies. Hormel Foods has excellent personnel, widely respected brand names, the trust of trade customers, the physical plant assets, the R&D resources and the financial capacity with which to build an ever stronger company.



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

Fiscal 1998 was a year of great accomplishment for Hormel Foods Corporation. It was highlighted by the strong performance of many of the company's core business groups and net earnings that were the highest in history.

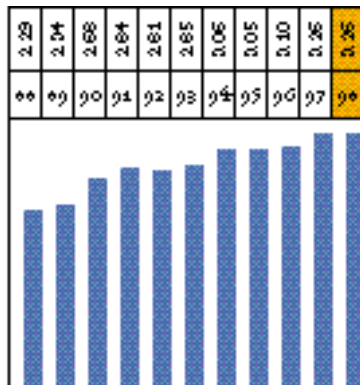
Hormel Foods was able to report a record earnings year by adhering to its strategic growth plans of concentrating on the diversity of its consumer-branded, value-added product lines and the leadership positions of its principal businesses. In this landmark year, net earnings of \$139,291,000 for the year ended October 31 were up 27.2 percent, or \$29,799,000 from the \$109,492,000 recorded in fiscal 1997. This represented a gain of 15.7 percent, or \$18,855,000 over the previous earnings record of \$120,436,000 set in 1995. Diluted earnings per share in fiscal 1998 were \$1.85, an increase of \$.42 from last year's per share earnings of \$1.43, and \$.28 over the earlier record of \$1.57 set in 1995.

The year-end results included an after-tax gain of \$17,402,000, or \$.23 per share, for the sale of the company's Davenport (Iowa) gelatin/specialized proteins plant to

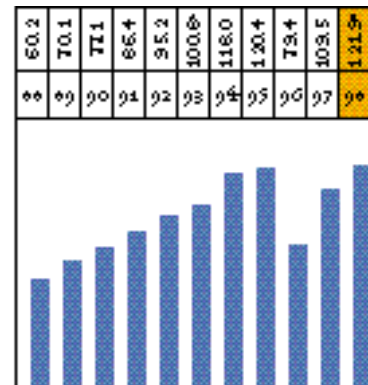
Goodman Fielder Limited, Sydney, Australia. Excluding this one-time gain, the company generated record net earnings for the year of \$121,889,000, or \$1.62 per share, an increase of 11.3 percent over fiscal 1997 and 1.2 percent over the 1995 record year. Fiscal 1998 was a 53-week year as contrasted to a 52-week year in 1997.

Record dollar sales of \$3,261,045,000 were up 0.1 percent from the \$3,256,551,000 reported in 1997. More importantly, tonnage volume for the year was very strong, up 10.3 percent from fiscal 1997, with all core marketing groups and major product categories achieving record or near-record growth.

The year-long performances were significant. The Food-service Group surpassed last year's stellar performance by attaining new highs in profits, tonnage and dollar sales. The Meat Products Group had record tonnage in branded products and



NET SALES (billions of dollars)



NET EARNINGS (millions of dollars)

¹Before cumulative reduction due to adopting SFAS No. 106 and SFAS No. 109 of \$127.5.

²Before gain on sale of Davenport Plant of \$17.4.

recorded an unprecedented profit year. The Grocery Products Division, functioning as part of the company's Prepared Foods Group, reported its best financial and operating year with new records in profits, tonnage and dollar sales. Jennie-O Foods finished the year with substantial increases in sales dollars and tonnage volume that reached record levels and earned it recognition as the largest turkey processor in the U.S. For Hormel Foods International (HFI), export sales and export profits were the best in history with total tonnage and sales dollars also setting records.

Prices paid for live hogs (the company's principal raw material) were below 1997's level. However, the company paid more under procurement agreements with independent pork producers than the very low cash spot market prices quoted during much of 1998.

The company's turkey operations operated under very difficult business conditions during fiscal 1998. Excess supplies, low commodity prices and large freezer inventories combined to depress selling prices and margins. Conditions were also difficult in the retail sector where large quantities of competing red meats and poultry products provided consumers with excellent options to pork and turkey. This resulted in lower, economically attractive prices for all proteins and served to intensify competitive activity within the meat case.

Internationally, the company continues to incur start-up costs associated with the openings of the Beijing and Shanghai,

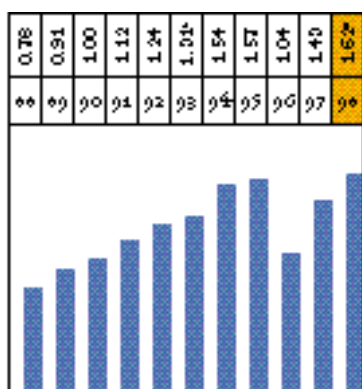
China, plant operations. In addition, while the well-publicized Asian financial crisis did not have a material impact on overall financial results, the foreign currency weakness in South Korea did negatively impact sales and earnings in that country. Also, devaluation of the ruble in Russia significantly reduced equity income from the company's investment in Campofrio Alimentacion, S.A., of Madrid, Spain.

Operational Highlights

Major brands and new product initiatives were supported with aggressive marketing programs. Marketing expense, which includes all media, advertising and promotional activities, climbed to \$276.8 million in 1998, 27.2 percent greater than the year before and more than two times the \$130.7 million spent at the beginning of the decade.

More than \$9 million was expended in 1998 in support of research and development initiatives, an increase of 5.3 percent over the previous year. Investments in research and development included improvements in established products, the development of new line introductions, packaging enhancements and plant facility process and productivity advancements.

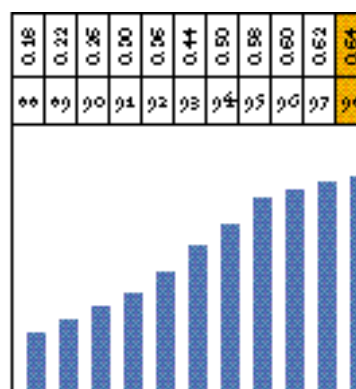
During the year, Herdez Corporation, Hormel Foods joint venture with Grupo Herdez S.A. de C.V. of Mexico, entered into an exclusive license agreement with El Torito Restaurants, Inc., of Irvine, Calif., to market various retail Mexican food



DILUTED 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.



DIVIDENDS PER SHARE (dollars)

products into the western United States. A variety of products now under development and scheduled for introduction in 1999 will carry the *El Torito* and *El Torito Grill* brand names.

The previously described sale of the Davenport gelatin/specialized proteins plant was completed in January 1998. This operation was not a core business of the company and did not fit the corporate strategic thrust which is to concentrate on established and new consumer-branded meat and food products.

Cash Dividends and Share Repurchase

In July 1998, the company completed a five million share repurchase program first announced in March 1996. The \$145.9 million expended in this repurchase provided a better use of surplus cash, improved earnings per share, increased return on equity and demonstrated confidence in the company's future. Late in the fourth quarter, the company announced a plan to repurchase up to five million additional shares of common stock which will be accomplished through periodic purchases at prevailing prices on the open market, by block purchases or in privately negotiated transactions. A purchase of the full amount would equal 6.8 percent of the 73,614,546 shares issued. The repurchased shares may be retained as treasury stock for use for corporate purposes or may be retired. The company intends to use surplus cash to fund the repurchase program.

Early in the fiscal year, the Board of Directors raised the annual dividend rate 3.2 percent from \$.62 to \$.64 per share. This marked the 32nd consecutive annual increase, a record for Hormel Foods and one shared by fewer than 100 of the more than 15,000 publicly held U.S. companies. Added to this consistency of performance is the fact that Hormel Foods has never missed a dividend payment since becoming a public company in 1928. Shareholders have received quarterly cash dividends for seven consecutive decades, or 280 quarters.

Capital Additions and Improvements

While most of the company's capital investment program is directed toward improving manufacturing processes and increasing efficiency, a significant amount is used for expansion of capacity to meet growth in demand for existing and new products. In 1998, Hormel Foods continued to support core businesses by spending \$75,774,000 in areas that will provide for future growth and profitability.

A 46,000 square foot freezer addition to the Osceola (Iowa) plant was completed during the first quarter. Two high-speed automatic hog carcass splitters, capable of processing 1,100 hogs per hour, were installed at the Austin (Minn.) plant. Also in Osceola and Austin, modifications to production of *Cure 81* ham improved the color uniformity and overall product quality.

In Algona, Iowa, replacement of the pepperoni batching system was completed. The conversion from a three-piece to two-piece lithographed *SPAM* luncheon meat can in Fremont, Neb., provides better quality and important cost efficiencies. A similar move to a two-piece can will be made early next year at the Austin plant. Production of *Always Tender* fresh pork was expanded with the installation of new equipment in Austin and Rochelle, Ill.

The new Browerville (Minn.) plant for Dan's Prize opened in June 1998. The 50,000 square foot facility has a weekly production capacity of 400,000 pounds of prime rib, pot roast and other precooked beef products. In Willmar, Minn., construction of a 24,000 square foot addition was completed in September at a Jennie-O Foods plant. The new area provides expanded frozen and dry storage as well as additional cooler and blast freezer space.

Herbvox



Hormel

Always
Tender

Guaranteed

Hormel

Real
Bacon
Bits

Hormel

Turkey
Pepperoni

70% LESS FAT

JENNIE-O
Fat Free
TURKEY BREAST



JENNIE-O
Fat Free
WHITE
TURKEY ROAST
with Creamy Roasting Pan
Sauce



Dinty Moore

Beef Stew
Fresh potatoes & carrots

Hormel

Microwave
Ready
Bacon
ORIGINAL

Hormel Kid's
Kitchen

CHEEZY
MAC 'N CHEESE



60% less fat than regular bacon

3 PACKETS • NET WT. 12 OZ.

F

iscal 1998 was not only a year of strong operating performance. From a marketing perspective, the past year was also one of major accomplishment. New products and innovative line extensions were introduced with considerable success. Many of the company's best-known brands enjoyed greatly improved market performance and category share. Attention directed to updating and contemporizing heritage core product lines helped fuel volume growth and led to a reinvigoration in the marketplace. Lastly, energized by the company's first Super Bowl commercial, marketing and promotional spending were at an all-time high, keeping new and established products in the forefront of their markets.

New and Established Cornerstone Products

The second year for distribution of *Always Tender* fresh pork clearly demonstrated the substantial growth potential that exists for brands offering added value. All categories – *Always Tender* fresh pork, *Always Tender* flavored pork and *Always Tender Consumer Ready* fresh pork – recorded record sales and tonnage volume. Salsa and honey mustard center cut filets were recent introductions to the *Always Tender* flavored pork line.

Excellent consumer response to record investments in advertising and marketing for *Cure 81* ham helped drive sales and volume for this signature company brand. Heavily supported seasonal promotions, including the eighth consecutive *Hams for the Holidays* campaign and a comprehensive Easter trade support program, as well as an upscale "Great on the Grill" promotion during the summer, ensured continuous year-round growth for both boneless and bone-in, spiral-sliced varieties.

Always Tender center cut pork chops. >



One of the company's most powerful branded products for more than one-quarter of a century has been *Cure 81* ham. To ensure this time-honored staple retains its prominence as America's preferred choice, changes made in the manufacturing process in late 1998 resulted in a more tender, juicier ham. The "new" *Cure 81* ham will offer additional consumer satisfaction.





With the click of a mouse, it's here. *SPAM* luncheon meat, both a versatile kitchen favorite and an icon of popular culture, has its own Web site on the Internet at www.spam.com. In addition, in 1998, *SPAM* luncheon meat was accepted into the Smithsonian National Museum of American History in Washington, D.C., and also became the honorary subject for creation of The Official *SPAM*™ Fan Club.

Hormel pepperoni, the unrivaled number one brand nationally, recorded its fifth consecutive year of growth en route to achieving a 50 percent category share. An extensive campaign to feature this flagship product, designed to promote the brand and expand consumer perception of pepperoni usage, led to several tie-ins with other major consumer food products. *Hormel* turkey pepperoni, in only its third year in the marketplace, became the number four best-selling item in the category. With sales volume up substantially in 1998, this unique, 70 percent less-fat alternative is proving to be one of the most successful product introductions in recent company history.

Increased consumer demand for greater convenience and variety inspired several new product additions. In May, *Jennie-O* turkey breast tenderloins, in lemon garlic and original flavors, debuted as a healthy, low-fat main course and as the perfect alternative to chicken in fajitas, stir-fry and pasta salads. These items, packaged in 3-lb. resealable bags, have experienced tremendous initial success. They will be introduced nationally with a third member of the line, *Jennie-O* turkey grillers, tender thigh meat cuts for main course and sandwich applications. *Jennie-O* premium deli-shaved turkey breasts were also introduced in four unique flavor profiles. Each variety is attractively displayed in a 1-lb. resealable package so consumers can lock in the deli freshness after each serving.

Investments in Old Favorites

Initiatives to contemporize and promote four of the company's biggest brands were started in fiscal 1997 and continued throughout the past year. For *Hormel* chili, this meant further label improvements emphasizing the new product formula on the front panel. The product changes received strong approval. The "new" *Hormel* chili was supported by two advertising firsts – the company's Super Bowl commercial in January and a print advertising strategy targeting young adults.



Stagg chili, acquired in 1996, is proving to be the perfect complement to the popular 63-year-old *Hormel* chili. In retail and foodservice in the U.S., Canada and Australia, volume and new distribution continued to grow nicely. New advertising consisted of television, radio and couponing support, plus the use of three 32-foot *Staggmobile* vehicles which traveled to festivals, sporting events, parades and other special activities offering extensive consumer sampling.

SPAM luncheon meat, having completed its second year of brand revitalization, scored a dollar sales gain of four percent. Following the extensive label "face-lift" in 1997, the packaging modernization was completed with the fourth quarter introduction of a new easy-open, two-piece container that improved the brand's overall imagery and functionality. An aggressive advertising campaign targeted neutral nonusers and light users with a contemporary "great taste" message.

Dinty Moore beef stew, another of the company's successful "big brands," was reformulated in the second quarter. Extensive testing confirmed consumers were in favor of reducing fat from 14 grams to eight grams per serving and calories from 230 to 180 without altering the flavor profile of this strong core brand. A new 50 percent reduced fat *Mary Kitchen* corned beef hash was developed to increase consumption with light and medium users of hash with the ultimate goal of achieving additional overall volume for the entire line and category.

Ethnic Food Strategies

New packaging, new formulations, new labels and new line extensions summarized the heightened marketing effort devoted to the family of *Chi-Chi's* Mexican foods. For *Chi-Chi's* salsa, this meant an improved recipe featuring an entirely new taste, texture, look and appeal. A new jar design enhanced product differentiation on grocers' shelves as did bold, bright labeling that included updated food photography. The addition of the Fiesta name promoted a fun, festive quality to the entire line. Product enhancements were also made to



Jennie-O premium deli-shaved turkey breasts.

Available in four varieties – honey mesquite, hickory smoked, honey cured and smoked pepper – the 99 percent fat free products are ready for immediate package-to-sandwich preparation. The 1-lb. resealable package offers maximum freshness, extended usage and added consumer convenience.

Jennie-O smoked, cooked whole bird. >



Old Tyme pit carving ham
for foodservice operations. >

Chi-Chi's refried beans,
taco shells, taco dinner
kits and original restau-
rante seasoning mix. A *Chi-Chi's*
Fiesta soft taco dinner kit, burrito
dinner kit and fajita dinner kit were
introduced in test markets late in the fiscal year.

The authentic Mexican products produced through joint venture Herdez Corporation continued to perform well within Mexican-American markets. Sales dollars and tonnage volume for both grocery products and foodservice reached double-digit growth levels for the second consecutive year. *Doña María* mole paved the way with a 25 percent jump in dollar sales that improved its category market share to over 50 percent nationally. Six varieties of *Herdez* salsa and two flavors of *Doña María* bouillon captured good volume and distribution following their fiscal 1998 market rollout. In a move to become a full national player with restaurant-authentic Mexican sauces and foods, a licensing agreement was signed with El Torito Restaurants, Inc., Irvine, Calif. Beginning in fiscal 1999, a variety of salsas, sauces, salad dressings, taco kits and other Mexican foods will be sold retail in the western United States under the *El Torito* and *El Torito Grill* brands.

Within foodservice, Hormel Foods offers Mexican-inspired meat, entree and sauce products under the *Rico Olé* brand which enjoyed a 25 percent increase in tonnage in 1998. Top performers were *Rico Olé* chicken and beef fajita meat and *Rico Olé* con queso sauce.

A large-scale expansion of the company's Mediterranean family of products occurred late in the year. Four flavors of *Marrakesh Express* couscous grande – roasted red pepper, roasted garlic, toasted onion, and sun-dried tomatoes – debuted as did a plain *Marrakesh Express* couscous marketed in a 25.2-oz. resealable canister with a measuring spoon. Dry packaged soups and breakfast cups were also introduced. The six hearty *Marrakesh Express* Zuppa! Mediterranean soups are spicy Sicilian beans with orzo; roasted red peppers and rice; Tuscan white beans with spinach spirals; pasta fagioli; toasted onion couscous; and eggplant, tomato and mushroom couscous. Added to this new product family was a four-item line of *Marrakesh Express Cocorico!* breakfast cups in blueberry almond, strawberry almond, banana pecan and apple cinnamon flavors.



Bread Ready presliced meats,
introduced in 1992, have grown
to include a comprehensive 30-
plus item line of the finest ham, roast
beef, turkey and dry sausage varieties
for foodservice and deli applications.
The key benefits are premium quality
meats, superior packaging to ensure
freshness and exact portion control
for consistency, and no in-house
slicing operations which eliminate
labor and equipment costs.



Also in the Mediterranean category, a *Peloponnese* salsa kalamata and a *Peloponnese* salsa aubergina were introduced, joining a new four-item line of *Peloponnese* bean stews – white bean and vegetables in basil tomato sauce, chick peas and zucchini in saffron sauce, pesto beans and sweet peppers in cumin tomato sauce, and green lentils and carrots in mild chili sauce. *Peloponnese* consumer tray-pack items, numbering five varieties of premium olives and peppers, captured added volume and distribution in the service and self-serve deli departments of supermarkets across the country. An attractive corrugated merchandising display contributed to the noteworthy gains. Other valuable imported specialty foods, *Peloponnese* roasted yellow sweet peppers, *El Pescador* Chilean anchovies and *Spanish Garden* artichokes, gained new distribution through Gourmet America, marketer of upscale international food products sourced from around the world. Successfully introduced were *Piccolo Molino* and *Viola Carini* brands of extra virgin olive oils from Italy. *Laurent du Clos* French Dijon mustards and wine vinegars debuted late in the year.

Within the *Patak's* family of Indian-themed products, two cooking sauces, Dopiaza and Jalfrezi, registered strong volume growth. The line was expanded to include Tikka Masala, a tangy coriander with lemon; Korma, a rich, creamy coconut; Madras, a hot chili with cumin; and Rogan Josh, a spicy tomato with cardamom.

House of Tsang sauces and oils continued to build tonnage volume through retail grocery outlets with a seven percent improvement in 1998. Foodservice channels produced a 20 percent increase. In-store supermarket delicatessens and independent deli operators also enlivened the overall performance with volume and distribution gains. *House of Tsang Hibachi Grill* sauces continued to enjoy strong growth in only their third year in the marketplace.

Breakfast Meats

The company's diversified lineup of breakfast meats achieved excellent gains in 1998. Within the retail bacon category, several key items contributed to double-digit growth in tonnage and accompanying improvement in category market share. Major contributors were *Black Label* bacon, *Hormel* microwave bacon, *Range Brand* bacon,



Consumers have made *Hormel* pepperoni the unrivaled number one brand nationally. The company's highly successful five-year "Pep It Up!" consumer advertising campaign has systematically built new volume, dollar share and category growth. This campaign will be updated in 1999 to suggest new, creative uses for pepperoni as a flavorful ingredient for dishes other than as a traditional pizza topping.



Jennie-O teriyaki flavored marinated tenderloin. >



The 99 percent fat free *Jennie-O* Grand Champion hickory smoked turkey breast with broth has a natural shape and texture that make it perfect for gourmet sandwiches and center-of-the-plate entrees. The Grand Champion line includes a variety of fresh, frozen, fully cooked and ready-to-cook products for delis, restaurants, catering and special events.

Hormel fully cooked bacon and *Dubuque* Classic bacon. One very promising line extension was the introduction early in the year of *Hormel* fully cooked bacon pieces, a convenient product ready to use on salads, potatoes, omelets, beans, pizza or any dish where bacon is a preferred ingredient.

Also within retail, *Little Sizzlers* pork sausage recorded double-digit growth during the key consumption period of September through February. The newest addition, a maple flavored *Little Sizzlers* pork sausage, continued to build volume and category share. *Dubuque* roll sausage and *Dubuque* skin-on link sausage contributed nicely to overall pork sausage results.

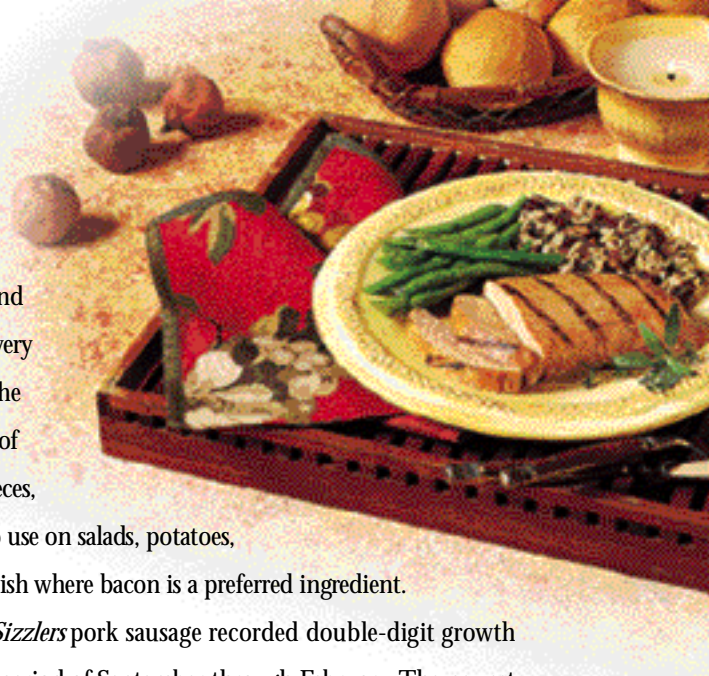
Grill Perfect bacon for foodservice nearly doubled its tonnage volume in 1998. *Old Smokehouse* bacon enjoyed solid tonnage increases with *Fast'N Easy* precooked bacon also realizing good gains. The *Special Recipe* pork sausage line was extended in the first quarter to include *Special Recipe* turkey sausage links. Total volume was well ahead of last year with the new turkey sausage links providing new momentum.

Jennie-O Extra Lean turkey bacon and *Jennie-O* fat free turkey bacon together achieved a 12 percent growth in tonnage. For foodservice, *Jennie-O* turkey sausage in links and patties registered a strong 40 percent tonnage increase.

Other Deli and Foodservice Initiatives

Understanding the increasing importance of value-added quality and convenience to deli and foodservice operators, the company added to its *Hormel*, *Jennie-O* and *Dubuque* branded precooked and presliced programs. In the deli, the strong double-digit performance of presliced meats was led by *Di Lusso* genoa, *San Remo Brand* genoa, *Homeland* hard salami and *Leoni Brand* pepperoni attractively merchandised in “sub shop” display shippers. Sales of *Di Lusso* genoa also benefited from the second year tie-in with the New York Yankees and Land O’ Lakes American deli cheese.

Record deli sales for *Hormel* cooked ham and *Hormel* cooked turkey products were posted in 1998. Deli cooked ham, in particular, exceeded all goals set for the year and ended with a record tonnage volume increase. Several varieties of *Hormel* flavored turkey – cracked pepper, garlic herb, lemon dill, and Cajun – contributed to the double-digit growth compiled by the entire cooked turkey category.



New offerings for the deli operator included a selection of rotisserie-ready meats. *Hormel* rotisserie pork roast and *Hormel* rotisserie turkey roast, introduced in 1997, are available in several popular flavors. Jennie-O Foods followed with the launch of three specially developed rotisserie products – a split turkey breast, turkey drumstick and turkey thigh – all perfect take-home items for quick and easy meal preparation. Also introduced were a *Jennie-O* oven roasted whole turkey and a *Jennie-O* smoked whole turkey. Both products are sold through the deli as great holiday and special occasion party meals to be served in the home.

Jennie-O presliced deli meats is a three-item line of deli-shaved turkey breast, smoked turkey breast and smoked white turkey. Introduced in May, it provides deli operators with labor-saving benefits and uniform slices for better portion control with no waste. *Bread Ready* presliced meats, a similar product line sold through Hormel Foods deli and foodservice operations, was expanded during the year to include buffet turkey, pastrami and honey ham additions. The growing array of ham, turkey, roast beef and dry sausage products, numbering more than 30 selections, posted a 30 percent increase in tonnage.

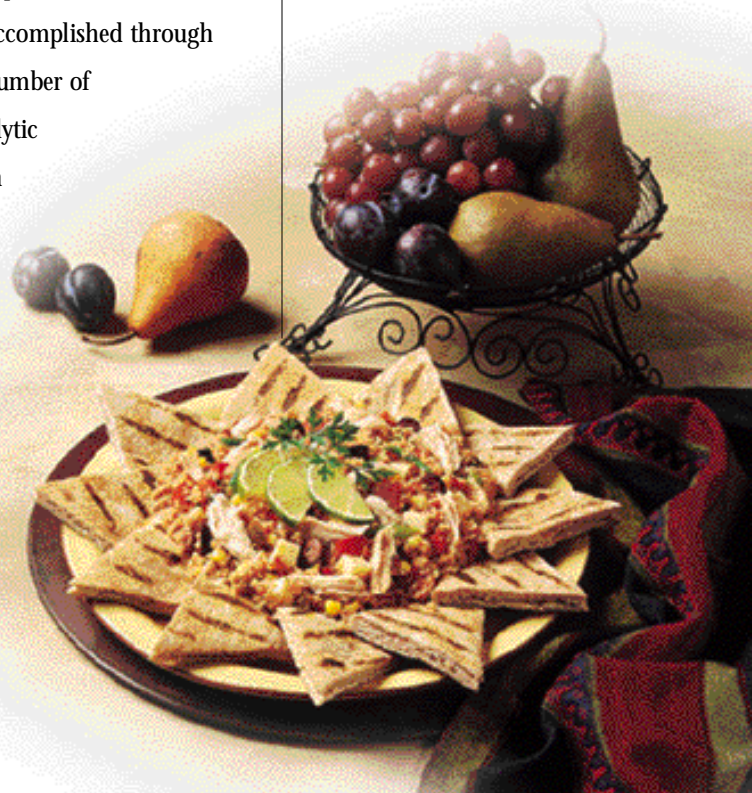
At Dan's Prize, a precooked, boneless seasoned prime rib produced good volume gains with foodservice and deli accounts. Oven roasted meats sourced from Dan's Prize continued to find widespread customer acceptance and excellent gains in distribution. Dan's Prize produces more than 15 premium prime rib, roast beef, corned beef, pastrami and other cooked beef products.

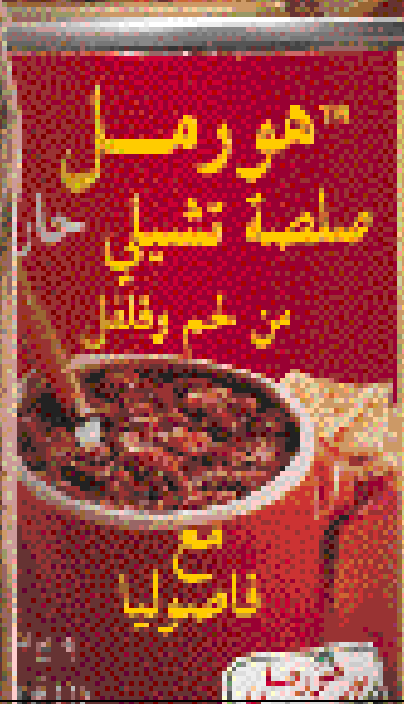
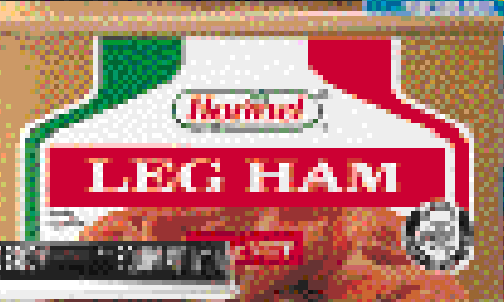
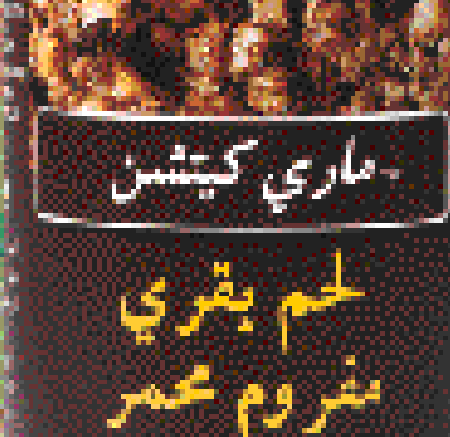
American Institutional Products (AIP) is a leading supplier of foods for the growing health care industry. A record volume year was accomplished through widespread distribution gains and the introduction of a number of new items. The marketing of *Hydrolite* prethickened electrolytic beverages to aid in the hydration of patients with dysphagia quickly established itself as a top selling item within the prethickened beverage category. A new high-calorie, high-protein drink launched late in the year is still in limited distribution. The product's acceptance and volume impact to the company are expected to be significant in 1999.

Hormel chunk breast of chicken, *Marrakesh Express* sun-dried tomato couscous, *Chi-Chi's* salsa and *Peloponnese* kalamata olives. >



Chi-Chi's salsa, along with other *Chi-Chi's* sauces and foods, benefited from an exciting promotional campaign involving the company's first celebrity spokesperson in many years. Brett Favre, three-time National Football League MVP and quarterback of the 1996 NFL World Champion Green Bay Packers, "threw" his support into a sweeping program that included print advertisements and cents-off consumer coupons.





Despite difficult economic trends in many international markets, Hormel Foods International (HFI) ended the year with improved earnings and record dollar sales and tonnage volume. Especially significant were HFI's two joint ventures in China – Beijing Hormel Foods Co. Ltd. and Shanghai Hormel Foods Co. Ltd. – which continued to build distribution and customer and consumer awareness of their growing mix of branded, value-added processed meat products. By year-end, more than 750 retail stores and 275 foodservice outlets, including such well-known names as A&W, Pizza Hut, Tony Roma's, Dairy Queen, McDonald's, Subway and TGI Friday's restaurants, were being serviced. Core products included bacon, smoked and cooked ham, franks, cocktail smokies, smoked sausage, smoked turkey breast, roast beef, smoked chicken breast, pastrami, corned beef, Canadian bacon and pepperoni.

Asia-Pacific Region

Exports of processed foods reached record levels in major Asia-Pacific markets, including Japan, the Philippines, Australia and Micronesia. In Okinawa, licensee Okinawa Hormel Ltd., which is 25 percent owned by HFI, increased market share of shelf-stable and refrigerated processed meats. Additionally, the company broadened distribution of several product lines, most notably microwaveable entrees.

In the Philippines, aided by licensee Pure Foods Corporation, export tonnage grew nearly 50 percent. The duty free channel continued to be an especially vibrant export outlet for multiple varieties of canned foods. Within the historically strong Micronesian market, increased promotional spending for *SPAM* luncheon meat and *Stagg* chili led to solid export gains.

A severe economic downturn in Korea negatively impacted licensee Cheil Jedang's results for the year. Similarly, the weak Australian currency affected earnings for the joint venture partnership with KR Hormel Foods of Brisbane. Revenues and volume, however, achieved record levels.

Chinese Cocktail Smokies. >



This bilingually labeled cooked ham product, produced at Hormel Foods International's joint venture operations in Beijing and Shanghai, China, is marketed to retail outlets in these extremely large and populous cities. More than 30 consumer-branded varieties and package sizes of bacon, franks, ham, fresh and dry sausage are formulated to suit traditional Chinese tastes and buying preferences.



SPAM luncheon meat is popular in Japan. >



Introduced in 1998 into the Caribbean and the countries of Panama, Costa Rica and Belize, this Spanish-labeled canned luncheon loaf is already gaining strong marketplace acceptance. Joint venture company Hormel Cinta Azul Foods is developing a broad number of canned food products for launch into all of Central America.

Europe

Record investments during fiscal 1997 led to new European strategic alliances designed to expand product opportunities and markets. A 21 percent stake in global foods company Campofrio Alimentacion, S.A., Madrid, Spain, constitutes HFI's largest foreign investment. Their significant international presence and production and market capabilities offer the potential for HFI to introduce and grow U.S. brands across Europe. Through this licensing alliance, opportunities also exist to produce domestically or import into the U.S. the wide varieties of Campofrio branded ham, franks, sausage and turkey products.

In the United Kingdom, the newly formed alliance with Tulip International A/S, Arhus, Denmark, resulted in significant earnings increases and accompanying strong share growth for *SPAM* luncheon meat. Major improvements in product costs, an upgrading of sales and marketing functions, effective advertising and major retail promotions contributed to the brand's resurgence.

Americas

Results from this region during fiscal 1998 were generally excellent. Hormel Cinta Azul Foods of Central America, Inc., San Jose, Costa Rica, is a joint venture company formed in 1997. It continued to build new canned foods distribution across Costa Rica, Honduras, El Salvador, Guatemala and Belize. In Panama, new agreements with licensee Blue Ribbon Products, S.A., for refrigerated products, and distributor Groceries Trade, Inc., for shelf-stable, prepared foods, helped increase HFI's presence in both retail and deli channels.

HR Foods de Colombia S.A. successfully launched a new family of processed meat and turkey products in Colombia under the *Deli Rondo* brand. Mexican joint venture Hormel Alimentos S.A. de C.V. overcame a short-term volume loss due to regulatory labeling changes and ended the year with a 34 percent improvement in tonnage. Exports to the Caribbean, specifically the Dominican Republic, Haiti and Suriname, rose 73 percent.

Despite the weak Canadian dollar, exports to Canada were at an all-time high in 1998. *Staggchili* led the growth with a 58 percent volume increase and is now the category leader among all major Canadian retailers. Foodservice partnerships with major pizza chains contributed to volume increases in pepperoni, precooked bacon and other meat toppings.



Joel W. Johnson ^(4*,5,7*)
Chairman of the Board
President
Chief Executive Officer
Director since June 1991

Don J. Hodapp ^(4,6*)
Executive Vice President
Chief Financial Officer
Director since April 1986

Gary J. Ray ^(3*,4)
Executive Vice President
Operations
Director since November 1990

Eric A. Brown ^(3,4)
Group Vice President
Prepared Foods
Director since January 1997

David N. Dickson ^(4,6)
Group Vice President
International and
Corporate Development
Director since November 1990

Stanley E. Kerber ^(3,4)
Group Vice President
Meat Products
Director since November 1990

Steven G. Binder
Vice President
Foodservice

Richard A. Bross
Vice President
Grocery Products

Forrest D. Dryden, Ph.D.
Vice President
Research and Development

Ronald W. Fielding
Vice President
President of Hormel Foods
International

James A. Jorgenson
Vice President
Human Resources

Michael J. McCoy
Vice President
Controller

Gary C. Paxton
Vice President
Manufacturing

James N. Rieth, Ph.D.
Vice President
President and
Chief Executive Officer
Jennie-O Foods

Mahlon C. Schneider
Vice President
General Counsel

Robert A. Slavik
Vice President Sales
Meat Products

Jeffrey M. Ettinger
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Secretary

James W. Cavanaugh
Assistant Secretary

Kevin C. Jones
Assistant Secretary

John W. Allen, Ph.D. ^(1,7)
East Lansing, MI
Professor and Director
Food Industry Alliance
Michigan State University
Director since October 1989

John R. Block ^(1,5)
Falls Church, VA
Former U.S. Secretary of Agriculture
President
Food Distributors International
Director since October 1997

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Los Angeles, CA
President Emeritus
The Vons Companies, Inc.
Director since January 1993

E. Peter Gillette, Jr. ^(2,6)
Minneapolis, MN
Retired President
Piper Trust Company
Director since July 1996

Luella G. Goldberg ^(5,6)
Minneapolis, MN
Trustee Emerita
Wellesley College
Member Board of Overseers
University of Minnesota
Carlson School of Management
Director since September 1993

Geraldine M. Joseph ^(1*,5)
Minneapolis, MN
Former U.S. Ambassador
to The Netherlands
Chair, Advisory Committee
Hubert H. Humphrey
Institute of Public Affairs
Director, Minnesota
International Center
Director August 1974-July 1978
Reelected April 1981

Joseph T. Mallof ^(2,7)
Racine, WI
President
Americas and South Asia
S.C. Johnson & Sons, Inc.
Director since October 1997

Robert R. Waller, M.D. ^(5*,7)
Rochester, MN
Professor of Ophthalmology
Mayo Medical School
President Emeritus
Mayo Foundation
Director since January 1993

- (1) Audit Committee
- (2) Compensation Committee
- (3) Contributions Committee
- (4) Executive Committee
- (5) Nominating Committee
- (6) Employee Benefits Committee
- (7) Personnel Committee

* Denotes Chairperson

S E L E C T E D F I N A N C I A L D A T A

(In Thousands, Except Per Share Amounts)	1998*	1997	1996	1995
Operations				
Net Sales	\$ 3,261,045	\$ 3,256,551	\$ 3,098,685	\$ 3,046,195
Net Earnings Before Cumulative Effect of Accounting Changes	139,291	109,492	79,408	120,436
Percent of Sales	4.27%	3.36%	2.56%	3.95%
Cumulative Effect of Accounting Changes				
Net Earnings (Loss)	139,291	109,492	79,408	120,436
Wage Costs	498,973	435,789	398,824	373,901
Total Taxes (Excluding Payroll Tax)	89,816	73,115	56,992	84,329
Depreciation and Amortization	60,273	52,925	42,700	37,220
Financial Position				
Working Capital	\$ 449,714	\$ 410,774	\$ 456,850	\$ 441,452
Properties (Net)	486,907	488,738	421,486	333,084
Total Assets	1,555,892	1,528,535	1,436,138	1,223,860
Long-term Debt				
Less Current Maturities	204,874	198,232	127,003	16,959
Shareholders' Investment	813,315	802,202	785,551	732,047
Per Share Of Common Stock				
Net Earnings Before Cumulative Effect of Accounting Changes — Basic	\$ 1.86	\$ 1.43	\$ 1.04	\$ 1.57
Net Earnings Before Cumulative Effect of Accounting Changes — Diluted	1.85	1.43	1.04	1.57
Cumulative Effect of Accounting Changes				
Net Earnings (Loss) — Basic	1.86	1.43	1.04	1.57
Net Earnings (Loss) — Diluted	1.85	1.43	1.04	1.57
Dividends	0.64	0.62	0.60	0.58
Shareholders' Investment	11.07	10.59	10.13	9.54

*53 Weeks

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

1994	1993	1992*	1991	1990	1989	1988
\$ 3,064,793	\$ 2,853,997	\$ 2,813,651	\$ 2,836,222	\$ 2,681,180	\$ 2,340,513	\$ 2,292,847
117,975	100,770	95,174	86,393	77,124	70,114	60,192
3.85%	3.53%	3.38%	3.05%	2.88%	3.00%	2.63%
	(127,529)**					
117,975	(26,759)	95,174	86,393	77,124	70,114	60,192
351,096	325,115	304,696	278,537	267,391	254,449	253,937
82,915	70,026	64,968	60,035	51,990	48,983	44,541
36,611	32,174	38,972	36,269	35,554	36,863	35,517
\$ 443,298	\$ 392,846	\$ 401,216	\$ 346,164	\$ 293,818	\$ 232,941	\$ 156,476
270,886	244,987	216,390	231,817	235,026	244,362	263,056
1,196,718	1,093,559	913,015	856,835	799,422	727,429	706,548
10,300	5,700	7,624	22,833	24,535	19,228	20,399
661,089	570,888	644,284	583,408	513,832	470,929	418,716
\$ 1.54	\$ 1.31	\$ 1.24	\$ 1.13	\$ 1.01	\$ 0.91	\$ 0.79
1.54	1.31	1.24	1.12	1.00	0.91	0.78
	(1.66)**					
1.54	(0.35)	1.24	1.13	1.01	0.91	0.79
1.54	(0.35)	1.24	1.12	1.00	0.91	0.78
0.50	0.44	0.36	0.30	0.26	0.22	0.18
8.62	7.45	8.41	7.61	6.70	6.14	5.46

C O N S O L I D A T E D S T A T E M E N T S O F F I N A N C I A L P O S I T I O N

(In Thousands)	October 31, 1998	October 25, 1997
Assets		
Current Assets		
Cash and cash equivalents	\$ 203,934	\$ 146,853
Short-term marketable securities	34,098	5,533
Accounts receivable	222,919	233,966
Inventories	239,548	265,346
Deferred income taxes	8,894	12,204
Prepaid expenses	7,972	7,450
Total Current Assets	717,365	671,352
Deferred Income Taxes	65,606	68,629
Intangibles	105,244	112,358
Investments in Affiliates	111,364	132,724
Other Assets	69,406	54,734
Property, Plant and Equipment		
Land	13,080	11,467
Buildings	275,445	242,124
Equipment	616,109	594,159
Construction in progress	33,947	72,179
	938,581	919,929
Less allowance for depreciation	(451,674)	(431,191)
	486,907	488,738
Total Assets	\$ 1,555,892	\$ 1,528,535

(In Thousands)	October 31, 1998	October 25, 1997
Liabilities and Shareholders' Investment		
Current Liabilities		
Accounts payable	\$ 119,836	\$ 120,385
Accrued expenses	33,699	34,564
Accrued marketing expenses	26,140	21,543
Employee compensation	54,314	46,275
Taxes, other than federal income taxes	14,599	16,524
Dividends payable	11,774	11,980
Federal income taxes	1,172	4,712
Current maturities of long-term debt	6,117	4,595
Total Current Liabilities	267,651	260,578
Long-term Debt — less current maturities	204,874	198,232
Accumulated Postretirement Benefit Obligation	248,201	243,343
Other Long-term Liabilities	21,851	24,180
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 73,614,546 shares October 31, 1998		
issued 75,776,510 shares October 25, 1997	8,628	8,881
Foreign currency translation adjustment	(2,034)	
Retained earnings	810,280	793,321
	816,874	802,202
Shares held in treasury	(3,559)	
Total Shareholders' Investment	813,315	802,202
Total Liabilities and Shareholders' Investment	\$ 1,555,892	\$ 1,528,535

See notes to consolidated financial statements.

C O N S O L I D A T E D S T A T E M E N T S O F O P E R A T I O N S

(In Thousands, Except Per Share Amounts)	Fiscal Year Ended		
	October 31, 1998	October 25, 1997	October 26, 1996
Sales, less returns and allowances	\$ 3,261,045	\$ 3,256,551	\$ 3,098,685
Cost of products sold	2,400,333	2,497,662	2,398,272
Gross Profit	860,712	758,889	700,413
Expenses and gain on plant sale:			
Selling and delivery	328,050	297,294	294,087
Marketing	276,826	217,637	209,021
Administrative and general	72,331	75,788	75,659
Gain on plant sale	(28,379)		
Restructuring charges		(5,176)	8,659
Operating Income	211,884	173,346	112,987
Other income and expense:			
Interest and investment income	14,821	9,156	14,106
Equity in earnings of affiliates	4,323	3,402	
Interest expense	(13,692)	(15,043)	(1,619)
Earnings Before Income Taxes	217,336	170,861	125,474
Provision for income taxes	78,045	61,369	46,066
Net Earnings	\$ 139,291	\$ 109,492	\$ 79,408
Net Earnings Per Share (basic)	\$ 1.86	\$ 1.43	\$ 1.04
Net Earnings Per Share (diluted)	\$ 1.85	\$ 1.43	\$ 1.04

See notes to consolidated financial statements.

C O N S O L I D A T E D S T A T E M E N T S O F C H A N G E S
I N S H A R E H O L D E R S ' I N V E S T M E N T

(In Thousands, Except Per Share Amounts)	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Foreign Currency Translation Adjustment	Total Shareholders' Investment
	Shares	Amount	Shares	Amount				
Balance at October 28, 1995	76,852	\$ 9,007	(150)	\$ (3,922)	\$ 16,624	\$ 710,338	\$ 0	\$ 732,047
Purchases of Common Stock			(1,015)	(24,334)				(24,334)
Exercise of stock options			114	3,013		(1,114)		1,899
Shares retired	(1,027)	(120)	1,027	24,708	(24,588)			0
Issuance of stock for Stagg Foods, Inc.	1,709	200			39,800			40,000
Tax benefit of stock options					378			378
Adjustment in minimum pension liability						2,254		2,254
Net earnings						79,408		79,408
Cash dividends — \$.60 per share						(46,101)		(46,101)
Balance at October 26, 1996	77,534	9,087	(24)	(535)	32,214	744,785	0	785,551
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
Adjustment in minimum pension liability						(140)		(140)
Net earnings						109,492		109,492
Cash dividends — \$.62 per share						(47,547)		(47,547)
Balance at October 25, 1997	75,777	8,881	0	0	0	793,321	0	802,202
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
Foreign currency translation adjustment							(2,034)	(2,034)
Adjustment in minimum pension liability						(79)		(79)
Net earnings						139,291		139,291
Cash dividends — \$.64 per share						(47,473)		(47,473)
Balance at October 31, 1998	73,615	\$ 8,628	(119)	\$ (3,559)	\$ 0	\$ 810,280	\$ (2,034)	\$ 813,315

See notes to consolidated financial statements.

C O N S O L I D A T E D S T A T E M E N T S O F C A S H F L O W S

(In Thousands)	Fiscal Year Ended		
	October 31, 1998	October 25, 1997	October 26, 1996
Operating Activities			
Net earnings	\$ 139,291	\$ 109,492	\$ 79,408
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation	53,159	44,915	38,280
Amortization of intangibles	7,114	8,010	4,419
Equity in earnings of affiliates	(4,323)	(3,402)	
Provision for deferred income taxes	4,516	(444)	(2,347)
Gain on investments			(4,627)
(Gain) loss on property/equipment sales and plant facilities	(15,346)	50	(3,767)
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable	11,047	(3,097)	2,773
Decrease (increase) in inventories and prepaid expenses	25,276	4,864	(56,771)
Increase in accounts payable and accrued expenses	8,286	2,101	52,040
Net cash provided by operating activities	229,020	162,489	109,408
Investing Activities			
Redemption of held-to-maturity securities	86,301	62,394	
Sale of available-for-sale securities			13,116
Purchase of held-to-maturity securities	(114,866)	(53,285)	(14,642)
Acquisitions of businesses		(140)	(10,645)
Purchases of property/equipment	(75,774)	(116,381)	(122,942)
Proceeds from sales of property/equipment	39,792	4,163	5,410
Decrease (increase) in investments, equity in affiliates and other assets	4,052	(83,011)	(20,618)
Dividends from affiliate	1,670	1,206	
Net cash used in investing activities	(58,825)	(185,054)	(150,321)
Financing Activities			
Proceeds from long-term debt	17,589	77,625	110,553
Principal payments on long-term debt	(4,312)	(4,349)	(3,393)
Dividends paid on Common Stock	(47,678)	(47,178)	(45,613)
Share repurchase	(80,076)	(45,457)	(23,966)
Other	1,363	304	2,266
Net cash (used in) provided by financing activities	(113,114)	(19,055)	39,847
Increase (decrease) in cash and cash equivalents	57,081	(41,620)	(1,066)
Cash and cash equivalents at beginning of year	146,853	188,473	189,539
Cash and cash equivalents at end of year	\$ 203,934	\$ 146,853	\$ 188,473

See notes to consolidated financial statements.

October 31, 1998

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 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.

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 1998 consisted of 53 weeks and fiscal years 1997 and 1996 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.

Beginning in 1996, the company capitalized certain software development and implementation costs. Prior to 1996, such costs were not significant. 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 31, 1998, and October 25, 1997, was \$35.4 million and \$28.2 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 "cumulative translation adjustment" 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 investment is in the common stock of a Spanish company, Campofrio Alimentacion, S.A. (Campofrio). 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 \$119.3 million at October 31, 1998.

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.

The company acquired Stagg Foods, Inc., a manufacturer of chili products, in October of 1996 for \$40.0 million of the company's stock. Additionally, the company paid \$10.0 million in cash to the former owners under a five-year noncompete agreement. The acquisition resulted in the recording of \$32.1 million of goodwill which is being amortized over 30 years.

The company also acquired several other businesses during the three fiscal year period ended October 31, 1998, which are included in the company's results of operations since the respective acquisition dates. The results of these acquired businesses, either individually or in the aggregate, were not significant to the company's results of operations.

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 1998, 1997 and 1996 were \$246.1 million, \$190.1 million and \$177.2 million, respectively.

Research and Development Expenses: Research and development expenses incurred for fiscal years 1998, 1997 and 1996 were \$9.0 million, \$8.6 million and \$8.0 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 Amounts)	1998	1997	1996
Net earnings for basic and diluted earnings per share computation	\$ 139,291	\$ 109,492	\$ 79,408
Weighted-average shares outstanding for basic earnings per share	74,743	76,495	76,509
Dilutive effect of stock options	460	234	121
Adjusted weighted-average shares outstanding and assumed conversions for diluted earnings per share	75,203	76,729	76,630
Basic earnings per share	\$ 1.86	\$ 1.43	\$ 1.04
Diluted earnings per share	\$ 1.85	\$ 1.43	\$ 1.04

Accounting Changes and Recent Accounting Pronouncements: In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." This statement establishes standards for the reporting of comprehensive income and its components in a full set of general-purpose financial statements. The company will be required to adopt Statement No. 130 in fiscal 1999 and does not expect the measure of comprehensive income to be materially different from the measure of net income.

In June 1997, the FASB also issued Statement of Financial Accounting Standards No. 131, "Disclosures About Segments of an Enterprise and Related Information." This statement revises information regarding the reporting of operating segments. It also establishes standards for related disclosures about products and services, geographic areas and major customers. The company will be required to adopt Statement No. 131 in fiscal 1999. The company does not believe that the adoption of this statement will result in segment disclosures that are materially different than those provided under the current accounting standards.

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement, which is required to be adopted for annual periods beginning after June 15, 1999, 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 Statement No. 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 31, 1998, and October 25, 1997, consisted of the following (cost approximates fair value):

(In Thousands)	October 31, 1998		October 25, 1997	
	Cash and Cash Equivalents	Short-term Marketable Securities	Cash and Cash Equivalents	Short-term Marketable Securities
Held-to-maturity securities:				
Commercial paper	\$ 29,808	\$ 27,198	\$ 15,780	\$ 5,533
Municipal securities	33,791		80,064	
Preferred securities	60,647	4,400	10,000	
Taxable securities	31,609	2,500	4,700	
Cash	48,079		36,309	
Total	\$ 203,934	\$ 34,098	\$ 146,853	\$ 5,533

C. Inventories

Principal components of inventories are:

(In Thousands)	October 31, 1998	October 25, 1997
Finished products	\$ 137,444	\$ 145,897
Raw materials and work-in-process	68,653	86,762
Materials and supplies	60,820	59,846
LIFO reserve	(27,369)	(27,159)
Total	\$ 239,548	\$ 265,346

Inventoriable expenses, packages and supplies and turkey products amounting to approximately \$82.6 million at October 31, 1998, and \$84.5 million at October 25, 1997, are stated at cost determined by the last-in, first-out method and are \$27.4 million and \$27.2 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 31, 1998	October 25, 1997
Industrial revenue bonds with variable interest rates due 1999 to 2005	\$ 5,700	\$ 5,700
Promissory notes, principal and interest due annually through 2001, interest at 6.5% and 8.9%, secured by limited partnership interests in affordable housing	8,528	11,046
Medium-term unsecured notes, \$35,000,000 maturing in 2002 and \$75,000,000 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	59,222	64,337
Medium-term secured notes with variable rates, principal and interest due annually through 2005, secured by various equipment	16,106	8,468
Variable rate — revolving credit agreements	10,551	2,776
Other	884	500
	210,991	202,827
Less current maturities	6,117	4,595
	\$ 204,874	\$ 198,232

The company has various lines of credit which have a maximum available commitment of \$27.2 million. As of October 31, 1998, the company has unused lines of credit of \$16.7 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 31, 1998, are as follows:

(In Thousands)	
1999	\$ 6,117
2000	41,442
2001	40,697
2002	48,875
2003 and thereafter	73,859

Total interest paid during fiscal 1998, 1997 and 1996 was \$13.6 million, \$14.9 million and \$1.6 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 \$219.3 million.

E Benefit Plans

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 1998, 1997 and 1996 were \$9.9 million, \$9.0 million and \$8.1 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.

A summary of the components of net periodic pension cost for defined benefit plans is as follows:

(In Thousands)	1998	1997	1996
Service cost-benefits earned during the year	\$ 9,567	\$ 8,737	\$ 8,631
Interest cost on projected benefit obligation	32,628	32,780	32,158
Actual return on plan assets	(53,031)	(138,023)	(35,569)
Net amortization and deferral	2,883	101,068	143
Net pension costs	\$ (7,953)	\$ 4,562	\$ 5,363

Assumptions used in accounting for the defined benefit plans were:

	1998	1997	1996
Weighted-average discount rates	7.00%	7.25%	7.75%
Rates of increase in compensation levels	5.00	5.00	5.00
Expected long-term rate of return on assets	9.50	9.50	9.50

The following table sets forth the plans' funded status as of the August 1 measurement date and amounts recognized in the statements of financial position:

(In Thousands)	1998		1997	
	Plans Whose Assets Exceed Accrued Benefits	Plans Whose Accrued Benefits Exceed Assets	Plans Whose Assets Exceed Accrued Benefits	Plans Whose Accrued Benefits Exceed Assets
Actuarial present value of benefit obligations:				
Vested benefit obligation	\$ 363,435	\$ 40,846	\$ 352,991	\$ 32,911
Nonvested benefit obligation	29,542	2,400	27,389	7,748
Accrued benefits	392,977	43,246	380,380	40,659
Effects of estimated future pay increases	52,850	3,541	41,624	4,110
Projected benefit obligations	445,827	46,787	422,004	44,769
Plan assets at fair value	566,216		543,344	
Projected benefit obligations (less than) in excess of benefit plan assets	(120,389)	46,787	(121,340)	44,769
Unrecognized prior service cost	(7,612)	(1,531)	(8,475)	(1,820)
Unrecognized net gain (loss)	72,162	(6,033)	87,603	(6,371)
Remaining net obligation at transition	(136)	(3,614)	(242)	(4,310)
Adjustment required to recognize minimum liability		7,650		8,400
Net pension (asset) liability in statements of financial position	\$ (55,975)	\$ 43,259	\$ (42,454)	\$ 40,668

As of the 1998 valuation date, plan assets included Common Stock of the company having a market value of \$65.7 million. Dividends paid during the year on shares held by the plan were \$1.2 million.

F. Postretirement Benefits Other Than Pensions

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.

A summary of the components of postretirement benefit costs is as follows:

(In Thousands)	1998	1997	1996
Postretirement benefit cost:			
Service cost of benefits earned	\$ 3,438	\$ 2,639	\$ 2,533
Interest cost of benefit obligation	18,384	18,237	17,571
Net amortization of deferred losses (gains)	1,011	129	(176)
	\$ 22,833	\$ 21,005	\$ 19,928

The actuarial present value of postretirement benefit obligations and the amount reported in the Consolidated Statements of Financial Position as of October 31, 1998, and October 25, 1997, are as follows:

Accumulated postretirement benefit obligations as of the August 1 measurement date:

(In Thousands)	1998	1997
Retirees	\$ 186,435	\$ 165,077
Fully eligible active participants	27,836	29,809
Other active participants	59,934	67,554
	274,205	262,440
Unrecognized net losses	(22,449)	(16,371)
Unrecognized prior service cost	3,085	3,436
Benefit payments subsequent to measurement date	(6,640)	(6,162)
Accrued postretirement benefit cost	\$ 248,201	\$ 243,343

Assumptions used in determining the accumulated postretirement benefit obligation:

	1998	1997	1996
Medical plan cost trend rate	5.9% declining to 5.5% in year 2004	6.0% declining to 5.5% in year 2004	6.5% declining to 5.5% in year 2004
Weighted-average discount rate	7.00%	7.25%	7.75%

The health care cost trend rate assumption has a significant effect on the amount reported. For example, a one percent increase in the health care cost trend rate would increase the accumulated postretirement benefit obligation by \$19.4 million at October 31, 1998, and the net periodic cost by \$1.6 million for the year.

G. Income Taxes

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

(In Thousands)	1998	1997	1996
Current:			
U.S. Federal	\$ 62,823	\$ 51,978	\$ 38,971
State	10,049	9,538	9,311
Foreign	653	220	153
	73,525	61,736	48,435
Deferred:			
U.S. Federal	4,080	(329)	(2,136)
State	440	(38)	(233)
	4,520	(367)	(2,369)
	\$ 78,045	\$ 61,369	\$ 46,066

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 \$74.5 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 31, 1998	October 25, 1997
Deferred tax liabilities:		
Tax over book depreciation	\$ (31,364)	\$ (32,513)
Prepaid pension	(21,631)	(16,389)
Other, net	(14,475)	(9,714)
Deferred tax assets:		
Vacation accrual	4,207	4,171
Insurance accruals	5,072	4,489
Deferred compensation	7,171	6,586
Postretirement benefits	96,227	94,344
Pension accrual	13,776	12,484
Other, net	15,517	17,376
Net deferred tax assets	\$ 74,500	\$ 80,834

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

	1998	1997	1996
U.S. statutory rate	35.0%	35.0%	35.0%
State taxes on income, net of federal tax benefit	3.1	3.6	4.7
All other, net	(2.2)	(2.7)	(3.0)
Effective tax rate	35.9%	35.9%	36.7%

Total income taxes paid during fiscal 1998, 1997 and 1996 were \$76.5 million, \$66.5 million and \$38.3 million, respectively.

H. 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 31, 1998, to purchase hogs and turkeys, assuming current price levels as follows:

(In Thousands)	
1999	\$ 628,639
2000	589,281
2001	567,890
2002	562,894
2003	493,185
Later years	1,575,314
Total	\$ 4,417,203

Estimated purchases under these contracts for fiscal 1998, 1997 and 1996 were \$514.4 million, \$422.1 million and \$367.4 million, respectively.

The company has noncancelable operating lease commitments on facilities and equipment at October 31, 1998, as follows:

(In Thousands)	
1999	\$ 6,674
2000	5,561
2001	4,472
2002	2,912
2003	2,479
Later years	9,257
Total	\$ 31,356

The company has commitments to expend approximately \$57.8 million to complete construction in progress at various locations at October 31, 1998. The company has also pledged \$24.9 million of government securities as collateral guaranteeing a loan at October 31, 1998.

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.

I. 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 2008.

Following is a summary of stock option activity:

	Shares (In Thousands)	Weighted- Average Option Price
Balance October 28, 1995	1,961	\$ 22.05
Granted	764	23.88
Exercised	(165)	19.30
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

Pro forma information regarding net earnings 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 1998, 1997 and 1996, respectively: risk free interest rate of 4.5%, 5.9% and 6.0%; a dividend yield of 2.0%; expected volatility of 24.3%, 22.2% and 22.2%; and an expected option life of seven years. The weighted-average fair value of options granted in fiscal 1998, 1997 and 1996 was \$8.53, \$8.17 and \$8.17, respectively. Exercise prices ranged from \$19.75 to \$33.25 with a remaining average contractual life of seven years at October 31, 1998. Pro forma net earnings and basic earnings per share are as follows (because SFAS No. 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 Amounts)	1998	1997	1996
Pro forma net earnings	\$ 137,036	\$ 109,454	\$ 75,760
Pro forma basic earnings per share	1.82	1.43	.99
Basic earnings per share — as reported	1.86	1.43	1.04

The number of shares available for future grants were 639,727; 1,214,606; and 1,986,606 at October 31, 1998, October 25, 1997, and October 26, 1996, respectively.

J. 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.

K. Quarterly Results of Operations (Unaudited)

The following tabulations reflect the unaudited quarterly results of operations for the years ended October 31, 1998, and October 25, 1997, (the total of quarterly diluted earnings 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 Amounts)	Net Sales	Gross Profit	Net Earnings	Diluted Earnings Per Share
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
1997				
First quarter	\$ 810,309	\$ 183,509	\$ 20,982	\$ 0.27
Second quarter	798,455	189,614	25,688	0.33
Third quarter	779,679	170,153	18,153	0.24
Fourth quarter	868,108	215,613	44,669	0.59
	\$ 3,256,551	\$ 758,889	\$ 109,492	\$ 1.43

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 31, 1998 and October 25, 1997, 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 31, 1998. 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 31, 1998 and October 25, 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended October 31, 1998, in conformity with generally accepted accounting principles.

Ernst & Young LLP

Minneapolis, Minnesota
November 23, 1998

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In Thousands of Dollars, Except Per Share Amounts)

A major goal of the company for a number of years has been to expand its line of consumer-branded products. One result of increased sales of branded products is reduced exposure to fluctuating commodity prices. While progress has been made in reaching this objective, price fluctuations for pork, the company's major raw material, still had an impact on results in 1998 and 1997.

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 has 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 have been higher than spot market prices, have been 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.

Earnings for the year increased 27.2 percent to \$139,291 from \$109,492 in 1997. 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 this one-time gain, company 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 last year. Fiscal 1998 was a 53-week year compared to a 52-week year in 1997.

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

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

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, continue 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 continuing 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 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. These expenditures emphasize the company's continued commitment to expanding its base of branded consumer products. 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. The change in expenses between the two quarters was due to a decrease in pension expenses.

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. 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 was unchanged at 35.9 percent for 1998 and 1997.

Fiscal Years 1997 and 1996: Record high feed grain costs experienced in 1996 moderated somewhat in 1997 but remained above historic levels. Although the company was able to improve margins in 1997, high raw material costs did not allow the return to pre-1996 margin levels.

Earnings for the year increased 37.9 percent to \$109,492 from \$79,408 in 1996. Net sales in 1997 increased 5.1 percent to \$3,256,551 from \$3,098,685 the previous year. Tonnage for the year decreased 0.5 percent compared to 1996.

Earnings for the fourth quarter of 1997 were \$44,669, an increase of 47.9 percent over earnings of \$30,211 for the same period in 1996. Sales for the quarter were \$868,108, a 1.1 percent decrease from \$877,775 in 1996. Tonnage declined 1.2 percent in 1997 compared to the previous year.

The drop in tonnage for both the quarter and year was a result of reduced commodity pork sales and the sale of Farm Fresh Catfish Company during 1997. The increase in earnings, while sales dollars and tonnage either improved marginally or declined, is due to a product mix which included a larger proportion of higher margin consumer-processed items.

Tonnage volume in the Grocery Products Division was up 4.5 percent for the year, due primarily to the Stagg Foods acquisition. The Meat Products Group completed the year with tonnage growth exceeding 12.0 percent, continuing the trend of increased sales of value-added product versus commodity product. Tonnage of the Foodservice Group was up 12.0 percent for the year.

In the international area, the company purchased a 21.4 percent equity interest in Campofrio Alimentacion, S.A. in Spain. Construction projects of the China joint ventures continued as scheduled. The venture in Shanghai began production in October 1997. The Beijing venture is scheduled to begin production in January 1998. International tonnage for 1997 increased 26.9 percent over 1996.

Jennie-O tonnage increased 12.0 percent in 1997 with sales dollar growth exceeding 14.0 percent compared to 1996. While tonnage and sales dollars were up, high feed costs for the year continued the squeeze on historical margins that began in 1996. In October 1997, Jennie-O acquired the assets of Heartland Foods in Marshall, Minnesota.

In 1996, the company announced it would exit the catfish business and established an after-tax restructuring reserve of \$5,400. The sale of Farm Fresh Catfish assets in 1997 resulted in a favorable after-tax reduction of the reserve in the amount of \$3,200.

Selling and delivery expenses for the quarter and year were \$125,273 and \$514,931, respectively, as compared to \$124,285 and \$503,108 last year. As a percentage of sales, selling and delivery expenses decreased slightly to 15.8 percent from 16.2 percent in 1996. Marketing expenses increased to \$51,063 for the quarter and \$217,637 for the year compared to \$49,079 and \$209,021 last year.

Administrative and general expenses were \$24,744 and \$75,788 for the quarter and year, respectively, compared to \$20,570 and \$75,659 in 1996. As a percentage of sales, administrative and general expenses for the year decreased slightly to 2.3 percent from 2.4 percent last year.

The company's effective tax rate decreased to 35.9 percent from 36.7 percent in 1996. The reduction is due in part to increased affordable housing tax credits, foreign equity earnings which are net of tax, a favorable completion of a federal tax audit and a decrease in state and local taxes.

Liquidity: The company continues to have an exceptionally strong balance sheet. Cash and cash equivalents and short-term marketable securities were \$238,032 at the end of 1998, compared to \$152,386 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 and \$59,200 of long-term notes denominated in Spanish pesetas, used to purchase a 21.4 percent equity interest in Campofrio in Spain. The strong balance sheet provides the company with the ability to take advantage of expansion or acquisition opportunities that may arise.

During 1998, cash provided by operating activities was \$229,020, compared to \$162,489 last year. The increase in cash provided by operating activities was the result of an increase in net earnings, excluding the one-time gain and changes in working capital items, which were in the normal course of business.

Cash required for investing activities in 1998 decreased to \$58,825 from \$185,054 in 1997. The decrease in cash required for investing activities reflects the completion in 1997 of several construction projects primarily at Hormel Foods and Jennie-O Foods, the cash required last year for the equity investment in Campofrio and the cash received on the sale of the Davenport gelatin plant. At the end of the year, the company had commitments to expend approximately \$57,800 to complete construction in progress at various locations.

During the year, the company repurchased 2,251,600 shares of its common stock at an average price per share of \$33.98, completing an initial share repurchase plan authorized in 1996. The company's Board of Directors authorized a second share repurchase plan in September of 1998. During the fourth quarter, 119,400 shares were repurchased under the new plan at an average price per share of \$29.81.

Financial ratios for 1998 and 1997 are presented below:

	1998	1997
Liquidity Ratios		
Current ratio	2.7	2.6
Receivables turnover	14.3	14.0
Days sales in receivables	25.4	26.2
Inventory turnover	9.5	9.3
Days sales in inventory	37.1	38.8
Leverage Ratio		
Long-term debt to equity	25.9%	25.3%
Operating Ratios		
Pretax profit to net worth	26.9%	21.5%
Pretax profit to total assets	14.1%	11.5%

Year 2000: For many years, internally developed software has been developed so as to eliminate the need for revision in the Year 2000. Less than 5.0 percent of this category of software remains to be updated and will be completed by January 1, 2000.

The company has an ongoing process to review the impact of Year 2000 on key suppliers and customers and on outside developed software that runs on company computers or is contained within processing equipment. Changes to correct potential problems identified by this assessment process are 80 percent complete. All required changes will be complete by January 1, 2000.

The company has queried its significant outside suppliers and customers as to their exposure to Year 2000 problems. The company is not aware of any outside supplier or customer with a Year 2000 issue that would materially impact the company's results of operations. However, the company has no means of ensuring that outside suppliers and customers will be Year 2000 ready.

The company does not anticipate delays in finalizing Year 2000 changes and does not have contingency plans for such a possibility. The total historical or anticipated remaining costs to remediate 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 percent decrease in interest rates and amounts to approximately \$3.9 million. 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 borrowings arrangements.

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

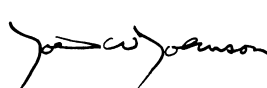
RESPONSIBILITIES FOR FINANCIAL STATEMENTS

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.

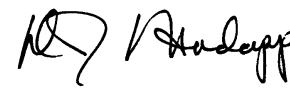
Hormel Foods Corporation has developed a system of internal controls designed to assure that the records reflect the transactions of the company and that the established policies and procedures are adhered to. This system is augmented by well-communicated written policies and procedures, a strong program 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 30. 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

SHAREHOLDER INFORMATION

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	Ending Jan. 30	Ending May 1	Ending July 31	Ending Oct. 30
Dividends (estimated dates)				
Declaration Date	Nov. 23, 1998	March 22, 1999	May 24, 1999	Oct. 4, 1999
Ex-Dividend Date	Jan. 20, 1999	April 14, 1999	July 21, 1999	Oct. 20, 1999
Record Date	Jan. 23, 1999	April 17, 1999	July 24, 1999	Oct. 23, 1999
Payable Date	Feb. 15, 1999	May 15, 1999	Aug. 15, 1999	Nov. 15, 1999
Quarterly Earnings Releases/ Quarterly Reports (Estimated Date)	Feb. 18, 1999	May 20, 1999	Aug. 19, 1999	*Nov. 24, 1999

*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 two sites: www.hormel.com and www.spam.com.

Independent Auditors

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

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 1998 and 1997, respectively, are shown below:

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

1997	High	Low	Dividend
First Quarter	27 ⁷ / ₁₆	23 ¹ / ₂	\$.155
Second Quarter	27	23 ³ / ₁₆	\$.155
Third Quarter	28 ⁷ / ₁₆	23 ³ / ₁₆	\$.155
Fourth Quarter	32 ¹ / ₂	28 ¹ / ₁₆	\$.155



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 (1-800-468-9716) 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 at left 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 26, 1999, 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

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