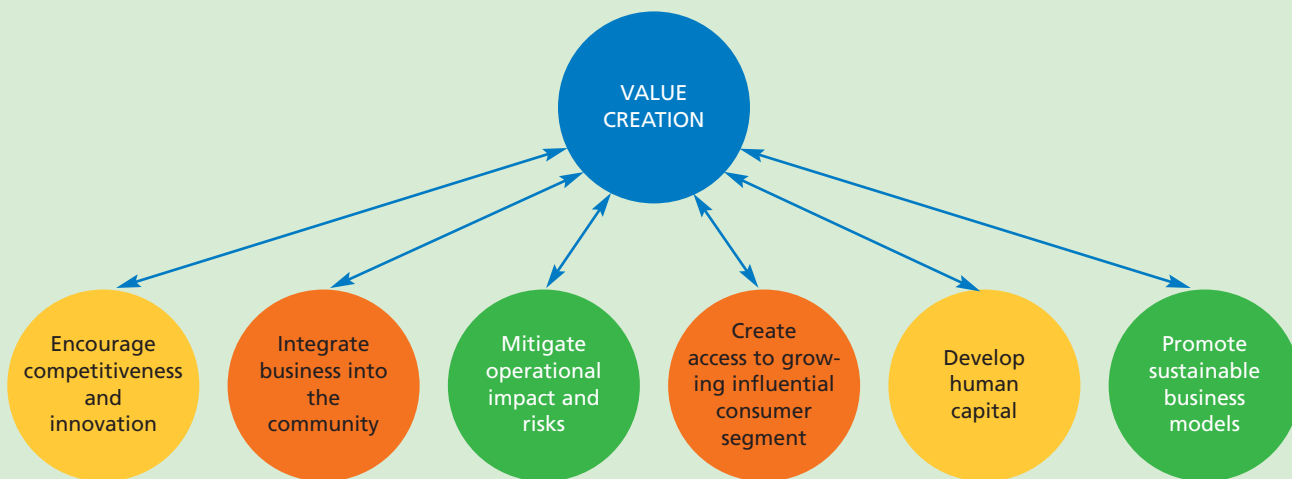


VALUE CREATION & RISK MANAGEMENT



| | | |
|---|--|---|
| <p>Encourage competitiveness and innovation</p> | Since 2004, saved an estimated \$285.6 million in operating costs through environmental improvement awards projects that cost \$57.5 million to implement. (Page 28) | Several recent packaging reduction initiatives across our business yielded savings of \$2.75 million. (Page 31) Recently opened a new, \$5 million R&D center to be more responsive to customer requests. (Page 2) |
| <p>Integrate business into the community</p> | Paid \$301 million in federal and state taxes in fiscal 2012. (Page 13) Spent \$27.8 million locally on five major capital improvement projects. (Page 13) 94% of locations held at least one cleanup event in fiscal 2012. (Page 9) | Launched health and wellness initiative in fiscal 2012 in headquarters community of Smithfield, Virginia. (Page 35) 88% of locations held at least two meetings with stakeholders in fiscal 2012. (Page 9) Donated 6.9 million servings of food in the U.S. in fiscal 2012. (Page 34) |
| <p>Mitigate operational impact and risks</p> | Conducted our first formal Enterprise Risk Management analysis in fiscal 2012, confirming the importance of our focus areas. (Page 17) More than 95% of locations worldwide are ISO 14001 certified. | Compliant with national standards and guidelines for animal care. (Page 7) 100% of relevant facilities certified to Global Food Safety Initiative. (Page 32) Received zero notices of violation at 460 company-owned farms. (Page 31) |



At Smithfield, we use the term “value creation” broadly and think of it in ways that go beyond just our own company’s value. The elements of our sustainability program are designed to create value for a wide range of stakeholders, both internally and externally.

This table illustrates ways that our sustainability program creates value for all our stakeholders while simultaneously improving Smithfield’s own financial performance. Details of the programs can be found within the pages of this print report as well as on smithfieldcommitments.com.



| | | |
|---|--|---|
| <p>Create access to growing influential consumer segment</p> | <ul style="list-style-type: none"> Published first integrated sustainability/annual report in 2012. Increased consumer advertising spending by double digits in fiscal 2012. (Page 1) | <ul style="list-style-type: none"> Launched several cause marketing campaigns to benefit a number of social causes. (Page 42) Expanded use of social media channels. (Page 18) |
| <p>Develop human capital</p> | <ul style="list-style-type: none"> Further reduced employee injury rate by 15.7%. (Page 26) Paid \$1.9 billion in wages and benefits in fiscal 2012. (Page 25) | <ul style="list-style-type: none"> Contributed 1.2 million in education programs to benefit our employees and their offspring. (Page 35) In Poland, funded 94 scholarships for children from rural areas. (Page 39) |
| <p>Promote sustainable business models</p> | <ul style="list-style-type: none"> Set a new target for each IOC to have one zero-waste-to-landfill facility by 2018. (Page 27) Our energy/water/waste reduction targets—10% (normalized) reductions by 2016—are driving more sustainable operations. (Page 27) In fiscal 2012, issued a Code of Conduct for our suppliers. (Page 17) Our Code of Conduct and Business Ethics applies to all employees, officers, and directors. (Page 19) | <ul style="list-style-type: none"> Working with growers in North Carolina to encourage production of sorghum, which requires less water to grow than corn and helps insulate us from commodity price swings. (Page 23) Responding to customer interest and our target to provide a variety of products to suit different tastes and dietary needs. We had about 100 reduced-sodium products in the marketplace at the end of fiscal 2012, up from about 75 the previous year. (Page 33) |



ANIMAL CARE

Smithfield aims to raise healthy animals by promoting their safety and overall well-being, and we have a long history of industry leadership in responsible animal production. Our animal care management program guides the care of our animals at every stage of their lives, from gestation to transport to processing plant. All farm employees and contract hog producers must employ the methods and techniques of the management system, and we take steps to verify their compliance.

As the world's largest producer of pork, Murphy-Brown LLC,¹ our hog production independent operating company (IOC),

OUR ANIMAL CARE GOAL

- ▶ Keep our animals safe, comfortable, and healthy

OUR ANIMAL CARE TARGETS

- ▶ Remain 100% Pork Quality Assurance Plus (PQA Plus®) compliant at company-owned and contract farms²
- ▶ Maintain PQA Plus certification for all suppliers and move toward site assessments
- ▶ Complete conversion from individual gestation stalls to group housing for pregnant sows on company farms by end of 2017

raises pigs on approximately 460 farms that it owns in the United States alone. Murphy-Brown also contracts with approximately 2,100 contract hog farms ("contract producers") in the United States. In addition, Smithfield's meat processing operations purchase pigs from numerous independent hog producers whose numbers fluctuate depending upon market conditions.

Over the past year, we have been working on a number of issues that are important to our customers and to other stakeholders, such as eliminating the use of gestation stalls for pregnant sows on company-owned farms, improving transportation for hogs, and developing markets for alternative feed grains. We also have recently updated our standard operating procedures for animal handling and care, enhanced our training materials, and augmented our auditing systems.

MANAGEMENT SYSTEMS

Murphy-Brown created its own animal care management system more than a decade ago. Developed in consultation with two of the world's foremost experts in animal behavior and handling, this system continues to guide our operations today.

The Murphy-Brown Animal Care Policy, which applies to Murphy-Brown, its subsidiaries, and its contract producers, articulates a commitment to sound animal care and identifies five specific areas of responsible practices. Suppliers that provide animal products to our facilities are expected to have similar operating policies and procedures in place to ensure the proper care of their animals during all stages of production, transportation, and processing.

All company-owned and contract farms are subject to random third-party audits and site assessments under the Pork Quality Assurance Plus (PQA Plus) Program. The program complements existing procedures at Murphy-Brown, which are designed to supplement the internal evaluations of our day-to-day practices. Regular evaluation and training allows us to identify any areas

¹ Throughout this report, when we refer to Murphy-Brown, we mean Murphy-Brown LLC and its subsidiaries.

² The wording of this target has been slightly revised from our previous report. Where "PQA Plus compliant" is used throughout this report, we mean that our farms have been site assessed and that specific employees have been certified according to PQA Plus program guidelines.



VALUE CREATION

We recognize that the health of our animals is critical to the success of our products and, therefore, to the success of our business. Our animal care management systems, policies, and procedures are designed to ensure the proper treatment of the hogs that we raise for fresh and packaged meats. The better we care for our pigs, the better our results as a whole.

Sound animal care management systems result in healthier animals, which benefits our pigs and also our company's overall financial health. Our animal care performance can influence the following:

- Our reputation
- Our relationships with customers and consumers
- Production levels (healthy animals gain weight faster and are more resistant to disease; sows have larger litters)

Our contract growing relationships provide opportunities for many hundreds of farmers to stay on their family farms, make investments for the future, stabilize their incomes, and diversify their operations. We also create markets for thousands of grain farmers across the United States and internationally who grow corn, wheat, sorghum, and other feed that we purchase for our hogs.

| By the Numbers | Fiscal 2012 |
|-------------------------------|---------------|
| Contract grower payments | \$348 million |
| U.S. grain purchases | \$1.2 billion |
| International grain purchases | \$100 million |

See page 37 for grain purchases of our international companies.

of concern and make adjustments to procedures before problems occur. Members of our production management staff, many of whom are also PQA Plus-trained auditors, visit every contract and company-owned farm at least once a month. Our processing plants, our hog production subsidiary, and many of our contract growers also participate in the U.S. Department of Agriculture (USDA) Process Verified Program, which is modeled on ISO 9000 quality management and assurance standards and helps to ensure that standards are upheld and procedures followed.

Details on our animal care auditing policies and procedures can be found at smithfieldcommitments.com. Also available online is information on certain animal care management practices, including tail docking, castration, and euthanasia.

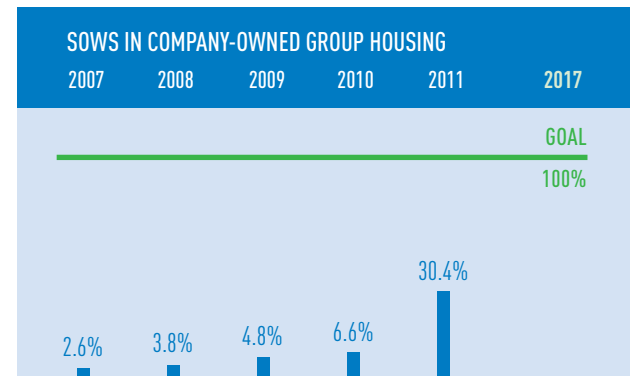
HOUSING OF PREGNANT SOWS

More and more food companies are looking to suppliers to phase out individual gestation stalls for pregnant sows. In early 2012, for example, several of our restaurant customers announced that they would require all U.S. pork suppliers to provide plans to eventually phase out the stalls in favor of group housing.

Smithfield remains on track toward our goal of phasing out individual gestation stalls for pregnant sows at all company-owned sow farms by 2017. We first announced our plans to transition to group housing in 2007 but had to slow our progress in 2009 in difficult economic times. Our decision to move away from gestation stalls and into group housing has been controversial within our industry. We have never argued that the science suggests one type of housing is better than another. We decided to move to group housing after consulting with many of our customers. Research we conducted over two years shows that both housing types can work equally well from both an animal care and a production standpoint.

Converting to gestation pens is a complex process that can't be done overnight. Group housing systems require nearly double the square footage of individual pens. To maintain the same number of sows on a farm, we need to either build new barns or expand existing ones. Employees must also be retrained.

We estimate the total cost of our transition to group pens will be approximately \$300 million. The cost of conversion ranges from \$250 per sow to as high as \$650 per sow at older farms with more complicated barn conversions. Many of our barns require extensive retrofits and reconfigurations to create the new housing systems. As we implement the new systems, we're simultaneously making other improvements to the facilities.



All values reported by calendar year.



EXPERT'S PERSPECTIVE

—Jennifer Woods
Livestock Handling Specialist/Consultant

I've had a relationship with Smithfield Foods and Murphy-Brown for about seven years now. I first started working with them to enhance their hog transportation systems and emergency response procedures. More recently, I've been working with them to evaluate their overall systems of animal care and look for ways to improve operating procedures, training, and auditing.

I was brought in by Smithfield in December 2010 to evaluate the company's animal care policies and procedures, make recommendations for improvements, and develop new assessment tools. One thing we have been doing, for example, is calibrating the company's internal auditing systems to make the audits, and the auditors, more effective in their analyses. Auditing is a lot more than just showing up at the farm. It's the details that are important.

As a result of this work, I believe Smithfield will have an even stronger animal care program with improved well-being for the animals. Smithfield's animal care standards will be higher than what we currently see across the industry. That, in turn, will lead to improvements in production. Animals that live on farms with good welfare practices have lower stress levels, healthier weight gains, and reduced mortality rates. Healthier sows also produce larger litters, which is important for the economics of large-scale production. And, with proper management techniques, growers will have lower expenses for illnesses and injuries, too.

The thing that has always impressed me about Smithfield is that they really are leaders in the industry when it comes to animal welfare. They were the first to take on improved emergency responses, for example. Now, they're ramping things up a level and are moving beyond their industry peers when it comes to their animal care auditing programs. I have not seen any other hog producer take it to the level that Smithfield has. That progressiveness is one of the things that draws me to work with them.

"Farming is a part of who we are. It's what we do, and it's in our character. Becoming a contract producer meant we would have a consistent source of young pigs—and a consistent price for our market hogs. We wouldn't have to face all the ups and downs of the market, which meant we would be protected when prices dropped very low."

—John Langdon, John M. Langdon Farms,
Benson, North Carolina, Murphy-Brown contract producer

TRANSPORTATION RESEARCH

At Smithfield, we transport hogs during several phases of their lives—from sow farms to nurseries, nurseries to finishing barns, and from finishing barns to processing plants. Because we do not want to lose any animals during transit, we're investing time and research into understanding more about hog transportation, and into developing ways to predict and reduce animal stress during transit.

We are partnering with a team of researchers from a global animal health company. Together, we have implemented a system to provide real-time feedback on transportation data that is helping employees recognize when they need to intervene on behalf of the hogs with measures such as additional fans and/or misters to keep the pigs cool.

The project, which began in 2009, has led to a downward trend in transportation losses. Overall for our industry, the rate of pig mortality during transportation has dropped by 40 percent over the last decade. We're also seeing reductions in the amount of time hogs wait on trucks before they move into the stockyards at Smithfield plants. (Once hogs do enter the plants, they spend time in pens where they can rest under the careful observation of USDA inspectors before being allowed into the food supply.)

To address potential risk factors for transportation mortality, Smithfield is evaluating changes such as scales on trucks to measure the weight of the load and thereby minimize overcrowding; a new logistics and scheduling program to reduce the amount of time hogs spend on trucks; and misting fans at the plant to minimize the effects of summer heat.

ANTIBIOTICS USE

Smithfield's commitment to food safety and animal care includes the appropriate administration of antibiotics to prevent, control, and treat diseases and to ensure good health in our pigs.¹ At the same time, we strive to limit antibiotics use through

¹ When we refer to "our pigs," we mean all animals produced by Smithfield's livestock production subsidiary Murphy-Brown, its subsidiaries, and their contract farms.

“We were at a point where our buildings either needed a lot of money for upgrades, or we had to build new ones. We needed to have a secure way of paying for them without having to worry about the hog market and the fluctuating market for corn prices. [Contract farming] gave us a guaranteed income.”

—Missy Bice, Golden Circle Pork,
Woodward, Iowa, Murphy-Brown contract producer

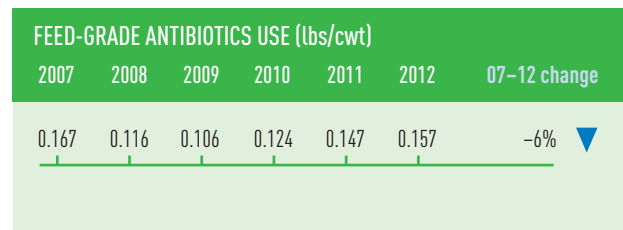
enhanced management practices and vaccines intended to improve animal health.

Adherence to our antibiotics policy, which has been in place since 2002, is obligatory for anyone who works with the animals owned, or managed by, or under contract to our IOCs. We review the policy periodically to confirm that it is up-to-date with the best science of the day. The policy, available at smithfieldcommitments.com, calls for the responsible use of antibiotics for three specific purposes: to prevent disease, control disease, and treat disease, with proper diagnostic confirmation.

In April 2012, the U.S. Food and Drug Administration (FDA) issued new regulatory guidance with two key principles on

the use of antibiotics in food production. The principles are consistent with our existing antibiotics use policy, and Murphy-Brown already follows the FDA’s recommendations.

Company and contract farmers administer antibiotics only when it is necessary for the health of the animals. Whether treating one individual animal or administering to a group of animals, all antibiotics choices and applications are based on guidance from licensed veterinarians. We believe that responsible use of antibiotics protects our animals and enhances their quality of life. We track and report our use of feed-grade antibiotics as a result of a first-of-its-kind agreement with foodservice giant Compass Group North America and the Environmental Defense Fund.



All values reported by fiscal year. The amount of antibiotics purchased varies from year to year based on a number of factors including weather conditions, emergence of illnesses, inventory decisions, type of antibiotic used (feed, water, or injected), and active ingredient concentration. The purchases went up slightly in fiscal 2012 due to herd health needs.

CREATING VALUE THROUGH THE GRAIN SUPPLY CHAIN

No single group of suppliers contributes more directly to our hog production operations than grain farmers. The more we grow as a business, the greater the demand we put on grain suppliers to increase their levels of production.

In addition to creating a market for thousands of farmers across the United States for their agricultural products, we also buy grain locally whenever possible. We’re working hard to find ways to purchase even more feed locally—not only to benefit our own operations, but also to benefit the growers themselves. In fiscal 2012, we kicked off a pilot initiative aimed at developing a new grain market for farmers in the southeastern region of the United States. We believe that grain sorghum, a drought-tolerant crop and an excellent source of nutrients required in hog feed, holds great promise for farmers in North Carolina and neighboring states.

Sorghum has a lower water demand than many other grain crops and is especially advantageous for arid regions or areas

with water shortages. Its low fertilizer demand reduces the risk of nutrient leaching and, thus, soil and water pollution, as well as making it well-suited for smaller-scale farming. In addition, sorghum has a relatively short vegetation cycle, which also helps reduce demand for fertilizers and pesticides.

We are encouraging farmers who do not achieve profitable corn yields to switch to sorghum, which costs less to grow than corn and should produce more consistent yields. We’re demonstrating our commitment by increasing the amount we pay for the crop. In calendar 2011, we bought sorghum at 88 percent of the price of corn for participants in our sorghum pilot program. In 2012, we are paying 95 percent of the harvest cash price of corn for our sorghum growers.

Several years ago, only 4,000 to 5,000 acres of sorghum were grown in North Carolina. In 2012, we expect it to be around 60,000 acres—about 80 percent of which will be purchased by Murphy-Brown.