

C

## WHAT SPELLS STRENGTH?



TYSON FOODS, INC.



1998 ANNUAL REPORT





**SAFETY IS OUR  
WATCHWORD**


In the past four years, more than 30 Tyson plants each operated a million work hours without injury. Safer people mean safer, high quality food.



WE'RE  
FOCUSED ON  
CHICKEN


At Tyson, we're  
feeding you like  
family. And when  
the family sits  
down for dinner,  
Tyson chicken is  
on the table.





tyson Foods, Inc. is the number one chicken company in the world. We are the largest fully integrated producer, processor and marketer of chicken and poultry-based food products. No competitor comes close to our size or our strength. It is our mission to produce and market quality food products that fit today's changing lifestyles. Our size gives us the flexibility to fulfill that mission. We can serve customers like no one else in the industry. Our goal is to satisfy any market, anywhere, anytime with a full array of chicken products for our foodservice, retail and wholesale club customers. With Tyson's breadth and depth of products and services, our foods are available in grocery stores and wholesale clubs throughout the United States. In the foodservice industry, we service 90 of the top 100 restaurant chains and 50 of the top 50 distributors. The acquisition of Hudson Foods in January enhanced our ability to take care of the marketplace and to be a stronger competitor. In the future, Tyson will grow globally as well as domestically. We are considering opportunities for further international expansion that will reap long-term benefits for the company.





ears of experience and dedicated people give Tyson its strength. We have a superior workforce producing high quality products in a workplace made as safe as possible. For 63 years, Tyson people have worked with care to create wholesome products for your family and theirs. Our people are so careful, in fact, that Tyson's worker injury rate is less than half that of the poultry industry as a whole. Some of our plants have two, four, even six million work hours without a lost-time injury.





Tyson

Romy

James

Cobra

Brenda

Tyson

**VERTICAL  
INTEGRATION  
IS KEY TO  
OUR STRENGTH**  
From the egg to the  
table, Tyson people  
control quality  
and cost every step  
of the way.

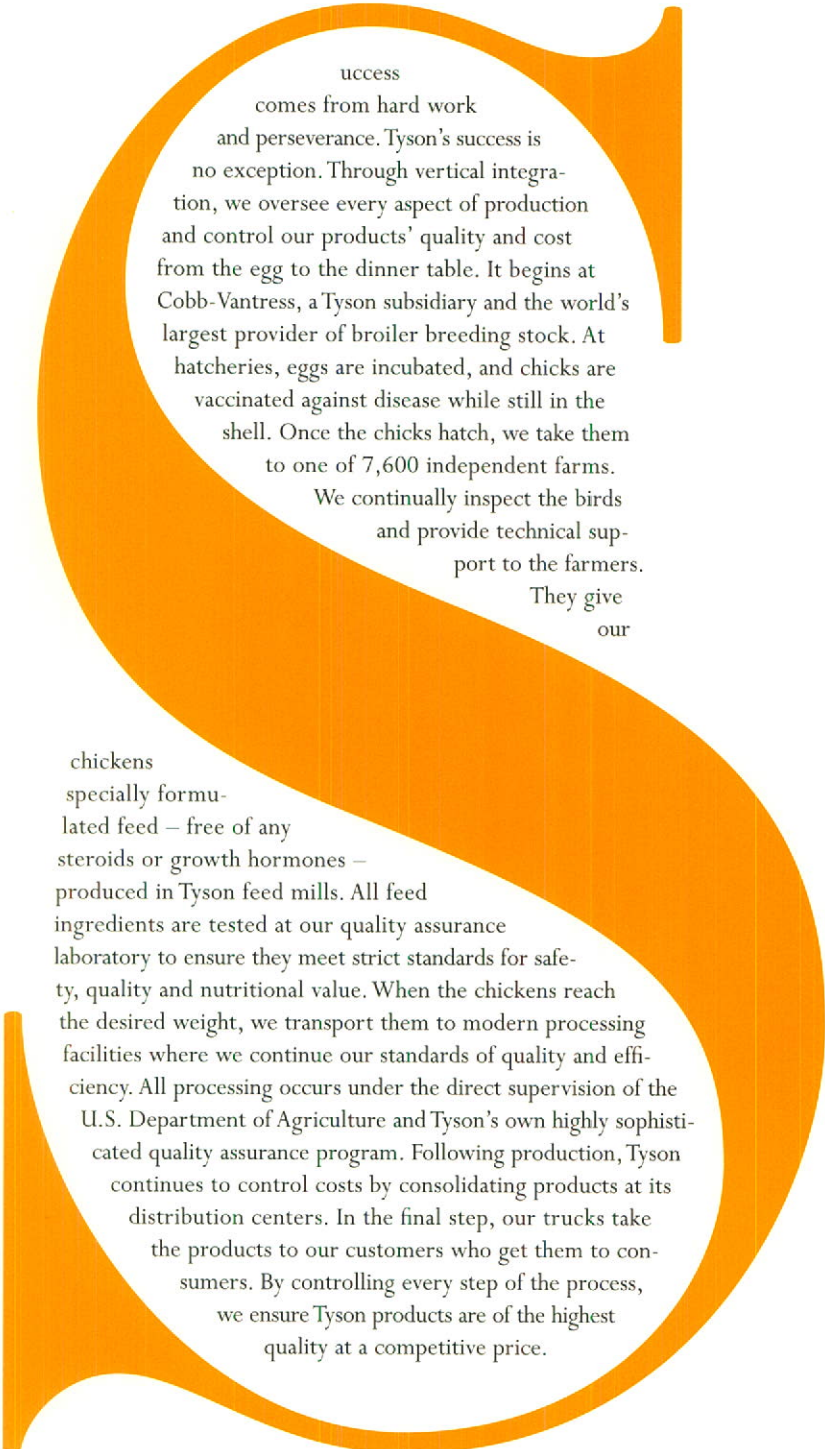


CREATING  
INNOVATIVE MEAL  
SOLUTIONS

Tyson answers the question, "What's for dinner?" Whether you're dining out, eating at home or eating on the run, we offer alternatives to the same old routine.







Success  
comes from hard work  
and perseverance. Tyson's success is  
no exception. Through vertical integra-  
tion, we oversee every aspect of production  
and control our products' quality and cost  
from the egg to the dinner table. It begins at  
Cobb-Vantress, a Tyson subsidiary and the world's  
largest provider of broiler breeding stock. At  
hatcheries, eggs are incubated, and chicks are  
vaccinated against disease while still in the  
shell. Once the chicks hatch, we take them  
to one of 7,600 independent farms.  
We continually inspect the birds  
and provide technical sup-  
port to the farmers.  
They give  
our

chickens  
specially formu-  
lated feed – free of any  
steroids or growth hormones –  
produced in Tyson feed mills. All feed  
ingredients are tested at our quality assurance  
laboratory to ensure they meet strict standards for safe-  
ty, quality and nutritional value. When the chickens reach  
the desired weight, we transport them to modern processing  
facilities where we continue our standards of quality and effi-  
ciency. All processing occurs under the direct supervision of the  
U.S. Department of Agriculture and Tyson's own highly sophisti-  
cated quality assurance program. Following production, Tyson  
continues to control costs by consolidating products at its  
distribution centers. In the final step, our trucks take  
the products to our customers who get them to con-  
sumers. By controlling every step of the process,  
we ensure Tyson products are of the highest  
quality at a competitive price.

One reason Tyson is such a strong company is that we have the right product for today's market and the future. Chicken meets consumers' needs. It is versatile, healthful, convenient, a good value, and it tastes great.

Americans are eating more chicken every year. According to the USDA, annual per capita broiler consumption increased 63 percent since 1980 to more than 75 pounds per person. It is expected to continue rising well into the next decade.

Because people are eating more chicken, Tyson is looking for different ways to serve it. We constantly search for new preparations, flavorings and menu options. Consumers want more fully cooked, fully prepared, value-added products for dining at home. We want to give them something new.

For example, this year Tyson worked with a group of San Francisco chefs at the Center for Culinary Development to create a line of gourmet frozen entrees. Dishes such as creamy chicken pesto, Peking chicken with oven-roasted vegetables and chicken con queso give consumers delicious and convenient meal solutions.

Our in-house research and development team continues to create innovative meal solutions for food service, retail and wholesale club customers. In conjunction with Pillsbury® we developed a line of sliced and diced, pre-cooked, seasoned meat designed specifically to go with Green Giant® Create-A-Meal® meal starter kits. We're even making fresh chicken in the meat case more convenient with flavor-marinated boneless, skinless chicken breasts and seasoned skewers ready for the grill.

In addition to convenience and great taste, Tyson chicken is a good value. Chicken continues to be the most affordable protein because it is the most efficient converter of feed to meat. Consumers also want a healthful product. Again, chicken is the right choice. A 4-ounce boneless skinless chicken breast has 140 calories, 4 grams of fat and 25 grams of protein.

With its healthfulness, versatility and affordability, chicken is the right product for today and the future.





# A TRUSTED BRAND

When consumers think chicken, they think Tyson chicken for its value, high quality and unbeatable flavor time after time.



**BIGGER  
AND BETTER**

Tyson Foods'  
size and strength  
allow us to serve  
our customers.





And when asked to name a brand of chicken, 57 percent say Tyson without any prompting. We want to keep our reputation as the best. We do that by placing a tremendous emphasis on food safety. Our commitment exceeds USDA standards so our customers will know they are getting the best quality every time.

We believe that when supermarkets, restaurants and club stores think of chicken, nothing should come to mind except Tyson chicken. We should be their first choice, not because we are a big company, but because we have the best service and the highest quality products their consumers demand. For example, Tyson's frozen boneless, skinless chicken breasts continue to be one of the top sellers among all products in wholesale clubs.

In retail supermarkets, Tyson holds the number one sales position in many categories with our frozen breaded Chick'n Chunks, patties, tenders and fillets. We're number one in flavor-glazed wings, Cornish game hens, individually fresh frozen chicken and roasted chicken. And of course, Tyson Holly Farms is number one in fresh prepackaged chicken sales in the meat case.

Tyson is a brand you can trust. We plan to keep it that way.

Nothing is more important to Tyson than satisfying its customers. Our Total Customer Satisfaction program is simple – whatever our customer needs, it is our obligation to meet that need.

The purpose of our business is to create a satisfied customer. That is how we earn a profit. Our goal is to fulfill 100 percent of our customers' orders, as they order them, 100 percent of the time. This goal is backed by the strength of the Tyson brand. Total Customer Satisfaction has made our brand name the most valuable thing we own. The Tyson brand means quality, consumer confidence, wholesomeness and competitive value. Our research shows that 95 percent of consumers are aware of the Tyson brand.





# Tyson Foods, Inc. 1998 Annual Report

*Tyson Foods, Inc. is the world's largest fully integrated producer, processor and marketer of chicken, chicken-based food products and convenience food items.*

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*This report contains forward-looking statements and reflects management's current views and estimates of economic circumstances, industry conditions, company performance and financial results. These forward-looking statements are subject to a number of factors and uncertainties which could cause the Company's actual results and experiences to differ from the anticipated results and expectations expressed in such forward-looking statements. A description of certain factors which have affected or may affect operating results may be found in the Company's annual report on Form 10-K for the fiscal year ended October 3, 1998, as filed with the Securities and Exchange Commission, and in subsequent quarterly reports filed by Tyson Foods, Inc.*

FROM THE COVER "Vertical Integration" (clockwise from bottom left) Judy Terry, quality assurance laboratory; Luis Carrion representing Cobb-Vantress; Bernice Cain, hatchery; Barry Dobbs, feed mill; Wesley Sands, contract farmer; James Dudley, transportation; Sherrye Huff, processing; Brenda Chaistain, distribution.

"Safety" Eva LaValley, five-year employee of Tyson's Chick-n-Quik™ plant in Rogers, Ark.



## 1998 Financial Highlights

(IN MILLIONS, EXCEPT PER SHARE DATA)	1998	1997	% Change
Sales	\$ 7,414.1	\$ 6,355.7	16.7
Gross Profit	1,154.0	1,037.7	11.2
Operating Income	203.6	399.9	(49.1)
Income Before Taxes on Income and Minority Interest	71.0	329.7	(78.5)
Provision for Income Taxes	45.9	143.9	(68.1)
Net Income	25.1	185.8	(86.5)
Diluted Earnings Per Share	0.11	0.85	(87.1)
Diluted Earnings Per Share Before Asset Impairment and Other Charges	0.79	—	—
Asset Impairment and Other Charges	214.6	—	—
Shareholders' Equity	1,970.4	1,621.5	21.5
Book Value Per Share	8.53	7.60	12.2
Total Assets	5,242.5	4,411.0	18.9
Depreciation and Amortization	276.4	230.4	20.0
Total Debt	2,128.9	1,690.1	26.0
Capital Expenditures	\$ 310.4	\$ 291.2	6.6
Shares Outstanding	230.9	213.4	8.2
Diluted Average Shares Outstanding	227.9	218.2	4.4



■ Before asset impairment and other charges

## A MESSAGE FROM THE SENIOR CHAIRMAN

Leland Tollett got straight to the point, as he usually does.

"I'm stepping down from the helm of this great Company at this time simply because I think the timing is right," he told Tyson team members at corporate headquarters Sept. 25. "As many of you know, I've had vision problems for a number of years. These problems aren't improving with age and have become more than an inconvenience in trying to carry on my daily responsibilities. Don't worry, I'm not going blind. But this concern, coupled with the fact that the Hudson acquisition is behind us and many of the outside issues that have distracted us for the past five years have been resolved, make it a good time for me to retire."

Leland made up his mind, and it was done. He retired as chairman of the board and CEO. Now we say so long to a good leader and a good friend who spent his entire adult life working for this company.

A native of Nashville, Ark., Leland came to Tyson Foods in 1959 after earning his bachelor's and master's degrees from the University of Arkansas. He started as a broiler tech in Springdale. You might say he finished where he started. He serviced a farm located right where Tyson's corporate headquarters is today. I agree with Leland's assessment: "I think the land is being put to better use now because it really wasn't a very good farm."

Leland was director of research and nutrition, charged with establishing the poultry management techniques the

Company is known for today. In 1965 Leland became general manager of the broiler division. In 1966 he moved up to vice president of the poultry division. In 1970, he continued to climb the ladder as corporate vice president, then president of the production division.

In 1981 Leland was named chief operating officer, assuming responsibility for all of Tyson's operations. In 1983 we added president to his title and with it, the day-to-day management of all corporate activities. We elected him to the Board of Directors the next year.

In 1991 he accepted the responsibilities of CEO and became vice chairman of the board in 1993. When I retired in 1995, Leland became chairman of the board. Under Leland's leadership, Tyson built or integrated 23 major facilities.

Leland remains a member of the Board of Directors and is still available to ensure a smooth transition. When he announced his retirement, Leland charged Tyson team members with a responsibility they all take very seriously – "Take good care of my stock!"

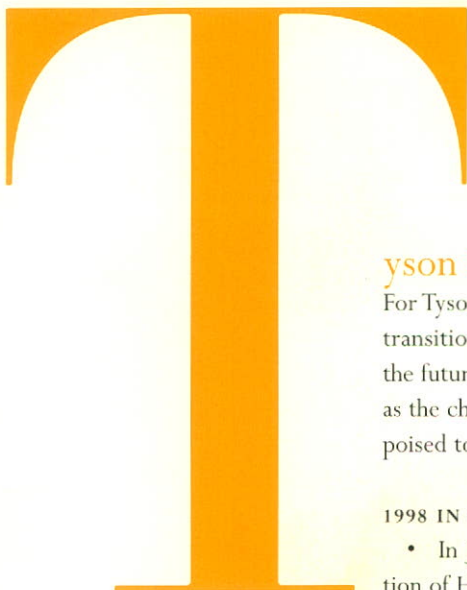
They will, just as he did all these years.

Thank you, Leland, for a lifetime of service and for helping make Tyson Foods what it is today.



DON TYSON  
SENIOR CHAIRMAN  
TYSON FOODS, INC.





## Tyson Shareholders:

For Tyson Foods, 1998 was a year of transition, refinement and preparing for the future. We strengthened our position as the chicken industry leader. Now we're poised to reap the benefits.

### 1998 IN REVIEW

- In January we completed our acquisition of Hudson Foods, Inc., the country's fifth largest chicken producer. Over the years we've learned we get good people with each company we acquire. Hudson was no exception. They've joined an already strong group of managers at Tyson, and together we make an even greater team. This operational transition has been as easy as any we've done. Tyson has acquired many companies in its history, so we know how to do it. As expected, we still have some work to do in sales and on improving product mix, but we expect to achieve the savings identified when we decided to buy Hudson.

- In 1998 we strengthened our focus on our core business, chicken. At one time we had expanded our scope to include all center-of-the-plate proteins. We have since realized that chicken is what we do best and is where we should direct our efforts. Our goal is to be the undisputed world leader in growing, processing and marketing chicken and chicken-based food products.

- With long-term shareholder value in mind, we began evaluating certain operations in the fourth quarter of 1998. We have made a series of acquisitions in recent years, so we needed to review our operations for redundancy. We closed some plants and will consolidate others to improve our production efficiencies. This is part of our on-going effort to focus on our core business and to maximize the use of our assets.

- We sold several operations acquired from Hudson because they did not fit our core business. These included the Pierre Foods' Cincinnati, Ohio, sandwich plant and the Caryville, Tenn.,



*Wayne Britt and John Tyson*



# Our goal is to be the undisputed world leader in growing, processing and marketing chicken and chicken-based food products.

meat-processing facility. We have agreements to sell Willow Brook Foods, a turkey operation, a sausage facility in Albert Lea, Minn., and an egg processing facility in Social Circle, Ga. We're also evaluating other non-core businesses.

- The collapse of the Russian economy and the devaluation of the Ruble weakened leg quarter prices and slowed volume. In recent years, Russia became a significant market for leg quarters. We're hopeful the Russian economy will recover, but like everyone else, we don't know when that will happen. Although we still view it as an important market for us, the economic crisis reinforced what we already knew. We must add value to leg quarters. We will explore all avenues in this endeavor — new products, additional export markets, diversifying domestic markets and product variety — while continuing to pursue the Russian market.

Due to the volatility in Russia, our fourth quarter includes charges for losses in our export business.

- Worldwide demand for corn was weak throughout the year due to disruptions in the international economy. The 1998 corn crop is expected to be the second largest in U.S. history. This followed a record South American soybean crop. These factors led to lower grain prices that had a positive impact on our cost structures.

- The domestic chicken market was volatile in 1998. Early in the year, prices were lower due to the Asian economic crisis and an oversupply of meat proteins. During the year, prices rose because of a somewhat short poultry supply worldwide. In fact, the USDA reported the 1998 year-to-year increase in production was the lowest in many years. At the same time, consumption continued to increase. By the end of the year, prices had settled. However, whole bird and breast prices remained above the five-year average. This favorable price environment for chicken could continue as long as the industry maintains a disciplined approach to expansion.

- Our industry, in conjunction with the USDA, implemented a scientifically-based inspection program called the Hazard Analysis and Critical Control Point (HACCP) system. This system changed the way the USDA monitors food safety. We support and endorse the program. We have had this type of system in place for some time because we believe Tyson must be the leader in food safety.

- In September, we combined several of our business units into the Prepared Foods Group. It includes Mexican Original, the nation's second largest manufacturer of tortilla products; the Tyson Entree processing plant in Fayetteville, Ark.; Culinary Foods, the Chicago-based manufacturer of frozen entrees; and Mallard's Foods, the Modesto, Calif., producer of gourmet refrigerated-fresh entrees. This realignment will allow us to concentrate on the unique qualities and markets of each of the group's units and create synergies between those units. When we give specific attention to a unique business unit, it usually brings success.



#### FINANCIAL PERFORMANCE

Our 1998 financial performance did not meet our expectations or the standards we set for ourselves because of:

- The Russian and Asian economies
- The Hudson acquisition
- The Seafood Division's underperformance in an extremely competitive environment
- The Pork Group's underperformance due to over-production in the industry.

Sales were \$7.4 billion, up from \$6.4 billion in 1997, an increase due primarily to the Hudson acquisition. Diluted earnings per share, before the asset impairment and other charges, were \$0.79, down from \$0.85 last year. Total indebtedness is \$2.1 billion, including \$293.1 million associated with the Hudson acquisition, up from \$1.7 billion in 1997. In the fourth quarter we announced a program to improve Tyson's operating performance, among other things. As a result of that program, which includes closing certain plants, we recorded charges of \$214.6 million in the fourth quarter. Strong cash flows were used to fund capital expenditures of \$310.4 million, which was used primarily to upgrade and keep modern our production capacity. To take advantage of interest rate savings, we paid off certain leases of \$47.1 million acquired in the Hudson merger.

#### STRENGTHS

This annual report is about Tyson's strengths. We are the largest chicken company in the world. We have great people. We are fully vertically integrated. We have the right product for today's market and the future. The concept of Total Customer Satisfaction drives our company. With these strengths and our modern production asset base, our commitment is to produce the financial performance that we all expect.

We have great people.  
We are fully vertically  
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that we all expect.

As you read on page four, Leland Tollett retired after 39 years with the Company. We want to express our gratitude to him for his many contributions to the Company, his insight, the leadership he provided and his personal tutelage to us. We have many great people to work with throughout our Company because Leland provided a climate for managers to develop.

We have a management philosophy that won't put our people, growers or shareholders in jeopardy. We can't control what is happening in the world economy, but we can control how Tyson responds to it. We will manage the Company's assets to take Tyson to the next level. When circumstances are good, we're going to benefit. When circumstances are not so good, we still will be in a position of strength.

We've already started building on Tyson's legacy to increase shareholder value in 1999 and beyond.



JOHN TYSON  
*Chairman of the Board*



WAYNE BRITT  
*Chief Executive Officer*



*What does Tyson consider when evaluating its financial performance?* We look at a variety of measures including return on assets, return on investment, economic value added, and growth in earnings per share. We want to motivate our people to do a great job and reward them for doing it. This is an ever-evolving process, and it can't be based on a single year's quantitative factors alone. Our job is to create long-term shareholder value along with the short-term objectives of capitalizing on growth and positioning opportunities while working through factors affecting our business.

*What will you do with the cash generated next year and beyond?* We will fund capital expenditures, subject to a return on investment analysis, to keep our plants modern, efficient and environmentally friendly. We will enhance shareholder value through debt reduction, internal growth, building the Tyson brand, by acquisition or by repurchase of stock, whichever options are deemed the best use of cash.

*Have the recent economic problems in Russia and Asia changed your attitude toward international expansion?* We already have the third largest operation in Mexico, and we're looking toward other areas, specifically Asia, for growth opportunities. We still view Asia as the most favorable area for expansion, but we won't be rushing into anything in the near term. We will continue to aggressively pursue export opportunities throughout the world because the United States is the world's low-cost chicken producer. We will analyze foreign operations individually and subject them to our long-term goal of being the world leader in chicken.

**We will analyze foreign operations individually and subject them to our long-term goal of being the world leader in chicken.**

*What is Tyson doing to stay advanced in information systems?* We have implemented SAP™ financial information software for general ledger, purchase orders, accounts payable, accounts receivable, project accounting and fixed assets functions. It was a team effort, and the transition has gone extremely well. We were operational at the beginning of the 1999 fiscal year following a yearlong implementation process. These efforts allow us to extract more timely, in-depth financial information, which gives us the tools we need to make better decisions.

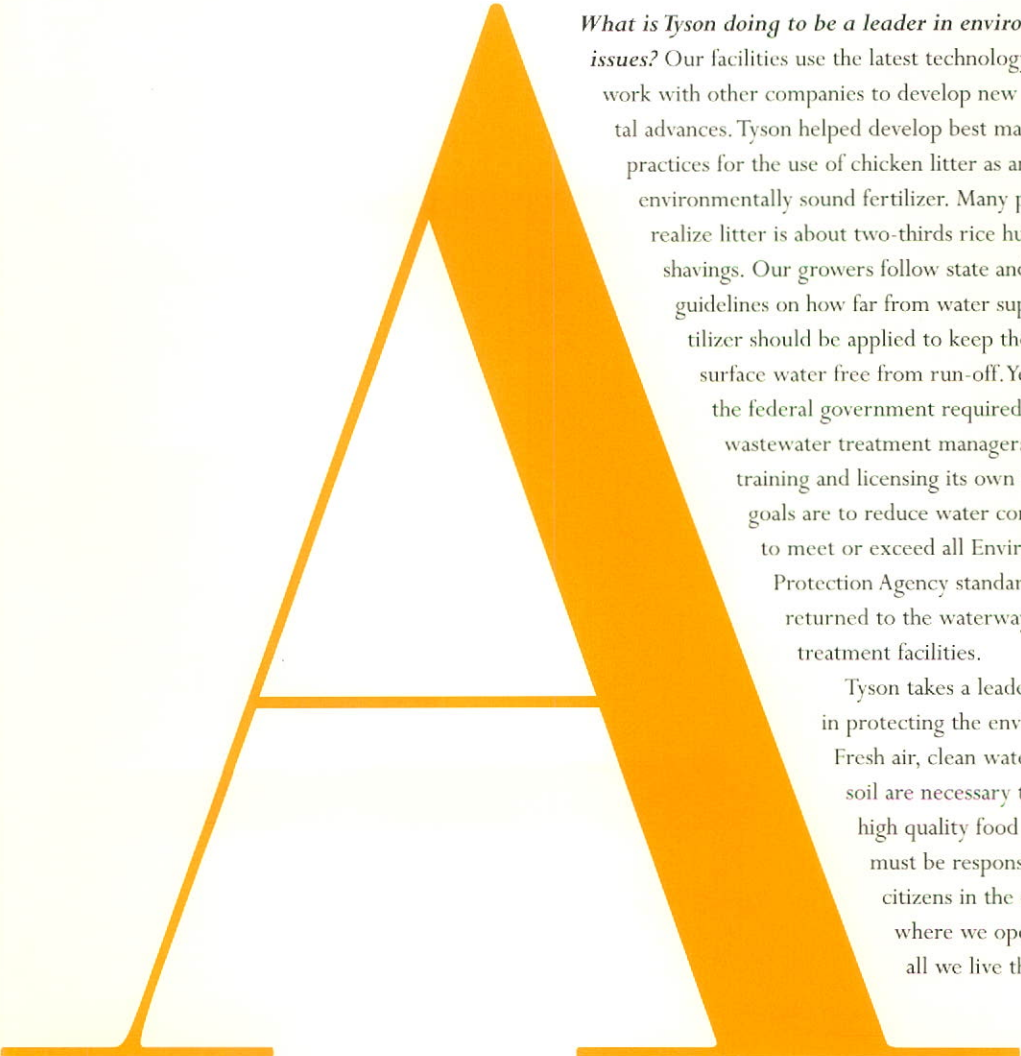
*How has the USDA's new inspection system affected Tyson and its existing food safety measures?* Although the Hazard Analysis and Critical Control Point (HACCP) system is a new requirement, it is not a new concept at Tyson. We always strive to be the industry leader and to exceed USDA standards, so we have been operating under these principles for years. We have a fully accredited HACCP training program – possibly the only one in the chicken industry. We implemented the new regulations with minimal disruptions and support their contributions to a safer food supply.



# Our job is to create long-term shareholder value along with the short-term objective of capitalizing on growth...

*Does Tyson have a business ethics compliance program?* Yes. This year we hired a director of corporate ethics compliance and distributed a

corporate code of conduct to our people. The code covers areas such as environmental compliance, gifts and relationships with government officials.



*What is Tyson doing to be a leader in environmental issues?* Our facilities use the latest technology while we work with other companies to develop new environmental advances. Tyson helped develop best management practices for the use of chicken litter as an inexpensive, environmentally sound fertilizer. Many people don't realize litter is about two-thirds rice hulls and wood shavings. Our growers follow state and federal guidelines on how far from water supplies the fertilizer should be applied to keep the ground and surface water free from run-off. Years before the federal government required in-house wastewater treatment managers, Tyson was training and licensing its own team. Our goals are to reduce water consumption and to meet or exceed all Environmental Protection Agency standards for water returned to the waterways or to public treatment facilities.

Tyson takes a leadership role in protecting the environment. Fresh air, clean water and fertile soil are necessary to produce high quality food products. We must be responsible corporate citizens in the communities where we operate. After all we live there, too.

# Poultry Division

## FOODSERVICE

Two important concerns of foodservice operators are food safety and the availability of labor. They turn to Tyson to answer those concerns with prepared, value-added products. In a Gallup study of 703 foodservice operators, nearly half name Tyson as their primary brand – eight times more than the next brand. More than half prefer the Tyson brand, and three-fourths freely associate Tyson with chicken.

Tyson's strength is evident throughout the foodservice industry. Tyson serves:

- 50 of the top 50 distributors
- 90 of the top 100 restaurant chains
- 67 of the second 100 restaurant chains
- 17 of the top 25 supermarket delis
- 100 of the top 100 public school districts

Key growth areas for the division are:

- Value-added products
- Supermarket/deli prepared foods
- Increased chicken options at quick-serve restaurants
- Leg meat products

TYSON CHICKEN DISTRIBUTION MIX\*



\* Based on sales dollars.

*International Distributor (ID)* magazine named Tyson Foods its Overall Industry Leader in Foodservice. The award criteria are high-quality products and distributor-friendly programs. Tyson has been voted the leader in frozen poultry in *ID*'s poll every year since 1976 and the top supplier every year since 1988.

The Foodservice Division had its most successful product launch of the decade with Popcorn Chicken Bites™, bite-size breaded chicken. The division also was recognized for developing one of the nine most effective magazine ads of nearly 22,000 ads studied.

*Taste of the Times* was an important project for the Foodservice Division in 1998. It is a high quality cookbook designed for foodservice operators with 250 recipes featuring Tyson products. The cookbook works with Tyson's New Courses™, a recipe program for foodservice operators that offers trends, information and ways to put more chicken on menus.

## RETAIL

Recent supermarket year-to-year sales trends show that Tyson has the right product for the times. According to *Supermarket Business*, fresh and frozen poultry were two of the top 20 categories in dollar volume increase. While the entire fresh meat category was down, fresh poultry sales were up nearly 4 percent. Similarly, while all other frozen meat sales were down, frozen poultry was up.

The Retail Division's plan to capitalize on this environment includes increasing Tyson's brand awareness, maintaining category leadership, introducing new products and focusing on customers. In fact, research verifies that 95 percent of consumers are familiar with the Tyson brand. To further strengthen the brand, the Retail Division will increase media spending, continue to co-brand with other products, reach consumers through the Internet ([www.tyson.com](http://www.tyson.com)) and take a leadership role in food safety.

Along with new products like Savory Solutions™ in the fresh meat case and sliced and diced products in the freezer, Tyson will maintain its leading market share in these categories:

- Fresh chicken – 31 percent
- Cooked wings – 67 percent
- Breaded boneless chicken – 42 percent
- Roasted chicken – 100 percent
- Cornish hens – 50 percent
- Individual frozen chicken – 50 percent

The Retail Division is improving customer service through vendor-managed inventory, maintaining high order fill rates and on-time deliveries and improving technology. Tyson also is looking for new ways to add value to chicken. The Retail Division is focused on adding value to dark meat with products like fresh and frozen ground chicken and boneless, skinless thighs.

This year saw a successful transition from the Hudson brand to Tyson while maintaining distribution, consolidating production facilities, upgrading prices and discontinuing unprofitable items.

## TYSON BRAND AWARENESS

*Tyson is the #1 brand when consumers are asked to name a brand of chicken (unaided awareness).*

TYSON .....	57%
PERDUE .....	30%
BANQUET .....	9%
FOSTER FARMS .....	8%

Source: Custom Research Inc. Tracking Study



## WHOLESALE CLUBS

The Wholesale Clubs Division strives to be an effective, competitive supplier. Because the industry has consolidated to only a few chains – and with the amount of chicken they buy – Tyson is doing more direct distribution to those businesses.

The Hudson acquisition created more sales and the opportunity for new ways to operate. The Wholesale Club Division people have been working in cross-functional teams to find efficiencies from the merger. Production managers are involved in marketing while sales and marketing personnel participate in production decisions. Now the focus is on taking value-added chicken to the next level by improving existing products because quality and value are the key issues for Tyson's wholesale club customers.

## INTERNATIONAL

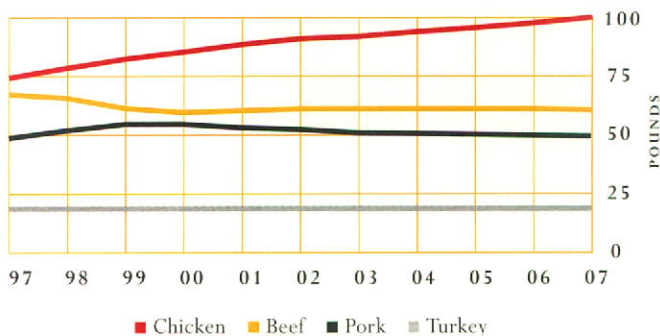
The International Division exported poultry and Mexican Original® products to 56 countries in 1998. The division is focused on opportunities for joint ventures, co-packing arrangements, technology-sharing relationships and foreign operations.

A major focus for the International Division is product development of further processed dark meat products. Tulip Drums,™ first developed by the International Division, are drumsticks with the meat pulled toward the top, giving the appearance of a tulip. This innovative product looks to be launched in the domestic market in 1999. International also developed new forms of dark meat patties and nuggets with new fillings and shapes in 1998.

New markets for 1999 include El Salvador, Honduras, Guyana, Ghana, Nicaragua, Tonga, Haiti, Liberia and Namibia. Technology-sharing relationships are being implemented in Guatemala and Panama. Eastern European business will be expanded with new distribution. Further processed business is projected to increase in 1999 with new club store business in the Pacific Islands, new operator business in Puerto Rico and strong growth with national accounts worldwide.

Tyson and Koch Industries of Wichita, Kan., are in a joint venture with the Aboitiz Group in the Philippines to produce commercial feed and swine. In June Tyson produced its first commercial feed in the Philippines. Breeding stock arrived in September, and production is underway.

U.S. PER CAPITA CONSUMPTION OF MEAT PROTEINS

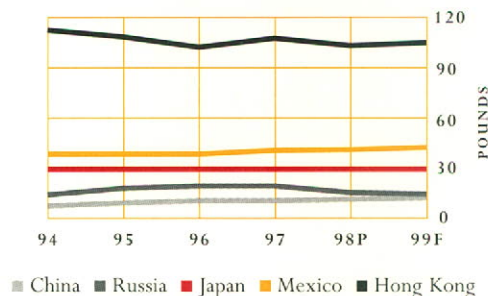


1997 - 2007 projected. Source: USDA

Included in the International Division are sales to the U.S. military. Tyson is the primary fresh chicken supplier for 80 percent of domestic military installations. Tyson also has a dominant market share of frozen chicken sales to the U.S. Armed Forces overseas.

PER CAPITA BROILER CONSUMPTION IN SELECTED COUNTRIES

*Despite economic fluctuations, Tyson has international growth potential by increasing consumption and market share.*



P: Preliminary, F: Forecast. Source: Foreign Agriculture Service

## Other Divisions

### PREPARED FOODS GROUP

In September, Tyson placed Mexican Original, Culinary Foods, Mallard's Food Products and an entree plant under the umbrella of a new division called the Prepared Foods Group. This realignment will allow Tyson to concentrate on the unique qualities and markets of each of the group's units.

Mexican Original, the second largest maker of corn and flour tortillas in the United States, is a major supplier to the foodservice industry, particularly the

leading U.S. Mexican restaurant chain. To serve that customer, Mexican Original added flat bread to its line of products. Another food trend Mexican Original leads is tortilla wraps. The operation began producing wraps in 1997.

Culinary Foods can produce more than 850 different food products. The Chicago plant is flexible enough to provide custom products for its foodservice, retail and wholesale club customers. Culinary is the dominant U.S. supplier of airline meals.

Mallard's Food Products is an innovator in refrigerated fresh entrees, pasta and sauces with an industry-leading shelf life. In 1998 Mallard's launched a new product line called Cooking Made Easy.<sup>™</sup> It features home-style foods most people don't have the time to cook — or might not know how to make even if they had the time. Dinner for two with meals such as pot roast and mashed potatoes or chicken and dumplings are ready in a few minutes. In 1999 Mallard's will raise awareness of the Cooking Made Easy<sup>™</sup> line.

#### THE PORK GROUP

The Pork Group's most recent growth has been in Holdenville, Okla., population 4,792. Tyson's cooperation with hog farmers was a boon to the area, which had a 17 percent jobless rate. Now unemployment has dropped to less than 10 percent. With new jobs in the area, townspeople showed their gratitude with signs that read "We love Tyson" and "Thank you for new hope for our town" placed in empty storefront windows. Those storefronts are now home to new businesses.

With production in Holdenville underway, The Pork Group moved forward on joint ventures with Purina Mills, Inc. (PMI) and Land O' Lakes. Tyson contracts with independent family farmers in Oklahoma to produce wean pigs using Tyson breeding stock and feed. PMI and Land O' Lakes contract with family farmers in the upper Midwest who need high-quality stock for their farms. Midwest farmers are raising Tyson hogs using feed from Land O' Lakes and PMI. Those companies have steady feed customers, Tyson has a new market for feeder pigs, and the family farmers stay independent.

#### SEAFOOD

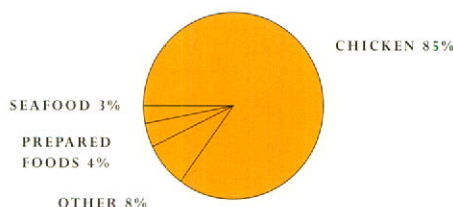
Surimi, a fish blend used in imitation crab, lobster and other shellfish products, is the major profit contributor for the Seafood Division. Other major product lines of the Seafood Division include Pacific white fish fillets and frozen blocks as well as a full-line of crab products.

On the strength of the Louis Kemp<sup>®</sup> brand, Tyson Seafood owns two-thirds of the international surimi market and over one-third of domestic sales. In the

retail grocery sector, Tyson Seafood controls nearly a 60 percent market share of the surimi business. The foodservice business is rapidly growing with such recent achievements as becoming the exclusive supplier of surimi products to the Sysco Corporation and major gains at Subway Sandwich Shops. A new successful advertising and promotion program was executed in 1998, and several new products were launched including Value Pack Crab and Lobster Delights<sup>®</sup> in retail and Single-Step Salad and Sandwich Mix in foodservice.

In 1999 the division will continue to build upon the success of the Louis Kemp brand of imitation crab and shellfish products. Recent changes in legislation provide new opportunities for Tyson Seafood growth as well. The continued development of many exciting new products and other active initiatives set the tone for the future.

TYSON SALES MIX\*



\* Based on sales dollars.

#### COBB-VANTRESS

Tyson's Cobb-Vantress Division is the top chicken breeding stock supplier in the United States with a third of the market. It is number one in the world with nearly a quarter of the market, distributing to 65 countries.

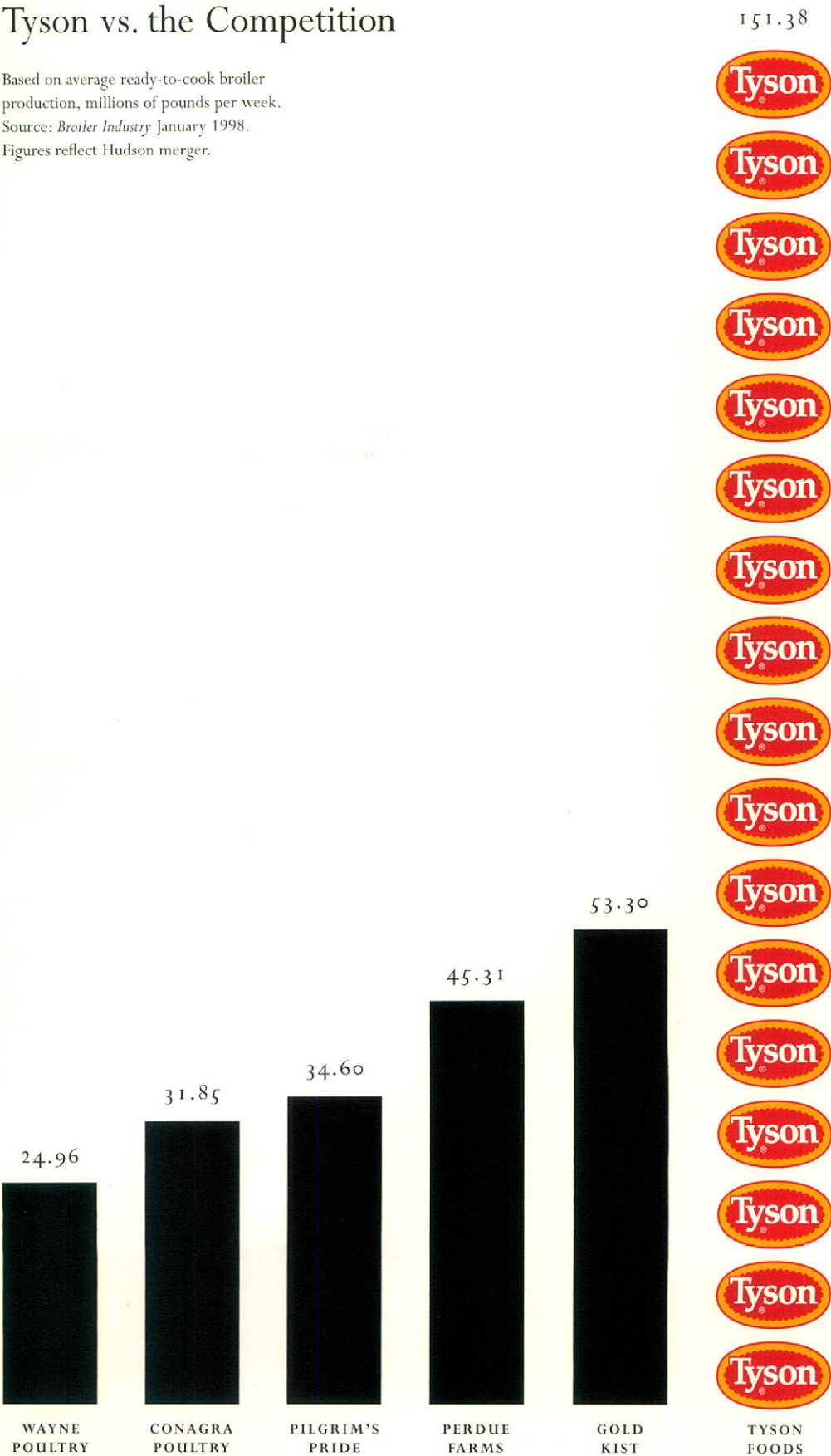
Even with a 20 percent production increase, by mid 1998 Cobb-Vantress already had commitments for its 1999 projected production and had orders well into 2000. The division has been expanding continuously for the past 10 years, growing 15 to 20 percent a year. Construction is underway on another pedigree facility, Cobb's third.

Although Cobb-Vantress is Tyson's sole supplier of breeding stock, Tyson isn't its only customer. Tyson comprises about half of Cobb-Vantress' domestic business and about 10 percent worldwide.



# Tyson vs. the Competition

Based on average ready-to-cook broiler production, millions of pounds per week.  
Source: *Broiler Industry* January 1998.  
Figures reflect Hudson merger.



# ELEVEN-YEAR FINANCIAL SUMMARY

TYSON FOODS, INC.

OPERATING RESULTS FOR FISCAL YEAR	1998	1997	1996	1995
Sales	\$7,414.1	\$6,355.7	\$6,453.8	\$5,511.2
Cost of Sales	6,260.1	5,318.0	5,505.7	4,423.1
Gross Profit	1,154.0	1,037.7	948.1	1,088.1
Operating Expenses	950.4	637.8	678.5	616.4
Interest Expense	139.1	110.4	132.9	114.9
Provision for Taxes	45.9	143.9	49.0	131.0
Net Income (Loss)	25.1	185.8	86.9	219.2
Diluted Earnings (Loss) Per Share	0.11	0.85	0.40	1.01
Basic Earnings (Loss) Per Share	0.11	0.86	0.40	1.01
Dividends Per Share:				
Class A	0.100	0.095	0.080	0.053
Class B	\$ 0.090	\$ 0.086	\$ 0.072	\$ 0.044
Capital Expenditures	\$ 310.4	\$ 291.2	\$ 214.0	\$ 347.2
Depreciation and Amortization	276.4	230.4	239.3	204.9
Total Assets	5,242.5	4,411.0	4,544.1	4,444.3
Net Property, Plant and Equipment	2,256.5	1,924.8	1,869.2	2,013.5
Total Debt	2,128.9	1,690.1	1,975.1	1,984.7
Shareholders' Equity	\$1,970.4	\$1,621.5	\$1,541.7	\$1,467.7
Year-End Shares Outstanding	230.9	213.4	217.4	217.2
Diluted Average Shares Outstanding	227.9	218.2	218.0	217.7
Book Value Per Share	\$ 8.53	\$ 7.60	\$ 7.09	\$ 6.76
Total Debt to Capitalization	51.9%	51.0%	56.2%	57.5%
Return on Sales	0.3%	2.9%	1.4%	4.0%
Annual Sales Growth (Decline)	16.7%	(1.5)%	17.1%	7.9%
Five-Year Compounded Annual				
Sales Growth	9.5%	8.8%	10.5%	7.6%
Gross Margin	15.6%	16.3%	14.7%	19.7%
Return on Beginning Assets	0.6%	4.1%	2.0%	6.0%
Return on Beginning				
Shareholders' Equity	1.5%	12.1%	5.9%	17.0%
Five-Year Return on Beginning				
Shareholders' Equity	7.1%	10.1%	10.9%	13.8%
Effective Tax Rate	64.7%	43.6%	37.0%	38.1%
Closing Stock Price High	\$ 24.44	\$ 23.63	\$ 18.58	\$ 18.17
Closing Stock Price Low	16.50	17.75	13.83	13.83

1. Significant business combinations accounted for as purchases: Hudson Foods, Inc., Arctic Alaska Fisheries Corporation and Holly Farms Corporation on Jan. 9, 1998, Oct. 5, 1992 and July 19, 1989, respectively. See Footnote 2 to the Consolidated Financial Statements for acquisitions during the three-year period ended Oct. 3, 1998.

2. The results for 1998 include \$214.6 million of pre-tax charges, or \$0.68 per share, for asset impairment, currency losses and other charges.



(IN MILLIONS EXCEPT PER SHARE DATA)

1994	1993	1992	1991	1990	1989	1988
\$5,110.3	\$4,707.4	\$4,168.8	\$3,922.1	\$3,825.3	\$2,538.2	\$1,936.0
4,149.1	3,796.5	3,390.3	3,147.5	3,081.7	2,056.1	1,627.6
961.2	910.9	778.5	774.6	743.6	482.1	308.4
766.0	535.4	446.8	441.4	423.4	271.5	184.0
86.1	72.8	76.9	95.5	128.6	45.0	19.5
12.7	129.3	100.5	97.0	80.1	62.9	23.0
(2.1)	180.3	160.5	145.5	120.0	100.6	81.4
(0.01)	0.81	0.77	0.70	0.60	0.52	0.42
(0.01)	0.82	0.78	0.71	0.61	0.52	0.43
0.047	0.027	0.027	0.020	0.013	0.013	0.013
\$ 0.039	\$ 0.022	\$ 0.022	\$ 0.017	\$ 0.011	\$ 0.011	\$ 0.011
\$ 232.1	\$ 225.3	\$ 108.0	\$ 213.6	\$ 163.8	\$ 128.9	\$ 86.3
188.3	176.6	148.9	135.8	123.4	84.8	70.3
3,668.0	3,253.5	2,617.7	2,645.8	2,501.1	2,586.1	889.1
1,610.0	1,435.3	1,142.2	1,162.0	1,071.1	1,020.8	430.0
1,455.1	1,024.3	825.6	984.0	1,020.5	1,374.4	211.3
\$1,289.4	\$1,360.7	\$ 980.2	\$ 822.5	\$ 663.0	\$ 447.7	\$ 341.4
217.8	220.9	206.2	206.1	204.9	194.0	191.4
221.7	222.5	207.6	207.1	199.3	194.6	192.0
\$ 5.92	\$ 6.16	\$ 4.75	\$ 3.99	\$ 3.24	\$ 2.31	\$ 1.78
53.0%	42.9%	45.7%	54.5%	60.6%	75.4%	38.2%
0.0%	3.8%	3.9%	3.7%	3.1%	4.0%	4.2%
8.6%	12.9%	6.3%	2.5%	50.7%	31.1%	8.4%
15.0%	19.5%	18.5%	21.1%	27.5%	27.6%	26.3%
18.8%	19.4%	18.7%	19.8%	19.4%	19.0%	15.9%
(0.1)%	6.9%	6.1%	5.8%	4.6%	11.3%	10.1%
(0.2)%	18.4%	19.5%	22.0%	26.8%	29.5%	30.2%
14.1%	21.7%	23.9%	26.8%	29.7%	31.8%	32.4%
101.8%	41.8%	38.5%	40.0%	40.0%	38.5%	22.0%
\$ 16.67	\$ 18.08	\$ 15.08	\$ 15.58	\$ 11.79	\$ 8.63	\$ 7.25
12.50	12.83	10.17	8.46	7.17	4.92	3.63

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

4. The results for 1994 include a \$205 million after-tax charge, or \$0.93 per share, due to the writedown of certain long-lived assets of Arctic Alaska Fisheries Corporation.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

TYSON FOODS, INC.

### ACQUISITIONS

On Jan. 9, 1998, the Company completed the acquisition of Hudson Foods, Inc. (Hudson) pursuant to which Hudson merged with and into a wholly-owned subsidiary of the Company (the Hudson Acquisition). At the effective time of the merger, the Class A and Class B shareholders of Hudson received an aggregate of approximately 18.4 million shares of the Company's Class A common stock valued at approximately \$363.5 million and approximately \$257.4 million in cash. The Company borrowed funds under its commercial paper program to finance the \$257.4 million cash portion of the Hudson Acquisition and repay approximately \$61 million under Hudson's revolving credit facilities. The Hudson Acquisition has been accounted for as a purchase and the excess of investment over net assets acquired is being amortized straight-line over 40 years. The Company's consolidated results of operations include the operations of Hudson since the acquisition date.

### DISPOSITIONS

On June 9, 1998, the Company and Pierre Foods, LLC (Pierre), a wholly owned subsidiary of Fresh Foods, Inc., completed an asset purchase agreement for Pierre to acquire the Pierre Foods division from the Company. The Pierre Foods division, based in Cincinnati, Ohio, is primarily engaged in producing and distributing packaged, precooked food products to the foodservice industry. On Aug. 28, 1998, the Company sold its Caryville, Tenn., meat processing facility to Advance Food Company, Inc. of Enid, Okla. Both facilities were acquired with the Hudson Acquisition. Under the terms of both agreements, the Company received \$128 million in cash. The Company recognized no gain or loss on the sale of these assets. In addition, no pro forma information is provided as the operations of these facilities were not significant to the Company.

On Oct. 27, 1998, the Company and Rose Acre Farms, Inc. signed an asset purchase agreement whereby Rose Acre Farms, Inc. will acquire the Company's National Egg Products Company operations in Social Circle, Ga. This operation, which is reflected in assets held for sale at Oct. 3, 1998, was acquired with the Hudson Acquisition. This transaction is expected to be finalized in the first quarter of fiscal 1999 at an amount which approximates its carrying value.

The Company also intends to sell Willow Brook Foods, its integrated turkey production and processing business, and its Albert Lea, Minn., processing facility which primarily produces the Schweigert brand of sausages, lunch and deli meats and other related products. These operations, which are reflected in assets held for sale at Oct. 3, 1998, were acquired with the Hudson Acquisition.

### IMPAIRMENT AND OTHER CHARGES

The Company recorded charges totaling \$214.6 million on a pre-tax basis (\$0.68 per share) during the fourth quarter of 1998. These charges consist of \$142.2 million for asset impairment of property, plant and equipment, writedown of related excess of investments over net assets acquired and severance costs, \$48.4 million for losses in the Company's export business to Russia which has been adversely affected by the continuing economic problems in Russia and \$24 million for other charges related primarily to workers compensation and employment practice liabilities. These charges have been classified in the Consolidated Statements of Income as \$142.2 million asset impairment and other charges, \$48.4 million included in selling expenses, \$20.5 million included in cost of sales and \$3.5 million in other expense. During the fourth quarter of 1998, the Russian Ruble devalued resulting in the losses described above. The Company recognizes that conducting business in or selling products into foreign countries, including Russia, entails inherent risks. The Company, however, is continually monitoring its international business practices and, whenever possible, will attempt to minimize the Company's financial exposure to these risks.

As previously announced, the Company's Board of Directors approved management's proposed restructure plan on Aug. 28, 1998. The restructuring, which resulted in asset impairment and related



## MANAGEMENT'S DISCUSSION AND ANALYSIS

TYSON FOODS, INC.

charges, is in furtherance of the Company's previously stated objective to focus on its core business, chicken. The recent acquisition of Hudson and the assimilation of Hudson's facilities and operations into the Company's business have permitted the Company to review and rationalize the productive capabilities and cost structure of its core business. Further, the Company intends to continue the rationalization of its seafood assets. This rationalization may include divestiture, redeployment, and other possible business transactions, exploring all alternatives in an orderly fashion. The restructuring includes, among other things, the closure of eight plants and feedmills resulting in work force reductions, the writedown of excess of investments over net assets acquired allocated to closed facilities, the reconfiguration of various production facilities and the writedown of certain seafood assets to estimated net realizable value. The anticipated three-year net benefit, including anticipated proceeds from the sale of certain assets identified for disposition is approximately \$130 million. The restructuring is expected to result in annual after-tax savings of \$12-\$15 million through reduced depreciation, amortization and production costs. The future cash outflows for severance and related costs is not expected to be material.

### RESULTS OF OPERATIONS

The Company's accounting cycle resulted in a 53-week year for 1998 compared to a 52-week year for both 1997 and 1996.

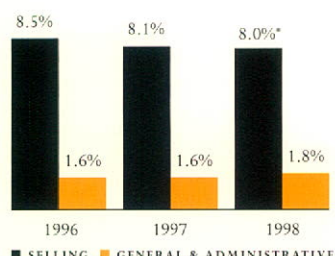
#### 1998 vs. 1997

Sales for 1998 increased 16.7% over sales for 1997. Consumer poultry sales, excluding turkey, accounted for an increase of 12.3% of the total change in sales for 1998 as compared to 1997. This increase was mainly due to a 21% increase in tonnage offset slightly by a 5.1% decrease in average sales prices. A significant portion of the increase in total sales and consumer poultry sales for 1998 compared to 1997 is due to the Hudson Acquisition. The operating results for 1998 were affected negatively by the excess supply of poultry during the first six months of the fiscal year, excess supply of other proteins for the entire fiscal year and the more commodity-based Hudson sales mix. Additionally, the collapse of the Russian economy and the devaluation of the Ruble weakened leg quarter prices and slowed volume.

The prepared foods group sales, consisting of Mexican Original, Culinary Foods and Mallard's accounted for an increase of 0.8% of the change in total sales for 1998 as compared to 1997. This increase primarily was due to a 19.6% increase in average sales prices as well as a 2.1% increase in tonnage, largely due to the acquisition of Mallard's in August 1997. Seafood sales accounted for a decrease of 0.8% of the change in total sales for 1998 as compared to 1997. This decrease was due to a 25.9% decrease in tonnage partially offset by a 8.6% increase in average sales prices. Decreased seafood volume was mainly due to weakness in the surimi business caused in large part by the Asian economic crisis. However, this is partially offset by improvements in the analog business. The seafood operations continue to be affected by the availability of some species of fish as well as regulations that limit the source of supply. Other miscellaneous sales accounted for an increase of 4.4% of the change in total sales for 1998 as compared to last year.

Cost of goods sold increased 17.7% for 1998 as compared to 1997. This increase is mainly the result of the Hudson Acquisition. As a percent of sales, cost of sales was 84.4% for 1998 compared to 83.7% for 1997.

Operating expenses for 1998 increased 49% from 1997, mostly due to the asset impairment and other charges. As a percent of sales, selling expense increased to 8.7% in 1998 compared to 8.1% in 1997 mainly due to a \$48.4 million



EXPENSES AS A PERCENT OF SALES

\*Excludes \$48.4 million loss

## MANAGEMENT'S DISCUSSION AND ANALYSIS

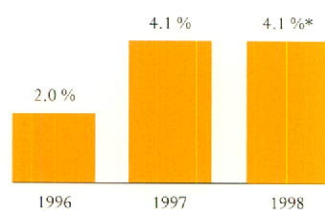
TYSON FOODS, INC.

charge for losses in the Company's export business to Russia. Selling expense, as a percent of sales excluding the \$48.4 million loss in 1998 was 8%. General and administrative expense, as a percent of sales, increased to 1.8% in 1998 compared to 1.6% in 1997, partly due to penalties and costs associated with the plea agreement by the Company with respect to the investigation by the Office of the Independent Counsel in connection with former Secretary of Agriculture Michael Espy. Amortization expense, as a percent of sales, was 0.4% in 1998 and 1997.

Interest expense increased 26% in 1998 compared to 1997. As a percent of sales, interest expense was 1.9% in 1998 compared to 1.7% in 1997. The Company had a higher level of borrowing in 1998, which increased the Company's average indebtedness by 18% over the same period last year mainly due to the Hudson Acquisition. The Company's short-term interest rates were slightly higher than the same period last year, and the net average effective interest rate on total debt for 1998 was 6.6% compared to 6.2% for 1997.

The effective tax rate for 1998 was 64.7% compared to 43.6% for 1997. The 1998 effective tax rate was affected by certain costs related to asset impairment and foreign losses not deductible for tax purposes.

Return on beginning assets for 1998 was 0.6%, compared to 4.1% for 1997, with a five-year average of 2.5%. Return on beginning assets for 1998, excluding the \$214.6 million for asset impairment and other charges, was 4.1%. Return on beginning shareholders' equity for 1998 was 1.5%, compared to 12.1% for 1997, with a five-year average of 7.1%. Return on beginning shareholders' equity for 1998, excluding the \$214.6 million for asset impairment and other charges, was 11.1%.



**RETURN ON BEGINNING ASSETS**

\* Excluding \$214.6 million asset impairment and other charges.

### 1997 vs. 1996

Sales for 1997 decreased 1.5% from sales for 1996. This decrease is largely attributable to the sale of the Company's beef division assets in the first quarter of 1997. Excluding sales related to these operations, total sales for 1997 increased 4.5% over comparable sales for 1996. Consumer poultry sales accounted for an increase of 4.1% of the total change in sales for 1997 as compared to 1996. This increase was mainly due to a 0.8% increase in average sales prices and a 4.2% increase in tonnage.

In 1997, the Company experienced intermittent sales disruptions and lower than expected prices for leg quarters and related dark meat products in its Russian markets. Such lower prices, together with tariffs, custom regulations and other increased costs associated with these exports, diminished net returns.

The prepared foods group sales, consisting of Mexican Original, Culinary Foods and Mallard's, accounted for a decrease of 0.1% of the total change in sales for 1997 as compared to 1996. This decrease was primarily due to a 2.1% decrease in tonnage partially offset by a 0.8% increase in average sales prices. Seafood sales accounted for a decrease of 0.5% of the change in total sales for 1997 as compared to 1996. This decrease was due to an 11.7% decrease in average sales prices, partially offset by a 0.5% increase in tonnage. The decrease in average sales prices is mainly due to a shift in product mix. The seafood operations were affected by the availability of some species of fish as well as reduced pricing on some products and regulations that limit supply sources. Other miscellaneous sales accounted for an increase of 1% of the change in total sales for 1997 as compared to 1996.

Cost of goods sold for 1997 decreased 3.4% compared to 1996, which is largely attributable to the sale of the Company's beef division assets in the first quarter of 1997. Excluding cost of sales related to these operations, total cost of sales for 1997 increased 2.5% over last year's comparable cost of sales. The cost of ingredients used in feed for poultry and swine and the ingredients used in Mexican Original operations during 1997 decreased in comparison with 1996. However, these costs



## MANAGEMENT'S DISCUSSION AND ANALYSIS

TYSON FOODS, INC.

did not moderate as much as management had anticipated. As a percent of sales, cost of sales was 83.7% for 1997 compared to 85.3% in 1996.

Operating expenses for 1997 decreased 5.7% from 1996. This decrease is mainly the result of the sale of the beef division assets in the first quarter of fiscal 1997 and cost reductions. As a percent of sales, selling expense decreased to 8.1% in 1997 compared to 8.5% in 1996; general and administrative expense was 1.6% in 1997 and 1996; and amortization expense was 0.4% in 1997 and 1996.

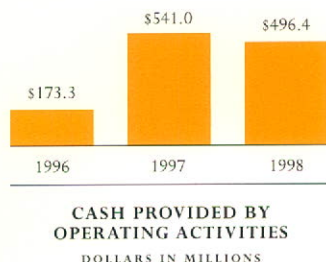
Interest expense decreased 16.9% in 1997 compared to 1996. As a percent of sales, interest expense was 1.7% in 1997 compared to 2.1% in 1996. The Company had a lower level of borrowing in 1997, which decreased the Company's average indebtedness by 12.8% over the same period last year due to paying down debt with funds generated from operations and proceeds from the sale of the beef division assets. The Company's short-term interest rates were slightly lower than the same period last year and the gross average effective interest rate on total debt for 1997 was 6.8% compared to 6.9% for 1996.

Included in other income in 1997 is a \$41 million pre-tax gain from the sale of the beef division assets.

The effective tax rate for 1997 was 43.6% compared to 37% for 1996. The 1997 effective tax rate was affected by the taxes on the gain from the sale of the beef division assets. Certain costs were allocated to the beef division which are not deductible for tax purposes, resulting in a higher effective tax rate.

### LIQUIDITY AND CAPITAL RESOURCES

In 1998, net cash of \$496.4 million was provided by operating activities, a decrease of \$44.6 million from 1997. The Company used cash from operations to pay down debt, to fund additions to property,



plant and equipment and for acquisitions. The expenditures for property, plant and equipment were related to acquiring new equipment, upgrading facilities to maintain competitive standing and to position the Company for future opportunities. Additionally, the Company makes a continuing effort to increase efficiencies, reduce overall cost and meet or exceed environmental laws and regulations, which requires investments.

The Company's foreseeable cash needs for operations and capital expenditures will continue to be met through cash flows from operations and borrowings supported by existing credit facilities, as well as additional credit facilities which the Company believes are available.

At 1998 year end, working capital was \$934.1 million compared to \$851.5 million at the end of 1997, an increase of \$82.6 million. The current ratio for 1998 was 2.12 to 1 compared to 2.18 to 1 for 1997. Working capital has increased over 1997 primarily due to the Hudson Acquisition. Total assets have increased by \$2 billion or 61.1% over the past five years inclusive of acquisitions.

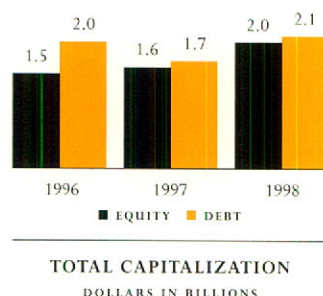
Additions, net of dispositions, to total property, plant and equipment for the last five years were \$1.5 billion including acquisitions, an increase of 68.6% over the last five years. At 1998 year end, the Company had construction projects in progress that will require approximately \$193.2 million to complete. Funding for these expenditures will be provided by cash from operations or additional borrowings.

Total debt at 1998 year end was \$2.1 billion, an increase of \$438.8 million from the end of 1997. The Company has an unsecured revolving credit agreement totaling \$1 billion, which supports the Company's commercial paper program. This \$1 billion facility expires in May 2002. At Oct. 3, 1998, \$506.9 million in commercial paper was outstanding under this \$1 billion facility. Additional outstanding long-term debt at Oct. 3, 1998, consisted of \$1,028.4 million of public debt, \$169.1 million of institutional notes, \$170.5 million of leveraged equipment loans and \$91.7 million of other

## MANAGEMENT'S DISCUSSION AND ANALYSIS

TYSON FOODS, INC.

indebtedness. On Jan. 9, 1998, the Company borrowed funds under its commercial paper program for the Hudson Acquisition. Subsequent to the Hudson Acquisition, the Company refinanced \$270 million in outstanding long-term debt assumed pursuant to the Hudson Acquisition with commercial paper. On Jan. 21, 1998, the Company issued, in two separate series, \$150 million 6% Notes due Jan. 15, 2003, and \$150 million 7% Notes due Jan. 15, 2028. On Feb. 4, 1998, the Company issued \$100 million 6.08% Mandatory Par Put Remarketed Securities™ (MOPPRS™) due Feb. 1, 2010, and \$50 million Floating Rate MOPPRS™ due Feb. 1, 2010. On April 28, 1998, the Company issued debt securities in the form of \$240 million 7% Notes due May 1, 2018. The net proceeds from these debt offerings were used by the Company to repay a portion of the borrowings under its commercial paper program. The Company may use funds borrowed under its revolving credit facility, commercial paper program or through the issuance of additional debt securities from time to time in the future to finance acquisitions as opportunities may arise, to refinance other indebtedness or capital leases of the Company, and for other general corporate purposes.



The revolving credit agreement and notes contain various covenants, the more restrictive of which require maintenance of a minimum net worth, current ratio, cash flow coverage of interest and a maximum total debt-to-capitalization ratio. The Company is in compliance with most of these covenants at year end and has obtained waivers for covenants in which the Company is not in compliance.

The Company prefers to maintain a mix of fixed and floating debt. Management believes that, over the long-term, variable-rate debt may provide more cost-effective financing than fixed-rate debt; however, the Company issues fixed-rate debt when advantageous market opportunities arise.

Shareholders' equity increased 21.5% during 1998 and has grown at a compounded annual rate of 7.7% over the past five years, inclusive of \$214.6 million in asset impairment and other charges in 1998, \$363.5 million for the purchase of Hudson in 1998, \$20.8 million for the purchase of Mallard's in 1997 and a \$213.9 million writedown of assets in 1994.

### IMPACT OF YEAR 2000

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Company's computer programs that have date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities.

Because of the nature of the Year 2000 issue, older software is more likely to have issues with Year 2000 readiness, while newer software is more likely to be Year 2000 compliant. The Company has replaced its entire computer software applications portfolio since 1990. Nonetheless, the Company has been working on testing and ensuring application readiness since 1996. Many of the applications that are used to support core business processes have been taken to offsite computer testing facilities to ensure their Year 2000 readiness. This includes core application functionality as well as interfaces to other applications and outside partners.

In addition to the testing that has been done, the Company has been in contact with the providers of packaged software applications to ensure that these packages are also Year 2000 ready. To this point, all suppliers of software have provided some approach for the Company to ensure readiness, either through upgrades or new products. Most of these solutions have already been implemented. Those remaining will be completed by March 31, 1999.

In certain instances, software has been purchased to provide new functionality for the Company replacing software that was not compliant. These purchases were not predicated by the Year 2000



## MANAGEMENT'S DISCUSSION AND ANALYSIS

TYSON FOODS, INC.

issue; however, the result is that the new systems are compliant and non-compliant systems are ultimately retired. An example of this is the implementation of new accounting software from SAP that the Company installed at the beginning of the 1999 fiscal year.

Because many of the systems were already compliant, did not require significant modifications to make them compliant or were replaced for other business reasons, the costs incurred specifically to address Year 2000 readiness are not material to the Company. Since 1996, the expenses that resulted from Year 2000 readiness activities have been absorbed through the annual Management Information Systems operational budget and funded from internally generated funds. These costs can be primarily described as personnel costs and have increased each year since 1996 because of increased activity from testing. The costs incurred since 1996 are approximately \$1.2 million and are anticipated to be less than \$720,000 in 1999. No projects under consideration by the Company have been deferred because of Year 2000 efforts.

Because of the rapid pace of change in technology, especially in the area of hardware, the Company regularly upgrades and replaces hardware platforms such as database and application servers. Consequently all of the servers are Year 2000 ready. More than 90 percent of the personal computers have been certified as being Year 2000 ready with the rest to be completed by Dec. 31, 1998.

The telephone systems in use by the Company have also been surveyed. There are more than 170 of these systems currently in use. Three of these systems currently have Year 2000 issues that need to be resolved. It is expected that these systems will be addressed by March 31, 1999.

The embedded technology in the production environment, such as programmable logic controllers, computer-controlled valves and other equipment, has been inventoried and the Company has contacted the vendors who supplied this technology with respect to their Year 2000 readiness. While not all of the responses have been received, those that have responded have given a positive response to their Year 2000 readiness. Based on current evidence, the Company believes there to be no significant exposure with regard to production equipment.

The Company has initiated formal communications with all of its significant suppliers and large customers to determine the extent to which the Company's interface systems are vulnerable to those third parties' failure to remediate their own Year 2000 issues. The Company's total Year 2000 project cost, which is not expected to have a material effect on the Company's results of operations, includes the estimated costs and time associated with the impact of third party Year 2000 issues based upon presently available information. However, there can be no guarantee that the systems of other companies on which the Company's systems rely will be converted timely or would not have an adverse effect on the Company's systems.

To date, the Company has not established a contingency plan for possible Year 2000 issues. The Company will establish contingency plans, if needed, based on its actual testing experience with its supplier base and assessment of outside risks.

### MARKET RISK

Market risks relating to the Company's operations result primarily from changes in interest rates, foreign exchange rates and commodity prices, as well as credit risk concentrations. To address these risks the Company enters into various hedging transactions as described below. The Company does not use financial instruments for trading purposes and is not a party to any leveraged derivatives.

#### *Commodities Risk*

The Company is a purchaser of certain commodities, primarily corn and soybeans. The Company periodically uses commodity futures and purchased options for hedging purposes to reduce the effect of changing commodity prices and as a mechanism to procure the grains. The contracts that effectively meet risk reductions and correlation criteria are recorded using hedge accounting. Gains and losses on closed hedge transactions are recorded as a component of the underlying inventory purchase.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

TYSON FOODS, INC.

The following table provides information about the Company's corn, soybean oil and other feed ingredient inventory and futures contracts that are sensitive to changes in commodity prices. The table presents the carrying amounts and fair values at Oct. 3, 1998. Additionally for futures contracts, the latest of which matures 15 months from the reporting date, the table presents the notional amounts in units of purchase, the weighted average contract prices and the total dollar contract amounts. Contract amounts are used to calculate the contractual payments and quantity of corn and soybean oil to be exchanged under the futures contracts.

DOLLARS AND VOLUME IN MILLIONS, EXCEPT PER UNIT AMOUNTS					
	VOLUME	CONTRACT/ BOOK VALUE	WEIGHTED AVE. PRICE PER UNIT	FAIR VALUE	WEIGHTED AVE. PRICE PER UNIT
Recorded Balance Sheet Commodity Position:					
Commodity Inventory	—	\$36.0	\$ —	\$36.0	\$ —
Corn Futures Contracts					
(volume in bushels)					
Long (Buy) Positions	7.5	17.4	2.33	17.0	2.27
Short (Sell) Positions	9.7	20.5	2.11	20.2	2.08
Soybean Oil Futures Contracts					
(volume in cwt)					
Long (Buy) Positions	0.1	2.1	24.24	2.1	24.05
Short (Sell) Positions	0.1	1.5	24.40	1.5	24.06

### *Foreign Currency and Interest Rate Risks*

The Company periodically enters into foreign exchange forward contracts and option contracts to hedge some of its foreign currency exposure. The Company uses such contracts to hedge exposure to changes in foreign currency exchange rates, primarily Japanese Yen, associated with sales denominated in foreign currency. Gains and losses on these contracts are recognized as an adjustment of the subsequent transaction when it occurs. Forward and option contracts generally have maturities not exceeding 12 months.

The Company also hedges exposure to changes in interest rates on certain of its financial instruments. Under the terms of various leveraged equipment loans, the Company enters into interest rate swap agreements to effectively lock in a fixed interest rate for these borrowings. The maturity dates of these leveraged equipment loans range from 2005 to 2008 with interest rates ranging from 4.7% to 6%.

The following table provides information about the Company's derivative financial instruments and other financial instruments that are sensitive to changes in interest rates. The table presents the Company's debt obligations, principal cash flows, related weighted-average interest rates by expected maturity dates and fair values. For interest rate swaps, the table presents notional amounts, weighted-average interest rates or strike rates by contractual maturity dates and fair values. Notional amounts are used to calculate the contractual cash flows to be exchanged under the contract.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

TYSON FOODS, INC.

## INTEREST RATE SENSITIVITY PRINCIPAL (NOTIONAL) AMOUNT BY EXPECTED MATURITY AVERAGE INTEREST (SWAP) RATE

DOLLARS IN MILLIONS								
	1999	2000	2001	2002	2003	There- after	Total	Fair Value 10/3/98
Liabilities								
Long-Term Debt, including								
Current Portion								
Fixed Rate	\$73.6	\$226.7	\$125.2	\$31.4	\$178.5	\$823.3	\$1,458.7	\$1,533.7
Average Interest Rate	9.37%	6.39%	8.25%	7.88%	6.20%	6.79%	6.93%	
Variable Rate	\$4.0	\$24.6	—	\$506.9	—	\$50.0	\$585.5	\$585.5
Average Interest Rate	4.15%	7.67%	—	5.57%	—	3.73%	5.49%	
Interest Rate Derivative								
Financial Instruments								
Related to Debt								
Interest Rate Swaps								
Pay Fixed	\$16.1	\$17.2	\$18.4	\$19.6	\$20.2	\$50.2	\$141.7	(\$8.1)
Average Pay Rate	6.71%	6.71%	6.69%	6.73%	6.74%	6.59%	6.67%	
Average Receive Rate— USD 6 month Libor								

The following table summarizes information on instruments and transactions that are sensitive to foreign currency exchange rates. The table presents the notional amounts, weighted-average exchange rates by expected (contractual) maturity dates and fair values. These notional amounts generally are used to calculate the contractual payments to be exchanged under the contract.

## EXPOSURES RELATED TO DERIVATIVE CONTRACTS WITH U. S. DOLLAR FUNCTIONAL CURRENCY PRINCIPAL (NOTIONAL) AMOUNT BY EXPECTED MATURITY AVERAGE FORWARD FOREIGN CURRENCY EXCHANGE RATE (USD/FOREIGN CURRENCY)

DOLLARS IN MILLIONS					
	1999	2000-2003	There- after	Total	Fair Value 10/3/98
Sold Option Contracts to Sell Foreign Currencies for US\$					
Japanese Yen					
Notional Amount	\$6.5	—	—	\$6.5	—
Weighted Average Strike Price	¥109.48				
Purchased Option Contracts to Sell Foreign Currencies for US\$					
Japanese Yen					
Notional Amount	\$5.6	—	—	\$5.6	\$0.4
Weighted Average Strike Price	¥126.69				

# CONSOLIDATED STATEMENTS OF INCOME

TYSON FOODS, INC.

THREE YEARS ENDED OCTOBER 3, 1998

(IN MILLIONS EXCEPT PER SHARE DATA)

	1998	1997	1996
Sales	\$7,414.1	\$6,355.7	\$6,453.8
Cost of Sales	6,260.1	5,318.0	5,505.7
	1,154.0	1,037.7	948.1
Operating Expenses:			
Selling	642.2	513.3	550.0
General and administrative	132.7	96.9	100.9
Amortization	33.3	27.6	27.6
Asset impairment and other charges	142.2		
	950.4	637.8	678.5
Operating Income	203.6	399.9	269.6
Other expense (income):			
Interest	139.1	110.4	132.9
Foreign currency exchange			9.0
Other	(6.5)	(40.2)	(4.9)
	132.6	70.2	137.0
Income Before Taxes on Income and Minority Interest	71.0	329.7	132.6
Provision for Income Taxes	45.9	143.9	49.0
Minority Interest in Net Loss of Consolidated Subsidiary			3.3
Net Income	\$ 25.1	\$ 185.8	\$ 86.9
Basic Earnings Per Share	\$ 0.11	\$ 0.86	\$ 0.40
Diluted Earnings Per Share	\$ 0.11	\$ 0.85	\$ 0.40

SEE ACCOMPANYING NOTES.



# CONSOLIDATED BALANCE SHEETS

TYSON FOODS, INC.

OCTOBER 3, 1998 AND SEPTEMBER 27, 1997

(IN MILLIONS EXCEPT PER SHARE DATA)

ASSETS	1998	1997
Current Assets:		
Cash and cash equivalents	\$ 46.5	\$ 23.6
Accounts receivable	631.0	617.8
Inventories	984.1	886.1
Assets held for sale	65.2	6.2
Other current assets	38.3	38.8
Total Current Assets	1,765.1	1,572.5
Net Property, Plant and Equipment	2,256.5	1,924.8
Excess of Investments Over Net Assets Acquired	1,035.8	731.1
Investments and Other Assets	185.1	182.6
Total Assets	\$5,242.5	\$4,411.0
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Notes payable	\$ 84.7	\$ 37.3
Current portion of long-term debt	77.6	94.6
Trade accounts payable	330.6	290.3
Accrued salaries and wages	98.4	80.9
Federal and state income taxes payable	0.9	27.2
Accrued interest payable	22.3	27.3
Other current liabilities	216.5	163.4
Total Current Liabilities	831.0	721.0
Long-Term Debt	1,966.6	1,558.2
Deferred Income Taxes	434.4	506.1
Other Liabilities	40.1	4.2
Shareholders' Equity:		
Common stock (\$.10 par value):		
Class A-authorized 900 million shares:		
Issued 137.9 million shares in 1998 and 119.5 million shares in 1997	13.8	11.9
Class B-authorized 900 million shares:		
Issued 102.7 million shares in 1998 and 1997	10.3	10.3
Capital in excess of par value	740.5	379.1
Retained earnings	1,394.2	1,390.8
Currency translation adjustment	(1.0)	(2.5)
	2,157.8	1,789.6
Less treasury stock, at cost-		
9.7 million shares in 1998 and 8.8 million shares in 1997	185.1	165.6
Less unamortized deferred compensation	2.3	2.5
Total Shareholders' Equity	1,970.4	1,621.5
Total Liabilities and Shareholders' Equity	\$5,242.5	\$4,411.0

SEE ACCOMPANYING NOTES.

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

TYSON FOODS, INC.

THREE YEARS ENDED OCTOBER 3, 1998

(IN MILLIONS EXCEPT PER SHARE DATA)

	1998		1997		1996	
	Shares	Amount	Shares	Amount	Shares	Amount
<b>CLASS A COMMON STOCK</b>						
Beginning Balance	119.5	\$ 11.9	79.7	\$ 8.0	79.7	\$ 8.0
Three-for-two stock split			39.8	3.9		
Acquisition	18.4	1.9				
Ending Balance	137.9	13.8	119.5	11.9	79.7	8.0
<b>CLASS B COMMON STOCK</b>						
Beginning Balance	102.7	10.3	68.5	6.8	68.5	6.8
Three-for-two stock split			34.2	3.5		
Ending Balance	102.7	10.3	102.7	10.3	68.5	6.8
<b>CAPITAL IN EXCESS OF PAR VALUE</b>						
Beginning Balance		379.1		375.4		377.9
Exercise of options		(0.2)		(0.3)		(2.5)
Acquisitions		361.6		4.0		
Ending Balance		740.5		379.1		375.4
<b>RETAINED EARNINGS</b>						
Beginning Balance		1,390.8		1,232.4		1,162.3
Net income		25.1		185.8		86.9
Three-for-two stock split				(7.4)		
Dividends		(21.7)		(20.0)		(16.8)
Class A (1998 – \$.10; 1997 – \$.095; 1996 – \$.08)						
Class B (1998 – \$.09; 1997 – \$.086; 1996 – \$.072)						
Ending Balance		1,394.2		1,390.8		1,232.4
<b>CURRENCY TRANSLATION ADJUSTMENT</b>						
Beginning Balance		(2.5)		(2.8)		(5.2)
Currency translation adjustment		1.5		0.3		2.4
Ending Balance		(1.0)		(2.5)		(2.8)
<b>TREASURY STOCK</b>						
Beginning Balance	8.8	(165.6)	3.2	(75.4)	3.4	(79.2)
Purchases	1.1	(22.3)	5.2	(109.6)	0.1	(1.3)
Exercise of options	(0.2)	2.8	(0.2)	2.6	(0.3)	5.1
Acquisition			(1.0)	16.8		
Three-for-two stock split			1.6			
Ending Balance	9.7	(185.1)	8.8	(165.6)	3.2	(75.4)
<b>UNAMORTIZED DEFERRED COMPENSATION</b>						
Beginning Balance		(2.5)		(2.7)		(2.9)
Amortization of deferred compensation		0.2		0.2		0.2
Ending Balance		(2.3)		(2.5)		(2.7)
Total Shareholders' Equity		\$1,970.4		\$1,621.5		\$1,541.7

SEE ACCOMPANYING NOTES.



# CONSOLIDATED STATEMENTS OF CASH FLOWS

TYSON FOODS, INC.

THREE YEARS ENDED OCTOBER 3, 1998

(IN MILLIONS)

	1998	1997	1996
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 25.1	\$ 185.8	\$ 86.9
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	243.1	202.8	211.7
Amortization	33.3	27.6	27.6
Asset impairment and other charges	214.6		
Deferred income taxes	(144.5)	10.5	15.9
Minority interest			(3.3)
Foreign currency exchange loss			9.0
(Gain) loss on dispositions of property, plant and equipment	(2.3)	(34.8)	2.2
Decrease (increase) in accounts receivable	32.8	(68.4)	(66.9)
Decrease (increase) in inventories	79.8	143.6	(126.7)
(Decrease) increase in trade accounts payable	(6.6)	19.2	(4.7)
Net change in other current assets and liabilities	21.1	54.7	21.6
Cash Provided by Operating Activities	496.4	541.0	173.3
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Net cash paid for acquisitions	(258.5)	(4.3)	
Additions to property, plant and equipment	(310.4)	(291.2)	(214.0)
Proceeds from sale of assets	136.0	223.4	21.1
Net change in other assets and liabilities	(13.3)	(63.8)	(29.5)
Cash Used for Investing Activities	(446.2)	(135.9)	(222.4)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net decrease in notes payable	(74.4)	(2.2)	(55.7)
Proceeds from long-term debt	1,027.1	131.4	475.6
Repayments of long-term debt	(954.7)	(420.8)	(351.5)
Purchase of treasury shares	(22.3)	(109.6)	(1.3)
Other	(2.9)	(17.2)	(15.0)
Cash Provided by (Used for) Financing Activities	(27.2)	(418.4)	52.1
Effect of Exchange Rate Change on Cash	(0.1)	0.3	0.5
Increase (Decrease) in Cash	22.9	(13.0)	3.5
Cash and Cash Equivalents at Beginning of Year	23.6	36.6	33.1
Cash and Cash Equivalents at End of Year	\$ 46.5	\$ 23.6	\$ 36.6

SEE ACCOMPANYING NOTES.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TYSON FOODS, INC.

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

*Description of Business:* The Company is a fully integrated producer, processor and marketer of chicken, chicken-based food products and convenience food items. The Company's food products are sold in the domestic foodservice, retail and wholesale club markets as well as internationally.

*Fiscal Year:* The Company utilizes a 52- or 53-week accounting period that ends on the Saturday closest to Sept. 30.

*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 consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

*Cash and Cash Equivalents:* Cash equivalents consist of investments in short-term, highly liquid securities having original maturities of three months or less, which are made as part of the Company's cash management activity. The carrying values of these assets approximate their fair market values. As a result of the Company's cash management system, checks issued, but not presented to the banks for payment, may create negative cash balances. Checks outstanding in excess of related cash balances totaling approximately \$158.8 million at Oct. 3, 1998, and \$147 million at Sept. 27, 1997, are included in trade accounts payable, accrued salaries and wages and other current liabilities.

*Inventories:* Live poultry consists of broilers and breeders. Broilers are stated at the lower of cost (first-in, first-out) or market and breeders are stated at cost less amortization. Breeder costs are accumulated up to the production stage and amortized into broiler costs over the estimated production lives based on historical egg production. Live hogs consist of breeding stock and finishing hogs which are carried at lower of cost (first-in, first-out) or market. The cost of live hogs is included in cost of sales when the hogs are sold. Broilers, live hogs, dressed and further-processed products, seafood-related products, hatchery eggs and feed and supplies are valued at the lower of cost (first-in, first-out) or market.

	(IN MILLIONS)	
	1998	1997
Dressed and further-processed products	\$410.4	\$366.1
Live poultry and hogs	374.2	353.4
Seafood-related products	49.2	39.5
Hatchery eggs and feed	71.5	57.8
Supplies	78.8	69.3
	<b>\$984.1</b>	<b>\$886.1</b>

*Property, Plant and Equipment and Depreciation:* Depreciation is provided primarily by the straight-line method using estimated lives for buildings and leasehold improvements of 10 to 39 years; machinery and equipment of three to 12 years; vessels of 16 to 30 years; and other of three to 20 years.

The Company capitalized interest costs of \$1.8 million in 1998, \$3.4 million in 1997 and \$3.8 million in 1996 as part of the cost of major asset construction projects. Approximately \$193.2 million will be required to complete construction projects in progress at Oct. 3, 1998.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TYSON FOODS, INC.

The major categories of property, plant and equipment and accumulated depreciation, at cost, are as follows:

	(IN MILLIONS)	
	1998	1997
Land	\$ 57.8	\$ 47.7
Buildings and leasehold improvements	1,163.0	931.9
Machinery and equipment	2,004.6	1,838.9
Vessels	83.8	101.7
Land improvements and other	112.6	90.7
Buildings and equipment under construction	262.6	152.3
	3,684.4	3,163.2
Less accumulated depreciation	1,427.9	1,238.4
	\$2,256.5	\$1,924.8

*Excess of Investments Over Net Assets Acquired:* Costs in excess of net assets of businesses purchased are amortized on a straight-line basis over periods ranging from 15 to 40 years. The carrying value of excess of investments over net assets acquired is reviewed at each balance sheet date to determine if facts and circumstances suggest that it may be impaired. If this review indicates that the excess of investments over net assets acquired may not be recoverable, an estimate of the undiscounted cash flows of the entity acquired is prepared and the Company's carrying value of excess of investments over net assets acquired will be reduced by the estimated shortfall of cash flows. At Oct. 3, 1998, and Sept. 27, 1997, the accumulated amortization of excess of investments over net assets acquired was \$196.4 million and \$165.8 million, respectively. See also Footnote 4 Impairment and Other Charges.

*Capital Stock:* Holders of Class B common stock (Class B stock) may convert such stock into Class A common stock (Class A stock) on a share-for-share basis. Holders of Class B stock are entitled to 10 votes per share while holders of Class A stock are entitled to one vote per share on matters submitted to shareholders for approval. Cash dividends cannot be paid to holders of Class B stock unless they are simultaneously paid to holders of Class A stock, and the per share amount of the cash dividend paid to holders of Class B stock cannot exceed 90% of the cash dividend simultaneously paid to holders of Class A stock.

On Jan. 10, 1997, the Company's Board of Directors authorized a three-for-two stock split in the form of a stock dividend, effective Feb. 15, 1997, for shareholders of record on Feb. 1, 1997.

*Stock-Based Compensation:* The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations in accounting for its employee stock options. Under APB 25, because the exercise price of employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recorded. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123).

*Financial Instruments:* Periodically, the Company uses derivative financial instruments to reduce its exposure to various risks. As a policy, the Company does not engage in speculative transactions, nor does the Company hold or issue financial instruments for trading purposes. Contracts that effectively meet risk reduction and correlation criteria are recorded using hedge accounting. Interest rate swaps are used to hedge exposure to changes in interest rates under various leveraged equipment loans. Settlements of interest rate swaps are accounted for as an adjustment to interest expense. Gains and losses are recognized immediately if the underlying instrument is settled. Commodity futures and options are used to hedge a portion of the Company's purchases of certain commodities for future processing requirements. Such contracts are accounted for as hedges, with gains and losses recognized as part of cost of goods sold, and generally have terms of less than 15 months.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TYSON FOODS, INC.

Foreign currency forwards and option contracts are used to hedge sale transactions denominated in foreign currencies, primarily Japanese Yen, to reduce the currency risk associated with fluctuating exchange rates. Such contracts generally have terms of less than one year. Unrealized gains and losses are deferred as part of the basis of the underlying transaction.

*Earnings Per Share:* The Company adopted FASB statement No. 128, "Earnings per Share," effective for the year ending Oct. 3, 1998. All prior-period earnings per share data have been restated. This Statement requires dual presentation of basic and diluted earnings per share on the face of the income statement. Stock options issued pursuant to Company compensation plans are the only dilutive securities in all periods presented.

The following table sets forth the computation of basic and diluted earnings per share:

	(IN MILLIONS)	
	1998	1997
Numerator:		
Net Income	\$ 25.1	\$185.8
Denominator:		
Denominator for basic earnings per share-weighted average shares	226.7	216.3
Effect of dilutive securities:		
Employee stock options	1.2	1.9
Denominator for diluted earnings per share-adjusted weighted average shares and assumed conversions	227.9	218.2
Basic earnings per share	\$ 0.11	\$ 0.86
Diluted earnings per share	\$ 0.11	\$ 0.85

*Income Taxes:* The Company follows the liability method in accounting for deferred income taxes. The liability method provides that deferred tax liabilities are recorded at currently enacted tax rates based on the difference between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes, referred to as temporary differences.

*Advertising and Promotion Expenses:* Advertising and promotion expenses are charged to operations in the period incurred. Advertising and promotion expenses for 1998, 1997 and 1996 were \$294.2 million, \$233.2 million and \$228 million, respectively.

*Comprehensive Income:* In June 1997, the FASB issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS No. 130). The provisions of SFAS No. 130 require companies to classify items of comprehensive income by their nature in a financial statement and display the accumulated balance of other comprehensive income separately from retained earnings and capital in excess of par value in the consolidated financial statements. The Company's comprehensive income items, primarily foreign currency translation adjustments, are not material; accordingly, the effect of adopting this statement will not be material when it becomes effective for fiscal 1999.

*Segment Reporting:* In June 1997, the FASB issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS No. 131).



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TYSON FOODS, INC.

Under the provisions of SFAS No. 131, public business enterprises must report financial and descriptive information about its reportable segments. Management is finalizing its study of SFAS No. 131 as well as the Company's operations to determine all of the Company's reportable segments. Based upon this analysis, the Company believes that one segment, consumer poultry, will account for at least 75% of revenue and operating income. This statement will be effective for fiscal 1999.

*Derivative Instruments and Hedging Activities:* In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133). The provisions of SFAS No. 133 require all derivatives to be recorded on the balance sheet at fair value. SFAS No. 133 establishes "special accounting" for fair value hedges, cash flow hedges, and hedges of foreign currency exposures of net investments in foreign operations. 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 derivatives will either be offset against the change in fair value of the hedged item through earnings or recognized 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 not yet determined what the effect of this statement will be on the earnings and financial position of the Company when it becomes effective for fiscal 2000.

*Costs Associated with Computer Software:* In March 1998, the American Institute of Certified Public Accountants issued Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* (SOP 98-1). This statement provides guidance on the capitalization of certain costs incurred in developing or acquiring internal-use computer software. The Company believes the adoption of SOP 98-1 in fiscal 2000 will not have a material impact on its financial position or results of operations.

### NOTE 2: ACQUISITIONS

On Jan. 9, 1998, the Company completed the acquisition of Hudson Foods, Inc. (Hudson) pursuant to which Hudson merged with and into a wholly-owned subsidiary of the Company (the Hudson Acquisition). At the effective time of the acquisition, the Class A and Class B shareholders of Hudson received an aggregate of approximately 18.4 million shares of the Company's Class A common stock valued at approximately \$363.5 million and approximately \$257.4 million in cash. The Company borrowed funds under its commercial paper program to finance the \$257.4 million cash portion of the Hudson Acquisition and repay approximately \$61 million under Hudson's revolving credit facilities. The Hudson Acquisition has been accounted for as a purchase and the excess of investment over net assets acquired is being amortized straight-line over 40 years. The Company's consolidated results of operations include the operations of Hudson since the acquisition date. The following unaudited pro forma information shows the results of operations as though the purchase of Hudson had been made at the beginning of fiscal 1997.

	(IN MILLIONS, EXCEPT PER SHARE DATA)	
	1998	1997
Net Sales	\$7,831.0	\$8,020.8
Net Income	16.8	140.3
Basic Earnings Per Share	0.07	0.60
Diluted Earnings Per Share	0.07	0.59

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TYSON FOODS, INC.

The unaudited pro forma results are not necessarily indicative of the actual results of operations that would have occurred had the purchase actually been made at the beginning of 1997, or the results that may occur in the future.

On Aug. 1, 1997, the Company acquired Mallard's Food Products, Inc. (Mallard's) for a combination of one million shares of the Company's Class A stock valued at \$20.8 million and cash of \$4 million. Mallard's, with two plants in Modesto, Calif., has annual sales of approximately \$33 million. This transaction has been accounted for as a purchase, and the results of operations for this acquisition have been included in the Company's consolidated results of operations since the acquisition date. No pro forma information is provided as the results of operations for this acquisition are not significant to the Company.

### NOTE 3: DISPOSITIONS

On June 9, 1998, the Company and Pierre Foods, LLC (Pierre), a wholly owned subsidiary of Fresh Foods, Inc. completed an asset purchase agreement for Pierre to acquire the Pierre Foods division from the Company. The Pierre Foods division, based in Cincinnati, Ohio, is primarily engaged in producing and distributing packaged, precooked food products to the foodservice industry. On Aug. 28, 1998, the Company sold its Caryville, Tenn., meat processing facility to Advance Food Company, Inc. of Enid, Okla. Both of these facilities were acquired with the Hudson Acquisition. Under the terms of both agreements, the Company received \$128 million in cash. The Company recognized no gain or loss on the sale of these assets. In addition, no pro forma information is provided as the operations of these facilities were not significant to the Company.

### NOTE 4: IMPAIRMENT AND OTHER CHARGES

The Company recorded charges totaling \$214.6 million on a pre-tax basis (\$0.68 per share) during the fourth quarter of 1998. These charges consist of \$142.2 million for asset impairment of property, plant and equipment, writedown of related excess of investments over net assets acquired and severance costs, \$48.4 million for losses in the Company's export business to Russia which has been adversely affected by the continuing economic problems in Russia and \$24 million for other charges related primarily to workers compensation and employment practice liabilities. These charges have been classified in the Consolidated Statements of Income as \$142.2 million in asset impairment and other charges, \$48.4 million included in selling expense, \$20.5 million included in cost of sales and \$3.5 million included in other expense. Additionally, the foreign losses have been netted with accounts receivable on the Consolidated Balance Sheets.

As previously announced, the Company's Board of Directors approved management's proposed restructure plan on Aug. 28, 1998. The restructuring, which resulted in asset impairment and other charges, is in furtherance of the Company's previously stated objective to focus on its core business, chicken. The recent acquisition of Hudson Foods, Inc. and the assimilation of Hudson's facilities and operations into the Company's business have permitted the Company to review and rationalize the productive capabilities and cost structure of its core business. Further, the Company intends to continue the rationalization of its seafood assets. This rationalization may include divestiture, redeployment, and other possible business transactions, exploring all alternatives in an orderly fashion. The restructuring includes, among other things, the closure of eight plants and feedmills resulting in work force reductions, the writedown of excess of investments over net assets acquired allocated to closed facilities, the reconfiguration of various production facilities and the writedown of certain seafood assets to estimated net realizable value.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TYSON FOODS, INC.

The major components of the asset impairment and related charges consist of the following:

	(IN MILLIONS)
Impairment of property, plant and equipment	\$120.7
Writedown of related excess of investments over net assets acquired	19.3
Severance and other related costs	2.2
	<u>\$142.2</u>

The impairment charge represents the excess of the carrying value of those assets discussed above over their fair value less cost to sell. Impaired assets which are expected to be disposed of within the next 12 months are included in assets held for sale.

The writedown of excess of investments over net assets acquired is related to plant closings and related book value impairments, which originated from prior business acquisitions. Substantially, all of the severance and related costs will be paid in fiscal 1999.

During the fourth quarter, the Russian Ruble was devalued from 6.3 to 16.0. This event and other related economic factors in Russia resulted in the Company recognizing losses of \$48.4 million.

The majority of the \$24 million charge noted above relates primarily to revisions to the Company's estimated liabilities for workers compensation and employment practice related matters. This charge is based upon two separate actuarial studies completed during the fourth quarter.

### NOTE 5: ASSETS HELD FOR SALE

On Oct. 27, 1998, the Company and Rose Acre Farms, Inc. signed an asset purchase agreement whereby Rose Acre Farms, Inc. will acquire the Company's National Egg Products Company operations in Social Circle, Ga. This operation, which is reflected in assets held for sale at Oct. 3, 1998, was acquired with the Hudson Acquisition. This transaction is expected to be finalized in the first quarter of fiscal 1999 at an amount which approximates its carrying value.

The Company also intends to sell Willow Brook Foods, its integrated turkey production and processing business, and its Albert Lea, Minn., processing facility which primarily produces the Schweigert brand of sausages, lunch and deli meats and other related products. These operations, which are reflected in assets held for sale at Oct. 3, 1998, were acquired with the Hudson Acquisition.

During 1996 the Company announced its intention to sell its beef and pork further-processing operations in its effort to return to its core business. On Nov. 25, 1996, the Company sold its beef further-processing operations, known as Gorges/Quik-to-Fix Foods, resulting in a pre-tax gain of \$41 million which was recorded in other income for fiscal 1997 in the Consolidated Statements of Income. The operating results of this facility were not material to the Company in 1997. During 1997, the Company recorded an impairment loss of \$11.2 million for the pork further-processing assets, which was classified as an operating charge in the Consolidated Statements of Income. The Company has closed the pork further-processing facility and recorded an additional \$4 million writedown of this facility in fiscal 1998.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TYSON FOODS, INC.

## NOTE 6: FINANCIAL INSTRUMENTS AND CREDIT RISK CONCENTRATION

*Interest Rate Instruments:* Interest rate swaps with notional amounts of \$141.7 million and \$147.7 million were in effect at Oct. 3, 1998, and Sept. 27, 1997, respectively. Fair values of these swaps were (\$8.1) million and (\$1.3) million at Oct. 3, 1998, and Sept. 27, 1997, respectively. Fair values of interest rate instruments are estimated amounts the Company would receive or pay to terminate the agreements at the reporting dates. These swaps mature from 2005 to 2008.

*Commodity and Foreign Currency Contracts:* At Oct. 3, 1998, and Sept. 27, 1997, the Company held the following commodity and foreign currency contracts:

(DOLLARS IN MILLIONS, EXCEPT PER UNIT CONTRACT/STRIKE PRICES)						
	Notional Amount		Weighted Average Contract/Strike Price		Fair Value	
	1998	1997	1998	1997	1998	1997
Long positions in corn	\$17.4	\$ —	\$ 2.32	\$ —	\$17.0	\$ —
Short positions in corn	20.5	10.1	2.11	2.65	20.2	9.9
Long positions in soybean oil	2.1	—	24.24	—	2.1	—
Short positions in soybean oil	1.5	—	24.40	—	1.5	—
Short positions in soybean meal	—	7.1	—	215.00	—	6.5
Sold option contracts to sell						
Japanese Yen for US \$	6.5	42.5	¥109.48	¥113.20	—	(1.0)
Purchased option contracts to						
purchase Japanese Yen for US \$	5.6	38.0	126.69	126.75	0.4	0.5
Foreign forward exchange contracts	—	0.5	—	102.45	—	0.4

*Fair Value of On-Balance Sheet Financial Instruments:* The Company's significant financial instruments include cash and cash equivalents, investments and debt. In evaluating the fair value of significant financial instruments, the Company generally uses quoted market prices of the same or similar instruments or calculates an estimated fair value on a discounted cash flow basis using the rates available for instruments with the same remaining maturities. As of Oct. 3, 1998, and Sept. 27, 1997, the fair value of financial instruments held by the Company approximated the recorded value except for long-term debt. Fair value of long-term debt was \$2.1 billion and \$1.7 billion at Oct. 3, 1998, and Sept. 27, 1997, respectively.

*Concentrations of Credit Risk:* The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash equivalents and trade receivables. The Company's cash equivalents are in high quality securities placed with major banks and financial institutions. Concentrations of credit risk with respect to receivables are limited due to the large number of customers and their dispersion across geographic areas. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. No single group or customer represents greater than 10% of total accounts receivable.

## NOTE 7: CONTINGENCIES AND COMMITMENTS

The Company is involved in various lawsuits and claims made by third parties on an ongoing basis as a result of its day-to-day operations. Although the outcome of such items cannot be determined with certainty, the Company's general counsel and management are of the opinion that the final outcome should not have a material effect on the Company's results of operations or financial position.

On Dec. 29, 1997, the Company entered into a plea agreement resolving the Office of Independent Counsel's (OIC) investigation of the Company in connection with its investigation of former Secretary of Agriculture Michael Espy. The Company entered a guilty plea to a single count of violating the illegal gratuity statute, 18 U.S.C. § 201(c)(1). The Company was sentenced on Jan. 12, 1998, to pay a fine of \$4 million, costs of prosecution of \$2 million and was placed on probation



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TYSON FOODS, INC.

for four years. At the time of its plea, the Company also entered a Compliance Agreement with the OIC and the U.S. Department of Agriculture requiring it to implement a compliance program.

Following the entry of its guilty plea, the Company and others were named as defendants in a putative class action suit brought on behalf of all individuals who sold beef cattle to beef packers for processing between certain dates in 1993 and 1998. This action, captioned *Wayne Newton, et al. v. Tyson Foods, Inc., et al.*, U.S. District Court, Northern District of Iowa, Civil Action No. 98-30, asserts claims under the Racketeer Influenced and Corrupt Organizations statute as well as a common-law claim for intentional interference with prospective economic advantage. Plaintiffs allege that the gratuities which were the subject of the Company's plea resulted in a competitive advantage for poultry products vis-a-vis beef products. Plaintiffs request trebled damages in excess of \$3 billion, plus attorney's fees and costs. While management is not able to determine the outcome of this matter at this time, based upon information currently available, management presently does not believe that this lawsuit has merit and will not have a material adverse effect on the Company's financial position or its results of operations.

On July 28, 1997, Hudson received notice from the U.S. Department of Justice (DOJ) that it was prepared to bring an action against Hudson for the alleged violation of the Clean Water Act at Hudson's Berlin, Md., poultry processing facility. The DOJ alleged that over the past five years, Hudson had repeatedly discharged pollutants in quantities in excess of its National Pollutant Discharge Elimination System (NPDES) permit limits, violated monitoring and sampling requirements of its NPDES permit and failed to provide notice of NPDES violations. On Sept. 19, 1997, Hudson entered into an agreement in principle with the DOJ for the settlement of these claims. On May 8, 1998, a Consent Decree between the United States, Hudson and the Company was filed with the U.S. District Court together with a Complaint alleging these violations. On Oct. 6, 1998, the U. S. District Court approved and entered the Consent Decree. The Consent Decree, while stating that Hudson denies the violations alleged in the Complaint, provides for the payment to the United States of \$4 million and the expenditure of \$2 million in supplemental environmental projects (SEPs).

On or about July 23, 1998, the Maryland Department of the Environment (MDE) filed a Complaint for Injunctive Relief and Civil Penalty (the Complaint) against the Company in the Circuit Court of Worcester County, Md., for the alleged violation of certain Maryland water pollution control laws with respect to the Company's land application of sludge to Company owned agricultural land near Berlin, Md. The MDE seeks, in addition to injunctive and equitable relief, civil penalties of up to \$10,000 per day for each day the Company had allegedly operated in violation of the Maryland water pollution control laws. The Company has only recently received the Complaint, is reviewing and researching the factual matters asserted therein, and intends to vigorously defend against the same. The Company does not believe any penalties, if imposed, would have a material adverse effect on the Company's results of operations or financial condition.

The Company leases certain farms and other properties and equipment for which the total rentals thereon approximated \$46.7 million in 1998, \$34 million in 1997 and \$35.7 million in 1996. Most farm leases have terms ranging from one to 10 years with various renewal periods. The most significant obligations assumed under the terms of the leases are the upkeep of the facilities and payments of insurance and property taxes.

Minimum lease commitments under noncancelable leases at Oct. 3, 1998, total \$141.8 million composed of \$46.8 million for 1999, \$37.2 million for 2000, \$26.0 million for 2001, \$16.2 million for 2002, \$9.8 million for 2003 and \$5.8 million for later years. These future commitments are expected to be offset by future minimum lease payments to be received under subleases of approximately \$16.7 million.

The Company assists certain of its swine and poultry growers in obtaining financing for growout facilities by providing the growers with extended growout contracts and conditional operation of the facilities should a grower default under their growout or loan agreement. The Company also guarantees debt of outside third parties of \$60 million.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TYSON FOODS, INC.

## NOTE 8: LONG-TERM DEBT

The Company has an unsecured revolving credit agreement totaling \$1 billion which supports the Company's commercial paper program. This \$1 billion facility expires in May 2002. At Oct. 3, 1998, \$506.9 million in commercial paper was outstanding under this facility. The Company's \$250 million facility was terminated effective May 4, 1998.

At Oct. 3, 1998, the Company had outstanding letters of credit totaling approximately \$108.5 million issued primarily in support of workers' compensation insurance programs, industrial revenue bonds and the leveraged equipment loans.

Under the terms of the leveraged equipment loans, the Company had restricted cash totaling approximately \$44.7 million which is included in investments and other assets at Oct. 3, 1998. Under these leveraged loan agreements, the Company entered into interest rate swap agreements to effectively lock in a fixed interest rate for these borrowings.

Annual maturities of long-term debt for the five years subsequent to Oct. 3, 1998, are: 1999 - \$77.6 million; 2000 - \$251.3 million; 2001 - \$125.2 million; 2002 - \$538.3 million and 2003 - \$178.5 million.

The revolving credit agreement and notes contain various covenants, the more restrictive of which require maintenance of a minimum net worth, current ratio, cash flow coverage of interest and fixed charges and a maximum total debt-to-capitalization ratio. The Company is in compliance with most of these covenants at year end and has obtained waivers for covenants in which the Company is not in compliance.

The weighted average interest rate on all outstanding short-term borrowing was 5.6% at Oct. 3, 1998, and Sept. 27, 1997.

Long-term debt consists of the following:

		(IN MILLIONS)	
	Maturity	1998	1997
Commercial paper			
(5.6% effective rate at 10/3/98)	2002	\$ 506.9	\$ 638.7
Debt securities:			
6.75% notes	2005	149.3	149.1
6.625% notes	2005	149.5	149.3
6.39-6.41% notes	2000	50.0	50.1
6% notes	2003	146.8	—
7% notes	2028	145.9	—
7% notes	2018	236.3	—
Institutional notes:			
10.33% notes	1999	—	33.7
10.61% notes	1999-2001	106.3	125.0
10.84% notes	2002-2006	50.0	50.0
11.375% notes	1999-2002	12.8	17.1
Mandatory Par Put Remarketed			
Securities (5.88% effective rate at 10/3/98)	2010	50.2	—
6.08% notes	2010	100.4	—
Revolving credit facility	2002	—	130.0
Leveraged equipment loans			
(rates ranging from 4.7% to 6.0%)	2005-2008	170.5	166.5
Other	various	91.7	48.7
		<b>\$1,966.6</b>	<b>\$1,558.2</b>



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TYSON FOODS, INC.

## NOTE 9: INCOME TAXES

Detail of the provision for income taxes consists of:

	(IN MILLIONS)		
	1998	1997	1996
Federal	\$ 50.1	\$129.7	\$ 49.9
State	(4.2)	14.2	(0.9)
	\$ 45.9	\$143.9	\$ 49.0
Current	\$ 80.6	\$133.4	\$ 33.1
Deferred	(34.7)	10.5	15.9
	\$ 45.9	\$143.9	\$ 49.0

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

	(IN MILLIONS)		
	1998	1997	1996
U.S. federal income tax rate	35.0%	35.0%	35.0%
Amortization of excess investments over net assets acquired	23.6	8.6	5.9
State income taxes (benefit)	(3.8)	2.8	(0.4)
Foreign sales corporation benefit	(9.6)	—	—
Foreign losses	20.5	—	—
Other	(1.0)	(2.8)	(3.5)
	64.7%	43.6%	37.0%

The Company follows the liability method in accounting for deferred income taxes. The liability method provides that deferred tax liabilities are recorded at current tax rates based on the difference between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes referred to as temporary differences. Significant components of the Company's deferred tax liabilities as of Oct. 3, 1998, and Sept. 27, 1997, are as follows:

	(IN MILLIONS)	
	1998	1997
Basis difference in property, plant and equipment	\$289.9	\$267.9
Suspended taxes from conversion to accrual method	135.1	142.7
Other	9.4	95.5
Total deferred tax liabilities	\$434.4	\$506.1

The Omnibus Budget Reconciliation Act of 1987 required family-owned farming businesses to use the accrual method of accounting for tax purposes. Internal Revenue Code Section 447(i) provides that if any family corporation is required to change its method of accounting for any taxable year, such corporation shall establish a suspense account in lieu of taking the adjustments into taxable income. The suspense account, which represents the initial catch-up adjustment to change from the cash to accrual method of accounting, is not currently includable in the Company's taxable income, and any related income taxes are deferred. However, legislation was enacted in 1997 which now requires the Company to pay down the suspense account over 20 years.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TYSON FOODS, INC.

## NOTE 10: RESTRICTED STOCK AND STOCK OPTIONS

The Company has outstanding 189,000 restricted shares of Class A stock. The restriction expires over periods ranging from 10 to 26 years. The unamortized portion is classified on the Consolidated Balance Sheets as deferred compensation in shareholders' equity.

The Company has a nonqualified stock option plan which provides for granting options for shares of Class A stock at a price not less than the fair market value at the date of grant. The options generally become exercisable ratably over four to eight years from the date of grant and must be exercised within 10 years of the grant date.

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

	SHARES UNDER OPTION	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
Outstanding, Sept. 30, 1995	4,118,171	\$13.79
Exercised	(320,535)	8.05
Canceled	(459,150)	14.49
Granted	2,129,775	15.04
Outstanding, Sept. 28, 1996	5,468,261	14.55
Exercised	(163,906)	13.83
Canceled	(560,296)	15.06
Granted	3,598,275	17.92
Outstanding, Sept. 27, 1997	8,342,334	15.99
Exercised	(178,467)	14.18
Canceled	(313,019)	15.84
Granted	504,700	18.00
Outstanding, Oct. 3, 1998	8,355,548	\$16.15

The number of options exercisable was as follows: Oct. 3, 1998 – 1,202,498, Sept. 27, 1997 – 806,837 and Sept. 28, 1996 – 442,616. The remainder of the options outstanding at Oct. 3, 1998, are exercisable ratably through November 2007. The number of shares available for future grants was 6,459,402 and 6,651,083 at Oct. 3, 1998, and Sept. 27, 1997, respectively.

The following table summarizes information about stock options outstanding at Oct. 3, 1998:

Range of Exercise Prices	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	Shares Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Shares Exercisable	Weighted Average Exercise Price
\$ 4.82-6.58	27,389	4.3	\$ 5.79	27,389	\$ 5.79
14.33-14.50	2,619,609	5.9	14.40	1,174,359	14.40
14.58-15.17	1,815,825	8.0	15.02	750	15.17
17.92-18.00	3,892,725	8.1	17.93	—	—
	8,355,548			1,202,498	



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TYSON FOODS, INC.

The weighted average fair value of options granted during 1998 and 1997 is approximately \$7.10 and \$7.15, respectively. The fair value of each option grant is established on the date of grant using the Black-Scholes option-pricing model. Assumptions include an expected life of eight years, weighted average risk-free interest rates ranging from 5.5% to 6.4%, expected volatility of 0.2% and dividend yield of 0.5% in both 1998 and 1997.

As permitted by SFAS No. 123, the Company chose to continue accounting for stock options at their intrinsic value. Accordingly, no compensation expense was recognized for its stock option compensation plans. Had the fair value method of accounting been applied to the Company's stock option plans, the tax-effected impact would be as follows:

	(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)		
	1998	1997	1996
Net Income			
As reported	\$25.1	\$185.8	\$86.9
Pro forma	21.0	182.0	85.7
Earnings Per Share			
As reported			
Basic	0.11	0.86	0.40
Diluted	0.11	0.85	0.40
Pro Forma			
Basic	0.09	0.84	0.39
Diluted	0.09	0.83	0.39

Pro forma net income reflects only options granted in 1998, 1997 and 1996.

## NOTE 11: TRANSACTIONS WITH RELATED PARTIES

The Company has operating leases for farms, equipment and other facilities with the Senior Chairman of the Board of Directors of the Company and certain members of his family, as well as a trust controlled by him, for rentals of \$5.4 million in 1998, \$5.6 million in 1997 and \$7 million in 1996. Other facilities, including a cold storage distribution facility in 1996, have been leased from the Company's profit sharing plan and other officers and directors for rentals totaling \$3.4 million in 1998, \$5.3 million in 1997 and \$6.6 million in 1996. In 1997, the Company purchased the cold storage distribution facility as well as other facilities from the profit sharing plan.

Certain officers and directors are engaged in poultry and swine growout operations with the Company whereby these individuals purchase animals, feed, housing and other items to raise the animals to market weight. The total value of these transactions amounted to \$11.5 million in 1998, \$12.3 million in 1997 and \$11.7 million in 1996.

## NOTE 12: BENEFIT PLANS

The Company has defined contribution retirement and incentive benefit programs for various groups of Company personnel. Company discretionary contributions, which are determined by the Board of Directors, totaled \$31.8 million, \$26.8 million and \$24 million for 1998, 1997 and 1996, respectively.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

TYSON FOODS, INC.

## NOTE 13: SUPPLEMENTAL INFORMATION

	(IN MILLIONS)		
	1998	1997	1996
Supplemental Cash Flow Information			
Cash paid during the period for:			
Interest	\$159.9	\$123.4	\$114.1
Income taxes	196.9	124.1	40.5

*Supplemental Sales Information:* The Company sells certain of its products in foreign markets, primarily Canada, China, Georgia, Guatemala, Japan, Puerto Rico, Russia and Singapore as well as certain Middle Eastern countries and countries in the Caribbean. The Company's export sales for 1998, 1997 and 1996 totaled \$687 million, \$762.5 million and \$790.9 million, respectively. Substantially all of the Company's export sales are transacted through unaffiliated brokers, marketing associations and foreign sales staffs. Foreign sales were less than 10% of total consolidated sales for 1998, 1997 and 1996, respectively.

## NOTE 14: QUARTERLY FINANCIAL DATA (UNAUDITED)

	(IN MILLIONS EXCEPT PER SHARE DATA)			
1998	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Sales	\$1,520.8	\$1,870.8	\$1,953.6	\$2,068.9
Gross Profit	260.7	268.8	308.4	316.1
Net Income (Loss)	44.9	23.3	46.6	(89.7)
Basic Earnings (Loss) Per Share	0.21	0.10	0.20	(0.39)
Diluted Earnings (Loss) Per Share	0.21	0.10	0.20	(0.39)
1997				
Sales	\$1,527.9	\$1,574.3	\$1,591.2	\$1,662.3
Gross Profit	248.4	262.2	268.0	259.1
Net Income	44.6	48.2	45.2	47.8
Basic Earnings Per Share	0.21	0.22	0.21	0.22
Diluted Earnings Per Share	0.20	0.22	0.21	0.22



## REPORT OF MANAGEMENT

TYSON FOODS, INC.

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

The Company maintains a system of internal accounting controls and a program of internal auditing designed to provide reasonable assurance that the Company's assets are protected and that transactions are executed in accordance with proper authorization, and are properly recorded. This system of internal accounting controls is continually reviewed and modified in response to changing business conditions and operations and to recommendations made by the independent auditors and the internal auditors. During 1998, certain of these controls were reviewed and strengthened. Additionally, the Company has adopted a code of conduct and has hired an experienced full-time compliance officer. The management of the Company believes that the accounting and control systems provide reasonable assurance that assets are safeguarded and financial information is reliable.

The Audit Committee of the Board of Directors meets regularly with the Company's financial management and counsel, with the Company's internal auditors, and with the independent auditors engaged by the Company. These meetings include discussions of internal accounting controls and the quality of financial reporting. The independent auditors and the Internal Audit Department have free and independent access to the Audit Committee to discuss the results of their audits or any other matters relating to the Company's financial affairs.

The accompanying consolidated financial statements have been audited by Ernst & Young LLP, independent auditors.

November 20, 1998



WAYNE BRITT

Chief Executive Officer



STEVEN HANKINS

Executive Vice President and  
Chief Financial Officer

## REPORT OF INDEPENDENT AUDITORS

### BOARD OF DIRECTORS AND SHAREHOLDERS

Tyson Foods, Inc.

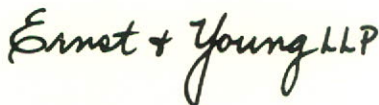
We have audited the accompanying consolidated balance sheets of Tyson Foods, Inc., as of October 3, 1998, and September 27, 1997, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended October 3, 1998. These financial statements 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 Tyson Foods, Inc., at October 3, 1998, and September 27, 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended October 3, 1998, in conformity with generally accepted accounting principles.

Tulsa, Oklahoma

November 20, 1998



## BOARD OF DIRECTORS

TYSON FOODS, INC.



*Don Tyson*



*Joe Starr*



*Neely Cassidy*



*Fred Vorsanger*



*Leland Tollett*



*John Tyson*



*Shelby Massey*



*Barbara Tyson*



*Lloyd Hackley*



*Donald Wray*



*Gerald Johnston*



*Wayne Britt*

DON TYSON, 68, senior chairman of the board of directors, served as chairman of the board until April 1995 when he was named senior chairman. Mr. Tyson served as chief executive officer until March 1991 and has been a member of the board since 1952.<sup>1</sup>

JOE STARR, 65, a private investor, served as a vice president of Tyson until 1996. Mr. Starr has been a member of the board since 1969.

NEELY CASSADY, 70, is chairman of the board of Cassidy Investments, Inc. and served as a senator in the Arkansas General Assembly from 1983 to 1996. Mr. Cassidy has been a member of the board since 1974.<sup>2,3,4</sup>

FRED VORSANGER, 70, is a private business consultant, manager of Bud Walton Arena and vice president emeritus of finance and administration at the University of Arkansas. He is a director of McLroy Bank & Trust Co. of Fayetteville, Ark. Mr. Vorsanger was a city director and mayor of Fayetteville and was a vice president at the U of A from 1968 until 1988. He has been a member of the board since 1977.<sup>2,3,4</sup>

LELAND TOLLETT, 61, retired as chairman and chief executive officer Oct. 1, 1998. He had been chairman of the board since April 1995. He had served as vice chairman, president and chief executive officer since March 1991 and as president and chief operating officer from 1983 until 1991. Mr. Tollett has been a member of the board since 1984.<sup>1</sup>

JOHN TYSON, 45, was named chairman of the board of directors effective Oct. 1, 1998. He had served as vice chairman since 1997. Previously he was president of the beef and pork division and director of governmental, media and public relations. He also has served as vice president and director of engineering/environmental/capital spending, as vice president of marketing/corporate accounts and as special projects manager. Mr. Tyson has been a member of the board since 1984.<sup>1</sup>

SHELBY MASSEY, 65, is a farmer and a private investor. He served as senior vice chairman of the board of directors from 1985 to 1988 and has been a member of the board since 1985.<sup>3,4</sup>

BARBARA TYSON, 49, is vice president of the company. Ms. Tyson has served in related capacities for the past seven years and was previously a regional sales manager in the foodservice division. Ms. Tyson has been a member of the board since 1988.

LOYD HACKLEY, 57, is president and chief executive officer of Lloyd V. Hackley and Associates, Inc. He was president of the North Carolina Community College System from 1995 to 1997 and was chancellor and a tenured professor of political science at Fayetteville State University, Fayetteville, N.C., from 1988 to 1995. Mr. Hackley has been a member of the board since 1992.<sup>2,4</sup>

DONALD WRAY, 61, is president and chief operating officer of Tyson Foods. He has held his current titles since April 1995 after serving as chief operating officer since 1991 and as senior vice president of the sales and marketing division since 1985. Mr. Wray has been a member of the board since 1994.

GERALD JOHNSTON, 55, a private investor, was executive vice president of finance for Tyson from 1981 to 1996 when he stepped down and became a consultant to the company. Mr. Johnston has been a member of the board since 1996.

WAYNE BRITT, 49, was named chief executive officer and was elected to the board of directors of Tyson effective Oct. 1, 1998. In his 26 years with Tyson, Mr. Britt has served as executive vice president and chief financial officer; senior vice president, international division; vice president, wholesale club sales and marketing; secretary-treasurer; controller; cost and budget manager; and complex controller.

<sup>1</sup> Executive Committee

<sup>2</sup> Audit Committee

<sup>3</sup> Compensation Committee

<sup>4</sup> Oversight Committee



## CORPORATE AND OPERATIONAL OFFICERS

TYSON FOODS, INC.

Roy D. Brister  
*Director, Research  
and Nutrition*

Wayne Britt  
*Chief Executive Officer*

Roy Brown  
*President, Seafood Division*

Ellis Brunton  
*Vice President, Research  
and Quality Assurance*

Wayne B. Butler  
*President, Prepared  
Foods Group*

Jim Cate  
*Senior Vice President,  
Specialty Products*

Gary D. Cooper  
*Vice President, Management  
Information Systems*

John D. Copeland  
*Director, Corporate Ethics and  
Compliance*

John H. Curran  
*Senior Vice President,  
Retail Fresh Division*

Gerard A. Dowd  
*Senior Vice President,  
Foodservice Division*

James G. Ennis  
*Vice President, Controller and  
Chief Accounting Officer*

Louis C. Gottsponer, Jr.  
*Assistant Secretary and  
Director of Investor Relations*

Steven Hankins  
*Executive Vice President and  
Chief Financial Officer*

R. Read Hudson  
*Secretary*

Greg Huett  
*Senior Vice President,  
Sales and Marketing —  
Wholesale Club Division*

William P. Jaycox  
*Senior Vice President,  
Human Resources*

Lance E. Jensen  
*Vice President, Strategic  
Project Development*

Carl G. Johnson  
*Vice President, Asset and  
Risk Management*

William F. Kuckuck  
*Senior Vice President,  
International Division*

John S. Lea  
*Senior Vice President,  
Retail Sales and Marketing*

Dennis Leatherby  
*Senior Vice President,  
Finance and Treasurer*

Greg W. Lee  
*Executive Vice President,  
Sales, Marketing and  
Technical Services*

Bob E. Love  
*Vice President, Research  
and Development*

Bill Lovette  
*Senior Vice President,  
Poultry Operations*

Gene A. Lovette  
*Senior Vice President,  
Poultry Operations*

Tim McGovern  
*Vice President, Distribution*

Bill Moeller  
*President, The Pork Group*

David S. Purtle  
*Executive Vice President,  
Operations, Transportation  
and Warehousing*

Archie Schaffer III  
*Director, Media, Public and  
Governmental Affairs*

Dan Serrano  
*Vice President, Human  
Resources Operations*

Donnie Smith  
*Vice President, Purchasing*

John H. Tyson  
*Chairman of the Board  
of Directors*

David L. Van Bebbber  
*Vice President and Director  
of Legal Services*

William E. Whitfield III  
*Vice President, Business  
Development and Analysis*

Donald E. Wray  
*President and Chief  
Operating Officer*

Robert Zimmerman  
*Vice President, Engineering*

## CORPORATE INFORMATION

TYSON FOODS, INC.

### CLOSING PRICE OF COMPANY'S COMMON STOCK

	Fiscal Year 1998		Fiscal Year 1997	
	High	Low	High	Low
First Quarter	\$23.88	\$17.88	\$22.42	\$17.79
Second Quarter	20.81	18.06	23.63	19.88
Third Quarter	24.13	18.94	21.56	17.75
Fourth Quarter	24.44	16.50	23.56	19.00

As of Oct. 3, 1998, the Company had 33,683 Class A common shareholders of record and 17 Class B common shareholders of record.

#### DIRECTSERVICE™ SHAREHOLDER INVESTMENT PROGRAM

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

DirectSERVICE™ Program for Shareholders of Tyson Foods, Inc.  
c/o First Chicago Trust Company  
P.O. Box 2598  
Jersey City, NJ 07303-2598  
1-800-317-4445 (current shareholders)  
1-800-822-7096 (non-shareholders)

#### CHANGE OF ADDRESS

If your Tyson stock is registered in your own name(s), send change of address information to First Chicago Trust Company.

#### MULTIPLE DIVIDEND CHECKS AND DUPLICATE MAILINGS

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

#### LOST OR STOLEN STOCK CERTIFICATES OR LEGAL TRANSFERS

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



## CORPORATE INFORMATION

TYSON FOODS, INC.

### CORPORATE DATA

Tyson Foods, Inc., which employs approximately 70,500 people, is the world's largest fully integrated producer, processor and marketer of chicken and chicken-based food products.

### STOCK EXCHANGE LISTINGS

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

### CORPORATE HEADQUARTERS

2210 West Oaklawn Drive  
Springdale, Arkansas 72762-6999  
Telephone (501) 290-4000

### AVAILABILITY OF FORM 10-K

A copy of the Company's Form 10-K, as filed with the Securities and Exchange Commission for fiscal 1998, may be obtained by Tyson shareholders by writing to:

Director of Investor Relations

Tyson Foods, Inc.

P.O. Box 2020

Springdale, Arkansas 72765-2020

Telephone (501) 290-4826

Fax (501) 290-4061

### ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 10 a.m., January 8, 1999, at the Walton Arts Center, Fayetteville, Arkansas. Shareholders who cannot attend the meeting are urged to exercise their right to vote by proxy.

### GENERAL COUNSEL

James B. Blair, Esq.

3422 North College, Suite 3

Fayetteville, Arkansas 72703

### INDEPENDENT AUDITORS

Ernst & Young LLP

3900 One Williams Center

Tulsa, Oklahoma 74101

### TRANSFER AGENT

First Chicago Trust Company of New York

P.O. Box 2506

Jersey City, New Jersey 07303-2506

1-800-317-4445

Shareholders also may contact First Chicago Trust Company through the Internet at [www.fctc.com](http://www.fctc.com)

### INVESTOR RELATIONS

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

Director of Investor Relations

Tyson Foods, Inc.

P.O. Box 2020

Springdale, Arkansas 72765-2020

Telephone (501) 290-4826

Fax (501) 290-4061

### NEWS RELEASES

News releases and other information concerning Tyson Foods can be faxed by calling PR Newswire at (800) 758-5804, ext. 113769.

### TYSON ON THE INTERNET


Information about Tyson Foods is available on the Internet at [www.tyson.com](http://www.tyson.com)

### LEGAL NOTICE

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



Tyson Foods supports the "Own Your Share of America" campaign, which encourages individuals to invest in common stock.

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