

## ENVIRONMENTAL PERFORMANCE

### WHEREAS:

Our company relies heavily on contract farms for the production of its hogs. In 2003, Smithfield's hogs were produced by 2,542 farms, of which less than one-third were company-owned. While Smithfield currently produces an in-depth, high quality stewardship report covering processing facilities and some aspects of the operation of company-owned farms, it does not report metrics for its contract farms because it views them as independent businesses.

Our company's website notes that, "Through its hog raising and pork processing subsidiaries, the company can exercise complete control over its products—from their genetic lines and nutritional regimen to how they are processed . . . . Vertical integration gives us control over our pork products from squeal to meal." Given Smithfield's admittedly high level of control over the hog production process, we are concerned about the possible environmental liabilities arising from our company's contract farms. As Smithfield's 2003 10-K states, "Hog production facilities generate significant quantities of manure, which must be managed properly to protect public health and the environment."

The United States Environmental Protection Agency has considered imposing liability on integrators like Smithfield for environmental damages occurring on contract farms. Although integrator liability provisions were dropped from the EPA's NPDES Permit Regulation and Effluent Limitation Guidelines for Concentrated Animal Feeding Operations (CAFOs) Final Rule, the EPA has faced pressure to reconsider the omission of this provision.

In a recent ruling that may have national implications, a U.S. District Court ruled that Tyson Foods shared responsibility for pollution stemming from farms owned by contract farmers in Kentucky. An attorney representing local farmers noted that the ruling could potentially subject other CAFOs – such as those for pigs – to similar lawsuits.

We commend Smithfield for the high quality of its 2003 Stewardship Report and its willingness to engage in productive dialogue with concerned shareholders. However, in light of growing pressure to hold integrators responsible for the environmental performance of their contract farms, we are concerned about the long-term sustainability of the company's business model.

We believe that reporting on the environmental impacts of hog production operations carried out on contract farms will provide investors with a better understanding of Smithfield's possible environmental liabilities. Environmental reporting can aid in the identification of trouble spots, signal cost saving opportunities and allow investors to better assess the risks and opportunities associated with Smithfield's business model.

**RESOLVED:** Shareholders request that Smithfield prepare a sustainability report, at reasonable cost and omitting proprietary information, examining the environmental impacts of both company-owned and contract farms. The report should be made available to shareholders by April 2005.

**SUPPORTING STATEMENT:** We believe that the report should include information relating to water usage, significant air emissions, water sources and other ecosystems affected by runoff and discharges, indices of fines for non-compliance associated with environmental issues and the performance of suppliers relative to environmental guidelines and programs currently used by the company. Smithfield may, at its discretion, include this information in its Stewardship Report.