CONAGRA FOODS INC /DE/
Form 10-K
July 25, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended May 27, 2007

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File No. 1-7275

CONAGRA FOODS, INC.

(Exact name of registrant, as specified in its charter)

Delaware	**47-0248710**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
One ConAgra Drive	**68102-5001**

Omaha, Nebraska
(Address of principal executive offices) **(Zip Code)**
Registrant's telephone number, including area code (402) 595-4000

Securities registered pursuant to section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $5.00 par value	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes ¨ No x

The aggregate market value of the voting common stock of ConAgra Foods, Inc. held by non-affiliates on November 26, 2006 was approximately $12,627,257,656 based upon the closing sale price on the New York Stock Exchange on such date.

At June 24, 2007, 489,807,500 common shares were outstanding.

Documents incorporated by reference are listed on page 1.

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Documents Incorporated by Reference

Portions of the Registrant's definitive Proxy Statement filed for Registrant's 2007 Annual Meeting of Stockholders (the 2007 Proxy Statement) are incorporated into Part III.

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PART I

ITEM 1. BUSINESS

a) General Development of Business

ConAgra Foods, Inc. (ConAgra Foods or the Company) is one of North America s leading packaged food companies serving grocery retailers, as well as restaurants and other foodservice establishments. Over time, the Company, which was first incorporated in 1919, has grown through acquisitions, operations, and internal brand and product development.

ConAgra Foods is in the process of implementing operational improvement initiatives that are intended to generate profitable sales growth, improve profit margins, and expand returns on capital over time. Various improvement initiatives focused on marketing, operating efficiency, and business processes have been underway for several years. Senior leadership changes during fiscal 2006 resulted in new strategic and operational priorities.

The Company currently has the following strategies:

- Increased and more focused marketing and innovation investments.
- Sales growth initiatives focused on penetrating the fastest growing channels, better return on customer trade arrangements, and optimal shelf placement for the Company s most profitable products.
- Reducing costs throughout the supply chain and the general and administrative functions.
- Portfolio changes: The Company has divested non-core operations that have limited the Company s ability to achieve its efficiency targets.

Changes to the Company s portfolio have been ongoing for several years in support of the Company s efforts to focus on higher-margin, branded, and value-added businesses. For example, during fiscal 2005, the Company completed the divestitures of its UAP International business, minority equity investment in Swift Foods and cattle feeding assets, specialty meats foodservice business, and Portuguese poultry business. These followed other divestitures prior to fiscal 2005, including the Company s chicken business, U.S. and Canadian crop inputs businesses of United Agri Products (UAP North America), Spanish feed business, canned seafood operations, and specialty cheese operations.

During fiscal 2006, the Company identified several operations as non-core, including Cook s Ham, seafood, packaged meats and cheese, oat milling, and refrigerated pizza. During 2006, the Company completed the divestitures of its Cook s Ham and its seafood operations. During the first half of fiscal 2007, the Company completed the divestitures of its packaged meats business, packaged cheese business, oat milling business, and the refrigerated pizza business.

Also in fiscal 2006, the Company began to implement a restructuring plan that is expected to be substantially complete by the end of fiscal 2008. In connection with this plan, the Company has incurred approximately $233 million of costs through May 27, 2007. The categories of events leading to costs have included reducing headcount, closing facilities, and writing-down assets. The forecasted cost of the plan is approximately $257 million, before tax. The restructuring plan costs, as well as costs incurred by the Company to implement operational improvements or otherwise from time to time (e.g., to retire debt, resolve legal disputes), impact the comparability of operating results.

b) Financial Information about Reporting Segments

The contributions of each reporting segment to net sales and operating profit, and the identifiable assets attributable to each reporting segment are set forth in Note 19 Business Segments and Related Information to the consolidated financial statements.

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c) Narrative Description of Business

The Company principally competes throughout the food industry and focuses on adding value for customers who operate in the retail food, foodservice, and ingredients channels.

ConAgra Foods operations, including its reporting segments, are described below. The ConAgra Foods locations, including distribution facilities, within each reporting segment, are described in Item 2.

Consumer Foods

The Consumer Foods reporting segment includes branded, private label, and customized food products which are sold in various retail and foodservice channels. The products include a variety of categories (meals, entrees, condiments, sides, snacks, and desserts) across frozen, refrigerated and shelf-stable temperature classes.

Major brands include Chef Boyardee®, Healthy Choice®, Marie Callender s®, Orville Redenbacher s®, Slim Jim®, Hebrew National®, Kid Cuisine®, Reddi-Wip®, VanCamp®, Libby s®, LaChoy®, The Max®, Manwich®, David s®, Ro*Tel®, Angela Mia®, Hunt s®, Wesson®, Act II®, Snack Pack®, Swiss Miss®, PAM®, Egg Beaters®, Blue Bonnet®, Parkay®, and Rosarita®.

Food and Ingredients

The Food and Ingredients reporting segment includes commercially branded foods and ingredients, which are sold principally to foodservice, food manufacturing, and industrial customers. The segment s primary products include specialty potato products, milled grain ingredients, dehydrated vegetables and seasonings, blends and flavors which are sold under brands such as ConAgra Mills®, Lamb Weston®, Gilroy Foods®, and Spicetec® to food processors.

Trading and Merchandising

The Trading and Merchandising reporting segment includes the sourcing, merchandising, trading, marketing, and distribution of agricultural and energy commodities.

International Foods

The International Foods reporting segment includes branded food products which are sold principally in retail channels in North America, Europe, and Asia. The products include a variety of categories (meals, entrees, condiments, sides, snacks, and desserts) across frozen, refrigerated, and shelf-stable temperature classes. Major brands include Orville Redenbacher s®, Act II®, Snack Pack®, Chef Boyardee®, Hunt s®, and PAM®.

Unconsolidated Equity Investments

The Company has a number of unconsolidated equity investments. The most significant equity investments are involved in potato processing. The Company completed the disposition of its equity method investment in a malt venture during fiscal 2007. The Company divested its minority equity interest investment in a fresh beef and pork joint venture in fiscal 2005.

Discontinued Operations

During the third quarter of fiscal 2006, the Company announced that it would divest substantially all of its packaged meats and cheese operations. The Company finalized the dispositions of these businesses during the first half of fiscal 2007, and accordingly, the Company reflects the results of these businesses as discontinued operations for all periods presented.

During the first quarter of fiscal 2007, the Company decided to discontinue the production of certain branded deli meat products concurrent with the disposition of the packaged meats business, discussed above. Accordingly, the Company has reclassified the results of operations associated with this branded deli meats business to discontinued operations for all periods presented.

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During the fourth quarter of fiscal 2006, the Company completed its divestiture of its Cook s Ham business and the divestiture of its seafood operations. Accordingly, the Company reflects the results of these businesses as discontinued operations for all periods presented. The assets and liabilities divested are now classified as assets and liabilities held for sale within the Company s consolidated balance sheets for all periods presented.

The major brands in discontinued operations include Cook s®, Louis Kemp®, Decker®, Singleton®, Butterball®, Eckrich®, Armour®, Ready Crisp®, and Margherita®.

During the third quarter of fiscal 2006, the Company initiated a plan to dispose of a refrigerated pizza business with annual revenues of less than $70 million. The Company disposed of this business during the second quarter of fiscal 2007. Due to the Company s expected significant continuing cash flows associated with this business, the Company continues to include the results of operations of this business in continuing operations. The assets and liabilities of this business are classified as assets and liabilities held for sale in the consolidated balance sheets for all periods prior to the sale.

During the second quarter of fiscal 2007, the Company completed the disposal of an oat milling business. Due to the Company s expected significant continuing cash flows associated with this business, the results of operations of this business are included in continuing operations for all periods presented. The assets and liabilities of this business are classified as assets and liabilities held for sale in the consolidated balance sheets for all periods prior to the sale.

During the first quarter of fiscal 2007, the Company completed the divestiture of its nutritional supplement business. The Company reflected the gain within discontinued operations.

During fiscal 2005, the Company completed the divestitures of its UAP International and Portuguese poultry businesses. Also in fiscal 2005, the Company implemented a plan to exit the specialty meats foodservice business. In connection with this exit plan, the Company closed a manufacturing facility in Alabama, sold its operations in California, and, in the first quarter of fiscal 2006, completed the sale of its operations in Illinois. During fiscal 2004, the Company completed the divestitures of its chicken business, its U.S. and Canadian crop inputs businesses (UAP North America) and its Spanish feed business. Accordingly, the results of operations of the chicken business, UAP North America, UAP International, the Spanish feed business and Portuguese poultry business, and the specialty meats foodservice business are reflected in discontinued operations for all periods presented. Beginning September 24, 2004, the results of operations of the cattle feeding business are presented in discontinued operations.

General

The following comments pertain to each of the Company s reporting segments.

ConAgra Foods is a food company that operates principally in many sectors of the food industry, with a significant focus on the sale of branded and value-added consumer products. ConAgra Foods uses many different raw materials, the bulk of which are commodities. The prices paid for raw materials used in the products of ConAgra Foods generally reflect factors such as weather, commodity market fluctuations, currency fluctuations, tariffs, and the effects of governmental agricultural programs. Although the prices of raw materials can be expected to fluctuate as a result of these factors, the Company believes such raw materials to be in adequate supply and generally available from numerous sources. The Company has faced increased costs for many of its significant raw materials, packaging, and energy inputs. Inflationary pressures negatively impacted fiscal 2006 results, but had less of an impact in fiscal 2005. The Company s productivity and pricing initiatives in fiscal 2007 effectively mitigated the impact of inflation. However, the Company expects inflation in fiscal 2008 to exceed recent levels. When appropriate, the Company uses long-term purchase contracts, futures, and options to reduce the volatility of certain raw materials costs.

The Company experiences intense competition for sales of its principal products in its major markets. The Company s products compete with widely advertised, well-known, branded products, as well as private label and customized products. Some of the Company s competitors are larger and have greater resources than the Company. The Company has major competitors in each of its reporting segments. The Company competes primarily on the bases of quality, value, customer service, brand recognition, and brand loyalty.

Quality control processes at principal manufacturing locations emphasize applied research and technical services directed at product improvement and quality control. In addition, the Company conducts research activities related to the development of new products. Research and development expense was $68 million, $54 million, and $64 million in fiscal 2007, 2006, and 2005, respectively.

Demand for certain of the Company s products may be influenced by holidays, changes in seasons, or other annual events.

The Company manufactures primarily for stock and fills customer orders from finished goods inventories. While at any given time there may be some backlog of orders, such backlog is not material in respect to annual net sales, and the changes from time to time are not significant.

The Company s trademarks are of material importance to its business and are protected by registration or other means in the United States and most other markets where the related products are sold. Some of the Company s products are sold under brands that have been licensed from others. The Company also actively develops and maintains a portfolio of patents, although no single patent is considered significant to the business as a whole. The Company has proprietary trade secrets, technology, know-how, processes, and other intellectual property rights that are not registered.

Many of ConAgra Foods facilities and products are subject to various laws and regulations administered by the United States Department of Agriculture, the Federal Food and Drug Administration, and other federal, state, local, and foreign governmental agencies relating to the quality of products, sanitation, safety, and environmental control. The Company believes that it complies with such laws and regulations in all material respects, and that continued compliance with such regulations will not have a material effect upon capital expenditures, earnings, or the competitive position of the Company.

The Company s largest customer, Wal-Mart Stores, Inc. and its affiliates, accounted for approximately 13%, 12%, and 11% of consolidated net sales for fiscal 2007, 2006, and 2005, respectively, primarily in the Consumer Foods segment.

At May 27, 2007, ConAgra Foods and its subsidiaries had approximately 24,500 employees, primarily in the United States. Approximately 13,000 of the Company s employees are parties to collective bargaining agreements. The collective bargaining agreements to which approximately 5,000 of the Company s employees are parties are scheduled to expire during fiscal 2008.

d) Foreign Operations

Foreign operations information is set forth in Note 19 Business Segments and Related Information to the consolidated financial statements.

e) Available Information

The Company makes available, free of charge through the Investors link on its Internet web site at http://www.conagrafoods.com, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. The Company submitted the annual Chief Executive Officer certification to the NYSE for its 2006 fiscal year as required by Section 303A.12(a) of the NYSE Corporate Governance rules.

The Company has also posted on its website its (1) Corporate Governance Principles, (2) Code of Conduct, (3) Code of Ethics for Senior Corporate Officers, and (4) charters for the Audit Committee, Corporate Governance Committee, Human Resources Committee, and Nominating Committee. Shareholders may also obtain copies of these items at no charge by writing to: Corporate Secretary, ConAgra Foods, Inc., One ConAgra Drive, Omaha, NE, 68102-5001.

ITEM 1A. RISK FACTORS

The following factors could affect the Company s operating results and should be considered in evaluating the Company.

The Company must identify changing consumer preferences and develop and offer food products to meet their preferences.

Consumer preferences evolve over time and the success of the Company s food products depends on the Company s ability to identify the tastes and dietary habits of consumers and to offer products that appeal to their preferences. Introduction of new products and product extensions requires significant development and marketing investment. If the Company s products fail to meet consumer preference, then the return on that investment will be less than anticipated and the Company s strategy to grow sales and profits with investments in core product lines will be less successful.

If the Company does not achieve the appropriate cost structure in the highly competitive food industry, its profitability could decrease.

The Company s success depends in part on its ability to achieve the appropriate cost structure and be efficient in the highly competitive food industry. The Company is currently implementing profit-enhancing initiatives that impact its supply chain and general and administrative functions. These initiatives are focused on cost savings opportunities in procurement, manufacturing, logistics, and customer service, as well as general and administrative overhead levels. If the Company does not continue to manage costs and achieve additional efficiencies, its competitiveness and its profitability could decrease.

Increased competition may result in reduced sales or margin for the Company.

The food industry is highly competitive, and increased competition can reduce sales for the Company due to loss of market share or the need to reduce prices to respond to competitive and customer pressures. Competitive pressures also may restrict the Company s ability to increase prices, including in response to commodity and other cost increases. The Company s profit margins could decrease if a reduction in prices or increased costs are not counterbalanced with increased sales volume.

The consolidation of the Company s customers has resulted in large sophisticated customers with increased buying power.

The Company s customers, such as supermarkets, warehouse clubs, and food distributors, have consolidated in recent years and consolidation is expected to continue. These consolidations have produced large, sophisticated customers with increased buying power and negotiating strength who are more capable of resisting price increases and operating with reduced inventories. These customers may also in the future use more of their shelf space, currently used for Company products, for their private label products. The Company is implementing initiatives to counteract these pressures, however, if the larger size of these customers results in additional negotiating strength and/or increased private label competition, the Company s profitability could decline.

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The Company may be subject to product liability claims and product recalls, which could negatively impact its profitability.

The Company sells food products for human consumption, which involves risks such as product contamination or spoilage, product tampering, and other adulteration of food products. The Company may be subject to liability if the consumption of any of its products causes injury, illness, or death. In addition, the Company will voluntarily recall products in the event of contamination or damage. In the past, the Company has issued recalls and has from time to time been involved in lawsuits relating to its food products. A significant product liability judgment or a widespread product recall may negatively impact the Company s sales and profitability for a period of time depending on product availability, competitive reaction, and consumer attitudes. Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that Company products caused illness or injury could adversely affect the Company s reputation with existing and potential customers and its corporate and brand image. For example, during the third quarter of fiscal 2007, the Company initiated a voluntary recall of all varieties of peanut butter manufactured at its Sylvester, Georgia plant. The costs of the recall negatively impacted net sales, gross margin, and operating profit in the Consumer Foods and International Foods segments in fiscal 2007, and the Company expects ongoing impacts to its business into early fiscal 2008. A number of lawsuits and claims related to the recalled product have been filed against the Company.

If the Company fails to comply with the many laws applicable to its business, it may incur significant fines and penalties.

The Company s facilities and products are subject to many laws and regulations administered by the United States Department of Agriculture, the Federal Food and Drug Administration, and other federal, state, local, and foreign governmental agencies relating to the processing, packaging, storage, distribution, advertising, labeling, quality, and safety of food products. The Company s failure to comply with applicable laws and regulations could subject it to administrative penalties and injunctive relief, civil remedies, including fines, injunctions, and recalls of its products. The Company s operations are also subject to extensive and increasingly stringent regulations administered by the Environmental Protection Agency, which pertain to the discharge of materials into the environment and the handling and disposition of wastes. Failure to comply with these regulations can have serious consequences, including civil and administrative penalties and negative publicity.

Volatility in commodity prices may have a negative impact on profits.

The Company uses and trades many different commodities such as wheat, corn, oats, soybeans, beef, pork, poultry, and energy. Commodities are subject to price volatility caused by commodity market fluctuations, supply and demand, currency fluctuations, and changes in governmental agricultural programs. Commodity price increases will result in increases in raw material costs and operating costs. The Company may not be able to increase its product prices to offset these increased costs; and increasing prices may result in reduced sales volume and profitability. In the Company s trading operations, the Company may not be able to successfully capitalize from the volatility. The Company has many years experience in hedging against commodity price increases and trading in commodities; however, these practices and experience reduce but do not eliminate the risk of negative profit impacts from commodity price increases.

The Company s information technology resources must provide efficient connections between its business functions, or its results of operations will be negatively impacted.

Each year the Company engages in several billion dollars of transactions with its customers and vendors. Because the amount of dollars involved is so significant, the Company s information technology resources must provide connections among its marketing, sales, manufacturing, logistics, customer service, and accounting functions. If the Company does not allocate and effectively manage the resources necessary to build and sustain the proper technology infrastructure and to maintain the related computerized and manual control processes, it could be subject to billing and collection errors, business disruptions, or damage resulting from security breaches.

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In 2005, in connection with its implementation of *Project Nucleus*, the Company s information technology- linking initiative, the Company had short-term operational challenges during the third quarter of fiscal 2005. The Company is currently implementing new financial and operational information technology systems, which will be placed into production at various times in fiscal 2008 and 2009. If future implementation problems are encountered, the Company s results of operations could be negatively impacted.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company s headquarters are located in Omaha, Nebraska. In addition, certain shared service centers are located in Omaha, Nebraska, including a product development facility, supply chain center, financial service center, and information technology center. The general offices and location of principal operations are set forth in the following summary of ConAgra Foods locations.

The Company maintains a number of stand-alone distribution facilities. In addition, there is warehouse space available at substantially all of the Company s manufacturing facilities.

Utilization of manufacturing capacity varies by manufacturing plant based upon the type of products assigned and the level of demand for those products. Management believes that the Company s manufacturing and processing plants are well maintained and are generally adequate to support the current operations of the business.

The Company owns most of the manufacturing facilities. However, a limited number of plants and parcels of land with the related manufacturing equipment are leased. Substantially all of ConAgra Foods transportation equipment and forward-positioned distribution centers and most of the storage facilities containing finished goods are leased.

Information about the properties supporting each business segment follows.

CONSUMER FOODS REPORTING SEGMENT

General offices in Omaha, Nebraska, Edina, Minnesota, and Naperville, Illinois.

Forty-four manufacturing facilities in Arkansas, California, Georgia, Illinois, Indiana, Iowa, Massachusetts, Michigan, Minnesota, Missouri, North Carolina, Ohio, Oregon, Pennsylvania, Tennessee, Texas, and Wisconsin; and one manufacturing facility in Arroyo Dulce, Argentina.

FOOD AND INGREDIENTS REPORTING SEGMENT

Domestic general, marketing, and administrative offices in Omaha, Nebraska, Eagle, Idaho, and Tri-Cities, Washington. International general and merchandising offices in China, Japan, and Singapore.

Fifty-one domestic production facilities (including two 50% owned facilities) in Alabama, California, Colorado, Florida, Georgia, Idaho, Illinois, Iowa, Minnesota, Nebraska, New Jersey, New Mexico, Nevada, North Carolina, Ohio, Oregon, Pennsylvania, Texas, Utah, Washington, and Wisconsin; one international production facility in Puerto Rico; one manufacturing facility in Canada; one manufacturing facility in the United Kingdom (50% owned); and three manufacturing facilities in The Netherlands (50% owned).

TRADING AND MERCHANDISING SEGMENT

Domestic general, merchandising, and administrative offices in Omaha, Nebraska, Tulsa, Oklahoma, and Savannah, Georgia. International general and merchandising offices in Canada, Mexico, Italy, Brazil, the United Kingdom, Switzerland, Hong Kong, and Australia.

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Seventy-three domestic production facilities and sixty-one domestic storage facilities (including one 45% owned facility) in California, Colorado, Delaware, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, New Mexico, New York, North Carolina, North Dakota, Ohio, Oklahoma, Tennessee, Texas, Virginia, Washington, and Wisconsin.

INTERNATIONAL FOODS REPORTING SEGMENT

General offices in Toronto, Canada, Mexico City, Mexico, San Juan, Puerto Rico, and Shanghai, China.

Four international manufacturing facilities in Canada, Mexico, and the United Kingdom.

ITEM 3. LEGAL PROCEEDINGS

In fiscal 1991, the Company acquired Beatrice Company (Beatrice). As a result of the acquisition and the significant pre-acquisition contingencies of the Beatrice businesses and its former subsidiaries, the consolidated post-acquisition financial statements of the Company reflect liabilities associated with the estimated resolution of these contingencies. These include various litigation and environmental proceedings related to businesses divested by Beatrice prior to its acquisition by the Company. The litigation includes several public nuisance and personal injury suits against a number of lead paint and pigment manufacturers, including ConAgra Grocery Products and the Company as alleged successors to W. P. Fuller Co., a lead paint and pigment manufacturer owned and operated by Beatrice until 1967. Although decisions favorable to the Company have been rendered in Rhode Island, New Jersey, and Wisconsin, the Company remains a defendant in active suits in Illinois, Ohio, and California. The Illinois suit seeks class-wide relief in the form of medical monitoring for elevated levels of lead in blood. The State of Ohio and several of its municipalities seek abatement of the alleged nuisance and unspecified damages. In California, a number of cities and counties have joined in a consolidated action seeking abatement of the alleged public nuisance.

The environmental proceedings include litigation and administrative proceedings involving Beatrice s status as a potentially responsible party at 36 Superfund, proposed Superfund, or state-equivalent sites; these sites involve locations previously owned or operated by predecessors of Beatrice that used or produced petroleum, pesticides, fertilizers, dyes, inks, solvents, PCBs, acids, lead, sulfur, tannery wastes, and/or other contaminants. Beatrice has paid or is in the process of paying its liability share at 34 of these sites. Reserves for these matters have been established based on the Company s best estimate of its undiscounted remediation liabilities, which estimates include evaluation of investigatory studies, extent of required cleanup, the known volumetric contribution of Beatrice and other potentially responsible parties, and its experience in remediating sites. The reserves for Beatrice environmental matters totaled $98.9 million as of May 27, 2007, a majority of which relates to the Superfund and state equivalent sites referenced above. Expenditures for these matters are expected to continue for a period of up to 20 years.

On June 22, 2001, the Company filed an amended annual report on Form 10-K for the fiscal year ended May 28, 2000. The filing included restated financial information for fiscal years 1997, 1998, 1999, and 2000. The restatement, due to accounting and conduct matters at United Agri Products, Inc. (UAP), a former subsidiary, was based upon an investigation undertaken by the Company and the Audit Committee of its Board of Directors. The restatement was principally related to revenue recognition for deferred delivery sales and vendor rebates, advance vendor rebates, and bad debt reserves. The SEC issued a formal order of nonpublic investigation dated September 28, 2001. The Company cooperated with the SEC investigation, which related, to the UAP matters described above, as well as other aspects of the Company s financial statements, including the level and application of certain of the Company s reserves.

On April 29, 2005, the Company filed an amended annual report on Form 10-K for the fiscal year ended May 30, 2004 and amended quarterly reports on Form 10-Q for the quarters ended August 29, 2004 and November 28, 2004 (the April 2005 restatement). The filings included restated financial information for fiscal

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years 2002, 2003, 2004, and the first two quarters of fiscal 2005. The restatement related to tax matters. The Company provided information to the SEC Staff relating to the facts and circumstances surrounding the restatement.

On July 28, 2006, the Company filed an amendment to its annual report on Form 10-K for the fiscal year ended May 29, 2005. The filing amended Item 6. Selected Financial Data and Exhibit 12, Computation of Ratios of Earnings to Fixed Charges, for fiscal year 2001, and certain restated financial information for fiscal years 1999 and 2000, all related to the application of certain of the Company s reserves for the three years and fiscal year 1999 income tax expense. The Company provided information to the SEC Staff relating to the facts and circumstances surrounding the amended filing.

The Company reached an agreement with the SEC Staff concerning matters associated with these amended filings. That proposed settlement was approved by the Securities and Exchange Commission on July 17, 2007. On July 24, 2007, the SEC filed its Complaint against the Company in the United States District Court for the District of Colorado, followed by an executed Consent, which without the Company admitting or denying the allegations of the Complaint, reflects the terms of the settlement, including payment by the Company of a civil penalty of $45 million and the Company s agreement to be permanently enjoined from violating certain provisions of the federal securities laws. Additionally, the Company made approximately $2 million in indemnity payments on behalf of former employees concluding separate settlements with the SEC. The Company recorded charges of $25 million in fiscal 2004, $21.5 million in the third quarter of fiscal 2005, and $1.2 million in the first quarter of fiscal 2007 in connection with the expected settlement of these matters.

Three purported class actions were filed in United States District Court for Nebraska, *Rantala v. ConAgra Foods, Inc., et. al.*, Case No. 805CV349, and *Bright v. ConAgra Foods, Inc., et. al.*, Case No. 805CV348 on July 18, 2005, and *Boyd v. ConAgra Foods, Inc., et. al.*, Case No. 805CV386 on August 8, 2005. The lawsuits are against the Company, its directors and its employee benefits committee on behalf of participants in the Company s employee retirement income savings plans. The lawsuits allege violations of the Employee Retirement Income Security Act (ERISA) in connection with the events resulting in the Company s April 2005 restatement of its financial statements and related matters. The Company has reached a settlement with the plaintiffs in these actions subject to court approval. The settlement includes a $4 million payment, most of which will be paid by an insurer. The Company has also agreed to make certain prospective changes to its benefit plans as part of the settlement.

The Company is party to numerous lawsuits (including putative class action lawsuits) and claims related to the February 2007 recall of its peanut butter products. The Company believes that the ultimate resolution of these lawsuits and claims will not have a material adverse effect on the Company s financial condition, results of operations, or liquidity. On June 28, 2007, officials from the Food and Drug Administration s Office of Criminal Investigations executed a search warrant at the Company s peanut butter manufacturing facility in Sylvester, Georgia, which had been closed since the initiation of the recall, to obtain a variety of records and information relating to plant operations. The Company is cooperating with officials in regard to the investigation.

The Company is party to a number of lawsuits and claims arising out of the operation of its business.

After taking into account liabilities recorded for all of the foregoing matters, management believes the ultimate resolution of such matters should not have a material adverse effect on the Company s financial condition, results of operations, or liquidity.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

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EXECUTIVE OFFICERS OF THE REGISTRANT AS OF JULY 25, 2007

Name	Title & Capacity	Age	Year First Appointed an Executive Officer
Gary M. Rodkin	President and Chief Executive Officer	55	2005
Robert F. Sharpe, Jr.	Executive Vice President, Legal and External Affairs	55	2005
Andre J. Hawaux	Executive Vice President, Chief Financial Officer	46	2006
Owen C. Johnson	Executive Vice President, Chief Administrative Officer	61	1998
Joan K. Chow	Executive Vice President, Chief Marketing Officer	47	2007
John F. Gehring	Senior Vice President, Corporate Controller	46	2004
Christopher W. Klinefelter	Vice President, Investor Relations	40	2001
Scott E. Messel	Senior Vice President, Treasurer and Assistant Corporate Secretary	48	2001
J. Mark Warner	Vice President, Internal Audit	41	2006

The foregoing executive officers have held the specified positions with ConAgra Foods for the past five years, except as follows:

Gary M. Rodkin joined ConAgra Foods as President and Chief Executive Officer in October 2005. Prior to joining the Company, he was Chairman and Chief Executive Officer of PepsiCo Beverages and Foods North America (a division of PepsiCo, Inc., a global snacks and beverages company) from February 2003 to June 2005. He was named President and Chief Executive Officer of PepsiCo Beverages and Foods North America in 2002. Prior to that, he was President and Chief Executive Officer of Pepsi-Cola North America from 1999 to 2002, and President of Tropicana North America from 1995 to 1998.

Robert F. Sharpe, Jr. joined ConAgra Foods in November 2005 as Executive Vice President, Legal and Regulatory Affairs. In December 2005, he was named Executive Vice President, Legal and External Affairs. He also served as Corporate Secretary from May 2006 until September 2006. From 2002 until joining ConAgra Foods, he was a partner at the Brunswick Group LLC (an international financial public relations firm). Prior to that, he served as Senior Vice President, Public Affairs, Secretary and General Counsel for PepsiCo, Inc. from 1998 to 2002.

Andre J. Hawaux joined ConAgra Foods in November 2006 as Executive Vice President, Chief Financial Officer. From May 2005 until joining ConAgra Foods, Mr. Hawaux served as Senior Vice President, Worldwide Strategy & Corporate Development, PepsiAmericas, Inc. (a manufacturer and distributor of a broad portfolio of beverage products). Previously, from 2000 until May 2005, Mr. Hawaux served as Vice President and Chief Financial Officer for Pepsi-Cola North America.

Owen C. Johnson joined ConAgra Foods as Senior Vice President, Human Resources and Administration in June 1998, was named Executive Vice President in 2001, and Executive Vice President, Organization and Administration and Corporate Secretary in May 2004. In May 2006, he was named Executive Vice President and Chief Administrative Officer. On July 31, 2007, Mr. Johnson will cease to be an executive officer as he transitions to retirement.

Joan K. Chow joined ConAgra Foods in February 2007 as Executive Vice President, Chief Marketing Officer. Prior to joining ConAgra Foods, she served Sears Holding Corporation (retailing) as Senior Vice President and Chief Marketing Officer, Sears Retail from July 2005 until January 2007 and as Vice President, Marketing Services from April 2005 until July 2005. From 2002 until April 2005, Ms. Chow served Sears, Roebuck and Co. (retailing) as Vice President, Home Services Marketing.

John F. Gehring joined ConAgra Foods in 2002 as Vice President of Internal Audit and became Senior Vice President in 2003. In July 2004, Mr. Gehring was named to his current position. Prior to ConAgra Foods, he was a partner at Ernst and Young LLP (an accounting firm) from 1997 to 2001.

Scott E. Messel joined ConAgra Foods in August 2001 as Vice President and Treasurer, and in July 2004 was named to his current position.

J. Mark Warner joined ConAgra Foods in July 2004. Prior to then, he was a partner with KPMG LLP (an accounting firm) from May 2002. Before that, he was with Arthur Andersen LLP (an accounting firm) from 1987 to 2002, in various roles, lastly as a Managing Partner.

OTHER SIGNIFICANT EMPLOYEES OF THE REGISTRANT AS OF JULY 25, 2007

Name	Title & Capacity	Age	Year First Appointed to Current Office
R. Dean Hollis	President and Chief Operating Officer, ConAgra Consumer Foods Group	47	2006
Gregory A. Heckman	President and Chief Operating Officer, ConAgra Commercial Products Group	45	2006
James H. Hardy, Jr.	Executive Vice President, Product Supply	47	2006
Albert D. Bolles	Executive Vice President, Research & Development, and Quality	49	2006
Douglas A. Knudsen	President, Sales	52	2006
Peter M. Perez	Executive Vice President, Human Resources	53	2007
King T. Pouw	Executive Vice President, Business Transformation	55	2007

R. Dean Hollis joined the Company in 1987. He was named President and Chief Operating Officer of ConAgra Frozen Foods in March 2000. In February 2005, he was named Executive Vice President, ConAgra Retail Foods Group, and to his current position in March 2006.

Gregory A. Heckman joined the Company in 1984. He served as President and Chief Operating Officer, ConAgra Trade Group from 1998 to 2001, and was named President and Chief Operating Officer, ConAgra Agricultural Products Company in 2002. He was named President and Chief Operating Officer, ConAgra Foods Ingredients Group in early 2003, and to his current position in March 2006.

James H. Hardy, Jr. joined ConAgra Foods in June 2005 as Senior Vice President, Enterprise Manufacturing, and in December 2005 was named to his current position. He served as Vice President, Product Supply for Clorox Company (a diversified consumer products company) from 2001 to 2005.

Albert D. Bolles joined ConAgra Foods in March 2006 as Executive Vice President, Research & Development, and Quality. Prior to joining the Company, he was Senior Vice President, Worldwide Research and Development for PepsiCo Beverages and Foods from 2002 to 2006. From 1993 to 2002, he was Senior Vice President, Global Technology and Quality and Chief Technical Officer for Tropicana Products Incorporated.

Douglas A. Knudsen joined ConAgra Foods in 1977. He was named to his current position in May 2006. He previously served the Company as President, Retail Sales Development from 2003 to 2006, President, Retail Sales from 2001 to 2003, and President, Grocery Product Sales from 1995 to 2001.

Peter M. Perez joined ConAgra Foods as Senior Vice President, Human Resources in December 2003 and was named to his current position in June 2007. He was Senior Vice President, Human Resources of Pepsi Bottling from 1995 to 2000, Chief Human Resources Officer for Alliant Foodservice (a wholesale food distributor) in 2001, and Senior Vice President Human Resources of W.W. Granger (a supplier of facilities maintenance and other products) from 2001 to 2003. Effective July 31, 2007, Mr. Perez will become an executive officer of the Company.

King T. Pouw joined ConAgra Foods as Senior Vice President, Business Transformation in March 2006 from Kellogg Company (a manufacturer and marketer of food products), where he was Executive Vice President, Operations & Technology from 2001 to 2004. He was named to his current position in June 2007.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, AND RELATED STOCKHOLDER MATTERS

ConAgra Foods common stock is listed on the New York Stock Exchange where it trades under the ticker symbol: CAG. At June 24, 2007, there were approximately 28,000 shareholders of record.

Quarterly sales price and dividend information is set forth in Note 20 Quarterly Financial Data (Unaudited) to the consolidated financial statements and incorporated herein by reference.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table presents the total number of shares purchased during the fourth quarter of fiscal 2007, the average price paid per share, the number of shares that were purchased as part of a publicly announced repurchase program, and the approximate dollar value of the maximum number of shares that may yet be purchased under the share repurchase program:

Period	Total Number of Shares (or Units) Purchased (1)	Average Price Paid per Share (or Unit)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number (or Approximate Dollar Value) of Shares that may yet be Purchased under the Program (2)
February 26 through March 25, 2007				$ 302,500,000
March 26 through April 22, 2007		$ 24.82	4,194,900	$ 198,400,000
April 23 through May 27, 2007	3,435	$ 24.93	4,422,488	$ 88,100,000
Total Fiscal 2007 Fourth Quarter	3,435	$ 24.88	8,617,388	$ 88,100,000

(1) Amounts represent shares delivered to the Company to pay the exercise price under stock options or to satisfy tax withholding obligations upon the exercise of stock options or vesting of restricted shares.

(2) Pursuant to the share repurchase plan originally announced on December 4, 2003 of up to $1 billion and subsequently increased to up to $1.5 billion on September 28, 2006, the Company has repurchased approximately 55 million shares at a cost of $1.4 billion through May 27, 2007 as part of this plan. The Company intends to repurchase shares periodically depending on market conditions and may make purchases in the open market or through privately negotiated transactions. The program has no expiration date.

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ITEM 6. SELECTED FINANCIAL DATA

FOR THE FISCAL YEARS ENDED MAY **Dollars in millions, except per share amounts**	**2007**	**2006**	**2005**	**2004**	**2003**
Net sales [1]	$ 12,028.2	$ 11,482.0	$ 11,383.8	$ 10,794.3	$ 13,253.6
Income from continuing operations before cumulative effect of changes in accounting [1]	$ 683.8	$ 589.3	$ 558.7	$ 520.8	$ 545.8
Net income	$ 764.6	$ 533.8	$ 641.5	$ 811.3	$ 763.8
Basic earnings per share:					
Income from continuing operations before cumulative effect of changes in accounting [1]	$ 1.36	$ 1.14	$ 1.08	$ 0.99	$ 1.03
Net income	$ 1.52	$ 1.03	$ 1.24	$ 1.54	$ 1.44
Diluted earnings per share:					
Income from continuing operations before cumulative effect of changes in accounting [1]	$ 1.35	$ 1.13	$ 1.07	$ 0.98	$ 1.03
Net income	$ 1.51	$ 1.03	$ 1.23	$ 1.53	$ 1.44
Cash dividends declared per share of common stock	$ 0.7200	$ 0.9975	$ 1.0775	$ 1.0275	$ 0.9775
At Year-End					
Total assets	$ 11,835.5	$ 11,970.4	$ 13,042.8	$ 14,310.5	$ 15,185.6
Senior long-term debt (noncurrent) [1, 2]	$ 3,220.0	$ 2,754.8	$ 3,949.1	$ 4,878.4	$ 4,632.2
Subordinated long-term debt (noncurrent)	$ 200.0	$ 400.0	$ 400.0	$ 402.3	$ 763.0
Preferred securities of subsidiary company [2]	$	$	$	$	$ 175.0

[1] Amounts exclude the impact of discontinued operations of the former Agricultural Products segment, the chicken business, the feed businesses in Spain, the poultry business in Portugal, the specialty meats foodservice business, the packaged meats and cheese businesses, the seafood business, and the Cook s Ham business.

[2] 2004 amounts reflect the adoption of FIN 46R, *Consolidation of Variable Interest Entities,* which resulted in increasing long-term debt by $419 million, increasing other noncurrent liabilities by $25 million, increasing property, plant and equipment by $221 million, increasing other assets by $46 million, and decreasing preferred securities of subsidiary company by $175 million.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion and analysis is intended to provide a summary of significant factors relevant to the Company s financial performance and condition. The discussion should be read together with the Company s financial statements and related notes in Item 8, Financial Statements and Supplementary Data. Results for the fiscal year ended May 27, 2007 are not necessarily indicative of results that may be attained in the future.

Executive Overview

ConAgra Foods, Inc. (NYSE: CAG) is one of North America s leading packaged food companies, serving grocery retailers, as well as restaurants and other foodservice establishments. Popular ConAgra Foods consumer brands include: *Banquet*®, *Chef Boyardee*®, *Egg Beaters*®*, Healthy Choice*®, *Hebrew National*®, *Hunt s*®*, Marie Callender s*®, *Orville Redenbacher s*®, *Reddi-wip*®*, PAM*®, and many others.

Fiscal 2007 diluted earnings per share were $1.51, including $1.35 per diluted share of income from continuing operations and income of $0.16 per diluted share from discontinued operations. Fiscal 2006 diluted earnings per share were $1.03, including income from continuing operations of $1.13 per diluted share, and loss from discontinued operations of $0.10 per diluted share. Several items affect the comparability of results of continuing operations, as discussed in Other Significant Items of Note Items Impacting Comparability, below.

Operating Initiatives

ConAgra Foods is implementing operational improvement initiatives that are intended to generate profitable sales growth, improve profit margins, and expand returns on capital over time.

Recent developments in the Company s strategies and action plans include:

Increased and more focused marketing and innovation investments: The Company is continuing its new strategy for allocating its marketing resources. Investment is concentrated behind the brands with the most significant opportunities and more appropriate go-to-market strategies for all brands are being implemented. The Company s innovation investments in fiscal 2007 resulted in the development of a variety of new products. *Healthy Choice*® Café Steamers, *Healthy Choice*® Paninis, new flavors of *Healthy Choice*® Soups, *Hunt s*® Fire Roasted Diced Tomatoes, *Orville Redenbacher s*® Smart Pop! Low Sodium, *Orville Redenbacher s*® Naturals, *Swiss Miss*® Pudding Mousse Delights, *Chef Boyardee*® Mac & Cheese, *PAM*® Professional, and *Fleischmann s*® and *Parkay*® Soft Spreads have been introduced or are expected to be introduced to the market in early fiscal 2008. These new products, along with additional new products planned for the balance of fiscal 2008 and beyond, are expected to support future sales growth and market expansion. The Company expects to increase marketing investment related to its innovation and sales growth initiatives (discussed below) in fiscal 2008.

Sales growth initiatives: The Company is continuing to implement sales improvement initiatives focused on penetrating the fastest growing channels, better return on customer trade arrangements, and optimal shelf placement for the Company s most profitable products. These, along with the marketing initiatives, are intended to generate profitable sales growth.

Reducing costs throughout the supply chain and the general and administrative functions: For more than a year, the Company has been implementing the fiscal 2006-2008 restructuring plan. The Company has implemented several initiatives to streamline its supply chain through procurement initiatives, manufacturing process improvements, plant rationalization, and changes to its distribution network. The Company has also reduced its salaried workforce by several hundred employees over the past two years and implemented other initiatives that are designed to reduce selling, general and administrative expenses.

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- Portfolio changes: The Company has divested non-core operations that have limited the Company s ability to achieve its efficiency targets. During fiscal 2006, the Company identified several operations as non-core, including Cook s Ham, seafood, packaged meats, packaged cheese, oat milling, and refrigerated pizza. During fiscal 2006, the Company completed the divestitures of its Cook s Ham and seafood operations. During the first half of fiscal 2007, the Company completed the divestitures of its packaged meats business, packaged cheese business, oat milling business, and the refrigerated pizza business. Divesting these operations have helped simplify the Company s operations and are expected to enhance efficiency initiatives going forward.

Discontinued Operations. The results of operations for Cook s Ham, seafood, packaged meats, packaged cheese, as well as for UAP North America, UAP International, the Spanish feed business, Portuguese poultry business, and specialty meats foodservice business, are reflected in discontinued operations for all periods presented. Beginning September 24, 2004, the results of operations of the divested cattle feeding business are presented in discontinued operations.

Capital Allocation

During fiscal 2006 and 2007, the Company used cash generated from investing activities (such as non-core asset dispositions and proceeds generated from the sales of Pilgrim s Pride Corporation common stock and the Swift Note) to fund the following capital deployment actions:

- the repayment of $946 million of debt,
- the repurchase of approximately $812 million (approximately 32.9 million shares) of common stock (with approximately $88 million of share repurchases remaining authorized at May 27, 2007),
- the payment of $367 million and $565 million of dividends in fiscal 2007 and fiscal 2006, respectively,
- the contribution of approximately $208 million to pension plans, and
- the payment of approximately $90 million of debt premium to effect the exchange of approximately $200 million principal amount of 9.75% subordinated notes due 2021 and approximately $300 million principal amount of 6.75% senior notes due 2011 for approximately $500 million principal amount of 5.82% senior notes due 2017.

The Company continues to assess its allocation of capital and periodically reviews the appropriateness and timing of share repurchases and the continuation of the share repurchase program.

Other Significant Items of Note Items Impacting Comparability

As the Company continues operating improvement initiatives, it incurs costs related to changes that are intended to make a more efficient cost structure, for example: reducing headcount and closing facilities. The Company also incurs costs to dispose of businesses, write-down assets, retire debt, and resolve legal disputes, and in connection with other items that impact the comparability of operating results.

The Company has incurred cumulative pretax restructuring costs of $233 million, $103 million of which were incurred in fiscal 2007 and $130 million of which were incurred in fiscal 2006. The Company estimates total pretax restructuring charges of $257 million through fiscal 2008. As a result of these restructuring plans, the Company achieved cost savings of approximately $85 to $90 million in fiscal 2007 and expects significant cost savings and cost avoidance in future years.

On February 14, 2007, the Company initiated a voluntary recall of all varieties of peanut butter manufactured at its Sylvester, Georgia plant. The costs of the recall negatively impacted net sales, gross margin, and operating profit in the Consumer Foods and International Foods segments for the third and fourth quarters of fiscal 2007, as discussed below.

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Items of note impacting comparability for fiscal 2007 include:

Reported within Continuing Operations

- charges totaling $103 million, $64 million after tax, for restructuring related to programs designed to reduce the Company s ongoing operating costs,
- charges totaling $66 million, $41 million after tax, related to the peanut butter recall,
- charges of $21 million, $14 million after tax, related to additional compensation expense from expensing stock options, due to the Company s adoption of SFAS No. 123R,
- gains of approximately $21 million, $13 million after tax, related to the divestiture of an oat milling business and other non-core assets,
- a gain of approximately $8 million, $5 million after tax, resulting from a legal settlement related to a fire at a production facility in fiscal 2005,
- a gain of approximately $5 million, $3 million after tax, resulting from a legal settlement,
- a benefit of approximately $7 million, $5 million after tax, resulting from a favorable resolution of franchise tax matters,
- net tax charges of approximately $6 million related to unfavorable settlements and changes in estimates, and
- a gain of approximately $4 million resulting from the sale of an equity investment in a malt venture, and related income tax benefits of approximately $4 million, resulting in an after tax gain of approximately $8 million.

Reported within Discontinued Operations

- charges of approximately $21 million, $12 million after tax, related to an additional impairment charge based on final negotiations related to the sale of the packaged meats operations,
- gains of approximately $64 million, $37 million after tax, from the divestiture of the packaged cheese business and a dietary supplement business, and
- benefits of $17 million, $11 million after tax, related to a postretirement curtailment gain and a legal settlement associated with the divestiture of the packaged meats operations.

Items of note impacting comparability for fiscal 2006 include:

Reported within Continuing Operations

a gain of approximately $329 million, $209 million after tax, from the sale of 15.4 million shares of Pilgrim s Pride Corporation common stock in August 2005,

charges totaling $130 million, $81 million after tax, for restructuring charges related to programs designed to reduce the Company s ongoing operating costs,

impairment charges totaling $83 million, $51 million after tax, related to a note receivable from Swift Foods, Inc. received in connection with the Company s fiscal 2003 divestiture of its fresh beef and pork business,

impairment charges totaling $76 million, $73 million after tax, related to two equity method investments,

charges totaling $30 million, $19 million after tax, related to the early retirement of debt,

a charge of $19 million, $12 million after tax, related to accelerated recognition of benefits in connection with the departure of key executives,

- a charge of $17 million, $11 million after tax, reflecting the adjustment of a litigation reserve,
- a charge of $6 million, $4 million after tax, related to a plant closure in the Company s International Foods segment, and
- a favorable effective tax rate of 34%, versus the Company s expected effective tax rate in fiscal 2006 of 36%, principally resulting from the implementation of state tax planning strategies and changes in estimates of state tax rates, and foreign and other tax credits, partially offset by the absence of income tax benefits for the impairments of equity method investments (noted above).

Reported within Discontinued Operations

- charges of approximately $241 million, $209 million after tax, primarily related to a goodwill impairment charge, and
- gains of approximately $116 million, $37 million after tax, from the divestiture of businesses.

Opportunities and Challenges

The Company believes that its operating initiatives will favorably impact future sales, profits, profit margins, and returns on capital. Because of the scope of change underway, there is risk that these broad change initiatives will not be successfully implemented. Competitive pressures, input costs, and the ability to execute the operational changes, among other factors, will affect the timing and impact of these initiatives.

The Company has faced increased costs for many of its significant raw materials, packaging, and energy inputs. Inflationary pressures negatively impacted fiscal 2006 results, but had less of an impact in fiscal 2005. The Company s productivity and pricing initiatives in fiscal 2007 effectively mitigated the impact of inflation. However, the Company expects inflation in fiscal 2008 to exceed recent levels. When appropriate, the Company uses long-term purchase contracts, futures, and options to reduce the volatility of certain raw materials costs.

Changing consumer preferences may impact sales of certain of the Company s products. The Company offers a variety of food products which appeal to a range of consumer preferences and utilizes innovation and marketing programs to develop products that fit with changing consumer trends. As part of these programs, the Company introduces new products and product extensions.

Consolidation of many of the Company s customers continues to result in increased buying power, negotiating strength, and complex service requirements for those customers. This trend, which is expected to continue, may negatively impact gross margins, particularly in the Consumer Foods segment. In order to effectively respond to this customer consolidation, the Company is continually evaluating its go-to-market strategies and its customer service costs. The Company is implementing improved trade promotion programs to drive improved return on investment, and is pursuing shelf placement and customer service improvement initiatives.

SEGMENT REVIEW

The Company reports its operations in four reporting segments: Consumer Foods, Food and Ingredients, Trading and Merchandising, and International Foods.

Consumer Foods

The Consumer Foods reporting segment includes branded, private label, and customized food products which are sold in various retail and foodservice channels. The products include a variety of categories (meals, entrees, condiments, sides, snacks, and desserts) across frozen, refrigerated, and shelf-stable temperature classes.

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Food and Ingredients

The Food and Ingredients reporting segment includes commercially branded foods and ingredients, which are sold principally to foodservice, food manufacturing, and industrial customers. The segment s primary products include specialty potato products, milled grain ingredients, dehydrated vegetables and seasonings, blends, and flavors.

Trading and Merchandising

The Trading and Merchandising reporting segment includes the sourcing, merchandising, trading, marketing, and distribution of agricultural and energy commodities.

International Foods

The International Foods reporting segment includes branded food products which are sold in retail channels principally in North America, Europe, and Asia. The products include a variety of categories (meals, entrees, condiments, sides, snacks, and desserts) across frozen, refrigerated, and shelf-stable temperature classes.

2007 vs. 2006

Net Sales

($ in millions)

Reporting Segment	Fiscal 2007 Net Sales	Fiscal 2006 Net Sales	% Increase/ (Decrease)
Consumer Foods	$ 6,485	$ 6,504	%
Food and Ingredients	3,482	3,189	9%
Trading and Merchandising	1,455	1,186	23%
International Foods	606	603	%
Total	$ 12,028	$ 11,482	5%

Overall, Company net sales increased $546 million to $12.0 billion in fiscal 2007, primarily reflecting favorable results in the Food and Ingredients and Trading and Merchandising segments. Increased net sales at the Food and Ingredients segment were primarily the result of price and volume increases. Increased net sales in the Trading and Merchandising segment were primarily driven by successfully capitalizing on conditions in the fertilizer and crude oil markets. The Consumer Foods and International Foods segments were relatively flat compared to prior year.

The peanut butter recall had a negative impact on the Company s fiscal year net sales for the Consumer Foods and International Foods reporting segments. The recall is expected to continue to have a negative impact on the Company s sales for the first half of fiscal 2008. Sales of peanut butter in fiscal 2007 were $92 million, as compared to $147 million in fiscal 2006.

Consumer Foods net sales decreased $19 million for the year to $6.5 billion. Sales volume declined by 1% in fiscal 2007. Results reflect the effect of price increases and sales growth in certain of the Company s priority investment brands, offset by the impact of the peanut butter recall, declines in sales of low-margin foodservice and private label items, the divestiture of a refrigerated pizza business during the first half of fiscal 2007, and continued SKU rationalization efforts. Net sales of the Company s priority investment brands, which represented approximately 75% of total segment sales during fiscal 2007, increased 1% as a group. Sales growth for some of the Company s most significant brands, including Chef Boyardee®, Egg Beaters®, Hebrew National®, Hunt ®s, Kid Cuisine®, Orville Redenbacher ®s, PAM®, Slim Jim®, Snack Pack®, Reddi-Wip®, Manwich®, Swiss Miss®, and David ®s, was largely offset by sales declines for the year for Banquet®, Healthy Choice®, Act II®, LaChoy®, Pemmican®, The Max®, and Peter Pan®. Peanut butter net sales declined by $55 million from the prior year due to the peanut butter recall.

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Food and Ingredients net sales increased $293 million to $3.5 billion, primarily reflecting price and volume increases for potato and dehydrated vegetable operations, as well as price increases in the wheat milling operations resulting from higher year over year grain prices.

Trading and Merchandising net sales increased $269 million to $1.5 billion. Increased net sales reflect more profitable trading and merchandising of agricultural products, primarily in corn and fertilizer, principally due to increased worldwide demand. Increased net sales also reflect more profitable margins from trading of crude oil. These increases were partially offset by lower margins from trading of natural gas and lower grain and edible bean merchandising volume resulting from the divestment or closure of various locations.

International Foods net sales increased $3 million to $606 million. The strengthening of foreign currencies relative to the U.S. dollar accounted for a $6 million increase. Growth of the priority investment brands, primarily in Canada and Mexico, was offset by sales declines related to the discontinuance of a number of low margin products and the effect of the peanut butter recall.

Gross Profit

(Net Sales less Cost of Goods Sold)

($ in millions)

Reporting Segment	Fiscal 2007 Gross Profit	Fiscal 2006 Gross Profit	% Increase
Consumer Foods	$ 1,920	$ 1,842	4%
Food and Ingredients	599	538	11%
Trading and Merchandising	441	278	59%
International Foods	179	165	8%
Total	$ 3,139	$ 2,823	11%

The Company s gross profit for fiscal 2007 was $3.1 billion, an increase of $316 million, or 11%, from the prior year. Costs of implementing the Company s restructuring plans reduced gross profit by $46 million and $20 million in fiscal 2007 and fiscal 2006, respectively. The increase in gross profit was largely driven by results in the Trading and Merchandising segment, reflecting higher margins in energy trading, as well as profitable trading and merchandising of fertilizer. Fiscal 2007 results include the impact of approximately $30 million due to the peanut butter recall, reflected as a reduction of net sales of $19 million, and an increase of $11 million in cost of goods sold.

Consumer Foods gross profit for fiscal 2007 was $1.9 billion, an increase of $78 million from fiscal 2006. Costs of implementing the Company s restructuring plans reduced gross profit by $45 million and $20 million for fiscal 2007 and fiscal 2006, respectively. Also included in fiscal 2007 gross profit is the impact of approximately $29 million due to the peanut butter recall. The increase in gross profit for fiscal 2007 was largely driven by supply chain cost improvements and improved product mix, partially offset by the effects of inflation, the peanut butter recall, and restructuring costs, as discussed above.

Food and Ingredients gross profit for fiscal 2007 was $599 million, an increase of $61 million over the prior year. Costs of implementing the Company s restructuring plans reduced gross profit for fiscal 2007 by $1 million. The increase in gross profit was primarily driven by the increase in net sales, discussed above, partially offset by the divestiture of an oat milling business in the first half of fiscal 2007.

Trading and Merchandising gross profit for fiscal 2007 was $441 million, an increase of $163 million over the prior year. Increased gross profit was the result of the net sales increase in the trading and merchandising of fertilizer and more profitable margins from trading of crude oil. The segment benefited from significant volatility in the energy markets as well as increasing prices for fertilizer due to increased worldwide demand. Management does not expect similar performance in fiscal 2008.

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International Foods gross profit for fiscal 2007 was $179 million, an increase of $14 million over the prior fiscal year. The increase included $2 million resulting from favorable foreign currency exchange rates. The increase in gross profit also reflected the increases in net sales, as discussed above, favorable product mix and reductions in supply chain costs. Gross profit was reduced by approximately $1 million due to the peanut butter recall.

Gross Margin

Reporting Segment	Fiscal 2007 Gross Margin	Fiscal 2006 Gross Margin
Consumer Foods	30%	28%
Food and Ingredients	17%	17%
Trading and Merchandising	30%	23%
International Foods	30%	27%
Total Company (continuing operations)	26%	25%

The Company s gross margin (gross profit as a percentage of net sales) for fiscal 2007 was up one percentage point compared to fiscal 2006, primarily reflecting the impact of productivity improvements in the Consumer Foods and Food and Ingredients segments and improved profitability in the Trading and Merchandising markets. The impact of these productivity improvements was somewhat offset by reduced margins due to the effects of inflation, the Company s restructuring charges, and the peanut butter recall.

Selling, General and Administrative Expenses (includes General Corporate Expense) (SG&A)

SG&A expenses totaled $1.9 billion for fiscal 2007, a decrease of $28 million from the prior fiscal year.

Selling, general and administrative expenses for fiscal 2007 reflect:

- increased advertising and promotion expense by $117 million,
- increased management incentive expenses by $112 million,
- charges of $57 million related to the execution of the Company s restructuring plan,
- $23 million of income, net of direct pass-through costs, for reimbursement of expenses related to transition services provided to the buyers of certain divested businesses,
- charges related to the peanut butter recall of $36 million,
- decreased selling and marketing expense by $36 million,
- gains of $27 million related to the disposition of an oat milling business, certain international licensing rights for a small brand, and four corporate aircraft,
- charges of $21 million related to expensing of stock options in accordance with SFAS No. 123R,

- decreased professional fees by $25 million,
- increased cash charitable donations by $16 million, partially offset by decreased product charitable donations by $8 million,
- a benefit of $13 million for favorable legal settlements, and
- a benefit of $7 million related to a favorable resolution of franchise tax matters.

Included in SG&A expenses for fiscal 2006 are the following items:

- charges of $109 million related to the Company s restructuring plan,
- charges of $83 million on the Swift & Company note impairment,

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charges of $30 million on the early retirement of debt,

a charge of $19 million for severance of key executives (including a charge of approximately $11 million related to incentive compensation plans),

a charge of $17 million for patent-related litigation expense, and

a charge of $6 million for the impairment of an international manufacturing facility.

Operating Profit

(Earnings before general corporate expense, interest expense, net, gain on the sale of Pilgrim s Pride Corporation common stock, income taxes, and equity method investment earnings)

($ in millions)

Reporting Segment	Fiscal 2007 Operating Profit	Fiscal 2006 Operating Profit	% Increase
Consumer Foods	$ 848	$ 828	2%
Food and Ingredients	439	364	21%
Trading and Merchandising	317	189	68%
International Foods	63	62	2%

Consumer Foods operating profit increased $20 million for the fiscal year to $848 million. The increase for the fiscal year is reflective of the increased gross profit, discussed above, and was influenced by a number of factors, including:

restructuring costs included in selling, general and administrative expenses of $39 million and $64 million in fiscal 2007 and 2006, respectively,

costs of the peanut butter recall related to selling, general and administrative expenses of approximately $35 million,

increased advertising and promotion costs by approximately $93 million,

increased incentive costs by approximately $42 million,

lower selling and marketing expenses by $38 million, and

reimbursement income of approximately $23 million, net of direct pass-through costs, related to transition services provided to the buyers of certain divested businesses.

Food and Ingredients operating profit increased $75 million to $439 million in fiscal 2007. Operating profit improvement was principally driven by the improved gross margins, as discussed above. Other factors affecting the operating profit change over fiscal 2006 included: lower selling, general and administrative expenses related to the implementation of the Company s restructuring plan by $6 million versus fiscal 2006; gains recorded in fiscal 2007 of $18 million related to the Company s sale of an oat milling business and $8 million resulting from a legal settlement related to a fire; and increased incentive and selling expenses versus 2006.

Trading and Merchandising operating profit increased $128 million to $317 million in fiscal 2007, resulting from the increased gross profit, as discussed above, somewhat offset by higher incentive costs versus 2006.

International Foods operating profit increased $1 million to $63 million in fiscal 2007. Operating profit included the increase in gross profit, as discussed above, as well as a gain of approximately $4 million related to the sale of certain international licensing rights for a small brand. These gains were substantially offset by increased advertising and promotion, and selling and marketing expenses, principally due to the expansion of global markets. Fiscal 2006 operating profit was reduced by $6 million in connection with the closure of a production facility in Canada.

Interest Expense, Net

In fiscal 2007, net interest expense was $226 million, a decrease of $46 million, or 17%, over the prior fiscal year. Decreased interest expense reflects the Company s retirement of nearly $900 million of debt during fiscal 2006, as well as the Company s retirement of nearly $47 million of debt during fiscal 2007. These factors were partially offset by a reduced benefit from the interest rate swap agreements terminated in fiscal 2004. The benefit associated with the termination of the interest rate swap agreements continues to be recognized over the term of the debt instruments originally hedged. As a result, the Company s net interest expense was reduced by $4 million during fiscal 2007 and $12 million during fiscal 2006. Management expects net interest expense to be higher in fiscal 2008 due to lower interest income from cash and cash equivalents.

During the third quarter of fiscal 2007, the Company completed an exchange of approximately $200 million principal amount of its 9.75% subordinated notes due 2021 and $300 million principal amount of its 6.75% senior notes due 2011 for approximately $500 million principal amount of 5.82% senior notes due 2017 and cash of approximately $90 million. The Company is amortizing the $90 million cash payment over the life of the new notes within net interest expense.

Gain on Sale of Pilgrim s Pride Corporation Common Stock

During fiscal 2006, the Company sold its remaining 15.4 million shares of Pilgrim s Pride Corporation common stock for $482 million, resulting in a pre-tax gain of $329 million.

Equity Method Investment Earnings (Loss)

During fiscal 2005, the Company determined that the carrying values of its investments in two unrelated equity method investments, a bio-fuels venture and a malt venture, were other-than-temporarily impaired and therefore recognized pre-tax impairment charges totaling $71 million ($66 million after tax).

During fiscal 2006, the Company recognized additional impairment charges totaling $76 million ($73 million after tax) of its investments in the malt venture and an unrelated investment in a foreign prepared foods business, due to further declines in the estimated proceeds from the disposition of these investments. The investment in the foreign prepared foods business was disposed of in fiscal 2006. The extent of the impairments was determined based upon the Company s assessment of the recoverability of its investments based primarily upon the expected proceeds of planned dispositions of the investments.

During fiscal 2007, the Company completed the disposition of the equity method investment in the malt venture for proceeds of approximately $24 million, including notes and other receivables totaling approximately $7 million. This transaction resulted in a pre-tax gain of approximately $4 million, with a related tax benefit of approximately $4 million.

The Company s share of earnings from the Company s remaining equity method investments, which include potato processing and grain merchandising businesses, increased by approximately $14 million from the comparable amount in fiscal 2006, driven by improved yields in the potato processing business.

Results of Discontinued Operations

Income from discontinued operations was $81 million, net of tax, in fiscal 2007. Included in these amounts are:

- impairment charges of $21 million in fiscal 2007, based on the final negotiations related to the sale of the packaged meats operations during the second quarter of fiscal 2007, pre-tax earnings of $93 million from operations of discontinued businesses, including a pre-tax curtailment gain of $9 million related to postretirement benefits and an $8 million gain related to a legal settlement in connection with the packaged meats operations,

a gain of $64 million primarily from the disposition of the Company s packaged cheese business and a dietary supplement business in fiscal 2007, and

income tax expense of $55 million in fiscal 2007.

In fiscal 2006, the Company recognized a loss from discontinued operations of $55 million, net of tax. Included in these amounts are:

impairment charges of $241 million to reduce the carrying value of assets held for sale from the Company s discontinued packaged meats business to their estimated fair value less costs to sell,

a gain on the disposition of the Company s Cook s Ham business of $110 million,

pre-tax earnings of $180 million from operations of discontinued businesses in fiscal 2006, and

income tax expense of $110 million in fiscal 2006.

Income Taxes and Net Income

The effective tax rate (calculated as the ratio of income tax expense to pre-tax income from continuing operations, inclusive of equity method investment earnings) was 35% for fiscal 2007. In 2007, state income taxes included approximately $24 million of benefits related to the implementation of tax planning strategies and changes in estimates, principally related to state tax jurisdictions. This was offset by the tax impact of an Internal Revenue Service (IRS) audit settlement.

The effective tax rate was 34% in fiscal 2006. In 2006, state income taxes included approximately $26 million of benefits related to the implementation of tax planning strategies and changes in estimates, principally related to state tax jurisdictions. This was largely offset by the tax impact of impairments of equity method investments for which the Company does not expect to receive a significant tax benefit.

The Company expects its effective tax rate in fiscal 2008, exclusive of any unusual transactions or tax events, to be approximately 35%.

Net income was $765 million, or $1.51 per diluted share, in fiscal 2007, compared to $534 million, or $1.03 per diluted share, in fiscal 2006.

Certain Legal Matters

On June 22, 2001, the Company filed an amended annual report on Form 10-K for the fiscal year ended May 28, 2000. The filing included restated financial information for fiscal years 1997, 1998, 1999, and 2000. The restatement, due to accounting and conduct matters at United Agri Products, Inc. (UAP), a former subsidiary, was based upon an investigation undertaken by the Company and the Audit Committee of its Board of Directors. The restatement was principally related to revenue recognition for deferred delivery sales and vendor rebates, advance vendor rebates, and bad debt reserves. The SEC issued a formal order of nonpublic investigation dated September 28, 2001. The Company cooperated with the SEC investigation, which related to the UAP matters described above, as well as other aspects of the Company s financial statements, including the level and application of certain of the Company s reserves.

On April 29, 2005, the Company filed an amended annual report on Form 10-K for the fiscal year ended May 30, 2004 and amended quarterly reports on Form 10-Q for the quarters ended August 29, 2004 and November 28, 2004 (the April 2005 restatement). The filings included restated financial information for fiscal

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years 2002, 2003, 2004, and the first two quarters of fiscal 2005. The restatement related to tax matters. The Company provided information to the SEC Staff relating to the facts and circumstances surrounding the restatement.

On July 28, 2006, the Company filed an amendment to its annual report on Form 10-K for the fiscal year ended May 29, 2005. The filing amended Item 6. Selected Financial Data and Exhibit 12, Computation of Ratios of Earnings to Fixed Charges, for fiscal year 2001, and certain restated financial information for fiscal years 1999 and 2000, all related to the application of certain of the Company s reserves for the three years and fiscal year 1999 income tax expense. The Company provided information to the SEC Staff relating to the facts and circumstances surrounding the amended filing.

The Company reached an agreement with the SEC Staff concerning matters associated with these amended filings. That proposed settlement was approved by the Securities and Exchange Commission on July 17, 2007. On July 24, 2007, the SEC filed its Complaint against the Company in the United States District Court for the District of Colorado, followed by an executed Consent, which without the Company admitting or denying the allegations of the Complaint, reflects the terms of the settlement, including payment by the Company of a civil penalty of $45 million and the Company s agreement to be permanently enjoined from violating certain provisions of the federal securities laws. Additionally, the Company made approximately $2 million in indemnity payments on behalf of former employees concluding separate settlements with the SEC. The Company recorded charges of $25 million in fiscal 2004, $21.5 million in the third quarter of fiscal 2005, and $1.2 million in the first quarter of fiscal 2007 in connection with the expected settlement of these matters.

Three purported class actions were filed in United States District Court for Nebraska, *Rantala v. ConAgra Foods, Inc., et. al.*, Case No. 805CV349, and *Bright v. ConAgra Foods, Inc., et. al.*, Case No. 805CV348 on July 18, 2005, and *Boyd v. ConAgra Foods, Inc., et. al.*, Case No. 805CV386 on August 8, 2005. The lawsuits are against the Company, its directors and its employee benefits committee on behalf of participants in the Company s employee retirement income savings plans. The lawsuits allege violations of the Employee Retirement Income Security Act (ERISA) in connection with the events resulting in the Company s April 2005 restatement of its financial statements and related matters. The Company has reached a settlement with the plaintiffs in these actions subject to court approval. The settlement includes a $4 million payment, most of which will be paid by an insurer. The Company has also agreed to make certain prospective changes to its benefit plans as part of the settlement.

2006 vs. 2005

Net Sales

($ in millions)

Reporting Segment	Fiscal 2006 Net Sales	Fiscal 2005 Net Sales	% Increase/ (Decrease)
Consumer Foods	$ 6,504	$ 6,598	(1)%
Food and Ingredients	3,189	2,986	7%
Trading and Merchandising	1,186	1,224	(3)%
International Foods	603	576	5%
Total	$ 11,482	$ 11,384	1%

Overall, Company net sales increased $98 million to $11.5 billion in fiscal 2006, primarily reflecting favorable results in the Food and Ingredients and International Foods segments. Price increases driven by higher input costs for potatoes, wheat milling and dehydrated vegetables within the Food and Ingredients segment, coupled with the strength of foreign currencies within the International Foods segment enhanced net sales. These increases were partially offset by volume declines in the Consumer Foods segment, principally related to certain shelf stable brands and declines in the Trading and Merchandising segment related to decreased volumes and certain divestitures and closures.

Consumer Foods net sales decreased $94 million for the year to $6.5 billion. Sales volume declined by 1% in fiscal 2006, principally due to declines in certain shelf stable brands. Sales of the Company s top thirty brands, which represented approximately 83% of total segment sales during fiscal 2006, were flat as a group, as sales of some of the Company s most significant brands, including Chef Boyardee®, Marie Callender s®, Orville Redenbacher s®, Slim Jim®, Hebrew National®, Kid Cuisine®, Reddi-Wip®, VanCamp®, Libby s®, LaChoy®, The Max®, Manwich®, David s®, Ro*Tel®, Angela Mia®, and Mama Rosa® grew in fiscal 2006, but were largely offset by sales declines for the year for Hunt s®, Wesson®, Act II®, Snack Pack®, Swiss Miss®, PAM®, Egg Beaters®, Blue Bonnet®, Parkay®, and Rosarita®.

Food and Ingredients net sales increased $203 million to $3.2 billion, primarily reflecting price increases driven by higher input costs for potato, wheat milling, and dehydrated vegetable operations. Net sales were also impacted, to a lesser degree, by a 4% increase in potato products volume compared to the prior year.

Trading and Merchandising net sales decreased $38 million to $1.2 billion. The decrease resulted principally from lower grain and edible bean merchandising volume resulting from the divestment or closure of various locations.

International Foods net sales increased $27 million to $603 million. The strengthening of foreign currencies relative to the U.S. dollar accounted for $24 million of the increase. Overall volume growth was modest as the 10% volume growth from the top six International brands (Orville Redenbacher s®, Act II®, Snack Pack®, Chef Boyardee®, Hunt s®, and PAM®), which account for 55% of total segment sales, was offset by sales declines related to the discontinuance of a number of low margin products.

Gross Profit

(Net Sales less Cost of Goods Sold)

($ in millions)

Reporting Segment	Fiscal 2006 Gross Profit	Fiscal 2005 Gross Profit	% Increase/ (Decrease)
Consumer Foods	$ 1,842	$ 1,890	(3)%
Food and Ingredients	538	512	5%
Trading and Merchandising	278	282	(1)%
International Foods	165	150	10%
Total	$ 2,823	$ 2,834	%

The Company s gross profit for fiscal 2006 was $2.8 billion, a decrease of $11 million from the prior year, as improvements in the Foods and Ingredients and International Foods segments were more than offset by declines in the Consumer Foods and Trading and Merchandising segments. Gross profit includes $20 million of costs associated with the Company s restructuring plans in fiscal 2006, and $17 million of costs incurred to implement the Company s operational efficiency initiatives in fiscal 2005.

Consumer Foods gross profit for fiscal 2006 was $1.8 billion, a decrease of $48 million from fiscal 2005, driven principally by a 2% decline in sales volumes. Fiscal 2006 gross profit includes $20 million of costs related to the Company s restructuring plan, and fiscal 2005 gross profit includes $16 million of costs related to implementing the Company s operational efficiency initiatives. Gross profit was negatively impacted by increased costs of fuel and energy, transportation and warehousing, steel, and other packaging materials in both fiscal 2006 and 2005.

Food and Ingredients gross profit for fiscal 2006 was $538 million, an increase of $26 million over the prior year. The gross profit improvement was driven almost entirely by the vegetable processing and dehydration businesses (including potatoes, garlic, onions, and chili peppers) as a result of higher volume (both domestic and export), increased value-added sales mix and pricing improvements partially offset by higher raw product and conversion costs.

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Trading and Merchandising gross profit for fiscal 2006 was $278 million, a decrease of $4 million over the prior year. Gross profit declined $22 million in the trading businesses driven almost entirely by a difficult fertilizer market. Gross profit for the agricultural businesses increased $18 million driven by stronger trading gains in livestock and stronger margins in merchandising grain and animal by-products.

International Foods gross profit for fiscal 2006 was $165 million, an increase of $15 million over the prior fiscal year. The increase was driven by the impact of stronger foreign currencies and improvements in pricing, product mix management and cost reduction initiatives.

Gross Margin

Reporting Segment	Fiscal 2006 Gross Margin	Fiscal 2005 Gross Margin
Consumer Foods	28%	29%
Food and Ingredients	17%	17%
Trading and Merchandising	23%	23%
International Foods	27%	26%
Total Company	25%	25%

The Company s gross margin (gross profit as a percentage of net sales) for fiscal 2006 was flat compared to fiscal 2005, which reflects the costs incurred to implement the Company s restructuring plan, coupled with lower volumes and fewer opportunities in the energy markets. These effects were offset by a favorable commodity trading environment within the Trading and Merchandising agricultural markets as well as improvements due to pricing and favorable foreign currency impacts within the International Foods segment.

Selling, General and Administrative Expenses (includes General Corporate Expense) (SG&A)

SG&A expenses totaled $1.9 billion for fiscal 2006, an increase of $218 million over the prior fiscal year. Included in SG&A expenses for fiscal 2006 are the following items:

- charges of $109 million related to the Company s restructuring plan,
- charges of $83 million on the Swift & Company note impairment,
- charges of $30 million on the early retirement of debt,
- a charge of $19 million for severance of key executives,
- a charge of $17 million for patent-related litigation expense, and
- a charge of $6 million for the impairment of an international manufacturing facility.

Included in SG&A expenses for fiscal 2005 are the following items:

- a charge of $15 million for an impairment of a facility in the Food and Ingredients segment, a charge of $22 million on the early redemption of $600 million of 7.5% senior debt,

a charge of $21 million in connection with matters related to an ongoing SEC investigation,

a $10 million charge to reflect an impairment of a brand within the Consumer Foods segment,

a benefit of $17 million for legal settlements in the Consumer Foods segment,

a fire loss at a Food and Ingredients plant of $10 million, and

a charge of $43 million for severance expense in connection with the Company s salaried headcount reduction actions.

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Higher incentive compensation in fiscal 2006 was partially offset by operating cost efficiencies. Fiscal 2006 included a $6 million benefit from a reduction of estimated severance liabilities for the Company s salaried headcount reduction.

Operating Profit

(Earnings before general corporate expense, interest expense, net, gain on the sale of Pilgrim s Pride Corporation common stock, income taxes, and equity method investment earnings)

($ in millions)

Reporting Segment	Fiscal 2006 Operating Profit	Fiscal 2005 Operating Profit	% Increase/ (Decrease)
Consumer Foods	$ 828	$ 934	(11)%
Food and Ingredients	364	310	17%
Trading and Merchandising	189	212	(11)%
International Foods	62	62	%

Consumer Foods operating profit decreased $106 million for the fiscal year to $828 million. The decline resulted principally from lower gross profit, as discussed above, as well as $64 million of fiscal 2006 restructuring costs related to reducing SG&A. Costs of implementing the Company s operational efficiency initiatives related to SG&A reduced operating profit by $4 million in fiscal 2005. In addition, the segment recognized $28 million of severance expense during fiscal 2005 and recognized a benefit of $6 million during fiscal 2006 due to reductions of estimated severance liabilities. Fiscal 2006 also reflects additional costs associated with the Company s information technology initiatives, partially offset by lower SG&A costs due to efficiency initiatives previously implemented.

Food and Ingredients operating profit increased $54 million to $364 million in fiscal 2006. Results for fiscal 2006 include $6 million of charges related to an asset impairment, facility exit costs and additional headcount reduction initiatives within the Company s restructuring plan. Exclusive of these items, operating profit improvement was principally driven by the improved gross margins as discussed above. Fiscal 2005 results included a charge of $15 million for a facility closure, a $10 million charge related to a fire at a Canadian production facility and a $4 million charge related to operational efficiency and salaried headcount reduction initiatives.

Trading and Merchandising operating profit decreased $23 million to $189 million in fiscal 2006, resulting from lower gross profit. Fertilizer merchandising profits declined due to difficult market conditions in fiscal 2006, offset in part by better results in merchandising of animal and grain by-products.

International Foods operating profit was flat between fiscal 2006 and fiscal 2005, as the increase in gross profit was offset by costs associated with the closure of a production facility and additional advertising and promotion to drive growth within major global brands.

Interest Expense, Net

In fiscal 2006, net interest expense was $272 million, a decrease of $42 million, or 13%, over the prior fiscal year. Decreased interest expense reflects the Company s retirement of nearly $900 million of debt during fiscal 2006. Fiscal 2006 also benefited from the redemption of preferred securities of a subsidiary company in the third quarter of 2005, resulting in decreased interest expense of $8 million. These factors were partially offset by a reduced benefit from the interest rate swap agreements terminated in the second quarter of fiscal 2004. These interest rate swap agreements were put in place as a strategy to hedge interest costs associated with long-term debt and were closed out in fiscal 2004 in order to lock-in existing favorable interest rates. For financial statement purposes, the benefit associated with the termination of the interest rate swap agreements continues to

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be recognized over the term of the debt instruments originally hedged. As a result, the Company s net interest expense was reduced by $12 million during fiscal 2006 and $41 million during fiscal 2005. In addition, during the second quarter of fiscal 2005, the Company recognized approximately $14 million of additional interest expense associated with a previously terminated interest rate swap.

Gain on Sale of Pilgrim s Pride Corporation Common Stock

During fiscal 2006, the Company sold its remaining 15.4 million shares of Pilgrim s Pride Corporation common stock for $482 million, resulting in a pre-tax gain of $329 million. During fiscal 2005, the Company sold ten million shares of the Pilgrim s Pride Corporation common stock for $283 million, resulting in a pre-tax gain of approximately $186 million.

Equity Method Investment Earnings (Loss)

Equity method investment losses of $50 million and $25 million were recognized in fiscal 2006 and 2005, respectively.

During fiscal 2005, the Company determined that the carrying values of its investments in two unrelated equity method investments were other-than-temporarily impaired and therefore recognized pre-tax impairment charges totaling $71 million ($66 million after tax). During fiscal 2006, the Company determined that the fair value of one of these equity method investments had declined further and recorded additional impairment charges. The Company also determined that the carrying value of a third equity method investment was impaired and recorded an impairment charge to reduce that investment to its estimated fair value. These impairment charges totaled $76 million ($73 million after tax) in fiscal 2006. The extent of the impairments was determined based upon the Company s assessment of the recoverability of its investments based primarily upon the expected proceeds of planned dispositions of the investments.

The Company s share of earnings from the Company s remaining equity method investments, which include potato processing and grain merchandising businesses, declined by approximately $13 million from the comparable amount in fiscal 2005. Equity method investment earnings included income of approximately $7 million in fiscal 2005 from the fresh beef and pork investment which was divested during fiscal 2005.

Results of Discontinued Operations

Loss from discontinued operations was $55 million, net of tax, in fiscal 2006. In fiscal 2005, the Company recognized income from discontinued operations of $83 million, net of tax. Included in these amounts are:

impairment charges of $241 million recorded in fiscal 2006 to reduce the carrying value of assets held for sale from the Company s discontinued packaged meats business to their estimated fair value less costs to sell,

a gain on the disposition of the Company s Cook s Ham business of $110 million in fiscal 2006,

pre-tax earnings of $180 million from operations of discontinued businesses in fiscal 2006,

income tax expense of $110 million in fiscal 2006,

impairment charges of $59 million recorded in fiscal 2005 to reduce the carrying values of assets held for sale to their estimated fair values less costs to sell,

net gains on the disposition of discontinued businesses of $26 million in fiscal 2005, pre-tax earnings of $158 million from operations of the discontinued businesses in fiscal 2005, and

income tax expense of $42 million in fiscal 2005.

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Income Taxes and Net Income

The effective tax rate (calculated as the ratio of income tax expense to pre-tax income from continuing operations, inclusive of equity method investment earnings) was 34% for fiscal 2006. In 2006, state income taxes included approximately $26 million of benefits related to the implementation of tax planning strategies and changes in estimates, principally related to deferred state tax rates. This was largely offset by the tax impact of impairments of equity method investments for which the Company does not expect to receive a significant tax benefit.

The effective tax rate was 42% in fiscal 2005. During fiscal 2005, the Company increased its estimate of the effective tax rate for state income taxes, resulting in an overall effective tax rate in excess of the statutory rate. The Company reached an agreement with the IRS with respect to the IRS s examination of the Company s tax returns for fiscal years 2000 through 2002. As a result of the resolution of these matters, the Company reduced income tax expense and the related provision for income taxes payable by $5 million during fiscal 2005.

Net income was $534 million, or $1.03 per diluted share, in fiscal 2006, compared to $642 million, or $1.23 per diluted share, in fiscal 2005.

LIQUDITY AND CAPITAL RESOURCES

Sources of Liquidity and Capital

The Company's primary financing objective is to maintain a prudent capital structure while providing the flexibility to pursue its growth objectives. The Company currently uses short-term debt principally to finance ongoing operations, including its seasonal working capital (accounts receivable, prepaid expenses and other current assets, and inventories, less accounts payable and other accrued liabilities) needs and a combination of equity and long-term debt to finance both its base trade working capital needs and its noncurrent assets.

Commercial paper borrowings (usually less than 30 days maturity) are reflected in the Company s consolidated balance sheets within notes payable.

At May 27, 2007, the Company had credit lines from banks that totaled approximately $2.2 billion. These lines are comprised of a $1.5 billion five-year revolving credit facility with a syndicate of financial institutions and short-term facilities approximating $693 million. The five-year facility contains provisions substantially identical to those in the $1.05 billion facility it replaced. The terms of the five-year facility provide that the Company may request that the commitments available under the facility be extended for additional one-year periods on an annual basis. Following such a request, during the second quarter of fiscal 2007 the commitments under this facility were extended to December 2011. Borrowings under the five-year facility bear interest at or below prime rate and may be prepaid without penalty. These rates are approximately .30 to .35 percentage points higher than the interest rates for commercial paper. The Company has not drawn upon the five-year facility. As of May 27, 2007, the Company had $0.2 million drawn under the short-term loan facilities. The long and short-term facilities require the Company to repay borrowings if the Company s consolidated funded debt exceeds 65% of the consolidated capital base, as defined, or if fixed charges coverage, as defined, is less than 1.75 to 1.0, as such terms are defined in applicable agreements. As of the end of fiscal 2007, the Company was in compliance with these financial covenants.

The Company finances its short-term liquidity needs with bank borrowings, commercial paper borrowings and bankers acceptances. The average consolidated short-term borrowings outstanding under these facilities were $4 million and $14 million for fiscal years 2007 and 2006, respectively.

The Company's overall level of interest-bearing debt totaled $3.5 billion at the end of fiscal 2007, compared to $3.6 billion as of the end of fiscal 2006. In December 2006, the Company completed an exchange of approximately $200 million principal amount of its 9.75% subordinated notes due 2021 and $300 million principal amount of its 6.75% senior notes due 2011 for approximately $500 million principal amount of 5.82% senior notes due 2017 and cash of approximately $90 million, in order to improve the Company s debt maturity profile. The Company is amortizing the $90 million cash payment (the unamortized portion of which is reflected as a reduction of senior long-term debt in the Company s consolidated balance sheet at May 27, 2007) over the life of the new notes within interest expense.

During fiscal 2007, the Company redeemed $12 million of 8.8% unsecured debt due in May 2017. This early retirement of debt, which resulted in a pre-tax loss of $0.4 million recognized in the fourth quarter of fiscal 2007, is included in selling, general and administrative expenses.

In addition to this early retirement of debt, the Company made scheduled principal payments of debt and payments of lease financing obligations during fiscal 2007, reducing long-term debt by $35 million.

Included in current installments of long-term debt as of May 28, 2006 was $400 million of 7.125% senior debt due October 2026 due to the existence of a put option that was exercisable by the holders of the debt from August 1, 2006 to September 1, 2006. The holders did not exercise the put option, and therefore, the Company reclassified the $400 million balance to senior long-term debt in the second quarter of fiscal 2007 when the put option expired.

During fiscal 2006, the Company redeemed $500 million of 6% senior debt due in September 2006 and $250 million of 7.875% senior debt due in September 2010. In addition to these early retirements of debt, the Company made scheduled principal payments of debt and payments of lease financing obligations during fiscal 2006, reducing long-term debt by $149 million.

As of the end of both fiscal 2007 and 2006, the Company s senior long-term debt ratings were all investment grade ratings. A significant downgrade in the Company s credit ratings would not affect the Company s ability to borrow amounts under the revolving credit facilities, although borrowing costs would increase. A downgrade to the Company s short-term credit ratings would also impact the Company s ability to borrow under its commercial paper program by causing increased borrowing costs and shorter durations and could result in possible access limitations.

The Company also has a shelf registration under which it could issue from time to time up to $4 billion in debt securities.

In March 2006, the Company completed the divestitures of its Cook s Ham and its seafood businesses for cash proceeds of approximately $442 million. During fiscal 2007, the Company sold its refrigerated meats business, its cheese business, its refrigerated pizza business, an oat milling business, and a dietary supplement business for proceeds of approximately $717 million.

During fiscal 2007, the Company sold notes receivable from Swift Foods for approximately $117 million. The notes had been received in connection with the divestiture of a fresh beef and pork business in fiscal 2003.

At May 27, 2007, the Company s existing Board authorized share repurchase program permitted management to repurchase up to approximately $88 million of the Company s shares. The Company plans to repurchase shares periodically depending on market conditions.

Cash Flows

In fiscal 2007, the Company generated $404 million of cash, which was the net result of $943 million generated from operating activities, $523 million generated from investing activities and $1.1 billion used in financing activities.

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Cash generated from operating activities of continuing operations totaled $884 million for fiscal 2007 as compared to $911 million generated in fiscal 2006. Improved income from continuing operations, excluding the effects of the sale of Pilgrim s Pride Corporation common stock in fiscal 2006, was offset by a use of cash for working capital in fiscal 2007. The increased use of cash for working capital was largely due to increased derivative assets and margin account balances (each of which is classified in prepaid expenses and other current assets) and increased commodity inventory balances within the Trading and Merchandising segment. The Company also built inventory balances in the Consumer Foods segment in anticipation of production transition to co-packers and other Company-owned facilities as part of the previously announced plant rationalization program. In addition to the working capital changes, the Company made contributions to its pension plans of $172 million and $36 million during fiscal 2007 and fiscal 2006, respectively. Cash generated from operating activities of discontinued operations was approximately $59 million in fiscal 2007, as compared to $156 million in fiscal 2006. The decrease in operating cash flows from discontinued operations is largely due to the dispositions of the various businesses in fiscal 2007 for which cash flows were generated throughout fiscal 2006. Cash flow from operating activities is one of the Company's primary sources of liquidity.

Cash generated from investing activities totaled $523 million for fiscal 2007, versus cash generated from investing activities of $697 million in fiscal 2006. Investing activities of continuing operations in fiscal 2007 consisted primarily of proceeds of $117 million from the sale of notes receivable from Swift Foods, $82 million from the sale of property, plant and equipment, including the sale of four aircraft, and $74 million from the sale of an oat milling business, a refrigerated pizza business, and an equity method investment, offset by $425 million of capital expenditures. The cash flows from investing activities also includes approximately $94 million of expenditures related to the Company s purchase of certain warehouse facilities from its lessors, offset by proceeds from immediate sale of these same warehouse facilities to unrelated third parties for $92 million. The Company generated $662 million of investing activities from discontinued operations in fiscal 2007, primarily from the dispositions of the refrigerated meats and cheese businesses. Investing activities for fiscal 2006 include proceeds from the sale of the 15.4 million shares of Pilgrim s Pride Corporation common stock for $482 million and proceeds from the sale of the Company s Cook s Ham and seafood businesses for approximately $442 million, offset by capital expenditures of continuing operations of $263 million.

Cash used in financing activities totaled $1.1 billion in fiscal 2007, as compared to cash used in financing activities of $1.6 billion in fiscal 2006. During fiscal 2007, the Company repurchased $615 million of its common stock as part of its share repurchase program, paid dividends of $367 million, and made a cash payment of $94 million, including issuance costs, as part of the previously discussed debt exchange. The Company redeemed $12 million of 8.8% unsecured debt due in May 2017 and made scheduled principal payments of debt and payments of lease financing obligations during fiscal 2007, reducing long-term debt by $35 million. During fiscal 2006, the Company redeemed $500 million of 6% senior debt due in September 2006 and $250 million of 7.875% senior debt due in September 2010. In addition to these early retirements of debt, the Company made scheduled principal payments of debt and payments of lease financing obligations during fiscal 2006, reducing long-term debt by $149 million. The Company also paid dividends of $565 million and repurchased $197 million of its common stock as part of its share repurchase program.

The Company estimates its capital expenditures in fiscal 2008 will be approximately $450 million. Management believes that existing cash balances, cash flows from operations, divestiture proceeds, existing credit facilities, and access to capital markets will provide sufficient liquidity to meet its working capital needs, and for planned capital expenditures, share repurchases, and payment of anticipated quarterly dividends.

OFF-BALANCE SHEET ARRANGEMENTS

The Company uses off-balance sheet arrangements (e.g., operating leases) where the economics and sound business principles warrant their use. The Company periodically enters into guarantees and other similar arrangements as part of transactions in the ordinary course of business. These are described further in Obligations and Commitments below.

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The Company consolidates the assets and liabilities of several entities from which it leases office buildings and corporate aircraft. These entities have been determined to be variable interest entities and the Company has been determined to be the primary beneficiary of these entities. Due to the consolidation of these entities, the Company reflects in its balance sheet: property, plant and equipment of $156 million and $183 million, other assets of $14 million and $12 million, long-term debt of $150 million (including current maturities of $6 million) and $192 million (including current maturities of $8 million), minority interest liabilities of $22 million and $6 million, and other accrued liabilities of $1 million and $0, as of May 27, 2007 and May 28, 2006, respectively. The liabilities recognized as a result of consolidating these entities do not represent additional claims on the general assets of the Company. The creditors of these entities have claims only on the assets of the specific variable interest entities.

OBLIGATIONS AND COMMITMENTS

As part of its ongoing operations, the Company enters into arrangements that obligate the Company to make future payments under contracts such as debt agreements, lease agreements, and unconditional purchase obligations (i.e., obligations to transfer funds in the future for fixed or minimum quantities of goods or services at fixed or minimum prices, such as take-or-pay contracts). The unconditional purchase obligation arrangements are entered into by the Company in its normal course of business in order to ensure adequate levels of sourced product are available to the Company. Capital lease and debt obligations, which totaled $3.6 billion at May 27, 2007, are currently recognized as liabilities in the Company s consolidated balance sheet. Operating lease obligations and unconditional purchase obligations, which totaled $645 million at May 27, 2007, are not recognized as liabilities in the Company s consolidated balance sheet, in accordance with generally accepted accounting principles.

A summary of the Company s contractual obligations at the end of fiscal 2007 is as follows (including obligations of discontinued operations):

($ in millions)		**Payments Due by Period**			
Contractual Obligations	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**After 5 Years**
Long-Term Debt	$ 3,575.4	$ 18.2	$ 48.5	$ 1,226.9	$ 2,281.8
Lease Obligations	456.6	79.4	137.3	92.4	147.5
Purchase Obligations	188.4	57.5	69.0	59.0	2.9
Total	$ 4,220.4	$ 155.1	$ 254.8	$ 1,378.3	$ 2,432.2

The Company s total obligations of approximately $4.2 billion reflect a decrease of approximately $237 million from the Company s 2006 fiscal year-end. The decrease was due primarily to a reduction of lease obligations in connection with the sale of the packaged meats operations.

The Company is also contractually obligated to pay interest on its long-term debt obligations. The weighted average interest rate of the long-term debt obligations outstanding as of May 27, 2007 was approximately 7.2%.

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As part of its ongoing operations, the Company also enters into arrangements that obligate the Company to make future cash payments only upon the occurrence of a future event (e.g., guarantee debt or lease payments of a third party should the third party be unable to perform). In accordance with generally accepted accounting principles, the following commercial commitments are not recognized as liabilities in the Company s consolidated balance sheet. The Company s commitments, including commitments associated with equity method investments, as of the end of fiscal 2007, are as follows (including commitments of discontinued operations):

($ in millions)	Amount of Commitment Expiration Per Period				
Other Commercial Commitments	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Guarantees	$ 33.6	$ 6.8	$ 10.0	$ 5.5	$ 11.3
Other Commitments	1.1	1.1			
Total	$ 34.7	$ 7.9	$ 10.0	$ 5.5	$ 11.3

The Company s total commitments of approximately $35 million include approximately $28 million in guarantees and other commitments the Company has made on behalf of the Company s divested fresh beef and pork business.

As part of the fresh beef and pork divestiture, the Company guaranteed the performance of the divested fresh beef and pork business with respect to a hog purchase contract. The hog purchase contract requires the divested fresh beef and pork business to purchase a minimum of approximately 1.2 million hogs annually through 2014. The contract stipulates minimum price commitments, based in part on market prices, and in certain circumstances also includes price adjustments based on certain inputs.

TRADING ACTIVITIES

The Company accounts for certain contracts (e.g., physical commodity purchase/sale contracts and derivative contracts) at fair value. The Company considers a portion of these contracts to be its trading activities; specifically, those contracts that do not qualify for hedge accounting under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and its related amendment, SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities* (collectively SFAS No. 133). The following table represents the fair value and scheduled maturity dates of trading contracts outstanding as of May 27, 2007:

($ in millions)	Fair Value of Contracts as of May 27, 2007						
	Gross Asset		Gross Liability		Net Asset		
Source of Fair Value	Maturity less than 1 year	Maturity 1-3 years	Maturity less than 1 year	Maturity 1-3 years	Maturity less than 1 year	Maturity 1-3 years	Total Fair Value
Prices actively quoted	$ 671.5	$ 8.8	$ (589.4)	$ (2.4)	$ 82.1	$ 6.4	$ 88.5
Prices provided by other external sources	109.7	0.8	(115.4)		(5.7)	0.8	(4.9)
Prices based on other valuation models							
Total fair value	$ 781.2	$ 9.6	$ (704.8)	$ (2.4)	$ 76.4	$ 7.2	$ 83.6

In order to minimize the risk of loss associated with non-exchange-traded transactions with counterparties, the Company utilizes established credit limits and performs ongoing counterparty credit evaluations.

The above table excludes commodity-based contracts entered into in the normal course of business, including physical contracts to buy or sell commodities at agreed-upon fixed prices, as well as derivative contracts (e.g., futures and options) used primarily to hedge an existing asset or liability (e.g., inventory) or an

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anticipated transaction (e.g., purchase of inventory). The use of such contracts is not considered by the Company to be trading activities as these contracts are considered either normal purchase and sale contracts or hedging contracts. The asset and liability amounts in this table reflect gross positions and are not reduced for offsetting positions with a counterparty when a legal right of offset exists. The prices actively quoted category reflects only contracts for which the fair value is based entirely upon prices actively quoted on major exchanges in the United States. The prices provided by other external sources category represents contracts which contain a pricing component other than prices actively quoted on a major exchange, such as forward commodity positions at locations for which over-the-counter broker quotes are available.

CRITICAL ACCOUNTING ESTIMATES

The process of preparing financial statements requires the use of estimates on the part of management. The estimates used by management are based on the Company s historical experiences combined with management s understanding of current facts and circumstances. Certain of the Company s accounting estimates are considered critical as they are both important to the portrayal of the Company s financial condition and results and require significant or complex judgment on the part of management. The following is a summary of certain accounting estimates considered critical by management of the Company.

The Company s Audit Committee has reviewed management s development, selection, and disclosure of the critical accounting estimates.

Marketing Costs The Company incurs certain costs to promote its products through marketing programs which include advertising, retailer incentives, and consumer incentives. The Company recognizes the cost of each of these types of marketing activities in accordance with generally accepted accounting principles. The judgment required in determining when marketing costs are incurred can be significant. For volume-based incentives provided to retailers, management must continually assess the likelihood of the retailer achieving the specified targets. Similarly, for consumer coupons, management must estimate the level at which coupons will be redeemed by consumers in the future. Estimates made by management in accounting for marketing costs are based primarily on the Company s historical experience with marketing programs with consideration given to current circumstances and industry trends. As these factors change, management s estimates could change and the Company could recognize different amounts of marketing costs over different periods of time.

Advertising and promotion expenses of continuing operations totaled $452 million, $335 million, and $318 million in fiscal 2007, 2006, and 2005, respectively.

Historically, the Company has entered into over 150,000 individual marketing programs each year resulting in annual costs in excess of $2 billion, which are reflected as a reduction of net sales. Changes in the assumptions used in estimating the cost of any of the individual marketing programs would not result in a material change in the Company s results of operations or cash flows.

Income Taxes The Company recognizes current tax liabilities and assets based on an estimate of taxes payable or refundable in the current year for each of the jurisdictions in which the Company transacts business. As part of the determination of its current tax liability, management exercises considerable judgment in evaluating positions taken by the Company in its tax returns. The Company has established reserves for probable tax exposures. These reserves, included in current tax liabilities, represent the Company s estimate of amounts expected to be paid, which the Company adjusts over time as more information becomes available.

The Company also recognizes deferred tax assets and liabilities for the estimated future tax effects attributable to temporary differences (e.g., the difference in book basis versus tax basis of fixed assets resulting from differing depreciation methods). If appropriate, the Company recognizes valuation allowances to reduce deferred tax assets to amounts that are more likely than not to be ultimately realized, based on the Company s assessment of estimated future taxable income, including the consideration of available tax planning strategies.

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The calculation of current and deferred tax assets (including valuation allowances) and liabilities requires management to apply significant judgment related to the application of complex tax laws, changes in tax laws or related interpretations, uncertainties related to the outcomes of tax audits and changes in the Company s operations or other facts and circumstances. Further, management must continually monitor changes in these factors. Changes in such factors may result in changes to management estimates and could require the Company to adjust its tax assets and liabilities and record additional income tax expense or benefits.

Environmental Liabilities Environmental liabilities are accrued when it is probable that obligations have been incurred and the associated amounts can be reasonably estimated. Management works with independent third-party specialists in order to effectively assess the Company s environmental liabilities. Management estimates the Company s environmental liabilities based on evaluation of investigatory studies, extent of required cleanup, the known volumetric contribution of the Company, and other potentially responsible parties and its experience in remediating sites. Environmental liability estimates may be affected by changing governmental or other external determinations of what constitutes an environmental liability or an acceptable level of cleanup. Management s estimate as to its potential liability is independent of any potential recovery of insurance proceeds or indemnification arrangements. Insurance companies and other indemnitors are notified of any potential claims and periodically updated as to the general status of known claims. The Company does not discount its environmental liabilities as the timing of the anticipated cash payments is not fixed or readily determinable. To the extent that there are changes in the evaluation factors identified above, management s estimate of environmental liabilities may also change.

The Company has recognized a reserve of approximately $100 million for environmental liabilities as of May 27, 2007. Historically, the underlying assumptions utilized by the Company in estimating this reserve have been appropriate as actual payments have neither differed materially from the previously estimated reserve balances, nor have significant adjustments to this reserve balance been necessary. The reserve for each site is determined based on an assessment of the most likely required remedy and a related estimate of the costs required to effect such remedy.

Employment-Related Benefits The Company incurs certain employment-related expenses associated with pensions, postretirement health care benefits, and workers compensation. In order to measure the expense associated with these employment-related benefits, management must make a variety of estimates including discount rates used to measure the present value of certain liabilities, assumed rates of return on assets set aside to fund these expenses, compensation increases, employee turnover rates, anticipated mortality rates, anticipated health care costs, and employee accidents incurred but not yet reported to the Company. The estimates used by management are based on the Company s historical experience as well as current facts and circumstances. The Company uses third-party specialists to assist management in appropriately measuring the expense associated with these employment-related benefits. Different estimates used by management could result in the Company recognizing different amounts of expense over different periods of time.

The Company recognized pension expense of $83 million, $96 million, and $71 million in fiscal years 2007, 2006, and 2005, respectively, which reflected expected returns on plan assets of $134 million, $130 million, and $131 million, respectively. The Company contributed $172 million, $36 million, and $9 million to the Company s pension plans in fiscal years 2007, 2006, and 2005, respectively. The Company anticipates contributing approximately $13 million to its pension plans in fiscal 2008.

One significant assumption for pension plan accounting is the discount rate. The Company selects a discount rate each year (as of its February 28 measurement date) for its plans based upon a hypothetical bond portfolio for which the cash flows from coupons and maturities match the year-by-year projected benefit cash flows for the Company s pension plans. The hypothetical bond portfolio is comprised of high-quality fixed income debt instruments (usually Moody s Aa) available at the measurement date. Based on this information, the discount rates selected by the Company for determination of pension expense for fiscal years 2007, 2006, and

2005 were 5.75%, 5.75%, and 6.0%, respectively. The Company selected a discount rate of 5.75% for determination of pension expense for fiscal 2008. A 25 basis point increase in the Company s discount rate assumption as of the beginning of fiscal 2007 would decrease pension expense for the Company s pension plans by $9.2 million for the year. A 25 basis point decrease in the Company s discount rate assumption as of the beginning of fiscal 2007 would increase pension expense for the Company s pension plans by $9.7 million for the year. A 25 basis point increase in the discount rate would decrease pension expense by approximately $3.7 million for fiscal 2008. A 25 basis point decrease in the discount rate would increase pension expense by approximately $9.6 million for fiscal 2008. For its year-end pension obligation determination, the Company selected a discount rate of 5.75% for fiscal year 2007 and 2006.

Another significant assumption used to account for the Company s pension plans is the expected long-term rate of return on plan assets. In developing the assumed long-term rate of return on plan assets for determining pension expense, the Company considers long-term historical returns (arithmetic average) of the plan s investments, the asset allocation among types of investments, estimated long-term returns by investment type from external sources, and the current economic environment. Based on this information, the Company selected 7.75% for the long-term rate of return on plan assets for determining its fiscal 2007 pension expense. A 25 basis point increase/decrease in the Company s expected long-term rate of return assumption as of the beginning of fiscal 2007 would decrease/increase annual pension expense for the Company s pension plans by approximately $4.4 million. The Company selected an expected rate of return on plan assets of 7.75% to be used to determine its pension expense for fiscal 2008.

When calculating expected return on plan assets for pension plans, the Company uses a market-related value of assets that spreads asset gains and losses (differences between actual return and expected return) over five years. The market-related value of assets used in the calculation of expected return on plan assets for fiscal 2007 was $189 million lower than the actual fair value of plan assets.

The rate of compensation increase is another significant assumption used in the development of accounting information for pension plans. The Company determines this assumption based on its long-term plans for compensation increases and current economic conditions. Based on this information, the Company selected 4.25% for fiscal years 2007 and 2006 as the rate of compensation increase for determining its year-end pension obligation. The Company selected 4.25%, 4.25%, and 4.5% for the rate of compensation increase for determination of pension expense for fiscal 2007, 2006, and 2005, respectively. A 25 basis point increase in the Company s rate of compensation increase assumption as of the beginning of fiscal 2007 would increase pension expense for the Company s pension plans by approximately $2 million for the year. A 25 basis point decrease in the Company s rate of compensation increase assumption as of the beginning of fiscal 2007 would decrease pension expense for the Company s pension plans by approximately $2 million for the year. The Company selected a rate of 4.25% for the rate of compensation increase to be used to determine its pension expense for fiscal 2008.

The Company also provides certain postretirement health care benefits. The Company recognized postretirement benefit expense of $10 million, $18 million, and $27 million in fiscal 2007, 2006, and 2005, respectively. The Company reflects liabilities of $392 million and $340 million in its balance sheets as of May 27, 2007 and May 28, 2006, respectively. The postretirement benefit expense and obligation are also dependent on the Company s assumptions used for the actuarially determined amounts. These assumptions include discount rates (discussed above), health care cost trend rates, inflation rates, retirement rates, mortality rates and other factors. The health care cost trend assumptions are developed based on historical cost data, the near-term outlook and an assessment of likely long-term trends. Assumed inflation rates are based on an evaluation of external market indicators. Retirement and mortality rates are based primarily on actual plan experience. The discount rate selected by the Company for determination of postretirement expense for fiscal years 2007, 2006, and 2005 was 5.5%, 5.5%, and 6.0%, respectively. The Company has selected a discount rate of 5.5% for determination of postretirement expense for fiscal 2008. A 25 basis point increase/decrease in the Company s discount rate assumption as of the beginning of fiscal 2008 would decrease/increase postretirement

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expense for the Company s plans by $1.2 million. The Company has assumed the initial year increase in cost of health care to be 9.5%, with the trend rate decreasing to 5.0% by 2013. A one percentage point change in the assumed health care cost trend rate would have the following effect:

($ in millions)	One Percent Increase	One Percent Decrease
Effect on total service and interest cost	$ 1.7	$ (1.6)
Effect on postretirement benefit obligation	28.5	(25.0)

The Company provides workers compensation benefits to its employees. The measurement of the liability for the Company s cost of providing these benefits is largely based upon actuarial analysis of costs. One significant assumption made by the Company is the discount rate used to calculate the present value of its obligation. The discount rate used at May 27, 2007 was 5.0%. A 25 basis point increase/decrease in the discount rate assumption would not have a material impact on workers compensation expense.

Impairment of Long-Lived Assets (including property, plant and equipment), Goodwill and Identifiable Intangible Assets The Company reduces the carrying amounts of long-lived assets, goodwill and identifiable intangible assets to their fair values when the fair value of such assets is determined to be less than their carrying amounts (i.e., assets are deemed to be impaired). Fair value is typically estimated using a discounted cash flow analysis, which requires the Company to estimate the future cash flows anticipated to be generated by the particular asset(s) being tested for impairment as well as to select a discount rate to measure the present value of the anticipated cash flows. When determining future cash flow estimates, the Company considers historical results adjusted to reflect current and anticipated operating conditions. Estimating future cash flows requires significant judgment by the Company in such areas as future economic conditions, industry-specific conditions, product pricing and necessary capital expenditures. The use of different assumptions or estimates for future cash flows could produce different impairment amounts (or none at all) for long-lived assets, goodwill and identifiable intangible assets.

The Company utilizes a relief from royalty methodology in evaluating impairment of its brands/trademarks. The methodology determines the fair value of each brand through use of a discounted cash flow model that incorporates an estimated royalty rate the Company would be able to charge a third party for the use of the particular brand. As the calculated fair value of the Company s goodwill and other identifiable intangible assets significantly exceeds the carrying amount of these assets, a one percentage point increase in the discount rate assumptions used to estimate the fair values of the Company s goodwill and other identifiable intangible assets would not result in a material impairment charge.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. This provides entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without being required to apply complex hedge accounting provisions. The provisions of SFAS No. 159 are effective as of the beginning of the Company s fiscal 2009. Management is currently evaluating the impact of adopting SFAS No. 159 on the Company s consolidated financial position and results of operations.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108), to address diversity in practice in quantifying financial statement misstatements. SAB 108 requires that the Company quantify misstatements based on their impact on each of the Company s financial statements and related disclosures. The Company adopted SAB 108 effective as of May 27, 2007. The adoption of SAB 108 did not impact the Company s financial statements.

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In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements,* which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective as of the beginning of the Company s fiscal 2009. Management is currently evaluating the impact of adopting SFAS No. 157 on the Company s consolidated financial position and results of operations.

In September 2006, the FASB issued SFAS No. 158, *Employer s Accounting for Defined Benefit Pension and Other Postretirement Plans.* SFAS No. 158 required that the Company recognize the overfunded or underfunded status of its defined benefit and retiree medical plans (the Plans) as an asset or liability in the Company s fiscal 2007 year-end consolidated balance sheet, with changes in the funded status recognized through comprehensive income in the year in which they occur (see further discussion in note 17). SFAS No. 158 also requires the Company, no later than fiscal 2009, to measure the funded status of its Plans as of the Company s year-end consolidated balance sheet date versus the current measurement date of February 28. Management is currently evaluating the timing and financial statement impact of adopting the measurement date provisions of SFAS No. 158 on the Company s consolidated financial position and results of operations.

In June 2006, the FASB issued FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes.* FIN 48 describes a recognition threshold and measurement attribute for the recognition and measurement of tax positions taken or expected to be taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company plans to adopt FIN 48 in the first quarter of fiscal 2008. Management is currently evaluating the impact that the adoption of this statement will have on the Company s consolidated financial position and results of operations.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*, which amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. SFAS No. 155 simplifies the accounting for certain derivatives embedded in other financial instruments by allowing them to be accounted for as a whole if the holder elects to account for the entire instrument on a fair value basis. SFAS No. 155 also clarifies and amends certain other provisions of SFAS No. 133 and SFAS No. 140. SFAS No. 155 is effective for all financial instruments acquired, issued or subject to a remeasurement event occurring in fiscal years beginning after September 15, 2006. The Company plans to adopt SFAS No. 155 in the first quarter of fiscal 2008. Management does not expect this statement to have a material impact on the Company s consolidated financial position or results of operations.

RELATED PARTY TRANSACTIONS

Sales to affiliates (equity method investees) of $6.2 million, $2.6 million, and $1.7 million for fiscal 2007, 2006, and 2005, respectively, are included in net sales. The Company received management fees from affiliates (equity method investees) of $14.8 million, $13.5 million, and $14.1 million in fiscal 2007, 2006, and 2005, respectively. Accounts receivable from affiliates totaled $2.5 million and $1.8 million at May 27, 2007 and May 28, 2006, respectively. Accounts payable to affiliates totaled $13.5 million and $12.2 million at May 27, 2007 and May 28, 2006, respectively.

During the first quarter of fiscal 2007, the Company sold an aircraft for proceeds of approximately $8.1 million to a company on whose board of directors one of the Company s directors sits. The Company recognized a gain of approximately $3.0 million on the transaction.

The Company leases various buildings that are beneficially owned by Opus Corporation or entities related to Opus Corporation (the Opus Entities). The Opus Entities are affiliates or part of a large, national real estate

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development company. A member of the Company s board of directors is a beneficial owner, officer and chairman of Opus Corporation and a director or officer of the related entities. The agreements relate to the leasing of land, buildings and equipment for the Company in Omaha, Nebraska. The Company occupies the buildings pursuant to long term leases with Opus Corporation and other investors, which leases contain various termination rights and purchase options. The Company made rental payments of $14.4 million, $15.8 million, and $19.8 million in fiscal 2007, 2006 and 2005, respectively, to the Opus Entities. The Company has also entered into construction contracts with the Opus Entities, which relate to the construction of improvements to various properties occupied by the Company. The Company made payments of $1.3 million, $1.6 million, and $52.9 million to the Opus Entities for construction services for fiscal 2007, 2006, and 2005, respectively. The Company purchases property management services from Opus Corporation. Payments made by the Company to Opus Corporation or its affiliates for these services totaled $1.5 million and $1.4 million for fiscal 2007 and 2006, respectively.

FORWARD-LOOKING STATEMENTS

This report, including Management s Discussion & Analysis, contains forward-looking statements. These statements are based on management's current views and assumptions of future events and financial performance and are subject to uncertainty and changes in circumstances. Readers of this report should understand that these statements are not guarantees of performance or results. Many factors could affect the Company s actual financial results and cause them to vary materially from the expectations contained in the forward-looking statements, including those set forth in this report. These factors include, among other things, future economic circumstances, industry conditions, Company performance and financial results, availability and prices of raw materials, product pricing, competitive environment and related market conditions, operating efficiencies, the ultimate impact of the peanut butter recall, access to capital, actions of governments and regulatory factors affecting the Company's businesses and other risks described in the Company s reports filed with the Securities and Exchange Commission. The Company cautions readers not to place undue reliance on any forward-looking statements included in this report which speak only as of the date of this report.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The principal market risks affecting the Company are exposures to price fluctuations of commodity and energy inputs, interest rates and foreign currencies. These fluctuations impact raw material costs of all reporting segments, as well as the Company s trading activities.

Commodities The Company purchases commodity inputs such as wheat, corn, oats, soybean meal, soybean oil, meat, dairy products, sugar, natural gas, electricity, and packaging materials to be used in its operations. These commodities are subject to price fluctuations that may create gross margin risk. The Company enters into commodity hedges to manage this price risk using physical forward contracts or derivative instruments. The Company has policies governing the hedging instruments its businesses may use. These policies include limiting the dollar risk exposure for each of its businesses. The Company also monitors the amount of associated counter-party credit risk for all non-exchange-traded transactions. In addition, the Company purchases and sells certain commodities, such as wheat, corn, soybeans, soybean meal, soybean oil, oats, natural gas, and crude oil in its Trading and Merchandising segment. The Company s trading activities are limited in terms of maximum dollar exposure, as measured by a dollar-at-risk methodology and monitored to ensure compliance.

The following table presents one measure of market risk exposure using sensitivity analysis. Sensitivity analysis is the measurement of potential loss of fair value resulting from a hypothetical change of 10% in market prices. Actual changes in market prices may differ from hypothetical changes. In practice, as markets move, the Company actively manages its risk and adjusts hedging strategies as appropriate. Fair value was determined using quoted market prices and was based on the Company's net derivative position by commodity at each quarter-end during the fiscal year. The market risk exposure analysis excludes the underlying commodity positions that are being hedged. The values of commodities hedged have a high inverse correlation to price changes of the derivative commodity instrument.

Effect of 10% change in market prices (based upon positions at the end of each fiscal quarter):

(in millions)	**2007**	**2006**
Processing Activities		
Grains		
High	$ 7.2	$ 11.7
Low	1.8	
Average	5.2	6.1
Meats		
High	0.3	0.6
Low		0.3
Average	0.1	0.5
Energy		
High	17.0	42.8
Low	2.4	1.5
Average	9.0	18.1
Trading Activities		
Grains		
High	75.0	45.4
Low	33.4	15.0
Average	56.1	28.1
Meats		
High	8.9	6.0
Low		
Average	4.9	3.8
Energy		
High	20.2	16.5
Low		4.1
Average	9.5	8.0

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Interest Rates The Company may use interest rate swaps to manage the effect of interest rate changes on its existing debt as well as the anticipated issuance of debt. At the end of fiscal 2007 and 2006, the Company did not have any interest rate swap agreements outstanding, as all of the Company s interest rate swap agreements were terminated in the second quarter of fiscal 2004.

As of May 27, 2007 and May 28, 2006, the fair value of the Company s fixed rate debt was estimated at $3.8 billion, based on current market rates primarily provided by outside investment advisors. As of May 27, 2007 and May 28, 2006, a one percentage point increase in interest rates would decrease the fair value of the Company s fixed rate debt by approximately $253 million and $257 million, respectively, while a one percentage point decrease in interest rates would increase the fair value of the Company s fixed rate debt by approximately $288 million and $293 million, respectively.

Foreign Operations In order to reduce exposures related to changes in foreign currency exchange rates, the Company may enter into forward exchange or option contracts for transactions denominated in a currency other than the functional currency for certain of its processing and trading operations. This activity primarily relates to hedging against foreign currency risk in purchasing inventory, capital equipment, sales of finished goods, and future settlement of foreign denominated assets and liabilities.

The following table presents one measure of market risk exposure using sensitivity analysis for the Company s processing and trading operations. Sensitivity analysis is the measurement of potential loss of fair value resulting from a hypothetical change of 10% in exchange rates. Actual changes in exchange rates may differ from hypothetical changes. Fair value was determined using quoted exchange rates and was based on the Company s net foreign currency position at each quarter-end during the fiscal year. The market risk exposure analysis excludes the underlying foreign denominated transactions that are being hedged. The currencies hedged have a high inverse correlation to exchange rate changes of the foreign currency derivative instrument.

Effect of 10% change in exchange rates (based upon positions at the end of each fiscal quarter):

(in millions)	**2007**	**2006**
Processing Businesses		
High	$ 14.3	$ 18.0
Low	7.7	12.9
Average	11.0	16.7
Trading Businesses		
High		0.6
Low		
Average		0.2

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED STATEMENTS OF EARNINGS

CONAGRA FOODS, INC. AND SUBSIDIARIES

Dollars in millions except per share amounts

	FOR THE FISCAL YEARS ENDED MAY		
	2007	2006	2005
Net sales	$ 12,028.2	$ 11,482.0	$ 11,383.8
Costs and expenses:			
Cost of goods sold	8,889.7	8,658.6	8,550.3
Selling, general and administrative expenses	1,907.8	1,935.9	1,717.9
Interest expense, net	225.6	272.0	314.0
Gain on sale of Pilgrim s Pride Corporation common stock		329.4	185.7
Income from continuing operations before income taxes and equity method investment earnings (loss)	1,005.1	944.9	987.3
Income tax expense	365.7	306.0	403.7
Equity method investment earnings (loss)	44.4	(49.6)	(24.9)
Income from continuing operations	683.8	589.3	558.7
Income (loss) from discontinued operations, net of tax	80.8	(55.5)	82.8
Net income	$ 764.6	$ 533.8	$ 641.5
Earnings per share basic			
Income from continuing operations	$ 1.36	$ 1.14	$ 1.08
Income (loss) from discontinued operations	0.16	(0.11)	0.16
Net income	$ 1.52	$ 1.03	$ 1.24
Earnings per share diluted			
Income from continuing operations	$ 1.35	$ 1.13	$ 1.07
Income (loss) from discontinued operations	0.16	(0.10)	0.16
Net income	$ 1.51	$ 1.03	$ 1.23

The accompanying Notes are an integral part of the consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

CONAGRA FOODS, INC. AND SUBSIDIARIES

Dollars in millions

	FOR THE FISCAL YEARS ENDED MAY		
	2007	2006	2005
Net income	$ 764.6	$ 533.8	$ 641.5
Other comprehensive income (loss):			
Net derivative adjustment, net of tax	(9.4)	6.6	(0.8)
Unrealized gain (loss) on available-for-sale securities, net of tax:			
Unrealized net holding gains (losses) arising during the period	2.5	(13.8)	114.7
Reclassification adjustment for gains included in net income	(2.2)	(73.4)	(115.2)
Currency translation adjustment:			
Unrealized translation gains arising during the period	11.0	15.1	26.6
Reclassification adjustment for losses included in net income	21.7		
Minimum pension liability, net of tax	39.8	(0.3)	(1.2)
Comprehensive income	$ 828.0	$ 468.0	$ 665.6

The accompanying Notes are an integral part of the consolidated financial statements.

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CONSOLIDATED BALANCE SHEETS

CONAGRA FOODS, INC. AND SUBSIDIARIES

Dollars in millions except share data

	May 27, 2007	May 28, 2006
ASSETS		
Current assets		
Cash and cash equivalents	$ 735.2	$ 331.6
Receivables, less allowance for doubtful accounts of $25.5 and $27.8	1,203.1	1,178.1
Inventories	2,348.5	2,130.6
Prepaid expenses and other current assets	719.2	889.0
Current assets held for sale		261.0
Total current assets	5,006.0	4,790.3
Property, plant and equipment		
Land and land improvements	143.5	140.6
Buildings, machinery and equipment	3,807.9	3,735.9
Furniture, fixtures, office equipment and other	846.8	809.2
Construction in progress	281.4	143.8
	5,079.6	4,829.5
Less accumulated depreciation	(2,758.4)	(2,561.1)
Property, plant and equipment, net	2,321.2	2,268.4
Goodwill	3,446.9	3,445.6
Brands, trademarks and other intangibles, net	776.0	799.5
Other assets	285.4	233.5
Noncurrent assets held for sale		433.1
	$ 11,835.5	$ 11,970.4
LIABILITIES AND COMMON STOCKHOLDERS EQUITY		
Current liabilities		
Notes payable	$ 21.3	$ 10.0
Current installments of long-term debt	18.2	421.1
Accounts payable	1,108.1	867.6
Accrued payroll	336.1	310.8
Other accrued liabilities	1,197.2	1,350.7
Current liabilities held for sale		4.6
Total current liabilities	2,680.9	2,964.8
Senior long-term debt, excluding current installments	3,220.0	2,754.8
Subordinated debt	200.0	400.0
Other noncurrent liabilities	1,151.7	1,197.6
Noncurrent liabilities held for sale		3.2
Total liabilities	7,252.6	7,320.4

Commitments and contingencies (Notes 14 and 15)		
Common stockholders equity		
Common stock of $5 par value, authorized 1,200,000,000 shares; issued 566,410,152 and 566,214,311	2,832.2	2,831.1
Additional paid-in capital	816.8	764.0
Retained earnings	2,856.0	2,454.6
Accumulated other comprehensive loss	(5.9)	(21.8)
Less treasury stock, at cost, common shares 76,631,063 and 55,352,988	(1,916.2)	(1,375.7)
	4,582.9	4,652.2
Less unearned restricted stock		(2.2)
Total common stockholders equity	4,582.9	4,650.0
	$ 11,835.5	$ 11,970.4

The accompanying Notes are an integral part of the consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS EQUITY

CONAGRA FOODS, INC. AND SUBSIDIARIES

FOR THE FISCAL YEARS ENDED MAY

Dollars in millions except per share data

Common Shares	Common Stock