



# 2010 Hormel Foods Corporate Responsibility Report

## Performance

For 120 years, Hormel Foods has been guided by the values of integrity and innovation. The company has flourished by promoting the best governance practices with high standards for transparency and accountability, as well as financial sustainability through the use of sound business decisions. At Hormel Foods, we marry our financial and sustainability goals to ensure we bring the best possible products to our consumers through the most ethical practices.

## Explore

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### Conducting our Business Ethically

Maintaining the highest ethical standards is critically important at Hormel Foods. From employees working in our plants to members of the Board of Directors, we see it as our responsibility to apply the highest ethics to all decisions and actions.

#### Code of Ethical Business Conduct

At Hormel Foods, we require our employees to be trained on our company's policies and procedures. Our Code of Ethical Business Conduct serves as a guide for our employees, officers and directors in making business decisions. The code covers many of the topics discussed in this report, including fair employment practices, harassment, safety, diversity, environmental responsibility and product integrity. Additionally, our code of conduct outlines our policies on conflicts of interest, gifts, illegal payments, illegal political contributions and disciplinary action.

At Hormel Foods, all of our policies follow local and national laws in the United States and elsewhere.

- One-hundred percent of our board members, subsidiaries, joint ventures and company locations are covered under our code of conduct, which includes attesting to compliance with the Foreign Corrupt Practices Act. When considering a company for merger or acquisition, we conduct due diligence and examine the suppliers of the prospective party, to ensure it does not violate this code.
- To ensure adherence to our code of conduct, we established a compliance program that upholds accountability through reporting, tracking and investigations of possible violations of the code.
- The Audit Committee of the Board of Directors oversees the program, which includes a cross-functional Compliance Committee, training of new employees and a hotline for employees to report incidents.



The Compliance Committee includes members from the company's Executive Management Committee and employees from human resources, legal and other departments. Regularly, this committee receives updates on potential violations of the code of conduct. When a violation is reported, the committee promptly initiates any investigation deemed appropriate by them. If it appears that a violation of law has occurred, the committee refers the investigation to the general counsel and promptly provides a written report to management outlining the information received and the investigative action being taken. At the conclusion of the investigation, a final report is provided to management. If serious violations are noted, the committee prepares a report to share with the Audit Committee and explains the actions taken. Depending on the violation, disciplinary actions are taken, and the company takes steps to respond appropriately to the violation to prevent similar violations, including modifying the compliance program as necessary.



More information about our board structure can be found in the [2010 Proxy](#).

### **Communicating Our Way**

To ensure our employees understand the value system at Hormel Foods, we communicate Our Way in our employees' native languages. In the United States, for example, we provide this information in Spanish, as well as English.

If our employees observe anything that does not comply with our code and the values outlined in Our Way, we provide a hotline number to facilitate anonymous employee feedback and address concerns – 1-800-750-4972. This hotline can be used to report a range of issues, including corruption or discrimination. To ensure accountability, this hotline is operated by an independent third-party organization.

### **Performance-Based Executive Compensation**

As part of our principle of maintaining financial sustainability, Hormel Foods has a compensation committee within our Board of Directors that consists exclusively of nonemployee, independent directors. The committee establishes and administers the compensation and benefit programs, and upholds two primary goals:

- Attract and retain highly qualified executive officers; and
- Incent the behavior of executive officers to create stockholder value.



To accomplish these goals, we also benchmark compensation compared to industry peers. The incentive-based system factors in individual performance, competitive market data and overall performance of the company. Incentive compensation is also comprised of both short-term and long-term incentives to help assure the company's success into the future. More information about compensation can be found in the [2010 Proxy](#).

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## Corporate Governance



The Hormel Foods Board of Directors consists of 12 members; 10 of whom are independent.

The Board of Directors oversees all activities at Hormel Foods and is ultimately responsible for ensuring the company's performance is based on strong ethical practices. Hormel Foods President and Chief Executive Officer Jeffrey M. Ettinger serves as Chairman of the Board. The Board of Directors has adopted the Hormel Foods Corporate Governance Guidelines, which outline key corporate governance principles. The guidelines establish a lead director to be held by an independent director. The board also has several committees – audit, compensation, governance and contingency. More information can be found about our board structure in the [2010 Proxy](#).

### Our Governing Principles

The company's stockholders elect the members of the Board of Directors each year at the Annual Meeting. The Governance Committee of the Board of Directors is responsible for identifying and recommending individuals qualified to become members of the board, overseeing succession planning for the corporation's chief executive officer, ensuring the corporation's personnel resources are being managed responsibly and effectively and developing and recommending to the Board of Directors a set of corporate governance principles applicable to the company.

### Board Independence and Evaluation



Our corporate governance guidelines require that a substantial majority of the company's directors be independent. The NYSE listing standards require that a majority of the Company's directors be independent and that the Audit, Compensation and Governance Committees be comprised entirely of independent directors. The Board of Directors has adopted standards to assist it in making the annual determination of each director's independence status. These Director Independence Standards are consistent with the NYSE listing standards. The Director Independence Standards are posted on [www.hormelfoods.com](http://www.hormelfoods.com) under "Investors – Corporate Governance." A director will be considered "independent" if he or she meets the requirements of the Director Independence Standards and the independence criteria in the NYSE listing standards.

In addition to policies outlined in the Hormel Foods Code of Ethical Business Conduct regarding conflicts of interest, we require our board members to submit a letter of resignation if they partake in any action that creates a conflict of interest with the company.

There is an annual self-evaluation of individual committees, and the Board of Directors conducts a self-evaluation. Stock ownership guidelines help to ensure the interests of directors and executives are aligned with the interests of the stockholders. The [formal corporate governance policy](#) is available on our corporate website at [www.hormelfoods.com](http://www.hormelfoods.com).

### **Open Communication with Stakeholders**

We welcome feedback on our corporate responsibility performance and reporting from our stakeholders. In addition, we offer interested parties the opportunity to communicate with the Board of Directors. All communications, whether signed or anonymous, are directed to the chair of one of the committees based on the subject matter of the communication to the nonemployee directors.

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### **Engaging in Legislative Issues**

Many legislative issues affect the food industry. To participate in this dialogue, Hormel Foods is involved in several different ways, including:

- Being a member of trade organizations that conduct lobbying on behalf of the food industry. These organizations include the American Meat Institute, Grocery Manufacturers of America, National Meat Association, National Restaurant Association and National Turkey Federation.
- Monitoring legislative and regulatory issues and conducting lobbying activity when the company determines it is vital to its operations. These activities vary depending on the issue and include working with legislators, the House and Senate Agricultural Committees, the U.S. Department of Agriculture and the Food and Drug Administration. We maintain a good relationship with these parties in order to discuss the various issues and ensure the dissemination of accurate information.



Significant issues that are the focus of our participation in public policy and lobbying through the previous mentioned trade organizations and relationships include:

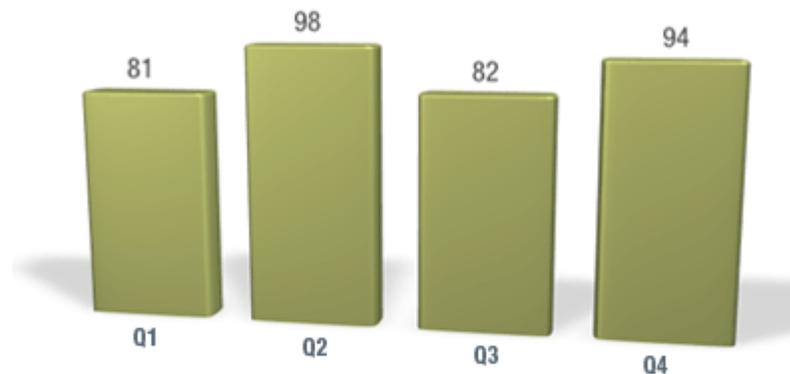
- Food safety improvements;
- Climate change legislation;
- Healthcare reform;
- Sub-therapeutic use for antibiotics; and
- Balanced approach regarding subsidies, tariffs and mandates for biofuels. We have encouraged lawmakers to review subsidy mandate and tariffs for biofuel policy so everyone has fair access to the market availability of biofuels.

In 2010, we spent \$354,956 in lobbying. From our Political Action Committee (PAC), we contributed \$5,000 to the American Meat Institute PAC, \$5,000 to the Grocery Manufacturers Association PAC, and \$1,000 to the National Meat Association PAC.

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### 2010 Annual Lobbying Spent<sup>1</sup>

Thousands of dollars



<sup>1</sup> Quarterly lobbying spent in calendar year as reported to the Clerk of the U.S. House of Representatives and the Secretary of the U.S. Senate as part of the Lobbying Disclosure Act of 1995.

Click [here](#) to show related graph.

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## Risk Management

Hormel Foods formalized its Enterprise Risk Management (ERM) initiative more than 18 months ago to examine and manage potential risks to the company. Working together with the internal audit committee, the ERM steering committee discussed potential risk exposures with executive management and internal teams. The ERM is supported by the Board of Directors and has identified risks and strategic plans to mitigate against these risks. While many of the risks involve proprietary information, we can share overall risks that have been reported in our Annual Report, as well as certain steps we have taken to respond.



As disclosed in our Annual Report, we are aware of the following risks to our business:

- **Food industry risks**, including food spoilage; food contamination caused by disease-producing organisms and pathogens, such as *Listeria monocytogenes*; salmonella and generic *E. coli*; food allergens; nutritional and health-related concerns; federal, state and local food processing controls; consumer product liability claims; product tampering; and the possible unavailability and/or expense of liability insurance.
- **Economic conditions**, which could compromise the financial stability of our customers and suppliers and result in additional bad debts or declined value of our investments, including equity and trading securities.
- **Fluctuations in commodity prices**, including of prices of pork, poultry and feed ingredients, which could harm the company's earnings.
- **Outbreaks of disease** among livestock and poultry flocks that could potentially harm the company's revenues and operating margins.
- **Market demand for our products could fluctuate due to competition** from other food processing companies, including price, product quality, brand identification, breadth of product line and customer service.
- **Acquisitions** in recent years carry risks to our operations, such as the diversion of management's attention from other business concerns and the potential loss of key employees.
- **General risks of litigation.**
- **Government regulation**, past, present and future, exposes the company to potential sanctions and compliance costs.
- **Environmental** proceedings and investigations.
- **Foreign operations risks**, including fluctuations in currency values, foreign currency exchange controls, compliance with foreign laws and other economic or political uncertainties.
- **Deterioration of labor relations** because approximately 5,500 of 19,500 Hormel Foods employees are represented by labor unions.

#### **Activities to mitigate against risks:**

- Required Global Food Safety Initiative (GFSI) audit of suppliers and preferred supplier status by end of 2010.
- Annual audits of joint venture manufacturing operations.
- Validate co-packer food safety systems through annual Hormel Foods quality assurance audits of co-packers.
- Implemented technology back-up systems to ensure operations are consistently connected.
- Managing volatility of company expenses through hedging.
- Implemented IMAGE for human resources and working on common HR policies across all businesses, including subsidiaries.
- Constant monitoring of animal diseases around the nation; continued implementation of bio-security measures at facilities.
- Enhanced quality management system at company-owned farms.



- Promoted innovation through: talent management; leadership vision and direction; and risk tolerance and reaction.
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