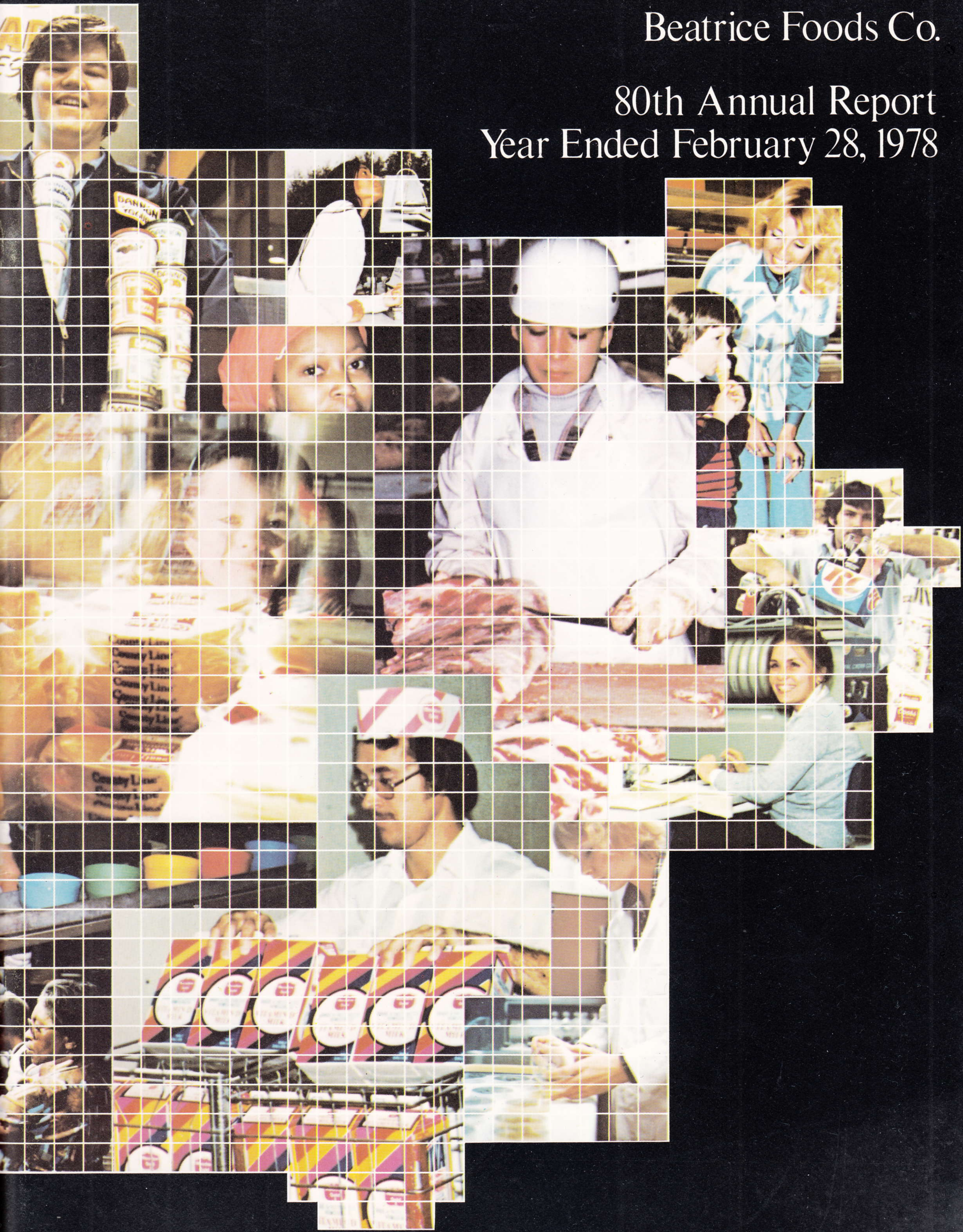
Beatrice Foods Co.

80th Annual Report
Year Ended February 28, 1978



The Business of Beatrice

Beatrice is the country's leading diversified food company producing a wide variety of goods and services for worldwide markets.

Sales and earnings are strategically balanced among 10 principal business categories. Six of these make up a solid base of food and food related products and services. The other four encompass products and services related to well-established and emerging business areas in these fields: institutional and industrial, travel and recreational, housing and home environment and chemical and allied products.

These diverse operations have a common characteristic—specialty businesses, with high quality products or services strongly positioned in their markets.

The success of Beatrice is the result of the collective efforts of a management group functioning in a decentralized system that encourages decision making at the profit center in the field where it is most effective. This system, combined with strong internal controls, allows each profit center to remain flexible and responsive to its individual business conditions.

The result is 26 consecutive years of increased sales, earnings and earnings per share, a record matched by few other companies.

Annual Meeting

The 81st Annual Meeting of Stockholders will be held in the North Ballroom of the Sheraton-Dallas Hotel, Southland Center, Dallas, Texas, on Wednesday, June 7, 1978, at 10:30 a.m. (C.D.T.).

Beatrice People Serving People

Our cover photography this year came from a very appropriate source—Beatrice people. Our "Shoot Out '77" Contest invited Beatrice employees all over the world to submit pictures depicting Beatrice people serving people. Many of the entries are shown on the cover montage. Shoot Out '77 winners are listed on the inside back cover.

Annual Report on Form 10-K

A copy of the annual report to the Securities and Exchange Commission on Form 10-K will be available without charge after June 1, 1978, upon written request to: George J. Zulanas, Jr., Assistant Vice President and Director of Financial Relations, Beatrice Foods Co., 120 South LaSalle Street, Chicago, Ill. 60603.

Corporate World Headquarters
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Beatrice Foods Co.

80th Annual Report
Year Ended February 28, 1978

Financial Highlights
(Dollars in Thousands Except Per Share Data)

For The Years Ended:	February 28, 1978	February 28, 1977	Per Cent Increase
Net Sales	**$6,313,888**	$5,548,926	14
Net Earnings	**221,538**	195,669	13
Net Earnings Per Common Share	**2.41**	2.15	12
Working Capital	**856,177**	767,919	11
Stockholders' Equity	**1,359,259**	1,214,855	12
Dividends	**85,468**	70,629	21
Dividends Paid Per Common Share	**.96**	.82	17
Number of Stockholders	**46,812**	43,049	9

For The Three Months Ended:	February 28, 1978	February 28, 1977	Per Cent Increase
Net Sales	**$1,614,963**	$1,388,347	16
Net Earnings	**47,169**	40,952	15
Net Earnings Per Common Share	**.51**	.45	13

Contents

To the Owners of Beatrice Foods:

We are pleased to report that fiscal 1978 was another year of increased sales, net earnings and net earnings per share—the 26th consecutive year we have achieved such a noteworthy performance.

Net earnings of $222 million in 1978 were 13 percent higher than the net earnings of $196 million in 1977. Sales rose to $6.3 billion, 14 percent ahead of last year's $5.5 billion. Net earnings per common share in 1978 were $2.41, a gain of 12 percent over $2.15 for the previous year.

Balance in Businesses

Our sales and earnings are strategically balanced among 10 business lines. Six comprise a solid base of food and food related products and accounted for 72 percent of fiscal 1978 sales and 58 percent of 1978 operating earnings.

The other four lines of business make and sell products and services related to well-established and emerging business areas in these fields: Institutional and Industrial, Travel and Recreational, Housing and Home Environment and Chemical and Allied Products. In 1978, this sector recorded 28 percent of Beatrice's sales and 42 percent of operating earnings.

The performance of each of these 10 lines of business is more fully explained in our Review of Operations beginning on page 6. Operations of international profit centers in 31 countries outside the U.S. are consolidated and included in these lines of business. Our international business continues to grow as an integral part of Beatrice and 1978 sales were $1.4 billion, 22 percent of the total sales volume of $6.3 billion. This represents an 18 percent increase over the 1977 performance.

Financial Highlights

Dividends—In March, 1978, the board of directors increased the quarterly dividend for the third time in 21 months, from 24 cents per share to 27 cents per share with the first payment April 1, 1978.

The current annualized rate of $1.08 per share represents a 74 percent dividend increase over the last four and one-quarter years. The dividend program is constantly reviewed by the board, and it is our plan to continue paying a dividend rate of approximately 40 percent of net earnings.

Stockholders' Equity—For the 41st consecutive year, stockholders' equity increased in 1978. Book value of each common share also increased for the 41st consecutive year to $14.81 per share, an 11 percent gain over 1977.

Working Capital—For the 33rd consecutive year, working capital increased to an all-time high of $856 million. Our ratio of dollar sales to dollars of working capital improved to $7.37 from $7.23. Funds provided from operations improved to $327 million and were more than sufficient to finance internal operating needs, record dividend payments and capital expenditures. The ratio of long-term debt to stockholders' equity was further reduced to 22 percent, a reflection of our efforts to improve on key debt ratios.

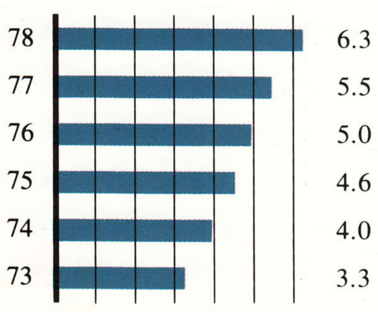
Capital Expenditures—A record $153 million was invested in 1978 for capital expenditures. Most of this went for new plant facilities, expansion of existing facilities, production line automation and modernization, environmental and safety controls and energy conservation. We are budgeting $200 million for fiscal 1979 in our continuing programs to improve productivity, distribution and performance around the world.

Management

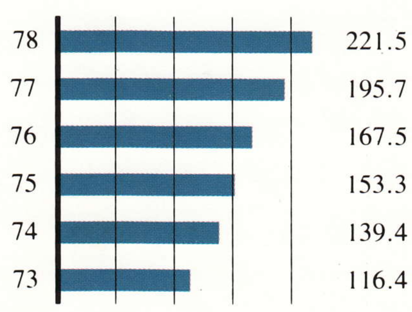
A number of management changes occurred in fiscal 1978. Two new members were elected to the board of directors: John H. Williams, chairman and chief executive officer of The Williams Companies, Tulsa, Okla., and Jayne Baker Spain, senior vice president of public affairs for Gulf Oil Corporation, Pittsburgh, Pa. Mrs. Spain filled the vacancy created when William G. Mitchell resigned as a director, chairman and chief corporate officer of Beatrice in September, 1977.

Five Years of Progress

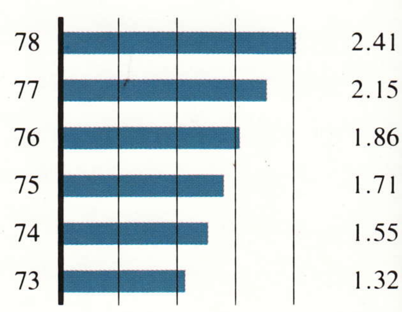
Sales
(in billions of dollars)



Net Earnings
(in millions of dollars)



Earnings Per Share
(in dollars)



In other major moves designed to strengthen our management team, Richard A. Voell was elected deputy chairman and chief corporate officer; Donald P. Eckrich was elected vice chairman and president of all domestic grocery operations; and James L. Dutt was elected president and chief operating officer.

In addition, William W. Granger, Jr. and Richard W. Hanselman were elected executive vice presidents, and John D. Conners was elected a senior vice president. Elected corporate vice presidents were: William J. Polidoro, Joseph E. Quinlan, Duane D. Daggett, Edwin D. Disborough, James A. Johnson, James E. Murphy and Richard W. Truelick. Ronald B. Williams, Jr. and George J. Zulanas, Jr. were elected assistant vice presidents.

Marketing

An important element of our growth strategy is our ever-increasing emphasis upon marketing. Long recognized for its excellence in processing, production and quality control, Beatrice Foods now is becoming better known for its sophisticated marketing techniques which have contributed substantially to growth. A major objective is to expand products with local distribution into regional distribution, products with regional distribution into national distribution and products with national distribution into international markets.

Along with this heavier emphasis upon marketing, Beatrice also is expanding its research and development and advertising and sales promotion activities in fiscal 1979.

Growth Strategies

To understand fully the growth in Beatrice from a historical perspective, consider that our sales and net earnings since 1973 have increased by 90 percent and our net earnings per share have grown 83 percent from the $1.32 reported in 1973.

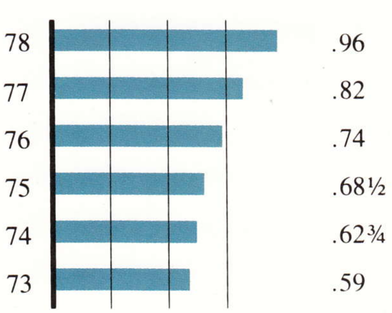
In fiscal 1978, $610 million of the sales increase, or 80 percent, was the result of internal growth, that is, sales increases by units that were members of Beatrice at the start of the fiscal year. The aggregate annual internal growth for the last five years has totaled more than $2.2 billion.

Along with our continuing emphasis on internal growth, we maintain an active policy of selective acquisition of high quality, well-managed companies with strong market positions.

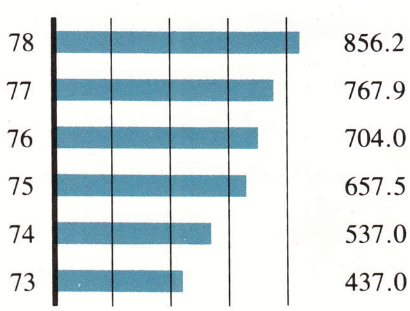
Our acquisition strategy is aimed at providing Beatrice stockholders with a stronger, more balanced company better able to take advantage of cyclical swings and better positioned to meet the needs and demands of consumers around the world with high quality products and services.

Elected to key management positions during the year were, from left, Donald P. Eckrich, vice chairman and president of domestic grocery operations; James L. Dutt, president and chief operating officer, and Richard A. Voell, deputy chairman and chief corporate officer.

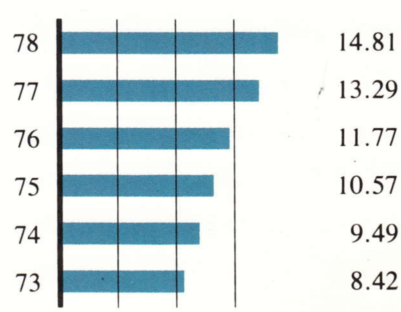
Dividends Per Share
(in dollars)



Working Capital
(in millions of dollars)



Book Value
(per common share in dollars)



With this in mind, we recently entered into merger agreements with Culligan International Company and Tropicana Products, Inc., two excellent companies which we feel fully meet every objective of our acquisition strategy.

Further, we are continually monitoring both internal and external factors affecting our existing profit centers, and we will consider for disposition those operations which we feel will not complement our long-term growth objectives.

As we continue our internal growth, balanced with selective acquisitions, our basic business strategies are:

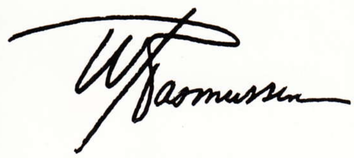
• *Continuing development of skilled managers under our decentralized management system.*
• *Constant improvement of our excellent financial strengths and balance.*
• *Increasing emphasis on marketing capabilities and geographic expansion of markets.*
• *Accelerated programs to develop high quality, specialty products with strong market positions.*
• *Long-term commitments to capital expenditures, research and development and advertising and sales promotion efforts which will increase our leadership positions in many areas.*

We are today, in all ways, a better and stronger company than we were at this time last year. Our management is better. Our financial position is healthier. Our strategies for continued growth are defined more clearly and in place. Our diverse product mix is more balanced and better able, in our opinion, to withstand cyclical swings in any particular area of our business. Our marketing skills have dramatically improved, and our products continue to be among the most respected and most in demand around the world because of our insistence upon high quality.

We will remain respectful of our obligation to be considerate of the countries and communities in which we operate on an ethical as well as legal basis. Concurrently, we always must be conscious of our obligation to our team of 84,000 employees and our stockholders to compensate them adequately by strengthening the company's financial base in each succeeding year.

Finally, we must continue to be aware that our social and economic systems are inextricably entwined . . . that one cannot succeed without the other. We are contributing in a number of ways through programs in support of our system. Programs such as our endorsement of Marching Bands of America which encourages marching band participation in the high schools of our nation, the American Academy of Achievement, the student participation program at our annual meetings and other activities are modest steps in this direction. The real effort, hopefully, must emanate from our people . . . our stockholders and employees. We appreciate the loyalty and support of both of these important groups.

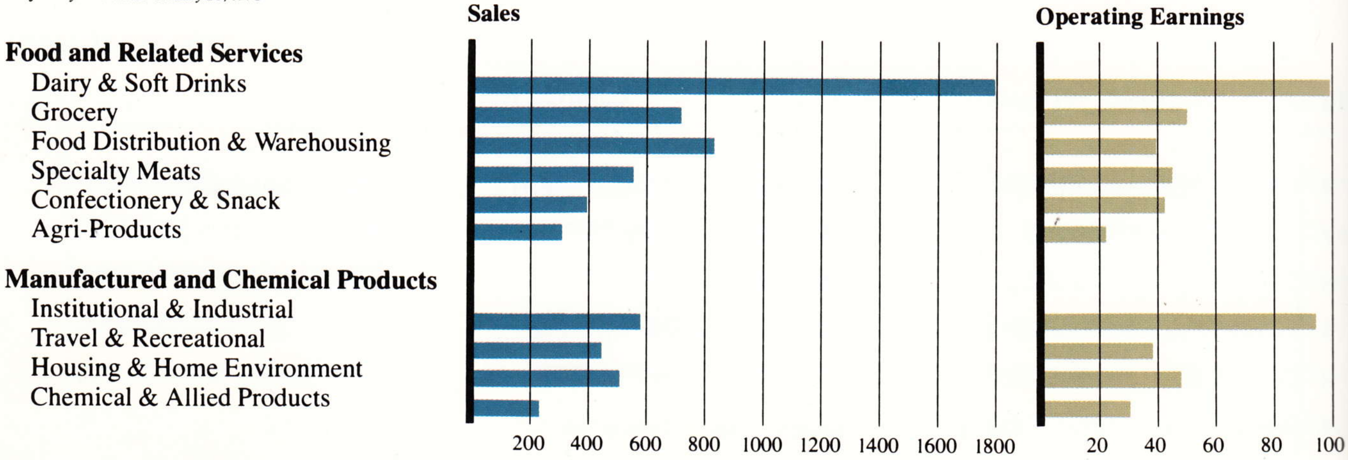
The philosophies and policies that have guided Beatrice Foods to a position of leadership in this nation will be continued and, with the support of our stockholders, employees, customers and suppliers, will lead us to even greater achievements in the future.



Wallace N. Rasmussen
Chairman
Chief Executive Officer

Sales and Operating Earnings by Major Lines of Business *(In Millions of Dollars)*

For fiscal year ended February 28, 1978



Sales and Operating Earnings by Major Lines of Business

(In Thousands)

	1978	1977	1976	1975	1974
Sales					
Food and Related Services					
Dairy & Soft Drinks	**$1,789,797**	$1,531,194	$1,408,719	$1,247,529	$1,067,297
Grocery	**707,623**	703,562	726,565	686,765	552,643
Food Distribution & Warehousing	**827,129**	706,077	629,923	569,297	456,593
Specialty Meats	**548,483**	458,878	429,026	364,764	368,726
Confectionery & Snack	**393,487**	371,177	328,643	341,525	246,071
Agri-Products	**307,934**	269,536	208,156	207,120	244,500
	4,574,453	4,040,424	3,731,032	3,417,000	2,935,830
Manufactured and Chemical Products					
Institutional & Industrial	**571,449**	466,980	375,660	391,933	322,400
Travel & Recreational	**437,507**	415,641	358,924	302,453	265,984
Housing & Home Environment	**502,794**	430,457	377,477	366,108	357,225
Chemical & Allied Products	**227,685**	195,424	164,929	159,501	136,242
	1,739,435	1,508,502	1,276,990	1,219,995	1,081,851
Net Sales	**$6,313,888**	$5,548,926	$5,008,022	$4,636,995	$4,017,681
Operating Earnings					
Food and Related Services					
Dairy & Soft Drinks	**$ 98,013**	$ 84,244	$ 77,183	$ 62,075	$ 53,140
Grocery	**47,839**	48,717	52,129	37,765	29,194
Food Distribution & Warehousing	**39,261**	34,120	29,805	35,282	23,332
Specialty Meats	**44,297**	34,644	28,467	22,924	17,396
Confectionery & Snack	**41,921**	41,335	28,003	22,132	13,477
Agri-Products	**21,264**	22,337	17,615	18,588	25,519
	292,595	265,397	233,202	198,766	162,058
Manufactured and Chemical Products					
Institutional & Industrial	**93,367**	76,346	60,769	61,414	51,924
Travel & Recreational	**37,231**	38,297	35,114	24,163	24,688
Housing & Home Environment	**47,919**	38,974	32,383	35,532	38,712
Chemical & Allied Products	**29,173**	23,069	17,280	23,310	19,662
	207,690	176,686	145,546	144,419	134,986
Total Operating Earnings	**500,285**	442,083	378,748	343,185	297,044
Less:					
Non-operating expenses (net)*	**24,594**	25,921	19,177	16,077	12,250
Interest expense	**38,053**	32,443	34,482	32,107	22,132
Income taxes	**216,100**	188,050	157,543	141,682	123,271
Net earnings	**$ 221,538**	$ 195,669	$ 167,546	$ 153,319	$ 139,391

**Includes net unallocated corporate expenses, minority interests, equity in earnings of unconsolidated subsidiary and other income.*

Review of Operations 1978

Dairy and Soft Drinks

World-wide sales for Dairy and Soft Drink operations were $1.8 billion, up 17 percent from last year's $1.5 billion.

Operating earnings increased 16 percent, from $84 million in fiscal 1977 to $98 million last year. It was the 39th consecutive year of increases for these operations.

The significant gains in sales and operating earnings were accomplished despite poor weather conditions during the peak summer period throughout Western Europe which affected sales of ice cream specialties, price control restraints in Canada and a significant increase in dairy support price levels in the United States.

This strong performance can be attributed primarily to interlocking marketing strategies. First, there is a continuing effort to improve production efficiency in the fluid milk operations to maximize profit margins. Secondly, distribution networks are being strengthened to support geographic expansion and capture a larger share of market. Thirdly, increasing emphasis is being placed on producing specialty dairy items, such as yogurt, frozen desserts and other milk by-products.

Meadow Gold Dairy Products

All have high margins and are experiencing a more rapid market growth than fluid milk products.

Continuing consumer concern with health and dieting has meant even greater emphasis on skim and other low-fat milk products over traditional milk products. It also has allowed Beatrice to tap a widening national market for specialty dairy items under its Meadow Gold and Viva brands.

Capital investments are focused in two areas: Upgrading present facilities and research and development of new specialty products such as Europa brand yogurt, which was introduced in

Viva Lowfat Cottage Cheese

Dannon Yogurt

Colorado last fall, and new ice cream flavors and novelties. Major capital improvements were effected at eight Meadow Gold plants as well as several specialty plants.

A new plant to produce Meadow Gold and Viva yogurt products was opened in Denver, Colo. Meadow Gold plants in Orange City, Fla., and Ft. Worth, Tex., did not meet growth expectations and were closed. However, Meadow Gold continues to serve the Florida market with ice cream and other frozen specialties.

In addition to increased capital improvements, production and distribution efficiencies are influenced, where feasible, by consolidation of smaller operations into larger ones, thus cutting unit production costs. Distribution activities center on reducing the number of deliveries while increasing the number of units

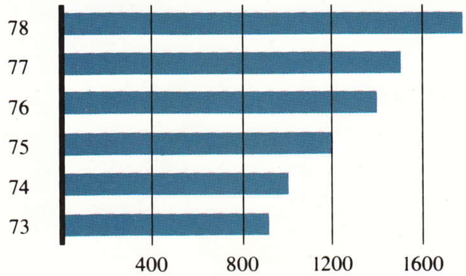
Dairy and Soft Drinks

Meadow Gold
Viva
Viva-Yo
Dannon
Danny-Yo
Sanalac
Swiss Miss
Johnston's
Louis Sherry
LongLife

County Line
American Hostess
Keller's
Hotel Bar
Kaptain Kidd
Meinerz
Beatreme
Dell Foods
N-Rich

Soft Drink Franchises
Royal Crown
Diet Rite Cola
Upper Ten
Canada Dry
7-Up

Sales *(in millions)*



Operating Earnings *(in millions)*

transported per delivery, and adopting packaging techniques that increase product shelf life.

Complementary strategies in ice cream operations, which market products principally under the Meadow Gold, Viva, Louis Sherry and Supreme brands, mirror those adopted in milk and milk by-products. Large-volume, low-margined bulk packaged ice cream products are balanced by higher margined items, such as ice cream bars, cones and the increasingly popular

Swiss Miss Chocolate Drink

frozen yogurt on sticks and in cups.

Dannon continues its program to achieve nationwide distribution. Its Ft. Worth, Tex., manufacturing plant will open this fall and will provide service in the Southwestern United States. The Denver warehouse opened this spring and provides access to the mountain states. Dannon's strategy is to build plants and establish satellite warehouses and sales centers in each geographic area covered. Currently, Dannon yogurt is distributed in almost all major markets east of the Rocky Mountains.

Dannon maintains a distribution system unique to the yogurt business. Nearly all of its products are distributed directly to retail outlets by its own employees operating out of 40 sales centers.

Besides geographic expansion, market growth through an increase in per capita yogurt consumption is anticipated. United States per capita consumption is one-tenth that of Europe, indicating a good potential for increasing unit sales as more and more U.S. consumers become aware of the benefits of yogurt.

Frozen yogurt products, trade-named Danny, continue to gain excellent market reception, with the six-pack Danny-on-a-Stick the best

Louis Sherry Ice Cream

seller. Three new items, the Danny Parfait Pint, Danny Samples and the Danny Square Sandwich, will increase sales and contribute to earnings.

Johnston Yogurt, which markets primarily on the West Coast, introduced a lime chiffon low-fat yogurt sundae. It is planning a hard frozen yogurt line in six flavors for this year. Johnston also will introduce lemon and boysenberry in quart containers, and a sugar-free, low-fat vegetable yogurt.

Sanna added a line of pudding sundaes, custard desserts and a tapioca pudding to its popular Swiss Miss hot chocolate product line.

County Line Cheese

County Line Cheese improved operating profits significantly through elimination of low profit product lines, reorganization of its marketing activities, introduction of a new sliced pack and a full year's benefit from new production methods.

The acquisitions of LongLife Dairy Products, Jacksonville, Fla., Sanitary Dairy Products, Minden, La., and Alum Rock Cheese Company, San Jose, Cal., further demonstrates your company's faith in the future of the dairy industry.

Soft Drinks

Our world-wide soft drink bottling companies enjoyed a fine year. These operations utilize the distribution expertise developed in Beatrice's dairy operations and the promotional and brand development expertise that characterize specialty dairy activities.

The domestic division, formed last year, operates 11 bottling plants and six warehouses in various sections of the country. Six plants also have can filling capacity. All plants package in a

Royal Crown Franchised Bottling Operations

complete range from six ounce to two liters, and have facilities for both glass and plastic containers. Some highlights of the year were:

The Washington, D.C., plant completed a major energy conservation program through which waste heat from the manufacturing process is captured and reused to heat the warehouse. This should result in a 30 percent decrease in energy consumption.

The Oakland, Calif., plant converted to standardized packaging, thus increasing production efficiencies.

The Charleston, W. Va., Royal Crown plant acquired the Canada Dry franchise for Charleston, Huntington, and 15 surrounding counties in West Virginia. The Charleston franchise has been combined with our Washington operation to allow us to utilize Washington's high-speed production capabilities.

Major expansions also were completed at Gold Medal Bottling in St. Paul, Minn., and Royal Crown of Los Angeles.

Grocery

Sales and operating earnings world-wide for the Grocery operations were $708 million and $48 million, respectively, for fiscal 1978. This represents a slight increase from sales of $704 million in the previous year, and a slight decrease in the $49 million

La Choy Oriental Foods

in operating earnings reported for fiscal 1977.

Grocery operations are divided into three groups which produce more than 2,000 items: grocery and nationality specialties; Shedd food products; and bakery. Each company unit is a specialist in its marketplace, product line and distribution methods.

The diversity of product offerings enables Beatrice to adapt its products to all segments of the food industry. For example, a stable base of activity in retail sales has facilitated entrance into the fast growing industrial and institutional segments of the business.

Martha White Corn Muffins

Featured among nationality food specialties are LaChoy, the leading Oriental food brand, and two leaders in the Mexican food market, Gebhardt and Rosarita. LaChoy expanded its distribution of Ramen Noodle items and introduced canned sliced water chestnuts. It also built a finished goods warehouse and completed a large addition to its bean sprout-growing facilities in Archbold, Ohio.

Rosarita completed a major expansion of its plant in Mesa, Arizona, to provide for accelerating growth of its Mexican food specialties. Although Rosarita's profit margins declined last year because of the high prices of pinto beans, it expects to rebound strongly in fiscal 1979.

Gebhardt is broadening its line of Mexican products to include taco sauces, green chilies, jalapeno peppers, tostado shells and other items. These products will be marketed under a new label design completed in late 1977.

Dahlgren plans to market its highly successful hybrid sunflower seed oil nationally this year. The expansion of a cold storage warehouse at its Fargo, N.D., location has given Dahlgren better control of product quality, as well as prolonging shelf life of edible sunflower seeds.

South Georgia Pecan, which shells pecans and markets them to repackagers, the bakery trade, ice cream plants and other dairy processors, increased sales and earnings. Its shell flour division, which

Gebhardt Mexican Foods

manufactures an ingredient used in the processing of plywood, also thrived, reflecting the much improved year for the housing industry.

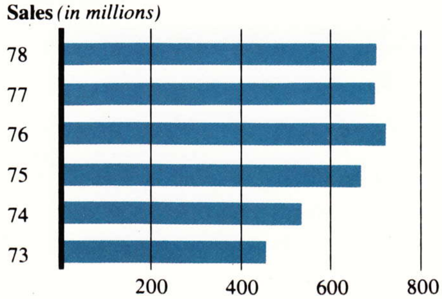
Brookside Vineyard Company, which sells its wines through 33 company-operated outlets in California and Arizona, with two independent stores in Illinois and one in Nevada,

Krispy Kreme Doughnuts

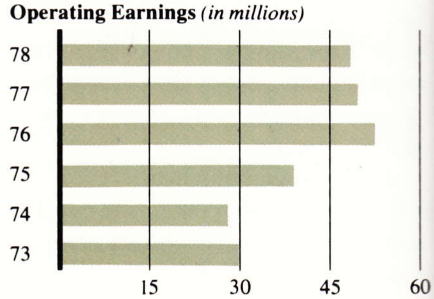
Grocery

La Choy
Gebhardt's
Rosarita
Aunt Nellie's
Mario's
American
Burny Bakers
Mother's
Little Brownie
Murray's
Palmetto
Sap's
Krispy Kreme
Martha White
Butter Krust
Shedd's
Liberty
Brookside
South Georgia Pecans
Brown-Miller
Olive Products
Temple
Beatrice Frosted
Dahlgren
Byron's Bar-B-Q

Sales *(in millions)*



Operating Earnings *(in millions)*



has developed an aggressive new marketing program that ties in with the growing consumer taste for wine. Included are the introduction of its first vintage dated Sonoma County wines and the offering of specialty imported wine products.

Shedd's branded margarine volume increased as the result of the growing popularity of 60 percent vegetable oil spreads. Corn oil spread in a two-pound offering has expanded this line. A whipped spread in a 12-ounce package will be introduced this year. Shedd also will introduce, nationally, margarine packed in one pound rectangular tubs. The shape makes the tub perfect for re-use, either in the refrigerator or freezer.

Shedd also is engaged in a coordinated effort to tap the projected growth of institutional and industrial food service. A line of shortening and salad oil products has been introduced to complement existing lines. Plans for this year include the introduction of portion control whipped margarine, and individual servings of corn oil margarine and other spreads.

Soft margarine production capacity was increased 50 percent with the expansion of the Detroit, Omaha, Neb., and Elgin, Ill., facilities.

The Sunnyvale, Cal., peanut butter processing operation was started this year, providing better service to customers on the West Coast formerly served by the Louisville, Ky., plant.

The bakery products operation is comprised primarily of companies maintaining strong regional brands. Earnings in this area were flat, as heavy regional competition, particularly in cookies, put pressure on prices to maintain market share.

Shedd Peanut Butter

Beatrice believes, however, that several strategies initiated in the past year will enable its bakery operations to grow in 1979. These include further penetration of the food service market, particularly through fast food outlets, strengthening regional companies through the interchange of products and rolling out new product currently being tested.

Butter Krust, Lakeland, Fla., has developed a full line of variety breads, a product line that is by far the fastest

Country Hearth Bread

growing segment of the bakery business. Known as Country Hearth, the breads were introduced first in Florida and the line is now licensed in 14 markets, with another 14 to be added this year. Country Hearth features most popular bread varieties, including thin sliced old-fashioned white and wheat bread, rye bread and raisin bread, plus dinner rolls and English muffins.

Krispy Kreme Doughnut Corp., which opened four more retail stores in the Southeast, is testing a number of new products, including doughnut holes, hot sandwiches, and frozen yogurt supplied by Dannon.

Martha White remodeled and expanded its frozen barbecue meats facility, which will enable it to double production capacity. To enhance production efficiencies, two of its smaller facilities were closed. Production from the two plants has been distributed among existing facilities, cutting per unit costs.

Martha White also introduced a boxed, complete corn muffin mix, two and five pound whole ground corn meal products, and redesigned the packaging for its pouch mix line.

Burny Bakers, working in conjunction with a major fast food chain, developed a Danish pastry, which has proven a successful addition to the chain's breakfast program.

Major expansions also were effected at Sap's Foods, Columbus, Ind., Murray Biscuit, Augusta, Ga., and Mother's Cookies, Louisville, Ky.

Food Distribution and Warehousing

Food Distribution and Warehousing operations registered significant increases in both sales and operating earnings in fiscal 1978. Sales rose 17 percent to $827 million, while operating earnings rose 15 percent to $39 million.

The overall sales increases of Beatrice's institutional foods operations reflects the increasing number of meals being eaten away from home. John Sexton, the largest operation in this area, turned in a strong performance despite serious weather problems in the last two months of the fiscal year. Factors influencing this performance included greater production efficiencies in its newer branches, and the end of a two-year-long decline in commodity prices.

Sexton, which distributes to all segments of the away-from-home eating market, now has 21 branches throughout the country, with 418 salesmen calling directly on customers. This year, emphasis will be placed on strengthening Sexton's distribution network, identifying high growth customers and continuing expansion of the frozen food line. By the end of this year, frozen food distribution, begun several years ago, will be in place at 16 of Sexton's 21 branches.

Societe Europeene de Supermarches (SES), a retail food distributor, now has 55 supermarkets in France. SES experienced a substantial sales increase despite price control measures. In fiscal 1978, SES acquired the Gaster Company, a supermarket group in Nancy, France. A new automated warehouse designed to centralize SES and Gaster operations is planned to improve inventory and distribution controls.

Last year, Etablissements Baud, our wholesale food distributor in Paris, France, completed the integration of an additional three million cubic feet of storage capacity. This highly automated facility is expected to improve its food distribution activities substantially.

Cal-Compack, West Coast processor of capsicum spices such as paprika and chili powder, successfully entered the dehydrated parsley market. In addition, Cal-Compack expanded its drying and storage capacity at its Las Cruces, N.M. facility. Our two spice milling and blending companies, Meat Industry Suppliers and Knickerbocker Mills, showed an improved profit picture.

Beatrice's warehousing operations had an outstanding year, outperforming the industry.

Recognizing the growing shift from rail to truck for food transportation, Inland Center in Kansas City, Kan., added new truck docks. It now is capable of handling almost 100 trucks at any one time.

Over the past year, Inland Center has leased more than 100,000 square feet of underground space to processing and distribution concerns. The trend toward leasing should continue because of the high cost of constructing conventional refrigeration facilities and Beatrice's ability to provide proper freezer and refrigerator temperatures and dry warehouse space at attractive rates.

The Denver operation had a record year, based on a retail frozen foods pack consolidation program. Lehigh Valley Distribution Center was profitable in its first full year of operation. The warehouse serves Philadelphia, New York and other Eastern markets.

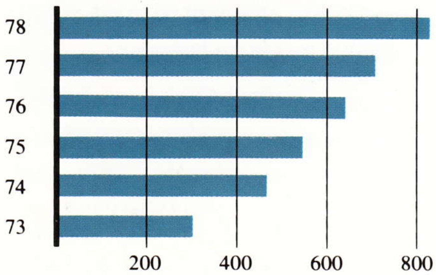
The new 200-mile limit on offshore fishing should present new marketing opportunities for our New England refrigerated facilities. New blast freezing tunnels are being constructed and other freezing equipment installed at the Gloucester, Mass., operations in anticipation of increased frozen fish volume.

Sexton Foodservice Products

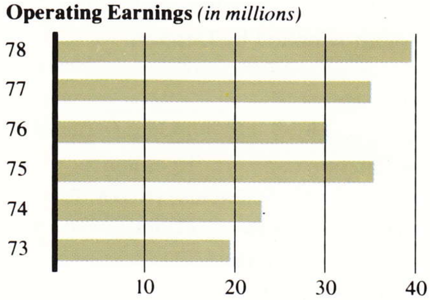
Food Distribution and Warehousing

John Sexton
Food Marketers
Cal Compack
Knickerbocker Mills
Produce Terminal
Grand Trunk Cold Storage
Lehigh Valley Refrigerated
Inland Center
Lackawanna Cold Storage
Quincy Market
James J. Gallery
North East Cold Storage
Soo Terminal
Tampa Cold Storage
Terminal Refrigerating
Chicago Cold Storage
Denver Cold Storage

Sales *(in millions)*



Operating Earnings *(in millions)*



Specialty Meats

Specialty Meats operations experienced substantial gains in both sales and earnings in fiscal 1978. Sales were $548 million, a 20 percent increase over the previous year, and operating earnings reached $44 million, a 28 percent increase.

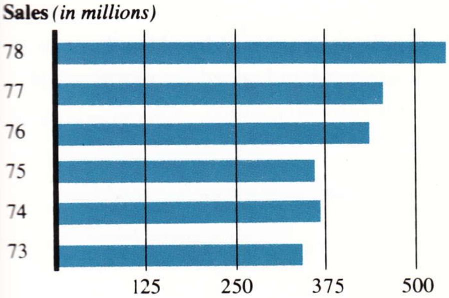
Peter Eckrich & Sons, producer of a high quality line of specialty and convenience meats, recorded another good year. Eckrich added three new sales districts—Pittsburgh, Pa., Tulsa

Lowrey's and Convenience Foods Meat Snacks

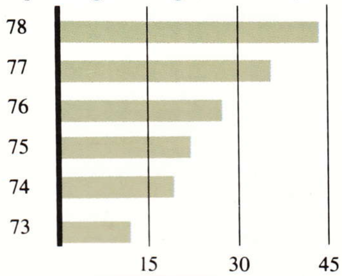
Specialty Meats

Peter Eckrich	*Lowrey's Freshies*	*Rudolph Foods*
E. W. Kneip	*Convenience Foods*	

Sales *(in millions)*



Operating Earnings *(in millions)*



Eckrich Packaged Meats

and Oklahoma City, Okla.—and continued to increase market share in existing markets.

Eckrich's strategy is to combine a selective geographic expansion program with emphasis on continued current market penetration. This has enabled the company to grow profitably from its Michigan and Indiana base in 1960 to its present coverage of almost 50 percent of the U.S. population.

Eckrich completed the final phases of construction at three processing plants and acquired an additional processing plant in Chicago. This gives Eckrich sufficient capacity for its heavier volume product lines, which are frankfurts, sausage and sandwich meats.

E. W. Kneip, a general processor of fresh beef products, reported sales and earnings gains despite adverse conditions within the beef industry. Kneip's diversification, encompassing most segments of the beef business, gives it a greater flexibility in coping with the industry's down cycles.

Last year, Kneip expanded its frozen food and beef fabricating facilities and will continue expansion of production in all product lines, emphasizing high quality portion control and corned beef products.

Lowrey's Freshies, Convenience Foods and Rudolph Foods continue to be significant factors in the meat snack market. Lowrey's and Convenience are test marketing a new five-pack line of meat snacks for supermarkets that promises to offer excellent growth opportunities for both companies.

Convenience's increased sales volume offset the additional fixed expenses incurred with last year's start-up of the new Cornwells Heights, Pa., plant.

Rudolph initiated a plant expansion program in fiscal 1978. It should be completed this year and will provide production capacity needed to pursue potential markets outside the United States.

The Specialty Meat Division anticipates that fiscal 1979 also will be a year of continued good performance. The first half of the year will see pressures on margins to a greater extent than anticipated due to less meat being available than originally projected, but this could be offset by more plentiful supplies during the last half.

Confectionery and Snack

World-wide sales for the Confectionery and Snack operations reached a record $393 million, a gain of six percent over the prior year.

Operating earnings increased slightly to $42 million as exceptional results in our Australian and Latin American operations balanced a difficult year for the United States candy industry.

Adversely affecting earnings were start-up costs for Switzer's new candy plant in St. Louis and the closing of Mrs. Leland's Kitchens, our fund raising candy operation in Chicago.

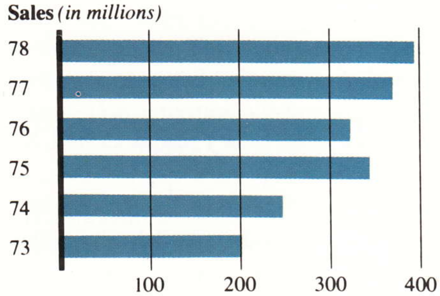
Performances of Fisher Nut and D. L. Clark highlighted the year. Fisher completed a market identity project that involves new packaging and consumer communications graphics. It also initiated its first major television campaign further intensifying its drive to increase market share and create strong brand awareness. Fisher benefits from the consumer's growing perception of nuts as important sources of protein.

Fisher Nuts

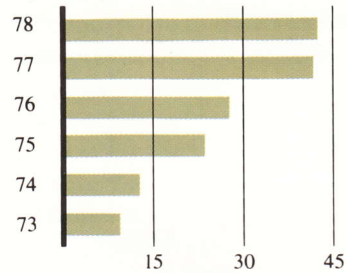
Confectionery and Snack

Switzer
Thos. D. Richardson
After-Dinner Mints
Clark Bar
ZagNut Bar
Fisher Nut
Pik-Nik
Kobey's
The Jolly Rancher
Slo-Poke
Milk Duds
Food Producers
Doumak

Sales *(in millions)*



Operating Earnings *(in millions)*



Beatrice Candies, Snacks

D. L. Clark introduced "Crispy," its first chocolate "molded" bar with crisped rice. It quickly became the most successful new product Clark ever has introduced. National distribution will be attained by next fall. Clark also introduced "Light," a coconut coated bar.

Other confectionery lines had satisfactory years, as well. Richardson introduced tie-top bags of mints, especially designed for the mass merchandising market, and boxes of butter mints. Both items were received well, solidifying Richardson's leadership position in the soft mint market.

Food Producers is in the process of establishing a Canadian manufacturing facility and obtaining another facility on the West Coast next year to strengthen its geographic coverage and enable it to be more cost competitive in the industrial foods and syrups market.

Switzer introduced a strawberry flavored chewy candy to complement its popular licorice and cherry red varieties. It also introduced individually wrapped, meter-long licorice, cherry and strawberry Lariats. Modernization of the company's facilities was completed. Included is a production system that dramatically reduces the processing time of licorice type candies.

Jolly Rancher introduced a peach flavor in several of its hard candy lines. In less than a year, peach has become Jolly Rancher's fourth best selling flavor.

The goal of Confectionery and Snack operations is to maintain profitable operations in the midst of an industry sales plateau in the United States that could continue into the 1980's. Toward this end, it plans to increase production efficiencies and direct advertising and promotional money toward building brand awareness and speed development of "nutritionally sound" snacks.

Agri-Products

Sales by Agri-Products companies rose 14 percent to $308 million in 1978. Operating earnings, however, experienced a slight decline to $21 million from $22 million for the previous year.

Divestiture of a hide and wool-pulling operation and a protein recycling plant, both in Denver, Colo., contributed to decreased earnings. In addition, protein blending operations were affected by lower feed prices.

Agri-Products' activities are divided into three areas: animal feed supplements, hides and tanning, and rendering and blending operations that recycle animal oil and meat protein for the nutrition of farm animals and pets.

Vigortone, a major marketer of pre-mixed vitamin and mineral supplements for livestock, continues to thrive due to three basic factors: its unique sales structure, in which farmers work as part-time salesmen, dealing directly with their fellow farmers to promote the Vigortone line; its policy of geographic expansion which has resulted in a ten-fold increase in sales over the past decade; and its entry into related animal health areas.

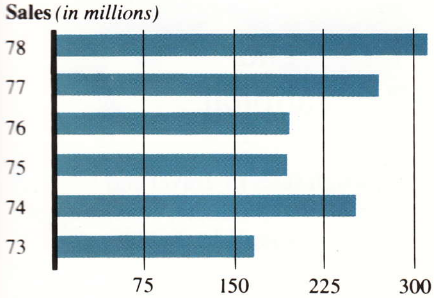
In addition, Vigortone completed construction of a new manufacturing and office complex in Cedar Rapids, Ia., to meet increased demand for pre-mixed animal feed supplements. Ninety percent of the pre-mixed market remains untapped. Projections call for a doubling of Vigortone's sales over the next five years.

Pfister & Vogel Tanning Co. emphasizes production of premium leathers, primarily used in shoe manufacturing. It sees continuing growth through supplying leather for garments, handbags, belts and other personal goods. It also is supplying oil

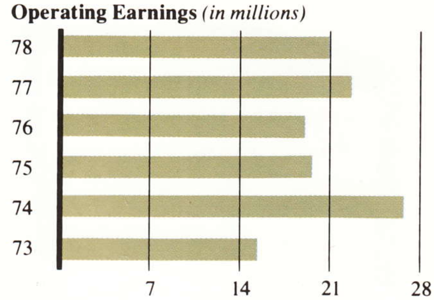
Agri-Products

Pfister & Vogel
Vigortone
Ross-Wells
Western By-Products
Pet/Poultry Foods
San Angelo By-Products
Dale Alley
Norfolk Rendering
Amarillo By-Products
American Lone Star
Lubbock Rendering
Regal Packer By-Products
Badger By-Products
Poultry By-Products

Sales *(in millions)*



Operating Earnings *(in millions)*



seals for the automotive industry. The company continues to outperform the tanning industry.

Ross-Wells is planning expansion of capacity with a new pet food and mink pellets plant. The Berlin, Md., plant, hit by fire at the beginning of the year, is producing again at full capacity. Ross-Wells' international reputation in the processing and formulation of mink food has led Beatrice to consider joint ventures with international companies as another avenue of future growth.

Vigortone Animal Health Products

L. V. Patteson, Winnipeg, Manitoba, Canada, expects to complete a new plant and warehouse facility this year. Patteson also recovered rapidly from a fire loss last year.

Blending activities were broadened with the additions of Badger By-Products, Milwaukee, Wis., a formulator and blender of animal feeds, and Poultry Foods, Hanceville, Ala., a poultry protein recycler.

Agri-Products operations will continue to emphasize growth in two areas, animal feed and leather tanning, and will seek opportunities both internally and by selective acquisitions to exercise the processing expertise that it has developed in existing operations.

Institutional and Industrial

Institutional and Industrial operations achieved improved financial growth, meeting or exceeding profit objectives in fiscal 1978. Sales and operating earnings increased 22 percent over the previous year, rising to $571 million and $93 million, respectively.

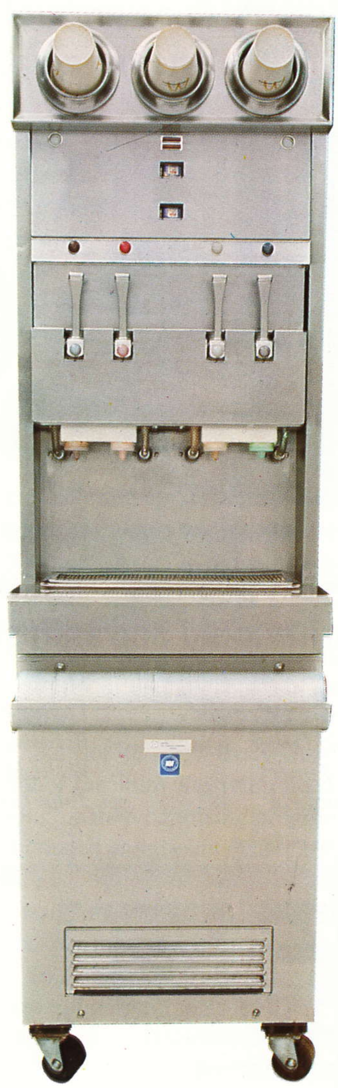
Current gains reflect additional market penetration and the logical extension of ongoing businesses in areas of Beatrice's specializations.

Capitalizing on vigorous demand for food service equipment, Market Forge has unveiled a variety of new institutional cooking equipment, including a pressure/pressureless cooker able to prepare fresh and frozen foods in the same unit; a line of large electric and steam-fitted kettles for batch cooking; and a double sized broiler and convection oven, both geared to the fast food industry. This array of new products was the broadest ever introduced by Market Forge.

Taylor Freezer's successful development of a sundae machine for fast food outlets has necessitated a major plant expansion to keep pace with product demand.

Bloomfield last year initiated a major redesign of its coin-operated Silex coffee makers. Bloomfield also introduced a food transport system to provide hot and cold service for prepared foods.

Wells developed a safety device that reduces fire hazards for deep fat fryers which has been adopted as an industry standard. Wells also introduced a line of individual food



Taylor Soft Ice Cream Freezer

warmers designed to reduce energy consumption.

In the area of industrial products, Brillion continued to expand facilities and enhance processes to maintain its leadership in the specialty foundry industry.

Also notable were agricultural product innovations. Kelley Manufacturing introduced the Once-Over Planter, a one-step device for soil preparation, seeding and chemical applications. Kelley also produces an Under-the-Row cultivating system for additional moisture retainment and increased crop yields.

Brillion also expanded the size of its earth preparation tools to accommodate larger horsepower tractors. Snowco introduced a ditch straddling tractor with a self-contained water system. Aquanomics, a new Beatrice venture, manufactures center-pivot irrigation systems.

Bloomfield Silex Coffee Makers

In the consumer arts line, Day-Timers continued to strengthen its market-leading position as a supplier of desk and pocket time-planning diaries. An expansion program at the Day-Timers manufacturing plant in

Day-Timer Time Scheduling Aids

Allentown, Pa., is underway. Day-Timers' awards and incentives business, which began operations last year, continues to demonstrate strong growth potential.

Stuckey & Speer, which last year introduced a girl's high fashion school ring with excellent results, has increased manufacturing capacity at its Houston, Tex., plant. Stuckey & Speer also reported significant increases in the marketing of its popular "Star of Africa" fine diamonds.

Beatrice also participates in various creative, production and merchandising aspects of the growing direct mail industry through Day-Timers, Webcraft and Sax Arts & Crafts.

Additionally, Beatrice is a leading manufacturer of color printing plates for magazine advertising, with six modern plants between Michigan and California. The significant recent increases in print advertising should result in substantial growth for Beatrice's graphic arts businesses.

Travel and Recreational

Although sales of Travel and Recreational products, consisting of personal accessories, apparel and recreational vehicles increased, operating earnings declined slightly, primarily because of problems besetting the travel trailer industry. Sales were $438 million, a five percent gain from fiscal 1977, and operating earnings were down three percent to $37 million.

Samsonite Luggage showed marked improvement in both sales and earnings. Domestically, new luggage products met with national success, notably the Omega attache, which can be opened only when right side up; the Sonora with its sophisticated leather-like, designer look, and the Concord. Samsonite added to this year's sales and earnings success by the introduction of the International Collection, representing luggage products from five different countries.

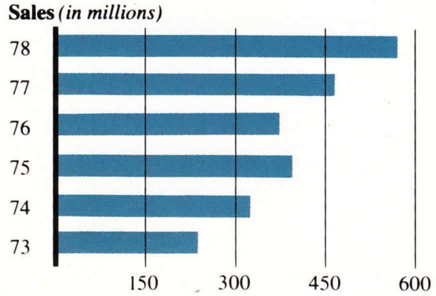
Aggressive promotional programs were a major part of Samsonite's thrust. A new television advertising campaign, featuring Pittsburgh Steeler football players and Florida school children, demonstrated product strength and durability.


Omega Attache Case

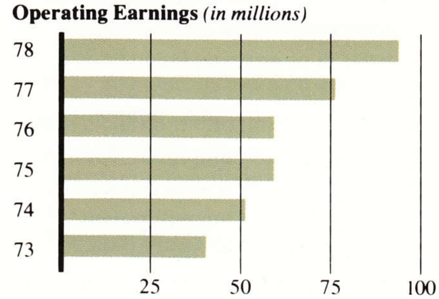
Institutional and Industrial

Vogel Peterson
Geerpres Wringer
World Dryer
Day-Timers
Bloomfield
Market Forge
Taylor Freezer
Brillion
Wells Manufacturing
Jahn & Ollier
Collins, Miller & Hutchings
Jordan & Horn
Modern Litho Plate Service
Walker Engraving

Sales *(in millions)*



Operating Earnings *(in millions)*



Buxton Leather Accessories

The addition of Buxton provided product dimension and strengthened Beatrice's base in the personal accessories business. Buxton, a leader in leather accessories and jewel cases, is headquartered in Springfield, Mass., with two plants in the East and one on the West Coast.

In the area of recreational transportation, Airstream's travel trailer business was adversely affected by consumer concerns over fuel availability. As part of its diversification program, Airstream became the major body supplier for the "people mover" underground transit system scheduled for installation at the Atlanta airport.

Morgan Yacht has created a 38-foot yacht as the result of extensive consumer research. This new yacht now offers full accommodations and excellent maneuverability, but less size and weight.

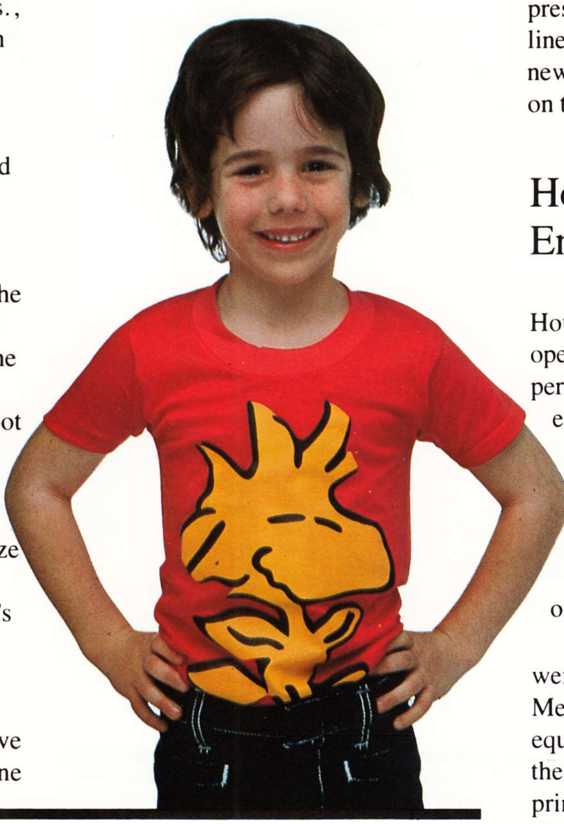
For outdoor living, Homemaker's new 29-K Division provides high performance backpacking sleeping bags and accessories.

Both Homemaker and Allison have been successful in merchandising a line of Walt Disney character products, including T-shirts, sweat-shirts, pajamas and slumber bags. Homemaker and Allison also have exclusive licenses with the National Football League, Major League Baseball and certain popular films for use with shirt and slumber bag marketing.

Nat Nast reported increased sales of its all-weather insulated ski-type jackets. The company name is being changed to "Swingster," the present brand designation, and headquarters will be located in new, larger facilities in Kansas City, Mo., in May, 1978.

E. R. Moore currently is presenting a new "Campus Casuals" line of school gymwear, along with a new line of warm-up suits, capitalizing on the trend to physical fitness.

Velva Sheen Leisure Wear

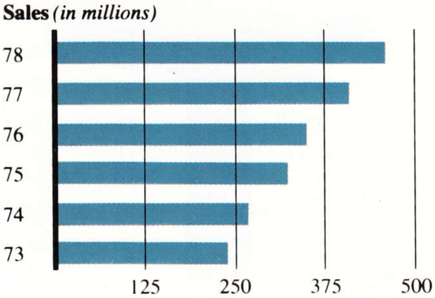


Samsonite Luggage

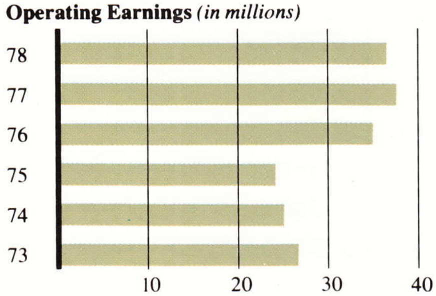
Travel and Recreational

Airstream
Bonanza
Morgan Yacht
Samsonite Luggage
Buxton
Monticello
Allison
Homemaker

Sales *(in millions)*



Operating Earnings *(in millions)*



Housing and Home Environment

Housing and Home Environment operations recorded an outstanding performance in fiscal 1978. Operating earnings rose 23 percent to $48 million on sales of $503 million, a 17 percent increase.

These gains were derived both from internal activities and the acquisition of several high quality organizations.

The most significant increases were recorded by Samsonite Furniture, Melnor sprinklers and garden care equipment, AristOKraft cabinets and the manufactured housing group, primarily through strengthened distribution channels, new product introductions and aggressive marketing activities.

Samsonite's new Body Glove outdoor furniture was introduced through a merchandising program that has created significant dealer and consumer support. Melnor focused its attention on the rapidly growing indoor plant care market.

In August, 1977, Beatrice acquired Harman International Industries, Inc., recognized as a world leader in hi-fidelity sound equipment under the brand names JBL, Harman Kardon,

Hekman Furniture

Tannoy and Ortofon. Harman successfully introduced a variety of loudspeaker systems and professional amplifiers, magnetic cartridges and simultaneous translation and conference equipment. A 500,000 square-foot expansion of JBL's facility in Los Angeles, which will put all operations in one location, is scheduled for fiscal 1979.

Liken continues to lead the emerging woven-wood window treatment market with an array of popular new designs. Liken is building a new plant in Athens, Ga., and plans another in California. AristOKraft is building another new kitchen cabinet plant in Burnet, Tex., to provide for anticipated increases in sales.

Charmglow increased penetration of the agricultural market with its Flygon electric insect killer. It also entered the charcoal smoker-barbecue market with the addition of Bosman Industries in Shreveport, La. Nearly one-third of Charmglow's current sales are from products it did not have three years ago.

Stiffel, a market leader in traditional lamps, recently expanded its line to include more contemporary styles. Irvinware capitalized on the growing popularity of microwave cooking with the introduction of Oven Mates, disposable paper plates designed for both microwave and conventional ovens.

Wrightway introduced a shower head that conserves water. Wrightway moved into a new plant in Park Forest, Ill. The plant will obtain part of its power supply from solar heat and a windmill.

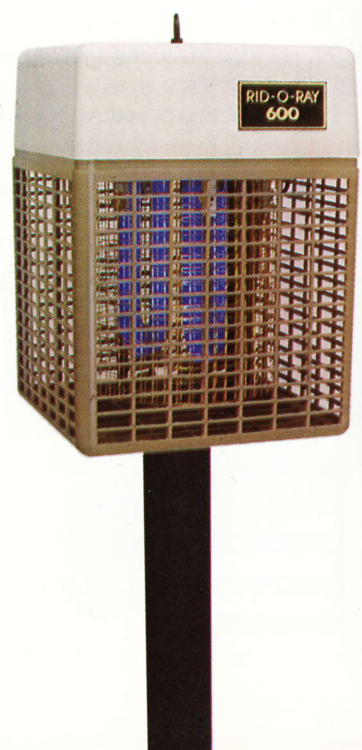
In the area of manufactured housing, Pyramid, in Canada, and New Yorker and Holiday achieved substantial gains, primarily by concentrating on manufacturing popular double wide homes.

Bogene, which joined the company in October, 1977, is a manufacturer of closet accessories, and will serve as a product line extension of Spiegel Industries.

Harman Sound Equipment

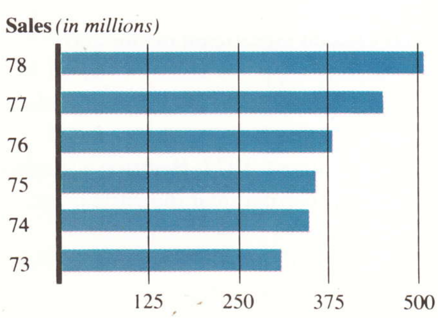
Stiffel Lamps

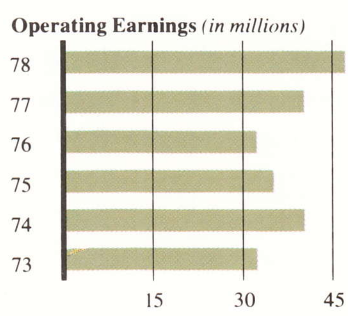
Charmglow Insect Control Devices



Housing and Home Environment

Samsonite Furniture
Charmglow
Melnor
Spiegel
Hekman
Stiffel
Irvinware
AristOKraft
Chicago Specialty
Dearborn Brass
Harman Kardon
JBL
Liken
Bosman
John Hancock





Continued growth of Housing and Home Environment operations is planned through internal product development and the extension of existing product lines. For example, Samsonite Furniture plans new product offerings in barstools and innovative folding and reception room furniture. John Hancock Furniture sees opportunity in the creation of indoor redwood designs that complement today's lifestyle trends with its current "California Country" line.

Chemical and Allied Products

Record sales and earnings levels were achieved world-wide by Chemical and Allied Product operations during fiscal 1978. Sales rose 17 percent to $228 million, while operating earnings increased 26 percent to $29 million.

Through its chemical operations, Beatrice aims to penetrate highly specialized markets where its operations typically have a technological edge over proprietary products. This strategy has resulted in a diversified leadership position in virtually every segment of the chemical market served by Beatrice. Truly an international and balanced organization, Beatrice's chemical and allied products operations manufacture in 11 countries, including the United States.

Beatrice actively participates in both natural and synthetic leather markets. Through its Stahl and Paule/Palco operations, Beatrice is a world leader in leather finishes for shoes and fabrics. With Permuthane, Beatrice is a major factor in the expanding synthetic leather finish markets. Increasingly, simulated leather is gaining popularity in the fashion clothing industry.

With Standard Dry Wall's well-known "Thoro" and "Waterplug" brands, Beatrice is a world leader in waterproofing cement, used widely by the construction industry for sealing foundations, basements, tunnels, sewers and high-rise cement facades. The effects of recent hard winters are expected to increase demand for these sealing products. Standard Dry Wall opened a new plant in Mol, Belgium, during the year to serve Europe, the Mideast and Africa.

Stahl Chemicals for Apparel Finishing

Converters Ink again exceeded performance expectations. New ink plants in Wisconsin and Ohio are scheduled to open in fiscal 1979.

Beatrice also operates in a unique segment of the adhesives market with remoistening glues that are solvent-based. This adhesive market offers attractive growth potential.

Imperial Oil's "Molub-Alloy" brand products are high performance lubricants designed for large industrial users. One of the fastest growing markets for these products is the mining industry. Imperial Oil also offers customers complete lubricant maintenance programs geared to reduce costs and equipment failure.

Along with lubricants and greases, Beatrice produces specialized polymers through its Polyvinyl operation. These polymers are used in waxes, paints and coatings, adhesives and toners for copying machines.

An area of promise is Dri-Print Foil's decorative coating systems. These woodgrain and metallic finishes are increasingly popular with automotive and furniture manufacturers.

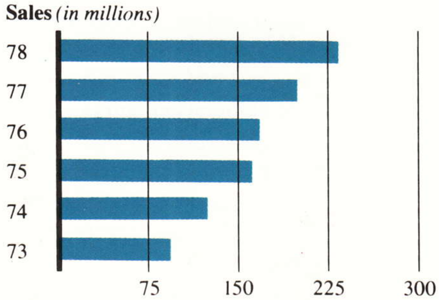
Another growth organization is LNP which manufactures engineered plastics, specifically glass and graphite-reinforced thermo-plastic compounds, for use by customized plastic molders who create high performance parts.

The objective of Beatrice's Chemical and Allied Products operations is to continue developing new and related activities in the specific markets they serve. In this regard, Beatrice favors a broad and diversified balance of both products and geographical locations in order to maximize use of management experience and market positioning for a variety of growth opportunities.

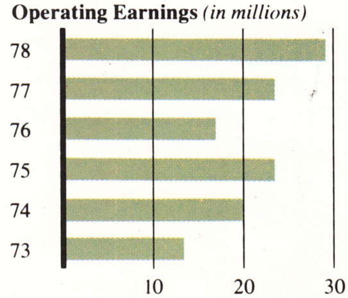
Chemical and Allied Products

Stahl Finish	*Standard Dry Wall*	*Paule*
Farboil	*Converters Ink*	*LNP*
Dri-Print Foils	*Polyvinyl*	*Envelope Adhesives*
Imperial Oil & Grease	*Permuthane*	

Sales *(in millions)*



Operating Earnings *(in millions)*



International

For the 16th consecutive year, sales and after-tax operating earnings of Beatrice's International operations rose to record levels. Sales increased 18 percent to $1.4 billion. Our share of international operating earnings after taxes increased 11 percent to $40.6 million.

Some of the most significant increases again were reported by the International Foods Division, with key contributions from the European grocery operations and Latin American confectionery and snack businesses. Other notable gains were made by Samsonite, Harman International and Stahl Chemical operations.

Essential to Beatrice's continued international growth is the strategy to broaden further both dairy and other operations. Beatrice also seeks opportunities in which the company can extend product development, distribution networks and marketing programs. This is particularly the case with the International Foods Division, where Beatrice seeks organizations that complement the activities of existing Beatrice operations, such as linking food processors with food distributors.

Beatrice continues to focus on operations with strong management teams, where local nationals attuned to the cultural, environmental and social realities of the marketplace are best able to employ their entrepreneurial skills in concert with programs for product development and facility expansion.

Europe

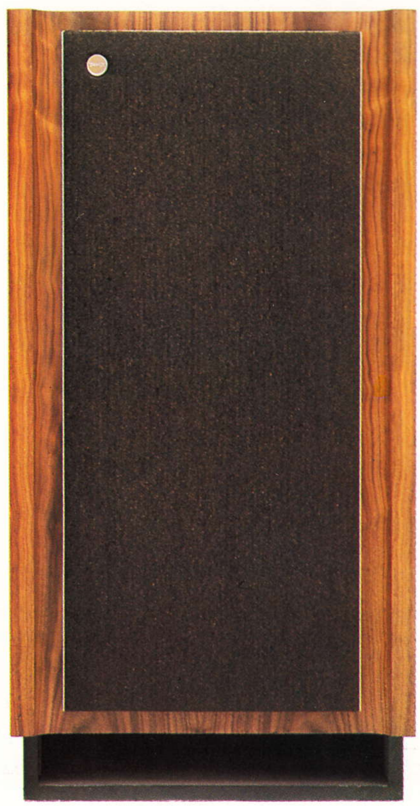
In the highly competitive European food market, Beatrice's operations continued to improve through emphasis on quality products. However, this growth was slowed by poor weather conditions during the summer, which affected sales of ice cream during the peak period throughout Europe. The exception was Interglas, with operations in Seville, Spain, and the Canary Islands, which reported exceptional results last year.

In Europe, where seasonal novelty dairy products far exceed consumer demand for bulk packaging, Beatrice increased its promotion of yogurt with satisfactory results.

In fiscal 1978, Boizet S.A. joined Beatrice's European Grocery Group. Boizet produces quality air-dried sausages and hams in Charlieu, France. This company has an impressive growth record and is expected to contribute significantly to future sales and profits.

Beatrice plans to coordinate operations further among producing companies, such as Boizet, and the distributing operations of Societe Europeene de Supermarches, a retail food distributor in France, and Etablissement Baud, a wholesale food distributor in Paris.

In Switzerland, Aux Planteurs Reunis S.A., a purveyor of food specialties to institutional markets, expanded with the acquisition of Zum Schneeberg, another specialty food organization. Increased tourist trade resulted in an excellent year for Aux Planteurs.



Tannoy Sound Equipment, Scotland

Premier Is Ice Cream, Denmark

Ten Doesschate of The Netherlands completed the acquisition of Havox B.V., a manufacturer and distributor of high quality sauces, soups and specialty food products for the retail and institutional trades. This acquisition increases Ten Doesschate's ability to serve all sectors of the food industry in The Netherlands, while providing significant export opportunities. Ten Doesschate also consolidated two warehouse locations into a new facility in Hilze, The Netherlands, to reduce overhead costs and increase distribution efficiencies. The International Food Division diversified further by the addition of Winters B.V., Marheeze, The Netherlands, one of the leading soft drink bottlers in Western Europe.

During the year, Beatrice sold its interest in Barzetti Industria Dolciari Alimentare S.p.A., a manufacturer of packaged baked goods and snack foods in Northern Italy.

Samsonite made significant inroads in European markets. For the first time in Samsonite's history, more attache cases were sold outside than within the United States.

Tannoy and Ortofon joined Beatrice with the acquisition of Harman International. Tannoy, a major manufacturer of hi-fidelity speakers, is expanding from its Scottish base to a worldwide marketing status. Headquartered in Denmark, Ortofon is a world leader in the production of quality magnetic cartridges.

Produced in its plant in The Netherlands, LNP's glass and graphite thermoplastic compounds were successful in various European industrial markets.

Latin America
Despite some foreign exchange difficulties and governmental restrictions, Beatrice's Latin American operations met profit objectives and made progress in the areas of new plants and expanded operations. Confectionery and snack operations continued to be Beatrice's major activity in Latin America.

In Venezuela, several new plants are under construction. Caramelos Royal and Industrias Anita are constructing facilities in the interior at Barquisimeto, with openings scheduled in 1978. Marlon is converting to a fully automated facility, designed to increase production. Granos de Oriente completed a major addition to its plant in El Tigrito. Granos de Oriente, which formerly was limited to preprocessing peanuts and cocoa for use in other Beatrice plants, has begun making nuggets, turron, fruit candies, and chewing gum.

Industrias Savoy is planning to move its hard candy operations to a new operating facility in Barquisimeto, thus enabling it to increase production of wafers and chocolate items in its Caracas plant.

Despite the negative effects of inflation in Peru, Productos Chipy maintained operations at a profitable level. In Mexico, Holanda introduced Bon Savor and Cremelados brand ice creams. In fiscal 1979, Holanda intends to introduce a line of frozen yogurt products.

Mantecados Payco's new gourmet ice creams and tropical sherbets received excellent consumer acceptance in Puerto Rico. Manufacturing operations there were upgraded.

Samsonite's joint venture in Mexico is engaged in manufacturing luggage and food containers. Despite the effects of peso devaluations, Samsonite's Mexican operation achieved record earnings.

Australia—Far East
Beatrice continued to emphasize confectionery products in the Far East, but also took steps to develop its dairy operations with the acquisition of Yomix in Sydney, Australia. Yomix markets yogurt.

Red Tulip introduced three major lines of candies—orange thin mints, fruit jellies and liquor-filled chocolates. Each of these products made important contributions to sales. A new Red Tulip plant has increased production capacity considerably.

With assistance from Europe Strength Food in Melbourne, New Zealand-based Van Camp Chocolate launched new varieties of Honey Log and Jupiter bars. Van Camp's redesign of packaging has resulted in increased sales. Plans are underway for a new Van Camp plant in Australia to keep pace with increasing demand.

Both Tannoy and Ortofon became significant factors in the hi-fidelity and magnetic cartridge tape markets in Japan.

Canada
Canadian dairy operations improved sales and earnings despite anti-inflationary restrictions.

Beatrice Fruit Bottom Yogurt now is distributed throughout Ontario. Last year, this product doubled in volume. With Canadian yogurt consumption notably lower than that of the United States, Beatrice's growth potential in this market is promising. In addition,

Red Tulip Confections, Australia

Beatrice plans to expand dairy operations to other Canadian provinces.

In April, 1978, all dairy products in Manitoba began to be marketed under the Quality Chekd label, which is expected to increase Beatrice sales and profits through the elimination of advertising and packaging duplications. Consolidation of production operations is expected to result in increased operational efficiencies.

Virtually all of Beatrice's chemical and manufacturing operations in Canada are extensions of domestic operations. These facilities, include Samsonite, Stahl Finish, Day-Timers, Beneke, Chicago Specialty, Converters Ink, Melnor, Bloomfield and Market Forge.

International

Australia
Austria
Belgium
Brazil
Canada
Colombia
Costa Rica
Denmark
Dominican Republic
France
Guatemala
Honduras
Ireland
Italy
Jamaica
Japan
Malaysia
Mexico
The Netherlands
New Zealand
Nicaragua
Norway
Peru
Singapore
Spain
Switzerland
Taiwan
Thailand
United Kingdom
Venezuela
West Germany

Sales *(in millions)*

Management's Discussion and Analysis of Operations

1978 Compared to 1977

Net sales for fiscal 1978 increased to a record $6.3 billion, surpassing $6 billion for the first time. All lines of business contributed to the sales increase of 13.8%. Sales and operating earnings by major lines of business are shown on page 5.

Sales for Food and Related Services increased 13.2% to $4.6 billion. Dairy & Soft Drinks sales totaled $1.8 billion for an increase of 16.9% primarily through greater unit volume of specialty products. Volume increases were primarily attributable to increased sales promotions and new products. European dairy operations experienced sales gains despite poor weather conditions during the peak summer period throughout Western Europe. Operating earnings totaled $98 million for an increase of 16.3% due to the higher sales volume. Sales of Grocery operations totaled $708 million for a slight increase from the prior year as higher selling prices and increases in unit volume were offset by the loss in sales resulting from the closing of a bakery unit and a grocery operation late in the prior year. Operating earnings decreased slightly to $48 million due to increased raw material and production costs. Food Distribution & Warehousing sales totaled $827 million for an increase of 17.1% principally due to increased selling prices and expanded market penetration of our European food distribution operations. Operating earnings amounted to $39 million an increase of 15.1% primarily due to improved sales volume. Sales of Specialty Meats increased to $548 million for an increase of 19.5%. The significant factors were an increase in volume, resulting partly from expansion into new markets, and higher selling prices. Production facilities were expanded to meet the rising consumer demand for specialty meat products. Operating earnings increased 27.9% to $44 million due to increased sales volume and improved margins. Sales of Confectionery & Snack products totaled $393 million, an increase of 6.0%, due primarily to increases in selling prices made to cover rising raw material and production costs, and the addition of several new products. Operating earnings increased slightly to $42 million as the higher selling prices and new products referred to above countered the closing of a domestic candy operation. The sales of Agri-Products increased to $308 million, an increase of 14.2%, primarily due to volume increases resulting from the addition of a new rendering operation and the introduction of several new products. Operating earnings decreased 4.8% to $21 million due to higher raw material and production costs and an unprofitable hide operation which was divested late in the year.

Sales for Manufactured and Chemical Products reached $1.7 billion, an increase of 15.3%. Institutional & Industrial sales increased to $571 million an increase of 22.4%. This increase is attributable to increased selling prices to recover cost increases, favorable economic conditions and the successful introduction of new food service equipment products. Operating earnings increased 22.3% to $93 million primarily due to higher sales volume. Travel & Recreational sales increased to $438 million, an increase of 5.3% resulting from selling price increases to recover higher material and production costs and to the successful introduction of new luggage products. Earnings of $37 million represent a decline of 2.8% primarily because of higher production costs and reduced sales volume of recreational vehicles. Sales of Housing & Home Environment increased 16.8% to $503 million due to increased volume resulting from favorable economic conditions, the introduction of several new products and due to increased sales promotions. Operating earnings totaled $48 million for an increase of 23.0% due to higher unit sales volume. Chemical & Allied Products sales increased to $228 million an increase of 16.5%. Both domestic and international operations continued to show strong growth in volume due to more favorable conditions in the economy and to the expansion into new geographic markets with new and existing products. Operating earnings increased 26.5% to $29 million as a result of higher unit volume and improved margins.

The increase in other income was primarily attributable to an increase in the earnings of Southwestern Investment Company, a wholly owned unconsolidated subsidiary, interest income and gains on the sale of capital assets.

The increase in total costs and expenses was proportionate to the sales increase.

The increase in interest expense is primarily attributable to higher long term borrowings.

The increase in income taxes approximated the increase in earnings before income taxes.

For further information about specific lines of business and profit centers refer to pages 6 to 19.

1977 Compared to 1976

Net sales increased 10.8% over the prior year. Sales increases were primarily attributable to new market penetrations both in the United States and Europe, new product developments and selling price increases. Sales for Food and

Related Services were up 8.3% overall, despite a decline in Grocery operations which decreased from last year's record levels primarily because of lower dollar sales in the specialty baking operations. Operating earnings of Food and Related Services were up 13.8% with substantial increases in all lines of business except Grocery which declined due to lower sales. Increases were primarily attributable to higher sales volume in existing product lines, a return to a more normal inventory level in warehousing operations, and increased production efficiencies. Earnings of Grocery operations declined from a record prior year due to lower sales and margins in the specialty bakery operations.

Sales and operating earnings of Manufactured and Chemical Products were up 18.1% and 21.4% respectively, with all lines of business showing an increase for the year. The increases were attributable to a variety of reasons including the reversal of the recessionary economy, entrance into several new marketing areas, new products, increases in sales volume of existing products and price increases.

The increase in other income was primarily attributable to a $1.6 million increase in the earnings of Southwestern Investment Company, a wholly owned unconsolidated subsidiary.

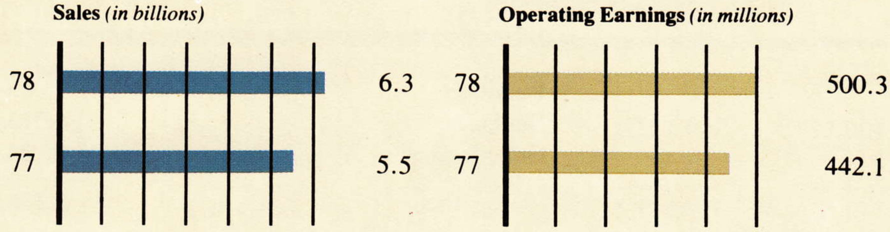
The increase in total costs and expenses was proportionate to the sales increase.

Earnings before income taxes increased as a result of increased sales and higher overall operating margins.

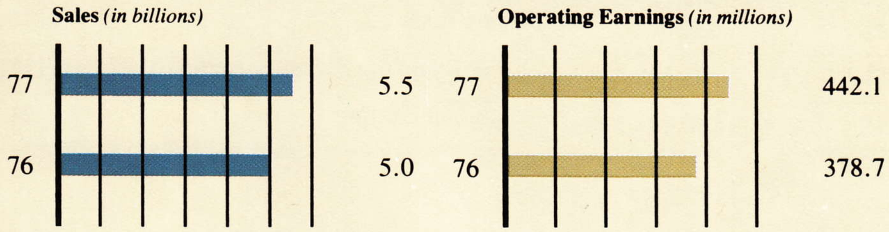
The increase in income taxes approximated the increase in earnings before income taxes.

Minority interest in the net earnings of subsidiaries increased $2.2 million over the prior year principally because of the improved performance of majority owned companies located in Europe and South America.

Sales and Operating Earnings
1978 Compared to 1977



Sales and Operating Earnings
1977 Compared to 1976



Ten Year Review
(Dollars in Thousands Except Per Share Data)

	1978	1977	1976
Earnings			
Net Sales	**$6,313,888**	$5,548,926	$5,008,022
Other Income	**24,782**	20,697	19,221
Total	**6,338,670**	5,569,623	5,027,243
Cost of Sales and Operating Expenses	**5,785,283**	5,086,749	4,605,975
Interest	**38,053**	32,443	34,482
Depreciation	**77,696**	66,712	61,697
Income Taxes	**216,100**	188,050	157,543
Total	**6,117,132**	5,373,954	4,859,697
Net Earnings	**$ 221,538**	$ 195,669	$ 167,546
Net Earnings per Common Share	**$2.41**	$2.15	$1.86
Dividends per Common Share	**$ .96**	$ .82	$ .74
Financial Condition			
Working Capital	**$ 856,177**	$ 767,919	$ 703,989
Plant and Equipment (net)	**754,787**	660,953	581,599
Other Assets	**230,696**	214,805	200,129
	1,841,660	1,643,677	1,485,717
Deduct:			
Long-Term Debt	**296,655**	282,227	287,564
Other Liabilities, Deferred Credits and Minority Interests	**185,746**	146,595	125,115
Stockholders' Equity	**$1,359,259**	$1,214,855	$1,073,038
Ratio of Current Assets to Current Liabilities	**2.19:1**	2.24:1	2.41:1
Book Value per Common Share	**$14.81**	$13.29	$11.77

1975	1974	1973	1972	1971	1970	1969
$4,636,995	$4,017,681	$3,321,780	$2,879,827	$2,581,394	$2,313,179	$2,009,052
14,534	18,611	15,763	13,328	10,869	10,908	8,580
4,651,529	4,036,292	3,337,543	2,893,155	2,592,263	2,324,087	2,017,632
4,265,743	3,696,824	3,051,146	2,636,893	2,363,242	2,113,378	1,826,693
32,107	22,132	17,952	17,260	18,828	13,822	7,922
58,678	54,674	48,633	45,332	42,598	37,200	33,155
141,682	123,271	103,425	93,155	81,117	80,305	75,012
4,498,210	3,896,901	3,221,156	2,792,640	2,505,785	2,244,705	1,942,782
$ 153,319	$ 139,391	$ 116,387	$ 100,515	$ 86,478	$ 79,382	$ 74,850
$1.71	$1.55	$1.32	$1.15	$1.00	$.93	$.89
$ .68½	$ .62¾	$ .59	$ .58	$ .50	$.50	$.44½
$ 657,514	$ 537,042	$ 437,038	$ 383,715	$ 347,941	$ 313,061	$ 272,454
537,431	490,687	450,224	404,806	378,605	345,128	275,855
184,757	170,849	152,876	143,643	131,133	112,034	79,811
1,379,702	1,198,578	1,040,138	932,164	857,679	770,223	628,120
303,008	232,076	186,785	177,834	179,847	155,886	79,177
110,491	97,113	80,827	68,412	55,451	50,019	43,910
$ 966,203	$ 869,389	$ 772,526	$ 685,918	$ 622,381	$ 564,318	$ 505,033
2.41:1	2.32:1	2.30:1	2.41:1	2.47:1	2.39:1	2.46:1
$10.57	$9.49	$8.42	$7.54	$6.80	$6.21	$5.53

Financial Review 1978

Consolidated Balance Sheet

February 28, 1978 and 1977

Assets	Thousands of Dollars 1978	1977
Current assets:		
Cash	**$ 103,057**	$ 92,440
Short-term investments, at cost which approximates market	**83,232**	93,023
Receivables, less allowance for doubtful accounts of $22,500 (1977-$21,458)	**624,691**	534,451
Inventories	**728,979**	637,391
Prepaid expenses	**34,570**	29,122
Total current assets	**1,574,529**	1,386,427
Investment in unconsolidated subsidiary	**52,331**	46,993
Plant and equipment:		
Land	**49,877**	46,573
Buildings	**418,726**	372,770
Machinery and equipment	**774,716**	686,387
	1,243,319	1,105,730
Less accumulated depreciation	**488,532**	444,777
	754,787	660,953
Investments and other assets	**49,014**	48,593
Intangible assets	**129,351**	119,219
	$2,560,012	$2,262,185

See summary of significant accounting policies and notes to consolidated financial statements.

Liabilities and Stockholders' Equity	Thousands of Dollars 1978	1977
Current liabilities:		
Accounts payable and accrued expenses	$ 642,374	$ 543,189
Current portion of long-term debt	20,009	16,185
Income taxes	55,969	59,134
Total current liabilities	718,352	618,508
Long-term debt	296,655	282,227
Deferred credits and other non-current liabilities	151,186	117,584
Minority interests in subsidiaries	34,560	29,011
Stockholders' equity:		
Preference stock (without par value). Authorized 2,500,000 shares. Issued and outstanding 119,831 shares (1977—144,473 shares) at stated values with aggregate liquidation preference of $11,669 (1977—$14,090)	6,628	6,961
Common stock (without par value). Authorized 125,000,000 shares. Issued and outstanding 90,988,474 shares (1977—90,337,304 shares) at $1.85 stated value	168,329	167,124
Capital surplus	65,312	57,850
Earnings invested in the business	1,118,990	982,920
Total stockholders' equity	1,359,259	1,214,855
	$2,560,012	$2,262,185

Statement of Consolidated Earnings

Years Ended February 28, 1978 and 1977

	Thousands of Dollars	
	1978	**1977**
Income:		
Net sales	**$6,313,888**	$5,548,926
Other income, including net earnings of unconsolidated subsidiary	**24,782**	20,697
	6,338,670	5,569,623
Costs and expenses:		
Cost of sales	**4,715,196**	4,125,785
Selling, administrative and general expenses	**1,063,048**	954,222
Depreciation expense	**77,696**	66,712
Interest expense	**38,053**	32,443
	5,893,993	5,179,162
Earnings before income taxes	**444,677**	390,461
Provision for income taxes	**216,100**	188,050
Earnings after income taxes	**228,577**	202,411
Minority interests in net earnings of subsidiaries	**7,039**	6,742
Net earnings	**$ 221,538**	$ 195,669
Net earnings per common share	**$ 2.41**	$ 2.15
Net earnings per common share assuming full conversion of debentures and preference stock	**$ 2.35**	$ 2.09

See summary of significant accounting policies and notes to consolidated financial statements.

Statement of Consolidated Capital Surplus and Earnings Invested in the Business

Years Ended February 28, 1978 and 1977

	Thousands of Dollars	
	1978	**1977**
Capital Surplus		
Balance at beginning of year	**$ 57,850**	$ 37,061
Excess of stated value of converted shares of preference stock and principal amount of converted debentures over stated value of shares of common stock issued upon conversion	**2,268**	6,539
Excess of proceeds over stated value of shares of common stock issued for stock options	**2,340**	3,163
Excess of fair value over stated value of shares of common stock contributed to the Employee Stock Ownership Plan	**515**	614
Excess of fair value over stated value of shares of common stock issued upon purchase of other companies	**1,655**	1,732
Excess of fair value over stated value of common stock arising from stock dividends of pooled companies	**—**	7,091
Net unrealized gain on marketable equity securities owned by unconsolidated subsidiary	**—**	1,065
Other items	**684**	585
Balance at end of year	**$ 65,312**	$ 57,850
Earnings Invested in the Business		
Balance at beginning of year	**$ 982,920**	$ 857,880
Net earnings for the year	**221,538**	195,669
	1,204,458	1,053,549
Less dividends paid:		
Preference stock	**546**	913
Common stock, $.96 a share (1977—$.82 a share)	**84,143**	68,093
Capital stocks of companies prior to poolings	**779**	1,623
	85,468	70,629
Balance at end of year	**$1,118,990**	$ 982,920

See summary of significant accounting policies and notes to consolidated financial statements.

Statement of Consolidated Changes in Financial Position

Years Ended February 28, 1978 and 1977

	Thousands of Dollars	
	1978	**1977**
Funds Provided:		
Net earnings	**$221,538**	$195,669
Items which did not currently use (provide) funds:		
Depreciation	**77,696**	66,712
Deferred tax and other items	**32,912**	28,378
Undistributed earnings of unconsolidated subsidiary	**(5,338)**	(4,462)
Total from operations	**326,808**	286,297
Sale of common stock under option plans	**2,829**	3,720
Fair value of common stock issued for assets of purchased companies	**1,798**	1,860
Issuance of common stock upon conversion of preference stock and debentures	**2,796**	8,671
Increases in long-term debt	**49,855**	37,308
Obligations under capital leases—long-term portion	**7,306**	—
Other items	**7,613**	1,660
Total funds provided	**399,005**	339,516
Funds Used:		
Cash dividends	**85,468**	70,629
Plant and equipment acquired through purchase of other companies	**18,310**	3,435
Net capital expenditures $153,021 (1977—$145,667) less $9,100 (1977—$3,036) applicable to fixed assets of divested companies	**143,921**	142,631
Leased property under capital leases	**9,299**	—
Preference stock and debentures (net) retired upon conversion into common stock	**2,796**	8,671
Reductions in long-term debt	**32,919**	35,417
Intangible assets acquired	**16,543**	5,100
Other items	**1,491**	9,703
Total funds used	**310,747**	275,586
Increase in working capital	**$ 88,258**	$ 63,930
Changes in Working Capital Components:		
Increases in current assets:		
Cash and short-term investments	**$ 826**	$ 35,297
Receivables	**90,240**	62,287
Inventories	**91,588**	81,411
Prepaid expenses	**5,448**	3,939
	188,102	182,934
Increases (decreases) in current liabilities:		
Accounts payable and accrued expenses	**99,185**	105,409
Current portion of long-term debt	**3,824**	849
Income taxes	**(3,165)**	12,746
	99,844	119,004
Increase in working capital	**$ 88,258**	$ 63,930

See summary of significant accounting policies and notes to consolidated financial statements.

Summary of Significant Accounting Policies

Principles of Consolidation
The consolidated financial statements include all majority owned subsidiaries except Southwestern Investment Company and its subsidiaries which are carried on the equity method (see note 11). All significant intercompany transactions have been eliminated in the consolidated financial statements. Subsidiaries operating outside the United States are included on the basis of fiscal years ending generally on December 31.

Inventories
Inventories are valued at the lower of cost (principally first-in, first-out) or market.

Plant and Equipment and Depreciation
Plant and equipment is stated at cost. Expenditures for maintenance, repairs and minor renewals are charged to expense as incurred.

Depreciation is provided principally on the straight-line method over the estimated useful lives of the depreciable assets. Accelerated depreciation methods are used for income tax purposes. Included in depreciation expense is the amortization of leases capitalized under Financial Accounting Standards Board Statement No. 13.

Intangible Assets
The excess of cost over net tangible assets of certain companies acquired prior to November 1, 1970 (approximately $70 million) is not being amortized until such time as there is evidence of a permanent loss in value. The remaining intangible assets are being amortized using a straight line method over periods not in excess of 40 years.

Income Taxes
Certain items of income and expense (principally depreciation, self insurance reserves and gains on sale-and-leaseback transactions) are reported for income tax purposes on methods which differ from those on which such items are recognized for financial reporting purposes. Deferred income taxes are reflected in the financial statements to recognize the tax effects of such differences.

Investment tax credits are reflected in earnings over the average useful lives of the acquired assets, subject to a maximum amortization period of seven years.

Sale-and-Leaseback Transactions
Gains resulting from sale-and-leaseback transactions are amortized over the lives of the related leases as an adjustment of rental expense.

Pension Plans
The Company has pension plans which cover salaried employees and certain hourly-paid employees. Amounts charged to operations under the plans generally include the amortization of prior service costs on a 30-year basis. The Company contributes to other plans jointly administered by industry and union representatives. In general, the Company's policy is to fund pension costs currently.

Calculation of Earnings Per Share
Earnings per share of common stock are based on the weighted average number of shares of common stock and common stock equivalents (stock options and 4⅞% convertible debentures) outstanding during the period.

Accountants' Report

The Stockholders
Beatrice Foods Co.:

We have examined the consolidated balance sheet of Beatrice Foods Co. and subsidiaries as of February 28, 1978 and 1977 and the related statements of consolidated earnings, capital surplus and earnings invested in the business and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Beatrice Foods Co. and subsidiaries at February 28, 1978 and 1977 and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

April 26, 1978

Peat, Marwick, Mitchell & Co.

Peat, Marwick, Mitchell & Co.
Certified Public Accountants
222 South Riverside Plaza
Chicago, Illinois 60606

Notes to Consolidated Financial Statements

1) Business Combinations
During the year ended February 28, 1978, the Company acquired a number of companies in transactions accounted for by the pooling of interests method. In connection therewith, Beatrice issued 5,314,307 shares of its common stock, of which 3,590,087 shares were issued to the former shareholders of Harman International Industries, Inc. Net sales and net earnings of the acquired companies for the period March 1, 1977 to dates of merger with the Company totaled $164,800,000 and $5,900,000,respectively. During 1978, a total of 77,261 shares of common stock were issued in purchase transactions.

The financial statements for the year ended February 28, 1977 have been restated to reflect the above poolings of interests. The net sales and net earnings of the Company for 1977 before such restatement aggregated $5,288,578,000 and $182,566,000, respectively. The net earnings of pooled companies that have been omitted due to changes in their fiscal years amounted to $2,390,000. This amount has been netted with $7,661,000 in stock dividends issued by pooled companies in 1977 and this net amount has been deducted from the 1977 beginning balance of earnings invested in the business.

2) Income Taxes
The provisions for income taxes comprise the following:

	1978	1977
	(in thousands)	
Current taxes:		
Federal	$147,572	$134,904
Foreign	32,614	29,107
State	24,000	19,375
Deferred taxes:		
Federal	3,987	2,596
Foreign	3,871	(231)
Deferred investment credits:		
Federal	3,638	2,272
Foreign	418	27
Total	$216,100	$188,050

Net non-current deferred taxes and the unamortized balance of investment tax credits amounted to $39,285,000 and $18,467,000 respectively, at February 28, 1978 ($32,610,000 and $14,411,000, respectively, at February 28, 1977), and are included in deferred credits in the balance sheet. Net current deferred tax charges aggregated $11,512,000 at February 28,1978 ($12,695,000 at February 28, 1977) and are included in prepaid expenses.

The Company has provided for deferred taxes on that portion of the undistributed earnings of its international subsidiaries which is not considered to be permanently invested overseas. The accumulated earnings that have been permanently invested overseas aggregated $130 million at February 28, 1978. In the event such earnings were distributed, the Company would have available tax credits which would substantially reduce any Federal income tax due.

3) Long-Term Debt
Long-term debt consists of the following:

	1978	1977
	(in thousands)	
7⅞% Sinking Fund Debentures due 1994	$ 29,309	$ 31,250
9% Debentures due 1985	5,000	7,000
Convertible Subordinated Debentures:		
7¼% due 1990	9,183	10,018
6¼% due 1991	24,533	24,535
4½% due 1992	24,990	24,990
4⅞% due 1993	21,668	22,831
Notes:		
8½% due 1984	13,455	—
8.9% due 1986	25,000	25,000
8¼% due 1987	13,890	—
9⅞% due 1995	60,000	60,000
Other long-term debt	69,627	76,603
	$296,655	$282,227

The agreements under which the debentures and notes were issued provide for annual sinking fund payments or otherwise require prepayments of principal. The 7¼%, 6¼%, 4½% and 4⅞% debentures are convertible into the Company's common stock at the rate of 57.142, 43.716, 35.714 and 43.956 shares of common stock, respectively, for each $1,000 principal amount. In 1978 the Company issued 98,900 shares of common stock upon conversion of debentures. In addition, pooled companies issued the equivalent of 63,799 shares of common stock upon conversion of $508,000 principal amount of convertible debentures.

Other long-term debt consists of miscellaneous secured and unsecured notes, etc., which mature in varying amounts through 2005 and which have a weighted average interest rate of 8¼%.

4) Preference Stock
A summary of outstanding preference stock follows:

	1978	1977
	(in thousands)	
$2.70 convertible, $60 stated value, 7,854 shares (1977—8,941 shares)	$ 471	$ 537
$4.00 convertible, $10 stated value* 56,006 shares (1977—79,213 shares)	560	792
$4.50 convertible, $100 stated value, 55,971 shares (1977—56,319 shares)	5,597	5,632
	$6,628	$6,961

*Liquidation preference $100 per share.

In 1978, 24,642 shares of preference stock were converted into 122,621 shares of common stock. There are 564,071 shares of common stock reserved for conversion of outstanding preference shares at February 28, 1978.

5) Stock Benefit and Pension Plans
On June 1, 1977, the stockholders approved three separate incentive deferred compensation plans intended to cover approximately 2,000 key employees. A maximum of 1,567,000 restricted shares of the Company's common stock can be awarded for increased profitability or used as payment for appreciation in value of units defined under the plan. Awards may be granted through 1983 and require subsequent continuous employment for at least five years before the employee is fully vested. No shares of restricted stock have been awarded as of February 28, 1978.

The Company's stock option plans, including those assumed from acquired companies, permit purchase of the Company's common stock at prices not less than 100% of market value at the date of grant. The shares under option at the beginning and end of the year, and the changes during the year, are as follows:

	1978	1977
Beginning of year	861,471	1,031,044
Options granted	—	57,431
Options assumed	245,972	—
Options exercised*	(176,704)	(165,476)
Options cancelled	(58,335)	(61,528)
End of year	872,404	861,471

*In addition, during 1978 and 1977 pooled companies issued the equivalent of 87,897 and 178,439 shares, respectively of the Company's common stock through their own stock option plans.

The total option price of options exercised during 1978 and 1977 was $2,829,000 and $3,720,000, respectively. The total option price of options outstanding at February 28, 1978 was $16,383,000. Options to purchase 752,578 shares are currently exercisable. There will be no future grants under the current stock option plans.

The amounts charged to earnings for pension plans totaled $34,700,000 for 1978 and $30,119,000 for 1977, of which $10,352,000 and $9,930,000, respectively pertained to plans jointly administered by industry and union representatives. As of the latest valuation dates, pension fund assets exceeded the actuarially computed value of vested benefits for the principal plans.

6) Sale-and-Leaseback Transactions

The unamortized balance of deferred gains from sale-and-leaseback transactions aggregated $22,286,000 at February 28, 1978 ($23,407,000 at February 28, 1977) and is included in deferred credits in the balance sheet.

7) Leases

In accordance with the provisions of Financial Accounting Standards Board Statement No. 13, "Accounting for Leases", the Company accounts for certain leases entered into after January 1, 1977 as capital leases, recording the lease rights in the balance sheet as plant and equipment with the related obligations included in other non-current liabilities.

The Company intends to adopt the full provisions of Statement No. 13 in fiscal 1979.

The amount included in plant and equipment at February 28, 1978 relating to capital leases is as follows:

	(in thousands)
Real property	$2,048
Equipment, principally vehicles	7,251
	9,299
Less accumulated amortization	921
	$8,378

The total minimum sublease rentals to be received in the future and contingent rent expense under these leases for the fiscal years ended February 28, 1978 and 1977 were immaterial.

If Statement No. 13 had been applied to leases entered into prior to January 1, 1977, the consolidated balance sheet at February 28, 1978 and 1977 would have been adjusted approximately as follows:

	Increase (Decrease) February 28, 1978	Increase (Decrease) February 28, 1977
	(in thousands)	
Plant and equipment	$231,168	$246,530
Accumulated depreciation	79,766	69,836
Obligations under capital leases:		
Current portion	15,423	17,093
Long-term	144,946	171,895
Deferred taxes	(4,304)	(5,901)
Retained earnings	(4,663)	(6,393)

The effect on net income would have been immaterial for the years ended February 28, 1978 and 1977, respectively.

Future minimum lease payments for non-cancelable leases with a term in excess of one year as of February 28, 1978 are payable as follows:

Fiscal Years	Capital Leases included in plant and equipment	Operating Leases
	(in thousands)	
1979	$ 1,780	$ 39,561
1980	1,769	33,829
1981	1,635	27,897
1982	1,617	23,319
1983	684	19,842
after 1983	3,170	194,660
Total future minimum lease payments	10,655	$339,108
Less interest and executory costs	2,045	
Present value of net minimum lease payments	$ 8,610	

Total future minimum sublease rentals under non-cancelable operating subleases as of February 28, 1978 were $9.0 million.

Total rent expense for the years ended February 28, 1978 and 1977 is shown below:

	1978	1977
	(in thousands)	
Minimum rent	$66,234	$60,412
Contingent rent	7,048	6,754
	73,282	67,166
Less sublease rentals	2,423	2,352
Net rent expense	$70,859	$64,814

8) Litigation

In the opinion of management, the outcome of the litigation to which the Company is a party will not materially affect the Company's consolidated financial condition.

9) International Operations

The following is a summary of certain financial information relating to the Company's operations outside the United States:

	1978	1977
	(in thousands)	
Current assets	$439,830	$348,383
Plant and equipment (net)	180,053	155,316
Investments in joint ventures	6,903	7,205
Intangibles and other assets	106,032	93,797
	732,818	604,701
Less:		
Current liabilities	275,026	227,153
Other liabilities	68,928	55,557
Minority interests	31,790	26,987
	375,744	309,697
Company's equity in net assets	$357,074	$295,004
Company's equity in after-tax operating earnings	$ 40,612	$ 36,639

Foreign currency translation adjustments, after the effect of hedging transactions, resulted in net losses of $2.2 million and $4.2 million in 1978 and 1977, respectively. Such adjustments, which are included in the statement of consolidated earnings, are not reflected in the Company's equity in after-tax operating earnings of international operations shown above.

10) Information by Industry Segments and Geographic Locations

In accordance with the provisions of Financial Accounting Standards Board Statement No. 14, "Financial Reporting For Segments of a Business Enterprise," information about the components of operations of the Company by industry segments and geographic locations is described below.

Sales and operating earnings by industry segments are shown on page 5 of this annual report and information with respect to the year ended February 28, 1978 contained therein is considered an integral part of this note.

Intersegment and intergeographic sales to affiliates are not significant to the total sales of any industry segment or geographic location. Net unallocated corporate expenses, minority interests, interest expense, income taxes, equity in earnings of unconsolidated subsidiary, and other income are not included in the computation of operating earnings by segment.

Segment information for the year ended February 28, 1978 (in millions) is as follows:

Industry Segments

Segments:	Identifiable Assets	Net Fixed Asset Additions*	Depreciation and Amortization Expense
Dairy & Soft Drinks	$ 516	$ 45	$21
Grocery	219	14	9
Food Distribution & Warehousing	294	17	9
Specialty Meats	114	13	5
Confectionery & Snack	177	15	6
Agri-Products	72	6	3
Institutional & Industrial	300	26	9
Travel & Recreational	255	8	5
Housing & Home Environment	304	11	7
Chemical & Allied Products	120	6	3
Corporate Assets and Investment in Unconsolidated Subsidiary	189	1	1
Total	$2,560	$162	$78

Geographic Locations

	United States	Canada	Latin America	Europe	Australia Far East	Consolidated
Net Sales	$4,954	255	152	814	139	6,314
Operating Earnings	$ 408	14	26	43	9	500
Identifiable Assets	$1,638	105	99	438	91	2,371
Corporate Assets and Investment in Unconsolidated Subsidiary						189
Total Assets						$2,560

Corporate Assets are primarily cash, marketable securities, investments and other non-current assets. Identifiable Assets are those assets used in the operations of the segment.

There were no material sales to any single customer.

Export sales to unaffiliated customers are an immaterial percentage of net sales.

*Includes leased property under capital leases of $9 million.

11) Southwestern Investment Company and Subsidiaries (S.I.C.)

S.I.C. is a wholly owned, unconsolidated subsidiary of the Company and is engaged principally in the finance and insurance businesses. The following condensed statements summarize the consolidated financial position and operating results of S.I.C.

Summary of Financial Condition

	December 31, 1977	1976
	(in thousands)	
Assets:		
Cash	$ 15,047	$ 14,124
Marketable securities	108,957	104,170
Receivables (net):		
Finance	160,616	146,087
Other	129,985	105,826
Other assets	25,041	27,369
	$439,646	$397,576

Liabilities and Stockholder's Equity:		
Short-term notes payable	$ 68,827	$ 85,680
Accounts payable and other liabilities	34,102	29,238
Savings accounts	63,381	59,107
Life insurance policy reserves	137,852	106,126
Long-term debt	83,153	70,432
Stockholder's equity	52,331	46,993
	$439,646	$397,576

Summary of Operations

	Year Ended Dec. 31,	
	1977	1976
	(in thousands)	
Revenues	$115,292	$111,846
Net earnings	5,338	4,462

Note: Long-term debt matures in varying amounts through 1992 and bears interest at rates ranging from 4¾% to 10%.

12) Replacement Cost Information *(Unaudited)*
In compliance with Securities and Exchange Commission regulations, the Company has estimated the replacement cost of buildings, machinery and equipment, inventory and the related estimated effects on depreciation and cost of sales as of February 28, 1978 and 1977.

The replacement of fixed assets with assets having equivalent productive capacity will usually require a capital investment greater than the historical cost of the assets. The increased capital investment is due to the cumulative effect of worldwide inflation over the long useful lives of these assets.

The replacement costs of ending inventory and cost of sales are somewhat higher than their historical costs on the financial statements. The differences are primarily due to increases in the prices of raw materials and labor during the year.

In general, the Company has compensated for cost increases through increased productivity, work efficiency improvements, improvements in technology and selling price increases.

The Company's Annual Report to the Securities and Exchange Commission on Form 10-K (a copy of which is available from the Director of Financial Relations upon request) contains more specific information on replacement cost.

13) Subsequent Events *(Unaudited)*
The Company has entered into an agreement to acquire Tropicana Products, Inc. for a total consideration valued at approximately $490 million. The acquisition will be accounted for as a purchase and the consideration will consist of a new series of Beatrice convertible preference stock and cash. Tropicana is engaged primarily in the production and sale of pure, chilled orange and grapefruit juices and frozen concentrated orange juice. The net sales and net earnings of Tropicana for the 52 weeks ended February 26, 1978 were $277 million and $29 million, respectively. Total assets of Tropicana on February 26, 1978 were $143 million.

The Company has also entered into an agreement to acquire Culligan International Company in exchange for approximately 2.2 million shares of the Company's common stock. The merger will be accounted for as a pooling of interests. Culligan is a leading manufacturer of water conditioning equipment. For the twelve months ended January 31, 1978, Culligan had net sales and rental revenues of $102.4 million and net income of $4.6 million. Total assets of Culligan on January 31, 1978 were $78.1 million.

These proposed acquisitions are subject to various conditions and there can be no assurances that the acquisitions will be consummated.

A wholly owned financing subsidiary of the Company plans to issue and sell outside the United States an aggregate of $100 million of 7¾% notes due 1983 guaranteed by the Company. The net proceeds will be loaned to the Company and are intended to be used to finance a portion of the costs of the proposed acquisition of Tropicana. Until needed for such acquisition, the net proceeds will be applied to general corporate purposes.

14) Quarterly Results of Operations *(Unaudited)*
The following is a summary of the unaudited quarterly results of operations for the years ended February 28, 1978 and 1977 (in thousands, except per share data):

1978	May 31	Aug. 31	Nov. 30	Feb. 28
Net sales	$1,504,636	$1,570,849	$1,623,440	$1,614,963
Cost of sales	1,126,703	1,166,379	1,204,029	1,218,085
Net earnings	55,707	59,026	59,636	47,169
Net earnings per common share	$.61	$.64	$.65	$.51
Net earnings per common share assuming full conversion of debentures and preference stock	.59	.63	.63	.50

1977	May 31	Aug. 31	Nov. 30	Feb. 28
Net sales	$1,352,170	$1,392,142	$1,416,267	$1,388,347
Cost of sales	1,004,366	1,033,954	1,040,892	1,046,573
Net earnings	49,138	51,951	53,628	40,952
Net earnings per common share	$.54	$.57	$.59	$.45
Net earnings per common share assuming full conversion of debentures and preference stock	.53	.55	.57	.44

Directors, Officers and Executives

Directors

Company Officers

Wallace N. Rasmussen
Chairman
Chief Executive Officer
Chicago, Ill.

James L. Dutt
President
Chief Operating Officer
Chicago, Ill.

Harry Niemiec
Executive Vice President
Chicago, Ill.

T. Mackin Sexton
Vice President
Chicago, Ill.

Richard A. Voell
Deputy Chairman
Chief Corporate Officer
Chicago, Ill.

Donald P. Eckrich
Vice Chairman
President, Domestic Grocery Operations
Fort Wayne, Ind.

James Weiss
Executive Vice President
Chicago, Ill.

Juan E. Metzger
Vice President
New York, N.Y.

Retired Company Officers

William G. Karnes
Retired Chairman
Chief Executive Officer
Chicago, Ill.

King D. Shwayder
Retired President
Samsonite Corp.
Denver, Colo.

Don L. Grantham
Retired President
Chief Operating Officer
Chicago, Ill.

Independent Directors

John H. Coleman
Retired Deputy Chairman
Executive Vice President
The Royal Bank of Canada
Toronto, Ontario, Canada

Bernard A. Monaghan
Chairman of the Executive Committee
Vulcan Materials Company
Birmingham, Al.

John H. Williams
Chairman, Chief Executive Officer
The Williams Companies
Tulsa, Ok.

Dr. Durward B. Varner
Chairman, Chief Executive Officer
University of Nebraska Foundation
Lincoln, Neb.

G. A. Costanzo
Vice Chairman
Citibank, N.A.
New York, N.Y.

Jayne Baker Spain
Senior Vice President
Public Affairs
Gulf Oil Corporation
Pittsburgh, Pa.

Flavel A. Wright
Partner, Law Firm of Cline,
Williams, Wright, Johnson & Oldfather
Lincoln, Neb.

Omer G. Voss
Vice Chairman
International Harvester Co.
Chicago, Ill.

Board Committees

Executive Committee
Wallace N. Rasmussen, Chairman
James L. Dutt
Donald P. Eckrich
Don L. Grantham
William G. Karnes
Bernard A. Monaghan
Richard A. Voell
Omer G. Voss
Flavel A. Wright

Compensation and Benefits Committee
G. A. Costanzo, Chairman
Flavel A. Wright, Vice Chairman
John H. Coleman
Bernard A. Monaghan
Dr. Durward B. Varner
Omer G. Voss
John H. Williams

Audit Committee
Bernard A. Monaghan, Chairman
John H. Coleman
Flavel A. Wright

Corporate Governance Committee
Dr. Durward B. Varner, Chairman
G. A. Costanzo
John H. Williams

Officers

Wallace N. Rasmussen
Chairman
Chief Executive Officer

James L. Dutt
President
Chief Operating Officer

Richard A. Voell
Deputy Chairman
Chief Corporate Officer

Donald P. Eckrich
Vice Chairman
President, Domestic Grocery Operations

Operations

William W. Granger, Jr.
Executive Vice President
Dairy, Soft Drinks, Agri-Products, International Foods

Richard W. Hanselman
Executive Vice President
Manufacturing Divisions

Harry Niemiec
Executive Vice President
Grocery Specialties, Confectionery & Snack, Bakery

James Weiss
Executive Vice President
Chemical, Consumer Arts, Leisure Products

John D. Conners
Senior Vice President
President, Domestic Dairy, Agri-Products Divisions

Duane D. Daggett
Vice President
Martha White, Shedd Food Products, Southwestern Investment Company

Edwin D. Disborough
Vice President
President, Luggage & Home Environment Division

James G. Fransen
Vice President
Operating Director, Caribbean Dairy Area

John F. Hazelton, Jr.
Vice President
President, European Foods Operations

Walter R. Lovejoy
Vice President
President, Institutional & Industrial Division

Juan E. Metzger
Vice President
Group Manager, Yogurt-Specialty Products Dairy Group

William J. Polidoro
Vice President
Executive Vice President, Dairy and Soft Drink Divisions

Joseph E. Quinlan
Vice President
President, Specialty Meat Division

Theodore R. Ruwitch
Vice President
President, Consumer Products Division

T. Mackin Sexton
Vice President
President, Institutional Foods Division

Louis E. Stahl
Vice President
Chairman, Chemical Division

Gordon E. Swaney
Vice President
Assistant General Manager, Grocery Specialties Division

Administration

Norman E. Barber
Senior Vice President
Chief Financial Officer

Richard J. Pigott
Senior Vice President
General Counsel

James A. Johnson
Vice President and Controller

James E. Murphy
Vice President
Director of Public Affairs

Richard W. Truelick
Vice President
Director of Corporate Development

P. Robert McClure, Jr.
Treasurer

H. Robert Winton, Jr.
Secretary
Associate General Counsel

R. Wilbur Daeschner
Assistant Vice President
Director, Personnel and Industrial Relations

Neil R. Gazel
Assistant Vice President
Director of Public Relations

Donald H. Klein
Assistant Vice President
Corporate Director of World Wide Security
Assistant to the President

Fred K. Schomer
Assistant Vice President
International Financial Services

Ronald B. Williams, Jr.
Assistant Vice President
Director of Corporate Planning

George J. Zulanas, Jr.
Assistant Vice President
Director of Financial Relations

Charles E. Harrison
Assistant Secretary

Robert L. Skummer
Assistant Treasurer

Division Executives

Food and Related Services

Roland M. Binnington
President, Canadian Dairy Operations, International Foods

Peter Brown
President, Australia & Far East Operations, International Foods

William C. Burkhardt
President
Bakery Division

Robert Cooper
President
Public Warehouse Division

Robert V. Dale
President
Martha White Foods

Andre J. Job
President, Latin American Operations, International Foods

B. Robert Kill
President, Confectionery & Snack Division

Anthony Luiso
Excutive Vice President
International Foods Division

William S. Mowry, Jr.
President,
Soft Drink Division

Chester W. Schmidt
President, International Management Services, International Foods

Adam J. Schubel
President
Shedd Food Products Division

Richard A. Walrack
Executive Vice President,
Agri-Products Division

Manufactured and Chemical Products

Vernon Davidson
Executive Vice President
Leisure Products Division

Creighton B. Lynch
Chairman and President
Southwestern Investment Company

Walter Goodman
Chairman and Chief Executive Officer
Harman International Industries

Thomas Mitchell
Executive Vice President
Consumer Arts Division

Herbert Paige
President
Chief Operating Officer,
Harman International Industries

Norman M. Schneider
President, Leisure Products Division

Harry C. Wechsler
President, Chemical Division

Capital Stock Listing

New York Stock Exchange, Midwest Stock Exchange, Basel, Geneva, Lausanne and Zurich, Switzerland, and Frankfurt and Dusseldorf, Republic of West Germany, Stock Exchanges.
Stock Exchange Symbol—BRY

Registrars of Stock

The Chase Manhattan Bank, N.A.
1 Chase Manhattan Plaza
New York, NY 10015

The Northern Trust Company
50 South LaSalle Street
Chicago, IL 60690

Stock Transfer Agents

Morgan Guaranty Trust Company of New York
30 West Broadway
New York, NY 10015

Continental Illinois National Bank and Trust Company of Chicago
321 South LaSalle Street
Chicago, IL 60690

Dividend Disbursement Agent

Continental Illinois National Bank and Trust Company of Chicago

Dividend Reinvestment Service Available to Stockholders

Citibank, N.A., New York, N Y, is making available an automatic dividend reinvestment service to the holders of Beatrice Foods Co. common stock.

Those interested in participating in the new service are invited to write for details and an authorization form to:

Citibank, N.A.
Dividend Reinvestment Service
Post Office Box 2670
Grand Central Station
New York, N Y 10017

Common Stock Data

	1978		1977	
Fiscal Quarter	Cash Dividends Paid	Market Price Range*	Cash Dividends Paid	Market Price Range*
First Quarter (May 31)	$.24	$25⅞-22⅞	$.19	$25½-21½
Second Quarter (August 31)	.24	26⅛-22¾	.21	27⅛-25
Third Quarter (November 30)	.24	26 -22½	.21	28⅛-24⅝
Fourth Quarter (February 28)	.24	25⅛-22	.21	28½-23⅜

**High and low prices based upon composite sales prices, which include trades on the New York Stock Exchange and the Midwest Stock Exchange and transactions reported by the National Association of Securities Dealers and Instinet.*

Printed in U.S.A.

Shoot Out '77 Winners

Seven photographs out of more than 1,600 submitted by Beatrice employees were selected as winners in our "Shoot Out '77" Contest.

Mark Steffen of County Line Cheese was recipient of $1,000 and he and his wife will enjoy an all-expense-paid trip to Dallas for Beatrice's 81st Annual Meeting of Stockholders in June. The six other winners received $500 cash prizes. The judges had difficulty selecting the final winners, and were impressed by the overall caliber of the entries. Beatrice Foods thanks each and every entrant.

Grand Prize Winner
Photographer **Mark Steffen**/County Line Cheese

Photographer **Julie Tarshish**/Dannon

Photographer **Michelina Cangiano**/Irvinware

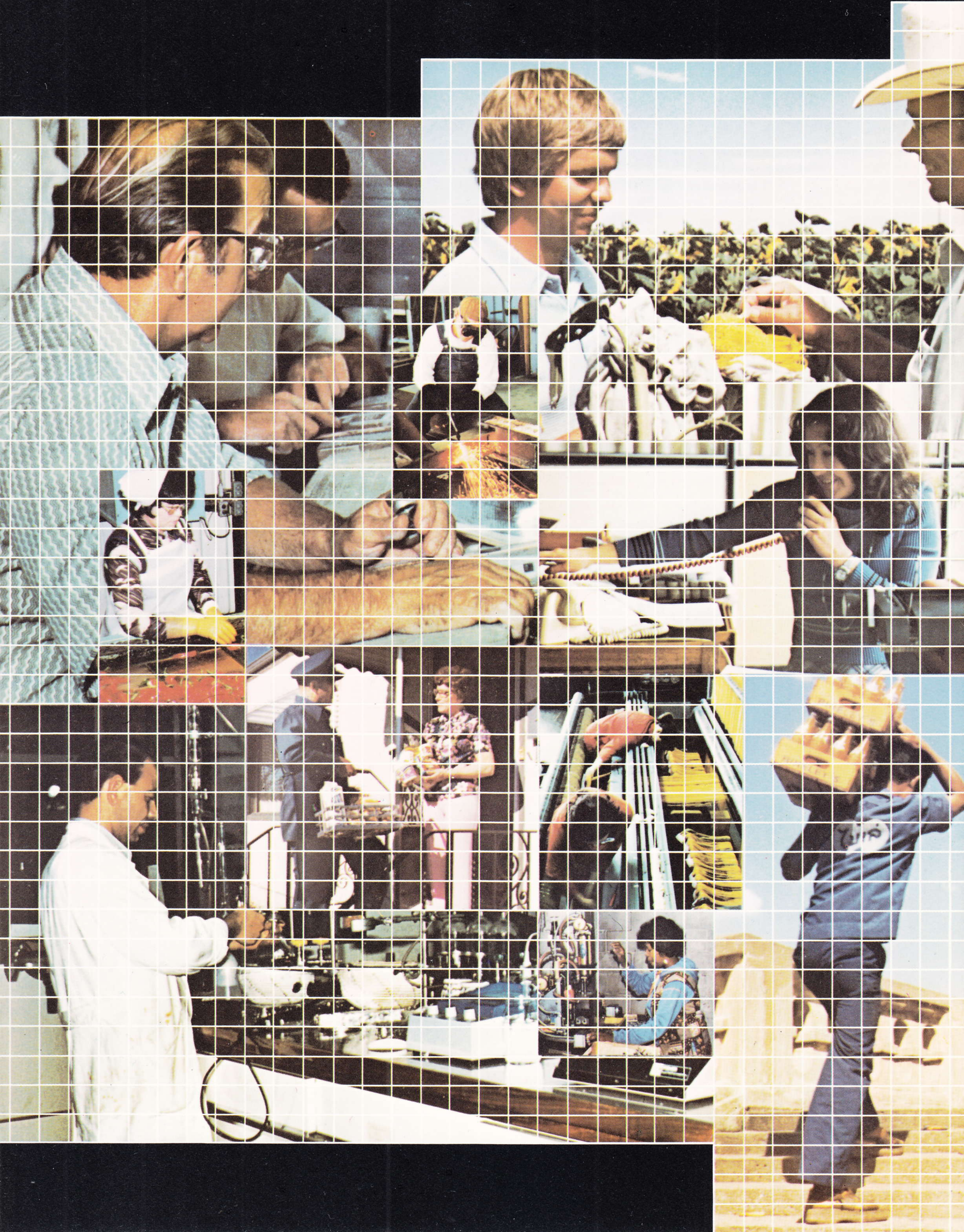
Photographer **Frank J. Soczek**/Bloomfield In

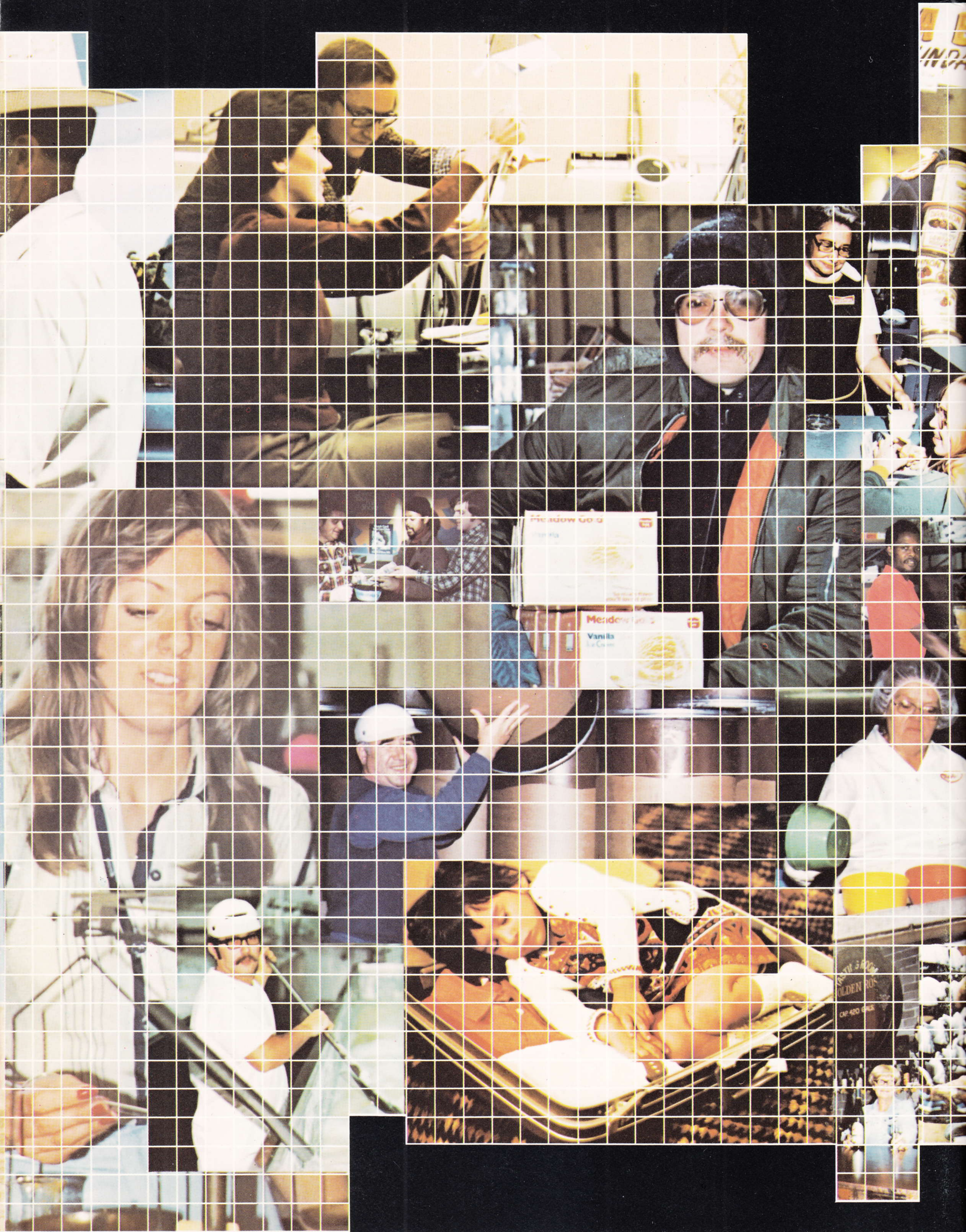
Photographer **Ernesto Straub**/Stoffel & Cia, S. A. de C. V.

Photographer **Cec. McLean**/
Crescent Creamery
Limited (Winnipeg)

ndustries

Photographer **Bob Lewis**/Harman International Industries, Automotive Div.




Vanilla