

GRAFTECH INTERNATIONAL LTD
Form S-1/A
April 02, 2018

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As filed with the Securities and Exchange Commission on April 2, 2018.

Registration No. 333-223791

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**Amendment No. 2 to
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

GRAFTECH INTERNATIONAL LTD.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

3620
(Primary Standard Industrial
Classification Code Number)

27-2496053
(I.R.S. Employer
Identification No.)

**982 Keynote Circle
Brooklyn Heights, OH 44131
(216) 676-2000**

(Address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)

**David J. Rintoul
Chief Executive Officer
GrafTech International Ltd.
982 Keynote Circle
Brooklyn Heights, OH 44131**

(216) 676-2000

(Name, address, including zip code, and telephone number,
including area code, of agent for service)

(Copies of all communications, including communications sent to agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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

| | | | |
|--|--|---|--|
| Large accelerated filer <input type="radio"/> | Accelerated filer <input type="radio"/> | Non-accelerated filer <input checked="" type="radio"/> (Do not check if a smaller reporting company) | Smaller reporting company <input type="radio"/> Emerging growth company <input type="radio"/> |
|--|--|---|--|

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

CALCULATION OF REGISTRATION FEE

| Title of each class of securities to be registered | Proposed maximum aggregate offering price(1)(2) | Amount of registration fee(2)(3) |
|---|--|---|
| Common stock, \$0.01 par value per share | \$100,000,000 | \$12,450 |

(1) Includes shares of common stock to be sold by the selling stockholder and shares to be sold upon exercise of the underwriters' overallotment option.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended (or the Securities Act).

(3) Previously paid.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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Subject to completion, dated _____, 2018

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Preliminary Prospectus

shares

Common stock

This is an initial public offering of common stock of GrafTech International Ltd. The selling stockholder identified in this prospectus is selling _____ share s of our common stock. We will not receive any of the proceeds from the sale of shares of our common stock by the selling stockholder.

This is our initial public offering and no public market currently exists for our common stock. The estimated initial public offering price is between \$ _____ and \$ _____ per share. We have applied to list our common stock on the New York Stock Exchange (NYSE) under the symbol "EAF."

We are an "emerging growth company" as defined in Section 2(a) of the Securities Act of 1933, as amended (or the Securities Act) and will be subject to reduced public company reporting requirements. See "Prospectus Summary Implications of Being an Emerging Growth Company."

Investing in our common stock involves risks. See "Risk Factors" beginning on page 27.

| | Per share | Total |
|--------------------------------------|-----------|----------|
| Public offering price | \$ _____ | \$ _____ |
| Underwriting discount ⁽¹⁾ | \$ _____ | \$ _____ |
| Proceeds to the selling stockholder | \$ _____ | \$ _____ |

(1) See "Underwriting" beginning on page 167 of the prospectus for additional information regarding total underwriting compensation. The underwriters will not receive an underwriting discount or commission on the sale of our common stock to certain independent director nominees, which allocation will be made at our direction. The selling stockholder will receive the full public offering price for such shares. See "Certain relationships and related party transactions Participation in our Initial Public Offering" for additional information regarding the sale of our common stock to certain independent director nominees.

The selling stockholder has granted the underwriters the right to purchase up to _____ add itional shares of common stock at the public offering price less underwriting discounts and commissions, for the purpose of covering overallocments.

The underwriters expect to deliver the shares of common stock to investors on or about _____, 2018.

Neither the Securities and Exchange Commission (or SEC) nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

J.P. Morgan

Credit Suisse

Citigroup

RBC Capital Markets

HSBC

BMO Capital Markets

BNP PARIBAS

CIBC Capital Markets

National Bank Financial

The date of this prospectus is _____, 2018.

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We are responsible for the information contained in this prospectus and in any related free-writing prospectus we may prepare or authorize to be delivered to you. We have not authorized anyone to give you any other information, and we take no responsibility for any other information that others may give you. We and the selling stockholder are not, and the underwriters are not, making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front of this prospectus.

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Market and industry data and forecasts

Certain market and industry data included in this prospectus has been obtained from third party sources that we believe to be reliable. Market estimates are calculated by using independent industry publications, government publications and third party forecasts in conjunction with our assumptions about our markets. We have not independently verified such third party information. While we are not aware of any misstatements regarding any market, industry or similar data presented herein, such data involves risks and uncertainties and is subject to change based on various factors, including those discussed under the headings "Special Note Regarding Forward-Looking Statements" and "Risk Factors" in this prospectus.

Trademarks

We own or otherwise have rights to the trademarks, service marks, copyrights and trade names, including those mentioned in this prospectus, used in conjunction with the marketing and sale of our products and services. This prospectus includes trademarks, which are protected under applicable intellectual property laws and are our property and/or the property of our subsidiaries. This prospectus may also contain trademarks, service marks, copyrights and trade names of other companies, which are the property of their respective owners. We do not intend our use or display of other companies' trademarks, service marks, copyrights or trade names to imply a relationship with, or endorsement or sponsorship of us by, any other companies. Solely for convenience, our trademarks, service marks and trade names referred to in this prospectus may appear without the ®, ™, or SM symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights to these trademarks, service marks and trade names.

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Prospectus summary

This summary highlights information contained elsewhere in this prospectus. It may not contain all the information that may be important to you. You should read the entire prospectus carefully, including the section entitled "Risk Factors" and our financial statements and the related notes included elsewhere in this prospectus, before making an investment decision to purchase shares of our common stock.

Unless the context suggests otherwise, references in this prospectus to "GrafTech," the "Company," "we," "us," and "our" refer to GrafTech International Ltd., a Delaware corporation, and its consolidated subsidiaries. See "Our company" below for more information. References in this prospectus to the "selling stockholder" refer to BCP IV GrafTech Holdings LP, an affiliate of Brookfield Asset Management Inc. and Brookfield Business Partners L.P., and the direct owner of GrafTech. References in this prospectus to "Brookfield" refer to Brookfield Asset Management Inc. and its affiliates. All dollar amounts in this prospectus are in U.S. dollars and are expressed in thousands unless specified otherwise. The financial statements have been prepared in accordance with generally accepted accounting principles in the United States (or GAAP).

Our company

We are a leading manufacturer of high quality graphite electrode products essential to the production of electric arc furnace (or EAF) steel and other ferrous and non-ferrous metals. We believe that we have the most competitive portfolio of low-cost graphite electrode manufacturing facilities in the industry, including three of the five highest capacity facilities in the world (excluding China). We are the only large scale graphite electrode producer that is substantially vertically integrated into petroleum needle coke, the primary raw material for graphite electrode manufacturing, which is currently in limited supply. This unique position provides us with competitive advantages in product quality and cost. Founded in 1886, we have over 125 years of experience in the research and development (or R&D) of graphite- and carbon-based solutions, and our intellectual property portfolio is extensive. We currently have graphite electrode manufacturing facilities in Calais, France, Pamplona, Spain, Monterrey, Mexico and St. Marys, Pennsylvania. Our customers include major steel producers and other ferrous and non-ferrous metal producers in Europe, the Middle East and Africa (or EMEA), the Americas and Asia-Pacific (or APAC), which sell their products into the automotive, construction, appliance, machinery, equipment and transportation industries. Our vision is to be the lowest cost, highest quality producer of graphite electrodes while providing the best customer service. Based on the high quality of our graphite electrodes, reliability of our petroleum needle coke supply and our excellent customer service, we believe that we are viewed as the preferred supplier to the global EAF steel producer market.

Graphite electrodes are an industrial consumable product used primarily in EAF steel production, one of the two primary methods of steel production and the steelmaking technology used by all "mini-mills." Electrodes act as conductors of electricity in the furnace, generating sufficient heat to melt scrap metal, iron ore or other raw materials used to produce steel or other metals. We estimate that, on average, the cost of graphite electrodes represents only approximately 1% to 5% of the total production cost of steel in a typical EAF, but they are essential to EAF steel production. Graphite electrodes are currently the only known commercially available products that have the high levels of electrical conductivity and the capability to sustain the high levels of heat generated in EAF steel production. As a result, EAF steel manufacturers have been willing to pay a premium for a reliable supply of high quality graphite electrodes, and, in some cases, to pass on this premium to their customers in the form of surcharges. Graphite

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electrodes are also used in steel refining in ladle furnaces and in other processes, such as the production of titanium dioxide, stainless steel, aluminum, silicon metals and other ferrous and non-ferrous metals.

Petroleum needle coke, a crystalline form of carbon derived from decant oil, is the primary raw material used in the production of graphite electrodes. We achieved substantial vertical integration with this critical raw material source through our acquisition of Seadrift Coke LP (or Seadrift) in November 2010, significantly reducing our reliance on other suppliers. The petroleum needle coke industry is highly concentrated, with what we believe to be the largest producer, Phillips 66, controlling approximately 50% of capacity. We believe Seadrift is the second largest petroleum needle coke producer in the world. We also believe that the quality of Seadrift's petroleum needle coke is superior for graphite electrode production compared to most of the petroleum needle coke available to our peers on the open market, allowing us to produce higher quality electrodes in a cost-efficient manner. Additionally, we believe that this vertical integration provides a significant cost advantage relative to our competitors in periods of tight petroleum needle coke supply, such as the current market environment. We believe this cost advantage will grow as demand for petroleum needle coke increases for use in lithium-ion batteries in electric vehicles. The demand for petroleum needle coke in lithium-ion batteries is growing rapidly, with usage going from approximately 1,000 MT in 2014 to 60,000 MT in 2017 (representing approximately 9% of 2017 petroleum needle coke demand). This rapidly growing alternative source of demand is a significant development for the petroleum needle coke industry and is contributing to the global shortage in petroleum needle coke.

According to the World Steel Association (or WSA), EAFs accounted for 45%, or 367 million metric tons (or MT), of global crude steel production (excluding China) in 2016. Between 1984 and 2011, EAF steelmaking was the fastest-growing segment of the steel sector, with production increasing at an average rate of 3.5% per year, based on WSA data. Historically, EAF steel production has grown faster than the overall steel market due to the greater resilience, more variable cost structure, lower capital intensity and more environmentally friendly nature of EAF steelmaking. This trend was partially reversed between 2011 and 2015 due to global steel production overcapacity driven largely by Chinese blast furnace (or BOF) steel production. Beginning in 2016, efforts by the Chinese government to restructure China's domestic steel industry have led to limits on Chinese BOF steel production and lower export levels. In addition, developed economies, which typically have much larger EAF steel industries, have instituted a number of trade policies in support of domestic steel producers. As a result, since 2016, the EAF steel market has rebounded strongly and resumed its long-term growth trajectory. This revival in EAF steel production has resulted in increased demand for our graphite electrodes.

At the same time, two supply-side structural changes have contributed to recent record high prices of graphite electrodes. First, ongoing consolidation and rationalization of graphite electrode production capacity have limited the ability of graphite electrode producers to meet demand. We estimate that approximately 20% of graphite electrode industry production capacity (excluding China) has been closed or repurposed since the beginning of 2014, and we believe the majority of these closures represent permanent reductions. Second, demand for petroleum needle coke has outpaced supply due to increasing demand for petroleum needle coke for lithium-ion batteries used in electric vehicles. As a result, graphite electrode prices have recently reached record high prices. Historically, between 2006 and 2016, our weighted average realized price of graphite electrodes was approximately \$4,500 per MT (on an inflation-adjusted basis using constant 2017 dollars) and fell to a historic low of approximately \$2,500 per MT in 2016. With the renewed demand for, and constrained supply of, graphite electrodes, industry spot prices reached record levels of as high as \$15,000 to \$30,000 per MT in the first quarter of 2018. In light of improved market conditions, the long lead time required to produce our products, our position as one of the market's largest producers and our ability, through our substantial vertical integration with Seadrift, to

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provide customers with a reliable long-term supply of graphite electrodes despite the market shortage of petroleum needle coke, we have implemented a new commercial strategy to sell 60% to 65% of our production capacity to our strategic customers through three- to five-year take-or-pay contracts.

GrafTech historical weighted average realized prices and signed three- to five-year weighted average contract prices for graphite electrodes

(1) Weighted average realized price for a period reflects the total revenues from sales of graphite electrodes for the period divided by the graphite electrode sales volume for that period. The weighted average realized prices in this chart are shown in constant 2017 dollars for comparability. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Key Operating Metrics."

(2) Weighted average contract price for a period reflects the volume-weighted average price for graphite electrodes to be delivered under the three- to five-year take-or-pay contracts we have entered into as of March 1, 2018. All of these contracts have fixed prices and either fixed volumes (85% of the portfolio) or a specified volume range (15% of the portfolio). For those contracts with a specified volume range, weighted average contract prices are computed using the volume midpoint. The aggregate difference between the volume midpoint and the minimum and maximum volumes across our cumulative portfolio of take-or-pay contracts with specified volume ranges is approximately 5,000 MT per year in 2019-2022. See "Business Contracts and Customers."

As a leading producer of graphite electrodes, we believe we are well-positioned to benefit from this industry transformation. In 2017, based on our three currently operating facilities, we had the capability, depending on product demand and mix, to manufacture approximately 167,000 MT of graphite electrodes per year. We are also in the process of an operational improvement and debottlenecking initiative and are on target to grow our production capacity at these facilities by approximately 21% to approximately 202,000 MT of production capacity by the end of 2018. If we were then to restart our currently idled St. Marys facility, our overall production capacity would increase by another approximately 14% to 230,000 MT per year. This total production capacity would be comparable to our largest competitor, which we estimate currently has a total of approximately 230,000 MT of production capacity (excluding China). We believe the total worldwide graphite electrode production capacity was approximately 800,000 MT (excluding China), with a capacity utilization of approximately 90% (excluding China), in 2017. Electrode production globally (excluding China) is focused on the manufacture of ultra-high power (or UHP) electrodes for EAFs, while the majority of Chinese production is of ladle electrodes for BOFs. The production of UHP electrodes requires an extensive proprietary manufacturing process and material science knowledge, including the use of superior needle coke blends. As a result, graphite electrode producers inside and outside of China are generally not in direct competition with each other for major product lines.

On August 15, 2015, we became an indirect wholly owned subsidiary of Brookfield through a tender offer to shareholders and subsequent merger transaction. Brookfield is an experienced operator of industrial,

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natural resource and other tangible asset businesses. This transaction has provided us with a stable equity partner with experience in industrial sectors.

Our executive offices are located at 982 Keynote Circle, Brooklyn Heights, Ohio 44131 and our telephone number is (216) 676-2000. Our Internet website address is www.graftech.com. Information on, or accessible through, our website is not part of this prospectus. We have included our website address only as an inactive textual reference and do not intend it to be an active link to our website.

Key developments

Three major developments have repositioned GrafTech and the graphite electrode industry for long-term growth and significantly improved our financial and operating results:

the restructuring and repositioning of GrafTech;

the return of the EAF steel industry to long-term growth, leading to improved demand for graphite electrodes; and

structural changes in the graphite electrode and petroleum needle coke industries.

We have restructured and repositioned GrafTech for a sustainable leadership position in the graphite electrode industry

Since 2012, we have executed a three-part transformation plan to improve our competitive position and allow us to better serve our customers.

We have achieved annual fixed manufacturing cost improvements and capital expenditure reductions of approximately \$190 million since 2012, while also improving the productivity of our plant network

We have strategically shifted production from our lowest to our highest production capacity facilities to increase fixed cost absorption. In 2018, we expect to produce a greater quantity of graphite electrodes from our three operating facilities in Calais, France, Pamplona, Spain and Monterrey, Mexico, than we did from our six operating facilities in 2012. As a result, we have achieved significant operating leverage at higher capacity utilizations. In our experience, high capacity manufacturing facilities can have operating costs of more than \$1,000 per MT lower than low capacity manufacturing facilities. In addition, we have streamlined fixed costs across our plant network, including a 50% headcount reduction at Seadrift since 2014 and an optimization of Seadrift's systems and manufacturing process to reduce capital expenditure requirements. As a result of these actions, by the end of 2016, we had reduced our annual fixed manufacturing costs by approximately \$80 million and our maintenance capital expenditure requirements by approximately \$45 million since 2012.

By the end of 2016, we had also reduced our annual overhead expenses by approximately \$65 million since 2012 by simplifying our corporate structure from a conglomerate model to a centralized business focused exclusively on the production of graphite electrodes and petroleum needle coke. In addition, we have streamlined and combined our workforce and various administrative functions for efficiency, and eliminated R&D functions unrelated to graphite electrodes.

In addition to our fixed cost reductions, we have been able to achieve significant productivity improvements and variable cost reductions across our plants since 2014. We have improved our manufacturing processes and made strategic investments across our plant network, which have improved productivity, including improvements of approximately 20% at both our Seadrift and Monterrey plants,

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while also reducing our energy and raw material consumption. Our more efficient graphite electrode plants produced at record breaking levels in 2017. In 2017, the Calais and Pamplona plants exceeded previous annual record production levels by 15% and 12%, respectively, and production at the Monterrey plant was 12% higher than the highest annual production level during the past 10 years. We have achieved these production increases by exploiting latent capacity in our plants, which historically have had uneven levels of capacity across each manufacturing process step, by removing artificial constraints on cycle times and improving scheduling processes. The next stage of our operational improvement and debottlenecking initiative is a small capital program concentrated on the graphitizing stage of production at our plants, which we expect will increase our current operating capacity by approximately 21%, or 35,000 MT, by the end of 2018, allowing us to achieve further improvements in our cost structure. As a result of our prior operational improvement activities, we are able to achieve this large capacity increase with specific, highly targeted capital investments. We expect the capital investment for this initiative to be \$37 million. We believe that the optimization of our plant network will continue to drive improved fixed cost absorption and meaningfully lower variable costs.

We have reoriented our commercial strategy

In light of improved market conditions, the long lead time required to produce our products, our position as one of the market's largest producers and our ability, through our substantial vertical integration with Seadrift, to provide customers with a reliable long-term supply of graphite electrodes despite the market shortage of petroleum needle coke, we have implemented a new commercial strategy to sell approximately 60% to 65% of our production capacity to our strategic customers through three- to five-year take-or-pay contracts. These contracts define volumes and prices, along with price-escalation mechanisms for inflation, and include significant termination payments (typically, 50% to 70% of remaining contracted revenue) and, in certain cases, parent guarantees and collateral arrangements to manage our customer credit risk. These new commercial initiatives have led to approximately 636,000 MT, or 60% to 65% of our cumulative production capacity from 2018 to 2022, being contracted as of March 1, 2018. Approximately 132,000 MT of this contracted volume is for 2018. Together with sales volume committed by purchase orders, approximately 96% of our 2018 production capacity is contracted or committed by purchase orders. For future years, our strategy is to retain approximately 35% to 40% of our production capacity for sales on a shorter term or spot basis. Prices in the spot market have currently reached a level three to six times higher than our historical weighted average realized price of \$4,500 per MT (on an inflation-adjusted basis using constant 2017 dollars) between 2006 and 2016. We expect the incremental volume from our operational improvement and debottlenecking initiative to be available to customers on a spot basis, further increasing our exposure to spot prices. Seadrift produces sufficient needle coke to supply 100% of the graphite electrode production that we have contracted under our new take-or-pay contracts. In the first quarter of 2018, the estimated cost of goods sold (excluding depreciation) for electrodes produced with Seadrift needle coke is approximately \$2,600/MT and the estimated variable cost (excluding needle coke and decant oil) is approximately \$1,150/MT. To align with our three- to five-year contract profile, we have hedged the decant oil required to produce all of the graphite electrodes sold under these contracts, providing us with substantial visibility into our future raw material costs. We intend to match the volume and term of our shorter term and spot sales with our third party needle coke purchases. As our currently operating facilities are now operating at or near full production capacity, we also have reviewed our product portfolio and restructured our sales force incentives to maximize the profitability of our product mix.

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We are focused on being the industry's leading producer of the highest performing electrodes

The divestiture of our non-core legacy Engineered Solutions businesses in 2016 and 2017 has allowed our management team to focus on our core competency of graphite electrode production and generated approximately \$60 million in cash proceeds and release of working capital. By focusing our management's attention and R&D spending exclusively on the graphite electrode business, we have been able to meaningfully improve the quality of our graphite electrodes, repositioning ourselves as an industry quality leader and improving our relationships with strategic customers. Our focus on improving the quality of petroleum needle coke through R&D has led to our petroleum needle coke production at Seadrift now being best-in-class for use in the manufacturing of highly durable UHP electrodes. Our customers have responded favorably to the increased quality of our graphite electrodes, and we have increased our market share with leading EAF steel manufacturers as a result.

The EAF steel industry has strengthened, improving demand for our graphite electrodes

Historically, EAF steel production has grown faster than the overall steel market due to the greater resilience, more variable cost structure, lower capital intensity and more environmentally friendly nature of EAF steelmaking. This trend was partially reversed between 2011 and 2015 due to global steel production overcapacity driven largely by Chinese BOF steel production. Beginning in 2016, efforts by the Chinese government to eliminate excess steelmaking production capacity and improve environmental and health conditions have led to limits on Chinese BOF steel production, including the closure of over 200 million MT of its steel production capacity, based on data from S&P Global Platts and the Ministry of Commerce of the People's Republic of China. In 2017, Chinese steel exports fell by more than 30% from 2016, including 17 consecutive months of year-over-year declines, according to the National Bureau of Statistics of China. Reflecting the reduction in steelmaking production capacity, as of October 2017, Chinese steel imports had increased significantly year-over-year, including a 64% year-over-year increase in semi-finished steel billet imports. Further, developed economies, which typically have much larger EAF steel industries, have instituted a number of trade policies in support of domestic steel producers. Declining Chinese steel exports and increasing steel imports should provide additional opportunity for EAF producers outside of China to increase production, thereby increasing demand for graphite electrodes.

We estimate that in 2017, EAF steel production grew at an annual pace of at least 8% to 10% compared with 5% for steelmaking overall. We believe EAF steel producers will continue to take market share from BOF steel producers. As of 2016, according to the WSA, EAF steel production had grown to 67% of total U.S. steel production from 47% in 2000, 44% of total EMEA steel production from 33% in 2000 and 40% of total APAC (excluding China) steel production from 36% in 2000. Over the same period, global EAF production increased from 287 million MT in 2000 to 418 million MT in 2016, while non-EAF steel production (excluding China) was flat at 453 million MT in both 2000 and 2016.

We estimate that at least 105 new EAFs, reflecting 66 million MT of new annual steelmaking production capacity, have been installed or have commenced construction in China in 2017, compared to only 52 million MT of Chinese EAF steel production in 2016. As a result of significantly increased steel production since 2000, the supply of Chinese scrap has increased substantially, providing the Chinese EAF steel manufacturing industry with local scrap feedstock that was not historically available. We believe continued Chinese government environmental actions and an increasing domestic scrap supply will support the ongoing global shift towards EAF steelmaking. Assuming completion of new EAF construction and full EAF capacity utilization, we estimate total graphite electrode demand in China could increase in 2018 by over 100,000 MT from 2017.

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The recent restructuring of the graphite electrode industry and changes in the petroleum needle coke industry have reduced supply as demand is recovering

Significant amounts of graphite electrode industry production capacity have recently been removed from the market globally. We estimate that approximately 20% of industry production capacity (excluding China) has been closed or repurposed since the beginning of 2014. Some of these closed manufacturing facilities have sold off equipment, been demolished, undertaken long-term environmental remediation or been repurposed for other manufacturing uses. Accordingly, we believe the majority of these closures represent permanent reductions. As part of this overall industry rationalization, we permanently shut down two plants and temporarily idled our St. Marys plant, reducing our electrode manufacturing from six operating facilities in 2012 to three operating facilities in 2017. Also, in October 2017, the third largest graphite electrode producer acquired the second largest producer.

Further affecting the availability of graphite electrodes, supplies of petroleum needle coke and coal tar (or pitch) needle coke, a less favorable substitute for petroleum needle coke, have been limited starting in the second half of 2017. Demand for petroleum needle coke has outpaced supply due to increasing demand for petroleum needle coke in the production of lithium-ion batteries used in electric vehicles. Supply of pitch for pitch needle coke production has fallen as a result of decreasing coke production for the BOF steel industry. These graphite electrode supply constraints have coincided with the recovery in EAF demand for graphite electrodes, resulting in stronger market conditions for our products.

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The table below summarizes these key changes in the industry.

| | 2011 - 2015 | 2017 |
|---|---|--|
| EAF Steel Industry <i>Electrode Demand</i> | EAF steel production declined approximately 10% from 2011 to 2015 after growing faster than the overall steel market for more than 25 years. | EAFs regained market share and resumed faster growth than the overall steel market. |
| Graphite Electrodes <i>Electrode Supply</i> | <i>China net exports of BOF steel displaced EAF production worldwide.</i> Oversupply driven by historic trough in demand and production capacity additions. | <i>China steel exports are down more than 30% in 2017 from 2016 and are continuing to fall, according to the National Bureau of Statistics of China.</i> We estimate that approximately 20% of graphite electrode production capacity (excluding China) has been closed or repurposed since the beginning of 2014. |
| Petroleum Needle Coke <i>Electrode Supply</i> | <i>We estimate global production capacity (excluding China) was approximately 1,000,000 MT at 30 plants in 2013.</i> Excess production capacity and cost disadvantage versus pitch needle coke. | <i>We estimate current global graphite electrode production capacity (excluding China) is 800,000 MT at 21 plants.</i> Tight supply due to new demand from lithium-ion batteries for electric vehicles and improving graphite electrode demand. |
| | <i>Reduced demand from graphite electrodes.</i> | <i>Increased demand has led to pricing increases of four to six times for petroleum needle coke in the current market compared to one year ago.</i> |

During the most recent demand trough, the combination of decreased demand from the EAF steel industry and overcapacity in the graphite electrode industry had an adverse effect on the profitability of our operations, including a net loss of \$235.8 million for the year ended December 31, 2016. We also experienced a net loss from continuing operations of \$108.9 million for the year ended December 31, 2016. However, as a result of the recent developments in the industry summarized above, we expect to experience significant improvement in our 2018 financial results relative to these prior results. We also expect a high degree of stability in our future operating results due to our recent three- to five-year contracting initiative. As of March 1, 2018, we have entered into three- to five-year take-or-pay contracts to sell approximately 132,406, 138,446, 134,831, 117,600 and 112,883 MT in 2018, 2019, 2020, 2021 and 2022, respectively.

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Set forth below are selected preliminary estimated unaudited financial results from continuing operations for the two months ended February 28, 2018 and the three months ended March 31, 2018. These financial results are unaudited and should be considered preliminary and subject to change. We have provided

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ranges, rather than specific amounts, for the preliminary results described below as our final results remain subject to the completion of our closing procedures, final adjustments, developments that may arise between now and the time the financial results are finalized, and management's and the audit committee's final reviews. Accordingly, you should not place undue reliance on this preliminary data, which may differ materially from our final results. Please see "Risk Factors," "Special Note Regarding Forward-Looking Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of certain factors that could result in differences between the preliminary financial data reported below and the final results. These preliminary estimates should not be viewed as a substitute for our full unaudited condensed consolidated financial statements prepared in accordance with U.S. GAAP. In addition, they are not necessarily indicative of the results to be achieved in any future period.

These estimates have been prepared by and are the responsibility of management. Our independent registered public accounting firm has not audited, compiled, performed any procedures on or reviewed the preliminary financial data, and accordingly does not express an opinion or any other form of assurance with respect to the preliminary financial data.

For the two months ended February 28, 2018, management estimates:

Sales volume in the range of approximately 27,800 to 28,600 MT

Weighted average realized price in the range of approximately \$9,925 to \$9,975 per MT

Net sales in the range of approximately \$285 to \$294 million

Cost of sales in the range of approximately \$92.5 to \$97 million

Selling and administrative expenses in the range of approximately \$10 to \$11 million including approximately \$1.9 to \$2.4 million of expenses related to this offering and \$0.3 to \$0.5 million of pension and other post-employment benefit (or OPEB) plan expenses

Research and development expenses in the range of approximately \$0.2 to \$0.4 million

Depreciation and amortization in the range of approximately \$10.5 to \$11.5 million (included in cost of sales, selling and administrative expenses, and research and development expenses above)

Other expense in the range of approximately \$1 to \$1.5 million including a non-cash loss on foreign currency remeasurement of \$1 to \$1.5 million

For the three months ended March 31, 2018, management estimates:

Sales volume in the range of approximately to

Weighted average realized price in the range of approximately to

Net sales in the range of approximately to

Cost of sales in the range of approximately to

Selling and administrative expenses in the range of approximately to including approximately to of expenses related to this offering and to of pension and OPEB plan expenses

Research and development expenses in the range of approximately to

Depreciation and amortization in the range of approximately to (included in cost of sales, selling and administrative expenses, and research and development expenses above)

Other expense in the range of approximately to including a non-cash loss on foreign currency remeasurement of to

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Weighted average realized price for the two months ended February 28, 2018 benefited from a small portion of our electrode sales being sold on a spot basis. Industry spot prices are at record levels of as high as \$15,000 to \$30,000 per MT. However, as a result of our recent three- to five-year contracting

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initiative and other sales commitments, approximately 96% of our 2018 production capacity is now contracted or committed by purchase orders and will not be available for spot sales. The weighted average selling price of our currently contracted and committed orders for the remaining quarters of 2018 is expected to be approximately \$9,650 per MT. This represents a combination of our three-to five-year take-or-pay contracts as well as other committed business for 2018, which was mostly negotiated in 2017 at lower prices.

We have made the strategic decision to service our long-term strategic customers through our contracted and committed purchase order volume in the second and third quarters of 2018, and as a result, expect to have only minimal production volume available for sales into the spot market during those quarters.

We expect the results of our operational improvement and debottlenecking initiative to increase our production capacity by approximately 21% beginning in the fourth quarter of 2018. We expect the majority of the incremental volume from our capacity expansion to be available for sale to customers on a spot basis going forward.

We expect that the quarter ended March 31, 2018 will benefit from lower cost of goods sold than future quarters of 2018 due to higher input raw material purchase costs in 2018, which will be reflected in cost of goods sold in future quarters.

Competitive strengths

We are one of the two largest producers of graphite electrodes outside of China, accounting for approximately 21% of global production capacity (excluding China), and we believe our strategically positioned global footprint provides us with competitive advantages

We believe our facilities are among the most strategically located and lowest cost large-scale graphite electrode manufacturing plants in the world. Of the 21 graphite electrode manufacturing facilities currently operating outside of China, we estimate that our three operating manufacturing facilities represent approximately 21% of estimated production capacity for graphite electrodes, making us a critical supplier to global EAF steel manufacturers. Our manufacturing facilities are located in the Americas and EMEA, providing us with access to low-cost and reliable energy sources, logistical and freight advantages in sourcing raw materials and shipping our graphite electrodes to our customers compared to our competitors, and excellent visibility into the large North American and European EAF steelmaking markets. Our experience in producing graphite electrodes for a varied global customer base positions us to meet customer requirements across a range of product types and quality levels, including support and technical services, further distinguishing us from our competitors.

We are a pure-play provider of an essential consumable for EAF steel producers, the fastest-growing sector of the steel industry

We estimate that EAF steelmaking grew at an annual pace of at least 8% to 10% in 2017, compared with 5% for steelmaking overall. As a result of the increasing global availability of steel scrap and the more resilient, high-variable cost and environmentally friendly EAF model, we expect EAF producers to continue to grow at a faster rate than BOF producers globally. Additionally, EAF producers are increasingly able to utilize higher quality scrap and iron units, their two primary raw materials, to produce higher quality steel grades and capture market share from BOF producers, while maintaining a favorable cost structure. According to the WSA, in EMEA and the Americas, which together made up 92% of our 2017 net sales, EAF

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producers have increased market share from approximately 37% in 2000 to 48% in 2016, reflecting growth from 190 million MT to 237 million MT. In APAC, which made up approximately 9% of our 2017 net sales, government initiatives in China are expected to result in a greater use of the EAF method in steelmaking despite the historical dominance of BOF producers. These initiatives are the result of efforts to eliminate excess steelmaking production capacity and to improve environmental conditions. The EAF method produces approximately 25% of the carbon dioxide (or CO₂) emissions of a BOF facility and does not require the smelting of virgin iron ore or the burning of coal. Additionally, as a result of significantly increased steel production in China since 2000, the supply of Chinese scrap is expected to increase substantially, which may result in lower scrap prices and provide the Chinese steel manufacturing industry with local scrap feedstock that was not historically available. We believe these trends will allow EAF steel producers to increase their market share and grow at a faster rate than BOF steel producers, resulting in increasing demand for graphite electrodes.

We have capital-efficient growth opportunities available to us

The graphite electrode industry responded to oversupplied markets from 2011 to 2015 with production capacity rationalization and consolidation, and after the normalization of the market for EAF steel in 2017, we expect the resulting graphite electrode supply deficit could last for some time. Additionally, we believe the lead time from initial permitting to full production of a greenfield graphite electrode manufacturing facility would be approximately five to ten years and cost approximately \$10,000 per MT. Similarly, brownfield development is complicated by significant capital costs and space and process constraints. Only one new greenfield graphite electrode facility outside of China has been built since the 1980s and only one significant brownfield expansion has occurred, reflecting the historical difficulty of adding further graphite electrode production capacity. As a result of this long and uncertain time horizon to build new plants, we believe only a few companies have the necessary technology and expertise to meet the rising demand for graphite electrodes.

Our current facilities are modern, strategically located and well-maintained, providing us with ample operational optimization capabilities. We are in the process of expanding our current production capacity of 167,000 MT by approximately 21%, or 35,000 MT, by the end of 2018 through strategic capital investments and operational improvements in baking cycles and the graphitization process. We estimate that the capital cost to achieve this production capacity expansion is approximately \$37 million, or approximately \$1,000 per MT. As a result of our prior operational improvement activities, we are able to achieve this large capacity increase with specific, highly targeted capital investments. We expect these expansions to provide additional fixed cost absorption and drive further efficiencies of scale across our manufacturing base. We also can increase production by resuming production at our currently idled St. Marys facility, depending on market conditions, which would add 28,000 MT, or an increase of approximately 14%, to our expected production capacity at the end of 2018. We believe that resuming production at our St. Marys facility, which we believe is cost-competitive with facilities currently operated by our competitors, would cost approximately \$5 million to \$11 million in capital expenditures and start-up staffing requirements, depending on our targeted production capacity.

We believe we have the industry's most efficient production platform of high production capacity assets with substantial vertical integration

Based on our experience, high capacity manufacturing facilities can have operating costs of more than \$1,000 per MT lower than low capacity manufacturing facilities. Our recent restructuring activities have included the closures of our lower capacity manufacturing facilities in South Africa and Brazil and the

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idling of our St. Marys facility, which together accounted for approximately 35% of our previous production capacity. Our restructuring actions have eliminated approximately \$125 million of annual fixed manufacturing costs and maintenance capital expenditure requirements since 2012. These actions allow us to run our Calais, Pamplona and Monterrey plants at or near 100% capacity utilization. Since 2014, we have also improved our manufacturing processes and made strategic investments across our plant network, which have improved productivity while also reducing our energy and raw material consumption. Following our footprint optimization, we expect to produce a greater quantity of graphite electrodes in 2018 from our three operating facilities than we did from our six operating facilities in 2012. In 2017, the Calais and Pamplona plants exceeded previous annual record production levels by 15% and 12%, respectively, and production at the Monterrey plant was 12% higher than the highest annual production level during the past 10 years. We believe that the optimization of our plant network will continue to drive improved fixed cost absorption and meaningfully lower variable costs.

Moreover, our Seadrift, Calais, Pamplona, Monterrey and St. Marys facilities each provide unique advantages for us. On average, petroleum needle coke represents 25% to 45% of our graphite electrode manufacturing costs, with labor representing only 5% to 10%. Seadrift provides a substantial portion of our petroleum needle coke supply needs internally and at a competitive cost and allows us to maximize capacity utilization more efficiently than competitors, who may be more constrained by petroleum needle coke supply. Seadrift is one of only five petroleum needle coke facilities in the world, excluding a small facility in China, and we believe it is the second largest petroleum needle coke producer in the world. We also believe that Calais, Pamplona and Monterrey are three of the five highest capacity graphite electrode facilities in the world (excluding China), allowing for significant operating leverage. We believe our facilities have significant cost advantages given their scale and access to low cost, reliable energy sources. While much of the production capacity rationalized during the downturn was permanently shut down, we temporarily idled our St. Marys facility and retain the option to restart it. We believe that our St. Marys facility could be cost-competitive with facilities currently operated by our competitors, and we continue to monitor petroleum needle coke availability to assess restarting the plant.

We are the only petroleum needle coke producer in the world specifically focused on the production of graphite electrodes

Our production of petroleum needle coke specifically for graphite electrodes provides us the opportunity to produce super premium petroleum needle coke of the highest quality and allows us to tailor graphite electrodes for customer requirements. Seadrift has 140,000 MT of petroleum needle coke production capacity, which we believe makes it the second largest petroleum needle coke producer in the world. We believe that no petroleum needle coke production capacity has been added outside of China for at least 10 years, given high capital costs and technological barriers. Additionally, the growing petroleum needle coke demand from manufacturers of lithium-ion batteries for electric vehicles has created a shortage of petroleum needle coke available to graphite electrode manufacturers. Sourcing the majority of our petroleum needle coke internally allows us to offer our customers certainty of supply, further enhancing our competitive position and supporting our new three- to five-year, take-or-pay contracts strategy. To align with our three- to five-year contract profile, we have hedged the decant oil required to produce all of the graphite electrodes sold under these contracts, providing us with substantial visibility into our future raw material costs. We believe our use of petroleum needle coke is a further competitive advantage, as the use of pitch needle coke, an alternative raw material, results in longer bake times during graphite electrode production, significantly affecting graphite electrode production rates and cost. Finally, the decline in the price of oil and increase in the price of coal tar pitch in recent years has further improved the competitive advantage of using petroleum needle coke relative to pitch needle coke.

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Our graphite electrodes and petroleum needle coke are among the highest quality in the industry

After the divestiture of our non-core legacy Engineered Solutions businesses in 2016 and 2017, we focused on our core competency of graphite electrode production and generated approximately \$60 million in cash proceeds and release of working capital from these divestitures. Our restructured and simplified business model has reduced our annual overhead expenses by approximately \$65 million since 2012, allowing us to redeploy the savings into our graphite electrode business. We have identified and implemented mechanical and chemical improvements to our electrodes, invested in the capability to produce super premium petroleum needle coke needed for high-margin UHP graphite electrodes, and optimized our production of pins at our Monterrey plant, which are a critical component used to connect and fasten graphite electrodes together in a furnace. By producing pins at our Monterrey plant, we are able to realize meaningful fixed-cost synergies with our graphite electrode production on site. As a result, we believe the quality and the consistency of our electrodes is unrivaled in North America and EMEA and on par with that of any producer globally. We have seen customer satisfaction rise to ten-year highs at a time when the industry has been focused on production capacity rationalization rather than quality. We believe the durability and infrequent breakage of our graphite electrodes create operating efficiencies and value opportunities for our customers. We also believe we have a competitive advantage in offering customers our ArchiTech Furnace Productivity System (or ArchiTech), which we believe is the most advanced support and technical service platform in the graphite electrode industry. ArchiTech, which has been installed in 145 customer furnaces, enables our engineers to work with our customers seamlessly to maximize the performance of their furnaces and provide real-time diagnostics and troubleshooting. We believe our customers value our high quality products and customer service, and have provided us with opportunities to expand our business with them as a result.

Our experienced executive leadership and general managers and flexible workforce have positioned us for future earnings growth

Our seasoned leadership is committed to earnings growth. We have undertaken strategic investments to increase our production capacity in a capital-efficient manner while reducing our cost position. Our executive and manufacturing leadership have led manufacturing companies through many cycles and are focused on positioning us for profitable growth in any environment. We expect to grow our production capacity by approximately 21%, or 35,000 MT, in 2018 as a result of our operational improvement and debottlenecking initiative and a further 14%, or 28,000 MT, if we restart production at our currently idled St. Marys facility.

Additionally, since our acquisition by Brookfield, we have reorganized our manufacturing facilities as profit centers. We use LEAN manufacturing techniques, which focus on the constant elimination of waste from the manufacturing process. We also rely on Six Sigma methods, a set of management techniques intended to improve quality by significantly reducing the probability that an error or defect will occur. We believe the LEAN and Six Sigma initiatives have increased overall utilization by optimizing our plant production capacity and controlled costs while also improving quality. We also redesigned general manager incentive plans to reward efficiency gains. Similarly, our labor force is incentivized to drive efficiencies through country-specific labor incentive plans. Further, we believe our positive relations with our labor force allow for increased flexibility.

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Business strategies

Implement our new commercial strategy

We believe our customers value certainty of supply of high quality graphite electrodes due to their mission-critical nature in the EAF steelmaking process and relatively low cost compared to the total cost of steelmaking. In light of improved market conditions, the long lead time required to produce our products, our position as one of the market's largest producers and our ability, through our substantial vertical integration with Seadrift, to provide customers with a reliable long-term supply of graphite electrodes despite the market shortage of petroleum needle coke, we have implemented a new commercial strategy to sell 60% to 65% of our production capacity to our strategic customers through three- to five-year take-or-pay contracts. In the new supply-constrained market environment, as of March 1, 2018, we have secured minimum sales volume under three- to five-year take-or-pay contracts for approximately 636,000 MT, or approximately 60% to 65% of our cumulative production capacity from 2018 through 2022. As of March 1, 2018, 13% of these contracts are three- and four-year contracts and 87% are five-year contracts. Furthermore, many of our customers have sought to purchase greater volumes from us than they have historically because of our reliable source of petroleum needle coke and the high quality of our graphite electrodes. This new commercial strategy reflects a shift from our historic approach to sales, which were negotiated annually and on a non-binding basis.

Grow production capacity through capital-efficient operational improvements and the restart of our St. Marys facility

We believe our well-maintained facilities provide us with opportunities to improve our production capacity by approximately 21% from current production capacity levels with relatively low capital investments. We have improved our manufacturing processes and made strategic investments across our plant network, which have improved productivity, including improvements of approximately 20% at both our Seadrift and Monterrey facilities, while also reducing our energy and raw material consumption. We have achieved these production increases by exploiting latent capacity in our plants, which historically have had uneven levels of capacity across each manufacturing process step, by removing artificial constraints on cycle times and improving scheduling processes. These improvements have had the additional advantage of reducing the capital expenditures required to achieve further production capacity increases through debottlenecking. We plan to invest approximately \$37 million to optimize our bake schedules and graphitization processes as part of our operational improvement and debottlenecking initiative. We expect these upgrades at our three operational facilities to include:

Calais: adding graphitizing furnaces and increasing graphitizing production capacity are expected to increase annual production capacity from 46,000 MT to 65,000 MT.

Pamplona: optimizing graphitization cycles, adding a new extrusion press to unlock graphitizing production capacity and adding a new impregnation facility are expected to increase annual production capacity from 66,000 MT to 76,000 MT.

Monterrey: adding a new bake car, bigger furnace, second crane and additional longitudinal furnaces are expected to increase annual production capacity from 55,000 MT to 61,000 MT.

As a result of our prior operational improvement activities, we are able to achieve this large capacity increase with specific, highly targeted capital investments. We also continue to evaluate restarting production at our St. Marys facility. Restarting our St. Marys facility would provide an additional 28,000

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MT of production capacity, or an incremental 14%. Our St. Marys facility has access to low-cost natural gas and electricity, providing what we believe to be a significant cost advantage relative to our competitors. Additionally, its greater proximity to U.S. EAF and non-ferrous metals producers provides it with a further freight cost advantage.

Utilize our production efficiency program to support our focus on cost efficiency

As part of our corporate restructuring, we have reduced corporate overhead expenses by approximately \$65 million, or approximately 60%, from 2012 levels through a strategic realignment of our corporate structure and the elimination of the legacy Engineered Solutions R&D expenses and overhead. We temporarily idled our St. Marys facility and reconfigured our production footprint by closing our Brazil and South Africa manufacturing facilities to drive higher capacity utilizations at our three largest, most strategically located and lowest-cost manufacturing facilities. Additionally, we continue to optimize our capital investment opportunities through rigorous quantitative analysis and deploy simultaneous work process improvements at our manufacturing facilities through LEAN and Six Sigma techniques.

Continue to be a reliable, preferred supplier for mission-critical graphite electrodes

We believe that improvements in overall quality create significant operating efficiencies and value opportunities for our customers, and provide us with the opportunity to increase sales volumes and market share. We continue to work closely with key customers to enhance the durability of our graphite electrodes, reducing the frequency of graphite electrode breaks and enhancing the usable life of our graphite electrodes, to make us their preferred supplier. We will continue to use our petroleum needle coke facility to help secure customer orders of mission-critical graphite electrodes. We believe that at a time of supply uncertainty for many competitors, we will continue to see high demand from our customers.

Maintain balance sheet discipline and strong liquidity to provide strategic flexibility

We plan to maintain a solid balance sheet in order to provide flexibility to grow and invest in our business in all market environments. As of December 31, 2017, after giving effect to (i) our entrance into the 2018 Credit Agreement, the borrowing of \$1,500 million of 2018 Term Loans under the 2018 Credit Agreement on February 12, 2018 and the use of proceeds therefrom and (ii) the issuance as a conditional dividend of a \$750 million promissory note (or the Brookfield Promissory Note) to the selling stockholder, which we expect to issue on or around May 9, 2018 assuming the applicable conditions are met, we would have had approximately \$2,250 million of indebtedness outstanding and total liquidity of approximately \$253.7 million, consisting of \$241.8 million available for borrowing under the 2018 Revolving Credit Facility (taking into account approximately \$8.2 million of outstanding letters of credit issued thereunder) and cash and cash equivalents of approximately \$11.9 million. In addition, prior to the consummation of this offering, we expect to declare a \$160 million conditional cash dividend payable to the selling stockholder. Assuming the applicable conditions are met, we expect to pay the dividend on or around May 9, 2018. See "Recent Developments."

Risk factors

Our business is subject to numerous risks. See "Risk Factors" beginning on page 27. In particular, our business may be adversely affected by, among other factors:

our history of net losses and the possibility that we may not achieve or maintain profitability in the future;

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our inability to implement our business strategies, including our initiative to secure and maintain long-term, take-or-pay customer contracts, in an effective manner;

the fact that pricing for graphite electrodes has historically been cyclical and, in the future, the price of graphite electrodes will likely decline from recent record highs;

the sensitivity of our business and operating results to economic conditions;

our dependence on the global steel industry generally and the EAF steel industry in particular;

the possibility that global graphite electrode overcapacity may adversely affect graphite electrode prices;

the competitiveness of the graphite electrode industry;

our dependence on the supply of petroleum needle coke;

our dependence on supplies of raw materials (in addition to petroleum needle coke) and energy; and

the legal, economic, social and political risks associated with our substantial operations in multiple countries.

Implications of being an emerging growth company

We qualify as an "emerging growth company" as defined in Section 2(a) of the Securities Act of 1933 (or the Securities Act), as modified by the Jumpstart Our Business Startups Act of 2012 (or the JOBS Act). As an emerging growth company, we may take advantage of specified reduced disclosure and other requirements that are otherwise applicable generally to public companies, which are not emerging growth companies.

We may take advantage of these exemptions until such time that we are no longer an emerging growth company. We will remain an "emerging growth company" until the earliest of (1) the last day of the fiscal year following the fifth anniversary of the completion of this offering, (2) the last day of the fiscal year in which we have total annual gross revenue of at least \$1.07 billion, (3) the date on which we are deemed to be a large accelerated filer under the Securities Exchange Act of 1934 (or the Exchange Act), which means the market value of our common stock that is held by non-affiliates exceeds \$700.0 million as of the prior June 30, and (4) the date on which we have issued more than \$1.0 billion in non-convertible debt during the prior three-year period. We have taken advantage of reduced disclosure regarding executive compensation arrangements in this prospectus, and we may choose to take advantage of some but not all of these reduced disclosure obligations in future filings. If we do, the information that we provide to stockholders may be different than you might get from other public companies in which you hold stock.

Under the JOBS Act, emerging growth companies can also delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

Recent developments

Tax Act

The Tax Cuts and Jobs Act (or the Tax Act), enacted on December 22, 2017, caused us to write down the carrying value of our deferred tax assets as of December 31, 2017, primarily due to the reduction in the U.S. federal corporate tax rate from 35% to 21%. We recognized an

estimated net write down to the value

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of our net deferred tax assets of approximately \$52.2 million. This write down was offset by a corresponding reduction in the valuation allowance against our deferred tax assets. See "Risk Factors Risk related to our business and industry New tax legislation could adversely affect us or our shareholders."

2018 Credit Agreement

On February 12, 2018, we entered into a credit agreement (or, as amended from time to time, the 2018 Credit Agreement), which provides for (i) a \$1,500 million senior secured term loan facility (or the 2018 Term Loan Facility) and (ii) a \$250 million senior secured revolving credit facility (or the 2018 Revolving Credit Facility and, together with the 2018 Term Loan Facility, the Senior Secured Credit Facilities), which may be used from time to time for revolving credit borrowings denominated in dollars or Euro, the issuance of one or more letters of credit denominated in dollars, Euro, Pounds Sterling or Swiss Francs and one or more swing line loans denominated in dollars. On February 12, 2018, GrafTech Finance Inc. (or GrafTech Finance), a Delaware corporation and our wholly owned subsidiary, borrowed \$1,500 million under the 2018 Term Loan Facility (or the 2018 Term Loans). The 2018 Term Loans mature on February 12, 2025. The maturity date for the 2018 Revolving Credit Facility is February 12, 2023. Funds received were used to pay off our outstanding debt, including borrowings under our existing credit agreement and the \$300 million principal amount of senior notes due 2020 (or the Senior Notes) and accrued interest relating to such borrowings and the Senior Notes, declare and pay a dividend to the selling stockholder and pay fees and expenses incurred in connection therewith and for other general corporate purposes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Financing Transactions 2018 Credit Agreement."

Conditional dividend to selling stockholder

Prior to the consummation of this offering, we expect to declare a \$160 million cash dividend payable to the selling stockholder. Payment of this dividend will be conditioned upon (i) the Senior Secured First Lien Net Leverage Ratio (as defined in the 2018 Credit Agreement), as calculated based on our final financial results for the first quarter of 2018, being equal to or less than 1.75 to 1.00, (ii) no Default or Event of Default (as defined in the 2018 Credit Agreement) having occurred and continuing or that would result from the payment of the dividend and (iii) the payment occurring within 60 days from the dividend record date. Assuming these conditions are met, we expect to pay the dividend on or around May 9, 2018. However, there can be no assurance that we will meet these conditions by this date or at all. In addition, although this dividend is not expected to be paid until after the consummation of this offering, it will be payable solely to the selling stockholder, as sole stockholder of the Company on the dividend record date, which will be prior to the consummation of this offering. As a result, you will not be entitled to receive any portion of this dividend regardless of when the conditions are satisfied.

Brookfield Promissory Note

Prior to the consummation of this offering, we expect to declare a dividend in the form of the \$750 million Brookfield Promissory Note to the selling stockholder. The issuance of the Brookfield Promissory Note as a dividend will be conditioned upon (i) the Senior Secured First Lien Net Leverage Ratio (as defined in the 2018 Credit Agreement), as calculated based on our final financial results for the first quarter of 2018, being equal to or less than 1.75 to 1.00, (ii) no Default or Event of Default (each as defined in the 2018 Credit Agreement) having occurred and continuing or that would result from the issuance of the Brookfield Promissory Note and (iii) the issuance occurring within 60 days from the dividend record date. Assuming these conditions are met, we expect to issue the Brookfield Promissory Note as a dividend on or around May 9, 2018. However, there can be no assurance that we will meet these conditions by this date or at all.

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The Brookfield Promissory Note will mature eight years from the date of issuance and will bear interest at a rate equal to the Adjusted LIBO Rate (as defined in the Brookfield Promissory Note) plus an applicable margin equal to 4.50% per annum, with an additional 2.00% per annum starting from the third anniversary from the date of issuance. We will be permitted to make voluntary prepayments at any time without premium or penalty. All obligations under the Brookfield Promissory Note will be unsecured and guaranteed by all of our existing and future domestic wholly owned subsidiaries that guarantee, or are borrowers under, the Senior Secured Credit Facilities. No funds will be lent or otherwise contributed to us by the selling stockholder in connection with the Brookfield Promissory Note. As a result, we will receive no consideration in connection with its issuance.

Following the issuance of the Brookfield Promissory Note, we plan to explore opportunities to refinance it with debt securities or other long-term debt to the extent available on attractive terms. However, there can be no assurance that we will be able to refinance the Brookfield Promissory Note on commercially reasonable terms in the near term or at all. In addition, there can be no assurance that the terms of any such refinancing indebtedness (including the interest rate) will be as or more favorable to us as the corresponding terms under the Brookfield Promissory Note. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Financing Transactions Brookfield Promissory Note."

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The offering

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|--|---|
| Common stock offered by the selling stockholder | shares, assuming no exercise by the underwriters of their options to purchase an additional shares of common stock from the selling stockholder to cover overallotments. |
| Common stock to be issued and outstanding after this offering | shares. |
| Underwriters' option to purchase additional shares of our common stock | The selling stockholder has granted the underwriters an option, for a period of 30 days, to purchase up to additional shares of our common stock held by it on the same terms and conditions as set forth on the front cover of this prospectus. |
| Use of proceeds | We will not receive any proceeds from the sale of our common stock by the selling stockholder named in this prospectus. |
| Proposed purchase by certain director nominees | Certain of our independent director nominees may purchase up to an aggregate of shares of common stock in this offering at the public offering price. The allocation of shares in this offering to our independent director nominees will be made at our direction. The underwriters will not receive any underwriting discount or commission from the shares of our common stock purchased by these director nominees in this offering. Any shares sold to these director nominees will be subject to the lock-up agreements described under the sections entitled "Shares Eligible for Future Sale" and "Underwriting." |
| Dividend policy | <p>Following the completion of this offering, we currently expect to pay a quarterly cash dividend of \$0.085 per share, or an aggregate of \$0.34 per share on an annualized basis. For the quarterly period ending June 30, 2018, we expect to pay a prorated cash dividend for the period beginning on the closing date of this offering and ending on the last day of that period.</p> <p>Our board of directors may change the timing and amount of any future dividend payments or eliminate the payment of future dividends in its sole discretion, without prior notice to our stockholders. Our ability to pay dividends that our board of directors may determine to pay and any future determination by our board of directors to pay dividends on our common stock will depend upon many factors, including our financial position and liquidity, results of operations, legal requirements, restrictions that may be imposed by the terms of our current and future credit facilities and other debt obligations and other factors deemed relevant by our board of directors. See "Dividend Policy."</p> |

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Risk factors Please read the section entitled "Risk Factors" beginning on page 27 for a discussion of some of the factors you should carefully consider before deciding to invest in our common stock.

NYSE listing and symbol We have applied to have our common stock listed on the NYSE under the symbol "EAF."
The number of shares of common stock to be issued and outstanding after the completion of this offering is based on shares
common stock issued and outstanding as of , 2018 and excludes an additional shares reserved for future issuance
under our Omnibus Equity Incentive Plan.

Except as otherwise indicated, all information in this prospectus:

gives effect to a -for- stock split on our common stock to be effected prior to the completion of this offering.

assumes an initial public offering price of \$ per share, the midpoint of the estimated initial public offering price range set forth on the cover page of this prospectus; and

assumes no exercise by the underwriters of their options to purchase an additional shares of common stock from the selling stockholder to cover overallocments.

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Summary historical consolidated financial and other data

The following tables present selected consolidated financial information of the Company. You should read these tables along with "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and our audited consolidated financial statements and the related notes included elsewhere in this prospectus.

The summary consolidated statement of operations data for the years ended December 31, 2017, 2016 and 2015 (January 1, 2015 to August 14, 2015, Predecessor Period, and August 15, 2015 to December 31, 2015, Successor Period) and the summary consolidated balance sheet data at December 31, 2017 and 2016 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. Our historical results are not necessarily indicative of the results to be expected in the future.

As a result of business combination accounting resulting from our acquisition by Brookfield (see Note 2, Preferred Share Issuance and Merger, of the Notes to the Consolidated Financial Statements included elsewhere in this prospectus), our financial statements are separated into two distinct periods, the period before the consummation of our acquisition by Brookfield (labeled "Predecessor") and the period after that date (labeled "Successor"), to indicate the application of the different basis of accounting between the periods presented. There were no operational activities that changed as a result of our acquisition by Brookfield.

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| | | | Successor | Predecessor |
|---|--------------------|----------------|---|---|
| | | | For the period August 15 through | For the period January 1 through |
| | For the year ended | | December 31, | August 14, |
| | December 31 | December 31 | December 31, | August 14, |
| | 2017 | 2016 | 2015 | 2015 |
| (in thousands, except share and per share data) | | | | |
| Statement of Operations Data: | | | | |
| Net sales | \$ 550,771 | \$ 437,963 | \$ 193,133 | \$ 339,907 |
| Income (loss) from continuing operations | 14,212 | (108,869) | (28,625) | (101,970) |
| Net income (loss) | 7,983 | (235,843) | (33,551) | (120,649) |
| Basic income (loss) per common share(a): | | | | |
| Income (loss) from continuing operations per share | \$ 142,120 | \$ (1,088,690) | \$ (286,250) | \$ (0.74) |
| Weighted average common shares outstanding | 100 | 100 | 100 | 137,152,430 |
| Balance Sheet Data (at period end): | | | | |
| Total assets | \$ 1,199,103 | \$ 1,172,276 | \$ 1,422,015 | |
| Other long-term obligations(b) | 68,907 | 82,148 | 94,318 | |
| Total long-term debt | 322,900 | 356,580 | 362,455 | |
| Other Financial Data: | | | | |
| Net cash provided by operating activities | \$ 36,573 | \$ 22,815 | \$ 23,115 | \$ 28,323 |
| Net cash (used in) provided by investing activities | (2,199) | (10,471) | (17,484) | (39,918) |
| Net cash (used in) provided by financing activities | (32,995) | (8,317) | (23,072) | 20,824 |

(a) Per share data does not give effect to the -for- stock split on our common stock to be effected prior to the completion of this offering.

(b) Represents pension and OPEB and related costs and miscellaneous other long-term obligations.

| | | | Successor | Predecessor |
|-------------------------------------|--------------------|-------------|---|---|
| | | | For the period August 15 through | For the period January 1 through |
| | For the year ended | | December 31, | August 14, |
| | December 31 | December 31 | December 31, | August 14, |
| | 2017 | 2016 | 2015 | 2015 |
| (in thousands) | | | | |
| Other Financial Information: | | | | |

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| | | | | |
|---|-----------|-------------|-----------|-------------|
| EBITDA from continuing operations(1) | \$ 97,884 | \$ (12,251) | \$ 12,674 | \$ (32,197) |
| Adjusted EBITDA from continuing operations(1) | \$ 95,806 | \$ (2,898) | \$ 14,396 | \$ 31,628 |

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| | For the year ended December 31, | | |
|--|--|-------------|-------------|
| | 2017 | 2016 | 2015 |
| (in thousands, except price data) | | | |
| e date of grant using the Black-Scholes option pricing model. The expected annual volatility is based on the historical volatility of our stock and other factors. We use historical data to estimate option exercises and employee termination within the pricing model. The expected term of options granted represents the period of time that options are expected to be outstanding. | | | |

(3) Represents cash bonuses paid pursuant to awards made under the performance award component of the Stock Incentive Plan. These awards are included in the Grants of Plan-Based Awards table appearing on page 29 of this Proxy Statement.

(4) Represents the aggregate increase in the actuarial present value of the Named Executive Officer's accumulated benefits under our tax-qualified pension plans and non-tax-qualified supplemental pension plan

accrued during fiscal 2008 and fiscal 2007. The methodology used in calculating such increases, including the underlying assumptions, is described or referenced in the narrative discussion beginning on page 33 of this Proxy Statement.

(5) Includes for fiscal 2008 Company matches under our 401(k) plan as follows: Mr. Pope \$0; Mr. Manly \$4,583; Mr. Dubois \$5,823; Mr. Richter \$4,708; Mr. Sebring \$4,519; and Mr. Luter, IV \$2,483. Also includes our incremental cost, as shown in the following table, of perquisites provided to the Named Executive Officers during fiscal 2008, consisting of: the personal use of Company aircraft, personal use of a car leased by us, including all operating and maintenance costs, excess life insurance, use of a Company-owned residence and personal use of tickets for sporting events.

| Name | Company Aircraft (\$) | Company- Leased Automobile (\$) | Excess Life Insurance (\$) | Company- Owned Residence (\$) | Tickets for Sporting Events (\$) |
|---------------------|-----------------------------|--|----------------------------------|--|--|
| C. Larry Pope | 17,500 | 15,483 | 2,829 | | |
| Robert W. Manly, IV | | 16,847 | 465 | 25 | |
| Carey J. Dubois | | 7,800 | 1,602 | 1,350 | |
| George H. Richter | | 3,434 | 15,819 | 1,575 | |
| Joseph B. Sebring | 15,510 | 14,650 | 18,644 | | 3,000 |
| Joseph W. Luter, IV | | 17,937 | 772 | 1,675 | |

The value of perquisites is based on the estimated incremental cost to us, as follows:

for personal use of Company aircraft, the direct cost per flight hour as calculated from our records for Company-owned aircraft or as billed by third parties for chartered aircraft,

for Company-leased automobiles, 100% of the lease cost, repairs, maintenance and fees,

for excess life insurance (*i.e.*, having a face amount of coverage in excess of \$50,000), the amount of premiums paid by us, on behalf of the executive, during the fiscal year for such excess coverage,

for personal use of the Company-owned residence, the average daily cost of maintaining the residence multiplied by the number of days used for personal purposes, and

for personal use of tickets for sporting events, the cost of such tickets.

(6) Mr. Pope served as President and Chief Operating Officer until September 1, 2006 when he became President and Chief Executive Officer.

(7) Mr. Manly was named Executive Vice President on August 31, 2006 and served as interim Chief Financial Officer from January 1, 2007 to July 1, 2007. On July 1, 2008, he became Chief Financial Officer.

(8) Mr. Dubois served as Vice President and Chief Financial Officer from July 1, 2007 to June 30, 2008. Prior to July 1, 2007, he served as Corporate Treasurer. On July 1, 2008, he became Vice President, Finance.

(9) On April 28, 2008, Mr. Richter became President and Chief Operating Officer of the Pork Group.

(10) On April 28, 2008, Mr. Luter, IV became Executive Vice President.

GRANTS OF PLAN-BASED AWARDS

| Name | Grant date | Estimated future payouts under non-equity incentive plan awards | | | All other option awards: number of securities underlying options | Exercise or base price of option awards | Grant date value of stock and option awards |
|---------------------|------------|---|----------------|--------------|--|---|---|
| | | Threshold (\$) | Target (1)(\$) | Maximum (\$) | (2)(#) | (\$/sh) | (3)(\$) |
| C. Larry Pope | | N/A | 2,428,305 | N/A | | | |
| Robert W. Manly, IV | 6/11/07 | N/A | 849,655 | N/A | 50,000 | 32.40 | 710,500 |
| Carey J. Dubois | 6/11/07 | N/A | 169,537 | N/A | 25,000 | 32.40 | 355,250 |
| George H. Richter | | N/A | 4,445,619 | N/A | | | |
| Joseph B. Sebring | | N/A | 2,966,466 | N/A | | | |
| Joseph W. Luter, IV | | N/A | 1,865,502 | N/A | | | |

(1) Represents actual cash bonuses for fiscal 2008 paid pursuant to awards made under the performance award component of the Stock Incentive Plan. The payout amounts shown above are also included in column (g), Non-Equity Incentive Plan Compensation, of the Summary Compensation Table.

(2) All options granted for fiscal 2008 were pursuant to the Stock Incentive Plan and are exercisable five years from the grant date. All options are immediately exercisable in the event of and upon a Change of Control (as defined in the Stock Incentive Plan).

(3) The grant date fair value of these option awards reflects the full accounting expense, as of the grant date, that will be recognized by us over the course of multiple years and does not necessarily represent the value that will be realized by the named executive officer upon vesting or exercise.

Discussion for Summary Compensation Table and Grants of Plan-Based Awards
Performance-Based Cash Bonuses

For most of our executive officers, annual cash bonuses are earned under awards made pursuant to the performance award component of the Stock Incentive Plan. The awards utilize formulas set by the Compensation Committee at the beginning of the fiscal year, generally based on profits of either the Company or a particular subsidiary, depending upon the scope of the executive's duties. Net profits are generally defined as net income before deduction for income taxes and incentive payments to key employees. Because these awards are based on objective performance criteria measured over a period of one year, the bonuses earned pursuant to the awards appear both in the Grants of Plan-Based Awards table and in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table. For fiscal 2008, the formulas used to calculate the performance-based bonus awards to the Named Executive Officers were as follows:

| Name | Bonus Formula |
|-------------|--|
| Mr. Pope | <p>0% of the first \$100 million of Company net profits,</p> <p>1.5% of Company net profits in excess of \$100 million and less than \$400 million, and</p> <p>2% of Company net profits in excess of \$400 million.</p> |
| Mr. Manly | <p>0% of the first \$100 million of Company net profits,</p> <p>0.25% of Company net profits in excess of \$100 million and less than \$400 million, and</p> <p>0.375% of Company net profits in excess of \$400 million;</p> <p>plus</p> <p>2% of net profits from our international operations with such bonus being prorated for the six-month period during which he became responsible for our international operations.(1)</p> |
| Mr. Dubois | <p>0% of the first \$100 million of Company net profits,</p> <p>0.25% of Company net profits in excess of \$100 million and less than \$400 million, and</p> <p>0.375% of Company net profits in excess of \$400 million,</p> |

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with such bonus being prorated for the ten-month period he served as chief financial officer.

Mr. Richter 0% of the first \$20 million of net profits of the Company's Farmland Foods subsidiary (Farmland),

2% of Farmland net profits in excess of \$20 million and less than \$50 million, and

3% of Farmland net profits in excess of \$50 million.

Mr. Sebring 0% of the first \$20 million of net profits of the Company's John Morrell subsidiary (John Morrell),

2% of John Morrell net profits in excess of \$20 million and less than \$50 million, and

3% of John Morrell net profits in excess of \$50 million;

plus

1% of the first \$10 million of net profits of the Company's Armour-Eckrich subsidiary (Armour-Eckrich),

2% of Armour-Eckrich net profits in excess of \$10 million and less than \$30 million, and

3% of Armour-Eckrich net profits in excess of \$30 million.

| Name | Bonus Formula |
|---------------|---|
| Mr. Luter, IV | 0% of the first \$20 million of net profits of the Company's Smithfield Packing subsidiary (Smithfield Packing), 2% of Smithfield Packing net profits in excess of \$20 million and less than \$50 million, and 3% of Smithfield Packing net profits in excess of \$50 million. |

(1) Mr. Manly also received a prorated bonus for the six-month period before he became responsible for our international operations. The formula for that bonus was based on 0.5% of the Company net profits in excess of \$100 million and less than \$400 million and 0.75% of Company net profits in excess of \$400 million.

Other Bonuses

We also pay discretionary cash bonuses to executive officers from time to time to reward elements of performance that are not reflected in the criteria for performance-based cash bonuses. No such bonuses were awarded as executive compensation to Named Executive Officers for fiscal 2008. However, we did pay Mr. Dubois a \$40,000 discretionary bonus for the portion of fiscal 2008 that he served as a non-executive officer prior to being appointed as chief financial officer.

Stock Option Awards

Messrs. Manly and Dubois received awards of options in fiscal 2008 under the Stock Incentive Plan granted at the fair market value of our common stock as such term is defined under the Stock Incentive Plan. The options will become exercisable on the fifth anniversary of the grant date, or, if earlier, upon the occurrence of certain change of control events (as defined in the Stock Incentive Plan), which include generally (i) the acquisition by an individual or group of 20% (or 15% under certain circumstances) of our outstanding common stock, (ii) certain changes in the constitution of our Board of Directors that have not been approved by our Board, and (iii) shareholder approval of certain mergers or reorganizations in which the then-current shareholders cease to own at least a majority of our outstanding common stock.

Components of Total Compensation

In fiscal 2008, salary and bonus for the Named Executive Officers (including annual cash bonuses earned pursuant to the performance award component of the Stock Incentive Plan) averaged approximately 85% of their total compensation and constituted all, or almost all, of their total cash compensation. The principal components of non-cash compensation in fiscal 2008 were increases in the actuarial present value of the Named Executive Officers' benefits under our pension plans and, for those Named Executive Officers who received stock option grants, the amount recognized for financial statement reporting purposes with respect to such fiscal year in accordance with FAS 123R. Consistent with our policy that a substantial portion of a Named Executive Officer's potential cash compensation be based on performance, performance-based bonus awards for executive officers in recent years have ranged from 0% to 86% of total cash compensation depending on Company, relevant subsidiary and individual performance. As a

percentage of total cash compensation, performance-based bonus awards for all executive officers averaged approximately 71% in fiscal 2008.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

| Name | Option awards(1) | | | | | Stock awards | | | |
|---------------------|---|---|---|----------------------------|------------------------|---|--|---|--|
| | Number of securities underlying unexercised options (#) | Number of securities underlying unexercised options (#) | Equity incentive plan awards: number of securities underlying unexercised options (#) | Option exercise price (\$) | Option expiration date | Number of shares or units of stock that have not vested (#) | Market value of shares or units of stock that have not vested (\$) | Equity incentive plan awards: number of unearned shares, units or rights that have not vested (#) | Equity incentive plan awards: market or payout value of unearned shares, units or rights that have not vested (\$) |
| | | | | | | | | | |
| C. Larry Pope | | 250,000 | | 32.91 | 8/30/2016 | | | | |
| | | 50,000 | | 30.00 | 5/24/2014 | | | | |
| | 50,000 | | | 21.00 | 6/04/2012 | | | | |
| | 100,000 | | | 19.82 | 10/17/2011 | | | | |
| | 40,000 | | | 18.20 | 5/30/2011 | | | | |
| | 60,000 | | | 13.22 | 6/06/2010 | | | | |
| Robert W. Manly, IV | | 50,000 | | 32.40 | 6/11/2017 | | | | |
| Carey J. Dubois | | 25,000 | | 32.40 | 6/11/2017 | | | | |
| | | 10,000 | | 26.83 | 6/08/2016 | | | | |
| George H. Richter | | 25,000 | | 31.86 | 6/02/2015 | | | | |
| | | 25,000 | | 30.00 | 5/24/2014 | | | | |
| Joseph B. Sebring | 40,000 | | | 13.22 | 6/06/2010 | | | | |
| Joseph W. Luter, IV | | 25,000 | | 30.00 | 5/24/2014 | | | | |
| | 20,000 | | | 21.00 | 6/04/2012 | | | | |
| | 100,000 | | | 19.82 | 10/17/2011 | | | | |
| | 10,000 | | | 13.22 | 6/06/2010 | | | | |

(1) All options vest upon the earlier of (i) five years from the date of grant and (ii) the grantee's 65th birthday. All options expire ten years from the date of grant.

OPTION EXERCISES AND STOCK VESTED

| Name | Option awards | | Stock awards | |
|---------------------|----------------------|----------------|-----------------|----------------|
| | Number of shares | Value realized | Number of | Value realized |
| | acquired on exercise | on exercise | shares acquired | on vesting |
| (a) | (#) | (1)(\$) | (#) | (e) |
| | (b) | (c) | (d) | |
| C. Larry Pope | | | | |
| Robert W. Manly, IV | | | | |
| Carey J. Dubois | | | | |
| George H. Richter | | | | |
| Joseph B. Sebring | 100,000 | 1,551,480 | | |
| Joseph W. Luter, IV | 40,000 | 753,001 | | |

(1) The value realized is calculated by determining the difference between the market price of the underlying securities at exercise and the exercise price. The market price is based on the last sales price of our common stock as reported by the NYSE.

PENSION BENEFITS
(As of April 27, 2008)

| Name | Plan Name | Number of years | Present value of | Payments |
|---------------------|-------------------------------|------------------|------------------|-------------|
| (a) | (b) | credited service | accumulated | during last |
| | | (#) | benefit | fiscal year |
| | | (c) | (\$) | (\$) |
| | | (e) | (d) | (e) |
| C. Larry Pope | Smithfield Foods Pension Plan | 27 | 375,725 | 0 |
| | Supplemental Pension Plan | 27 | 6,951,828 | 0 |
| Robert W. Manly, IV | Smithfield Foods Pension Plan | 2 | 29,896 | 0 |
| | Supplemental Pension Plan | 2 | 97,735 | 0 |
| Carey J. Dubois | Smithfield Foods Pension Plan | 2 | 19,181 | 0 |
| | Supplemental Pension Plan | 2 | 26,978 | 0 |
| George H. Richter | Farmland Foods Pension Plan | 32 | 1,187,949 | 0 |
| | Supplemental Pension Plan | 4 | 1,180,461 | 0 |
| Joseph B. Sebring | John Morrell Pension Plan | 14 | 361,276 | 0 |
| | Supplemental Pension Plan | 14 | 3,430,667 | 0 |
| Joseph W. Luter, IV | | 16 | 101,367 | 0 |

| | | | |
|----------------------------------|----|-----------|---|
| Smithfield Foods Pension Plan | | | |
| Supplemental Pension Plan | 16 | 1,166,964 | 0 |

Discussion of Retirement Plans

We sponsor tax-qualified pension plans covering substantially all of the Company's salaried employees. All of the Named Executive Officers participate in one of our tax-qualified salaried pension plans (the Salaried Pension Plans) and the non-tax-qualified Supplemental Pension Plan (the Supplemental Plan).

The tax-qualified plans provide for retirement benefits that generally are a function of a participant's average compensation during his or her highest five consecutive calendar years during the last ten years of

employment (Final Average Earnings) and aggregate years of service. The Supplemental Plan provides a retirement benefit which is the benefit calculated under the Smithfield Foods Salaried Pension Plan, but without application of compensation and benefit limits under federal tax laws, reduced by the benefit payable from the relevant tax-qualified plan. The Supplemental Plan is maintained so that we can provide a retirement benefit for all salaried employees that is approximately the same percentage of their earnings from the Company.

The retirement benefit under the Salaried Pension Plans is a lifetime benefit payable at age 65 equal to the sum of (i) 0.8% of Final Average Earnings and (ii) 0.9% of Final Average Earnings in excess of Social Security Covered Compensation, with that sum multiplied by the years of service with the Company. Social Security Covered Compensation is determined annually by the Internal Revenue Service and represents an average of the amount of wages subject to Social Security taxes over a period of years. Compensation for purposes of Final Average Earnings is the participant's W-2 wages reduced by any income from the exercise of stock options. For Named Executive Officers, such compensation includes salary, bonus and non-equity incentive plan compensation, each as shown in the Summary Compensation Table. For the tax-qualified plans, compensation for purposes of calculating accruals is limited to \$230,000 for calendar year 2008 as set by the Internal Revenue Service. The Supplemental Plan limits Final Average Earnings for purposes of calculating accruals to \$5,000,000.

If a participant does not commence receiving benefits by age 65, the participant is entitled to a late retirement benefit which is the greater of the benefit calculated at the participant's normal retirement date actuarially increased to the actual retirement date or the benefit calculated at actual retirement date. A participant is eligible for early retirement after age 60 with five years of vesting service. The early retirement benefit payable is the accrued benefit payable at age 65 reduced by 0.5% for each month that the early retirement date precedes the normal retirement date.

The normal form of benefit for the Salaried Pension Plans and the Supplemental Plan is a single life annuity with monthly payments paid over the life of the participant. Married participants receive joint and 50% survivor annuity with actuarially reduced monthly payments paid until the death of the participant and his or her spouse. The other optional forms of retirement benefit in the Salaried Pension Plans include joint and 66.67%, 75% or 100% annuities, and a ten-year certain and continuous annuity with payments guaranteed for ten years even if the participant dies. The Supplemental Plan also includes a five-year installment payment option in which the lump sum value of the single life annuity is calculated based on factors specified in the Supplemental Plan and mandated by the Internal Revenue Service and then 90% of that value is paid in five annual principal installments with interest credited on the unpaid installments at the same interest rate that is used to calculate the lump sum value (currently segmented rates of 4.60% for the first 5 years, 4.82% for the next 15 years and 4.91% for 20 or more years).

The present value of each Named Executive Officer's accumulated benefits under the plans, as shown in the above table, has been calculated in accordance with the benefit formulas described above and using the same assumptions as are used by us for financial reporting purposes under generally accepted accounting principles (except that retirement age is assumed to be the normal retirement age of 65). Those assumptions are incorporated herein by reference to Note 8: Pension and Other Retirement Plans to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended April 27, 2008.

NONQUALIFIED DEFERRED COMPENSATION (1)

| Name | Executive contributions in last FY | Registrant contributions in last FY | Aggregate earnings in last FY | Aggregate withdrawals/ Distributions | Aggregate balance at last FYE |
|---------------------|---|--|--------------------------------------|---|--------------------------------------|
| | (\$) | (\$) | (\$) | (\$) | (\$) |
| (a) | (b) | (c) | (d) | (e) | (f) |
| C. Larry Pope | | | | | |
| Robert W. Manly, IV | | | | | |
| Carey J. Dubois | | | | | |
| George H. Richter | | | | | |
| Joseph B. Sebring | | | | | |
| Joseph W. Luter, IV | | | | | |

(1) The Named Executive Officers do not participate in any nonqualified deferred compensation plans or arrangements.

ESTIMATED PAYMENTS UPON SEVERANCE OR CHANGE-IN-CONTROL

Our Stock Incentive Plan provides for accelerated vesting of all unvested stock options previously awarded upon a change of control. This acceleration is applicable to all employees covered by the Stock Incentive Plan. A Change of Control is defined to include generally:

the acquisition, other than from Smithfield, by a person or group of 20% of the outstanding shares of common stock or 20% of the combined voting power of our then outstanding voting securities,

the current directors (and any directors whose election or nomination for election is approved by a majority of the incumbent directors) cease to constitute at least a majority of the Board of Directors,

approval by our shareholders of a reorganization, merger or consolidation if the owners of our common stock and voting securities immediately prior to such transaction do not own more than 50% of our outstanding shares of common stock and the combined voting power of the outstanding voting securities resulting from such transaction, or

approval by our shareholders of a complete liquidation or dissolution of Smithfield or the sale of all or substantially all of our assets.

The Compensation Committee, which administers the Stock Incentive Plan, may also accelerate the expiration date of outstanding options in the event of a Change of Control.

The following table sets forth the intrinsic value of the currently unvested stock options held by the Named Executive Officers as of April 27, 2008, assuming a Change of Control occurred on that date.

| Name | Early Vesting of Stock Options |
|---------------------|--------------------------------|
| C. Larry Pope | |
| Robert W. Manly, IV | |
| Carey J. Dubois | \$ 20,500 |
| George H. Richter | |
| Joseph B. Sebring | |
| Joseph W. Luter, IV | |

We are not obligated to provide any other payments or benefits to our Named Executive Officers upon a change of control. Further, we have no contracts, agreements or other arrangements with our Named Executive Officers that provide for payments following termination.

RELATED PARTY TRANSACTIONS

Policy and Procedures for Review, Approval or Ratification

We recognize that transactions between Smithfield and related persons present a potential for actual or perceived conflicts of interest. Our general policies with respect to such transactions are included in our Code of Business Conduct and Ethics (the Code) the administration of which is overseen by the Audit Committee. All employees and members of the Board of Directors agree to be bound by the Code. As a supplement to the Code, the Audit Committee, at its July 25, 2007 meeting, adopted a written policy setting out the procedures and standards to be followed for the identification and evaluation of related party transactions. For purposes of the policy, a related party transaction is any transaction or series of related transactions in excess of \$120,000 in which Smithfield is a party and in which a related person has a material interest. Related persons include directors, director nominees, executive officers, 5% beneficial owners and members of their immediate families. The Audit Committee has determined that certain transactions are deemed to be pre-approved under this policy. These include (i) transactions with another company in which the related person's only interest is as a director or beneficial owner of less than 10% of that company's outstanding stock or limited partnership interests and (ii) certain compensation arrangements that have either been disclosed in our proxy statement or approved by our Compensation Committee.

We collect information about potential related party transactions in our annual questionnaires completed by directors and executive officers. Potential related party transactions are first reviewed and assessed by our Chief Legal Officer to consider the materiality of the transactions and then reported to the Audit Committee. If a related party transaction is identified during the year, it is reported promptly to the Audit Committee. The Audit Committee reviews and considers all relevant information available to it about each related party transaction. A related party transaction is approved or ratified only if the Audit Committee determines that it is in, or is not inconsistent with, the best interests of Smithfield and its shareholders and is in compliance with the Code.

Transactions

Each of the following transactions has been ratified by the Audit Committee pursuant to the policy described above.

Joseph W. Luter, III

On August 30, 2006, we entered into a Consulting Agreement (the Consulting Agreement) with Joseph W. Luter, III, our Chairman. Under the Consulting Agreement, Mr. Luter, III agrees to provide consulting services to us for a period of one year, with such period subject to extension by the consent of both parties (the Consulting Period). The consulting services to be provided by Mr. Luter, III include cooperating with the management transition at the Company due to Mr. Luter, III's retirement, providing strategic advice on major acquisitions, and providing strategic and operational advice on the execution of the corporate commodity hedging strategy. In addition to providing the consulting services, Mr. Luter, III also agrees to serve as non-executive Chairman of the Board during the Consulting Period if he is elected

as such.

Under the terms of the Consulting Agreement, we pay Mr. Luter, III \$83,333.33 per month plus such compensation and benefits as are afforded to our non-employee directors. Mr. Luter, III is also entitled to (i) an office with secretarial and other support, (ii) use of Company-owned aircraft within specified policies for business and personal use (provided that he reimburses us for the incremental cost for any personal use), and (iii) health care coverage comparable to that received by him prior to his retirement.

The Consulting Agreement provides that Mr. Luter, III is eligible to receive incentive awards during the term of the agreement. In May 2007, the Compensation Committee developed a proposed annual incentive bonus arrangement for Mr. Luter, III, based in part on recommendations from Mr. Pope. The arrangement is tied to the specific categories of service that Mr. Luter, III provides under his consulting agreement as follows:

For providing strategic and operational advice on the execution of our commodity hedging strategy, Mr. Luter, III is eligible for a discretionary bonus of up to \$2,000,000.

Mr. Luter, III is eligible for an additional discretionary bonus of up to \$4,000,000 based upon the following criteria:

the Compensation Committee's assessment of Mr. Luter, III's contribution to the identification of potential acquisition opportunities, the successful completion of our acquisitions in which he is substantially involved and the extent to which those acquisitions are expected to improve our performance, with special consideration being given to near-term accretion, and

the Compensation Committee's assessment of the overall value of the strategic advice he provides to the chief executive officer in improving both short-term and long-term profitability.

For fiscal 2008, the Compensation Committee awarded Mr. Luter, III an aggregate bonus of \$4,200,000, consisting of \$2,000,000 for Mr. Luter, III's consulting services in the execution of our hedging strategy and \$2,200,000 for his contribution to the successful completion of acquisitions and his advice to the chief executive officer.

During the Consulting Period, Mr. Luter, III agrees that he will not, without our prior written consent, engage in competition with us by being associated with any business entity which engages in the business of hog production, cattle feeding or meat processing anywhere in the world where we have operations or sales. Mr. Luter, III also agrees, during the Consulting Period and for a period of two years following the Consulting Period, not to solicit our employees or customers for the purpose of competing with us.

Transactions with COFCO Limited and its affiliates

One of our customers is COFCO Limited, China's largest national agricultural trading and processing company, a Chinese company (COFCO China). Mr. Ning, a nominee for director, is chairman of COFCO China. In fiscal 2008, we received payments totaling \$168,467,324 from COFCO China for products we sold to them and we made payments to COFCO China totaling \$1,220,500 to cover certain product treatment costs, if any, that COFCO China may incur. The terms of these transactions were negotiated at arm's length prior to Mr. Ning becoming a nominee for director. We believe that these arrangements, which have continued into fiscal 2009, are no less favorable to us than if we entered into the arrangements with an unaffiliated party.

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On June 30, 2008, we entered into a Purchase Agreement with COFCO (Hong Kong) Limited, a Hong Kong company ("COFCO (Hong Kong)"), and Starbase International Limited, a British Virgin Islands company and subsidiary of COFCO (Hong Kong) ("Starbase"). COFCO China is the ultimate parent entity of both COFCO (Hong Kong) and Starbase. COFCO China and certain of its affiliates, including COFCO (Hong Kong) and Starbase, are referred to herein collectively as "COFCO" . Under the terms of the Purchase Agreement, we agreed to sell an aggregate of 7,000,000 shares of our common stock to Starbase at \$17.45 per share, which was equal to the closing price per share of our common stock on July 1, 2008, the date we priced our recent offering of convertible senior notes. An initial closing under the Purchase Agreement occurred on July 9, 2008 with respect to 3,178,000 of the shares.

COFCO's investment in us is passive in nature and the Purchase Agreement contains customary standstill provisions, including a prohibition against acquiring more than 9.9% of our outstanding shares. COFCO's obligations under the standstill provisions terminate at such time as COFCO owns less than 2% of our then outstanding shares but may be reinstated if, within one year thereafter, COFCO acquires any shares that result in its owning, in the aggregate, 2% or more of our then outstanding shares. The Purchase Agreement also contains restrictions on sales or other transfers of shares of our common stock until July 9, 2009. The closing with respect to the remaining 3,822,000 shares occurred on July 16, 2008.

In connection with the sale of the shares to Starbase, we agreed to nominate Mr. Ning for election as a director at the Annual Meeting. If Mr. Ning dies or ceases to be the chairman or a senior executive officer of COFCO China during the three years following the Annual Meeting, we have agreed to appoint as his replacement an alternative chairman or senior executive officer of COFCO China who is reasonably acceptable to our Nominating and Governance Committee who will serve for the balance of such three-year period, subject to any required shareholder approval during such period. In the event that COFCO transfers any shares of our common stock and, following such transfer, owns in the aggregate less than 2% of our then outstanding common shares, we may request that COFCO (Hong Kong) cause Mr. Ning or his replacement, if applicable, to resign as a director, whereupon we will have no further obligations with respect to the appointment or nomination for election of Mr. Ning or any other nominee of COFCO to our Board. If during any term as a director, Mr. Ning or such other COFCO nominee no longer serves as the chairman or a senior executive officer of COFCO China, we may request that COFCO (Hong Kong) cause Mr. Ning or such other COFCO nominee, as the case may be, to resign as a director.

Transactions with Continental Grain Company

In March 2008, we entered into an agreement with JBS S.A., a company organized and existing under the laws of Brazil (JBS), to sell Smithfield Beef, our beef processing and cattle feeding operation that encompassed our entire Beef segment, to JBS for \$565.0 million in cash (the JBS transaction).

The sale to JBS will include 100% of Five Rivers Ranch Cattle Feeding LLC (Five Rivers). Five Rivers is a 50/50 joint venture between us and CGC that is headquartered in Colorado with a one-time feeding capacity of 811,000 head. We also entered into an agreement with CGC in March 2008 to acquire from CGC the 50% of Five Rivers that we do not presently own in exchange for 2.167 million shares of our common stock. This transaction with CGC will occur immediately before the JBS transaction and is conditioned upon the JBS transaction taking place. Barring regulatory delays, we anticipate the transactions will close during the second quarter of fiscal 2009. As of July 11, 2008, CGC is a beneficial owner of 7.6% of the outstanding shares of our common stock. Assuming no changes in the beneficial ownership of CGC or in the number of our outstanding shares from July 11, 2008 through the closing except the 3,822,000 additional shares we issued on July 16, 2008 that are discussed above under

Transactions with COFCO Limited and its affiliates, CGC will be a beneficial owner of 8.9% of the outstanding shares of our common stock following the closing of this transaction. Paul J. Fribourg, one of our directors, is Chairman, President and Chief Executive Officer of CGC. Michael J. Zimmerman, our advisory director, is Executive Vice President and Chief Financial Officer of CGC.

The JBS transaction excludes substantially all live cattle inventories held by Smithfield Beef and Five Rivers as of the closing date, together with the associated debt. Live cattle currently owned by Five Rivers will be transferred to a new 50/50 joint venture between us and CGC, while live cattle currently owned by Smithfield Beef will be transferred to another subsidiary of ours. The excluded live cattle will be raised by JBS after closing for a negotiated fee and then sold at maturity at market-based prices.

Proceeds from the sale of the excluded live

cattle will be paid in cash to the Smithfield Foods/CGC joint venture or to us, as appropriate. We believe that most of the live cattle inventories will be sold within six months after closing, with substantially all sold within 12 months after closing. The proceeds from the sale of Smithfield Beef's live cattle inventories and our interest in Five Rivers' cattle inventory, net of the associated debt, are expected to be in excess of \$200 million.

Wendell H. Murphy

We have business relationships with certain entities owned in whole or part by Wendell H. Murphy, a director, and his family members. Each of these entities owns farms that produce and grow hogs under contract with Murphy-Brown LLC, one of our subsidiaries. We advance associated farm and other support costs to most of these entities and we are subsequently reimbursed. The ownership of these entities and the amounts of their transactions with the Company during fiscal 2008 are set forth below.

Wendell H. Murphy holds a 43% interest in Arrowhead Farms, Inc. to which we made payments of \$1,187,267.

Wendell H. Murphy holds a 1% interest and Wendell H. Murphy, Jr., Mr. Murphy's son, holds a 99% interest in DM Farms of Rose Hill LLC to which we made payments of \$25,125,201 and from which we received payments of \$213,897.

Wendell H. Murphy, Jr. and Wendy Murphy Crumpler, Mr. Murphy's daughter, each have a 40% interest in Enviro-Tech Farms, Inc. to which we made payments of \$3,474,480 and from which we received payments of \$78,960.

Wendell H. Murphy, Jr. holds a 29% interest in Golden Farms, Inc., a 50% interest in Lisbon 1 Farm, Inc., and a 51% interest in Triumph Associates to which we made payments of \$1,334,073, \$1,282,634, and \$1,301,451, respectively, and from which we received payments of \$15,751, \$44,366 and \$6,456, respectively.

Wendell H. Murphy's brother, Harry D. Murphy, has a 30% interest in Murphy-Honour Farms, Inc. to which we made payments of \$2,321,476 and from which we received payments of \$35,732.

Harry D. Murphy has a 49% interest in PSM Associates to which we made payments of \$3,788,623 and from which we received payments of \$18,080.

Wendy M. Crumpler and her husband, Kelly Crumpler, each have a 50% interest in Pure Country Farms, LLC to which we made payments of \$2,168,415 and from which we received payments of \$28,395.

Wendy M. Crumpler and Wendell H. Murphy, Jr. each have a 50% interest in Stantonsburg Farm, Inc. and a 37.5% interest in Webber Farms, Inc. to which we made payments of \$507,645 and \$2,646,137, respectively, and from which we received payments of \$0 and \$23,532, respectively.

We believe that the terms of the foregoing arrangements were no less favorable to us than if we entered into the arrangements with unaffiliated parties.

Others

McGuireWoods LLP, of which Robert L. Burrus, Jr., a director, is Chairman Emeritus and Senior Partner, provides us legal services. During fiscal 2008, we paid McGuireWoods LLP approximately \$8,695,878 for such services.

Jerry H. Godwin, an executive officer, holds a 33% ownership interest in JCT LLC with the remaining ownership interest held by two employees of Murphy-Brown LLC, our subsidiary. JCT owns certain farms that produce hogs under contract with Murphy-Brown. In fiscal 2008, we made payments totaling \$7,483,959 to JCT for the production of hogs and received payments totaling \$3,041,276 from JCT for reimbursement of associated farm and other support costs. We believe that the terms of the foregoing arrangements were no less favorable to us than if we entered into the arrangements with unaffiliated parties.

Christopher Pope, son of C. Larry Pope, our president and chief executive officer, is an employee of Industrial Fleet Management (IFM) and J. Mandato & Associates, Inc. (JMA). He provides services on behalf of IFM and JMA to us. Christopher Pope's combined salary and bonus from IFM and JMA was \$102,400 for calendar year 2007.

Jason Richter, son of George H. Richter, an executive officer, is employed by us as a Director of International Sales for Farmland Foods. In fiscal 2008, his salary and bonus totaled \$209,810.

Hon. Paul S. Triple, Jr., a director, is President of Christopher Newport University. In fiscal 2008, the Smithfield-Luter Foundation contributed \$500,000 to the university. The Smithfield-Luter Foundation is a non-profit organization that acts as the philanthropic wing of the Company and our chairman, Joseph W. Luter, III.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee is comprised entirely of the three independent directors listed above under Corporate Governance Committees of the Board of Directors and Meetings and none of our executive officers served on the compensation committee or board of any company that employed any member of the Compensation Committee or Board of Directors.

AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors is composed of three directors and operates under a written charter, adopted by the Board of Directors and reviewed annually by the Audit Committee. Each of the members of the Audit Committee is independent as defined by the listing standards of the New York Stock Exchange and the applicable rules of the Securities and Exchange Commission.

Management is responsible for the Company's internal controls and the financial reporting process. The independent auditors are responsible for performing an independent audit of the Company's financial statements and the Company's internal control over financial reporting and issuing its reports thereon. The Audit Committee's responsibility is to monitor and oversee these processes.

The Audit Committee has sole authority to retain, oversee, terminate and determine the compensation of the independent auditors. In accordance with Audit Committee policy and the requirements of law, all services to be provided by the independent auditors are required to be pre-approved by the Audit Committee or, between meetings, by the Chairman of the Audit Committee. Any decision by the Chairman of the Audit Committee to grant pre-approval is presented to the full Audit Committee at its next scheduled meeting.

The Company has an Internal Audit department that operates under a written charter approved by the Audit Committee. The head of the Internal Audit department reports directly to the Audit Committee on a functional basis. The responsibilities of the Internal Audit department include reviewing and evaluating the adequacy and integrity of internal control systems relating to, among other things, the reliability and integrity of the Company's financial information, the safeguarding of the Company's assets and the Company's compliance with applicable laws and regulations. The head of the Internal Audit department regularly reports to the Audit Committee on internal audit findings and the status of corrective actions taken to improve the Company's business processes and procedures.

The Audit Committee met 13 times during fiscal 2008. At its meetings, the Audit Committee receives reports and holds discussions with representatives of the Company's management, the Internal Audit department and the independent auditors. Meetings are held periodically at an operating facility of one of the Company's subsidiaries at which, in addition to its regular agenda, the Audit Committee receives reports from, and holds discussions with, the subsidiary's management and receives an in-depth tour of the facility to enhance the committee members' understanding of that subsidiary's business operations and the risks associated therewith. The Audit Committee regularly has private, separate sessions with each of management, the head of the Internal Audit department and the independent auditors at which candid discussions take place regarding accounting, internal controls, financial management and other matters. The Audit Committee also regularly receives reports directly from Company or subsidiary managers responsible for key business functions relating to risk or financial management. In between meetings of the Audit Committee, the Chairman of the Audit Committee regularly has discussions with management, the internal auditors and the independent auditors and reports on the matters discussed to the rest of the Audit Committee either before or at the next meeting, as circumstances warrant.

The Audit Committee reviews and discusses with both management and the independent auditors each of the Company's quarterly and annual reports on Forms 10-Q and 10-K, including Management's Discussion and Analysis of Financial Condition and Results of Operations, prior to the filing of such documents with the SEC. As part of this review, the Audit Committee considers the audit and review

reports prepared by the independent auditors, as well as related matters such as the quality of the Company's accounting principles and the clarity and completeness of the Company's financial and other disclosures. The Audit Committee engages in a similar

review and discussions regarding the Company's financial results before the publication of the Company's quarterly earnings press releases. In addition, the Audit Committee reviews and discusses with management the Company's proxy materials for each annual meeting of shareholders prior to the filing and distribution of such materials.

In accordance with NYSE requirements, the Audit Committee has overseen the establishment of procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters. These procedures, which are incorporated into the Company's Code of Business Conducts and Ethics (the "Code"), include an anonymous telephone hotline pursuant to which Company employees may report, on a confidential basis, concerns regarding questionable accounting or auditing matters. The head of the Internal Audit department regularly reports to the Audit Committee on complaints or concerns received by the Company pursuant to the Code or through the telephone hotline and the actions taken by the Company in response. In addition, the chair of the compliance committee that administers the Code reports periodically to the Audit Committee on the administration of the Code.

The Audit Committee has adopted a written policy setting out procedures and standards for the review and approval or ratification of significant transactions with the Company in which related parties (including directors and executive officers) have a material interest. The purpose of these policies and procedures is to identify and evaluate transactions or other arrangements which could create conflicts of interest, raise independence concerns or require public disclosure. The Audit Committee reports all of its findings to the Board of Directors.

The independent auditors provided to the Audit Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Disclosures with Audit Committees) and the Audit Committee discussed with the independent auditors their independence from the Company. The Audit Committee considered whether the auditors' provision of services to the Company beyond those rendered in connection with the audit and review of the Company's financial statements was compatible with maintaining their independence. The Audit Committee has concluded that such services did not compromise the independence of Ernst & Young LLP.

The Audit Committee has reviewed and discussed with management the assessment and report by management on the effectiveness of the Company's internal control over financial reporting as of April 27, 2008, which management is required to perform under Section 404 of the Sarbanes-Oxley Act and related rules. The Audit Committee has also reviewed and discussed with the independent auditors their review and report on the Company's internal control over financial reporting. Each of these reports has been published in the Company's Annual Report on Form 10-K for the year ended April 27, 2008 and included in the Company's Annual Report to Shareholders for fiscal 2008. Throughout fiscal 2008, the Audit Committee received regular reports from management, the internal auditors and the independent auditors regarding management's plan for documenting and testing controls, the results of their documentation and testing, any deficiencies discovered and the remediation of any such deficiencies.

The Audit Committee has reviewed with both management and the independent auditors the Company's audited financial statements for the fiscal year ended April 27, 2008. This review included discussions with the independent auditors of matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees), as amended by Auditing Standards 89 and 90. The review also included discussions with management of the quality, not merely the acceptability, of the Company's accounting principles, the reasonableness of significant estimates and judgments and the clarity of disclosure in the financial statements, including the disclosures related to critical accounting

policies.

Based on the foregoing, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended April 27, 2008 for filing with the Securities and Exchange Commission. The Audit Committee also selected Ernst & Young LLP as the Company's independent auditors for the fiscal year ending May 3, 2009.

The members of the Audit Committee rely without independent verification on the information provided to them and on the representations made by management and the independent auditors. Accordingly, the Audit Committee's oversight does not provide an independent basis to determine that the Company's financial statements have been prepared in accordance with generally accepted accounting principles or that the audit of the Company's financial statements by Ernst & Young LLP has been carried out in accordance with generally accepted auditing standards.

Audit Committee

John T. Schwieters, *Chairman*

Frank S. Royal, M.D.

Melvin O. Wright

PROPOSAL 2

APPROVAL OF THE SMITHFIELD FOODS, INC.

2008 INCENTIVE COMPENSATION PLAN

Our Board of Directors has approved the adoption of the Smithfield Foods, Inc. 2008 Incentive Compensation Plan (the 2008 Plan) and directed that it be submitted to our shareholders for approval. The principal features of the 2008 Plan are summarized below. The complete text of the 2008 Plan is attached as Exhibit A.

The 2008 Plan is intended to promote our long-term stability and financial success by attracting and retaining key employees and other service providers, rewarding our key employees for the achievement of performance goals that may be attached to their incentives, and aligning the interests of our key employees with those of our shareholders. The 2008 Plan is also intended to allow performance-based compensation and other forms of stock-based compensation to our employees and service providers. It includes provisions for making awards to directors and consultants that were formerly provided under the 2005 Non-Employee Director Stock Incentive Plan (the Director Plan). The 2008 Plan will become effective immediately upon your approval.

A primary reason for adopting the 2008 Plan is to reserve an additional two million shares of our common stock for future awards. The additional shares are necessary to support our compensation policy of making annual awards of stock-based compensation to focus key employees on our performance over time, provide them with incentives for future performance, and link their interests to yours.

The Smithfield Foods, Inc. 1998 Stock Incentive Plan (the Prior Plan) and the Director Plan will terminate upon your approval of the 2008 Plan. No awards will be granted under the Prior Plan or the Director Plan after their termination, although outstanding awards previously granted under the Prior Plan or the Director Plan will continue in effect in accordance with the terms and conditions of the Prior Plan or the Director Plan.

The Board of Directors unanimously recommends that you vote FOR the 2008 Plan.

Eligibility and Administration

All present and future employees and other service providers of ours are eligible to receive incentive awards under the 2008 Plan. An employee or other service provider who receives an award becomes a participant in the 2008 Plan. Also, all present and future non-employee directors of ours are eligible to receive director awards under the 2008 Plan. We estimate that we have approximately 58,100 employees (30 of whom are officers), approximately five service providers other than employees, and, after the 2008 Annual Meeting, 12 non-employee directors who may be eligible for awards under the 2008 Plan.

Unless otherwise determined by the Board of Directors, the Compensation Committee (the Committee) will administer the 2008 Plan with respect to awards for employees and other service providers. The Committee has the power and complete discretion to select service providers to receive incentive awards and to determine for each service provider the nature of the incentive award and the terms and conditions of each incentive award. The non-employee members of the Board of Directors have these same powers and responsibilities with respect to non-employee director and consultant awards.

The 2008 Plan is intended to comply with the provisions of SEC Rule 16b-3 and allows for awards that are intended to meet the requirements for performance-based compensation under Internal Revenue Code

Section 162(m). Awards under the 2008 Plan that constitute nonqualified deferred compensation are intended to meet the requirements of Internal Revenue Code Section 409A.

Types of Awards that may be Granted under the 2008 Plan

The 2008 Plan authorizes a variety of types of equity- and cash-based awards to provide flexibility in the compensation program.

Employees and other service providers may receive the following types of incentive awards under the 2008 Plan: performance grants, performance shares, restricted stock awards, performance share units, restricted stock units, incentive stock options, nonstatutory stock options, and stock appreciation rights.

Non-employee directors and consultants may receive the following types of director awards under the 2008 Plan: restricted stock awards, restricted stock units, performance share units, nonstatutory stock options, stock appreciation rights, vested shares, and deferred units.

Amount of Stock Available for Awards

Two million shares of our common stock have been reserved for issuance under the 2008 Plan plus any remaining shares authorized for issuance under the Prior Plan as of the date of the 2008 Annual Meeting. The maximum number of shares that can be issued under awards other than options and stock appreciation rights is one million. The maximum number of shares under incentive awards granted to any one individual in any calendar year is 500,000. The maximum annual cash payment that can be made to any one individual under a performance grant may not exceed the greater of two million dollars or three percent of our net income before income taxes, incentive payments and accounting for minority interests for the year for which the performance grant is made. Shares of our common stock allocable to options, restricted stock or other awards or any portions thereof previously granted under the Prior Plan that expire, are forfeited, or otherwise terminate unexercised will be added to the shares reserved for issuance under the 2008 Plan and may be used for new awards under the 2008 Plan.

If an award under the 2008 Plan is forfeited, terminates or expires unexercised, any unissued shares allocable to that award may be used for a new award under the 2008 Plan. Shares exchanged in payment of an option exercise price or retained to satisfy applicable withholding taxes may not be subjected to new awards and the cash proceeds from option exercises cannot be used to purchase open-market shares for reuse under the 2008 Plan. The number of shares that may be issued under the 2008 Plan will be proportionately adjusted in the event of a recapitalization event like a stock dividend, stock split or other similar event affecting our common stock. The 2008 Plan prohibits option repricing without shareholder approval except in connection with a recapitalization event.

Our common stock is traded on the New York Stock Exchange under the symbol SFD. On July 11, 2008, the closing price per share was \$18.47.

Performance Grants

Performance grants are rights to receive cash or shares of our common stock subject to the achievement of pre-established performance goals. Performance grants are specifically designed to qualify as performance-based compensation for purposes of Internal Revenue Code Section 162(m).

Performance goals for performance grants are required to use objective and quantifiable performance criteria. The 2008 Plan permits the use of a wide variety of performance measures to provide flexibility in the design of the executive compensation program while preserving the deductibility of awards under Internal Revenue Code Section 162(m). The permissible performance measures are:

| | |
|-----------------------------------|---|
| market value of our common stock | any of the prior measures or earnings before taxes and unusual or nonrecurring items as measured either against the annual budget or as a ratio to revenue or return on total capital |
| pre-tax profits | |
| unit production costs | net earnings |
| asset growth | profit margin |
| pre-tax earnings | operating margin |
| debt to equity ratio | operating income |
| earnings per share | net worth |
| revenues | cash flow |
| operating income | cash flow per share |
| operating costs and efficiencies | total shareholder return |
| operating cash flow | revenues |
| net income, before or after taxes | capital expenditures |
| | improvements in capital structure |

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net income before income taxes, incentive payments and accounting for minority interest

industry indices

return on total capital, equity, revenue or assets

expenses and expense ratio management

market share

debt reduction

unit production and sales volume

profitability of an identifiable business unit or product

earnings before interest, taxes, depreciation, rent and amortization expenses

levels of expense, cost or liability by category, operating unit or any other delineation

earnings before interest, taxes, depreciation and amortization

earnings before interest and taxes

Performance criteria may be measured with respect to our performance as a company or the performance of any of our related companies, subsidiaries, divisions, or business units, or any individual, on an operating or GAAP basis where applicable, including or excluding nonrecurring or extraordinary items where applicable, or relative to a defined peer group of companies or an index.

The Committee will set target and maximum amounts payable under the performance grant. Performance grants must be made prior to the ninetieth day of the period for which the performance grant relates or, if less, before the completion of 25 percent of the period. The Committee may not increase the amounts payable upon achievement of the performance goals after the start of a performance period, but may reduce or eliminate the payments.

A performance grant is paid only upon certification by the Committee that the performance goals with respect to the award are met. The Committee may provide that a performance grant may be paid prior to the attainment of performance goals only in the event of a service provider's death, disability or a change in control. Payments under a performance grant can be in cash, shares of our common stock, or a combination of both.

Performance Shares

Performance shares are shares of our common stock that will be issued if performance goals established by the Committee are attained.

Performance share awards may be designed to qualify as performance-based compensation for purposes of Internal Revenue Code Section 162(m), in which case the awards will be subject to the same requirements that performance grants are subject to. Otherwise, performance goals and other terms and conditions of the awards may be set by the Committee in its discretion.

Restricted Stock & Vested Share Awards

Restricted stock awards are shares of our common stock issued subject to service- and/or performance-based restrictions on transferability. The Committee (or, in the case of director awards, the Board of Directors) determines the restrictions as well as the conditions under which the restrictions may lapse. Restriction periods generally must be no less than three years in length for service-based restrictions (six months for director awards) and one year in length for performance-based restrictions. The participant will generally forfeit the shares if he or she separates from service before the end of the period or if the applicable performance goals, if any, are not satisfied. However, the Committee (or, in the case of director awards, the Board of Directors) may, in its discretion, provide for accelerated removal of the restrictions upon such events as the participant's disability, death, retirement, involuntary termination of employment or the occurrence of a change in control.

Holders of restricted stock have other rights of shareholders during the restricted period, including the right to vote the shares and receive dividends thereon. Cash dividends will generally be paid to the restricted stock holder at the time the dividend is otherwise paid to our shareholders of record, while stock dividends will generally be credited to the restricted stock holder as additional shares of restricted stock, subject to the same restrictions on transferability as the shares with respect to which the dividends were paid.

Vested share awards are shares of our common stock issued without any restrictions on transferability, other than restrictions necessary to comply with applicable securities laws.

Performance Share Units, Restricted Stock Units & Deferred Units

Performance share units and restricted stock units are rights to receive shares of our common stock (or cash in lieu of the shares) subject to service- and/or performance-based vesting conditions. Performance share units are similar to performance shares except that the Committee can decide whether to issue payment in shares of our common stock, cash or both when the performance conditions are satisfied. Restricted stock units are similar to restricted stock except that shares of our common stock are not issued (or cash in lieu of the shares is not paid)

until on or after the time when the vesting conditions are satisfied, as determined by the Committee or, with respect to director awards, the Board of Directors. Restriction periods generally must be no less than three years in length for service-based restrictions (six months for director awards) and one year in length for performance-based restrictions. The participant will generally forfeit the shares if he or she separates from service before the end of the period or if the applicable performance goals, if any, are not satisfied. Performance share units and restricted stock units may be settled in shares of our common stock, in cash, or in a combination of both, or the Committee (or, with respect to director awards, the Board of Directors) may reserve the right to determine the method of settlement at the time the award is settled.

Holders of performance share units and restricted stock units generally will not have other rights of shareholders until the shares have been issued and all requirements to the issuance have been satisfied, including the right to vote the shares and receive dividends thereon. The Committee (or, in the case of director awards, the Board of Directors) may, in its discretion, provide that a participant be entitled to receive dividend equivalents on outstanding performance share units and restricted stock units. The dividend equivalents may be paid in cash, credited to the participant as additional performance share units or restricted stock units, or a fixed combination of cash and performance share units or restricted stock units.

Deferred units are similar to restricted stock units, except that deferred units are immediately vested from the date of grant and are payable at some future date. Further, as is currently the case under the Director Plan, under procedures established by the Board of Directors, a non-employee director may elect to defer the payment of cash retainer, meeting and other fees paid in connection with his or her service on the Board of Directors for any plan year that would otherwise be payable and receive in its place deferred units.

Options & Stock Appreciation Rights

The 2008 Plan authorizes grants of incentive stock options or nonstatutory stock options. Incentive stock options are designed to qualify for favorable tax treatment under Internal Revenue Code Section 422, while nonstatutory stock options are not. The exercise price of either type of option may not be less than 100 percent of the fair market value per share of our common stock covered by the option on the date the option is granted. Fair market value is the closing price per share of our common stock as reported by the New York Stock Exchange on the date on which the value of our common stock must be determined (or if the date is not a trading day, on the most recent prior trading day).

Options may be exercised at the times specified by the Committee. The maximum term of any option is ten years from the date of grant. Incentive stock options may not be exercised after the first to occur of (i) ten years from the date of grant, (ii) three months from the participant's termination of employment for reasons other than death or disability, or (iii) one year from the participant's termination of employment due to death or disability.

The value of incentive stock options, based on the exercise price, that can be exercisable for the first time in any calendar year under the 2008 Plan or any other similar plan we maintain is limited to \$100,000 for each participant. A participant may pay the purchase price of an option in cash, or, if the participant's option award so permits, by having us withhold shares sufficient to pay the exercise price, by delivering shares owned by the participant, or, unless prohibited by law, by exercising in a broker-assisted transaction.

Options may not be repriced without shareholder approval except in connection with a recapitalization event and otherwise generally may not be materially modified after the date of grant or extended or renewed beyond their original terms. The Committee may suspend the right to exercise an option any time it determines that the issuance of our common stock would violate any securities or other laws and may provide that the exercise period be tolled during any period of suspension.

Stock appreciation rights are similar to nonstatutory options except that, rather than paying an exercise price to exercise the stock appreciation rights, the excess of the fair market value of our common stock covered by the stock appreciation right on the date of settlement over the fair market value of our common stock on the date of grant is distributed to the participant. Stock appreciation rights may be settled in cash or in shares of our common stock or a combination of both, or the Committee (or, with respect to director awards, the Board of Directors) may reserve the right to determine the method of settlement at the time of settlement.

Stock appreciation rights may be exercised in whole or in part at the times specified by the Committee. The maximum term of any stock appreciation right is ten years from the date of grant. For participants receiving our common stock upon exercise of a stock appreciation right, such participants generally will not have other rights of shareholders until the shares of our common stock have been issued and all requirements to the issuance have been satisfied, including the right to vote the shares and receive dividends thereon.

Stock appreciation rights may be granted in tandem with nonstatutory options. When the participant exercises either the option or the stock appreciation right, the other part of the tandem award is cancelled without payment.

Transferability of Awards

Participants' interests in performance grants, performance shares, performance share units, restricted stock units, deferred units and stock appreciation rights are not transferable prior to payment, settlement or exercise of the awards, as the case may be. Restricted stock is not transferable until the restrictions have lapsed or been removed. Nonstatutory stock options are transferable only to the extent provided by the Committee (or, with respect to director awards, the Board of Directors) in the award agreement and permitted by applicable securities laws. Incentive stock options are not transferable except by will or the laws of descent and distribution.

Amendment of the 2008 Plan and Awards

The Board of Directors may amend the 2008 Plan from time to time as it deems advisable and may terminate the 2008 Plan at any time. Amendments to increase the total number of shares of our common stock reserved under the 2008 Plan or that otherwise constitute material changes to the 2008 Plan under applicable tax or securities laws or the listing standards of the New York Stock Exchange require shareholder approval. The Board of Directors must obtain the consent of a participant to an amendment that adversely affects a participant's rights under an outstanding award. However, the Board of Directors may unilaterally amend the 2008 Plan and awards with respect to participants to ensure compliance with applicable laws and regulations.

Federal Income Tax Consequences

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Generally, a participant in the 2008 Plan will not incur federal income tax when he initially receives a performance grant, performance share, performance share unit, restricted stock unit, deferred unit, incentive stock option, nonstatutory stock option or stock appreciation right. A participant generally will not incur federal income tax when he is awarded a share of restricted stock unless the participant makes a valid election under Internal Revenue Code Section 83(b) with respect to the award.

If a service provider makes a valid election under Internal Revenue Code Section 83(b) with respect to an award of restricted stock, the participant generally will recognize ordinary income equal to the fair market value of the stock subject to the award on the date of grant. The amount included in income will become the participant's basis in the shares. If the participant is an employee, this income is subject to applicable tax.

withholding by his employer. The participant generally will not recognize any additional income at the time the restrictions lapse. Any profit or loss realized on the later sale or exchange of the stock relative to the participant's basis in the shares will be capital gain or loss.

If the participant does not make a valid election under Internal Revenue Code Section 83(b), the participant generally will recognize compensation income with respect to the restricted stock equal to the fair market value of the stock subject to the award at the time or times the restrictions lapse. The amount included in income will become the participant's basis in the shares. If the participant is an employee, this income is subject to applicable tax withholding by his employer. Any profit or loss realized on the later sale or exchange of the stock relative to the participant's basis in the shares will be capital gain or loss.

Upon exercise of a nonstatutory stock option, a participant generally will recognize ordinary income equal to the difference between the fair market value of the stock acquired on the date of the exercise and the exercise price. Generally, the amounts will be included in the participant's gross income in the taxable year in which exercise occurs. The purchase price paid by the participant plus the amount included in income will become the participant's basis in the shares. If the participant is an employee, this income is subject to applicable tax withholding by his employer. Any profit or loss realized on the later sale or exchange of the stock relative to the participant's basis in the shares will be capital gain or loss.

Upon exercise of an incentive stock option, a participant generally will not recognize income subject to tax, unless the participant is subject to the alternative minimum tax. The purchase price paid by the participant will become the participant's basis in the shares. If the participant holds the stock purchased upon exercise of an incentive stock option until the later of two years after the option was awarded to the participant or one year after the stock was issued to the participant, then any profit or loss realized on the later sale or exchange of the stock relative to the participant's basis in the shares will be capital gain or loss. If the participant sells or exchanges the stock prior to expiration of the holding period, the participant generally will recognize ordinary income at the time of the sale or exchange equal to the excess of the fair market value of the shares at the time of exercise (or, if less, the amount realized upon the sale or exchange) over the exercise price. This income will become the participant's new basis in the shares. Any additional profit or loss relative to this basis will be capital gain or loss.

If the grant agreement so provides, a participant may pay the exercise price of a nonstatutory stock option or an incentive stock option by delivery of shares of our common stock. Usually when a participant delivers shares of our common stock in satisfaction of all or any part of the exercise price, no taxable gain is recognized on any appreciation in the value of the delivered shares, unless the shares were previously acquired upon the exercise of an incentive stock option and the applicable holding period with respect to the shares has not expired. In that case, the participant will recognize ordinary income with respect to the delivered shares in accordance with the principles described above. Special rules apply to determine the basis of shares of our common stock purchased upon the exercise of an option by the delivery of previously owned shares.

A vested share award will generally be treated as ordinary income to the participant at the time of the award. Payment under a performance grant, performance share award, performance share unit award, restricted stock unit award, deferred unit award or upon settlement of a stock appreciation right will also generally be treated as ordinary income to the participant at the time of payment or settlement of the award. If payment or settlement is made in shares of our common stock, then the amount includible in income will be equal to the fair market value of the shares on the date of payment. The amount included in income will become the participant's basis in the shares. If the participant is an employee, then this income is subject to applicable tax withholding by his employer. Any profit or loss realized on the later

sale or exchange of the stock relative to the participant's basis in the shares will be capital gain or loss.

Assuming that a participant's compensation is otherwise reasonable and that the statutory limitations on compensation deductions (including the limitations under Internal Revenue Code Sections 162(m) and 280G) do not apply, we usually will be entitled to a business expense deduction when and for the amount which a participant recognizes ordinary compensation income in connection with an incentive award, as described above. We generally do not receive a deduction in connection with the exercise of an incentive stock option, unless the participant disposes of the stock purchased on exercise in violation of the holding period requirements.

The discussion above is subject to the general federal tax doctrines of constructive receipt and economic benefit and to the applicable provisions of Internal Revenue Code Section 409A. If at any time a participant is in constructive receipt of an incentive award or receives the economic benefit of the award, the participant may incur federal tax liabilities with respect to the award earlier than the times and in a character other than the characters described above.

In addition, if at any time the 2008 Plan, any incentive award under the 2008 Plan, or any arrangement required to be aggregated with the 2008 Plan or any incentive award under the 2008 Plan fails to comply with the applicable requirements of Internal Revenue Code Section 409A, all amounts (including earnings) deferred under the 2008 Plan or the award for the taxable year and all preceding taxable years by any participant with respect to whom the failure relates are includible in that participant's gross income for the taxable year, to the extent the amounts are not subject to a substantial risk of forfeiture and have not previously been included in the participant's gross income. These amounts are also subject to an additional income tax equal to twenty percent of the amount required to be included in gross income and to interest equal to the underpayment rate specified by the Internal Revenue Service plus one percentage point, imposed on the underpayments that would have occurred had the compensation been included in income for the taxable year when first deferred, or if later, when no longer subject to a substantial risk of forfeiture.

This summary of Federal income tax consequences associated with awards under the 2008 Plan does not purport to be complete. There may also be state, local, and foreign income or other taxes applicable to awards.

Effective Date and Termination

The 2008 Plan was adopted by the Board of Directors on June 17, 2008 and will become effective on the date shareholder approval is obtained. Unless sooner terminated by the Board of Directors, the 2008 Plan will terminate on June 18, 2018. No awards may be made under the 2008 Plan after its termination.

New Plan Benefits

The following table shows the number of performance share units that will be granted under the 2008 Plan as of the Effective Date (August 27, 2008), subject to the approval of the 2008 Plan by our shareholders.

2008 INCENTIVE COMPENSATION PLAN

| Name and Current Position | Number of Performance Share Units(1) | Dollar Value(2) |
|---|---|----------------------------|
| C. Larry Pope, President and CEO | 40,000 | \$ 950,000 |
| Robert W. Manly, IV, EVP and CFO | 15,000 | \$ 356,250 |
| George H. Richter, President and COO, Pork Group | 25,000 | \$ 593,750 |
| Joseph B. Sebring, President of John Morrell | 10,000 | \$ 237,500 |
| Joseph W. Luter, IV, EVP | 15,000 | \$ 356,250 |
| Carey J. Dubois, VP, Finance | -0- | -0- |
| Executive Group | 150,000 | \$ 3,562,500 |
| Non-Executive Director Group | -0- | -0- |
| Non-Executive Officer Employee Group | 10,000 | \$ 237,500 |

(1) These performance share units have a five-year term and each performance share unit represents and has a value equal to one share of our common stock. The performance share units vest in 20% increments once the volume-weighted average of the closing price of our common stock for 15 consecutive trading days equals or exceeds \$26, \$32, \$38, \$44 and \$50. In addition to these vesting requirements, a participant must generally be employed by us one year from the date of grant for the performance share units granted to such participant to vest. Payment of the vested performance share units shall be in our common stock.

(2) The dollar value of the performance share units will fluctuate based on the value of the underlying common stock. For purposes of this disclosure, we have calculated the dollar value by multiplying the closing price of our common stock on the date of grant (\$23.75) by the number of performance share units granted.

Recommendation

The Board of Directors unanimously recommends a vote FOR approval of the 2008 Plan.

EQUITY COMPENSATION PLAN INFORMATION

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The table below sets forth information with respect to securities issuable, or available for issuance, under our equity compensation plans as of April 27, 2008.

| Plan Category | Equity Compensation Plan Information | | |
|--|---|---|---|
| | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
| | (a) | (b) | |
| Equity compensation plans approved by security holders | 1,431,100 | \$ 26.00 | 2,684,500 |
| Equity compensation plans not approved by security holders | 0 | N/A | 0 |
| Total | 1,431,100 | \$ 26.00 | 2,684,500 |

PROPOSAL 3

**RATIFICATION OF
SELECTION OF INDEPENDENT AUDITORS**

The Audit Committee of the Board of Directors has selected Ernst & Young LLP to serve as the Company's independent auditors for the fiscal year ending May 3, 2009 and is submitting this matter to the shareholders for their ratification. Ernst & Young has served as the Company's independent auditors since May 3, 2002. One or more representatives of Ernst & Young will be present at the Annual Meeting of Shareholders to make a statement if they desire to do so and to be available to respond to appropriate questions that may be asked by shareholders.

In the event the proposal to ratify the selection of Ernst & Young is defeated, the adverse vote will be considered as a direction to the Board of Directors to select other independent auditors for the next fiscal year ending May 2, 2010. However, because of the expense and difficulty in changing independent auditors after the beginning of a year, the Board of Directors intends to allow the appointment for fiscal 2009 to stand unless the Board of Directors finds other reasons for making a change.

Pre-Approval Policy and Procedures

The services performed by Ernst & Young in fiscal 2008 were pre-approved in a manner consistent with the Audit Committee's pre-approval policy and procedures. The policy requires that all services to be performed by the independent auditors be pre-approved either on a case-by-case basis by the Audit Committee or its delegate or on a categorical basis based on the Audit Committee's prior approval of a specific category of service and the expected cost thereof. Any request for services involving less than \$100,000 may be approved by the Chairman of the Audit Committee if it is not practicable to obtain the approval of the full committee, provided that any such approval is presented to the full Audit Committee at its next scheduled meeting.

Audit and Other Fees

Audit Fees. The aggregate fees billed by Ernst & Young for audit services (audit of the Company's annual financial statements, audit of internal control over financial reporting, review of the Company's quarterly financial statements included in its Forms 10-Q, statutory audits of certain foreign subsidiaries, and assistance with and review of SEC filings, including consents and comment letters) for fiscal 2008 and fiscal 2007 were \$4,686,861 and \$3,883,200, respectively.

Audit-Related Fees. The aggregate fees billed by Ernst & Young in fiscal 2008 and fiscal 2007 for audit-related services not otherwise reported in the preceding paragraph (due diligence services and accounting education and training) were \$86,945 and \$268,800, respectively.

Tax Fees. The aggregate fees billed by Ernst & Young in fiscal 2008 and fiscal 2007 for tax return preparation and tax planning services were \$1,412,230 and \$1,067,200, respectively.

All Other Fees. There were no other fees billed by Ernst & Young in fiscal 2008 or fiscal 2007 for any other services. None of the services provided by Ernst & Young consisted of financial information systems design or implementation services.

Recommendation

Our Board of Directors recommends that you vote **FOR** the ratification of the selection of Ernst & Young LLP to serve as the Company's independent auditors for the fiscal year ending May 3, 2009.

ADDITIONAL INFORMATION

Shareholder Proposals for Inclusion in the Proxy Statement

Proposals of shareholders intended to be presented at our 2009 Annual Meeting must be received by Michael H. Cole, our Secretary, for inclusion in our proxy statement and form of proxy relating to that meeting by March 27, 2009 at the address listed below. Shareholders should refer to the Securities and Exchange Commission rules, which set standards for eligibility and specify the types of proposals that are not appropriate for inclusion in the proxy statement.

Other Shareholder Proposals

Our Bylaws prescribe the procedures that a shareholder must follow to nominate directors for election at an annual meeting or to bring other business before an annual meeting (other than matters that have been included in our proxy statement for such meeting). The Chairman of the meeting may refuse to acknowledge the nomination of any person as a director or any other proposal by a shareholder not made in compliance with these procedures. The following summary of these procedures is qualified by reference to our Bylaws, a copy of which may be obtained, without charge, upon written request to Michael H. Cole, Secretary, Smithfield Foods, Inc., 200 Commerce Street, Smithfield, Virginia, 23430.

A shareholder who desires to nominate a director for election at an annual meeting must give timely written notice of such intent to Michael H. Cole, our Secretary, by personal delivery or by registered or certified mail, postage prepaid, at the address shown above. To be timely, a shareholder's notice for nominations to be made at the 2009 Annual Meeting must be received (1) on or after May 1, 2009 and before June 1, 2009 if the annual meeting is to be held during the months of August and September, 2009 or (ii) not less than 50 days before the annual meeting in all other cases. The notice must contain the information specified in the Bylaws regarding the shareholder giving the notice and each person whom the shareholder wishes to nominate for election as a director. The notice must be accompanied by the written consent of each proposed nominee to serve as one of our directors, if elected.

A shareholder who desires to bring any other business before an annual meeting (other than business which the shareholder has sought to have included in our proxy statement for such meeting) must give timely written notice of such intent to Michael H. Cole, our Secretary, at the address shown above and be a shareholder of record both at the time such notice is given and on the record date of the meeting. To be timely, a shareholder's notice of such business to be brought before the 2009 Annual Meeting must be received: (i) on or after May 1, 2009 and before June 1, 2009 if the annual meeting is to be held during the months of August and September, 2009; or (ii) not less than 50 days before the annual meeting in all other cases. The notice must contain the information specified in the Bylaws regarding the shareholder giving the notice and the business proposed to be brought before the meeting.

With respect to shareholder proposals not included in our proxy statement for the 2009 Annual Meeting, the persons named in the Board's proxy for the 2009 Annual Meeting will be entitled to exercise the discretionary voting power conferred by such proxy under the circumstances specified in Rule 14a-4(c) under the Exchange Act.

COPIES OF OUR ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED APRIL 27, 2008, AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, CAN BE OBTAINED UPON WRITTEN REQUESTS TO THE COMPANY, 200 COMMERCE STREET, SMITHFIELD, VIRGINIA 23430, ATTENTION: MICHAEL H. COLE, SECRETARY.

BY ORDER OF THE BOARD OF DIRECTORS,

MICHAEL H. COLE
SECRETARY

July 25, 2008

EXHIBIT A

SMITHFIELD FOODS, INC.

2008 INCENTIVE COMPENSATION PLAN

1. Purpose. The purpose of this Smithfield Foods, Inc. 2008 Incentive Compensation Plan (the **Plan**) is to further the long-term stability and financial success of Smithfield Foods, Inc. and our related companies by attracting and retaining employees and other service providers through the use of cash and stock incentives. We believe that ownership of our common stock and the use of cash incentives will stimulate the efforts of those service providers upon whose judgment and interests we are and will be largely dependent for the successful conduct of our business. We also believe that these awards will strengthen the desire of our service providers to remain with us and will further identify their interests with those of our shareholders. We also intend to use the Plan to grant stock incentives to compensate non-employee members of our Board of Directors.

The Plan replaces and supersedes the Smithfield Foods, Inc. 1998 Stock Incentive Plan, effective as of July 1, 1998 (the **Prior Plan**) and the Smithfield Foods, Inc. 2005 Non-Employee Director Stock Incentive Plan (the **Director Plan**). Upon approval of the Plan by our shareholders, no additional awards shall be made under the Prior Plan or the Director Plan, although outstanding awards previously made under the Prior Plan or the Director Plan will continue to be governed by the terms and conditions of the Prior Plan or the Director Plan. Shares that are subject to outstanding awards under the Prior Plan (but not the Director Plan) that expire, are forfeited, or otherwise terminate unexercised may be subjected to new awards under the Plan as provided in Section 4.

2. Definitions. As used in the Plan, the following terms have the meanings indicated:

(a) **Act** means the Securities Exchange Act of 1934, as amended.

(b) **Affected Corporation** means, with respect to a Participant, (i) the corporation for whom the Participant is performing services at the time of a Qualifying Change in Control event, (ii) the corporation that is liable for the payment of the deferred compensation (or all corporations liable for the payment if more than one corporation is liable), within the meaning of Treasury Regulations section 1.409A-3(i)(5)(ii)(2) of the Treasury Regulations; or (iii) a corporation owning more than 50 percent of the total fair market value and total voting power of a corporation described in subsections (i) or (ii) above, or any corporation in a chain of corporations in which each corporation owns more than 50 percent of the total fair market value and total voting power of another corporation in the chain, ending in a corporation described in subsections (i) or (ii) above.

(c) **Applicable Withholding Taxes** means the aggregate amount of federal, state and local income and employment taxes that an Employer is required to withhold in connection with any Performance Grant or award of Performance Shares, any lapse of restrictions on Restricted Stock, any compensatory dividends paid on Restricted Stock, any vesting of Restricted Stock Units or Performance Share Units, or any exercise of a Nonstatutory Stock Option or Stock Appreciation Right.

(d) Award means any Incentive Award or Director Award.

(e) Board means the board of directors of the Company; provided that, for all purposes relating to Director Awards under the Plan, the Board shall refer solely to the non-employee members of the board of directors of the Company (or any committee appointed by the non-employee members of the board of directors of the Company and composed entirely thereof).

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(f) **Change of Control** means, unless otherwise provided in the Grant Agreement with respect to a particular Award, the occurrence of any of the following events:

(i) The acquisition, other than from the Company, by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Act) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Act) of 20% or more of either the then outstanding shares of Company Stock or the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors, but excluding for this purpose, any such acquisition by the Company or any of its subsidiaries, or any employee benefit plan (or related trust) of the Company or its subsidiaries, or any corporation with respect to which, following such acquisition, more than 50% of, respectively, the then outstanding shares of Company Stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by the individuals and entities who were the beneficial owners, respectively, of the Company Stock and voting securities of the Company immediately prior to such acquisition in substantially the same proportion as their ownership, immediately prior to such acquisition, of the then outstanding shares of Company Stock or the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors, as the case may be; or

(ii) Individuals who, as of the date hereof, constitute the Board (as of the date hereof the Incumbent Board) cease for any reason to constitute at least a majority of the Board, provided that any individual becoming a director subsequent to the date hereof whose election or nomination for election by the Company's stockholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Securities Exchange Act of 1934); or

(iii) Approval by the shareholders of the Company of a reorganization, merger or consolidation, in each case, with respect to which the individuals and entities who were the respective beneficial owners of the Company Stock and voting securities of the Company immediately prior to such reorganization, merger or consolidation do not, following such reorganization, merger or consolidation, beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of the common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such reorganization, merger or consolidation, or a complete liquidation or dissolution of the Company or of its sale or other disposition of all or substantially all of the assets of the Company.

(g) **Code** means the Internal Revenue Code of 1986, as amended.

(h) **Committee** means the Compensation Committee of the Board or a subcommittee of the Compensation Committee, consisting of not less than two directors of the Company, unless the Board shall appoint another committee (or subcommittee) to administer the Plan; provided that, if any member of the Compensation Committee does not qualify as (i) an outside director for purposes of Code section 162(m), (ii) a non-employee director for purposes of Rule 16b-3, and (iii) an independent director for purposes of the rules of the exchange on which the Company Stock is traded, the remaining members of the committee (but not less than two members) shall be constituted as a subcommittee to act as the Committee for purposes of the Plan.

(i) Company means Smithfield Foods, Inc., a Delaware corporation.

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(j) **Company Stock** means the common stock of the Company. In the event of a change in the capital structure of the Company (as provided in Section 16), the shares resulting from the change shall be deemed to be Company Stock within the meaning of the Plan. Shares of Company Stock may be issued under this Plan without cash consideration.

(k) **Consultant** means a Service Provider who is not an employee, officer or director of the Company.

(l) **Date of Grant** means (i) with respect to a Non-Option Award, the date on which the Committee (or, with respect to a Director Award, the Board) grants the award; (ii) with respect to a Nonstatutory Option or Stock Appreciation Right, the date on which the Committee (or, with respect to a Director Award, the Board) completes the corporate action necessary to create a legally binding right constituting the Nonstatutory Stock Option or Stock Appreciation Right; or (iii) with respect to an Incentive Stock Option, the date on which the Committee completes the corporate action constituting an offer of stock for sale to a Participant under the terms and conditions of the Incentive Stock Option. With respect to any Award, the Committee (and, with respect to any Director Award, the Board) may specify a future date on which the grant is to be granted or become effective.

(m) **Deferred Unit** means a vested right to receive Company Stock or cash granted under Section 12(c).

(n) **Director Award** means any Nonstatutory Option, Stock Appreciation Right, share of Restricted Stock, Vested Share, Restricted Stock Unit, Performance Share Unit or Deferred Unit awarded to an Non-Employee Director under the Plan.

(o) **Disability** means, as to an Incentive Stock Option, a Disability within the meaning of Code section 22(e)(3). As to all other Awards, Disability (or variations thereof) means, unless otherwise provided in the Grant Agreement with respect to the award, a Disability within the meaning of Code section 409A(a)(2)(C) and Treasury Regulations section 1.409A-3(i)(4) (or any successor provision). The Committee (or, with respect to a Director Award, the Board) shall determine whether a Disability exists and the determination shall be conclusive.

(p) **Effective Date** means the date on which the Plan is approved by shareholders of the Company.

(q) **Employee** means a Service Provider who is a common law-employee of a Service Recipient.

(r) **Employer** means, with respect to an Employee, the Service Recipient that employs the Employee.

(s) **Fair Market Value** means the closing price per share of Company Stock on the exchange on which the Company Stock has the highest trading volume on the Date of Grant or any other date for which the value of Company Stock must be determined under the Plan, or, if the determination date is not a trading day, on the most recent trading day immediately preceding the determination date.

(t) Grant Agreement means the written or electronic agreement between the Company and a Participant containing the terms and conditions with respect to an Award.

(u) Incentive Award means any Performance Grant, Performance Share, Option, Stock Appreciation Right, share of Restricted Stock, Restricted Stock Unit or Performance Share Unit awarded to a Service Provider under the Plan.

(v) Incentive Stock Option means an Option intended to meet the requirements of, and qualify for favorable federal income tax treatment under, Code section 422.

(w) Non-Employee Director means a member of the Board who is not an Employee and who meets any other qualifications that may be established by the Board to be treated as a Non-Employee Director under the Plan.

(x) Non-Option Award means an Award other than an Option or Stock Appreciation Right.

(y) Nonstatutory Stock Option means an Option that does not meet the requirements of Code section 422, or, even if meeting the requirements of Code section 422, is not intended to be an Incentive Stock Option and is so designated.

(z) Option means a right to purchase Company Stock granted under the Plan, at a price determined in accordance with the Plan granted under Section 10.

(aa) Participant means any Service Provider or Non-Employee Director who receives an Award under the Plan.

(bb) Performance Criteria means the performance of the Company, any Related Company, any subsidiary, division, or business unit thereof, or any individual using one or more of the following measures, either on an operating or GAAP basis where applicable, including or excluding nonrecurring or extraordinary items where applicable, and including measuring the performance of any of the following relative to a defined peer group of companies or an index: market value of the Company's Common Stock; pre-tax profits; unit production costs; asset growth; pre-tax earnings; debt to equity ratio; earnings per share; revenues; operating income; operating costs and efficiencies; operating cash flow; net income, before or after taxes; net income before income taxes, incentive payments and accounting for minority interest; return on total capital, equity, revenue or assets; market share; unit production and sales volume; earnings before interest, taxes, depreciation, rent and amortization expenses; earnings before interest, taxes, depreciation and amortization; earnings before interest and taxes; any of the prior measures or earnings before taxes and unusual or nonrecurring items as measured either against the annual budget or as a ratio to revenue or return on total capital; net earnings; profit margin; operating margin; operating income; net worth; cash flow; cash flow per share; total stockholder return; revenues; capital expenditures; improvements in capital structure; industry indices; expenses and expense ratio management; debt reduction; profitability of an identifiable business unit or product; or levels of expense, cost or liability by category, operating unit or any other delineation.

(cc) Performance Goal means an objectively determinable performance goal established by the Committee that relates to one or more Performance Criteria.

(dd) Performance Grant means a right to receive cash or Company Stock subject to the attainment of Performance Goals as set forth under Section 6.

(ee) Performance Share means a right to receive a share of Company Stock subject to the satisfaction of performance conditions as set forth in Section 7.

(ff) Performance Share Unit means a right to receive Company Stock or cash awarded upon the terms and subject to grant and vesting conditions as set forth in Section 9.

(gg) Plan means this Smithfield Foods, Inc. 2008 Incentive Compensation Plan, as it may be amended from time to time.

(hh) Plan Year means the calendar year.

(ii) Qualifying Change of Control means the date on which the Affected Corporation experiences a change in ownership (as described in subsection (i)), a change in effective control (as described in subsection (ii)), or a change in the ownership of a substantial portion of its assets (as described in subsection (iii)):

(i) any person or more than one person acting as a group acquires beneficial ownership of Affected Corporation stock that, together with the Affected Corporation stock already held by such

person or group, represents more than 50 percent of the total fair market value or total voting power of the Affected Corporation stock; provided, however, that if any one person or more than one person acting as a group is considered to own more than 50 percent of the total fair market value or total voting power of the Affected Corporation stock, the acquisition of additional stock by the same person or persons is not considered to cause a change in the ownership of the Affected Corporation for purposes of this subsection (i) or to cause a change in effective control of the Affected Corporation for purposes of subsection (ii);

(ii)(1) any person or more than one person acting as a group acquires (or has acquired during the twelve-consecutive-month period ending on the date of the most recent acquisition by such person or persons) beneficial ownership of Affected Corporation stock possessing 30 percent or more of the total voting power of the Affected Corporation stock; or (2) a majority of members of the Board is replaced during a twelve-consecutive-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board before the date of the appointment or election; provided, however, that if any one person or more than one person acting as a group is considered to effectively control the Affected Corporation for purposes of this subsection (ii), the acquisition of additional control of the corporation by the same person or persons is not considered to cause a change in the effective control for purposes of this subsection (ii) or to cause a change in ownership of the Affected Corporation for purposes of subsection (i); or

(iii) any person or more than one person acting as a group acquires (or has acquired during the twelve-consecutive-month period ending on the date of the most recent acquisition by such person or group) assets from the Affected Corporation having a total gross fair market value equal to 40 percent or more of the total gross fair market value of all of the assets of the Affected Corporation immediately prior to such acquisition or acquisitions; provided that a transfer of assets by an Affected Corporation is not treated as a change in the ownership of such assets if the assets are transferred to (I) a shareholder of the Affected Corporation immediately before the asset transfer in exchange for or with respect to Affected Corporation stock; (II) an entity, 50 percent or more of the total fair market value or total voting power of which is owned, directly or indirectly, by the Affected Corporation; (III) a person or more than one person acting as a group that owns, directly or indirectly, 50 percent or more of the total fair market value or total voting power of all outstanding Affected Corporation stock; or (IV) an entity, at least 50 percent of the total fair market value or total voting power of which is owned, directly or indirectly, by a person described in (III) above. Except as otherwise provided in this subsection (iii), a person's status is determined immediately after the transfer of the assets. For purposes of this subsection (iii), gross fair market value means the value of the assets of the Affected Corporation, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

For purposes of this Section 2(hh), the term group shall have the meaning provided in Treasury Regulations sections 1.409A-3(i)(5)(v)(B), (vi)(D) or (vii)(C), as applicable. The term beneficial ownership shall have the meaning provided in Treasury Regulations section 1.409A-3(i)(5)(v)(iii). Notwithstanding anything in this Section 2(hh) to the contrary, an event which does not constitute a change in the ownership, a change in the effective control, or a change in the ownership of a substantial portion of the assets of the Affected Corporation, each as defined in Treasury Regulations section 1.409A-3(i)(5), shall not constitute a Qualifying Change of Control for purposes of this Plan.

(jj) Related Company means, (i) for all purposes relating to an Incentive Stock Option awarded or to be awarded under the Plan, any parent corporation with respect to the Company within the meaning of Code section 424(e) or any subsidiary corporation with respect to the Company within the meaning of

Code section 424(f); (ii) for purposes of determining eligibility to receive a Nonstatutory Stock Option or Stock Appreciation Right, any corporation or other entity in a chain of corporations or other entities in which each corporation or other entity has a controlling interest (within the meaning of Treasury Regulations section 1.409A-1(b)(5)(iii)(E)(1)) in another corporation or other entity in the chain, beginning with a corporation or other entity in which the Company has a controlling interest; (iii) for purposes of determining whether a Participant has experienced a separation from service as defined in Treasury Regulations section 1.409A-1(h), any corporation, trade or business that would be required to be treated as a single employer with the Participant's Service Recipient under Code sections 414(b) or (c), provided that, in applying Code sections 1563(a)(1), (2) and (3) for purposes of determining a controlled group of corporations, or in applying Treasury Regulations section 1.414(c)-2 for purposes of determining trades or businesses under common control, the phrase "at least 50%" shall replace the phrase "at least 80%" each time it appears in those sections; and (iv) for all other purposes under the Plan, each of the Company's subsidiaries or parents within the meaning of General Instruction A.1 to Form S-8 under the Securities Act of 1933, as amended.

(kk) Repricing means, with respect to an Option or Stock Appreciation Right, any of the following:

(i) the lowering of the exercise price after the Date of Grant; (ii) the taking of any other action that is treated as a repricing under generally accepted accounting principles; or (iii) the cancellation of the Option or Stock Appreciation Right at a time when its exercise price (or, with respect to the Stock Appreciation Right, the Fair Market Value of the Company Stock covered by the Stock Appreciation Right on the Date of Grant) exceeds the Fair Market Value of the underlying Company Stock in exchange for any other Award, unless the cancellation and exchange occurs in connection with a Corporate Event (as defined in Section 16(b) below).

(ll) Restricted Stock means Company Stock awarded upon the terms and subject to restrictions as set forth in Section 8.

(mm) Restricted Stock Unit means a right to receive Company Stock or cash awarded upon the terms and subject to vesting conditions as set forth in Section 9.

(nn) Retirement means, unless otherwise provided in the Grant Agreement for a particular Award, a Participant's termination of employment or other separation from service on or after age 65.

(oo) Rule 16b-3 means Rule 16b-3 of the Securities and Exchange Commission promulgated under the Act, as amended from time to time.

(pp) Service Provider means any employee, director or officer of the Company or a Related Company, or any advisor, consultant or other natural person providing bona fide services to the Company, excluding in each case any Non-Employee Director.

(qq) Service Recipient means the Company or the Related Company to which a Participant provides services.

(rr) Stock Appreciation Right means a right to receive Company Stock or cash granted under Section 11.

(ss) Tandem Right means a kind of Stock Appreciation Right granted in connection with a Nonstatutory Stock Option as described in Section 11.

(tt) Taxable Year means the fiscal period used by the Company for reporting taxes on its income under the Code.

(uu) **Ten Percent Shareholder** means a person who owns, directly or indirectly, stock possessing more than ten percent of the total combined voting power of all classes of stock of the Company or any Related Company. Indirect ownership of stock shall be determined in accordance with Code section 424(d).

(vv) **Treasury Regulations** means Title 26 of the United States Code of Federal Regulations, as amended from time to time.

(ww) **Vested Share** means a share of Company Stock awarded upon the terms set forth in Section 12(b).

3. General. The following types of Awards may be granted under the Plan: Performance Grants, Performance Shares, shares of Restricted Stock, Vested Shares, Restricted Stock Units, Performance Share Units, Deferred Units, Options, or Stock Appreciation Rights. Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options.

4. Stock.

(a) *Reserve.* Subject to Section 16 of the Plan, there shall be reserved for issuance under the Plan an aggregate of two million (2,000,000) shares of Company Stock, which shall be authorized but unissued shares plus any remaining shares authorized for issuance under the Smithfield Foods, Inc. 1998 Stock Incentive Plan, effective as of July 1, 1998 (the **Prior Plan**) as of the Effective Date. Any shares subject to an award under the Prior Plan outstanding as of the Effective Date that expire, are forfeited or otherwise terminate unexercised shall be added to the shares reserved for issuance under the Plan.

(b) *Share Use.* Shares allocable to Awards or portions thereof granted under the Plan or to incentive awards granted under the Prior Plan that expire, are forfeited, or that terminate unexercised may be subjected to a new Award under the Plan. Any shares of Company Stock tendered or exchanged by a Participant as full or partial payment to the Company of the exercise price under an Option and any shares retained or withheld by the Employer in satisfaction of an Employee's obligations to pay Applicable Withholding Taxes with respect to any Incentive Award shall not be available for issuance, subjected to new awards or otherwise used to increase the share reserve under the Plan. The cash proceeds from Option exercises shall not be used to repurchase shares on the open market for reuse under the Plan.

(c) *Prior Plans.* Upon approval of the Plan by shareholders, no additional grants of incentive awards shall be made under the Prior Plan or the Director Plan.

(d) *Plan Limits.* All of the shares of Company Stock that may be issued under this Plan may be issued upon the exercise of Options that qualify as Incentive Stock Options. No more than one million (1,000,000) shares of Company Stock may be issued under the Plan under Non-Option Awards, provided that any shares that are issuable under Non-Option Awards that expire, are forfeited, or terminate unexercised shall not count against this limit. No more than five hundred thousand (500,000) shares may be allocated to Awards, including the maximum amounts payable under a Performance Grant, that are

granted to any individual Participant during any single Taxable Year. The amount payable under a Performance Grant to any Participant for a Taxable Year may not exceed the greater of two million dollars or three percent of the Company's net income before income taxes, incentive payments and accounting for minority interests for the year for which the Performance Grant is made.

5. Eligibility.

(a) *Incentive Awards.* All present and future Service Providers of the Company or any Related Company (whether now existing or hereafter created or acquired) who have contributed or who can be

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expected to contribute significantly to the Company or a Related Company shall be eligible to receive Incentive Awards under the Plan. The Committee shall have the power and complete discretion, as provided in Section 17, to select eligible Service Providers to receive Incentive Awards and to determine for each Service Provider the nature of the award and the terms and conditions of each Incentive Award.

(b) *Director Awards.* All present and future Non-Employee Directors shall be eligible to receive Director Awards under the Plan. The Board shall have the power and complete discretion to select eligible Non-Employee Directors to receive Director Awards and to determine for each Non-Employee Director the nature of the award and the terms and conditions of each Director Award.

(c) *No Contract of Employment or Services.* The grant of an Award shall not obligate the Company or any Related Company to pay any Service Provider or Non-Employee Director any particular amount of remuneration, to continue the employment or services of the Service Provider or Non-Employee Director after the grant or to make further grants to the Service Provider or Non-Employee Director at any time thereafter.

(d) *Foreign Awards.* When granting Awards to Service Providers or Non-Employee Directors who are not United States residents, the Committee (or with respect to Director Awards, the Board) shall have complete discretion and authority to grant such Awards in compliance with all present and future laws of the country or countries with laws that may apply to the grant of the Award or the issuance of Company Stock pursuant to the Award. Such authorization shall extend to and include establishing one or more separate sub-plans which include provisions not inconsistent with the Plan that comply with statutory or regulatory requirements imposed by the foreign country or countries in which the Participant resides.

6. Performance Grants.

(a) The Committee may make Performance Grants to eligible Service Providers. Each Performance Grant shall include the Performance Goals for the award, the Performance Criteria with respect to which such goals are to be measured, the target and maximum amounts payable under the award, the period over which the award is to be earned, and any other terms and conditions as are applicable to the Performance Grant. The terms of a Performance Grant may be set in an annual or long-term bonus plan or other similar document. In the event of any conflict between such document and the Plan, the terms of the Plan shall control. Performance Grants shall be granted and administered in such a way as to qualify as performance-based compensation for purposes of Code section 162(m).

(b) The Committee shall establish the Performance Goals for Performance Grants. The Committee shall determine the extent to which any Performance Criteria shall be used and weighted in determining Performance Grants. The Committee may vary the Performance Criteria, Performance Goals, and weightings from Participant to Participant, Performance Grant to Performance Grant and Plan Year to Plan Year. The Committee may increase, but not decrease, the minimum and target levels (but not increase the amount payable) with respect to any Performance Goal after the start of a Performance Period.

(c) The Committee shall establish for each Performance Grant the amount of cash or Company Stock payable at specified levels of performance, based on the Performance Goal or Goals with respect to each Performance Criterion. Any Performance Grant shall be made not later than the earlier of (i) 90 days after the start of the period for which the Performance Grant relates and (ii) the completion of 25% of such period. All determinations regarding the achievement of any Performance Goals will be made by the Committee. The Committee may not increase during a Plan Year the amount of cash or Company Stock that would otherwise be payable upon achievement of the Performance Goal or Goals but may reduce or eliminate the payments unless otherwise provided in a Performance Grant. The Committee may provide for

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a Performance Grant to be payable at the target level (or other level as determined by the Committee in its discretion) prior to the attainment of a Performance Goal or Goals solely upon the Participant's death, Disability, or the occurrence of a Change of Control or Qualifying Change of Control.

(d) The actual payments to a Participant under a Performance Grant will be calculated by measuring the achievement of the Performance Goals with respect to the Performance Criteria as established in the Performance Grant. All calculations of actual payments shall be made by the Committee and the Committee shall certify in minutes of a meeting or other writing the extent, if any, to which the Performance Goals have been met.

(e) Performance Grants may be paid in cash, Company Stock, or a fixed combination of Company Stock or cash as provided by the Committee at the time of grant, or the Committee may reserve the right to determine the manner of payment at the time the Performance Grant becomes payable. The Committee may provide in the Grant Agreement that the Participant may make an election to defer the payment under a Performance Grant subject to such terms as the Committee may determine in accordance with Code section 409A.

(f) A Participant who receives a Performance Grant payable in Company Stock shall have no rights as a shareholder until the Company Stock is issued pursuant to the terms of the Performance Grant and all requirements with respect to the issuance of such shares have been satisfied.

(g) A Participant's interest in a Performance Grant may not be sold, assigned, transferred, pledged, hypothecated, or otherwise encumbered.

(h) Whenever payments under a Performance Grant are to be made in cash to a Participant who is an Employee, his Employer will withhold therefrom an amount sufficient to satisfy any Applicable Withholding Taxes. Each Participant who is an Employee shall agree as a condition of receiving a Performance Grant payable in Company Stock to pay to his Employer, or make arrangements satisfactory to his Employer regarding the payment to his Employer of, Applicable Withholding Taxes. Until the amount has been paid or arrangements satisfactory to the Employer have been made, no stock certificate shall be issued to the Participant. Payment to the Employer in satisfaction of Applicable Withholding Taxes may be in cash. In addition, if the Committee allows or the Grant Agreement so provides, (A) payment to the Employer in satisfaction of Applicable Withholding Taxes may be made in shares of Company Stock (valued at their Fair Market Value as of the date of payment) to which the Participant has good title, free and clear of all liens and encumbrances; (B) the Participant may elect to have his Employer retain that number of shares of Company Stock (valued at their Fair Market Value as of the date of such retention) that would satisfy all or a specified portion of the Applicable Withholding Taxes; or (C) unless prohibited by law, the Participant may deliver irrevocable instructions to a broker to deliver promptly to the Employer, from the sale or loan proceeds with respect to the sale of Company Stock or a loan secured by Company Stock, the amount necessary to pay the Applicable Withholding Taxes.

7. Performance Shares.

(a) The Committee may grant Performance Shares to eligible Service Providers. Whenever the Committee grants Performance Shares, notice shall be given to the Service Provider stating the number of Performance Shares granted and the terms and conditions to which the grant of Performance Shares is subject. This notice shall become the Grant Agreement between the Company and the Service Provider and, at that time, the Service Provider shall become a Participant. Performance Shares may or may not be intended to qualify as performance-based compensation for purposes of Code section 162(m). If intended to so qualify, the award shall be governed by the provisions of Section 6(b)-(d).

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(b) The Committee shall establish the performance goals to which each award of Performance Shares shall be subject. The performance goals need not be objective and may be based on any performance conditions selected by the Committee in its discretion. The performance period with respect to an award may be any length of time and the performance goals with respect to such award may be established at any time after the start of such period in the Committee's discretion. The Committee may vary the performance and other terms and conditions from Participant to Participant, grant to grant and Plan Year to Plan Year. The Committee may increase or decrease the minimum, target or maximum levels with respect to any performance goal after the start of a performance period in its discretion.

(c) The Committee shall establish for each award the number of shares of Company Stock payable at specified levels of performance. All determinations regarding the achievement of any performance goals will be made by the Committee. The actual number of shares to be paid to a Participant under an award will be calculated by measuring the achievement of the performance goal(s) with respect to the performance criteria as established by the Committee. All calculations of actual payments shall be made by the Committee whose decision shall be final and binding on all parties.

(d) The Committee may reserve the right in a Grant Agreement to settle all or portion of an award of Performance Shares in cash instead of shares of Company Stock, with the cash portion to be determined based on the Fair Market Value as of the date of payment of the shares of Company Stock otherwise payable under the award, or to allow the Participant to defer payment under the award, subject to such terms as the Committee may determine in accordance with Code section 409A.

(e) A Participant shall have no rights as a shareholder until shares of Company Stock are issued under the award and all requirements with respect to the issuance of such shares have been satisfied.

(f) A Participant's interest in an award of Performance Shares may not be sold, assigned, transferred, pledged, hypothecated, or otherwise encumbered.

(g) Each Participant who is an Employee shall agree at the time of receiving an award of Performance Shares, and as a condition thereof, to pay to the Employer, or make arrangements satisfactory to the Employer regarding the payment to the Employer of, Applicable Withholding Taxes. Until the amount has been paid or arrangements satisfactory to the Employer have been made, no stock certificate shall be issued to the Participant. Payment to the Employer in satisfaction of Applicable Withholding Taxes may be in cash. In addition, if the Committee allows or the Grant Agreement so provides, (A) payment to the Employer in satisfaction of Applicable Withholding Taxes may be made in shares of Company Stock (valued at their Fair Market Value as of the date of payment) to which the Participant has good title, free and clear of all liens and encumbrances; (B) the Participant may elect to have his Employer retain that number of shares of Company Stock (valued at their Fair Market Value as of the date of such retention) that would satisfy all or a specified portion of the Applicable Withholding Taxes; or (C) unless prohibited by law, the Participant may deliver irrevocable instructions to a broker to deliver promptly to the Employer, from the sale or loan proceeds with respect to the sale of Company Stock or a loan secured by Company Stock, the amount necessary to pay the Applicable Withholding Taxes.

8. Restricted Stock Awards.

(a) The Committee may grant Restricted Stock to eligible Service Providers. Whenever the Committee deems it appropriate to grant Restricted Stock, notice shall be given to the Service Provider stating the number of shares of Restricted Stock granted and the terms and conditions to which the Restricted Stock is subject. This notice shall become the Grant Agreement between the Company and the Service Provider and, at that time, the Service Provider shall become a Participant.

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(b) The Committee shall establish as to each award of Restricted Stock the terms and conditions upon which the restrictions set forth in paragraph (c) below shall lapse. The terms and conditions may include the continued performance of services or the achievement of performance conditions measured on an individual, corporate, or other basis, or any combination thereof. Restrictions conditioned on employment and the passage of time shall not expire less than three years from the Date of Grant of the Restricted Stock. Restrictions conditioned on the achievement of Performance Goals or other performance conditions shall not expire less than one year from the Date of Grant. Notwithstanding the foregoing, the Committee may, in its discretion and without limitation, provide in the Grant Agreement that restrictions will expire as a result of the Disability, death, Retirement or involuntary termination of the Participant or the occurrence of a Change of Control or Qualifying Change of Control. If the award is intended to qualify as performance-based compensation for purposes of Code section 162(m), the award shall be governed by the provisions of Section 6(b)-(d).

(c) No shares of Restricted Stock may be sold, assigned, transferred, pledged, hypothecated, or otherwise encumbered or disposed of until the restrictions on the shares established by the Committee have lapsed or been removed.

(d) Upon the acceptance by a Participant of an award of Restricted Stock, the Participant shall, subject to the restrictions set forth in paragraph (c) above, have all the rights of a shareholder with respect to the shares of Restricted Stock, including, but not limited to, the right to vote the shares of Restricted Stock and the right to receive all dividends and other distributions paid thereon. Unless otherwise provided in the Grant Agreement, (i) dividends or other distributions paid in shares of Company Stock shall be subject to the same restrictions set forth in paragraph (c) as the shares of Restricted Stock with respect to which the dividends or other distributions are paid and (ii) dividends or other distributions paid in cash shall be paid at the same time and under the same conditions as such dividends or other distributions are paid to the shareholders of record of Company Stock. Certificates representing Restricted Stock shall be held by the Company until the restrictions lapse and upon request, the Participant shall provide the Company with appropriate stock powers endorsed in blank.

(e) Each Participant who is an Employee shall agree at the time his or her Restricted Stock is granted, and as a condition thereof, to pay to his Employer, or make arrangements satisfactory to his Employer regarding the payment to his Employer of, Applicable Withholding Taxes. Until the amount has been paid or arrangements satisfactory to the Employer have been made, no stock certificate shall be issued to the Participant. Payment to the Employer in satisfaction of Applicable Withholding Taxes may be in cash. In addition, if the Committee allows or the Grant Agreement so provides, (A) payment to the Employer in satisfaction of Applicable Withholding Taxes may be made in shares of Company Stock (valued at their Fair Market Value as of the date of payment) to which the Participant has good title, free and clear of all liens and encumbrances; (B) the Participant may elect to have his Employer retain that number of shares of Company Stock (valued at their Fair Market Value as of the date of such retention) that would satisfy all or a specified portion of the Applicable Withholding Taxes; or (C) unless prohibited by law, the Participant may deliver irrevocable instructions to a broker to deliver promptly to the Employer, from the sale or loan proceeds with respect to the sale of Company Stock or a loan secured by Company Stock, the amount necessary to pay the Applicable Withholding Taxes.

9. Performance Share Units and Restricted Stock Units.

(a) The Committee may grant Performance Share Units and Restricted Stock Units to eligible Service Providers. Whenever the Committee deems it appropriate to grant Performance Share Units or Restricted Stock Units, notice shall be given to the Service Provider stating the number of Performance Share Units

or

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Restricted Stock Units granted and the terms and conditions to which the Performance Share Units or Restricted Stock Units are subject. This notice shall become the Grant Agreement between the Company and the Service Provider and, at that time, the Service Provider shall become a Participant.

(b) The Committee shall establish as to each award of Performance Share Units the terms and conditions upon which the Performance Share Units shall be earned, vest and be paid. The issuance and vesting of Performance Share Units may be conditioned on the achievement of performance conditions measured on an individual, corporate, or other basis, or any combination thereof and on the continued performance of services. The Committee shall establish as to each award of Restricted Stock Units the terms and conditions upon which the Restricted Stock Units shall vest and be paid. Vesting may be conditioned on the continued performance of services or the achievement of performance conditions measured on an individual, corporate, or other basis, or any combination thereof. A Restricted Stock Unit the vesting of which is conditioned on employment and the passage of time shall not vest less than three years from the Date of Grant of the Restricted Stock Unit. A Performance Share Unit or Restricted Stock Unit the vesting of which is conditioned on the achievement of Performance Goals or other performance conditions shall not vest less than one year from the Date of Grant. Notwithstanding the foregoing; the Committee may, in its discretion and without limitation, provide in the Grant Agreement that restrictions will expire as a result of one or more of the Disability, death, Retirement or involuntary termination of the Participant or the occurrence of a Change of Control or Qualifying Change of Control. If the award is intended to qualify as performance-based compensation for purposes of Code section 162(m), the award shall be governed by the provisions of Section 6(b)-(d).

(c) Performance Share Units and Restricted Stock Units may be paid in cash, Company Stock, or a fixed combination of Company Stock or cash as provided in the Grant Agreement, or the Committee may reserve the right to determine the manner of payment at the time the Performance Share Units or Restricted Stock Units become payable. The delivery of Company Stock in payment of Performance Share Units or Restricted Stock Units may be subject to additional conditions established in the Grant Agreement.

(d) A Participant who receives Performance Share Units or Restricted Stock Units payable in Company Stock shall have no rights as a shareholder until the Company Stock is issued pursuant to the terms of the Grant Agreement and all requirements with respect to the issuance of such shares have been satisfied. The Committee may, in its discretion, provide that a Participant shall be entitled to receive dividend equivalents on outstanding Performance Share Units or Restricted Stock Units. Dividend equivalents may be (i) paid in cash, (ii) credited to the Participant as additional Performance Share Units or Restricted Stock Units, or (iii) a fixed combination of cash and additional Performance Share Units or Restricted Stock Units as provided in the Grant Agreement, or the Committee may reserve the right to determine the manner of payment at the time dividends are paid to shareholders of record. Unless otherwise provided in the Grant Agreement, (i) dividend equivalents with respect to dividends or other distributions that are paid in shares of Company Stock shall be credited to the Participant as additional Restricted Stock Units subject to the same restrictions as the Restricted Stock Units with respect to which the dividend equivalents are paid, (ii) dividend equivalents with respect to dividends or other distributions that are paid in cash shall be paid at the same time and under the same conditions as such dividends or other distributions are paid to the shareholders of record of Company Stock, and (iii) the same provisions will apply to outstanding Performance Share Units following the end of the performance period.

(e) A Participant's interest in Performance Share Units or Restricted Stock Units may not be sold, assigned, transferred, pledged, hypothecated, or otherwise encumbered.

(f) Whenever payments under Performance Share Units or Restricted Stock Units are to be made in cash to a Participant who is an Employee, his Employer will withhold therefrom an amount sufficient to

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satisfy any Applicable Withholding Taxes. Each Participant who is an Employee shall agree as a condition of receiving Performance Share Units or Restricted Stock Units payable in the form of Company Stock to pay to his Employer, or make arrangements satisfactory to his Employer regarding the payment to his Employer of, Applicable Withholding Taxes. Until the amount has been paid or arrangements satisfactory to the Employer have been made, no stock certificate shall be issued to the Participant. Payment to the Employer in satisfaction of Applicable Withholding Taxes may be in cash. In addition, if the Committee allows or the Grant Agreement so provides, (A) payment to the Employer in satisfaction of Applicable Withholding Taxes may be made in shares of Company Stock (valued at their Fair Market Value as of the date of payment) to which the Participant has good title, free and clear of all liens and encumbrances; (B) the Participant may elect to have his Employer retain that number of shares of Company Stock (valued at their Fair Market Value as of the date of such retention) that would satisfy all or a specified portion of the Applicable Withholding Taxes; or (C) unless prohibited by law, the Participant may deliver irrevocable instructions to a broker to deliver promptly to the Employer, from the sale or loan proceeds with respect to the sale of Company Stock or a loan secured by Company Stock, the amount necessary to pay the Applicable Withholding Taxes.

10. Stock Options.

(a) The Committee may grant Options to eligible Service Providers. Whenever the Committee grants Options, notice shall be given to the Service Provider stating the number of shares for which Options are granted, the Option exercise price per share, whether the Options are Incentive Stock Options or Nonstatutory Stock Options, the extent, if any, to which associated Stock Appreciation Rights are granted, and the conditions to which the grant and exercise of the Options are subject. This notice shall become the Grant Agreement between the Company and the Service Provider and, at that time, the Service Provider shall become a Participant.

(b) The exercise price of shares of Company Stock covered by an Option shall not be, and shall never become, less than 100 percent of the Fair Market Value of the shares on the Date of Grant, except as may be provided in Section 16. If the Participant is a Ten Percent Shareholder and the Option is intended to qualify as an Incentive Stock Option, the exercise price shall be not less than 110 percent of the Fair Market Value of such shares on the Date of Grant.

(c) Options may be exercised in whole or in part at the times as may be specified by the Committee in the Participant's Grant Agreement; provided that no Option may be exercised after the expiration of ten (10) years from the Date of Grant. If the Participant is a Ten Percent Shareholder and the Option is intended to qualify as an Incentive Stock Option, the Option may not be exercised after the expiration of five (5) years from the Date of Grant.

(d) Options shall not be transferable except to the extent specifically provided in the Grant Agreement in accordance with applicable securities laws. Incentive Stock Options, by their terms, shall not be transferable except by will or the laws of descent and distribution and shall be exercisable, during the Participant's lifetime, only by the Participant.

(e) Options that are intended to qualify as Incentive Stock Options shall be granted only to Employees.

(f) Options that are intended to qualify as Incentive Stock Options shall, by their terms, not be exercisable after the first to occur of (x) ten years from the Date of Grant (five years if the Participant to whom the Option has been granted is a Ten Percent Shareholder), (y) three months following the date of the Participant's termination of employment with the Company and all Related Companies for reasons other than Disability or death, or (z) one year following the date of the Participant's termination of employment on account of Disability or death.

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(g) Options that are intended to qualify as Incentive Stock Options shall, by their terms, be exercisable in any calendar year only to the extent that the aggregate Fair Market Value (determined as of the Date of Grant) of the Company Stock with respect to which Incentive Stock Options are exercisable for the first time during the Plan Year does not exceed \$100,000 (the Limitation Amount). Incentive Stock Options granted under the Plan and all other plans of the Company and all Related Companies shall be aggregated for purposes of determining whether the Limitation Amount has been exceeded. The Committee may impose any conditions as it deems appropriate on an Incentive Stock Option to ensure that the foregoing requirement is met. If Incentive Stock Options that first become exercisable in a Plan Year exceed the Limitation Amount, the excess Options shall be treated as Nonstatutory Stock Options to the extent permitted by law.

(h) A Participant who purchases shares of Company Stock under an Option shall have no rights as a shareholder until the Company Stock is issued pursuant to the terms of the Grant Agreement and all requirements with respect to the issuance of such shares have been satisfied.

(i) Options may be exercised by the Participant giving notice of the exercise to the Company, stating the number of shares the Participant has elected to purchase under the Option. The notice shall be effective only if accompanied by the exercise price in full in cash; provided, however, that if the terms of an Option or the Committee in its discretion so permits, the Participant (i), unless prohibited by law, may deliver a properly executed exercise notice together with irrevocable instructions to a broker to deliver promptly to the Company, from the sale or loan proceeds with respect to the sale of Company Stock or a loan secured by Company Stock, the amount necessary to pay the exercise price and, if required by the terms of the Option or the Committee in its discretion, Applicable Withholding Taxes, (ii) may deliver shares of Company Stock for which the holder thereof has good title, free and clear of all liens and encumbrances (valued at their Fair Market Value on the date of exercise) in satisfaction of all or any part of the exercise price, or (iii) may cause to be withheld from the Option shares, shares of Company Stock (valued at their Fair Market Value on the date of exercise) in satisfaction of all or any part of the exercise price; or (iv) may use any other methods of payment as the Committee, at its discretion, deems appropriate. Until the Participant has paid the exercise price and any Applicable Withholding Taxes, no stock certificate shall be issued.

(j) Each Participant who is an Employee shall agree as a condition of the exercise of an Option to pay to his Employer, or make arrangements satisfactory to his Employer regarding the payment to his Employer of, Applicable Withholding Taxes. Until the amount has been paid or arrangements satisfactory to the Employer have been made, no stock certificate shall be issued upon the exercise of an Option. Payment to the Employer in satisfaction of Applicable Withholding Taxes may be in cash. In addition, if the Committee allows or the Grant Agreement so provides, (A) payment to the Employer in satisfaction of Applicable Withholding Taxes may be made in shares of Company Stock (valued at their Fair Market Value as of the date of payment) to which the Participant has good title, free and clear of all liens and encumbrances; (B) the Participant may elect to have his Employer retain that number of shares of Company Stock (valued at their Fair Market Value as of the date of such retention) that would satisfy all or a specified portion of the Applicable Withholding Taxes, or (C) unless prohibited by law, the Participant may deliver irrevocable instructions to a broker to deliver promptly to the Employer, from the sale or loan proceeds with respect to the sale of Company Stock or a loan secured by Company Stock, the amount necessary to pay the Applicable Withholding Taxes.

(k) Unless specifically provided in the discretion of the Committee in a writing that references and supersedes this Section 10(k), (i) no Modification shall be made in respect to any Option if such Modification would result in the Option constituting a deferral of compensation, and (ii) no Extension shall be made in respect to any Option if such Extension would result in the Option having an additional deferral

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feature from the Date of Grant, in each case within the meaning of applicable Treasury Regulations under Code section 409A. Subject to the remaining part of this subsection (k), (i) a Modification means any change in the terms of the Option (or change in the terms of the Plan or applicable Grant Agreement) that may provide the holder of the Option with a direct or indirect reduction in the exercise price of the Option, regardless of whether the holder in fact benefits from the change in terms; and (ii) an Extension means either (A) the provision to the holder of an additional period of time within which to exercise the Option beyond the time originally prescribed, (B) the conversion or exchange of the Option for a legally binding right to compensation in a future taxable year, (C) the addition of any feature for the deferral of compensation to the terms of the Option, or (D) any renewal of the Option that has the effect of (A) through (C) above. Notwithstanding the preceding sentence, it shall not be a Modification or an Extension, respectively, to change the terms of an Option in accordance with Section 16 of the Plan, or in any of the other ways or for any of the other purposes provided in applicable Treasury Regulations or other generally applicable guidance under Code section 409A as not resulting in a Modification or Extension for purposes of that section. In particular, it shall not be an Extension to extend the exercise period of an Option to a date no later than the earlier of (i) the latest date upon which the Option could have expired by its original terms under any circumstances or (ii) the tenth anniversary of the original Date of Grant.

11. Stock Appreciation Rights.

(a) The Committee may grant Stock Appreciation Rights to eligible Service Providers. Whenever the Committee grants Stock Appreciation Rights, notice shall be given to the Service Provider stating the number of shares with respect to which Stock Appreciation Rights are granted, the extent, if any, to which the Stock Appreciation Rights are granted in connection with all or any part of a Nonstatutory Stock Option (Tandem Rights), and the conditions to which the grant and exercise of the Stock Appreciation Rights are subject. This notice shall become the Grant Agreement between the Company and the Service Provider and, at that time, the Service Provider shall become a Participant.

(b) Stock Appreciation Rights (other than Tandem Rights) shall entitle the Participant, upon exercise of all or any part of the Stock Appreciation Rights, to receive in exchange from the Company an amount equal to the excess of (x) the Fair Market Value on the date of exercise of the Company Stock covered by the surrendered Stock Appreciation Right over (y) the Fair Market Value of the Company Stock on the Date of Grant of the Stock Appreciation Right.

(c) Tandem Rights shall entitle the Participant, upon exercise of all or any part of the Tandem Rights, to surrender to the Company unexercised that portion of the underlying Nonstatutory Stock Option relating to the same number of shares of Company Stock as is covered by the Tandem Right (or the portion of the Tandem Right so exercised) and to receive in exchange from the Company an amount equal to the excess of (x) the Fair Market Value on the date of exercise of the Company Stock covered by the surrendered portion of the underlying Nonstatutory Stock Option over (y) the exercise price of the Company Stock covered by the surrendered portion of the underlying Nonstatutory Stock Option.

(d) Upon the exercise of a Tandem Right and surrender of the related portion of the underlying Nonstatutory Stock Option, the Nonstatutory Stock Option, to the extent surrendered, shall not thereafter be exercisable.

(e) Subject to any further conditions upon exercise imposed by the Committee, a Tandem Right shall be granted on the same Date of Grant as the related Nonstatutory Stock Option, be transferable only to the extent that the related Nonstatutory Stock Option is transferable, be exercisable only to the extent that the related Nonstatutory Stock Option is exercisable and shall expire no later than the date on which the related Nonstatutory Stock Option expires.

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(f) The Committee may limit the amount that the Participant will be entitled to receive upon exercise of Stock Appreciation Rights.

(g) Stock Appreciation Rights shall not be transferable except to the extent specifically provided in the Grant Agreement and in accordance with applicable securities laws.

(h) Stock Appreciation Rights may be exercised in whole or in part at the times as may be specified by the Committee in the Participant's Grant Agreement; provided that no Stock Appreciation Right may be exercised after the expiration of ten (10) years from the Date of Grant.

(i) A Stock Appreciation Right may only be exercised at a time when the Fair Market Value of the Company Stock covered by the Stock Appreciation Right exceeds the Fair Market Value of the Company Stock on the Date of Grant of the Stock Appreciation Right (or, in the case of a Tandem Right, only to the extent it exceeds the exercise price of the Company Stock covered by the underlying Nonstatutory Stock Option).

(j) The manner in which the Company's obligation arising upon the exercise of a Stock Appreciation Right shall be paid shall be determined by the Committee and shall be set forth in the Grant Agreement. The Grant Agreement may provide for payment in Company Stock or cash, or a fixed combination of Company Stock or cash, or the Committee may reserve the right to determine the manner of payment at the time the Stock Appreciation Right is exercised. Shares of Company Stock issued upon the exercise of a Stock Appreciation Right shall be valued at their Fair Market Value on the date of exercise.

(k) A Participant who acquires shares of Company Stock upon exercise of a Stock Appreciation Right shall have no rights as a shareholder until the Company Stock is issued pursuant to the terms of the Grant Agreement and all requirements with respect to the issuance of such shares have been satisfied.

(l) Stock Appreciation Rights may be exercised by the Participant giving notice of the exercise to the Company, stating the number of Stock Appreciation Rights the Participant has elected to exercise.

(m) Whenever payments upon exercise of Stock Appreciation Rights are to be made in cash to a Participant who is an Employee, the Employer will withhold therefrom an amount sufficient to satisfy any Applicable Withholding Taxes. Each Participant who is an Employee shall agree as a condition of receiving Stock Appreciation Rights payable in the form of Company Stock to pay to his Employer, or make arrangements satisfactory to his Employer regarding the payment to his Employer of, Applicable Withholding Taxes. Until the amount has been paid or arrangements satisfactory to the Employer have been made, no stock certificate shall be issued to the Participant. Payment to the Employer in satisfaction of Applicable Withholding Taxes may be in cash. In addition, if the Committee allows or the Grant Agreement so provides, (A) payment to the Employer in satisfaction of Applicable Withholding Taxes may be made in shares of Company Stock (valued at their Fair Market Value as of the date of payment) to which the Participant has good title, free and clear of all liens and encumbrances; (B) the Participant may elect to have his Employer retain that number of shares of Company Stock (valued at their Fair Market Value as of the date of such retention) that would satisfy all or a specified portion of the Applicable Withholding Taxes; or (C) unless prohibited by law, the Participant may deliver irrevocable

instructions to a broker to deliver promptly to the Employer, from the sale or loan proceeds with respect to the sale of Company Stock or a loan secured by Company Stock, the amount necessary to pay the Applicable Withholding Taxes.

(n) Unless specifically provided in the discretion of the Committee in a writing that references and supersedes this Section 11(n), (i) no Modification shall be made in respect to any Stock Appreciation Right if such Modification would result in the Stock Appreciation Right constituting a deferral of compensation, and (ii) no Extension shall be made in respect to any Stock Appreciation Right if such Extension would

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result in the Stock Appreciation Right having an additional deferral feature from the Date of Grant, in each case within the meaning of applicable Treasury Regulations under Code section 409A. Subject to the remaining part of this subsection (n), (i) a **Modification** means any change in the terms of the Stock Appreciation Right (or change in the terms of the Plan or applicable Grant Agreement) that may provide the holder of the Stock Appreciation Right with a direct or indirect reduction in the exercise price of the Stock Appreciation Right, regardless of whether the holder in fact benefits from the change in terms; and (ii) an **Extension** means either (A) the provision to the holder of an additional period of time within which to exercise the Stock Appreciation Right beyond the time originally prescribed, (B) the conversion or exchange of the Stock Appreciation Right for a legally binding right to compensation in a future taxable year, (C) the addition of any feature for the deferral of compensation to the terms of the Stock Appreciation Right, or (D) any renewal of the Stock Appreciation Right that has the effect of (A) through (C) above. Notwithstanding the preceding sentence, it shall not be a Modification or an Extension, respectively, to change the terms of a Stock Appreciation Right in accordance with Section 16 of the Plan, or in any of the other ways or for any of the other purposes provided in applicable Treasury Regulations or other generally applicable guidance under Code section 409A as not resulting in a Modification or Extension for purposes of that section. In particular, it shall not be an Extension to extend the exercise period of a Stock Appreciation Right to a date no later than the earlier of (i) the latest date upon which the Stock Appreciation Right could have expired by its original terms under any circumstances or (ii) the tenth anniversary of the original Date of Grant.

12. Director and Consultant Awards.

(a) *General.* The Board may grant Director Awards to Non-Employee Directors in the form of shares of Restricted Stock, Restricted Stock Units, Performance Share Units, Nonstatutory Options, or Stock Appreciation Rights as provided in Sections 8 through 11 above, or in the form of Vested Shares or Deferred Units as provided in subsections (b) and (c) below. The Board may also grant to Consultants awards in the same forms as Director Awards. Whenever the Board grants shares of Restricted Stock, Restricted Stock Units, Performance Share Units, Nonstatutory Options, or Stock Appreciation Rights to an Non-Employee Director, notice shall be given to the Non-Employee Director stating the type of award being made, the number of shares with respect to which the award is granted and the terms and conditions to which the award and (where applicable) the exercise of the award is subject. This notice shall become the Grant Agreement between the Company and the Non-Employee Director and, at that time, the Non-Employee Director shall become a Participant. Restricted Stock, Restricted Stock Units, Performance Share Units, Nonstatutory Options, or Stock Appreciation Rights granted to Non-Employee Directors shall otherwise be subject to the terms of the Plan applicable to each type of award as set forth in Sections 8 through 11 above; provided, however, that, notwithstanding anything in Sections 8(b) or 9(b) to the contrary, any service or performance period with respect to Restricted Stock, Restricted Stock Units or Performance Share Units granted to Non-Employee Directors or Consultants shall not be less than six consecutive months in length; and provided further, that where context reasonably requires, references throughout Sections 8 through 11 above to the **Committee** shall be read instead as references to the Board wherever the award is to be granted to an Non-Employee Director. The Board shall have all the same rights and powers with respect to the administration of Director Awards as the Committee has with respect to Incentive Awards as provided in Section 17 below (provided that the Board may not delegate its authority with respect to the granting of Director Awards pursuant to Section 17(c)(viii)), and the Board shall be subject to the same limitations with respect to the modification and Repricing of outstanding Director Awards as provided therein.

(b) *Vested Shares.* The Board may grant Vested Shares to Non-Employee Directors or Consultants. Vested Shares shall be immediately transferable (subject to compliance with any applicable securities laws) and the Participant receiving an award of Vested Shares shall have all the rights of a shareholder with respect to such shares as of the Date of Grant.

(c) *Deferred Units.*

(i) The Board may grant Deferred Units to Non-Employee Directors or Consultants. The terms relating to an award of Deferred Units may be set forth in an individual grant agreement between the Company and the Non-Employee Director or Consultant or in a deferred compensation plan or other similar document for Non-Employee Directors or Consultants as a group. In the event of any conflict between such document and the Plan, the terms of the Plan shall control.

(ii) The Board shall establish, or establish procedures for a Participant to elect, as to each Deferred Unit the fixed time(s), schedule or event(s) and the other terms and conditions upon which the Deferred Unit shall be paid in accordance with Code section 409A. Deferred Units may be paid in cash, Company Stock, or a fixed combination of Company Stock or cash as provided by the Board, or the Board may reserve the right to determine the manner of payment at the time the Deferred Unit become payable. The delivery of Company Stock in payment of Deferred Units may be subject to additional conditions established by the Board.

(iii) A Participant who receives Deferred Units payable in Company Stock shall have no rights as a shareholder until the Company Stock is issued and all requirements with respect to the issuance of such shares have been satisfied.

(iv) The Board may, in its discretion, provide that a Participant shall be entitled to receive dividend equivalents on outstanding Deferred Units. Dividend equivalents may be (i) paid in cash, (ii) credited to the Participant as additional Deferred Units, or (iii) a fixed combination of cash and additional Deferred Units as provided by the Board at the time of grant, or the Board may reserve the right to determine the manner of payment at the time dividends are paid to shareholders of record. Unless otherwise provided by the Board, (i) dividend equivalents with respect to dividends or other distributions that are paid in shares of Company Stock shall be credited to the Participant as additional Deferred Units payable at the same time(s), schedule or event(s) as the Deferred Units with respect to which the dividend equivalents are paid and (ii) dividend equivalents with respect to dividends or other distributions that are paid in cash shall be paid at the same time and under the same conditions as such dividends or other distributions are paid to the shareholders of record of Company Stock.

(v) A Participant's interest in Deferred Units may not be sold, assigned, transferred, pledged, hypothecated, or otherwise encumbered.

(vi) Under procedures established by the Board, a Non-Employee Director may elect to defer the payment of cash retainer, meeting and other fees paid in connection with his or her service on the Board for any Plan Year that would otherwise be payable and receive in its place Deferred Units. The Board may establish any other conditions related to the Deferred Units necessary to comply with Code section

409A, including that existing deferral elections made under the Director Plan shall be assumed by this Plan.

13. Effective Date of the Plan. The Plan was approved by the Board on June 17, 2008 and shall become effective as of the date on which it is approved by the shareholders of the Company (the Effective Date). Until (i) the Plan has been approved by the Company's shareholders, and (ii) the requirements of any applicable

federal or state securities laws have been met, no shares of Company Stock issuable under Non-Option Awards shall be issued and no Options or Stock Appreciation Rights shall be exercisable that, in either case, are not contingent on the occurrence of both such events.

14. Continuing Securities Law Compliance. If at any time on or after the Effective Date, the requirements of any applicable federal or state securities laws should fail to be met, no shares of Company Stock issuable under Non-Option Awards shall be issued and no Options or Stock Appreciation Rights shall be exercisable until the Committee (or, with respect to a Director Award, the Board) has determined that these requirements have again been met. The Committee (or, with respect to a Director Award, the Board) may suspend the right to exercise an Option or Stock Appreciation Right at any time when it determines that allowing the exercise and issuance of Company Stock would violate any federal or state securities or other laws, and may provide that any time periods to exercise the Option or Stock Appreciation Right are extended during a period of suspension.

15. Termination, Modification, Change. If not sooner terminated by the Board, this Plan shall terminate at the close of business on the date that immediately follows the tenth anniversary of the date on which the Plan was approved by the Board. No new Awards shall be granted under the Plan after its termination. The Board may terminate the Plan at any time and may amend the Plan at any time in any respect as it shall deem advisable; provided that no change shall be made that increases the total number of shares of Company Stock reserved for issuance under the Plan (except pursuant to Section 16), materially modifies the requirements as to eligibility for participation in the Plan, or that would otherwise be considered a material revision or amendment under Code section 422 or the listing standards of the exchange on which the Company Stock is traded, unless the change is authorized by the shareholders of the Company. Notwithstanding the foregoing, the Board may unilaterally amend the Plan and outstanding Awards with respect to Participants as it deems appropriate to ensure compliance with Rule 16b-3 and other applicable federal or state securities laws and to meet the requirements of the Code and applicable regulations or other generally applicable guidance thereunder. Except as provided in the preceding sentence, a termination or amendment of the Plan shall not, without the consent of the Participant, adversely affect a Participant's rights under an Award previously granted to him or her.

16. Change in Capital Structure.

(a) The Committee (or, with respect to a Director Award, the Board) shall proportionately adjust the number and kind of shares of stock or securities of the Company to be subject to the Plan and to Awards then outstanding or to be granted thereunder, the maximum number of shares or securities which may be delivered under the Plan (including the maximum limit on Non-Option Awards or Incentive Stock Options under Section 4), the maximum number of shares or securities that can be granted to an individual Participant under Section 4, the exercise price of Options, the initial Fair Market Value of Company Stock under Stock Appreciation Rights, and other relevant terms of the Plan and any Awards whenever, in the event of a stock dividend, stock split or combination of shares, recapitalization or merger in which the Company is the surviving corporation, or other change in the Company's corporate structure or capital stock without the receipt of consideration by the Company (including, but not limited to, the creation or issuance to shareholders generally of rights, options or warrants for the purchase of common stock or preferred stock of the Company), it deems any such adjustment necessary or desirable to preserve the intended benefits of the Plan and any outstanding Awards for the Company and the Participants. The Committee's (or, with respect to a Director Award, the Board's) determination in this regard shall be binding on all persons. If the adjustment would produce fractional shares with respect to any unexercised Option or Stock Appreciation Right or fractional cents with respect to the exercise price thereof, the Committee (or, with respect to a Director Award, the Board) shall round down the number of shares covered by the Option or Stock Appreciation Right to the nearest whole share and round up the exercise price to the nearest whole cent.

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(b) In the event of a Change of Control as described in Sections 2(f)(i) or (iii) or a Qualifying Change of Control as described in Sections 2(hh)(i) or (iii), or if the Company is otherwise a party to a consolidation or a merger in which the Company is not the surviving corporation, a transaction that results in the acquisition of substantially all of the Company's outstanding stock by a single person or entity, or a sale or transfer of substantially all of the Company's assets occurs (in any such case, a "Corporate Event"), then the Committee (or, with respect to a Director Award, the Board) may take any actions with respect to outstanding Awards as it deems appropriate, consistent with applicable provisions of the Code and any applicable federal or state securities laws.

(c) Notwithstanding anything in the Plan to the contrary, the Committee (or, with respect to a Director Award, the Board) may take the foregoing actions without the consent of any Participant, and its determination shall be conclusive and binding on all persons and for all purposes.

17. Administration of the Plan.

(a) The Plan shall be administered by the Committee. Subject to the express provisions and limitations set forth in this Plan or the Committee's charter or as otherwise established by the Board, the Committee shall be authorized and empowered to do all things necessary or desirable, in its sole discretion, in connection with the administration of this Plan, including, without limitation, the following:

(i) to prescribe, amend and rescind policies relating to this Plan, and to interpret the Plan, including defining terms not otherwise defined;

(ii) to determine which persons are eligible Service Providers, to which of the Service Providers, if any, Incentive Awards shall be granted hereunder and the timing of any Incentive Awards;

(iii) to grant Incentive Awards to Service Providers and determine the terms and conditions thereof, including the number of shares of Company Stock subject to Incentive Awards and the exercise or purchase price of the shares of Company Stock and the circumstances under which Incentive Awards become exercisable or vested or are forfeited or expire, which terms may but need not be conditioned upon the passage of time, continued employment, the satisfaction of performance conditions (including Performance Goals), the occurrence of certain events, or other factors;

(iv) to establish or verify the extent of satisfaction of any Performance Goals or other conditions applicable to the grant, issuance, exercisability, vesting and/or ability to retain any Incentive Award;

(v) to prescribe and amend the terms of the Grant Agreements or other documents evidencing Incentive Awards made under this Plan (which need not be identical);

(vi) to determine whether, and the extent to which, adjustments are required pursuant to Section 16;

(vii) to interpret and construe this Plan, any policies under this Plan and the terms and conditions of any Incentive Award granted hereunder, and to make exceptions to any provisions for the benefit of the Company;

(viii) to delegate, to the extent permitted by Virginia corporations law, any portion of its authority under the Plan to make Incentive Awards to an executive officer of the Company, subject to any conditions that the Committee may establish (including but not limited to conditions on such officer's ability to make awards to executive officers within the meaning of Section 16 of the Act or to covered employees within the meaning of Code section 162(m)(3)); and

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(ix) to make all other determinations deemed necessary or advisable for the administration of this Plan.

The Committee may amend the terms of previously granted Incentive Awards so long as the terms as amended are consistent with the terms of the Plan and provided that the consent of the Participant is obtained with respect to any amendment that would be detrimental to him or her, except that the consent will not be required if the amendment is for the purpose of complying with applicable provisions of the Code or any federal or state securities laws.

The Committee is prohibited from Repricing any Option or Stock Appreciation Right without the prior approval of the shareholders of the Company with respect to the proposed Repricing.

(b) The interpretation and construction of any provision of the Plan by the Committee shall be final and conclusive as to any Participant. The Committee may consult with counsel, who may be counsel to the Company, and shall not incur any liability for any action taken in good faith in reliance upon the advice of counsel.

(c) A majority of the members of the Committee shall constitute a quorum, and all actions of the Committee shall be taken by a majority of the members present. Any action may be taken by the Committee in writing or by electronic transmission or transmissions as permitted by the Bylaws of the Company, and any action so taken shall be fully effective as if it had been taken at a meeting.

(d) The Committee may delegate the administration of the Plan to an officer or officers of the Company, and such officer(s) may have the authority to execute and distribute agreements or other documents evidencing or relating to Incentive Awards granted by the Committee under this Plan, to maintain records relating to the grant, vesting, exercise, forfeiture or expiration of Incentive Awards, to process or oversee the issuance of shares of Company Stock upon the exercise, vesting and/or settlement of an Incentive Award, to interpret the terms of Incentive Awards and to take any other actions as the Committee may specify, provided that in no case shall any such officer(s) be authorized to grant Incentive Awards under the Plan, except in accordance with Section 17(a)(viii) above. Any action by an administrator within the scope of its delegation shall be deemed for all purposes to have been taken by the Committee and references in this Plan to the Committee shall include any such officer(s), provided that the actions and interpretations of any such officer(s) shall be subject to review and approval, disapproval or modification by the Committee.

18. Notice. All notices and other communications required or permitted to be given under this Plan shall be in written or electronic form and shall be deemed to have been duly given if delivered personally or mailed first class, postage prepaid, as follows (a) if to the Company at the principal business address of the Company to the attention of the Corporate Secretary of the Company; and (b) if to any Participant at the last address of the Participant known to the sender at the time the notice or other communication is sent.

19. No Effect on Other Plans. Except as provided in Section 4(c), nothing contained in the Plan will be deemed in any way to limit or restrict the Company or any Related Company from making any award or payment to any person under any other plan, arrangement or understanding, whether now existing or

hereafter in effect.

20. Interpretation. The Plan is intended to operate in compliance with the provisions of Rule 16b-3 and to facilitate compliance with, and optimize the benefits from, Code section 162(m). The terms of this Plan are subject to all present and future regulations and rulings of the Secretary of the Treasury of the United States or his or her delegate relating to the qualification of Incentive Stock Options under the Code. This Plan and the

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individual Awards under the Plan are intended to comply with any applicable requirements of Code section 409A and shall be interpreted to the extent context reasonably permits in accordance with such requirements. If any provision of the Plan conflicts with any such regulation or ruling, then that provision of the Plan shall be void and of no effect. The terms of this Plan shall be governed by the laws of the Commonwealth of Virginia.

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Admission Ticket

C123456789

| | | |
|----------------------|---|----------------------|
| 000004 | 000000000.000000 ext | 000000000.000000 ext |
| MR A SAMPLE | 000000000.000000 ext | 000000000.000000 ext |
| DESIGNATION (IF ANY) | 000000000.000000 ext | 000000000.000000 ext |
| ADD 1 | Electronic Voting Instructions | |
| ADD 2 | You can vote by Internet or telephone! | |
| ADD 3 | Available 24 hours a day, 7 days a week! | |
| ADD 4 | | |

ADD 5 Instead of mailing your proxy, you may choose one of the two voting methods outlined below to vote your proxy.

ADD 6 VALIDATION DETAILS ARE LOCATED BELOW IN THE TITLE BAR.

Proxies submitted by the Internet or telephone must be received by 2:00 a.m., Eastern Time, on August 27, 2008.

Vote by Internet

Log on to the Internet and go to

www.investorvote.com/SFD

Follow the steps outlined on the secured website.

Vote by telephone

Call toll free 1-800-652-VOTE (8683) within the United States, Canada & Puerto Rico any time on a touch tone telephone. There is **NO CHARGE** to you for the call.

Follow the instructions provided by the recorded message.

Using a **black ink** pen, mark your votes with an **X** as shown in this example. Please do not write outside the designated areas.

X

Annual Meeting Proxy Card

123456 C0123456789 12345

q IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.

q

A Proposals The Board of Directors recommends a vote FOR all the nominees listed and FOR Proposals 2 and 3.

| | | | | | | | | | |
|----------------------------|------------|-----------------|-----------------------------|-----------------|------------|----------------------|----|----|----------|
| 1. Election of Directors: | For | Withhold | For | Withhold | For | Withhold | | | |
| 01 - Robert L. Burrus, Jr. | .. | .. | 02 - Hon. Carol T. Crawford | .. | .. | 03 - David C. Nelson | .. | .. | + |
| 04 - Gaoning Ning | | | 05 - Frank S. Royal, M.D. | | | | | | |

| | | | | | | | |
|---|------------|----------------|----------------|--|------------|----------------|----------------|
| | For | Against | Abstain | | For | Against | Abstain |
| 2. Proposal to approve the Smithfield Foods, Inc. 2008 Incentive Compensation Plan. | .. | .. | .. | 3. Proposal to ratify the selection of Ernst & Young LLP as the Company's independent auditors for the fiscal year ending May 3, 2009. | .. | .. | .. |

4. In their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting.

B Non-Voting Items

Change of Address Please print new address below.

C Authorized Signatures This section must be completed for your vote to be counted. **Date and Sign Below**

PLEASE SIGN EXACTLY AS NAME APPEARS HEREIN. WHEN SIGNING AS ATTORNEY, EXECUTOR, ADMINISTRATOR, TRUSTEE, GUARDIAN, ETC., GIVE FULL TITLE AS SUCH.

Date (mm/dd/yyyy) Please print date below. / / Signature 1 Please keep signature within the box. Signature 2 Please keep signature within the box.

Driving Instructions to Williamsburg Lodge

From Interstate 64, take exit 238 onto Route 143 East. Follow Route 143 to the second traffic light and bear right onto Route 132 (Henry Street). Continue on Henry Street through the Historic Area. At the third traffic light, turn left onto Francis Street. Turn right on the second street (South England); the Lodge is immediately on the right. There is a parking lot on the left, across the street from the Lodge. If that parking lot is full, continue down South England Street and turn right at the next street (Newport Avenue). Take the very next right into the parking garage, which is located underneath Tazewell Hall.

Street Address: Williamsburg Lodge, 310 South England Street, Williamsburg, VA 23185

2008 ADMISSION TICKET

Smithfield Foods, Inc.

**2008 ANNUAL MEETING OF
SHAREHOLDERS**

Wednesday, August 27, 2008

2:00 p.m.

Williamsburg Lodge

310 South England Street

Williamsburg, Virginia 23185

**THIS TICKET WILL ADMIT TWO
PERSONS**

THIS TICKET IS NON-TRANSFERABLE

**PLEASE HAVE PHOTO IDENTIFICATION
READY**

**q IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE
PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.**

q

Proxy SMITHFIELD FOODS, INC.

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints C. Larry Pope and Michael H. Cole and each of them, proxies with full power of substitution, to vote the shares of Common Stock in Smithfield Foods, Inc. which the undersigned would be entitled to vote if personally present at the Annual Meeting of Shareholders of the Company to be held on August 27, 2008 or any adjournments thereof.

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED SHAREHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF EACH OF THE NOMINEES NAMED IN PROPOSAL 1, FOR PROPOSAL 2 AND FOR PROPOSAL 3.

The undersigned acknowledges receipt of the Notice of said Annual Meeting and of the Proxy Statement attached thereto.

Please mark, sign, date and return the proxy card using the enclosed envelope.