

## ASK THE CHIEF SUSTAINABILITY OFFICER



**Dennis H. Treacy**, Smithfield Foods' executive vice president and chief sustainability officer, answers some of the questions we often hear from our stakeholders and talks about how sustainability creates value for those within and outside of our company.

**Q** *How has Smithfield embedded sustainability into its operations?*

**A** Our sustainability strategy aligns with our core values and has been organized by five pillars: animal care, employees, environment, food safety and quality, and helping communities. In the process of preparing this integrated report, we realized that our commitment to creating value for our shareholders and stakeholders has always been part of our strategy as well. So we added a sixth pillar, value creation, to our strategy and defined broad goals and targets for it. As a result, we have a very defined program with measurable goals, targets, internal scorecards, and awards that permeates all the way through our business, from our corporate headquarters to our independent operating companies.

Our employees know that we're serious about this. Our customers—retail supermarkets, restaurant chains, foodservice companies—are asking us about sustainability topics all the time, especially sow housing, antibiotic administration, and employee engagement programs. Several years ago, many of these issues weren't even on the radar screen. Our strong commitment to sustainability helps us to improve efficiency, mitigate risk, and create value for Smithfield and for those with an interest in our business. It also helps our company stay ahead of, and better respond to, market demands.

**Q** *How do you define sustainability?*

**A** I have discouraged my staff from trying to define it because it's virtually impossible to reach a consensus on the

meaning. Instead, we have set expectations and targets for our company around our six key pillar areas, the results of which can be seen in the various sections of this report.

Some like to think of sustainability in terms of "people, planet, profit." Others talk about corporate responsibility issues in the context of "sustainable capitalism." Here at Smithfield, we look at our sustainability programs in relation to the value they create for our business and for our key stakeholders. Whatever the name, these ideas have moved into the mainstream within the investor community and beyond. By recognizing the intrinsic interconnections between our business objectives and our sustainability objectives, we believe we can drive better value for our company and for those who have an interest and a stake in what we do.

**Q** *What would you say to those who might accuse Smithfield of pursuing sustainability initiatives only to maximize the company's bottom line?*

**A** We certainly don't do it only for the bottom line, but I'm not ashamed to talk about the fact that sustainability initiatives do indeed benefit our company's overall financial position. For example, we need employees who are well trained, safe, and happy to work at our plants. To me, that's a bottom-line benefit of robust employee programs, but there are clearly also social benefits to treating employees well and providing safety programs and wellness care for them. Many times, what is best for our employees and communities is also what is best for business.

I think it's important to talk about the business benefits of sustainability. Making money isn't a bad thing. It's why our shareholders purchase our stock, and it's what allows us to invest in innovation and in our employees and communities.

**Q** *How are you showing progress against your targets, and what areas are proving to be the most challenging?*

**A** We're particularly pleased with the significant improvements we have seen in our worker safety injury rates, thanks to our robust health and safety programs and an increased focus on injury prevention. Our accident rates are much lower than the average for those within our own industry, and we're now striving for rates that are lower than all industries overall—not just those in meat production. Also, this past year, we didn't have a single environmental notice of violation (NOV) on any of our company-owned farms.

Despite the strong progress on the farms, however, we're still not where we want to be on environmental compliance in terms of violations overall. In calendar 2011, we had 38 NOVs company-wide. Our ultimate goal is 100 percent compliance, 100 percent of the time. We've made a lot of progress, but clearly, we still have a ways to go to get there.

**Q** *Smithfield has committed to sow gestation conversion on company-owned farms. What is Smithfield's position regarding sow housing at your contract growing operations?*

**A** We addressed this issue when we first announced our plans to convert to open pens in 2007. We said that we were going to focus initially on company-owned farms. We feel very strongly that if we are going to make a fundamental change like this, we must first do it ourselves so we understand the costs and operational changes involved. Once we complete our company-owned farm objectives by 2017, we will turn our attention to the contract growers. We have already begun some preliminary discussions with many of our contract farmers so it's on everyone's radar screen for the future.

**Q** *By the end of 2011, you reported that 30 percent of sows were in converted housing on company-owned farms. Do you have year-by-year progress targets?*

**A** We are continuing to move forward with vigor, and we will report our progress at the end of each calendar year. We have committed to converting all company-owned farms by the end of 2017, but we have not broken the conversion down into year-by-year targets. We're able to convert some farms faster than others. There are a lot of variables involved.

**Q** *How does Smithfield balance what are often competing interests—the need for consumers to pay a certain price for meat, the need for investors to see returns on their dollars, the need for Smithfield to be profitable, and the needs of those who push for animal care or environmental improvements?*

**A** It's a very difficult balance, as one might imagine. It's hard enough to run a business even without considering the social concerns that have been injected in recent years. That's one reason why we have identified a sixth sustainability pillar of value creation—so we can better understand and measure the returns that we are getting from our various sustainability investments.

I believe that for a sustainability program to be sustainable, you have to have a payback at the end of the day. For example, our workers' compensation costs are going down because our employees are getting injured less. We can see the direct cost-benefit correlation with our enhanced employee health and safety programs. In many instances, the sustainability payback isn't simply financial; it's about the goodwill engendered within our communities from the Smithfield programs that provide food for those in need, that sponsor youth education, or that clean up local waterways.

**Q** *How is sustainability helping to differentiate Smithfield from your competitors?*

**A** We hear from our customers that there are a number of areas where we are moving the needle forward on sustainability issues. In addition to the sow housing transition, our antibiotics policy leads the industry. Where our own workforce is concerned, we can point to our decreasing rate of worker injuries. Many of our customers—and ultimately our consumers—want to buy products from companies that pay attention to these issues.