Opportunities on the Table

TYSON FOODS, INC. 2006 ANNUAL REPORT

Contents

Tyson Foods, Inc. (NYSE: TSN), founded in 1935 with headquarters in Springdale, Arkansas, is the world's largest processor and marketer of chicken, beef and pork, the second-largest food production company in the *Fortune* 500 and a member of the S&P 500. The Company produces a wide variety of protein-based and prepared food products, which are marketed under the "Powered by Tyson™" strategy. Tyson is the recognized market leader in the retail and foodservice markets it serves, providing products and service to customers throughout the United States and more than 80 countries. The company has approximately 107,000 Team Members employed at more than 300 facilities and offices in the United States and around the world. Through its Core Values, Code of Conduct and Team Member Bill of Rights, Tyson strives to operate with integrity and trust and is committed to creating value for its shareholders, customers and Team Members. The Company also strives to be faith-friendly, provide a safe work environment and serve as stewards of the animals, land and environment entrusted to it. Our vision is to be the world's first choice for protein solutions while maximizing shareholder value.

2006 Financial Highlights

TYSON FOODS, INC. 2006 ANNUAL REPORT

in millions, except per share data	**2006**	2005	2004
Sales	**$25,559**	$26,014	$26,441
Gross profit	**928**	1,720	1,883
Operating income (loss)	**(77)**	745	917
Income tax expense (benefit)	**(102)**	156	232
Cumulative effect of change in accounting principle, net of tax	**(5)**	–	–
Net income (loss)	**(196)**	372	403
Diluted earnings (loss) per share	**(0.58)**	1.04	1.13
Shareholders' equity	**4,440**	4,671	4,292
Book value per share	**12.51**	13.19	12.19
Total assets	**11,121**	10,504	10,464
Depreciation and amortization	**517**	501	490
Total debt	**3,979**	2,995	3,362
Cash provided by operating activities	**287**	999	932
Capital expenditures	**$ 531**	$ 571	$ 486
Year end shares outstanding	**355**	355	353
Diluted average shares outstanding	**345**	357	357

JOHN TYSON
Chairman

To Our Shareholders

In my letter to you last year, I said market conditions in 2006 might be challenging. It turned out to be one of the toughest years we've ever had at Tyson Foods, Inc. But the Tyson Team stayed strong, and we made it through. The difficulties we experienced from a variety of factors are reflected in our financial results. Diluted loss per share was $0.58 compared to diluted earnings per share of $1.04 in 2005. Sales were $25.6 billion in 2006 compared to $26.0 billion in 2005. What the numbers don't show, however, is the groundwork we laid for the future. As a result, I've never been more confident in the Company's future.

This tough year forced us to reexamine every aspect of our business. We cut overhead costs and became more efficient. We made tough choices regarding our manufacturing facilities. We took several other steps as well to become more agile in the face of external volatility. While we made many adjustments in the short term, we continued investing in the long term for an even stronger Company.

For example, accelerating innovation is the key to Tyson's long-term future. Our new Discovery Center, opening in January 2007, will be the hub of product innovation and consumer insights. It will help us better understand what consumers want so we can develop products, packaging and brands to better meet their needs and solve their mealtime problems.

To drive innovation further, we've added three key people to the talented management team we've always had at Tyson. Wade Miquelon is our new chief financial officer, and he has extensive experience in the consumer products industry and international finance after 16 years with Procter & Gamble. Robert DeMartini, group vice president of consumer products, has 20 years of experience in the consumer packaged goods industry and most recently headed Gillette's $2.2 billion grooming division. Richard Greubel is our new group vice president of international and spent 22 years at Monsanto, with his last 11 years as head of several international operations. We are excited to have people of their caliber. Their drive and enthusiasm are contagious, and with the rest of the great Tyson Team, we are better positioned to achieve our goals.

We continued investing for the long term in our operations as well. We added our third case-ready beef and pork plant in Sherman, Texas. We also created the most modern, efficient production floor in the industry at our Dakota City, Nebraska, beef plant. These are just two examples of how we are readying our production facilities for the future.

I'm proud of the changes we've made at Tyson Foods, but I'm also proud of things we *didn't* change. We remain committed to our Core Values. We remain committed to diversity. We remain committed to serving as a steward of the animals, land and environment entrusted to us. We remain committed to feeding the world trusted food products. We remain committed to our core strategies of increasing our value-added product mix, expanding internationally and driving operational efficiencies.

There's no denying it was a disappointing year financially, but I hope these numbers don't overshadow Tyson Foods' great potential. I'll end this letter where I began: I've never been more confident in our future. I have great trust in Tyson's 107,000 Team Members, and I look forward to supporting them as we build a strong, profitable Tyson Foods in 2007 and beyond.

John Tyson
Chairman

Food for Thought

Questions and Answers with RICHARD L. BOND, President and Chief Executive Officer

Dick Bond, a 37-year veteran of the food business and one of the most respected people in the industry, became the president and chief executive officer of Tyson Foods in May. A member of Tyson's Board of Directors since 2001, Bond served as Tyson's president and chief operating officer since 2003. Previously he was co-chief operating officer and group president of fresh meats and retail. He was president and chief operating officer of IBP, inc. from 1997 until the merger of IBP and Tyson Foods in 2001. In addition to his experience in operations, Bond has extensive experience in beef sales and marketing.

Q: Why did Tyson Foods lose money in fiscal 2006?

A: A convergence of events caused a situation we'd never seen. I'll start with chicken. Hurricane Katrina severely damaged ports, and avian influenza (highly pathogenic H5N1) hit Asia. The ability to ship dark meat chicken and international demand for it were affected, causing prices to drop significantly.

At the same time, the beef industry was suffering. Major export markets remained closed as a result of 2003 BSE-related bans on U.S. beef imports. Also, tight cattle supplies led to higher live cattle prices and lower utilization rates of our facilities. Because of the oversupply of competing proteins, boxed beef sales prices were not high enough to offset the increased costs. You can't make money when that happens.

Q: Shortly after you became CEO, you challenged Tyson Team Members to cut spending by $110 million. What were the results?

A: They came back to me with $200 million in potential cost savings. That's how eager everyone was to turn the company around. The depth of their thinking and creativity was astounding. At year end, we had already implemented about 90 percent of the savings, and we're already seeing the positive effects in our first quarter of fiscal 2007.

Q: What other steps did you take to turn the business around?

A: We reduced our fiscal 2006 capital spending from a planned $600-$650 million to $531 million. We rationalized three beef plants and two prepared food plants that didn't fit into our long-term business model. We cut chicken production to help reduce the oversupply. We raised prices to reflect higher input costs, and we became more cost-conscious in everything we do. The truth is, we got a little complacent about managing costs and margins. As long as more than half our revenue is from commodity sales, we need to be diligent in managing costs, and our people have shown they're more than willing to do that. I'm very proud of how the team pulled together.

Q: If commodities are half your sales, won't you always be subjected to market forces?

A: Yes, and we've got to structure our business to be successful in the down cycles as well as when the markets are in our favor. We are trying to mitigate the effects of commodity swings by increasing our sales of value-added products and by focusing on the consumer. It's our job to create demand for products with higher, more stable margins.

Q: With corn being the highest input cost for chicken in addition to its use in cattle feed, are you worried about rising corn prices due to the demand for ethanol production?

A: This relates to my previous answer. Yes, we're mindful of more expensive corn, but it's less of an issue for us than some others in the industry because of our value-added product mix. Grain represents a much smaller percentage of our cost of goods than it does for commodity chicken companies. And it may become a positive for our beef business. In the Corn Belt, where many ethanol plants are located, there is an increased availability of corn by-products from ethanol production, which can be used in cattle feed. If there are more fed cattle in the upper Midwest, it will benefit us because that's where many of our beef processing plants are.

"I am really excited about where Tyson Foods is headed. We faced unparalleled obstacles in 2006, but we're a stronger company for it."

Q: What will higher corn prices mean to the average consumer?

A: Ultimately, it will raise the cost of protein and grain-based foods for consumers. I don't see any way around that.

Q: What is your outlook for fiscal 2007?

A: I think the first quarter will be good, and I expect the usual seasonal sluggishness in the second quarter, but I believe each of our segments will be significantly better in 2007.

Q: Where do you see Tyson Foods going beyond 2007?

A: I am really excited about where the Company is headed. We faced unparalleled obstacles in 2006, but we're a stronger company for it. We had to reexamine everything we do, and there's a lot we can and will do better. We've got excellent people at all levels, and I have faith in them and their ability to get the job done. Tyson Foods has great potential, and everyone is dedicated to reaching that potential.

Appetite for Change

As fiscal 2006 drew to a close, Tyson Foods was focused on returning to profitability as soon as possible. Thanks to hard work from our Team Members, we've made tremendous progress toward that goal. Now, as we turn our attention to 2007 and beyond, we will transform Tyson while raising the bar for product innovation.

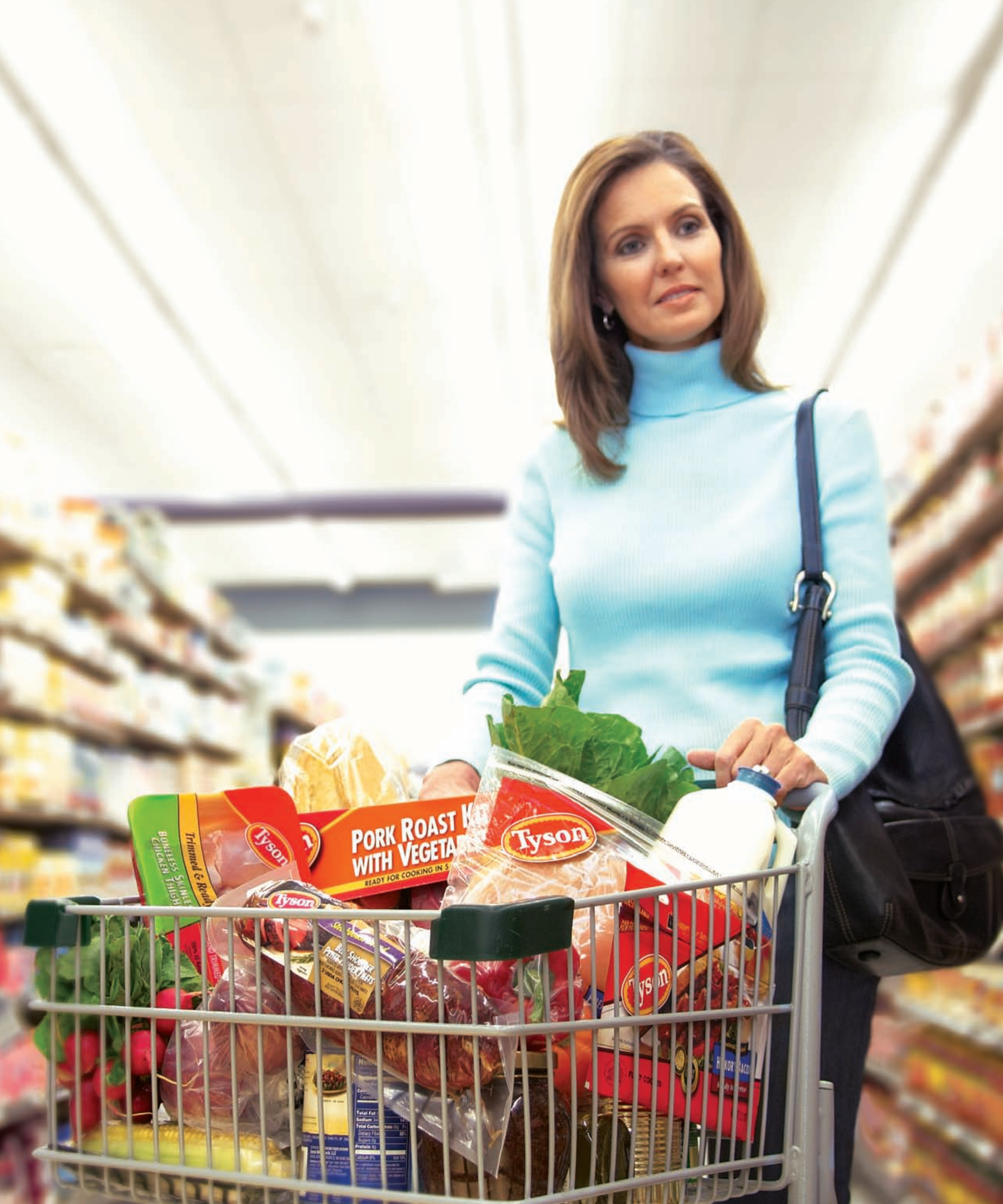
Tyson Foods is reigniting our passion for innovation and creativity in all areas of our business. With the initiative P^3, Powering Profitability through Performance, comes a fundamental change in mindset and a return to our culture of agility.

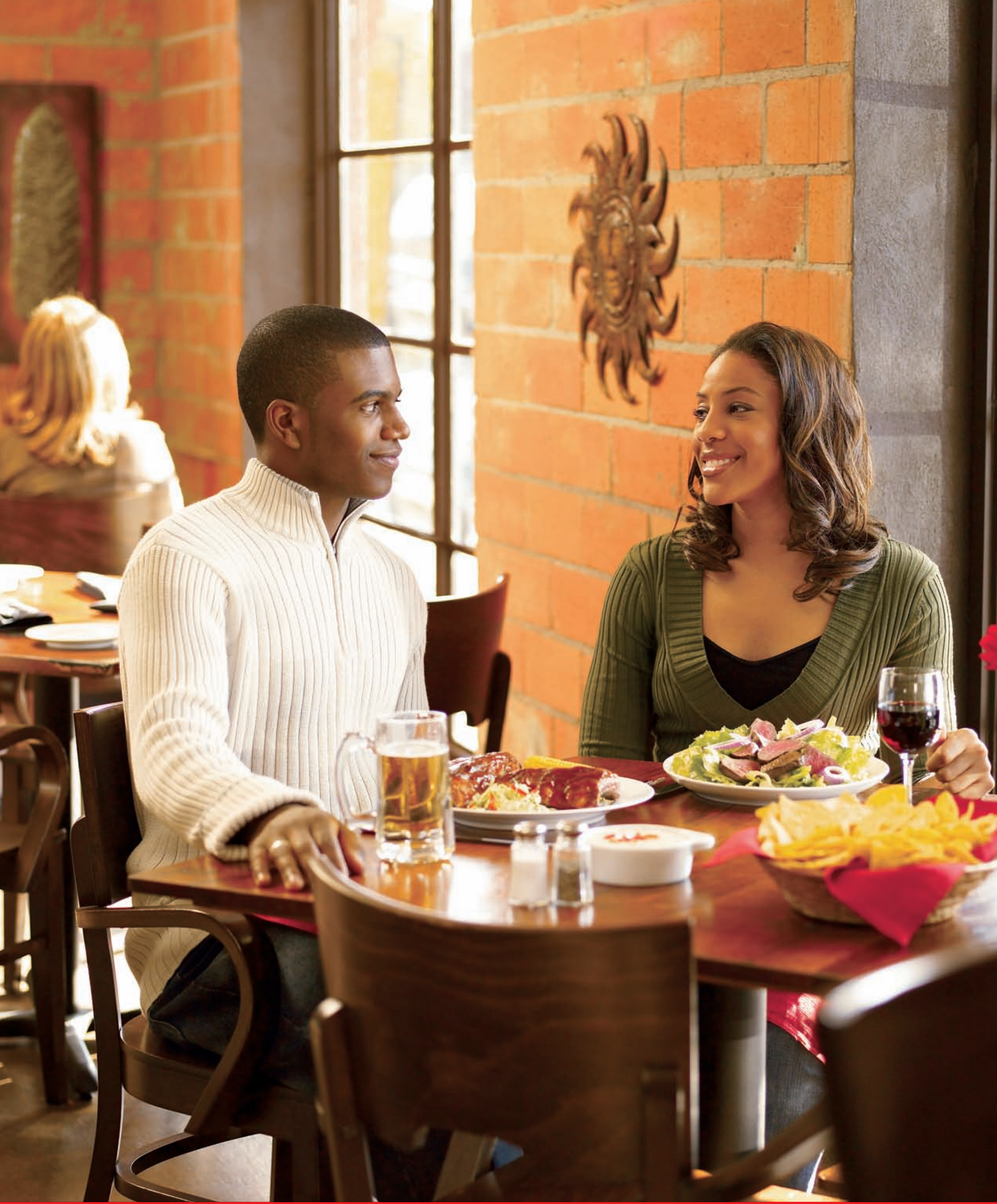
P^3 has four main strategies: demand creation, pricing optimization, supply chain optimization and performance-based alignment, all of which will leverage our scale in the protein industry.

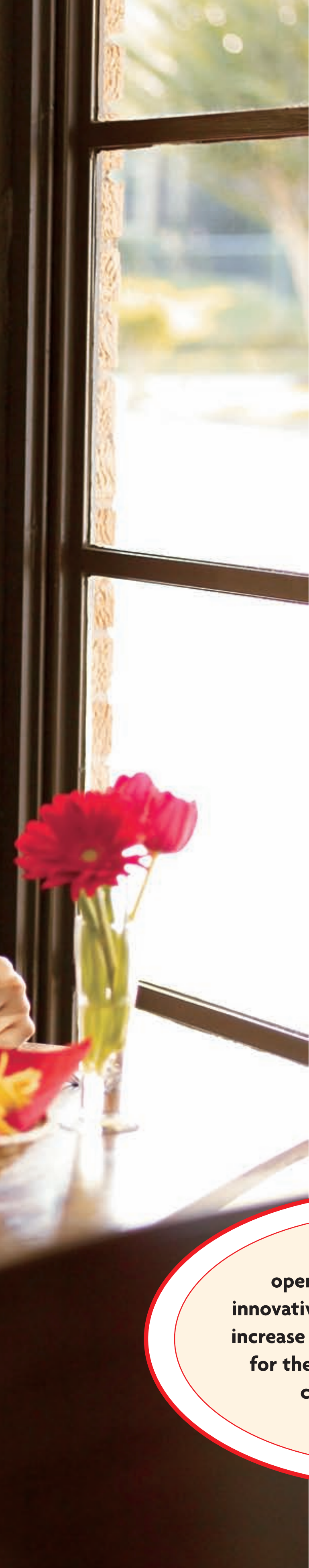
- To create demand, we will take a new approach to understanding consumers' needs and offer mealtime solutions to fill those needs.
- Pricing optimization means using the size and scale of our operations to get the best price and margin for our products while delivering value to our customers and consumers.
- Supply chain optimization is paramount to our success. We will leverage our supply chain, operations and distribution capabilities to create a more efficient and cost-effective business.
- With performance-based alignment, we will ensure performance measures align with our goals because every Team Member is responsible for Tyson Foods' success.

There are a lot of things at Tyson Foods we are proud of and will stand by, like our Core Values, but we are changing in ways that matter most as we work toward the long-term success of the Company.

Today's consumer is busier, more focused on health and less comfortable in the kitchen than any previous generation. Tyson continues to innovate with new products for every level of cooking skill and every appetite. When someone asks, "What's for dinner?" the answer is "Tyson."


Tyson
PORK ROAST
Tyson





A Taste of What's to Come

To grow in today's world of unlimited food choices, Tyson must become obsessed with consumers to determine their needs and create products and packaging to meet their needs and solve their mealtime problems.

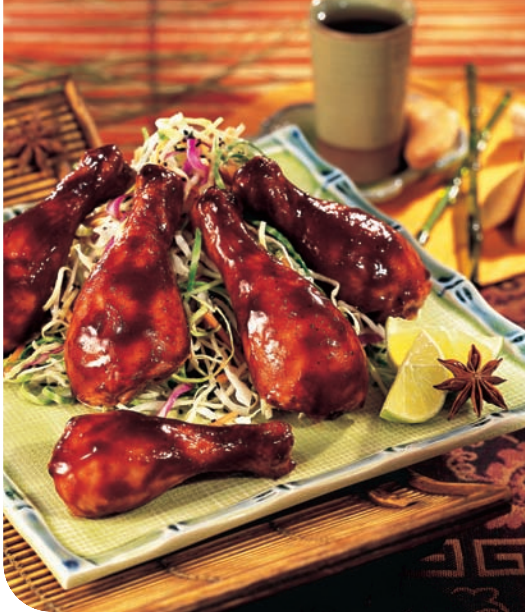
Most people know Tyson products because they see them throughout the stores where they shop. There isn't another brand in as many different places or in as many different forms as the Tyson brand. You can find Tyson products in the meat case, the fully-cooked meats area, the freezer case, on the canned/shelf stable meats aisle, in the deli case, in the hot deli area and even in the produce section alongside bagged salads.

People see Tyson products when they eat out, too, but they may not realize it. Tyson is the leading supplier of protein to the foodservice industry. We work with our customers in national restaurant chains, foodservice distributors, school and business cafeterias, military commissaries and the healthcare industry to drive demand and growth for their businesses.

One of Tyson's best strengths is our ability to work hand-in-hand with our customers to take consumer insights and turn them into food concepts, and then take those concepts into production. The new Discovery Center at Tyson Foods World Headquarters in Springdale, Arkansas, will help us do this better than ever.

The Discovery Center will open in January 2007 and will be the hub of research and development, product innovation and consumer insights. There isn't another facility like it in the protein industry. With 19 test kitchens, including some outfitted with the same equipment our foodservice customers use, and a USDA-inspected pilot plant to produce test samples, the Discovery Center will improve speed to market. The ability to go from an idea to a test sample in the span of a week will be a big competitive advantage for Tyson and our customers.

Foodservice operators rely on Tyson for innovative, labor-saving products to increase their sales and create value for their businesses while giving consumers the foods they crave.



Approximately 85 percent of the world's protein is consumed in international markets. As countries develop, people eat more protein. To serve growing markets and create international distribution platforms, Tyson plans to increase its presence in China and establish a presence in Argentina and Brazil.

The innovation doesn't stop when a new product is launched. Because food trends often originate in the foodservice channel, we can take our foodservice ideas and translate them into new products for the retail channel. We also can take the Kid Tested Kid Approved® foods we've developed for schools and move them into the retail channel as well. Kids help us develop and taste test those products, and they have a success rate of 90 percent when launched in schools.

Product innovation is only part of Tyson Foods' plans for growth. International expansion is a key element of our long-term strategy. In the next 25 years, there will be another 1.5 billion people on the planet, and most of that growth will come in the developing world. As their standard of living improves, people buy more protein. Per capita consumption of protein is predicted to grow 25 percent in 25 years. Coupled with the population increase, there could be a need for more than 200 billion additional pounds of protein annually.

In China, Tyson already has a presence in value-added chicken and is looking to expand to become the first company to offer a full line of poultry products – fresh, partially fried and fully-cooked. We're interested in expanding to other proteins in China as well. Our international expansion plans include establishing a foothold in the poultry sector in Brazil, which could serve as an export platform for other markets around the world, and becoming the first fully-integrated, export-oriented beef company in Argentina.

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Management's Discussion and Analysis

RESULTS OF OPERATIONS

OVERVIEW

Tyson Foods is the world's largest meat protein company and the second largest food production company in the *Fortune* 500 with one of the most recognized brand names in the food industry. Tyson produces, distributes and markets chicken, beef, pork, prepared foods and related allied products. The Company's operations are conducted in five segments: Chicken, Beef, Pork, Prepared Foods and Other. Some of the key factors that influence the Company's business are customer demand for the Company's products, the ability to maintain and grow relationships with customers and introduce new and innovative products to the marketplace, accessibility of international markets, market prices for the Company's chicken, beef and pork products, the cost of live cattle and hogs, raw materials and grain and operating efficiencies of the Company's facilities.

The Company faced very challenging operating conditions in fiscal 2006. Demand pressures caused mainly by outbreaks of avian influenza, primarily in Europe and Asia, Hurricane Katrina and other export market disruptions in the Company's Chicken and Beef segments, led to an oversupply of proteins worldwide and negatively affected the average sales prices and operating results of each of the Company's protein segments. Operations also were affected negatively by higher energy costs, and significant operating margin reductions at the Company's operations in Canada and Mexico.

Net loss for fiscal 2006 was $196 million, or $0.58 per diluted share, compared to earnings of $372 million, or $1.04 per diluted share, in fiscal 2005. Pretax loss for fiscal 2006 includes $63 million of costs related to beef, prepared foods and poultry plant closings and $19 million of charges related to the Company's $200 million cost reduction initiative and other business consolidation efforts. These charges include severance expenses, product rationalization costs and related intangible asset impairment expenses. Additionally, the Company completed a review of its tax account balances, and as a result, recorded a charge in the fourth quarter of fiscal 2006 of approximately $15 million. Also, net loss for fiscal 2006 includes a charge of $5 million, or $0.02 per diluted share, related to the cumulative effect of a change in accounting principle due to the Company's adoption of Financial Accounting Standards Board (FASB) Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations," an interpretation of FASB Statement No. 143. Combined, these items increased fiscal 2006 diluted loss per share by $0.21.

Pretax earnings for fiscal 2005 include $33 million of costs related to a legal settlement involving the Company's live swine operations, $14 million of costs for poultry and prepared foods plant closings, $8 million of losses related to Hurricane Katrina, $12 million received in connection with vitamin antitrust litigation and a gain of $8 million from the sale of the Company's remaining interest in Specialty Brands, Inc. Net income in fiscal 2005 includes a non-recurring income tax net benefit of $15 million. The net benefit includes the reversal of tax reserves, partially offset by an income tax charge related to the repatriation of foreign income. The effective tax rate of the Company was affected further by the federal income tax effect of the Medicare Part D subsidy in fiscal 2005 of $55 million because this amount is not subject to federal income tax. Combined, these items increased fiscal 2005 diluted earnings per share by $0.03.

The Company's accounting cycle resulted in a 52-week year for fiscal years 2006 and 2005, and a 53-week year for fiscal 2004.

OUTLOOK

Management's primary goal during this difficult operating environment is to return the Company to profitability. One of the measures being taken to achieve this goal is to manage and reduce costs. The Company initiated a $200 million cost reduction initiative in the fourth quarter of fiscal 2006. Approximately 90% of the initiative has been implemented, and the Company began realizing savings in the first quarter of fiscal 2007.

Although returning the Company to profitability is its primary short-term goal, management also remains focused on the following primary elements of its long-term strategy: creating more value-added products, improving operational efficiencies and expanding internationally. During the year, the Company strongly examined its business as well as various opportunities and took the necessary steps to better position itself to meet its long-term goals. The Company's Discovery Center is nearing completion and should be operational in the second quarter of fiscal 2007. The Discovery Center is expected to bring new market-leading retail and food-service products to the customer faster and more effectively. It is a state-of-the-art facility, which includes 19 research centers as well as a USDA-inspected pilot plant. In fiscal 2006, the Company announced the rationalization of three beef plants and two prepared foods plants. Additionally, the Company completed several major capital projects in fiscal 2006, including a case-ready plant in Sherman, Texas, and an expansion at the Dakota City, Nebraska, location. The Company realized certain operational efficiencies in fiscal 2006 related to its rationalization and expansion efforts and expects continued efficiencies in fiscal 2007. In November 2006, the Company announced a new business unit, Tyson Renewable Energy, which has been exploring ways to commercialize the Company's supply of animal fat into bio-fuels. The new unit also is examining the potential use of poultry litter to generate energy and other products. With regard to the Company's international expansion goals, the Company expects to close on a transaction during fiscal 2007, which would establish a joint venture with a poultry company in China. Additionally, the Company expects to complete two joint venture transactions in South America in 2007; one involving a poultry operation in Brazil, and the other involving a beef operation in Argentina.

The Company expects operating margin improvements in each segment in fiscal 2007. Although the Company's Chicken segment will be affected negatively by higher grain prices in fiscal 2007 compared to fiscal 2006, the Company's mix of value-added products and expected price increases should supply some insulation. The Company expects live cattle supplies and live hog supplies to increase in fiscal 2007, which should allow the Company to achieve greater operational efficiencies in its processing plants. Additionally, the Company anticipates improved market share in the Prepared Foods segment in fiscal 2007.

Based on the Company's outlook for fiscal 2007, diluted earnings per share are estimated to be in the range of $0.50 to $0.80, and sales are estimated to be in the range of $26 billion to $27 billion. The Company expects to reduce its capital spending from the $531 million spent in fiscal 2006 to approximately $400 million in fiscal 2007. Additionally, the Company anticipates stronger cash flow and lower interest expense in fiscal 2007 and plans to use the improved cash flow to reduce its debt position.

2006 VS. 2005

Certain reclassifications have been made to prior periods to conform to current presentations.

• **Sales** decreased $455 million or 1.7%, with a 3.9% decrease in average sales price and a 2.3% increase in volume. The oversupply of proteins led to decreased average sales prices in all segments. Additionally, fiscal 2006 sales were affected negatively by realized and unrealized net losses of $5 million, compared to realized and unrealized net gains of $24 million recorded in fiscal 2005 from the Company's commodity risk management activities related to its fixed forward boxed beef and pork sales.

• **Cost of Sales** increased $337 million or 1.4%. As a percent of sales, cost of sales increased from 93.4% to 96.4%. The increase in cost of sales as a percentage of sales primarily was due to the decrease in average sales prices, while average live prices and production costs did not decrease at the same rate. Energy costs increased in all segments by approximately $167 million compared to the same period last year. Additionally, fiscal 2006 includes $49 million of realized and unrealized net losses related to the Company's forward futures contracts for live cattle and hog purchases, compared to $33 million of realized and unrealized net gains recorded in fiscal 2005. Cost of sales was impacted positively by realized and unrealized net gains of $6 million in fiscal 2006 resulting from the Company's commodity risk management activities related to grain purchases compared to realized and unrealized net losses of $27 million in fiscal 2005.

• **Selling, general and administrative expenses** increased $7 million or 0.8%. As a percent of sales, selling, general and administrative expenses increased from 3.6% to 3.7%. The increase primarily was due to an increase in stock compensation expense, information system services costs and increased sales promotion expenses. The increases were offset partially by decreased charitable contributions, decreased legal and other professional fees and a fiscal 2006 bad debt recovery. Also, insurance proceeds received in fiscal 2005 decreased prior year costs.

• **Other charges** include $63 million of plant closing related costs and $9 million of severance accruals related to the Company's $200 million cost reduction initiative. The plant closing costs relate primarily to closing the Company's Norfolk and West Point, Nebraska, and Independence and Oelwein, Iowa, operations. In February 2006, the Company announced its decision to close its Norfolk, Nebraska, beef processing plant and its West Point, Nebraska, beef slaughter plant. These facilities closed in February 2006. Production from these facilities shifted primarily to the Company's beef complex in Dakota City, Nebraska. In January 2006, the Company announced its decision to close two of its processed meats facilities in northeast Iowa. The Independence and Oelwein plants, which produced chopped ham and sliced luncheon meats, closed in March 2006.

In August 2006, the Company announced its decision to close its Boise, Idaho, beef slaughter plant and to scale back processing operations at its Pasco, Washington, complex. This decision resulted in the elimination of approximately 770 positions. The closure and process change occurred in October 2006 and did not result in a significant charge to the Company.

In July 2006, the Company announced its decision to implement approximately $200 million in cost reductions as part of a strategy to return to profitability. The cost reductions include staffing costs, consulting and professional fees, sales and marketing costs and other expenses. Virtually all of the cost reduction initiatives are expected to be completed by December 2006, with savings beginning principally in fiscal 2007.

Other charges in fiscal 2005 include $33 million relating to a legal settlement involving the Company's live swine operations and $14 million in plant closing costs primarily relating to the closings of the Company's Cleveland Street Forest, Mississippi; Portland, Maine; and Bentonville, Arkansas; operations. In July 2005, the Company announced it had agreed to settle a lawsuit resulting from the restructuring of its live swine operations. The settlement resulted in the Company recording an additional $33 million of costs in the third quarter of fiscal 2005. In July 2005, the Company announced its decision to make improvements to one of its Forest, Mississippi, facilities, which included more product lines, enabling the plant to increase production of processed and marinated chicken. The improvements were made at the former Choctaw Maid Farms location, which the Company acquired in fiscal 2003. The Company's

Cleveland Street Forest, Mississippi, poultry operation ceased operations in March 2006. Also in July 2005, the Company announced its decision to close its Bentonville, Arkansas, facility. The production from this facility was transferred to the Company's Russellville, Arkansas, poultry plant, where an expansion enabled the facility to absorb the Bentonville facility's production. In December 2004, the Company announced its decision to close its Portland, Maine, facility. The plant ceased operations February 4, 2005, and the production from this facility was transferred to other locations.

• **Interest income** increased $20 million, primarily due to the interest earned on the $750 million short-term investment held on deposit with a trustee used for the repayment of the 7.25% Notes maturing on October 1, 2006.

• **Interest expense** increased $31 million or 13.1%. The increase primarily was due to the increase in average total debt of 15.8%; however, average total debt increased by approximately 3.2% after adjusting total debt for the $750 million short-term investment. The increase was offset partially by a decrease in the overall weighted average borrowing rate from 7.1% to 7.0%.

• **Other income** increased $12 million compared to fiscal 2005, primarily resulting from improvements in foreign currency exchange gain/loss activity of approximately $7 million and a $7 million gain recorded on the write-off of a capital lease obligation related to a legal settlement. These items were offset partially by an $8 million gain recorded in fiscal 2005 from the sale of the Company's remaining interest in Specialty Brands, Inc.

• **The effective tax rate** was a 34.8% benefit for fiscal 2006 compared to a 29.5% provision for fiscal 2005. The fiscal 2006 effective tax rate was reduced by 5.1% due to expense recorded in fiscal 2006 as a result of the tax account balance review as discussed in Note 15 in the Notes to Consolidated Financial Statements. The fiscal 2006 effective rate also was reduced by 1.8% due to the federal income tax effect of the Medicare Part D subsidy loss for fiscal 2006 since this loss is not deductible for federal income tax purposes. The fiscal 2005 effective rate reflects a reduction of 4.1% due to the release of income tax reserves that management deemed were no longer required and a reduction of 3.6% related to the 2005 estimated future Medicare Part D subsidy. In addition, the fiscal 2005 effective rate reflected an increase of 4.2% relating to the repatriation of earnings of foreign subsidiaries as allowed by the American Jobs Creation Act.

• **Cumulative effect of change in accounting principle, net of tax,** includes a transition charge of $5 million related to the Company's adoption of FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations."

SEGMENT INFORMATION

Tyson operates in five business segments: Chicken, Beef, Pork, Prepared Foods and Other. The Company measures segment profit as operating income.

• **Chicken segment** is involved primarily in processing live chickens into fresh, frozen and value-added chicken products. The Chicken segment markets its products domestically to food retailers, foodservice distributors, restaurant operators and noncommercial foodservice establishments such as schools, hotel chains, healthcare facilities, the military and other food processors, as well as to international markets throughout the world. The Chicken segment also includes sales from allied products and the chicken breeding stock subsidiary.

• **Beef segment** is involved primarily in processing live fed cattle and fabricating dressed beef carcasses into primal and sub-primal meat cuts and case-ready products. It also involves deriving value from allied products such as hides and variety meats for sale to further processors and others. The Beef segment markets its products domestically to food retailers, foodservice distributors, restaurant operators and noncommercial foodservice establishments such as schools, hotel chains, healthcare facilities, the military and other food processors, as well as to international markets throughout the world. Allied products also are marketed to manufacturers of pharmaceuticals and technical products.

• **Pork segment** is involved primarily in processing live market hogs and fabricating pork carcasses into primal and sub-primal meat cuts and case-ready products. This segment also represents the Company's live swine group and related allied product processing activities. The Pork segment markets its products domestically to food retailers, foodservice distributors, restaurant operators and noncommercial foodservice establishments such as schools, hotel chains, healthcare facilities, the military and other food processors, as well as to international markets throughout the world. It also sells allied products to pharmaceutical and technical products manufacturers, as well as live swine to pork producers.

• **Prepared Foods segment** includes the Company's operations that manufacture and market frozen and refrigerated food products. Products include pepperoni, beef and pork pizza toppings, pizza crusts, flour and corn tortilla products, appetizers, prepared meals, ethnic foods, soups, sauces, side dishes, meat dishes and processed meats. The Prepared Foods segment markets its products domestically to food retailers, foodservice distributors, restaurant operators and noncommercial foodservice establishments such as schools, hotel chains, healthcare facilities, the military and other food processors, as well as to international markets throughout the world.

• **Other segment** includes the logistics group and other miscellaneous operations.

Sales by Segment

in millions	**2006**	2005	Change	Volume Change	Average Price Change
Chicken	**$ 7,928**	$ 8,295	$(367)	3.0%	(7.2)%
Beef	**11,825**	11,618	207	2.6%	(0.8)%
Pork	**3,060**	3,247	(187)	0.5%	(6.2)%
Prepared Foods	**2,692**	2,801	(109)	0.3%	(4.2)%
Other	**54**	53	1	N/A	N/A
Total	**$25,559**	$26,014	$(455)	2.3%	(3.9)%

Operating Income (Loss) by Segment

in millions	**2006**	2005	Change	**Margin 2006**	Margin 2005
Chicken	**$ 53**	$582	$(529)	**0.7%**	7.0%
Beef	**(296)**	(12)	(284)	**(2.5)%**	(0.1)%
Pork	**47**	47	–	**1.5%**	1.4%
Prepared Foods	**45**	78	(33)	**1.7%**	2.8%
Other	**74**	50	24	**N/A**	N/A
Total	**$ (77)**	$745	$(822)	**(0.3)%**	2.9%

• **Chicken segment** sales decreased 4.4% and operating results decreased $529 million in fiscal 2006 compared to fiscal 2005. Fiscal 2006 operating results include charges of $9 million related to the Company's cost reduction initiative, other business consolidation efforts and plant closing costs. Fiscal 2005 operating results include $12 million of plant closing costs and $8 million of hurricane-related losses. The decline in sales and operating results primarily was due to lower average sales prices, predominantly caused by an oversupply of proteins in the marketplace. Additionally, the Chicken segment's operating results were affected negatively by higher energy costs and decreased margins at the Company's operations in Mexico. Fiscal 2006 chicken operating results include realized and unrealized net gains of $6 million from the Company's commodity risk management activities related to grain purchases compared to realized and unrealized net losses of $27 million recorded in fiscal 2005.

• **Beef segment** sales increased 1.8% and operating results decreased $284 million in fiscal 2006 compared to fiscal 2005. Fiscal 2006 operating results include charges of $52 million related to plant closing costs, the Company's cost reduction initiative and other business consolidation efforts. Fiscal 2005 operating results include $10 million received in connection with vitamin antitrust litigation. The operating results decline primarily was due to lower average sales prices, predominantly caused by an oversupply of proteins in the marketplace. Additionally, the Beef segment's operating results were affected negatively by significant operating margin reductions at the Company's Lakeside operation in Canada. Also, fiscal 2006 operating results include realized and unrealized net losses of $40 million from the Company's commodity risk management activities related to its fixed forward boxed beef sales and forward live cattle purchases, compared to realized and unrealized net gains of $13 million recorded in fiscal 2005.

• **Pork segment** sales decreased 5.8% and operating results remained flat in fiscal 2006 compared to fiscal 2005. Fiscal 2006 operating results include charges of $2 million related to the Company's cost reduction initiative and other business consolidation efforts. Fiscal 2005 operating results include $33 million related to a legal settlement involving the Company's live swine operations and $2 million received in connection with vitamin antitrust litigation. Lower average sales prices, predominantly caused by an oversupply of proteins in the marketplace adversely affected sales and operating results. The lower average sales prices were offset partially by lower average live prices. Additionally, fiscal 2006 operating results include realized and unrealized net losses of $15 million from the Company's commodity risk management activities related to its fixed forward boxed pork sales and forward live hog purchases, compared to realized and unrealized net losses of $22 million recorded in fiscal 2005.

• **Prepared Foods segment** sales decreased 3.9% and operating results decreased $33 million in fiscal 2006 compared to fiscal 2005. Fiscal 2006 operating results include charges of $19 million related to plant closing costs, other business consolidation efforts and the Company's cost reduction initiative. Fiscal 2005 operating results include $2 million related to plant closing costs. The decline in sales and operating income primarily was due to lower average sales prices.

2005 VS. 2004

Certain reclassifications have been made to prior periods to conform to current presentations.

• **Sales** decreased $427 million or 1.6%, with a 0.7% increase in average sales price and a 2.3% decrease in volume. The decrease in sales primarily was due to reduced sales in the Company's Beef segment, resulting from the effects of import and export restrictions. Additionally, sales were affected negatively by decreased sales volumes in each of the Company's protein segments, primarily due to one less week of sales in fiscal 2005. These declines were offset partially by higher average sales prices in the Company's Chicken, Pork and Prepared Foods segments.

• **Cost of Sales** decreased $264 million or 1.1%. As a percent of sales, cost of sales increased from 92.9% to 93.4%. The decrease in cost of sales primarily was due to decreased grain costs of approximately $312 million in fiscal 2005 compared to fiscal 2004, partially offset by higher live costs in the Pork segment, higher raw material costs in the Prepared Foods segment and higher energy costs. Additionally, the Chicken segment recorded realized and unrealized losses of $27 million in fiscal 2005 resulting from the Company's commodity risk management activities related to grain purchases, compared to realized and unrealized gains of $127 million in fiscal 2004. The fiscal 2004 gains in part were due to grain commodity risk management activities not designated as SFAS No. 133 hedges. Also, lower domestic cattle supplies and restrictions on imports of Canadian cattle for most of fiscal 2005 caused lower production volumes and higher operating cost per head.

• **Selling, general and administrative expenses** increased $48 million or 5.5%. As a percent of sales, selling, general and administrative expenses increased from 3.3% to 3.6%. The increase primarily was due to an increase of approximately $28 million in corporate advertising expenses, which primarily was related to the Company's "Powered by Tyson™" campaign. In addition, there were increases in personnel-related costs and contributions and donations.

• **Other charges** include $33 million related to a legal settlement involving the Company's live swine operations and $14 million in plant closing costs, primarily related to the closings of the Company's Cleveland Street Forest, Mississippi; Portland, Maine; and Bentonville, Arkansas; operations. In July 2005, the Company announced it had agreed to settle a lawsuit resulting from the restructuring of its live swine operations. The settlement resulted in the Company recording an additional $33 million of costs in the third quarter of fiscal 2005. In July 2005, the Company announced its decision to make improvements to one of its Forest, Mississippi, facilities, which included more product lines, enabling the plant to increase production of processed and marinated chicken. The improvements were made at the former Choctaw Maid Farms location, which the Company acquired in fiscal 2003. The Company's Cleveland Street Forest, Mississippi, poultry operation ceased operations in March 2006. Also in July 2005, the Company announced its decision to close its Bentonville, Arkansas, facility. The production from this facility was transferred to the Company's Russellville, Arkansas, poultry plant, where an expansion enabled the facility to absorb the Bentonville facility's production. In December 2004, the Company announced its decision to close its Portland, Maine, facility. The plant ceased operations February 4, 2005, and the production from this facility was transferred to other locations. Other charges in fiscal 2004 include $40 million in plant closing costs, primarily related to the closings of the Company's Jackson, Mississippi; Manchester, New Hampshire; Augusta, Maine; and Berlin, Maryland; operations. Also included in other charges for fiscal 2004 were $25 million in charges related to intangible asset impairments and $21 million related to fixed asset write-downs.

• **Interest expense** decreased $43 million or 15.4%, primarily resulting from an 8.7% decrease in the Company's average indebtedness. In addition, the Company incurred $13 million of expenses in fiscal 2004, related to the buy back of bonds and the early redemption of Tyson de Mexico preferred shares. Excluding these charges, the overall weighted average borrowing rate decreased from 7.4% to 7.1%.

• **Other expense** decreased $17 million compared to fiscal 2004, resulting from improvements in foreign currency exchange gain/loss activity of approximately $9 million, primarily from the Company's Canadian operations, and an $8 million gain recorded in fiscal 2005 from the sale of the Company's remaining interest in Specialty Brands, Inc.

• **The effective tax rate** decreased from 36.6% in fiscal 2004 to 29.5% in fiscal 2005. The fiscal 2005 effective rate reflects a reduction of 4.1% due to the release of income tax reserves management deemed were no longer required. The fiscal 2005 effective rate also reflects a reduction of 3.6% due to the federal income tax effect of the Medicare Part D subsidy in fiscal 2005 because this amount is not subject to federal income tax. In addition, the rate reflects an increase of 4.2% relating to the repatriation of earnings of foreign subsidiaries as allowed by the American Jobs Creation Act, offset by 2.9% relating to the reversal of certain international tax reserves no longer needed due to the effects of the repatriation under the American Jobs Creation Act. During the fourth quarter of fiscal 2005, the Company repatriated $404 million of foreign earnings invested outside the United States under the American Jobs Creation Act. See Note 15 in the Notes to Consolidated Financial Statements for further discussion of these issues. The estimated Extraterritorial Income Exclusion (ETI) amount reduced the fiscal 2005 effective tax rate by 2.6% compared to 0.5% in fiscal 2004. The increase in the fiscal 2005 estimated ETI benefit resulted from an increase in the estimated fiscal 2005 profit from export sales primarily due to increased profit on export sales, along with an adjustment to the estimated fiscal 2004 benefit.

Sales by Segment

in millions	2005	2004	Change	Volume Change	Average Price Change
Chicken	$ 8,295	$ 8,363	$ (68)	(2.6)%	1.8%
Beef	11,618	11,951	(333)	(0.0)%	(2.8)%
Pork	3,247	3,185	62	(4.6)%	6.9%
Prepared Foods	2,801	2,891	(90)	(6.7)%	3.8%
Other	53	51	2	N/A	N/A
Total	$26,014	$26,441	$(427)	(2.3)%	0.7%

Operating Income (Loss) by Segment

in millions	2005	2004	Change	Margin 2005	Margin 2004
Chicken	$582	$548	$ 34	7.0%	6.6%
Beef	(12)	127	(139)	(0.1)%	1.1%
Pork	47	140	(93)	1.4%	4.4%
Prepared Foods	78	28	50	2.8%	1.0%
Other	50	74	(24)	N/A	N/A
Total	$745	$917	$(172)	2.9%	3.5%

• **Chicken segment** sales decreased 0.8% in fiscal 2005 compared to fiscal 2004. The decline in sales primarily was due to lower volumes, caused largely by one less week of sales in fiscal 2005, partially offset by higher average sales prices and improved product mix. Chicken segment operating income increased $34 million in fiscal 2005 compared to fiscal 2004. Fiscal 2005 operating income includes $12 million of plant closing costs and $8 million of hurricane-related losses. Fiscal 2004 operating income includes $13 million of plant closing costs and $13 million of charges related to fixed asset write-downs. Fiscal 2005 operating income was affected positively by decreased grain costs of $312 million. However, the fiscal 2005 benefits from decreased grain costs were offset partially by realized and unrealized net losses of $27 million from the Company's commodity risk management activities related to grain purchases, compared to realized and unrealized net gains of $127 million recorded in fiscal 2004. Additionally, fiscal 2005 operating income was affected negatively by higher energy costs.

• **Beef segment** sales decreased 2.8% in fiscal 2005 compared to fiscal 2004. The decline in sales primarily resulted from the effects of import and export restrictions. Those restrictions contributed to lower international sales volumes and lower average domestic sales prices in part due to the mix of products allowed for export. Additionally, fiscal 2005 had one less week of sales, compared to fiscal 2004. Fiscal 2005 operating income decreased $139 million compared to fiscal 2004. Fiscal 2005 operating income includes $10 million received in connection with vitamin antitrust litigation. Fiscal 2004 operating income includes BSE-related charges of $61 million and $5 million of charges related to intangible asset impairments and fixed asset write-downs. The decrease in operating income primarily was due to lower domestic cattle supplies and restrictions on imports of Canadian cattle for most of fiscal 2005, which resulted in lower production volumes and raised the operating cost per head. Additionally, fiscal 2005 operating income was affected negatively by decreased volumes and margins at the Company's Lakeside operation in Canada. Also, fiscal 2005 operating results include realized and unrealized net gains of $13 million from the Company's commodity risk management activities related to its fixed forward boxed beef sales and forward live cattle purchases, compared to realized and unrealized net gains of $51 million recorded in fiscal 2004.

• **Pork segment** sales increased 1.9% in fiscal 2005 compared to fiscal 2004. The increase in sales resulted primarily from higher average sales prices, both domestically and internationally, compared to fiscal 2004. The higher average sales prices, driven primarily by higher average live hog prices, were offset partially by a decrease in volumes, caused largely by one less week of sales. Fiscal 2005 operating income decreased $93 million compared to fiscal 2004. Fiscal 2005 operating income includes costs of $33 million related to a legal settlement involving the Company's live swine operations and $2 million received in connection with vitamin antitrust litigation. Fiscal 2004 operating income includes $1 million of charges related to fixed asset write-downs. The decrease in operating income primarily was due to higher average live hog prices and lower volumes, which increased the operating cost per head and more than offset the increase in average sales prices.

• **Prepared Foods segment** sales decreased 3.1% in fiscal 2005 compared to fiscal 2004. The decline in sales primarily was due to lower volumes, caused largely by one less week of sales and the rationalization of lower margin product lines, partially offset by higher average sales prices. Fiscal 2005 operating income increased $50 million compared to fiscal 2004. Fiscal 2005 operating income includes $2 million of plant closing costs. Fiscal 2004 operating income includes $27 million of plant closing costs and $27 million of charges related to fixed asset write-downs and intangible asset impairments. Fiscal 2005 operating income was negatively impacted by increased raw material prices.

LIQUIDITY AND CAPITAL RESOURCES

In fiscal 2006, net cash of $287 million was provided by operating activities, a decrease of $712 million from fiscal 2005. The decrease primarily was due to a decline in net income of $605 million, excluding the non-cash effect of deferred income taxes, and the net change in the working capital effect of $147 million. The Company used cash primarily from borrowings and operations to fund $531 million of property, plant and equipment additions, to pay dividends of $55 million on the Company's Class A and Class B stock and to repurchase $42 million of the Company's Class A stock in the open market, which purchases were made to satisfy the Company's stock compensation programs. The expenditures for property, plant and equipment were related to acquiring new equipment and upgrading facilities to maintain competitive standing and position the Company for future opportunities. The Company's foreseeable cash needs for operations growth and capital expenditures are expected to be met through cash flows provided by operating activities.

Cash Provided by Operating Activities

in millions	2006	2005	2004
	$287	$999	$932

In the second quarter of fiscal 2006, the Company issued $1.0 billion of new senior unsecured notes, which will mature on April 1, 2016 (2016 Notes). The 2016 Notes carried an initial 6.60% interest rate, with interest payments due semi-annually on April 1 and October 1. In fiscal 2007, the Company used $750 million of the proceeds for the repayment of its outstanding $750 million 7.25% Notes due October 1, 2006. The remaining proceeds were used for general corporate purposes. The Company's short-term investment at September 30, 2006, includes $750 million of proceeds from this new issuance and earnings of $20 million on the investment.

On July 24, 2006, Moody's Investors Services, Inc. (Moody's) downgraded the Company's credit rating applicable to the 2016 Notes from "Baa3" to "Ba1." This downgrade increased the interest rate on the 2016 Notes from 6.60% to 6.85%, effective on the first day of the interest period during which the rating change required an adjustment to the interest rate (i.e., the issuance of the 2016 Notes). Accordingly, in the fourth quarter, the Company recorded an additional $0.7 million for the interest period from March 22, 2006, to July 1, 2006. This downgrade will increase annual interest expense and related fees by approximately $5 million, including $2.5 million related to the 2016 Notes.

On July 31, 2006, Standard & Poor's (S&P) also downgraded the Company's credit rating applicable to the 2016 Notes from "BBB" to "BBB–." This downgrade did not result in an increase in the interest rate on the 2016 Notes, nor did it result in an increase in interest expense or related fees for other debt.

On September 18, 2006, Tyson Fresh Meats, Inc. (TFM), a wholly-owned subsidiary of the Company, guaranteed the 2016 Notes. This guarantee does not extend to the other unsecured senior notes of the Company. Moody's and S&P did not change the July 2006 credit ratings applicable to the 2016 Notes. However, Moody's issued a new credit rating of "Ba2," and S&P issued a new credit rating of "BB+" related to the other unsecured senior notes not guaranteed by TFM. These new ratings did not impact the interest rate applicable to the 2016 Notes. However, other interest expense and related fees for other debt increased by less than $3 million.

It is possible one or both of the debt rating agencies may further downgrade the Company's bond rating applicable to the 2016 Notes. S&P currently rates this long-term debt "BBB–," with a negative outlook. Moody's currently rates this debt "Ba1," with a negative outlook. The pretax impact to earnings of each further downgrade would be approximately $5 million annually, per rating agency, of which $2.5 million would be related to increased interest expense on the 2016 Notes.

Total debt at September 30, 2006, was approximately $4.0 billion, an increase of $984 million from October 1, 2005. However, when adjusted for the $750 million of proceeds on deposit, debt would have been $3.2 billion, an increase of $234 million from October 1, 2005. Additionally, the Company has an unsecured revolving credit facility totaling $1.0 billion that supports the Company's short-term funding needs and letters of credit. The $1.0 billion facility expires in September 2010. This agreement was amended on July 27, 2006, which reduced the availability of the unsecured revolving credit facility. See below for further description. Also, at September 30, 2006, the Company had a receivables purchase agreement with three co-purchasers to sell up to $750 million of trade receivables. These agreements were restructured and extended in the fourth quarter of fiscal 2006 and now consist of $375 million expiring August 2007 and $375 million expiring in August 2009. At September 30, 2006, there was $79.5 million outstanding on each of the commitments. At October 1, 2005, there were no amounts drawn under the receivables purchase agreement. Outstanding debt at September 30, 2006, consisted of $3.4 billion of debt securities, a $345 million term loan and other indebtedness of $246 million.

Total Capitalization

in millions	**2006**	2005	2004
Debt	**$3,979**	$2,995	$3,362
Equity	**4,440**	4,671	4,292

The revolving credit facility, senior notes, notes, term loan and accounts receivable securitization contain various covenants, the more restrictive of which contain a maximum allowed leverage ratio and a minimum required interest coverage ratio.

On July 27, 2006, the Company entered into a third amendment to its five-year credit revolving facility and the three-year term loan facility of its subsidiary, Lakeside Farms Industries, Ltd. These amendments modified the minimum required interest coverage ratio, temporarily suspended the maximum allowed leverage ratios and implemented temporary minimum consolidated EBITDA requirements. The Company was in compliance with all of such covenants at fiscal year end.

In connection with these amendments, the Company's availability under its unsecured revolving credit facility decreased, and if the Company's credit rating is further downgraded, prior to the delivery of the second quarter fiscal 2007 compliance certificate, the Company is required to have certain subsidiaries guarantee the revolving credit facility and term loan. The amended agreement allows for maximum availability under the revolving credit facility of 50% of inventory, reduced by letters of credit issued and amounts outstanding under its term loan. The amount available as of September 30, 2006, was $481 million.

The Company's foreseeable cash needs for operations and capital expenditures are expected to be met primarily through cash flows provided by operating activities. Additionally, at September 30, 2006, the Company had unused borrowing capacity of $1.1 billion, consisting of $481 million available under its $1.0 billion unsecured revolving credit agreement and $591 million under its accounts receivable securitization. At September 30, 2006, the Company had construction projects in progress that will require approximately $182 million to complete. Capital spending for fiscal 2007 is expected to be approximately $400 million.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements material to its financial position or results of operations. The off-balance sheet arrangements the Company has are guarantees of debt of outside third parties involving a lease, grower loans and residual value guarantees covering certain operating leases for various types of equipment. See Note 8, "Commitments" of the Notes to Consolidated Financial Statements for further discussions of these guarantees.

CONTRACTUAL OBLIGATIONS

The following table summarizes the Company's contractual obligations as of September 30, 2006:

Payments Due by Period

in millions	2007	2008–2009	2010–2011	2012 and thereafter	Total
Debt and capital lease obligations:					
Principal payments[1]	$ 992	$ 454	$237	$2,296	$3,979
Interest payments[2]	231	464	284	617	1,596
Guarantees[3]	54	74	27	34	189
Operating lease obligations[4]	87	98	37	17	239
Purchase obligations[5]	319	11	7	2	339
Capital expenditures[6]	160	22	–	–	182
Other long-term liabilities[7]	4	8	7	43	62
Total contractual commitments	$1,847	$1,131	$599	$3,009	$6,586

(1) In the event of a default on payment or violation of debt covenants, acceleration of the principal payments could occur. At September 30, 2006, the Company was in compliance with all of its debt covenants.

(2) Interest payments include only interest payments on fixed-rate and fixed-term debt, based on the expected payment dates. The Company has other interest obligations on variable-rate, non-term debt; however, these obligations have been excluded, as the timing of payments and expected interest rates cannot be estimated reasonably.

(3) Amounts included are for the guarantees of debt of outside third parties, which involve a lease and grower loans, all of which are substantially collateralized by the underlying assets, as well as residual value guarantees covering certain operating leases for various types of equipment. The amounts included are the maximum potential amount of future payments.

(4) Amounts included in operating lease obligations are minimum lease payments under lease agreements.

(5) Amounts included in purchase obligations are agreements to purchase goods or services that are enforceable and legally binding on the Company that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. The purchase obligations amount includes items such as future purchase commitments for grains, livestock and natural gas contracts that provide terms that meet the above criteria. The Company has excluded future purchase commitments for contracts that do not meet these criteria. Purchase orders have not been included in the table, as a purchase order is an authorization to purchase and is not considered an enforceable and legally binding contract. Contracts for goods or services that contain termination clauses without penalty have also been excluded.

(6) Amounts included in capital expenditures are estimated amounts to complete construction projects in progress as of September 30, 2006.

(7) Amounts included in other long-term liabilities are items that meet the definition of a purchase obligation and are recorded in the Company's Consolidated Balance Sheets.

RECENTLY ADOPTED ACCOUNTING STANDARDS AND REGULATIONS

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" (SFAS No. 123R). The pronouncement requires companies to measure and recognize compensation expense for all share-based payments to employees, including grants of employee stock options, restricted stock and performance-based shares, in the financial statements based on the fair value at the date of the grant. In the first quarter of fiscal 2006, the Company adopted SFAS No. 123R using the modified prospective method. Under the modified prospective method, compensation cost is recognized for all share-based payments granted after the adoption of SFAS No. 123R and for all awards granted to employees prior to the adoption date of SFAS No. 123R and unvested on the adoption date. Accordingly, no restatements were made to prior periods. Prior to the adoption of SFAS No. 123R, the Company applied Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" in accounting for its employee stock compensation plans. Accordingly, no compensation expense was recognized for its stock option issuances as stock options are issued with an exercise price equal to the closing price at the date of grant. Also, prior to the adoption of SFAS No. 123R, the Company issued restricted stock and recorded the fair value of such awards as deferred compensation amortized over the vesting period. The fair value of each option grant is established on the date of grant using the Black-Scholes option-pricing model for grants awarded prior to October 1, 2005, and a binomial lattice method for grants awarded subsequent to October 1, 2005. The change to the binomial lattice method was made to better reflect the exercise behavior of top management. The Company recognized compensation expense (net of tax) of $9 million and $15 million in fiscal 2006 related to stock options and restricted stock, respectively. As of September 30, 2006, the Company had $38 million of total unrecognized compensation cost related to stock option plans that will be recognized over a weighted average period of 2.2 years and $42 million of total unrecognized compensation cost related to restricted stock awards that will be recognized over a weighted-average period of 1.5 years.

In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations," an interpretation of FASB Statement No. 143 (FIN 47). Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143), was issued in June 2001 and requires an entity to recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. SFAS No. 143 applies to legal obligations associated with the retirement of a tangible long-lived asset that resulted from the acquisition, construction, development and/or the normal operation of a long-lived asset. The associated asset costs are capitalized as part of the carrying amount of the long-lived asset. FIN 47 clarifies the term "conditional asset retirement obligation" as used in SFAS No. 143, refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. The Company adopted FIN 47 as of September 30, 2006. See Note 2, "Change in Accounting Principle" in the Notes to Consolidated Financial Statements for the impact of the adoption of FIN 47.

In September 2005, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 04-13, "Accounting for Purchases and Sales of Inventory with the Same Counterparty." The issues were the circumstances under which two or more inventory purchase and sales transactions with the same counterparty should be viewed as a single exchange transaction within the scope of Accounting Principles Board Opinion 29, "Accounting for Nonmonetary Transactions" and circumstances under which nonmonetary exchanges of inventory within the same line of business should be recognized at fair value. The Company adopted EITF Issue No. 04-13 in the third quarter of fiscal 2006. The adoption of this Issue did not have a material impact on the Company's consolidated financial statements.

RECENTLY ISSUED ACCOUNTING STANDARDS AND REGULATIONS

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006; therefore, the Company expects to adopt FIN 48 at the beginning of fiscal 2008. The Company is currently in the process of evaluating the potential impact of FIN 48.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 provides guidance for using fair value to measure assets and liabilities. This standard also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value and the effect of fair value measurements on earnings. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years; therefore the Company expects to adopt SFAS No. 157 at the beginning of fiscal 2009. The Company is currently in the process of evaluating the potential impact of SFAS No. 157.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)" (SFAS No. 158). SFAS No. 158 requires companies to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its consolidated balance sheet and to recognize changes in that funded status in the year in which the changes occur through other comprehensive income. This standard also requires companies to measure the funded status of a plan as of the date of its annual consolidated balance sheet, with limited exceptions. SFAS No. 158 is effective for financial statements issued for fiscal years ending after December 15, 2006; therefore, the Company expects to adopt SFAS No. 158 at the end of fiscal 2007. Based on the information available at September 30, 2006, the Company expects an increase in assets of $6 million, an increase in liabilities of $8 million and an adjustment to accumulated other comprehensive income of $2 million when it adopts SFAS No. 158.

In September 2006, the Securities and Exchange Commission staff published Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108). SAB 108 addresses quantifying the financial statement effects of misstatements, specifically, how the effects of prior year uncorrected errors must be considered in quantifying misstatements in the current year financial statements. SAB 108 is effective for fiscal years ending after November 15, 2006; therefore, the Company expects to adopt SAB 108 at the end of fiscal 2007. The Company is currently in the process of evaluating the potential impact of SAB 108.

CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The following is a summary of certain accounting estimates considered critical by the Company.

- **Financial instruments:** The Company is a purchaser of certain commodities, such as grains, livestock and natural gas in the course of normal operations. The Company uses derivative financial instruments to reduce its exposure to various market risks. Generally, contract terms of a hedge instrument closely mirror those of the hedged item, providing a high degree of risk reduction and correlation. Contracts designated and highly effective at meeting the risk reduction and correlation criteria are recorded using hedge accounting, as defined by Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), as amended. If a derivative instrument is a hedge, as defined by SFAS No. 133, depending on the nature of the hedge, changes in the fair value of the instrument will be offset either against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of an instrument's change in fair value is recognized immediately in earnings as a component of cost of sales. Instruments the Company holds as part of its risk management activities that do not meet the criteria for hedge accounting, as defined by SFAS No. 133, as amended, are marked to fair value with unrealized gains or losses reported currently in earnings. The Company generally does not hedge anticipated transactions beyond 12 months.

• **Contingent liabilities:** The Company is subject to lawsuits, investigations and other claims related to wage and hour/labor, livestock procurement, securities, environmental, product, taxing authorities and other matters, and is required to assess the likelihood of any adverse judgments or outcomes to these matters, as well as potential ranges of probable losses. A determination of the amount of reserves and disclosures required, if any, for these contingencies are made after considerable analysis of each individual issue. These reserves may change in the future due to changes in the Company's assumptions, the effectiveness of strategies or other factors beyond the Company's control.

• **Accrued self insurance:** Insurance expense for health and welfare, workers' compensation, auto liability and general liability risks are estimated using experience and actuarial estimates. The assumptions used to arrive at periodic expenses are reviewed regularly by management. However, actual expenses could differ from these estimates, which could result in adjustments to amounts recorded.

• **Pension and other postretirement benefits:** The Company provides a range of benefits to its employees and retired employees, including pensions and postretirement healthcare benefits. The Company records annual amounts related to these plans based on calculations specified by generally accepted accounting principles, which include various actuarial assumptions, such as discount rates, assumed rates of return on plan assets, compensation increases, turnover rates, mortality rates, retirement rates and healthcare cost trends. The Company reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on the current rates and trends when it is deemed appropriate to do so. The Company generally recognizes the effect of these modifications immediately into earnings rather than amortizing the effect over future periods. See Note 12, "Pension and other postretirement benefits" of the Notes to Consolidated Financial Statements for a sensitivity discussion of the assumed healthcare cost trend rates.

• **Impairment of long-lived assets:** The Company is required to assess potential impairments to its long-lived assets, which are primarily property, plant and equipment. If impairment indicators are present, the Company must measure the fair value of the assets in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets," to determine if adjustments are to be recorded.

• **Impairment of goodwill and other intangible assets:** In assessing the recoverability of the Company's goodwill and other intangible assets, management relies on a number of factors including operating results, business plans, economic projections, anticipated future cash flow, assumed royalty rates and marketplace data. There are inherent uncertainties related to these factors and management's judgment in applying these factors to the assessment of recoverability. The Company has elected to make the first day of the fourth quarter the annual impairment assessment date for goodwill and other intangible assets. Goodwill valuations have been calculated using an income approach based on the present value of future cash flows of each reporting unit. Other intangible asset valuations have been calculated for trademarks using a royalty rate method based on the present value of future cash flows and for patents and in-process technology using the cash flow method based on the present value of future cash flows. Changes in economic and operating conditions impacting these assumptions could result in goodwill impairment in future periods. The Company could be required to evaluate the recoverability of goodwill and other intangible assets prior to the required annual assessment if the Company experiences disruptions to the business such as end market conditions, unexpected significant declines in operating results, divestiture of a significant component of the Company and market capitalization declines. These types of events and the resulting analysis could result in goodwill impairment charges in the future. The Company recorded impairments of other intangible assets of $3 million, $4 million and $25 million in fiscal 2006, 2005 and 2004, respectively.

• **Marketing and advertising costs:** The Company incurs advertising, retailer incentive and consumer incentive costs to promote its products through its marketing programs. These programs include cooperative advertising, volume discounts, in-store display incentives, coupons and other programs. The recognition of the costs related to these programs requires management's judgment in estimating the potential performance and redemption of each program. These estimates are based on many factors, including experience of similar promotional programs. Actual expenses may differ if the performance and redemption rates vary from the estimated rates.

• **Income taxes:** The Company estimates its total income tax expense based on statutory tax rates and tax planning opportunities available to the Company in various jurisdictions in which the Company earns income. Federal income taxes include an estimate for taxes on earnings of foreign subsidiaries expected to be remitted to the United States and be taxable, but not for earnings considered indefinitely invested in the foreign subsidiary. Deferred income taxes are recognized for the future tax effects of temporary differences between financial and income tax reporting using tax rates in effect for the years in which the differences are expected to reverse. Valuation allowances are recorded when it is likely a tax benefit will not be realized for a deferred tax asset. Changes in tax laws and rates also could affect the recorded deferred tax assets and liabilities in the future. Management is not aware of any such changes that would have a material effect on the Company's results of operations, cash flows or financial position. In addition, the calculation of tax liabilities involves uncertainties in the application of complex tax regulations across the tax jurisdictions where the Company operates. The Company records tax liabilities for anticipated tax audit issues based on our estimate of whether, and the extent to which, additional taxes will be due. The Company adjusts these reserves in light of changing facts and circumstances; however, due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from the current estimate of the tax liabilities.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

MARKET RISK

Market risks relating to the Company's operations result primarily from changes in commodity prices, interest rates and foreign exchange rates, as well as credit risk concentrations. To address certain of these risks, the Company enters into various derivative transactions as described below. If a derivative instrument is a hedge, as defined by SFAS No. 133, as amended, depending on the nature of the hedge, changes in the fair value of the instrument will be offset either against the change in fair value of the hedged assets, liabilities or firm commitments through earnings, or recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of an instrument's change in fair value, as defined by SFAS No. 133, as amended, will be recognized immediately in earnings as a component of cost of sales. Additionally, the Company holds certain positions, primarily in grain and livestock futures that do not meet the criteria for SFAS No. 133 hedge accounting. These positions are marked to market, and the unrealized gains and losses are reported in earnings at each reporting date. The changes in market value of derivatives used in the Company's risk management activities surrounding inventories on hand or anticipated purchases of inventories are recorded in cost of sales. The changes in market value of derivatives used in the Company's risk management activities surrounding forward sales contracts are recorded in sales.

The sensitivity analyses presented below are the measures of potential losses of fair value resulting from hypothetical changes in market prices related to commodities. Sensitivity analyses do not consider the actions management may take to mitigate the Company's exposure to changes, nor do they consider the effects such hypothetical adverse changes may have on overall economic activity. Actual changes in market prices may differ from hypothetical changes.

• **Commodities Risk:** The Company is a purchaser of certain commodities, such as grains, livestock and natural gas in the course of normal operations. The Company uses commodity futures to reduce the effect of changing prices and as a mechanism to procure the underlying commodity. However, as the commodities underlying the Company's derivative financial instruments can experience significant price fluctuations, any requirement to mark-to-market the positions that have not been designated or do not qualify as hedges under SFAS No. 133 could result in volatility in the Company's results of operations. Generally, contract terms of a hedge instrument closely mirror those of the hedged item providing a high degree of risk reduction and correlation. Contracts designated and highly effective at meeting this risk reduction and correlation criteria are recorded using hedge accounting. The following table presents a sensitivity analysis resulting from a hypothetical change of 10% in market prices as of September 30, 2006, on the fair value of open positions. The fair value of such positions is a summation of the fair values calculated for each commodity by valuing each net position at quoted futures prices. The market risk exposure analysis includes hedge and non-hedge positions. The underlying commodities hedged have a correlation to price changes of the derivative positions such that the values of the commodities hedged based on differences between commitment prices and market prices and the value of the derivative positions used to hedge these commodity obligations are inversely correlated. The following sensitivity analysis reflects the impact on earnings for changes in the fair value of open positions.

Effect of 10% change in fair value

in millions	**2006**	2005
Livestock:		
Cattle	**$43**	$ 3
Hogs	**37**	13
Grain	**11**	15
Natural Gas	**1**	12

• **Interest Rate Risk:** At September 30, 2006, the Company had fixed-rate, long-term debt of $3.4 billion with a weighted average interest rate of 7.4%. The Company has exposure to changes in interest rates on this fixed-rate, long-term debt. Market risk for fixed-rate, long-term debt is estimated as the potential increase in fair value, resulting from a hypothetical 10% decrease in interest rates. A hypothetical 10% decrease in interest rates would have increased the fair value of the Company's fixed-rate, long-term debt by approximately $87 million at September 30, 2006, and $47 million at October 1, 2005. The fair values of the Company's long-term debt were estimated based on quoted market prices and/or published interest rates.

At September 30, 2006, the Company had variable rate, long-term debt of $545 million with a weighted average interest rate (as of September 30, 2006) of 6.1%. The Company hedges exposure to changes in interest rates on certain financial instruments. Under the terms of various leveraged equipment loans, the Company enters into interest rate swap agreements to effectively lock in a fixed interest rate for these borrowings. The maturity dates of these leveraged equipment loans range from fiscal years 2007 to 2009 with interest rates ranging from 4.7% to 5.4%. Because of the positions taken with respect to these swap agreements, an increase in interest rates would have a minimal effect on interest expense for fiscal years 2006 and 2005.

• **Foreign Currency Risk:** The Company has non-cash foreign exchange gain/loss exposure from fluctuations in foreign currency exchange rates as a result of certain receivables and payable balances. The primary currency exchanges the Company has exposure to are the Canadian dollar, the Mexican peso, the European euro, the British pound sterling and the Brazilian real. The Company periodically enters into foreign exchange forward contracts to hedge some of its foreign currency exposure. A hypothetical 10% change in foreign exchange rates amounts to approximately $4 million at September 30, 2006, and $5 million at October 1, 2005.

• **Concentrations of Credit Risk:** The Company's financial instruments exposed to concentrations of credit risk consist primarily of cash equivalents, short-term investments and trade receivables. The Company's cash equivalents and short-term investments are in high quality securities placed with major banks and financial institutions. Concentrations of credit risk with respect to receivables are limited due to the large number of customers and their dispersion across geographic areas. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. At September 30, 2006, and October 1, 2005, approximately 13.0% of the Company's net accounts receivable balance was due from one customer. No other single customer or customer group represents greater than 10% of net accounts receivable.

CAUTIONARY STATEMENTS RELEVANT TO FORWARD-LOOKING INFORMATION FOR THE PURPOSE OF "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain information in this report constitutes forward-looking statements. Such forward-looking statements include, but are not limited to, current views and estimates of future economic circumstances, industry conditions in domestic and international markets, Company performance and financial results, including, without limitation, debt-levels, return on invested capital, value-added product growth, capital expenditures, tax rates, access to foreign markets and dividend policy. These forward-looking statements are subject to a number of factors and uncertainties that could cause the Company's actual results and experiences to differ materially from the anticipated results and expectations expressed in such forward-looking statements. The Company wishes to caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made. Tyson undertakes no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

Among the factors that may cause actual results and experiences to differ from the anticipated results and expectations expressed in such forward-looking statements are the following: (i) fluctuations in the cost and availability of inputs and raw materials, such as live cattle, live swine, feed grains (including corn and soybean meal) and energy; (ii) the Company's ability to realize anticipated savings from its cost reduction initiatives; (iii) market conditions for finished products, including competition from other global and domestic food processors, the supply and pricing of competing products and alternative proteins and the demand for alternative proteins; (iv) risks associated with effectively evaluating derivatives and hedging activities; (v) access to foreign markets together with foreign economic conditions, including currency fluctuations, import/export restrictions and foreign politics; (vi) outbreak of a livestock disease (such as avian influenza (AI) or bovine spongiform encephalopathy (BSE)), which could have an effect on livestock owned by the Company, the availability of livestock for purchase by the Company, consumer perception of certain protein products or the Company's ability to access certain domestic and foreign markets; (vii) successful rationalization of existing facilities, and the operating efficiencies of the facilities; (viii) changes in the availability and relative costs of labor and contract growers and the ability of the Company to maintain good relationships with employees, labor unions, contract growers and independent producers providing livestock to the Company; (ix) issues related to food safety, including costs resulting from product recalls, regulatory compliance and any related claims or litigation; (x) changes in consumer preference and diets and the Company's ability to identify and react to consumer trends; (xi) significant marketing plan changes by large customers or the loss of one or more large customers; (xii) adverse results from litigation; (xiii) risks associated with leverage, including cost increases due to rising interest rates or changes in debt ratings or outlook; (xiv) changes in regulations and laws (both domestic and foreign), including changes in accounting standards, tax laws, environmental laws and occupational, health and safety laws; (xv) the ability of the Company to make effective acquisitions and successfully integrate newly acquired businesses into existing operations; (xvi) effectiveness of advertising and marketing programs; (xvii) the effect of, or changes in, general economic conditions; and (xviii) those factors listed under Item 1A, "Risk Factors" included in the Company's September 30, 2006, Annual Report filed on Form 10-K.

Consolidated Statements of Operations

Three years ended September 30, 2006 in millions, except per share data	**2006**	2005	2004
Sales	**$25,559**	$26,014	$26,441
Cost of Sales	**24,631**	24,294	24,558
	928	1,720	1,883
Operating Expenses:			
Selling, general and administrative	**935**	928	880
Other charges	**70**	47	86
Operating Income (Loss)	**(77)**	745	917
Other (Income) Expense:			
Interest income	**(30)**	(10)	(5)
Interest expense	**268**	237	280
Other, net	**(22)**	(10)	7
	216	217	282
Income (Loss) before Income Taxes	**(293)**	528	635
Income Tax Expense (Benefit)	**(102)**	156	232
Income (Loss) before Cumulative Effect of Change in Accounting Principle	**(191)**	372	403
Cumulative Effect of Change in Accounting Principle, Net of Tax	**(5)**	–	–
Net Income (Loss)	**$ (196)**	$ 372	$ 403
Weighted Average Shares Outstanding:			
Class A Basic	**249**	243	243
Class B Basic	**96**	102	102
Diluted	**345**	357	357
Earnings Per Share:			
Earnings (Loss) before Cumulative Effect of Change in Accounting Principle			
Class A Basic	**$ (0.56)**	$ 1.11	$ 1.20
Class B Basic	**$ (0.52)**	$ 1.00	$ 1.08
Diluted	**$ (0.56)**	$ 1.04	$ 1.13
Cumulative Effect of Change in Accounting Principle			
Class A Basic	**$ (0.02)**	$ –	$ –
Class B Basic	**$ (0.01)**	$ –	$ –
Diluted	**$ (0.02)**	$ –	$ –
Net Earnings (Loss) per Share			
Class A Basic	**$ (0.58)**	$ 1.11	$ 1.20
Class B Basic	**$ (0.53)**	$ 1.00	$ 1.08
Diluted	**$ (0.58)**	$ 1.04	$ 1.13

See accompanying notes.

Consolidated Balance Sheets

September 30, 2006, and October 1, 2005 in millions, except per share data	2006	2005
Assets		
Current Assets:		
Cash and cash equivalents	**$ 28**	$ 40
Short-term investment	**770**	–
Accounts receivable, net	**1,183**	1,214
Inventories	**2,057**	2,062
Other current assets	**149**	169
Total Current Assets	**4,187**	3,485
Net Property, Plant and Equipment	**3,945**	4,007
Goodwill	**2,512**	2,502
Intangible Assets	**136**	142
Other Assets	**341**	368
Total Assets	**$11,121**	$10,504
Liabilities and Shareholders' Equity		
Current Liabilities:		
Current debt	**$ 992**	$ 126
Trade accounts payable	**942**	961
Other current liabilities	**912**	1,070
Total Current Liabilities	**2,846**	2,157
Long-Term Debt	**2,987**	2,869
Deferred Income Taxes	**495**	638
Other Liabilities	**353**	169
Shareholders' Equity:		
Common stock ($0.10 par value):		
Class A – authorized 900 million shares: issued 284 million shares in 2006 and 268 million shares in 2005	**28**	27
Class B – authorized 900 million shares: issued 86 million shares in 2006 and 102 million shares in 2005	**9**	10
Capital in excess of par value	**1,835**	1,867
Retained earnings	**2,781**	3,032
Accumulated other comprehensive income	**17**	28
	4,670	4,964
Less treasury stock, at cost – 15 million shares in 2006 and 2005	**230**	238
Less unamortized deferred compensation	**–**	55
Total Shareholders' Equity	**4,440**	4,671
Total Liabilities and Shareholders' Equity	**$11,121**	$10,504

See accompanying notes.

Consolidated Statements of Shareholders' Equity

Three years ended September 30, 2006 in millions	September 30, 2006 Shares	 Amount	October 1, 2005 Shares	 Amount	October 2, 2004 Shares	 Amount
Class A Common Stock:						
Balance at beginning of year	**268**	**$ 27**	268	$ 27	267	$ 27
Conversion from Class B shares	**16**	**1**	–	–	–	–
Reclassification and other	**–**	**–**	–	–	1	–
Balance at end of year	**284**	**28**	268	27	268	27
Class B Common Stock:						
Balance at beginning of year	**102**	**10**	102	10	102	10
Conversion to Class A shares	**(16)**	**(1)**	–	–	–	–
Balance at end of year	**86**	**9**	102	10	102	10
Capital in Excess of Par Value:						
Balance at beginning of year		**1,867**		1,849		1,861
Stock options exercised		**(2)**		14		(2)
Restricted shares issued		**(16)**		–		1
Restricted shares canceled		**3**		1		1
Cumulative effect of adoption of SFAS No. 123R		**(55)**		–		–
Restricted share amortization		**26**		–		–
Reclassification and other		**12**		3		(12)
Balance at end of year		**1,835**		1,867		1,849
Retained Earnings:						
Balance at beginning of year		**3,032**		2,728		2,380
Net income (loss)		**(196)**		372		403
Dividends paid		**(55)**		(55)		(55)
Dividends accrued		**–**		(13)		–
Balance at end of year		**2,781**		3,032		2,728
Accumulated Other Comprehensive Income (Loss), Net of Tax:						
Balance at beginning of year		**28**		(12)		(15)
Net hedging (gain) loss recognized in cost of sales		**3**		21		(40)
Net hedging unrealized gain (loss)		**1**		(1)		19
Unrealized gain (loss) on investments		**1**		(2)		–
Currency translation adjustment		**(6)**		23		23
Additional pension liability		**(10)**		(1)		1
Balance at end of year		**17**		28		(12)
Treasury Stock:						
Balance at beginning of year	**15**	**(238)**	17	(264)	16	(252)
Purchase of treasury shares	**3**	**(42)**	3	(45)	4	(72)
Stock options exercised	**(2)**	**35**	(3)	37	(3)	44
Restricted shares issued	**(1)**	**20**	(2)	38	–	6
Restricted shares canceled	**–**	**(5)**	–	(4)	–	(4)
Reclassification and other	**–**	**–**	–	–	–	14
Balance at end of year	**15**	**(230)**	15	(238)	17	(264)
Unamortized Deferred Compensation:						
Balance at beginning of year		**(55)**		(46)		(57)
Restricted shares issued		**–**		(35)		(7)
Restricted shares canceled		**–**		1		2
Amortization of deferred compensation		**–**		25		16
Cumulative effect of adoption of SFAS No. 123R		**55**		–		–
Balance at end of year		**–**		(55)		(46)
Total Shareholders' Equity		**$4,440**		$4,671		$4,292
Comprehensive Income (Loss):						
Net income (loss)		**$ (196)**		$ 372		$403
Other comprehensive income (loss), net of tax		**(11)**		40		3
Total Comprehensive Income (Loss)		**$ (207)**		$ 412		$ 406

See accompanying notes.

Consolidated Statements of Cash Flows

Three years ended September 30, 2006 in millions	**2006**	2005	2004
Cash Flows From Operating Activities:			
Net income (loss)	**$ (196)**	$ 372	$ 403
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Depreciation	**481**	465	458
Amortization	**36**	36	32
Plant closing related charges	**51**	10	28
Impairment and write-down of assets	**18**	25	46
Deferred taxes	**(130)**	(93)	8
Cumulative effect of change in accounting principle, before tax	**9**	–	–
Other, net	**(21)**	(2)	4
Decrease in accounts receivable	**43**	24	67
(Increase) decrease in inventories	**8**	13	(65)
Increase (decrease) in trade accounts payable	**(43)**	11	109
Net change in other current assets and liabilities	**31**	138	(158)
Cash Provided by Operating Activities	**287**	999	932
Cash Flows From Investing Activities:			
Additions to property, plant and equipment	**(531)**	(571)	(486)
Proceeds from sale of assets	**21**	47	27
Purchases of marketable securities	**(191)**	(543)	(99)
Proceeds from marketable securities	**214**	504	–
Purchase of short-term investment	**(750)**	–	–
Other, net	**13**	2	(42)
Cash Used for Investing Activities	**(1,224)**	(561)	(600)
Cash Flows From Financing Activities:			
Payments of debt, net	**(8)**	(720)	(242)
Net proceeds from borrowings of debt	**992**	353	–
Purchase of treasury shares	**(42)**	(45)	(72)
Dividends	**(55)**	(55)	(55)
Stock options exercised and other	**42**	24	43
Cash Provided by (Used for) Financing Activities	**929**	(443)	(326)
Effect of Exchange Rate Change on Cash	**(4)**	12	2
Increase (Decrease) in Cash and Cash Equivalents	**(12)**	7	8
Cash and Cash Equivalents at Beginning of Year	**40**	33	25
Cash and Cash Equivalents at End of Year	**$ 28**	$ 40	$ 33

See accompanying notes.

Notes to Consolidated Financial Statements

NOTE 1 BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

• **Description of Business:** Tyson Foods, Inc. (collectively, the Company or Tyson), founded in 1935 with world headquarters in Springdale, Arkansas, is the world's largest processor and marketer of chicken, beef and pork and the second largest food production company in the *Fortune* 500. Tyson produces a wide variety of brand name protein-based and prepared food products marketed in the United States and more than 80 countries around the world. Tyson is a recognized market leader in the retail and foodservice markets it serves. The Company has approximately 107,000 employees and more than 300 facilities and offices in 28 states and 20 countries.

• **Consolidation:** The consolidated financial statements include the accounts of all majority-owned and wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

• **Fiscal Year:** The Company utilizes a 52- or 53-week accounting period ending on the Saturday closest to September 30. The Company's accounting cycle resulted in a 52-week year for years 2006 and 2005, and a 53-week year for year 2004.

• **Reclassifications:** Certain reclassifications related to items on the Consolidated Statements of Operations have been made to conform to current year presentations. The effect of the reclassifications was not material to the Company's consolidated financial statements.

• **Cash and Cash Equivalents:** Cash equivalents consist of investments in short-term, highly liquid securities having original maturities of three months or less, which are made as part of the Company's cash management activity. The carrying values of these assets approximate their fair market values. The Company primarily utilizes a cash management system with a series of separate accounts consisting of lockbox accounts for receiving cash, concentration accounts funds are moved to, and several "zero-balance" disbursement accounts for funding of payroll, accounts payable and grower payments. As a result of the Company's cash management system, checks issued, but not presented to the banks for payment, may create negative book cash balances. These negative book cash balances are included in trade accounts payable and other current liabilities. Checks outstanding in excess of related book cash balances totaled approximately $246 million at September 30, 2006, and $332 million at October 1, 2005.

• **Accounts Receivable:** The Company records trade accounts receivable at net realizable value. This value includes an appropriate allowance for estimated uncollectible accounts to reflect any loss anticipated on the trade accounts receivable balances and charged to the provision for doubtful accounts. The Company calculates this allowance based on a history of write-offs, level of past due accounts and relationships with and economic status of the customers. At September 30, 2006, and October 1, 2005, the allowance for doubtful accounts was $8 million and $9 million, respectively.

• **Inventories:** Processed products, livestock (excluding breeders) and supplies and other are valued at the lower of cost (first-in, first-out) or market. Livestock includes live cattle, live chicken and live swine. Cost includes purchased raw materials, live purchase costs, growout costs (primarily feed, contract grower pay and catch and haul costs), labor and manufacturing and production overhead, which are related to the purchase and production of inventories. Live chicken consists of broilers and breeders. Breeders are stated at cost less amortization. The costs associated with breeders, including breeder chicks, feed and medicine, are accumulated up to the production stage and amortized to broiler inventory over the productive life of the flock using a standard unit of production.

Total inventory consists of:

in millions	2006	2005
Processed products	**$1,192**	$1,210
Livestock	**571**	537
Supplies and other	**294**	315
Total inventory	**$2,057**	$2,062

• **Depreciation:** Depreciation is provided primarily by the straight-line method using estimated lives for buildings and leasehold improvements of 10 to 39 years, machinery and equipment of three to 12 years and other of three to 20 years.

• **Long-Lived Assets:** The Company reviews the carrying value of long-lived assets at each balance sheet date if indication of impairment exists. Recoverability is assessed using undiscounted cash flows based on historical results and current projections of earnings before interest and taxes. The Company measures impairment as the excess of carrying cost over the fair value of an asset. The fair value of an asset is measured using discounted cash flows of future operating results based on a discount rate that corresponds to the Company's cost of capital.

• Goodwill and Other Intangible Assets: Goodwill and indefinite life intangible assets are initially recorded at fair value and not amortized, but are reviewed for impairment at least annually or more frequently if impairment indicators arise. In the Company's assessment of goodwill, management makes assumptions by segment regarding estimated future cash flows and other factors to determine the fair value of the respective assets. The fair value of trademarks is determined using a royalty rate method based on expected revenues by trademark. Goodwill has been allocated to and tested for impairment by reporting unit based on fair value of identifiable assets. At September 30, 2006, and October 1, 2005, the accumulated amortization of goodwill was $286 million.

Amount of goodwill by segment at September 30, 2006, and October 1, 2005, is as follows:

in millions	2006	2005
Chicken	$ 920	$ 922
Beef	1,204	1,199
Pork	322	321
Prepared Foods	66	60
Total	$2,512	$2,502

The increase in the goodwill balance primarily is due to deferred tax asset and liability adjustments of $12 million related to the acquisitions in previous years of Tyson Fresh Meats, Inc. (TFM: formerly known as IBP, inc.) and the assets of Millard Processing Services.

At September 30, 2006, the gross carrying value of intangible assets consisted of $73 million of trademarks, $85 million of patents and $11 million of supply contracts with accumulated amortization of $22 million and $11 million for patents and supply contracts, respectively. At October 1, 2005, the gross carrying value of intangible assets consisted of $76 million of trademarks, $85 million of patents and $11 million of supply contracts with accumulated amortization of $20 million and $10 million for patents and supply contracts, respectively. The reduction in the carrying value of intangible assets in fiscal 2006 compared to the prior year resulted from a $3 million impairment of trademarks. The impairment was recorded in Cost of Sales in the Consolidated Statements of Operations and included in the Prepared Foods segment. Amortization expense on combined patents and supply contracts of $3 million was recognized during fiscal 2006 and fiscal 2005, and $8 million was recognized during fiscal 2004. Amortization expense on intangible assets is estimated to be $2 million for year 2007, $3 million in years 2008 and 2009, $4 million in year 2010 and $5 million in year 2011. Patents and supply contracts are amortized using the straight-line method over their estimated period of benefit of five to 15 years, beginning with the date the benefits from intangible items are realized.

• Investments: The Company has investments in joint ventures and other entities. The Company typically uses the cost method of accounting where its voting interests are less than 20 percent and the equity method of accounting where its voting interests are in excess of 20 percent, but not greater than 50 percent. The Company's underlying share of each entity's equity is reported in the Consolidated Balance Sheets in Other Assets.

The Company has investments in marketable debt securities. As of September 30, 2006, and October 1, 2005, $0 and $5 million, respectively, were due in one year or less and were classified in Other Current Assets in the Consolidated Balance Sheets, and $115 million and $133 million, respectively, were classified in Other Assets in the Consolidated Balance Sheets, with maturities ranging from one to 30 years. The Company has determined all its marketable debt securities are available-for-sale investments. These investments are reported at fair value based on quoted market prices as of the balance sheet date, with unrealized gains and losses, net of tax, recorded in other comprehensive income. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is recorded in interest income. The cost of securities sold is based on the specific identification method. Realized gains and losses on the sale of debt securities and declines in value judged to be other than temporary are recorded on a net basis in other income. Interest and dividends on securities classified as available-for-sale are recorded in interest income.

In the second quarter of fiscal 2006, the Company issued $1.0 billion of new 6.60% senior unsecured notes, which will mature on April 1, 2016. In fiscal 2007, the Company used $750 million of the proceeds for the repayment of its outstanding $750 million 7.25% Notes, which were due October 1, 2006, and the remaining proceeds were used for general corporate purposes. The Company's short-term investment at September 30, 2006, includes $750 million of proceeds from the new issuance and earnings of $20 million on the investment. These funds were on deposit in an interest bearing account with a trustee.

• **Asset Retirement Obligations:** In the fourth quarter of fiscal 2006, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations," an interpretation of FASB Statement No. 143 (FIN 47), "Accounting for Asset Retirement Obligations" (SFAS No. 143), which requires the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made, and associated asset retirement costs be capitalized as part of the carrying amount of the long-lived asset. See Note 2, "Change in Accounting Principles" of the Notes to Consolidated Financial Statements for the impact of the adoption of FIN 47.

• **Accrued Self Insurance:** The Company uses a combination of insurance and self-insurance mechanisms to provide for the potential liabilities for health and welfare, workers' compensation, auto liability and general liability risks. Liabilities associated with the risks retained by the Company are estimated, in part, by considering claims experience, demographic factors, severity factors and other actuarial assumptions.

• **Capital Stock:** The Company has two classes of capital stock, Class A Common Stock, $0.10 par value (Class A stock) and Class B Common Stock, $0.10 par value (Class B stock). Holders of Class B stock may convert such stock into Class A stock on a share-for-share basis. Holders of Class B stock are entitled to 10 votes per share, while holders of Class A stock are entitled to one vote per share on matters submitted to shareholders for approval. Cash dividends cannot be paid to holders of Class B stock unless they are simultaneously paid to holders of Class A stock. The per share amount of the cash dividend paid to holders of Class B stock cannot exceed 90% of the cash dividend simultaneously paid to holders of Class A stock. The Company pays quarterly cash dividends to Class A and Class B shareholders. The Company paid Class A dividends per share of $0.16 and Class B dividends per share of $0.144 in fiscal years 2006, 2005 and 2004.

The Class B stock is considered a participating security requiring the use of the two-class method for the computation of basic earnings per share. The two-class computation method for each period reflects the cash dividends paid for each class of stock, plus the amount of allocated undistributed earnings computed using the participation percentage which reflects the dividend rights of each class of stock. Basic earnings per share were computed using the two-class method for all periods presented. The shares of Class B stock are considered to be participating convertible securities since the shares of Class B stock are convertible on a share-for-share basis into shares of Class A stock. Diluted earnings per share have been computed assuming the conversion of the Class B shares into Class A shares as of the beginning of each period.

• **Financial Instruments:** The Company is a purchaser of certain commodities, such as grains, livestock and natural gas in the course of normal operations. The Company uses derivative financial instruments to reduce its exposure to various market risks. Generally, contract terms of a hedge instrument closely mirror those of the hedged item, providing a high degree of risk reduction and correlation. Contracts designated and highly effective at meeting the risk reduction and correlation criteria are recorded using hedge accounting, as defined by Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), as amended. If a derivative instrument is a hedge, depending on the nature of the hedge, changes in the fair value of the instrument will be either offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. The effect of the derivatives and the hedged items accounted for as a hedge are recorded in cost of sales. The ineffective portion of an instrument's change in fair value will be immediately recognized in earnings as a component of cost of sales. Instruments the Company holds as part of its risk management activities that do not meet the criteria for hedge accounting are marked to fair value with unrealized gains or losses reported currently in earnings. Changes in market value of derivatives used in the Company's risk management activities surrounding inventories on hand or anticipated purchases of inventories or supplies are recorded in cost of sales. Changes in market value of derivatives used in the Company's risk management activities surrounding forward sales contracts are recorded in sales. The Company generally does not hedge anticipated transactions beyond 12 months.

• **Revenue Recognition:** The Company recognizes revenue when title and risk of loss are transferred to customers, which is generally on delivery based on terms of sale. Revenue is recognized as the net amount estimated to be received after deducting estimated amounts for discounts, trade allowances and product terms.

• **Litigation Reserves:** There are a variety of legal proceedings pending or threatened against the Company. Accruals are recorded when it is probable a liability has been incurred and the amount of the liability can be reasonably estimated based on current law, progress of each case, opinions and views of legal counsel and other advisers, the Company's experience in similar matters and management's intended response to the litigation. These amounts, which are not discounted and are exclusive of claims against third parties, are adjusted periodically as assessment efforts progress or additional information becomes available. The Company expenses amounts for administering or litigating claims as incurred. Accruals for legal proceedings are included in Other current liabilities in the Consolidated Balance Sheets.

• **Freight Expense:** Freight expense associated with products shipped to customers is recognized in cost of sales.

• **Advertising and Promotion Expenses:** Advertising and promotion expenses are charged to operations in the period incurred. Advertising and promotion expenses for fiscal years 2006, 2005 and 2004 were $493 million, $456 million and $465 million, respectively.

• **Use of Estimates:** The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States, which require management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

• **Recently Issued Accounting Standards and Regulations:**
In March 2005, the FASB issued FIN 47. See Note 2, "Change in Accounting Principles" of the Notes to Consolidated Financial Statements for further discussion.

In September 2005, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 04-13, "Accounting for Purchases and Sales of Inventory with the Same Counterparty." The issues were the circumstances under which two or more inventory purchase and sales transactions with the same counterparty should be viewed as a single exchange transaction within the scope of Accounting Principles Board Opinion 29, "Accounting for Nonmonetary Transactions" and circumstances under which nonmonetary exchanges of inventory within the same line of business should be recognized at fair value. The Company adopted EITF Issue No. 04-13 in the third quarter of fiscal 2006. The adoption of this Issue did not have a material impact on the Company's consolidated financial statements.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006; therefore the Company expects to adopt FIN 48 at the beginning of fiscal 2008. The Company is currently in the process of evaluating the potential impact of FIN 48.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS No. 157). SFAS No. 157 provides guidance for using fair value to measure assets and liabilities. This standard also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value and the effect of fair value measurements on earnings. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years; therefore, the Company expects to adopt SFAS No. 157 at the beginning of fiscal 2009. The Company is currently in the process of evaluating the potential impact of SFAS No. 157.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)" (SFAS No. 158). SFAS No. 158 requires companies to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its consolidated balance sheet and to recognize changes in funded status in the year in which the changes occur through other comprehensive income. This standard also requires companies to measure the funded status of a plan as of the date of its annual consolidated balance sheet, with limited exceptions. SFAS No. 158 is effective for financial statements issued for fiscal years ending after December 15, 2006; therefore, the Company expects to adopt SFAS No. 158 at the end of fiscal 2007. Based on the information available at September 30, 2006, the Company expects an increase in assets of $6 million, an increase in liabilities of $8 million and an adjustment to accumulated other comprehensive income of $2 million when it adopts SFAS No. 158.

In September 2006, the Securities and Exchange Commission staff published Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements in Current Year Financial Statements" (SAB 108). SAB 108 addresses quantifying the financial statement effects of misstatements, specifically, how the effects of prior year uncorrected errors must be considered in quantifying misstatements in the current year financial statements. SAB 108 is effective for fiscal years ending after November 15, 2006; therefore, the Company expects to adopt SAB 108 at the end of fiscal 2007. The Company is currently in the process of evaluating the potential impact of SAB 108.

NOTE 2 CHANGE IN ACCOUNTING PRINCIPLES

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" (SFAS No. 123R). The pronouncement requires companies to measure and recognize compensation expense for all share-based payments to employees, including grants of employee stock options, restricted stock and performance-based shares, in the financial statements based on the fair value at the date of the grant. In the first quarter of fiscal 2006, the Company adopted SFAS No. 123R using the modified prospective method. Under the modified prospective method, compensation cost is recognized for all share-based payments granted after the adoption of SFAS No. 123R and for all awards granted to employees prior to the adoption date of SFAS No. 123R that were unvested on the adoption date. Accordingly, no restatements were made to prior periods.

Prior to the adoption of SFAS No. 123R, the Company applied Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" in accounting for its employee stock compensation plans. Accordingly, no compensation expense was recognized for its stock option issuances, as stock options are issued with an exercise price equal to the closing price at the date of grant. Also, prior to the adoption of SFAS No. 123R, the Company issued restricted stock and recorded the fair value of such awards as deferred compensation amortized over the vesting period.

In March 2005, the FASB issued FIN 47, an interpretation of SFAS No. 143. SFAS No. 143 was issued in June 2001 and requires an entity to recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. SFAS No. 143 applies to legal obligations associated with the retirement of a tangible long-lived asset that resulted from the acquisition, construction, development and/or the normal operation of a long-lived asset. The associated asset costs are capitalized as part of the carrying amount of the long-lived asset. FIN 47 clarifies the term "conditional asset retirement obligation" as used in SFAS No. 143, refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be estimated reasonably. Uncertainty about the timing and/or method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. SFAS No. 143 acknowledges in some cases, sufficient information may not be available to reasonably estimate the fair value of an asset retirement obligation (ARO).

The Company adopted FIN 47 in the fourth quarter of fiscal 2006. In connection with the adoption, an ARO liability of $12 million, a related ARO asset of $3 million and a cumulative adjustment due to change in accounting principle, net of tax of $5 million were recorded. The ARO liability is included in Other Liabilities and the ARO asset is included in Property, Plant and Equipment on the Consolidated Balance Sheets at September 30, 2006.

The Company's principal conditional asset retirement obligations relate to the potential future closure, sale or other disposal of certain production facilities. In connection with any such activity, the Company is legally obligated under various federal, state and local laws to properly retire the related wastewater treatment facility.

The pro forma impact on earnings before cumulative effect of change in accounting principle, the related earnings per share amounts and the asset retirement obligation, had FIN 47 been applied to fiscal 2005 and 2004, were not material.

NOTE 3 OTHER CHARGES

In July 2006, the Company announced its decision to implement approximately $200 million in cost reductions as part of a strategy to return to profitability. The cost reductions include staffing costs, consulting and professional fees, sales and marketing costs and other expenses. Virtually all of the cost reduction initiatives are expected to be completed by December 2006, with savings beginning principally in fiscal 2007. In fiscal 2006, the Company recorded charges of approximately $9 million for employee termination benefits resulting from the termination of approximately 400 employees. Of these charges, $4 million, $3 million, $1 million and $1 million were included, respectively, in the Chicken, Beef, Pork and Prepared Foods segments' Operating Income (Loss) and included in the Consolidated Statements of Operations in Other charges. As of September 30, 2006, approximately $3 million of employee termination benefits had been paid. Employee termination benefits are expected to be paid through September 2007. No material adjustments to the accrual are anticipated at this time.

In February 2006, the Company announced its decision to close its Norfolk, Nebraska, beef processing plant and its West Point, Nebraska, beef slaughter plant. These facilities closed in February 2006. Production from these facilities was shifted primarily to the Company's beef complex in Dakota City, Nebraska. Combined, these two facilities employed approximately 1,665 employees. In fiscal 2006, the Company recorded charges of $38 million for estimated impairment charges and $9 million of other closing costs. Other closing costs include $5 million for employee termination benefits and $4 million in other plant closing related liabilities. These amounts were reflected in the Beef segment's Operating Income (Loss) and included in the Consolidated Statements of Operations in Other charges. As of September 30, 2006, approximately $5 million in employee termination benefits and $4 million of other plant closing related costs had been paid. No material adjustments to the total accrual are anticipated at this time. In August 2006, the Company announced the decision to close its Boise, Idaho, beef slaughter plant and to scale back processing operations at its Pasco, Washington, complex. This decision resulted in the elimination of approximately 770 positions. The closure and processing change occurred in October 2006 and did not result in a significant charge to the Company.

In January 2006, the Company announced its decision to close two of its processed meats facilities in northeast Iowa. The Independence and Oelwein plants, which produced chopped ham and sliced luncheon meats, closed in March 2006. Combined, these two facilities employed approximately 400 employees. Equipment from these facilities was removed and either sold or used at other Tyson locations, while the plants and related property are currently offered for sale. In fiscal 2006, the Company recorded charges of $12 million for estimated impairment charges and $1 million for employee termination benefits. These amounts were reflected in the Prepared Foods segment's Operating Income (Loss) and included in the Consolidated Statements of Operations in Other charges. As of September 30, 2006, the employee termination benefits had been paid. No material adjustments to the total accrual are anticipated at this time.

During fiscal 2002, the Company recorded $26 million of costs for the restructuring of its live swine operations that consisted of $21 million of estimated liabilities for resolution of Company obligations under producer contracts and $5 million of other related costs associated with this restructuring, including lagoon and pit closure costs and employee termination benefits. In fiscal 2004, the Company recorded an additional reserve of $6 million for lagoon and pit closure costs. These amounts were reflected in the Pork segment's Operating Income (Loss) and included in the Consolidated Statements of Operations in Other charges. In fiscal 2005, the Company announced it agreed to settle a lawsuit that resulted from the restructuring of its live swine operations. The settlement resulted in the Company recording an additional $33 million of costs in the third quarter of fiscal 2005. These additional costs were reflected in the Pork segment's Operating Income (Loss) and included in the Consolidated Statements of Operations in Other charges. As of September 30, 2006, $49 million in payments to former producers and $14 million of other related costs have been paid. No material adjustments to the total accrual are anticipated at this time.

In July 2005, the Company announced its decision to make improvements to one of its Forest, Mississippi, facilities, which included more product lines, enabling the plant to increase production of processed and marinated chicken. The improvements were made at the former Choctaw Maid Farms location, which the Company acquired in fiscal 2003. The Company's Cleveland Street Forest, Mississippi, poultry operation ceased operations in March 2006. The Company transferred the production and employees to the newly upgraded facilities. The Cleveland Street Forest operation employed approximately 900 employees. As a result of this decision, the Company recorded total costs of $9 million for estimated impairment charges in fiscal 2005. In fiscal 2006, the Company recorded an additional $2 million for estimated impairment charges. These amounts were reflected in the Chicken segment's Operating Income (Loss) and included in the Consolidated Statements of Operations in Other charges. No material adjustments to the total accrual are anticipated at this time.

In July 2005, the Company announced its decision to close its Bentonville, Arkansas, facility. The Bentonville facility employed approximately 320 employees and produced raw and partially fried breaded chicken tenders, fillets, livers and gizzards. The plant ceased operations in November 2005. The production from this facility was transferred to the Company's Russellville, Arkansas, poultry plant, where an expansion enabled the facility to absorb the Bentonville facility's production. As a result of this decision, the Company recorded total costs of $1 million for estimated impairment charges and $1 million for employee termination benefits in fiscal 2005. These amounts were reflected in the Chicken segment's Operating Income (Loss) and included in the Consolidated Statements of Operations in Other charges. As of September 30, 2006, the employee termination benefits had been paid. No material adjustments to the total accrual are anticipated at this time.

In December 2004, the Company announced its decision to close its Portland, Maine, facility. The Portland operation employed approximately 285 employees and produced sliced meats and cooked roast beef. The plant ceased operations February 4, 2005, and production from this facility was transferred to other locations. As a result of the decision, the Company recorded total costs of $4 million which included $2 million of estimated impairment charges and $2 million of employee termination benefits. In fiscal 2005, the Company reversed approximately $1 million of closing related liabilities. In fiscal 2006, the Company reversed approximately $1 million related to employee termination benefits. These amounts were reflected in the Prepared Foods segment's Operating Income (Loss) and included in the Consolidated Statements of Operations in Other charges. As of September 30, 2006, the employee termination benefits had been paid. No material adjustments to the total accrual are anticipated at this time.

In fiscal 2004, the Company implemented a control whereby all plant facilities conduct fixed asset inventories on a recurring basis. As a result, the Company recorded fixed asset write-down charges of approximately $21 million in fiscal 2004, of which approximately $13 million was recorded in the Chicken segment, $5 million in the Prepared Foods segment, $2 million in the Beef segment and $1 million in the Pork segment. Additionally, the Company recorded charges of approximately $25 million related to the impairment of various intangible assets, of which $22 million was recorded in the Prepared Foods segment and $3 million was recorded in the Beef segment. The impairment charges apply primarily to trademarks acquired in the acquisition of TFM in 2001. These impairment charges were included in Other charges on the Company's Consolidated Statements of Operations and resulted primarily from lower product sales under some of the Company's regional trademarks as products are increasingly being sold under the Tyson trademark.

In fiscal 2004, the Company announced its decision to consolidate its manufacturing operations in Jackson, Mississippi, into the former Choctaw Maid Farms Carthage, Mississippi, facility, which the Company acquired in the fourth quarter of fiscal 2003. The Jackson location employed approximately 800 employees and was a poultry facility, including processing and deboning operations. As a result of this decision, the Company recorded total costs of approximately $9 million in fiscal 2004 that included approximately $8 million of estimated impairment charges and $1 million of employee termination benefits. These amounts were reflected in the Chicken segment's Operating Income (Loss) and included in the Consolidated Statements of Operations in Other charges. The Jackson location ceased operations in August 2004. The Company has fully paid its estimated termination benefits. No material adjustments to the total accrual are anticipated at this time.

In fiscal 2003, the Company announced its decision to close its Manchester, New Hampshire, and Augusta, Maine, Prepared Foods operations to further improve long-term manufacturing efficiencies. The production from these facilities was transferred to other locations. The Manchester operation employed approximately 550 employees and primarily produced sandwich meat for foodservice customers. The Augusta facility employed approximately 170 employees and produced hot dogs, sausages, boneless hams and deli turkey products. These locations ceased operations in fiscal 2004. As a result of this decision, the Company recorded total costs of $24 million in fiscal 2004, which included $4 million of costs related to closing the plants and $20 million of estimated impairment charges. The costs for closing the plants included $2 million of employee termination benefits and $2 million of other plant closing related costs. These amounts were reflected in the Prepared Foods segment's Operating Income (Loss) and included in the Consolidated Statements of Operations in Other charges. The Company has fully paid its employee termination benefits and other plant closing costs. No material adjustments to the total accrual are anticipated at this time.

NOTE 4 BSE-RELATED CHARGES

On December 23, 2003, the USDA announced a single case of BSE had been diagnosed in a Washington State dairy cow. The effect on the Company's Beef segment caused by that announcement, along with the decision of various countries to restrict imports of U.S. beef products, resulted in the Company recording BSE-related pretax charges of approximately $61 million in fiscal 2004. These charges were included in cost of sales and primarily related to the decline in value of finished product inventory destined for international markets, whether in-transit, located at the shipping ports or located within domestic storage, as well as live cattle inventory and open futures positions. No material adjustments were made subsequent to the initial BSE-related accruals recorded in fiscal 2004.

NOTE 5 FINANCIAL INSTRUMENTS

The Company purchases certain commodities, such as grains, livestock and natural gas, in the course of normal operations. As part of the Company's commodity risk management activities, the Company uses derivative financial instruments, primarily futures and swaps, to reduce its exposure to various market risks related to these purchases. Generally, contract terms of a financial instrument qualifying as a hedge instrument closely mirror those of the hedged item, providing a high degree of risk reduction and correlation. Contracts designated and highly effective at meeting the risk reduction and correlation criteria are recorded using hedge accounting. If a derivative instrument is a hedge, changes in the fair value of the instrument will be offset either against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of an instrument's change in fair value will be immediately recognized in earnings as a component of cost of sales.

The Company had derivative related balances of $11 million and $117 million recorded in other current assets at September 30, 2006, and October 1, 2005, respectively, and $23 million and $125 million in other current liabilities at September 30, 2006, and October 1, 2005, respectively.

• **Cash flow hedges:** The Company uses derivatives to moderate the financial and commodity market risks of its business operations. Derivative products, such as futures and option contracts, are considered to be a hedge against changes in the amount of future cash flows related to commodities procurement. The Company also enters into interest rate swap agreements to adjust the proportion of total long-term debt and leveraged equipment loans subject to variable interest rates. Under these interest rate swaps, the Company agrees to pay a fixed rate of interest on a notional principal amount and to receive in return an amount equal to a specified variable rate of interest for the same notional principal amount. These interest rate swaps are considered to be a hedge against changes in the amount of future cash flows associated with the Company's variable rate interest payments.

The effective portion of the cumulative gain or loss on the derivative instrument is reported as a component of Accumulated Other Comprehensive Income (Loss) in Shareholders' Equity and recognized into earnings in the same period or periods during which the hedged transaction affects earnings (for grain commodity hedges, when the chickens that consumed the hedged grain are sold). The remaining cumulative gain or loss on the derivative instrument in excess of the cumulative change in the present value of the future cash flows of the hedged item, if any, is recognized in earnings during the period of change. Ineffectiveness related to the Company's cash flow hedges was not significant during fiscal 2006, 2005 or 2004.

Derivative products related to grain procurement, such as futures and option contracts that meet the criteria for hedge accounting, are considered cash flow hedges, as they hedge against changes in the amount of future cash flows related to commodities procurement. The Company does not purchase derivative products related to grain procurement in excess of its physical grain consumption requirements. The Company's grain procurement hedging activities are for the grain commodity purchase price only and do not hedge other components of grain cost such as basis differential and freight costs. The after tax losses, net of gains, recorded in accumulated other comprehensive loss at September 30, 2006, related to cash flow hedges, were $3 million. These losses will be recognized within the next 12 months. Of these losses, the portion resulting from the Company's open mark-to-market hedge positions was not significant as of September 30, 2006. The Company generally does not hedge cash flows related to commodities beyond 12 months.

• **Fair value hedges:** The Company designates certain futures contracts as fair value hedges of firm commitments to purchase market hogs for slaughter and natural gas for the operation of its plants. From time to time, the Company also enters into foreign currency forward contracts to hedge changes in fair value of receivables and purchase commitments arising from changes in the exchange rates of foreign currencies; however, the fair value of the foreign exchange contracts was not material as of September 30, 2006, and October 1, 2005. The changes in the fair value of a derivative highly effective and that is designated and qualifies as a fair value hedge, along with the gain or loss on the hedged asset or liability attributable to the hedged risk (including gains or losses on firm commitments), are recorded in current period earnings. Ineffectiveness results when the change in the fair value of the hedge instrument differs from the change in fair value of the hedged item. Ineffectiveness related to the Company's fair value hedges was not significant during fiscal 2006, 2005 and 2004.

During fiscal 2006, the Company discontinued the use of hedge accounting for certain financial instruments in place to hedge forward cattle purchases. Hedge accounting was discontinued to provide a natural offset to the gains and losses resulting from the Company's derivatives tied to its forward fixed price sales of boxed beef, as this activity does not qualify for SFAS No. 133 hedge accounting. The contracts for which hedge accounting was discontinued had a fair value of approximately $28 million at the date hedge accounting was discontinued. The $28 million primarily was recognized as a component of cost of sales in the second quarter of fiscal 2006.

• **Undesignated positions:** The Company holds positions as part of its risk management activities, primarily certain grains, livestock and natural gas futures, for which it does not apply hedge accounting, but instead marks these positions to fair value through earnings at each reporting date. Changes in market value of derivatives used in the Company's risk management activities surrounding inventories on hand or anticipated purchases of inventories or supplies are recorded in cost of sales. Changes in market value of derivatives used in the Company's risk management activities surrounding forward sales contracts are recorded in sales. The Company generally does not enter into undesignated positions beyond 12 months. The Company recognized pretax net gains of approximately $8 million, $2 million and $58 million in cost of sales for fiscal 2006, 2005 and 2004, respectively, related to grain positions for which it did not apply hedge accounting.

The Company enters into certain forward sales of boxed beef and boxed pork and forward purchases of cattle at fixed prices. The fixed price sales contracts lock in the proceeds from a sale in the future and the fixed cattle purchases lock in the cost of raw material in the future, although the cost of the livestock and the related boxed beef and pork market prices at the time of the sale or purchase will vary from this fixed price. Therefore, as fixed forward sales and forward purchases of cattle are entered into, the Company also enters into the appropriate number of livestock futures positions. Changes in market value of the open livestock futures positions are marked to market and reported in earnings at each reporting date, even though the economic impact of the Company's fixed prices being above or below the market price is only realized at the time of sale or purchase. In connection with these livestock futures, the Company recorded realized and unrealized net losses of $54 million in fiscal 2006, which included an unrealized pretax loss on open mark-to-market futures positions of approximately $12 million as of September 30, 2006. Included in the net losses in fiscal 2006, are net gains of $28 million recorded subsequent to the removal of certain fair value designations described above. The Company recorded realized and unrealized net losses of $9 million and realized and unrealized net gains of $33 million in fiscal 2005 and 2004, respectively, related to livestock futures positions.

FAIR VALUES OF FINANCIAL INSTRUMENT LIABILITIES:

in millions	2006	2005
Commodity derivative positions	$ 12	$ 7
Interest-rate derivative positions	–	1
Total debt	4,094	3,232

Fair values are based on quoted market prices or published forward interest rate and natural gas curves. Carrying values for derivative positions equal the fair values as of September 30, 2006, and October 1, 2005, and the carrying values of total debt were $4.0 billion and $3.0 billion, respectively. All other financial instruments' fair values approximate recorded values at September 30, 2006, and October 1, 2005.

• **Concentrations of Credit Risk:** The Company's financial instruments exposed to concentrations of credit risk consist primarily of cash equivalents, short-term investments and trade receivables. The Company's cash equivalents and short-term investments are in high quality securities placed with major banks and financial institutions. Concentrations of credit risk with respect to receivables are limited due to the large number of customers and their dispersion across geographic areas. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. At September 30, 2006, and October 1, 2005, approximately 13.0% of the Company's net accounts receivable balance was due from one customer. No other single customer or customer group represents greater than 10% of net accounts receivable.

NOTE 6 PROPERTY, PLANT AND EQUIPMENT

The major categories of property, plant and equipment and accumulated depreciation at cost, at September 30, 2006, and October 1, 2005, are as follows:

in millions	2006	2005
Land	**$ 114**	$ 113
Building and leasehold improvements	**2,453**	2,339
Machinery and equipment	**4,270**	4,015
Land improvements and other	**202**	195
Buildings and equipment under construction	**279**	407
	7,318	7,069
Less accumulated depreciation	**3,373**	3,062
Net property, plant and equipment	**$3,945**	$4,007

The Company's total depreciation expense was $481 million, $465 million and $458 million in fiscal 2006, 2005 and 2004, respectively. The Company capitalized interest costs of $8 million, $6 million and $3 million in fiscal 2006, 2005 and 2004, respectively, as part of the cost of major asset construction projects. Approximately $182 million will be required to complete construction projects in progress at September 30, 2006.

NOTE 7 OTHER CURRENT LIABILITIES

Other current liabilities at September 30, 2006, and October 1, 2005, include:

in millions	2006	2005
Accrued salaries, wages and benefits	**$280**	$ 269
Self-insurance reserves	**265**	252
Income taxes payable	**–**	183
Other	**367**	366
Total other current liabilities	**$912**	$1,070

NOTE 8 COMMITMENTS

The Company leases equipment, properties and certain farms for which the total rentals approximated $146 million in fiscal 2006, $116 million in fiscal 2005 and $111 million in fiscal 2004. Most leases have terms ranging from one to seven years with varying renewal periods. The most significant obligations assumed under the terms of the leases are the upkeep of the facilities and payments of insurance and property taxes.

Minimum lease commitments under non-cancelable leases at September 30, 2006, totaled $239 million composed of $87 million for fiscal 2007, $59 million for fiscal 2008, $39 million for fiscal 2009, $23 million for fiscal 2010, $14 million for fiscal 2011 and $17 million for later years.

The Company guarantees debt of outside third parties, which involve a lease and grower loans, all of which are substantially collateralized by the underlying assets. Terms of the underlying debt range from two to nine years, and the maximum potential amount of future payments as of September 30, 2006, was $79 million. The Company also maintains operating leases for various types of equipment, some of which contain residual value guarantees for the market value of assets at the end of the term of the lease. The terms of the lease maturities range from one to seven years. The maximum potential amount of the residual value guarantees is approximately $110 million, of which approximately $26 million would be recoverable through various recourse provisions and an undeterminable recoverable amount based on the fair market value of the underlying leased assets. The likelihood of material payments under these guarantees is not considered probable. At September 30, 2006, and October 1, 2005, no liabilities for guarantees were recorded.

Additionally, the Company enters into future purchase commitments for various items such as grains, livestock and natural gas contracts. At September 30, 2006, these commitments totaled $339 million, composed of $319 million for fiscal 2007, $6 million for fiscal 2008, $5 million for fiscal 2009, $5 million for fiscal 2010, $2 million for fiscal 2011 and $2 million for later years.

NOTE 9 LONG-TERM DEBT

The Company has an unsecured revolving credit facility totaling $1.0 billion that supports the Company's short-term funding needs and letters of credit. The facility expires in September 2010. This agreement was amended on July 27, 2006, which reduced the availability of the unsecured revolving credit facility. See below for further description. At September 30, 2006, the Company had outstanding letters of credit totaling approximately $203 million issued primarily in support of workers' compensation insurance programs and derivative activities. There were no draw downs under these letters of credit at September 30, 2006. At September 30, 2006, and October 1, 2005, there were no amounts drawn under the revolving credit facility. The amended agreement allows for maximum availability under the revolving credit facility of 50% of inventory, reduced by letters of credit issued and amounts outstanding under its term loan. The amount available as of September 30, 2006, was $481 million.

The Company has a receivables purchase agreement with three co-purchasers to sell up to $750 million of trade receivables. These agreements were restructured and extended in the fourth quarter of fiscal 2006 and now consist of $375 million expiring in August 2007 and $375 million expiring in August 2009. The receivables purchase agreement has been accounted for as a borrowing and has an interest rate based on commercial paper issued by the co-purchasers. Under this agreement, substantially all of the Company's accounts receivable are sold to a special purpose entity, Tyson Receivables Corporation (TRC), which is a wholly-owned consolidated subsidiary of the Company. TRC has separate creditors who are entitled to be satisfied out of all of the assets of TRC prior to any value becoming available to the Company as TRC's equity holder. At September 30, 2006, there was $79.5 million outstanding under the receivables purchase agreement expiring in August 2007 and $79.5 million under the agreement expiring in August 2009, while at October 1, 2005, there were no amounts drawn under the receivables purchase agreement.

In the second quarter of fiscal 2006, the Company issued $1.0 billion of new senior unsecured notes, which will mature on April 1, 2016 (2016 Notes). The 2016 Notes carried an initial 6.60% interest rate, with interest payments due semi-annually on April 1 and October 1. In fiscal 2007, the Company used $750 million of the proceeds for the repayment of its outstanding $750 million 7.25% Notes due October 1, 2006. The remaining proceeds were used for general corporate purposes. The Company's short-term investment at September 30, 2006, included $750 million of proceeds from this new issuance and earnings of $20 million on the investment. The $750 million was deposited in an interest bearing account with a trustee, and is classified as Short-term investment on the September 30, 2006, Consolidated Balance Sheets.

On July 24, 2006, Moody's Investors Services, Inc. (Moody's) downgraded the Company's credit rating applicable to its 2016 Notes from "Baa3" to "Ba1." This downgrade increased the interest rate on the 2016 Notes from 6.60% to 6.85%, effective on the first day of the interest period during which the rating change required an adjustment to the interest rate (i.e., the issuance of the 2016 Notes). This downgrade will increase annual interest expense and related fees by approximately $5 million, including $2.5 million related to the 2016 Notes.

On July 31, 2006, Standard & Poor's (S&P) also downgraded the Company's credit rating applicable to the 2016 Notes from "BBB" to "BBB–." This downgrade did not result in an increase in the interest rate on the 2016 Notes, nor did it result in an increase in interest expense or related fees for other debt.

On September 18, 2006, TFM, a wholly-owned subsidiary of the Company, guaranteed the 2016 Notes. This guarantee does not extend to the other unsecured senior notes of the Company. Moody's and S&P did not change the July 2006 credit ratings applicable to the 2016 Notes. However, Moody's issued a new credit rating of "Ba2," and S&P issued a new credit rating of "BB+" related to the other unsecured senior notes not guaranteed by TFM. These new ratings did not impact the interest rate applicable to the 2016 Notes. However, other interest expense and related fees for other debt increased by less than $3 million.

The revolving credit facility, senior notes, term loan and accounts receivable securitization contain various covenants, the more restrictive of which contain maximum allowed leverage ratios and a minimum required interest coverage ratio.

On July 27, 2006, the Company entered into a third amendment to its five-year credit revolving facility and the three-year term loan facility of its subsidiary, Lakeside Farm Industries, Ltd. These amendments modified the minimum required interest coverage ratio, temporarily suspended the maximum allowed leverage ratios and implemented temporary minimum consolidated EBITDA requirements. The Company was in compliance with all of such covenants at fiscal year end.

In connection with these amendments, the Company's availability under its unsecured revolving credit facility decreased, and if the Company's credit rating is further downgraded, prior to the delivery of the second quarter fiscal 2007 compliance certificate, the Company is required to have certain subsidiaries guarantee the revolving credit facility and term loan.

Long-term debt consists of the following:

in millions	Maturity	**2006**	2005
Revolving credit facility	2010	**$ –**	$ –
Senior notes (rates ranging from 6.13% to 8.25%)	2006–2028	**3,388**	2,529
Term loan (6.36% effective rate at 9/30/06)	2008	**345**	345
Accounts receivable securitization (5.98% effective rate at 9/30/06)	2007, 2009	**159**	–
Institutional notes		**–**	10
Leveraged equipment loans (rates ranging from 4.67% to 5.36%)	2007–2009	**38**	64
Other	Various	**49**	47
Total debt		**3,979**	2,995
Less current debt		**992**	126
Total long-term debt		**$2,987**	$2,869

Under the terms of the leveraged equipment loans, the Company had cash deposits totaling approximately $35 million and $52 million, which were included on the Consolidated Balance Sheets in Other Assets at September 30, 2006, and October 1, 2005. Under these leveraged loan agreements, the Company entered into interest rate swap agreements to effectively lock in a fixed interest rate for these borrowings.

Annual maturities of long-term debt for the five fiscal years subsequent to September 30, 2006, are: 2007 – $992 million; 2008 – $19 million; 2009 – $435 million; 2010 – $236 million; 2011 – $1 million.

The Company has fully and unconditionally guaranteed $375 million of senior notes issued by TFM, a wholly-owned subsidiary of the Company. Additionally, the Company has fully and unconditionally guaranteed $345 million related to a term loan facility borrowed by Lakeside Farm Industries, Ltd., a wholly-owned subsidiary of the Company.

TFM, a wholly-owned subsidiary of the Company, has fully and unconditionally guaranteed the Company's 2016 Notes. The following condensed consolidating financial information is provided for the Company, as issuer, and for TFM, as guarantor, as an alternative to providing separate financial statements for the guarantor.

The following financial information presents condensed consolidating financial statements, which include Tyson Foods, Inc. (TFI Parent); Tyson Fresh Meats, Inc. (TFM Parent); the Non-Guarantor Subsidiaries on a combined basis; the elimination entries necessary to consolidate the TFI Parent, TFM Parent and the Non-Guarantor Subsidiaries; and Tyson Foods, Inc. on a consolidated basis.

Notes to Consolidated Financial Statements continued

Condensed Consolidating Statement of Operations for the year ended September 30, 2006

in millions	TFI Parent	TFM Parent	Non-Guarantor Subsidiaries	Eliminations	Total
Net Sales	$ –	$14,227	$12,067	$(735)	$25,559
Cost of Sales	3	14,206	11,157	(735)	24,631
	(3)	21	910	–	928
Operating Expenses:					
Selling, general and administrative	130	201	604	–	935
Other charges	–	51	19	–	70
Operating Income (Loss)	(133)	(231)	287	–	(77)
Other (Income) Expense:					
Interest expense, net	192	35	11	–	238
Other, net	(3)	(3)	(16)	–	(22)
Equity in net earnings of subsidiaries	(14)	(13)	–	27	–
	175	19	(5)	27	216
Income (Loss) before Income Taxes	(308)	(250)	292	(27)	(293)
Income Tax Expense (Benefit)	(112)	(92)	102	–	(102)
Net Income (Loss) before Cumulative Effect of Change in Accounting Principle	(196)	(158)	190	(27)	(191)
Cumulative Effect of Change in Accounting Principle, Net of Tax	–	(1)	(4)	–	(5)
Net Income (Loss)	$(196)	$ (159)	$ 186	$ (27)	$ (196)

Condensed Consolidating Statement of Income for the year ended October 1, 2005

in millions	TFI Parent	TFM Parent	Non-Guarantor Subsidiaries	Eliminations	Total
Net Sales	$ 429	$14,009	$12,786	$(1,210)	$26,014
Cost of Sales	85	13,883	11,536	(1,210)	24,294
	344	126	1,250	–	1,720
Operating Expenses:					
Selling, general and administrative	119	154	655	–	928
Other charges	–	–	47	–	47
Operating Income (Loss)	225	(28)	548	–	745
Other (Income) Expense:					
Interest expense, net	170	38	19	–	227
Other, net	(1)	(17)	8	–	(10)
Equity in net earnings of subsidiaries	(333)	(175)	–	508	–
	(164)	(154)	27	508	217
Income (Loss) before Income Taxes	389	126	521	(508)	528
Income Tax Expense (Benefit)	17	(15)	154	–	156
Net Income (Loss)	$ 372	$ 141	$ 367	$ (508)	$ 372

Notes to Consolidated Financial Statements continued

Condensed Consolidating Statement of Income for the year ended October 2, 2004

in millions	TFI Parent	TFM Parent	Non-Guarantor Subsidiaries	Eliminations	Total
Net Sales	$ 329	$14,240	$12,953	$(1,081)	$26,441
Cost of Sales	(45)	13,970	11,714	(1,081)	24,558
	374	270	1,239	–	1,883
Operating Expenses:					
Selling, general and administrative	75	154	651	–	880
Other charges	–	–	86	–	86
Operating Income	299	116	502	–	917
Other (Income) Expense:					
Interest expense, net	201	37	37	–	275
Other, net	–	(2)	9	–	7
Equity in net earnings of subsidiaries	(341)	(128)	–	469	–
	(140)	(93)	46	469	282
Income (Loss) before Income Taxes	439	209	456	(469)	635
Income Tax Expense	36	29	167	–	232
Net Income (Loss)	$ 403	$ 180	$ 289	$ (469)	$ 403

Condensed Consolidating Balance Sheet as of September 30, 2006

in millions	TFI Parent	TFM Parent	Non-Guarantor Subsidiaries	Eliminations	Total
Assets					
Current Assets:					
Cash and cash equivalents	$ 2	$ 1	$ 25	$ –	$ 28
Short-term investment	770	–	–	–	770
Accounts receivable, net	3	219	1,562	(601)	1,183
Inventories	–	611	1,446	–	2,057
Other current assets	37	79	84	(51)	149
Total Current Assets	812	910	3,117	(652)	4,187
Net Property, Plant and Equipment	93	1,120	2,732	–	3,945
Goodwill	–	1,526	986	–	2,512
Intangible Assets	–	60	76	–	136
Other Assets	177	129	116	(81)	341
Investment in subsidiaries	7,899	944	–	(8,843)	–
Total Assets	$8,981	$4,689	$7,027	$(9,576)	$11,121
Liabilities and Shareholders' Equity					
Current Liabilities:					
Current debt	$ 851	$ 125	$ 16	$ –	$ 992
Trade accounts payable	200	303	439	–	942
Other current liabilities	912	153	499	(652)	912
Total Current Liabilities	1,963	581	954	(652)	2,846
Long-Term Debt	2,371	257	359	–	2,987
Deferred Income Taxes	–	178	398	(81)	495
Other Liabilities	207	80	66	–	353
Shareholders' Equity	4,440	3,593	5,250	(8,843)	4,440
Total Liabilities and Shareholders' Equity	$8,981	$4,689	$7,027	$(9,576)	$11,121

Condensed Consolidating Balance Sheet as of October 1, 2005

in millions	TFI Parent	TFM Parent	Non-Guarantor Subsidiaries	Eliminations	Total
Assets					
Current Assets:					
Cash and cash equivalents	$ 6	$ 1	$ 33	$ –	$ 40
Accounts receivable, net	22	422	1,945	(1,175)	1,214
Inventories	–	574	1,488	–	2,062
Other current assets	91	47	46	(15)	169
Total Current Assets	119	1,044	3,512	(1,190)	3,485
Net Property, Plant and Equipment	14	1,154	2,839	–	4,007
Goodwill	–	1,520	982	–	2,502
Intangible Assets	–	62	80	–	142
Other Assets	128	98	142	–	368
Investment in subsidiaries	8,199	945	–	(9,144)	–
Total Assets	$8,460	$4,823	$7,555	$(10,334)	$10,504
Liabilities and Shareholders' Equity					
Current Liabilities:					
Current debt	$ 36	$ 87	$ 3	$ –	$ 126
Trade accounts payable	127	245	589	–	961
Other current liabilities	1,487	55	718	(1,190)	1,070
Total Current Liabilities	1,650	387	1,310	(1,190)	2,157
Long-Term Debt	2,106	402	361	–	2,869
Deferred Income Taxes	4	187	447	–	638
Other Liabilities	29	74	66	–	169
Shareholders' Equity	4,671	3,773	5,371	(9,144)	4,671
Total Liabilities and Shareholders' Equity	$8,460	$4,823	$7,555	$(10,334)	$10,504

Condensed Consolidating Statement of Cash Flows for the year ended September 30, 2006

in millions	TFI Parent	TFM Parent	Non-Guarantor Subsidiaries	Eliminations	Total
Cash Flows From Operating Activities:					
Net income (loss)	$(196)	$(159)	$ 186	$(27)	$ (196)
Depreciation and amortization	33	138	346	–	517
Plant closing related charges	–	38	13	–	51
Impairment and write-down of assets	–	3	15	–	18
Equity in net earnings of subsidiaries	(14)	(13)	–	27	–
Dividends received	60	–	–	(60)	–
Cumulative effect of change in accounting principle, before tax	–	2	7	–	9
Deferred taxes and other	9	(46)	(114)	–	(151)
Net changes in working capital	210	111	(282)	–	39
Cash Provided by Operating Activities	102	74	171	(60)	287
Cash Flows From Investing Activities:					
Additions to property, plant and equipment	(81)	(153)	(297)	–	(531)
Purchases of marketable securities	(750)	–	(191)	–	(941)
Proceeds of marketable securities	–	–	214	–	214
Other, net	29	(15)	20	–	34
Cash Used for Investing Activities	(802)	(168)	(254)	–	(1,224)
Cash Flows From Financing Activities:					
Payments of debt, net	95	(101)	(2)	–	(8)
Net proceeds from borrowings of debt	992	–	–	–	992
Purchase of treasury shares	(42)	–	–	–	(42)
Dividends	(55)	–	(60)	60	(55)
Stock options exercised and other	32	(6)	16	–	42
Net change in intercompany balances	(326)	201	125	–	–
Cash Provided by Financing Activities	696	94	79	60	929
Effect of Exchange Rate Change on Cash	–	–	(4)	–	(4)
Decrease in Cash and Cash Equivalents	(4)	–	(8)	–	(12)
Cash and Cash Equivalents at Beginning of Year	6	1	33	–	40
Cash and Cash Equivalents at End of Year	$ 2	$ 1	$ 25	$ –	$ 28

Condensed Consolidating Statement of Cash Flows for the year ended October 1, 2005

in millions	TFI Parent	TFM Parent	Non-Guarantor Subsidiaries	Eliminations	Total
Cash Flows From Operating Activities:					
Net income (loss)	$ 372	$ 141	$ 367	$(508)	$ 372
Depreciation and amortization	33	130	338	–	501
Plant closing related charges	–	–	10	–	10
Impairment and write-down of assets	3	–	22	–	25
Equity in net earnings of subsidiaries	(333)	(175)	–	508	–
Deferred taxes and other, net	(49)	1	(47)	–	(95)
Net changes in working capital	59	(81)	208	–	186
Cash Provided by Operating Activities	85	16	898	–	999
Cash Flows From Investing Activities:					
Additions to property, plant and equipment	(3)	(124)	(444)	–	(571)
Purchases of marketable securities	–	–	(543)	–	(543)
Proceeds of marketable securities	–	–	504	–	504
Other, net	(17)	5	61	–	49
Cash Used for Investing Activities	(20)	(119)	(422)	–	(561)
Cash Flows From Financing Activities:					
Payments of debt, net	(709)	–	(11)	–	(720)
Net proceeds from borrowings of debt	–	–	353	–	353
Purchase of treasury shares	(45)	–	–	–	(45)
Dividends	(55)	–	–	–	(55)
Stock options exercised and other	21	3	–	–	24
Net change in intercompany balances	723	95	(818)	–	–
Cash Provided by (Used for) Financing Activities	(65)	98	(476)	–	(443)
Effect of Exchange Rate Change on Cash	–	–	12	–	12
Increase (Decrease) in Cash and Cash Equivalents	–	(5)	12	–	7
Cash and Cash Equivalents at Beginning of Year	6	6	21	–	33
Cash and Cash Equivalents at End of Year	$ 6	$ 1	$ 33	$ –	$ 40

Condensed Consolidating Statement of Cash Flows for the year ended October 2, 2004

in millions	TFI Parent	TFM Parent	Non-Guarantor Subsidiaries	Eliminations	Total
Cash Flows From Operating Activities:					
Net income (loss)	$ 403	$ 180	$ 289	$(469)	$ 403
Depreciation and amortization	24	129	337	–	490
Plant closing related charges	–	–	28	–	28
Impairment and write-down of assets	–	1	45	–	46
Equity in net earnings of subsidiaries	(341)	(128)	–	469	–
Deferred taxes and other	5	3	4	–	12
Net changes in working capital	(68)	(64)	85	–	(47)
Cash Provided by Operating Activities	23	121	788	–	932
Cash Flows From Investing Activities:					
Additions to property, plant and equipment	(1)	(142)	(343)	–	(486)
Purchases of marketable securities	–	–	(99)	–	(99)
Other, net	32	4	(51)	–	(15)
Cash Provided by (Used for) Investing Activities	31	(138)	(493)	–	(600)
Cash Flows From Financing Activities:					
Payments of debt, net	(212)	(25)	(5)	–	(242)
Purchase of treasury shares	(72)	–	–	–	(72)
Dividends	(55)	–	–	–	(55)
Stock options exercised and other	42	2	(1)	–	43
Net change in intercompany balances	244	41	(285)	–	–
Cash Provided by (Used for) Financing Activities	(53)	18	(291)	–	(326)
Effect of Exchange Rate Change on Cash	–	–	2	–	2
Increase in Cash and Cash Equivalents	1	1	6	–	8
Cash and Cash Equivalents at Beginning of Year	5	5	15	–	25
Cash and Cash Equivalents at End of Year	$ 6	$ 6	$ 21	$ –	$ 33

NOTE 10 COMPREHENSIVE INCOME (LOSS)

The components of accumulated other comprehensive income are as follows:

in millions	2006	2005
Accumulated other comprehensive income:		
Currency translation adjustment	**$ 38**	$ 44
Unrealized net hedging losses, net of taxes	**(6)**	(10)
Unrealized net loss on investment, net of taxes	**–**	(1)
Minimum pension liability adjustment, net of taxes	**(15)**	(5)
Total accumulated other comprehensive income	**$ 17**	$ 28

The components of other comprehensive income (loss) are as follows:

in millions	Before Tax	Income Tax	After Tax
Fiscal 2006:			
Currency translation adjustment	**$ (6)**	**$ –**	**$ (6)**
Pension unrealized loss	**(16)**	**6**	**(10)**
Investments unrealized gain	**1**	**–**	**1**
Net hedging gain	**1**	**–**	**1**
Net hedging loss reclassified to income statement	**6**	**(3)**	**3**
Other comprehensive loss – 2006	**$(14)**	**$ 3**	**$(11)**
Fiscal 2005:			
Currency translation adjustment	$ 23	$ –	$ 23
Pension unrealized loss	(2)	1	(1)
Investments unrealized loss	(3)	1	(2)
Net hedging loss	(1)	–	(1)
Net hedging loss reclassified to income statement	34	(13)	21
Other comprehensive income – 2005	$ 51	$ (11)	$ 40
Fiscal 2004:			
Currency translation adjustment	$ 23	$ –	$ 23
Pension unrealized gain	2	(1)	1
Net hedging gain	31	(12)	19
Net hedging gain reclassified to income statement	(66)	26	(40)
Other comprehensive income (loss) – 2004	$ (10)	$ 13	$ 3

NOTE 11 STOCK-BASED COMPENSATION

In the first quarter of fiscal 2006, the Company adopted SFAS No. 123R using the modified prospective method. Under the modified prospective method, compensation cost is recognized for all share-based payments granted after the adoption of SFAS No. 123R and for all awards granted to employees prior to the adoption date of SFAS No. 123R that were unvested on the adoption date. Accordingly, no restatements were made to prior periods.

Prior to the adoption of SFAS No. 123R, the Company applied Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" in accounting for its employee stock compensation plans. Accordingly, no compensation expense was recognized for its stock option issuances, as stock options are issued with an exercise price equal to the closing price at the date of grant. Also, prior to the adoption of SFAS No. 123R, the Company issued restricted stock and recorded the fair value of such awards as deferred compensation amortized over the vesting period. Had compensation expense for the employee stock compensation plans been determined based on the fair value method of accounting for the Company's stock compensation plans according to FASB Statement No. 123, "Accounting for Stock-Based Compensation," the tax-effected impact would be as follows:

in millions, except per share data	2005	2004
Net income, as reported	$ 372	$ 403
Stock-based employee compensation expense included in net income, net of tax	15	10
Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(22)	(16)
Pro forma net income	$ 365	$ 397
Earnings per share		
As reported		
Class A Basic	$1.11	$1.20
Class B Basic	$1.00	$1.08
Diluted	$1.04	$1.13
Pro forma		
Class A Basic	$1.09	$1.18
Class B Basic	$0.98	$1.06
Diluted	$1.02	$1.11

The Company issues shares under its stock-based compensation plans by issuing Class A stock from treasury. The total number of shares available for future grant under the Tyson Foods, Inc. 2000 Stock Incentive Plan (Incentive Plan) was 11,609,585 at September 30, 2006; however, the Board of Directors has submitted a proposal to the shareholders, which will be voted on at the 2007 annual meeting, to increase the authorized shares under the Stock Incentive Plan by 20 million.

STOCK OPTIONS

Shareholders approved the Incentive Plan in January 2001. The Incentive Plan is administered by the Compensation Committee of the Board of Directors (Compensation Committee). The Incentive Plan includes provisions for granting incentive stock options for shares of Class A stock at a price not less than the fair market value at the date of grant. Nonqualified stock options may be granted at a price equal to, less than or more than the fair market value of Class A stock on the date the option is granted. Stock options under the Incentive Plan generally become exercisable ratably over two to five years from the date of grant and must be exercised within 10 years from the date of grant. The Company's policy is to recognize compensation expense on a straight-line basis over the requisite service period for the entire award.

	Shares Under Option	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value (in millions)
Outstanding, October 1, 2005	17,343,294	$12.93		
Exercised	**(2,259,829)**	**10.60**		
Canceled	**(1,077,275)**	**14.42**		
Granted	**3,695,728**	**16.35**		
Outstanding, September 30, 2006	**17,701,918**	**13.79**	**6.0**	**$43**
Exercisable, September 30, 2006	**10,054,892**	**$13.10**	**4.5**	**$32**

The weighted average grant-date fair value of options granted during the first quarter of fiscal 2006 was $6.86. No options were granted during the second, third or fourth quarters of fiscal 2006. The fair value of each option grant is established on the date of grant using the Black-Scholes option-pricing model for grants awarded prior to October 1, 2005, and a binomial lattice method for grants awarded subsequent to October 1, 2005. The change to the binomial lattice method was made to better reflect the exercise behavior of top management. The Company uses historical volatility for a period of time comparable to the expected life of the option to determine volatility assumptions. Risk-free interest rates are based on the five-year Treasury bond rate. Weighted average assumptions as of September 30, 2006, used in the fair value calculation are outlined in the following table.

Weighted average expected life	5.9 years
Weighted average risk-free interest rate	3.70%
Range of risk-free interest rates	2.6–4.8%
Weighted average expected volatility	37.83%
Range of expected volatility	35.2–40.1%
Expected dividend yield	1.23%

The Company recognized stock-based compensation expense related to stock options, net of income taxes, of $9 million during fiscal 2006, with a $5 million related tax benefit. The Company had 3.3 million options vest in fiscal 2006, with a fair value of $16 million.

In fiscal 2006, the Company received cash of $28 million for the exercise of stock options. The related tax benefit realized from stock options exercised during the year ended September 30, 2006, was $4 million. The total intrinsic value of options exercised in fiscal 2006, was $10 million. Prior to the adoption of SFAS No. 123R, the Company classified the tax benefits of deductions resulting from the exercise of stock options as Cash Flows from Operating Activities in the Consolidated Statements of Cash Flows. SFAS No. 123R requires the cash flows resulting from tax deductions in excess of the compensation cost of those options (excess tax deductions) to be classified as financing cash flows. The Company realized $4 million in excess tax deductions during fiscal 2006. As of September 30, 2006, the Company had $38 million of total unrecognized compensation cost related to stock option plans that will be recognized over a weighted average period of 2.2 years.

RESTRICTED STOCK

The Company issues restricted stock at the market value as of the date of grant, with restrictions expiring over periods through July 1, 2020. Unearned compensation is recognized over the vesting period for the particular grant using a straight-line method.

	Number of Shares	Weighted Average Grant-Date Fair Value Per Share	Weighted Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value (in millions)
Nonvested, October 1, 2005	9,126,656	$12.42		
Granted	**1,007,613**	**15.79**		
Dividends	**100,025**	**14.92**		
Vested	**(440,786)**	**12.17**		
Forfeited	**(305,522)**	**14.53**		
Nonvested, September 30, 2006	**9,487,986**	**12.73**	**1.5**	**$151**

As of September 30, 2006, the Company had $42 million of total unrecognized compensation cost related to restricted stock awards that will be recognized over a weighted average period of 1.5 years.

The Company recognized stock-based compensation expense related to restricted stock, net of income taxes, of $15 million, $15 million and $10 million for years 2006, 2005 and 2004, respectively. The related tax benefit for years 2006, 2005 and 2004 was $9 million, $9 million and $6 million, respectively.

PERFORMANCE-BASED SHARES

In July 2003, the Compensation Committee authorized the Company to award performance-based shares of the Company's Class A stock having an initial maximum aggregate value of $4 million on the date of each award to certain senior executive officers on the first business day of each of the Company's 2004, 2005 and 2006 fiscal years. In August 2005 and September 2004, the Compensation Committee authorized the expansion of the fiscal 2006 and fiscal 2005 awards to include additional senior officers. The expansions increased the initial maximum aggregate value by $3 million and $2 million for the 2006 and 2005 grants, respectively. The vesting of the performance-based shares for the 2004 and 2005 awards is over three years, and the vesting of the 2006 award is over two and one-half to three years (the Vesting Period), each award being subject to the attainment of Company goals determined by the Compensation Committee prior to the date of the award. The Company reviews progress toward the attainment of Company goals each quarter during the Vesting Period. The attainment of Company goals can be determined only at the end of the Vesting Period. If the shares vest, the ultimate cost to the Company will be equal to the Class A stock price on the date the shares vest times the number of shares awarded for all performance grants with other than market criteria. For grants with market performance criteria, the ultimate cost will be the fair value of the probable shares to vest regardless if the shares actually vest. Total expense recorded under SFAS No. 123R related to performance-based shares is approximately $1 million in fiscal 2006.

NOTE 12 PENSIONS AND OTHER POSTRETIREMENT BENEFITS

The Company has both funded and unfunded noncontributory defined benefit pension plans covering specific groups of employees. Two plans provide benefits based on a formula using years of service and a specified benefit rate. Effective January 1, 2004, the Company implemented a new defined benefit plan for certain contracted officers that uses a formula based on years of service and final average salary. Additionally, two of the Company's subsidiaries have frozen plans, whereby no new participants will be added and no future benefits will be earned. The Company also has other postretirement benefit plans for which substantially all of its employees may receive benefits if they satisfy applicable eligibility criteria. The postretirement healthcare plans are contributory with participants' contributions adjusted when deemed necessary.

The Company has defined contribution retirement and incentive benefit programs for various groups of Company personnel. Company contributions totaled $55 million, $56 million and $55 million in fiscal 2006, 2005 and 2004, respectively.

The Company uses a September 30 measurement date for its defined benefit plans and one postretirement medical plan and a July 31 measurement date for its remaining postretirement medical plans. The Company generally recognizes the effect of actuarial gains and losses into earnings immediately rather than amortizing the effect over future periods.

Other postretirement benefits include postretirement medical costs and life insurance.

BENEFIT OBLIGATIONS AND FUNDED STATUS

The following table provides a reconciliation of the changes in the plans' benefit obligations, assets and funded status as of fiscal year ends September 30, 2006, and October 1, 2005:

	Pension Benefits		Other Postretirement Benefits	
in millions	**2006**	2005	**2006**	2005
Change in benefit obligation				
Benefit obligation at beginning of year	**$107**	$ 77	**$ 60**	$ 66
Service cost	**6**	6	**1**	–
Interest cost	**6**	6	**4**	4
Plan participants' contributions	**–**	–	**5**	4
Addition of subsidiary plan	**1**	18	**–**	–
Amendments	**–**	–	**(3)**	(9)
Actuarial loss	**11**	6	**14**	9
Benefits paid	**(7)**	(6)	**(18)**	(14)
Curtailment	**–**	–	**(2)**	–
Benefit obligation at end of year	**124**	107	**61**	60
Change in plan assets				
Fair value of plan assets at beginning of year	**82**	59	**–**	–
Actual return on plan assets	**7**	8	**–**	–
Employer contributions	**2**	10	**13**	10
Plan participants' contributions	**–**	–	**5**	4
Addition of subsidiary plan	**1**	11	**–**	–
Benefits paid	**(7)**	(6)	**(18)**	(14)
Fair value of plan assets at end of year	**85**	82	**–**	–
Funded status	**(39)**	(25)	**(61)**	(60)
Amounts not yet recognized:				
Unrecognized prior service cost	**6**	7	**(17)**	(16)
Unrecognized actuarial loss	**25**	15	**–**	–
Net amount recognized	**$ (8)**	$ (3)	**$(78)**	$(76)

Amounts recognized in the Consolidated Balance Sheets consist of:

	Pension Benefits		Other Postretirement Benefits	
in millions	**2006**	2005	**2006**	2005
Prepaid benefit cost	**$ –**	$ 7	**$ –**	$ –
Accrued benefit liability	**(31)**	(17)	**(78)**	(76)
Accumulated other comprehensive loss	**23**	7	**–**	–
Net amount recognized	**$ (8)**	$ (3)	**$(78)**	$(76)

The increase (decrease) in the pretax minimum liability related to the Company's pension plans included in other comprehensive income (loss) was $16 million, $2 million and $(2) million in fiscal 2006, 2005 and 2004, respectively.

At September 30, 2006, all pension plans had an accumulated benefit obligation in excess of plan assets. At October 1, 2005, two pension plans had an accumulated benefit obligation in excess of plan assets, and two pension plans had assets in excess of the accumulated benefit obligation. The accumulated benefit obligation for all pension plans was $122 million and $98 million at September 30, 2006, and October 1, 2005, respectively. Plans with accumulated benefit obligations in excess of plan assets are as follows:

	Pension Benefits	
in millions	**2006**	2005
Projected benefit obligation	**$124**	$37
Accumulated benefit obligation	**122**	36
Fair value of plan assets	**85**	12

NET PERIODIC BENEFIT COST

Components of net periodic benefit cost for the Company's pension and postretirement benefit plans recognized in the Consolidated Statements of Operations are as follows:

	Pension Benefits			Other Postretirement Benefits		
in millions	**2006**	2005	2004	**2006**	2005	2004
Service cost	**$ 6**	$ 6	$ 3	**$ 1**	$ –	$ 1
Interest cost	**6**	6	5	**4**	4	4
Expected return on plan assets	**(6)**	(5)	(5)	**–**	–	–
Amortization of prior service cost	**1**	1	1	**(2)**	(2)	(1)
Recognized actuarial loss, net	**–**	–	–	**14**	9	5
Curtailment gain	**–**	–	–	**(2)**	–	–
Net periodic benefit cost	**$ 7**	$ 8	$ 4	**$15**	$11	$ 9

ASSUMPTIONS

Weighted average assumptions are as follows:

	Pension Benefits			Other Postretirement Benefits		
	2006	2005	2004	**2006**	2005	2004
Discount rate to determine net periodic benefit cost	**5.94%**	6.62%	6.75%	**6.00%**	6.00%	6.75%
Discount rate to determine benefit obligations	**5.80%**	5.91%	6.75%	**6.10%**	6.00%	6.75%
Rate of compensation increase	**4.00%**	4.00%	4.00%	**N/A**	N/A	N/A
Expected return on plan assets	**8.03%**	8.13%	8.50%	**N/A**	N/A	N/A

To determine the rate-of-return on assets assumption, the Company first examined historical rates of return for the various asset classes. The Company then determined a long-term projected rate-of-return based on expected returns over the next five to 10 years. Prior to fiscal 2004, the Company only had defined benefit plans that provided a retirement benefit based on the number of years of service multiplied by a benefit rate. During 2004, a plan was added with a 4% compensation increase inherent in its benefit obligation calculation.

The Company has four postretirement health plans. Two of these consist of fixed, annual payments by the Company and account for $38 million of the Company's postretirement medical obligation at September 30, 2006. A healthcare cost trend is not required to determine this obligation. The remaining two plans, Pre-Medicare and Post-Medicare, account for $23 million of the Company's postretirement medical obligation at year end. The Pre-Medicare plan covers retirees who do not yet qualify for Medicare and uses a healthcare cost trend of 11% in the current year, grading down to 6% in fiscal 2012. The Post-Medicare plan provides secondary coverage to retirees covered under Medicare and has a healthcare cost trend of 8%, grading down to 5% in fiscal 2010. Claims in excess of the Company's negotiated annual maximum payment are paid by the plan participants. Assumed healthcare cost trend rates would have the following effects:

in millions	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total of service and interest cost	$ 1	$ (1)
Effect on postretirement benefit obligation	26	(21)

Notes to Consolidated Financial Statements continued

PLAN ASSETS

The fair value of plan assets for the Company's domestic union pension benefit plans was $71 million and $70 million as of September 30, 2006, and October 1, 2005, respectively. The following table sets forth the actual and target asset allocation for the Company's pension plan assets:

	2006	2005	Target Asset Allocation
Cash	**1.6%**	0.7%	0.0%
Fixed income securities	**24.6**	24.6	25.0
US Stock Funds – Large- and Mid-Cap	**49.3**	49.7	50.0
US Stock Funds – Small-Cap	**9.8**	10.0	10.0
International Stock Funds	**14.7**	15.0	15.0
Total	**100.0%**	100.0%	100.0%

During fiscal 2005, the Company recorded the assets and benefit obligation related to a foreign subsidiary. This pension plan had $14 million and $12 million in plan assets at September 30, 2006, and October 1, 2005, respectively. All of this plan's assets are held in annuity contracts consistent with its target asset allocation.

The Plan Trustees have established a set of investment objectives related to the assets of the pension plans and regularly monitor the performance of the funds and portfolio managers. Objectives for the pension assets are (1) to provide growth of capital and income, (2) to achieve a target weighted average annual rate of return competitive with other funds with similar investment objectives and (3) to diversify to reduce risk. The investment objectives and target asset allocation were updated in January 2004.

CONTRIBUTIONS

The Company's policy is to fund at least the minimum contribution required to meet applicable federal employee benefit and local tax laws. In its sole discretion, the Company may from time to time fund additional amounts. Expected contributions to the Company's pension plans for fiscal 2007 are approximately $5 million. For fiscal 2006, 2005 and 2004, the Company funded $0, $10 million and $9 million, respectively, to its defined benefit plans.

ESTIMATED FUTURE BENEFIT PAYMENTS

The following benefit payments are expected to be paid:

in millions	Pension Benefits	Other Postretirement Benefits
2007	$ 7	$15
2008	7	15
2009	8	15
2010	9	15
2011	9	15
2012-2016	59	78

The above benefit payments for other postretirement benefit plans are expected to be offset by Medicare Part D subsidies as follows: $1 million in 2007, $1 million in 2008, $1 million in 2009, $2 million in 2010, $2 million in 2011 and $12 million from 2012 to 2016.

NOTE 13 SUPPLEMENTAL CASH FLOW INFORMATION

Certain non-cash transactions were excluded from the Consolidated Statements of Cash Flows for fiscal 2006. Adjustments of $12 million were made, which increased the balance of goodwill. These adjustments primarily related to deferred tax asset and liability adjustments related to the acquisitions in previous years of TFM and the assets of Millard Processing Services.

In fiscal 2005, adjustments of $53 million were made to remove pre-acquisition tax liability accruals no longer necessary due to the closing of an IRS examination and the evaluation of certain pre-acquisition deferred tax liabilities. The adjustments include $46 million and $7 million of adjustments to pre-acquisition deferred tax assets and liabilities related to the acquisitions in previous years of TFM and Hudson Foods, Inc., respectively.

The following table summarizes cash payments for interest and income taxes:

in millions	**2006**	2005	2004
Interest	**$140**	$218	$316
Income taxes, net of refunds	**144**	107	244

NOTE 14 TRANSACTIONS WITH RELATED PARTIES

The Company has operating leases for farms, equipment and other facilities with Don Tyson, a director of the Company, certain members of his family and the Randal W. Tyson Testamentary Trust. Total payments of $7 million in fiscal 2006, and $8 million in fiscal 2005 and 2004, were paid to entities in which these parties had an ownership interest. Additionally, other facilities have been leased from other officers and directors. Rentals paid to entities in which these parties had an ownership interest totaled $1 million in each of fiscal years 2006, 2005 and 2004.

In fiscal 2006, 2005 and 2004, the Company paid approximately $1.3 million, $1.3 million and $1.5 million, respectively, to Alltel Corporation for cellular phone services. Scott T. Ford, who became a director of the Company in November 2005, is the President and Chief Executive Officer of Alltel Corporation.

In fiscal 2005, the Company purchased a parcel of land adjacent to the Company's Corporate Center for approximately $600,000 from JHT, LLC, a limited liability company of which Don Tyson and the Randal W. Tyson Testamentary Trust are members. The land is to be used for expansion of corporate offices.

In fiscal 2005, the Company received approximately $4 million from entities owned by Don Tyson and John Tyson, Chairman of the Company, as payment for the purchase of certain properties owned by the Company.

In fiscal 2004, the Company purchased a parcel of land adjacent to the Company's Corporate Center for approximately $356,000 from JHT, LLC. The land is to be used for expansion of corporate offices.

In fiscal 2004, the Company purchased 1,028,577 shares of Class A stock in a private transaction with Don Tyson, a director and managing partner of the Tyson Limited Partnership, a principal shareholder of the Company. The purchase of those shares from Mr. Tyson was based on the closing price of the Class A stock on the New York Stock Exchange on the date of purchase.

In fiscal 2004, the Company received cash payments from Don Tyson totaling $1.5 million as reimbursement for certain perquisites and personal benefits received during fiscal 1997 through 2003.

NOTE 15 INCOME TAXES

Detail of the provision (benefit) for income taxes consists of:

in millions	**2006**	2005	2004
Federal	**$ (79)**	$118	$183
State	**(12)**	16	12
Foreign	**(11)**	22	37
	$(102)	$156	$232
Current	**$ 24**	$249	$224
Deferred	**(126)**	(93)	8
	$(102)	$156	$232

The reasons for the difference between the statutory U.S. federal income tax rate and the effective income tax rate are as follows:

	2006	2005	2004
U.S. federal income tax rate	**35.0%**	35.0%	35.0%
State income taxes	**3.3**	1.8	1.8
Extraterritorial income exclusion	**–**	(2.6)	(0.5)
Reduction of tax reserves	**–**	(4.1)	–
Medicare Part D	**(1.8)**	(3.6)	–
Repatriation of foreign earnings	**–**	4.2	–
Adjustment for tax review	**(5.1)**	–	–
General business credits	**2.6**	(1.8)	(1.2)
Other	**0.8**	0.6	1.5
	34.8%	29.5%	36.6%

During 2006, the Company completed a review of its tax account balances, and as a result, reduced its income tax benefit by $15 million of which $12 million is related to additional tax reserves for the Company's foreign operations and $3 million is related to a cumulative adjustment to its recorded tax balances attributable to book to tax differences associated with property, plant and equipment (including synthetic leases) and certain acquired deferred tax liabilities. Additional adjustments resulted in an increase to goodwill of $12 million, deferred tax liabilities of $3 million and a reduction of property, plant and equipment of $9 million.

Notes to Consolidated Financial Statements continued

Deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The tax effects of major items recorded as deferred tax assets and liabilities are:

	2006 Deferred Tax		2005 Deferred Tax	
in millions	Assets	Liabilities	Assets	Liabilities
Property, plant and equipment	$ –	$481	$ –	$511
Suspended taxes from conversion to accrual method	–	119	–	125
Intangible assets	10	26	9	25
Inventory	13	101	10	97
Accrued expenses	177	–	131	6
Net operating loss and other carryforwards	137	–	125	–
All other	50	22	58	122
	$387	$749	$ 333	$886
Valuation allowance	$ (66)		$ (99)	
Net deferred tax liability		$428		$652

Net deferred tax liabilities are included in Other Current Assets, Other Current Liabilities and Deferred Income Taxes on the Consolidated Balance Sheets.

The deferred tax liability for suspended taxes from conversion to accrual method represents the 1987 change from the cash to accrual method of accounting and will be recognized by 2017.

The Company has accumulated undistributed earnings of foreign subsidiaries aggregating approximately $153 million at September 30, 2006, which are expected to be indefinitely reinvested outside of the United States. If those earnings were distributed in the form of dividends or otherwise, the Company would be subject to U.S. income taxes (subject to an adjustment for foreign tax credits), state income taxes and withholding taxes payable to the various foreign countries. It is not currently practicable to estimate the tax liability that might be payable on the repatriation of these foreign earnings.

The valuation allowance totaling $66 million consists of $26 million for state tax credit and net operating loss carryforwards, $35 million for U.S. federal net operating loss and other miscellaneous carryforwards and $5 million for international net operating loss carryforwards. The state tax credit and net operating loss carryforwards expire in fiscal years 2007 through 2025. At September 30, 2006, after considering utilization restrictions, the Company's federal tax loss carryforwards, which include net operating losses, capital losses and charitable contribution carryforwards, approximated $259 million. Federal net operating loss carryforwards totaling $120 million, are subject to utilization limitations due to ownership changes and may be utilized to offset future taxable income subject to limitations. These carryforwards expire during fiscal years 2007 through 2025. The $66 million valuation allowance discussed above includes $30 million, that if subsequently recognized, will be allocated to reduce goodwill, which was recorded at the time of acquisition of TFM.

The Company provides tax reserves for federal, state, local and international exposures relating to audit results, tax planning initiatives and compliance responsibilities. Evaluation of these reserves requires judgments about tax issues, potential outcomes and timing, and is an inherently subjective estimate. Although the outcome of these tax items is uncertain, in management's opinion, adequate provisions for income taxes have been made for potential liabilities relating to these exposures.

NOTE 16 EARNINGS (LOSS) PER SHARE

The weighted average common shares used in the computation of basic and diluted earnings (loss) per share are as follows:

in millions, except per share data	2006	2005	2004
Numerator:			
Income (loss) before cumulative effect of change in accounting principle	$ (191)	$ 372	$ 403
Cumulative effect of change in accounting principle, net of tax	(5)	–	–
Net income (loss)	(196)	372	403
Less Dividends:			
Class A ($0.16/share)	41	40	40
Class B ($0.144/share)	14	15	15
Undistributed earnings (losses)	(251)	317	348
Class A undistributed earnings (losses)	(186)	230	253
Class B undistributed earnings (losses)	(65)	87	95
Total undistributed earnings (losses)	$ (251)	$ 317	$ 348
Denominator:			
Denominator for basic earnings per share:			
Class A weighted average shares	249	243	243
Class B weighted average shares, and shares under if-converted method for diluted earnings per share	96	102	102
Effect of dilutive securities:			
Stock options and restricted stock	–	12	12
Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversions	345	357	357
Earnings before cumulative effect of change in accounting principle:			
Class A Basic	$(0.56)	$1.11	$1.20
Class B Basic	$(0.52)	$1.00	$1.08
Diluted	$(0.56)	$1.04	$1.13
Cumulative effect of change in accounting principle, net of tax:			
Class A Basic	$(0.02)	$ –	$ –
Class B Basic	$(0.01)	$ –	$ –
Diluted	$(0.02)	$ –	$ –
Net income (loss):			
Class A Basic	$(0.58)	$1.11	$1.20
Class B Basic	$(0.53)	$1.00	$1.08
Diluted	$(0.58)	$1.04	$1.13

Approximately 28 million in fiscal 2006 and two million in each of fiscal 2005 and 2004 of the Company's option shares were antidilutive and were not included in the dilutive earnings per share calculation.

NOTE 17 SEGMENT REPORTING

The Company operates in five business segments: Chicken, Beef, Pork, Prepared Foods and Other. The Company measures segment profit as operating income.

• **Chicken segment** is involved primarily in processing live chickens into fresh, frozen and value-added chicken products. The Chicken segment markets its products domestically to food retailers, foodservice distributors, restaurant operators and non-commercial foodservice establishments such as schools, hotel chains, healthcare facilities, the military and other food processors, as well as to international markets throughout the world. The Chicken segment also includes sales from allied products and the Company's chicken breeding stock subsidiary.

• **Beef segment** is involved primarily in processing live fed cattle and fabricating dressed beef carcasses into primal and sub-primal meat cuts and case-ready products. It also involves deriving value from allied products such as hides and variety meats for sale to further processors and others. The Beef segment markets its products domestically to food retailers, foodservice distributors, restaurant operators and noncommercial foodservice establishments such as schools, hotel chains, healthcare facilities, the military and other food processors, as well as to international markets throughout the world. Allied products are also marketed to manufacturers of pharmaceuticals and technical products.

• **Pork segment** is involved primarily in processing live market hogs and fabricating pork carcasses into primal and sub-primal cuts and case-ready products. This segment also represents the Company's live swine group and related allied product processing activities. The Pork segment markets its products domestically to food retailers, foodservice distributors, restaurant operators and non-commercial foodservice establishments such as schools, hotel chains, healthcare facilities, the military and other food processors, as well as to international markets throughout the world. It also sells allied products to pharmaceutical and technical products manufacturers, as well as live swine to pork processors.

• **Prepared Foods segment** includes the Company's operations that manufacture and market frozen and refrigerated food products. Products include pepperoni, beef and pork pizza toppings, pizza crusts, flour and corn tortilla products, appetizers, prepared meals, ethnic foods, soups, sauces, side dishes, meat dishes and processed meats. The Prepared Foods segment markets its products domestically to food retailers, foodservice distributors, restaurant operators and noncommercial foodservice establishments such as schools, hotel chains, healthcare facilities, the military and other food processors, as well as to international markets throughout the world.

• **Other segment** includes the logistics group and other miscellaneous operations.

in millions	Chicken	Beef	Pork	Prepared Foods	Other	Consolidated
Fiscal year ended September 30, 2006						
Sales	**$7,928**	**$11,825**	**$3,060**	**$2,692**	**$ 54**	**$25,559**
Operating income (loss)	**53**	**(296)**	**47**	**45**	**74**	**(77)**
Other expense						**216**
Loss before income taxes						**(293)**
Income tax benefit						**(102)**
Loss before cumulative effect of change in accounting principle						**(191)**
Cumulative effect of change in accounting principle, net of tax						**5**
Depreciation	**222**	**106**	**30**	**60**	**63**	**481**
Total assets	**4,325**	**3,271**	**833**	**1,006**	**1,686**	**11,121**
Additions to property, plant and equipment	**219**	**135**	**13**	**54**	**110**	**531**
Fiscal year ended October 1, 2005						
Sales	$ 8,295	$ 11,618	$ 3,247	$ 2,801	$ 53	$ 26,014
Operating income (loss)	582	(12)	47	78	50	745
Other expense						217
Income before income taxes						528
Depreciation	241	111	31	65	17	465
Total assets	4,398	3,243	834	1,107	922	10,504
Additions to property, plant and equipment	321	165	23	55	7	571
Fiscal year ended October 2, 2004						
Sales	$ 8,363	$ 11,951	$ 3,185	$ 2,891	$ 51	$ 26,441
Operating income	548	127	140	28	74	917
Other expense						282
Income before income taxes						635
Depreciation	239	106	30	66	17	458
Total assets	4,556	3,195	895	970	848	10,464
Additions to property, plant and equipment	298	90	22	61	15	486

The Pork segment had sales of $467 million, $505 million and $473 million for fiscal years 2006, 2005 and 2004, respectively, from transactions with other operating segments of the Company. The Beef segment had sales of $104 million, $85 million and $75 million for fiscal years 2006, 2005 and 2004, respectively, from transactions with other operating segments of the Company. These sales from intersegment transactions, which are sold at market prices, were excluded from the segment sales in the above table.

The Company's largest customer, Wal-Mart Stores, Inc., accounted for approximately 12.5%, 13.0% and 11.6% of consolidated sales in fiscal years 2006, 2005 and 2004, respectively. Sales to Wal-Mart Stores, Inc. were included in the Chicken, Beef, Pork and Prepared Foods segments. Any extended discontinuance of sales to this customer could, if not replaced, have a material impact on the Company's operations; however, the Company does not anticipate any such occurrences.

The majority of the Company's operations are domiciled in the United States. Approximately 95%, 94% and 94% of sales to external customers for fiscal years 2006, 2005 and 2004, respectively, were sourced from the United States. Approximately $6.3 billion of long-lived assets were located in the United States at September 30, 2006, and October 1, 2005, and $6.4 billion at October 2, 2004. Approximately $197 million, $202 million and $171 million of long-lived assets were located in foreign countries, primarily Canada and Mexico, at fiscal years ended 2006, 2005 and 2004, respectively.

The Company sells certain products in foreign markets, primarily Canada, Central America, China, the European Union, Japan, Mexico, Russia, South Korea, and Taiwan. The Company's export sales totaled $2.1 billion for each of fiscal 2006, 2005 and 2004. Substantially all of the Company's export sales are facilitated through unaffiliated brokers, marketing associations and foreign sales staffs. Foreign sales, which are sales of products produced in a country other than the United States, were less than 10% of total consolidated sales for fiscal 2006, 2005 and 2004. In fiscal 2006, the Company incurred a loss from foreign operations of $36 million before taxes and cumulative effect of change in accounting principle. Approximately 21% and 28% of income before taxes for fiscal 2005 and 2004, respectively, was from foreign operations. The decline in fiscal 2006 was primarily due to decreased margins at Tyson de Mexico and the Company's Lakeside operation in Canada.

NOTE 18 QUARTERLY FINANCIAL DATA (UNAUDITED)

in millions, except per share data	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2006				
Sales	**$6,454**	**$6,251**	**$6,383**	**$6,471**
Gross profit	**344**	**153**	**203**	**228**
Operating income (loss)	**110**	**(142)**	**(25)**	**(20)**
Income (loss) before income taxes	**60**	**(200)**	**(76)**	**(77)**
Income tax expense (benefit)	**21**	**(73)**	**(24)**	**(26)**
Income (loss) before cumulative effect of change in accounting principle	**39**	**(127)**	**(52)**	**(51)**
Cumulative effect of change in accounting principle, net of tax	**–**	**–**	**–**	**5**
Net income (loss)	**39**	**(127)**	**(52)**	**(56)**
Earnings (loss) before cumulative effect of change in accounting principle:				
Class A Basic	**$ 0.12**	**$ (0.38)**	**$ (0.15)**	**$ (0.15)**
Class B Basic	**$ 0.10**	**$ (0.34)**	**$ (0.14)**	**$ (0.14)**
Diluted	**$ 0.11**	**$ (0.37)**	**$ (0.15)**	**$ (0.15)**
Cumulative effect of change in accounting principle, net of tax:				
Class A Basic	**$ –**	**$ –**	**$ –**	**$ (0.02)**
Class B Basic	**$ –**	**$ –**	**$ –**	**$ (0.01)**
Diluted	**$ –**	**$ –**	**$ –**	**$ (0.02)**
Net income (loss):				
Class A Basic	**$ 0.12**	**$ (0.38)**	**$ (0.15)**	**$ (0.17)**
Class B Basic	**$ 0.10**	**$ (0.34)**	**$ (0.14)**	**$ (0.15)**
Diluted	**$ 0.11**	**$ (0.37)**	**$ (0.15)**	**$ (0.17)**
2005				
Sales	$ 6,452	$ 6,359	$ 6,708	$ 6,495
Gross profit	360	414	519	427
Operating income	126	175	256	188
Net income	48	76	131	117
Class A basic earnings per share	$ 0.14	$ 0.23	$ 0.39	$ 0.35
Class B basic earnings per share	$ 0.13	$ 0.20	$ 0.35	$ 0.32
Diluted earnings per share	$ 0.14	$ 0.21	$ 0.36	$ 0.33

Second quarter fiscal 2006 operating income includes $45 million of costs related to beef plant closings and $14 million related to prepared foods plant closings. Fourth quarter fiscal 2006 operating income includes $2 million of costs related to poultry plant closings, $2 million of costs related to beef plant closings, and $19 million of charges related to the Company's previously announced $200 million cost reduction initiative and other business consolidation efforts. These charges include severance expenses, product rationalization costs and related intangible asset impairment expenses. Additionally, in the fourth quarter of fiscal 2006, the Company recorded a charge of $5 million, net of tax, related to the cumulative effect of change in accounting principle for the adoption of FIN 47.

First quarter fiscal 2005 gross profit includes $12 million received in connection with vitamin antitrust litigation, and operating income includes charges of $3 million related to the closing of a prepared foods facility. Additionally, net income includes a gain of $8 million related to the sale of the Company's remaining interest in Specialty Brands, Inc. Second quarter fiscal 2005 operating income includes charges of $2 million related to closing poultry and prepared foods facilities. Third quarter fiscal 2005 operating income includes charges of $33 million related to a legal settlement involving the Company's live swine operations and $10 million related to closing poultry operations. Fourth quarter fiscal 2005 gross profit includes $8 million related to hurricane losses, and operating income includes $1 million in gains related to plant closings. Additionally, net income includes a non-recurring income tax net benefit of $15 million, which includes the reversal of tax reserves, partially offset by an income tax charge related to the repatriation of foreign income. Net income also was affected by $19 million related to a tax exempt actuarial gain of $55 million.

During the second quarter of fiscal 2006, the Company reclassified amounts related to loss on disposals of assets from other expense to cost of sales. The reclassification reduced gross profit and operating income (loss) by $4 million for the first quarter of fiscal 2006, and $3 million, $8 million, $7 million and $2 million for the first, second, third and fourth quarters of fiscal 2005, respectively. The table on page 54 reflects this reclassification.

NOTE 19 CAPITAL STRUCTURE

During fiscal 2006, Tyson Limited Partnership converted 15 million shares of Class B stock to Class A stock on a one for one basis. Additionally, Don Tyson, a director of the Company, converted 750,000 shares of Class B stock to Class A stock on a one for one basis.

NOTE 20 CONTINGENCIES

Listed below are certain claims made against the Company and its subsidiaries. In the Company's opinion, it has made appropriate and adequate reserves, accruals and disclosures where necessary, and the Company believes the probability of a material loss beyond the amounts accrued to be remote; however, the ultimate liability for these matters is uncertain, and if accruals and reserves are not adequate, an adverse outcome could have a material effect on the consolidated financial condition or results of operations of the Company. The Company believes it has substantial defenses to the claims made and intends to vigorously defend these cases.

• **Wage and Hour/Labor Matters:** In 2000, the Wage and Hour Division of the U.S. Department of Labor (DOL) conducted an industry-wide investigation of poultry producers, including the Company, to ascertain compliance with various wage and hour issues. As part of this investigation, the DOL inspected 14 of the Company's processing facilities. On May 9, 2002, a civil complaint was filed against the Company in the U.S. District Court for the Northern District of Alabama, *Elaine L. Chao, Secretary of Labor, United States Department of Labor v. Tyson Foods, Inc.* The complaint alleges the Company violated the overtime provisions of the federal Fair Labor Standards Act (FLSA) at the Company's chicken-processing facility in Blountsville, Alabama. The complaint does not contain a definite statement of what acts constituted alleged violations of the statute, although the Secretary of Labor indicated in discovery the case seeks to require the Company to compensate all hourly chicken processing workers for pre- and post-shift clothes changing, washing and related activities and for one of two unpaid 30-minute meal periods. The Secretary of Labor seeks unspecified back wages for all employees at the Blountsville facility for a period of two years prior to the date of the filing of the complaint, an additional amount in unspecified liquidated damages and an injunction against future violations at that facility and all other chicken processing facilities operated by the Company. No trial date has been set.

On June 22, 1999, 11 current and former employees of the Company filed the case of *M.H. Fox, et al. v. Tyson Foods, Inc. (Fox)* in the U.S. District Court for the Northern District of Alabama claiming the Company violated requirements of the FLSA. The suit alleges the Company failed to pay employees for all hours worked and/or improperly paid them for overtime hours. The suit specifically alleges that (1) employees should be paid for time taken to put on and take off certain working supplies at the beginning and end of their shifts and breaks and (2) the use of "mastercard" or "line" time fails to pay employees for all time actually worked. Plaintiffs seek to represent themselves and all similarly situated current and former employees of the Company, and plaintiffs seek reimbursement for an unspecified amount of unpaid wages, liquidated damages, attorney fees and costs. To date, approximately 5,100 consents have been filed with the District Court. Plaintiffs filed their Renewed Motion for Court Supervised Notice to Potential Collective Action Members on April 18, 2006, to which the Company filed its response on June 27, 2006. A hearing on the motion was held October 24, 2006. On November 16, 2006, the Court denied the Plantiffs' motion. No trial date has been set.

On August 22, 2000, seven employees of the Company filed the case of *De Asencio v. Tyson Foods, Inc.* in the U.S. District Court for the Eastern District of Pennsylvania. This lawsuit is similar to *Fox* in that employees claim violations of the FLSA for allegedly failing to pay for time taken to put on, take off and sanitize certain working supplies, and violations of the Pennsylvania Wage Payment and Collection Law. Plaintiffs sought to represent themselves and all similarly situated current and former employees of the poultry processing plant in New Holland, Pennsylvania, and plaintiffs sought reimbursement for an unspecified amount of unpaid wages, liquidated damages, attorney fees and costs. Approximately 560 additional current or former employees filed consents to join the lawsuit. A two-week jury trial beginning on June 5, 2006, ended with a verdict in Tyson's favor. Final judgment was entered on June 22, 2006, and the Plaintiffs filed their notice of appeal July 21, 2006. The appeal of this matter is now pending in the U. S. Court of Appeals for the Third Circuit. Appellants filed their opening brief October 30, 2006. The Company's Appellee brief was filed on November 29, 2006.

On November 5, 2001, *Maria Chavez, et al. v. IBP, Lasso Acquisition Corporation and Tyson Foods, Inc. (Chavez)* was filed in the U.S. District Court for the Eastern District of Washington by employees of Tyson Fresh Meat's (TFM) Pasco, Washington, beef slaughter, processing and hides facilities, alleging violations of the FLSA, 29 U.S.C. Sections 201–219, as well as violations of the Washington State Minimum Wage Act, RCW chapter 49.46, Industrial Welfare Act, RCW chapter 49.12, and the Wage Deductions-Contribution-Rebates Act, RCW chapter 49.52. The *Chavez* lawsuit alleges TFM and/or the Company required employees to perform unpaid work related to donning and doffing certain personal protective clothing and equipment, both prior to and after their shifts, as well as during meal periods. Plaintiffs further allege the holdings in *Alvarez, et al. v. IBP* support a claim of collateral estoppel and/or res judicata as to many of the issues raised in this litigation. On July 20, 2005, judgment was entered for $11.4 million, exclusive of costs and attorney fees. Attorneys for the *Chavez* plaintiffs have indicated to the Company their intention to file a follow-on suit to *Chavez* for different potential claimants alleging similar violations to those raised in *Chavez*. On November 28, 2005, the District Court awarded the attorneys for the *Chavez* plaintiffs approximately $1.9 million in fees and expenses. On December 12, 2005, the District Court awarded additional costs of $19,651. On December 8, 2005, the Company filed a notice of appeal with the Ninth Circuit Court of Appeals. The parties later met and reached an agreement that will resolve *Chavez* and certain post-*Chavez* claims for $10.2 million. On May 19, 2006, a Settlement Agreement and a Joint Motion to Approve Class Action Settlement was filed by the parties. The District Court held a Final Approval Hearing on September 26, 2006, at which time it considered the terms of settlement. The settlement was approved by the District Court on September 28, 2006, and distribution of the settlement amounts are scheduled to occur in the first and second quarters of fiscal 2007.

On November 21, 2002, a lawsuit titled *Emily D. Jordan, et al. v. IBP, inc. and Tyson Foods, Inc.*, was filed in the U.S. District Court for the Middle District of Tennessee. Ten current and former hourly employees of TFM's case-ready facility in Goodlettsville, Tennessee, filed a complaint on behalf of themselves and other unspecified, allegedly similarly situated employees, claiming the defendants violated the overtime provisions of the FLSA. The suit alleges the defendants failed to pay employees for all hours worked from the plant's commencement of operations in April 2001. In particular, the suit alleges employees should be paid for the time it takes to collect, assemble and put on, take off and wash their health, safety and production gear at the beginning and end of their shifts and during their meal period. The suit also alleges the Company deducts 30 minutes per day from employees' paychecks regardless of whether employees obtain a full 30-minute period for their meal. Plaintiffs are seeking a declaration the defendants did not comply with the FLSA, and an award for an unspecified amount of back pay compensation and benefits, unpaid entitlements, liquidated damages, prejudgment and post-judgment interest, attorney fees and costs. On November 17, 2003, the District Court conditionally certified a collective action composed of similarly situated current and former employees at the Goodlettsville facility based on clothes changing and washing activities and unpaid production work during meal periods, since the plant operations began in April 2001. Class Notices to approximately 4,500 prospective class members were mailed on January 21, 2004. Approximately 525 current and former employees opted into the class. A second, opt-in Class Notice was mailed to 1,996 current and former employees who were hired after December 16, 2003. In March 2006, Plaintiffs reported a total of 48 additional persons who opted into the class. Discovery is scheduled to conclude December 31, 2006, after which the District Court will hold a status conference to discuss the need for dispositive motions and trial.

NOTE 21 SUBSEQUENT EVENT

In November 2006, Tyson Limited Partnership converted approximately five million shares of Class B stock to Class A stock on a one for one basis.

Report of Independent Registered Public Accounting Firm

THE BOARD OF DIRECTORS AND SHAREHOLDERS OF TYSON FOODS, INC.

We have audited the accompanying consolidated balance sheets of Tyson Foods, Inc. as of September 30, 2006 and October 1, 2005, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended September 30, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tyson Foods, Inc. at September 30, 2006 and October 1, 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 30, 2006, in conformity with U.S. generally accepted accounting principles.

As described in Note 2 to the consolidated financial statements, in 2006 the Company adopted Statement of Financial Accounting Standards No. 123R, "Share-Based Payments."

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Tyson Foods, Inc.'s internal control over financial reporting as of September 30, 2006, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 11, 2006 expressed an unqualified opinion thereon.

Ernst & Young LLP

Rogers, Arkansas
December 11, 2006

Report of Independent Registered Public Accounting Firm

THE BOARD OF DIRECTORS AND SHAREHOLDERS OF TYSON FOODS, INC.

We have audited management's assessment, included in the accompanying Report of Management under the caption "Management's Report on Internal Control over Financial Reporting", that Tyson Foods, Inc. maintained effective internal control over financial reporting as of September 30, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Tyson Foods, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Tyson Foods, Inc. maintained effective internal control over financial reporting as of September 30, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Tyson Foods, Inc. maintained, in all material respects, effective internal control over financial reporting as of September 30, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Tyson Foods, Inc. as of September 30, 2006 and October 1, 2005, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended September 30, 2006 and our report dated December 11, 2006 expressed an unqualified opinion thereon.

Ernst & Young LLP

Rogers, Arkansas
December 11, 2006

Report of Management

The management of Tyson Foods, Inc., (the Company) has the responsibility of preparing the accompanying financial statements and is responsible for their integrity and objectivity. The statements were prepared in conformity with accounting principles generally accepted in the United States applied on a consistent basis. Such financial statements are necessarily based, in part, on best estimates and judgments.

The Company maintains a system of internal accounting controls, and a program of internal auditing designed to provide reasonable assurance that the Company's assets are protected and that transactions are executed in accordance with proper authorization and are properly recorded. This system of internal accounting controls is continually reviewed and modified in response to changing business conditions and operations and to recommendations made by the independent auditors and the internal auditors. The Company has a code of conduct and an experienced full-time compliance officer. The management of the Company believes the accounting and control systems provide reasonable assurance that assets are safeguarded and financial information is reliable.

The Audit Committee of the Board of Directors meets regularly with the Company's financial management and counsel, with the Company's internal auditors and with the independent auditors engaged by the Company. These meetings include discussions of internal accounting controls and the quality of financial reporting. The Audit Committee has discussed with the independent auditors matters required to be discussed by Statement of Auditing Standards No. 61 (Communication with Audit Committees). In addition, the Committee has discussed with the independent auditors, the auditors' independence from the Company and its management, including the matters in the written disclosures required by the Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees). The independent auditors and the Internal Audit Department have free and independent access to the Audit Committee to discuss the results of their audits or any other matters relating to the Company's financial affairs.

Ernst & Young LLP, independent auditors, have audited the accompanying consolidated financial statements.

December 11, 2006

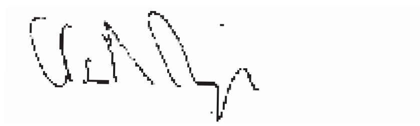
Richard L. Bond
President and
Chief Executive Officer

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) of the Securities Exchange Act of 1934. The Company's internal control system was designed to provide reasonable assurance to management and the board of directors regarding the preparation and fair presentation of published financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of September 30, 2006. In making this assessment, the Company used criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework.

Based on this evaluation under the framework in Internal Control—Integrated Framework issued by COSO, Management concluded that the Company's internal control over financial reporting was effective as of September 30, 2006.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of September 30, 2006, has been audited by Ernst & Young LLP, the Company's independent registered public accounting firm. Accordingly, Ernst & Young LLP has issued an attestation report on management's assessment of the Company's internal control over financial reporting. The report appears on page 58.



Wade D. Miquelon
Executive Vice President and
Chief Financial Officer

Eleven-Year Financial Summary

in millions, except per share and ratio data	**2006**	2005	2004	2003
Summary of Operations				
Sales	**$25,559**	$26,014	$26,441	$24,549
Cost of sales	**24,631**	24,294	24,558	22,810
Gross profit	**928**	1,720	1,883	1,739
Operating income (loss)	**(77)**	745	917	832
Net interest expense	**238**	227	275	296
Income tax expense (benefit)	**(102)**	156	232	186
Cumulative effect of change in accounting principle, net of tax	**(5)**	–	–	–
Net income (loss)	**$ (196)**	$ 372	$ 403	$ 337
Year end shares outstanding	**355**	355	353	353
Diluted average shares outstanding	**345**	357	357	352
Cumulative effect of change in accounting principle, net of tax:				
Diluted earnings (loss) per share	**$ (0.02)**	$ –	$ –	$ –
Class A basic earnings (loss) per share	**(0.01)**	–	–	–
Class B basic earnings (loss) per share	**(0.02)**	–	–	–
Net income (loss):				
Diluted earnings (loss) per share	**(0.58)**	1.04	1.13	0.96
Class A basic earnings (loss) per share	**(0.53)**	1.11	1.20	1.00
Class B basic earnings (loss) per share	**(0.58)**	1.00	1.08	0.90
Dividends per share:				
Class A	**0.160**	0.160	0.160	0.160
Class B	**0.144**	0.144	0.144	0.144
Depreciation and amortization	**$ 517**	$ 501	$ 490	$ 458
Balance Sheet Data				
Capital expenditures	**$ 531**	$ 571	$ 486	$ 402
Total assets	**11,121**	10,504	10,464	10,486
Net property, plant and equipment	**3,945**	4,007	3,964	4,039
Total debt	**3,979**	2,995	3,362	3,604
Shareholders' equity	**$ 4,440**	$ 4,671	$ 4,292	$ 3,954
Other Key Financial Measures				
Return on sales	**(0.8)%**	1.4%	1.5%	1.4%
Annual sales growth (decline)	**(1.7)%**	(1.6)%	7.7%	5.1%
Gross margin	**3.6%**	6.6%	7.1%	7.1%
Return on beginning shareholders' equity	**(4.2)%**	8.7%	10.2%	9.2%
Return on invested capital	**(1.0)%**	9.7%	12.1%	10.9%
Effective tax rate	**34.8%**	29.5%	36.6%	35.5%
Total debt to capitalization	**47.3%**	39.1%	43.9%	47.7%
Book value per share	**$ 12.51**	$ 13.19	$ 12.19	$ 11.21
Closing stock price high	**18.70**	19.47	21.06	14.42
Closing stock price low	**$ 12.92**	$ 14.12	$ 12.59	$ 7.28

NOTES TO ELEVEN-YEAR FINANCIAL SUMMARY

1. Fiscal 2004 and 1998 were 53-week years, while the other years presented were 52-week years.
2. The results for fiscal 2006 include $63 million of pretax charges primarily related to closing one chicken plant, two beef plants and two prepared foods plants and $19 million of pretax charges related to a cost reduction initiative and other business consolidation efforts.
3. The Company reclassified gains and losses related to the disposal of fixed assets from other expense to cost of sales for fiscal 2005, 2004 and 2003.
4. The results for fiscal 2005 include $33 million of pretax charges related to a legal settlement involving the Company's live swine operations, a non-recurring income tax net benefit of $15 million including benefit from the reversal of certain income tax reserves, partially offset by an income tax charge related to the one-time repatriation of foreign income under the American Jobs Creation Act, $14 million of pretax charges primarily related to closing two poultry and one prepared foods operations, $12 million of pretax gains related to vitamin antitrust litigation settlements received, $8 million of pretax losses related to hurricane losses and an $8 million pretax gain related to the sale of the Company's remaining interest in Specialty Brands, Inc.
5. The results for fiscal 2004 include $61 million of pretax BSE-related charges, $40 million of pretax charges primarily related to closing one poultry and three prepared foods operations, $25 million of pretax charges related to the impairment of intangible assets and $21 million of pretax charges related to fixed asset write-downs.
6. The results for fiscal 2003 include $167 million of pretax gains related to vitamin antitrust litigation settlements received and $76 million of pretax charges related to closing four poultry operations.
7. The results for fiscal 2002 include a $27 million pretax charge related to the identifiable intangible asset write-down of the Thomas E. Wilson brand, $26 million pretax charge related to live swine restructuring, $22 million pretax gain related to the sale of Specialty Brands, Inc. and $30 million pretax gain related to vitamin antitrust litigation settlements received.

Eleven-Year Financial Summary

2002	2001	2000	1999	1998	1997	1996
$23,367	$10,563	$7,268	$7,621	$7,414	$6,356	$6,454
21,550	9,660	6,453	6,470	6,260	5,318	5,506
1,817	903	815	1,151	1,154	1,038	948
887	316	349	487	204	400	269
305	144	116	124	139	110	133
210	58	83	129	46	144	49
–	–	–	–	–	–	–
$ 383	$ 88	$ 151	$ 230	$ 25	$ 186	$ 87
353	349	225	229	231	213	217
355	222	226	231	228	218	218
$ –	$ –	$ –	$ –	$ –	$ –	$ –
–	–	–	–	–	–	–
–	–	–	–	–	–	–
1.08	0.40	0.67	1.00	0.11	0.85	0.40
1.13	0.42	0.70	1.05	0.12	0.90	0.42
1.02	0.38	0.63	0.94	0.10	0.81	0.38
0.160	0.160	0.160	0.115	0.100	0.095	0.080
0.144	0.144	0.144	0.104	0.090	0.086	0.072
$ 467	$ 335	$ 294	$ 291	$ 276	$ 230	$ 239
$ 433	$ 261	$ 196	$ 363	$ 310	$ 291	$ 214
10,372	10,632	4,841	5,083	5,242	4,411	4,544
4,038	4,085	2,141	2,185	2,257	1,925	1,869
3,987	4,776	1,542	1,804	2,129	1,690	1,975
$ 3,662	$ 3,354	$2,175	$2,128	$1,970	$1,621	$1,542
1.6%	0.8%	2.0%	3.0%	0.3%	2.9%	1.4%
121.2%	45.3%	(4.6)%	2.8%	16.7%	(1.5)%	17.1%
7.8%	8.5%	11.2%	15.1%	15.6%	16.3%	14.7%
11.4%	4.0%	7.1%	11.7%	1.5%	12.1%	5.9%
11.2%	5.3%	9.1%	12.1%	5.5%	11.7%	7.7%
35.5%	35.4%	35.6%	34.9%	64.7%	43.6%	37.0%
52.1%	58.7%	41.5%	45.9%	51.9%	51.0%	56.2%
$ 10.37	$ 9.61	$ 9.67	$ 9.31	$ 8.53	$ 7.60	$ 7.09
15.56	14.19	18.00	25.38	24.44	23.63	18.58
$ 8.75	$ 8.35	$ 8.56	$15.00	$16.50	$17.75	$13.83

8. The results for fiscal 2001 include $26 million of pretax charges for expenses related to the TFM acquisition, loss on sale of swine assets and product recall losses.
9. The results for fiscal 2000 include a $24 million pretax charge for a bad debt write-off related to the January 2000 bankruptcy filing of AmeriServe Food Distribution, Inc. and a $9 million pretax charge related to Tyson de Mexico losses.
10. Certain costs for fiscal years 1999 and prior have not been reclassified as the result of the application of Emerging Issues Task Force Issue No. 00-14, "Accounting for Certain Sales Incentives" and Emerging Issues Task Force Issue No. 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products."
11. The results for fiscal 1999 include a $77 million pretax charge for loss on sale of assets and impairment write-downs.
12. Significant business combinations accounted for as purchases: TFM and Hudson Foods, Inc. in 2001 and 1998, respectively.
13. The results for fiscal 1998 include a $215 million pretax charge for asset impairment and other charges.
14. The results for fiscal 1997 include a $41 million pretax gain from the sale of the beef division assets.
15. Return on beginning shareholders' equity is calculated by dividing net income (loss) by beginning shareholders' equity.
16. Return on invested capital is calculated by dividing operating income (loss) by the sum of the average of beginning and ending total debt and shareholders' equity.
17. The 2006 Total debt to capitalization ratio is not adjusted for the $750 million short-term investment the Company had on deposit at September 30, 2006.

Corporate Information

CLOSING PRICE OF COMPANY'S COMMON STOCK

	Fiscal 2006		Fiscal 2005	
	High	**Low**	High	Low
First Quarter	**$18.70**	**$16.29**	$18.40	$14.12
Second Quarter	**16.89**	**12.94**	18.07	16.26
Third Quarter	**17.16**	**12.92**	19.08	15.96
Fourth Quarter	**16.62**	**13.13**	19.47	17.26

As of December 2, 2006, there were approximately 36,500 holders of record of the Company's Class A stock and 14 holders of record of the Company's Class B stock, excluding holders in the security position listings held by nominees.

COMPUTERSHARE INVESTMENT PLAN

Tyson has authorized Computershare Trust Co., N.A. to implement its program for dividend reinvestment and direct purchase of shares for current as well as new investors of Tyson Class A stock. This program provides alternatives to traditional retail brokerage methods of purchasing, holding and selling Tyson stock. All inquiries concerning this program should be directed to:

Computershare Investment Plan for Shareholders
of Tyson Foods, Inc.
c/o Computershare Trust Co., N.A.
P.O. Box 43023
Providence, RI 02940-3023
Telephone (877) 498-8861
Hearing Impaired Telephone TDD: (800) 952-9245

CHANGE OF ADDRESS

If your Tyson stock is registered in your own name(s), send change of address information to the Company's transfer agent, Computershare Trust Co., N.A.

MULTIPLE DIVIDEND CHECKS AND DUPLICATE MAILINGS

If your Tyson stock is registered in similar but different names (e.g., Jane A. Doe and J.A. Doe), we are required to create separate accounts and mail dividend checks and proxy materials separately, even if the mailing addresses are the same. To consolidate accounts, contact the Company's transfer agent, Computershare Trust Co., N.A.

LOST OR STOLEN STOCK CERTIFICATES OR LEGAL TRANSFERS

If your stock certificates are lost, stolen or in some way destroyed, or if you wish to transfer registration, notify the Company's transfer agent, Computershare Trust Co., N.A., in writing. Include the exact name(s) and Social Security or tax identification number(s) in which the stock is registered and, if possible, the numbers and issue dates of the certificates.

STOCK EXCHANGE LISTINGS

The Class A stock of the Company is traded on the New York Stock Exchange under the symbol TSN.

CORPORATE HEADQUARTERS

2210 West Oaklawn Drive
Springdale, Arkansas 72762-6999
Telephone (479) 290-4000

AVAILABILITY OF FORM 10-K

A copy of the Company's Form 10-K, as filed with the Securities and Exchange Commission for fiscal 2006 is available at http://ir.tyson.com or may be obtained by Tyson shareholders by writing to:

Vice President of Investor Relations
Tyson Foods, Inc.
2210 West Oaklawn Drive
Springdale, Arkansas 72762-6999
Telephone (479) 290-4235
Fax (479) 757-6712
E-mail: tysonir@tyson.com

Corporate Information

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 10 a.m. Friday, February 2, 2007, at the Holiday Inn Northwest Arkansas Convention Center, Springdale, Arkansas.

A live audio webcast will be available at http://ir.tyson.com.

To listen live via telephone, call (800) 779-9977. International callers dial (773) 681-5826. (The passcode is Tyson Foods, and the leader's name is Ruth Ann Wisener.) Shareholders are urged to exercise their right to vote by proxy on the Internet, by phone or by mail.

DIVIDENDS

Tyson Foods currently pays dividends four times a year: on March 15, June 15, September 15 and December 15. The dividend is paid to everyone who holds shares on the record date.

INDEPENDENT AUDITORS

Ernst & Young LLP
5414 Pinnacle Point Drive
Suite 102
Rogers, AR 72758
Telephone: (479) 254-6300

TRANSFER AGENT

Computershare Trust Company, N.A.
P.O. Box 43023
Providence, RI 02940-3023
Telephone: (877) 498-8861
Hearing Impaired Telephone TDD: (800) 952-9245
www.computershare.com

INVESTOR RELATIONS

Securities analysts and others seeking investor-related information should contact:

Ruth Ann Wisener
Vice President of Investor Relations and Assistant Secretary
Tyson Foods, Inc.
2210 West Oaklawn Drive
Springdale, AR 72762-6999
Telephone: (479) 290-4235
Fax: (479) 757-6712
E-mail: tysonir@tyson.com

MEDIA RELATIONS

Members of the news media seeking information about Tyson Foods should contact:

Gary Mickelson
Director of Media Relations
Tyson Foods, Inc.
2210 West Oaklawn Drive
Springdale, AR 72762-6999
Telephone: (479) 290-6111
Fax: (479) 757-7984
E-mail: gary.mickelson@tyson.com

TYSON FOODS ON THE INTERNET

Information about Tyson Foods is available on the Internet at www.tyson.com. The Investor Relations website is http://ir.tyson.com.

ANNUAL CERTIFICATION

Tyson Foods has filed the required certifications under Section 302 of the Sarbanes-Oxley Act of 2002 regarding the quality of the Company's public disclosures as exhibits to the Annual Report on Form 10-K for the fiscal year ended September 30, 2006. On February 23, 2006, Tyson Foods submitted to the New York Stock Exchange a certification of the Chairman and CEO that he was not aware of any violation by Tyson Foods of the NYSE corporate governance listing standards as of the date of such certification.

REGISTERED TRADEMARKS

Tyson®
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USE OF TERMS

The terms "Tyson," "Tyson Foods," "the Company," "our," "we" and "us" may refer to Tyson Foods, Inc., to one or more of its consolidated subsidiaries or to all of them taken as a whole. These terms are used for convenience only and are not intended as a precise description of any of the separate companies, each of which manages its own affairs.

Corporate Officers and Executives

Mike Baker
Group Vice President, Technical Services

Jean Mrha Beach
Senior Vice President, Commodity Trading and Risk Management, Price Optimization and Meat Procurement

Richard L. Bond
President and Chief Executive Officer

Howell P. Carper
Senior Vice President, Research and Development

Robert T. DeMartini
Group Vice President, Consumer Products

Karen Gilbert
Senior Vice President, Ethics, Compliance and Internal Audit

J. Alberto Gonzalez-Pita
Executive Vice President and General Counsel

Richard A. Greubel, Jr.
Group Vice President, International

Craig J. Hart
Senior Vice President, Controller and Chief Accounting Officer

R. Read Hudson
Vice President, Associate General Counsel and Secretary

Kenneth J. Kimbro
Senior Vice President, Human Resources

Dennis Leatherby
Senior Vice President, Finance and Treasurer

Greg W. Lee
Chief Administrative Officer and International President

Bernard F. Leonard
Group Vice President, Food Service

James V. Lochner
Senior Group Vice President, Fresh Meats and Margin Optimization

William W. Lovette
Senior Group Vice President, Poultry and Prepared Foods

Wade D. Miquelon
Executive Vice President and Chief Financial Officer

Archie Schaffer III
Senior Vice President, External Relations

Donnie Smith
Group Vice President, Information Systems, Purchasing and Distribution

John Tyson
Chairman

David L. Van Bebber
Senior Vice President and Deputy General Counsel

Noel White
Group Vice President, Tyson Fresh Meats

Ruth Ann Wisener
Vice President, Investor Relations and Assistant Secretary

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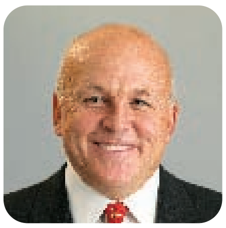
Board of Directors

Don Tyson, 76, retired as Senior Chairman of the Board in 2001. He served as Senior Chairman from 1995 until 2001. Mr. Tyson has been a member of the Board since 1952. [4]

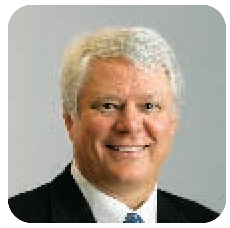


John Tyson, 53, is Chairman of the Board of the Company, having held his current title since May 2006. He served as Chairman and Chief Executive Officer from 2001 until May 2006, as Chairman, President and CEO from 2000 to 2001, as Chairman from 1998 to 2000 and in other executive capacities prior to 1998. Mr. Tyson has been a member of the Board since 1984. [4]

Leland E. Tollett, 69, a private investor, served as Chairman of the Board and CEO from 1995 to 1998 when he retired after employment with the Company since 1959. Mr. Tollett has been a member of the Board since 1984. [4]

Barbara A. Tyson, 57, was a Vice President of the Company from 1988 until 2002. Ms. Tyson has been a member of the Board since 1988.

Lloyd V. Hackley, 66, is the Interim Chancellor of North Carolina Agricultural and Technical State University, having served in this capacity since June 2006. He is also President and CEO of Lloyd V. Hackley and Associates, Inc., which provides programs for ethics and character development, and previously was President of the North Carolina Community College System. Mr. Hackley has been a member of the Board since 1992. [2,3]



Jim Kever, 54, is the Founding Partner of Voyent Partners, LLC, an investment partnership. Previously, Mr. Kever served as a director of Quintiles Transnational and had served as CEO of Envoy Corporation, a subsidiary of Quintiles. Mr. Kever has been a member of the Board since 1999. [1,2]

Richard L. Bond, 59, is President and Chief Executive Officer of the Company, having held his current title since May 2006. Mr. Bond served as President and Chief Operating Officer from 2003 to May 2006, as Co-Chief Operating Officer and Group President, Fresh Meats and Retail of the Company from 2001 to 2003 and as President and COO of IBP, inc. from 1997 until the merger of IBP into the Company. He was a director of IBP from 1995 to 2001. Mr. Bond has been a member of the Board since 2001.

Jo Ann R. Smith, 67, is President of Smith Associates, an agricultural marketing business. Previously, Ms. Smith served as Assistant Secretary for Marketing and Inspection Services for the U.S. Department of Agriculture. She is a former President of the National Cattlemen's Beef Association and has chaired the Cattlemen's Beef Promotion and Research Board. She was a director of IBP from 1993 to 2001. Ms. Smith has been a member of the Board since 2001. [1,2,3]

Albert C. Zapanta, 65, is President and CEO of the United States-Mexico Chamber of Commerce. Mr. Zapanta is a decorated veteran of the Vietnam War. He is Chairman of the Reserve Forces Policy Board, an independent policy adviser to the Secretary of Defense. He is also Chairman of the Board of the U.S.-Mexico Cultural and Educational Foundation. Mr. Zapanta has been a member of the Board since 2004. [2,3]

Scott T. Ford, 44, is President and Chief Executive Officer of Alltel Corporation. Previously, Mr. Ford was an investment banker with Stephens Inc. and Merrill Lynch. Mr. Ford has been a member of the Board since November 2005. [1]

[1] Audit Committee: Jim Kever, Chairman
[2] Governance Committee: Lloyd V. Hackley, Chairman
[3] Compensation Committee: Jo Ann R. Smith, Chairwoman
[4] Executive Committee

TYSON FOODS, INC.
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