

**COTTON INCORPORATED REPORT ON
PRODUCTION RESEARCH
James B. Hansen, Chairman
Cotton Incorporated
Corcoran, CA**

It's a pleasure to be here today to report on the activities of Cotton Incorporated. Normally, the company's President and CEO Berrye Worsham presents at this conference, but he is in Boston participating in a biotechnology agri-business workshop. With biotechnology playing an increasing role in our business, he felt that this additional training could be beneficial in setting strategic directions for the company going forward.

For those who don't know me, I am a cotton producer from Corcoran California and I serve as Cotton Incorporated's Chairman of the Board. I have been associated with the cotton research and promotion program for more than XX years, so I have a pretty good idea of the strategic direction of the company and it's main programs.

Today, I will give you a few highlights of the company's activities in 2000. This will be followed by a 12-minute video, which covers some of the key issues that our program is addressing plus a little about our new headquarters and research center.

Let me begin with some discussion about research. Many of you know Cotton Incorporated for its advertising, because that is the most visible part of the company. But research is also a key component of our program. In the year 2000, there were more than 300 projects totaling 7.1 million dollars in agricultural research alone. In fact, some of those projects will be reported on at this conference. Areas of emphasis in 2000 included yield enhancement, weed and pest control, cottonseed research, production system research and ginning improvement.

We continue to review programs to make sure that they are addressing the most pressing needs of the grower. For example, last month we held a successful Ag. Research Summit, where the Board provided input to the staff regarding the most pressing needs of the cotton producer. This will be used in setting priorities for future projects in agricultural research. As Chairman, I can tell you that we take the profitability issue very seriously.

In Fiber Quality research, we continued working to improve the measurement of fiber properties and to better understand the relationships between fiber properties and yarn and fabric characteristics. Some key areas of work in 2000 included developing reference standards for fiber properties such as maturity/fineness and short-fiber content. We are also exploring new technology in garment cleaning which will enhance the performance of cotton products.

Today, over 90% of the cotton processed in the United States uses EFS technology. This is a licensed software program of Cotton Incorporated that allows mills to more efficiently manage the cottons that we produce. At our latest EFS conference, we attracted over 300 industry leaders representing 100 companies to discuss the latest developments in this technology.

Improving cotton products and processes is a key goal of our program. In textile research, we have been evaluating new spinning systems, researching methods of improving flammability, improving the efficiencies of dyeing and finishing, making new cotton knit and woven fabrics as well as looking at increasing the demand for cotton in nonwovens such as diapers and in consumer disposables. In addition to enhancing technology, our staff literally visits mills around the world—about 25

countries—providing technical support to our customers. It's important to note 40% of the cotton we grow is exported. Our program has always had a global view of the market.

Promotion remained very visible to consumers in 2000. We reached 94% of American households an average of 19 times on television with a cotton message. That's about 2 billion household impressions for cotton. The Seal of Cotton continued to be recognized by more than 70% of America's consumers.

In 2000, we advertised heavily in more cost-effective cable programming including the WB network, MTV, the History channel, as well as the traditional broadcast networks. In addition to television, we launched promotion programs in Good Housekeeping magazine as well as new in-store promotions with key retailers such as Wal-Mart, Target, Belks and others. We launched a consumer Internet website for cotton in 2000, taking advantage of a new medium for reaching the consumer. We also announced to industry in late 2000, the beginnings of a new trade advertising campaign which will air in early 2001. So we have been very active in reaching our customers. Today, the average consumer uses about 37 pounds of cotton, more than 50% above what it was ten years ago. By contrast, usage outside the United States has fallen over the past ten years. I believe it is essential that we continue to reach our customers with a positive message about cotton.

Fashion marketing is probably not something most of us think about on a regular basis, but it's important that cotton participate in new fashion trends. Our fashion-marketing experts travel the world looking for new fashion ideas for cotton. In the year 2000, fashion presentations were delivered worldwide 18 to 22 months ahead of the selling season on behalf of cotton.

Our global marketing team delivers a multitude of services to our U.S. and international customers—from fashion to technical services. Cotton Incorporated has 5 international offices that can service about 90% of U.S. cotton exports. We have also maintained a strong partnership with Cotton Council International, which has helped both organizations more efficiently implement our programs.

Lastly, I do want to address an issue that has gotten a lot of attention in the past six months which is the topic of seed breeding. There is certainly a feeling among producers that something needs to be done about the problems of stagnating yields and reduced quality. For the past six months or so, our board has been addressing the question of how Cotton Incorporated can help the cotton industry provide better and more profitable varieties to producers. To assist us on this issue, we have hired outside experts who have considerable experience in the area of biotechnology and breeding. I can tell you that, at this time, I do not know what will be done or what direction we will take, but we hope to have some potential avenues for consideration by our annual board meeting in February. I want you to be assured that both the staff and board are giving it full consideration, including both the potential benefits and potential costs. It is a complex issue but an important one as well.

At this time I would like to show you our bi-annual video, which will provide you with examples of activities and issues that Cotton Incorporated is addressing and will also show you how we've put our new headquarters to work for cotton.

Thank you, and please take time to read the company's annual report, which goes into more detail about the activities of 2000.