

## Q2 2007 Earnings Call

### Company Participants

- Andre Menenzes, IR
- Unidentified Speaker, Unknown

### Other Participants

- Alex Roberts, Analyst
- Denis Parisien, Analyst
- Eric Ollom, Analyst
- Guilherme Aruzza, Analyst
- Jose Bernal, Analyst
- Margaret Kalvar, Analyst
- Ruth Mazzoni, Analyst
- Shamaila Khan, Analyst

### Presentation

#### Operator

Good afternoon, ladies and gentlemen. and thank you for waiting. At this time we would like to welcome everyone to JBS' First Quarter 2007 earnings conference call. Today we have with us Mr. Sergio Longo, Director of Finance and Investor Relations; Mr. Andre Menenzes, IR Manager and Mr. Wesley Batista, COO.

And that a presentation is available to download at the investor information section. Also, this event is being recorded and all participants will be in a listen-only mode during the company's presentation. After the company's remarks are completed, there will be a question and answer session. At that time further instructions will be given. (Operator Instructions)

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of JBS management. And on information currently available to the company. They involve risks, uncertainties and assumption because they relate to future events. And therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of JBS and could cause results to differ materially from those expressed in such forward-looking statements. Now, I'll turn

the conference over to Andre Menenzes, Investor Relations Manager. Mr. Menenzes, you may begin your conference.

## Andre Menenzes

Good morning, everyone. And thank you for your interest in JBS. I would like to thank you for your participation in our first conference call. And for your support so that we can continuously improve our presentations and level of disclosure in a constant mutual learning process. We would like to add that we're still in the quiet period. And therefore we will not be able to make comments on the company's further perspective.

I would like to begin by giving you an overview of JBS. Currently we are the world's third largest beef producer in terms of slaughtering capacity. We're the largest beef producer in export in Latin America. We're the second largest exporter of fresh beef in the world in terms of revenue. We're also the largest exporter of processed beef in the world. And we also have a leading beef selling market share in the domestic Brazilian market. Our products include fresh and chilled beef, processed beef. And other beef by-products. In 2006 we posted net revenues of R\$4 billion, of which 61% were exports.

On the next slide, we give you an overview of our modern facilities, which are strategically located to provide flexibility, geographic diversification and access to cattle supplies throughout several states in Brazil. And three provinces in Argentina. Today, JBS owns a total of 31 units, with 24 slaughterhouses, out of which are nine are processing plants and can process beef, slaughter, de-boning and processing; one vegetable canning plant; one beef canning plant; four distribution centers; one container area located in the port of Santos, which is Brazil's largest port. And this geographic diversification is very important to us, because it provides additional operational flexibility to source from and produce in different locations. It lowers our transportation costs and it also acts as a natural hedge to disease-risk.

The next slide, we begin with an overview of our results for the First Quarter. In the First Quarter 2007, JBS posted a net revenues increase of 22.6%, with total net revenues of R\$1.1 billion, while our EBITDA grew by 28.4% with an EBITDA margin of 14.4. Net income decreased by 67% to R\$10.6 million in the First Quarter of 2007, mainly due to non-recurrent expenses related to the company's initial public offering. Those expenses, which are non-recurring, totaled in the quarter R\$50.6 million. If the company had not incurred these non-recurring expenses, our net income for the quarter would have been in the order of R\$60 million.

On the next slide, we highlight the domestic market results. In the domestic market for the quarter, net revenues grew by 19.6%. Following, we highlight our results for exports for the quarter. We would like to highlight the growth in exports, which grew by 24.8% compared to the same period of last year.

The following slide summarizes our operational results. The company posted a gross profit for the quarter of R\$257.6 million, which represents a 26% growth over the R\$204.4 million posted for the same period of last year. Recurring expenses for the quarter totaled

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R\$177.5 million, which are 24% higher than in the First Quarter of 2006. We would like to highlight again that excluding non-recurring expenses related to the IPO, our net income for the quarter would have been in the order of R\$60 million.

The next slide summarizes our CapEx for the quarter. In the First Quarter of 2007, JBS invested a total of R\$213.3 million mainly in the following projects. Increase of the production capacity of our Andradina plant with processed beef from 30 tons to 100 tons per day; increase of production capacity to our plant in Barra dos Garcas, Matto Grosso, from 1,300 to 2,500 heads of cattle slaughtered and de-boned per day. Also an increase in production capacity of our plant in Campo Grande, Matto Grosso do Sul, from 1,300 to 3,000 heads of cattle slaughtered and de-boned per day; increased production of our plant located in Vilhena north of Brazil in Rondonia, from 900 to 2,200 heads of cattle slaughtered and de-boned per day.

We also invested in the construction of a beef jerky production plant, which is located in Santo Antonio de Posse in Sao Paulo. That plant is currently in its final phase of construction. And operation is expected to begin in the second half of May. We also invested in the increase of production capacity of our plant located in Barretos, Sao Paulo, which is a full cycle plant, processing, de-boning and slaughtering from 1,600 to 2,500 heads of cattle slaughtered and de-boned per day.

The acquisition of new trucks was also part of the CapEx for the quarter. These trucks are to be used for product transportation. And other investments, such as the acquisition of new equipment and maintenance of the company's facilities.

In the First Quarter, we also made acquisitions in Argentina and the United States. In Argentina we, JBS, acquired a slaughtering plant in Berazatelier Buenos Aires. That plant, which has a slaughtering capacity of 1,000 heads of cattle per day, is still in the process of approval by the Argentine authorities. We also acquired 100% of the shares of the North American company called SB Holdings and its subsidiaries. SB Holdings is one of the largest processed beef distributors in the US market today. The investment for that acquisition totaled \$11.9 million. And consolidated revenues in 2006 for SB Holdings totaled \$55.7 million.

In addition, the company entered into a joint venture to produce, market and distribute beef jerky. And through this joint venture a total of \$30 million has been invested towards the acquisition of a company in the US called Pioneer to produce, market and distribute beef jerky. Sales for Pioneer in 2006 totaled approximately \$22 million.

The acquisition of another US company called Double B, which produces, markets and distributes beef based products, with sales of approximately \$18 million.

In addition, as I have mentioned before, the company is in its final phase of construction of a beef jerky production plant in Santo Antonio de Posse, state of Sao Paulo, whose operations are expected to begin in the first half of May.

As you are all aware, in March, JBS successfully initiated its public offering whose characteristics can be seen on this slide -- are summarized on this slide. A total of R\$1.6 billion of gross resources income, of which 70% is to be used for capacity expansions and acquisitions. And about 30% is to be used for working capital.

In an objective way, in a summarized way, we have shown you our results for the quarter, our expansion plans and our acquisitions. I would like to thank you for your participation. Today with me I have Wesley and I have Sergio.

We thank you again for your participation and count on your support in this learning process at each quarter so we can learn how to disclose more information and how to properly show our results.

Thank you, again. And I would like to open for questions.

## Questions And Answers

### Operator

Thank you. Ladies and gentlemen. I will now initiate the question and answer session. (Operator Instructions) Please hold while we poll for questions.

Our first question comes from Guilherme Arouza of UBS Pactual.

### Q - Guilherme Arouza

Hello everyone. My first question -- I would like you to comment a little bit on the volume growth that you posted in the First Quarter of around 20%. And how do you expect that to evolve along the year?

You just said that you have several plants that should be added along the year. So does that imply that volume growth should improve over the year? Did you have anything specific in the First Quarter that hindered better performance on this front? Just try to elaborate a little bit on that please.

### A - Andre Menenzes

Hold on Guilherme one moment while I translate it to Sergio and Wesley.

### Q - Guilherme Arouza

Okay. Thank you.

### A - Unidentified Speaker

Hi Guilherme. With regards to your question, we would like to comment that there are several investments and expansions which are still in progress. And therefore, are not yet producing at their full capacity. In addition, some of the acquisitions for instance in

Argentina, have still -- and also some expansion, has still not begin to operate. Again during construction, some of the plants do not operate at full capacity. That's one of the reasons for the lower than expected volume growth.

### **Q - Guillermo Aruzza**

Okay. The second question would be related to margins. I know you can't speak much about your expectations; you said you were doing quite good. But is there anything unusual in the First Quarter that margins were so high? Or are you comfortable with this level of margins going forward?

### **A - Andre Menenzes**

Okay, hold on one second.

Thank you very much. Hi, Guillermo. As you mentioned, we are still in the silence period. So we cannot make forward-looking statements. However, we do feel comfortable with the margin that was posted for the First Quarter of 2007, which is in the level of the 14%.

### **Q - Guillermo Aruzza**

Okay. Thank you very much then.

### **Operator**

Thank you. Our next question is coming from Denis Parisien of Santander.

### **Q - Denis Parisien** {BIO 20333702 <GO>}

Congratulations, gentlemen. on the First Quarter performance and on your IPO. Again, I suppose we may run into the obstacle with respect to forward-looking statements.

But I'm wondering if the recent investments in beef jerky. And in the North American distribution, are foreshadowing further investments in a variety of value added products in the bovine chain going forward. And more investments in North America. If you can provide us with any color there, that would be much appreciated. Thanks.

### **A - Andre Menenzes**

Hold on one second Denis, while I translate it to Sergio and Wesley.

### **A - Unidentified Speaker**

Hi Denis, with regards to your question. On the contrary, we see the investments in beef jerky as a very high value added product. And that's why we've invested in kuppen. That's what kuppen -- I'm sorry the beef jerky plant produces. We do not see it as foreshadowing other investments that we may make in the United States with regards to processed beef and value added products. So the diversification is part of the strategy into value added products.

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**Q - Denis Parisien** {BIO 20333702 <GO>}

Sorry, by foreshadowing I didn't mean foreclose or prevent, I meant suggesting the contrary, that it is a move into further value adding products. Will we see you in other areas of the value added chain, not just beef jerky but in other kinds of value added products?

**A - Andre Menenzes**

Hold on one sec.

**A - Unidentified Speaker**

Definitely Denis. There is definitely a possibility that we may make -- that we may produce other products other than beef jerky which are value added, marketed into the United States. Obviously, we can't precise when or which products. But this is a definite possibility.

**Q - Denis Parisien** {BIO 20333702 <GO>}

Thanks very much.

**Operator**

Thank you. Our next question is coming Eric Ollom of ING.

**Q - Eric Ollom** {BIO 4374335 <GO>}

Hi. Good morning, gentlemen and congrats -- or I guess good afternoon and congratulations on the very fine results.

Basically, my question has to do with volumes. What is your current capacity? You mentioned the volume additions. Could you just give us what is the current capacity and what is the plan for the end of this year?

And also, just in terms of, from the debt side, given that you have all this cash although it's earmarked for many things, where do conversations stand with the rating agencies regarding your B1, B plus credit rating.

**A - Andre Menenzes**

Okay. Hold on one second, Eric.

**A - Unidentified Speaker**

Hi Eric. With regards to the current capacity, we still remain at the level of 22.6, thousands of heads of cattle per day, which is what we stated in the IPO prospectus. For the year-end we expect an increase of approximately 20% in slaughtering capacity, due mainly to the expansions that we have mentioned before.

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And with regards to the ratings agencies, we'd like to point out that Moody's -- we have been in talks with Moody's and they are revising upwards the rating of JBS.

**Q - Eric Ollom** {BIO 4374335 <GO>}

Okay. They're revising the outlook. Okay. No commentary from S&P at this moment?

**A - Andre Menenzes**

Hold on one second.

**A - Unidentified Speaker**

We have also been in conversations with S&P. They have not yet published anything. So they're still in the process of analyzing.

**Q - Eric Ollom** {BIO 4374335 <GO>}

Okay. All right, thank you.

**A - Unidentified Speaker**

You're welcome.

**Operator**

Thank you. Our next question is coming from Jose Bernal of Standard New York Securities.

**Q - Jose Bernal** {BIO 5617114 <GO>}

Hello everybody and congratulations on your results. I have four questions.

The first one is related to the IPO. You mentioned that you intend to use 30% of the IPO proceeds for working capital. Are you going to pay down any debt related to working capital? If so, how much?

And my second question is regarding CapEx and investment guidance for 2007. And I have another two -- let's start with those two questions first.

**A - Andre Menenzes**

Okay, just hold on one second.

**A - Unidentified Speaker**

Hi Jose. With regard to the first question, the 30% for working capital, it does include that reduction. But also includes working capital necessary for the usual operations of the company.

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With regard to the CapEx for 2007, as we have mentioned in the prospectus, our CapEx for the two years 2007 and 2008 amounts to R\$1.1 billion. And that's detailed in the prospectus with regards to each project.

**Q - Jose Bernal** {BIO 5617114 <GO>}

Okay. But do you know how much we're going to pay down for that, with the IPO proceeds?

**A - Andre Menenzes**

Hi, Jose. I don't have the precise figure of how much that we're going to pay from the 30% allocated to working capital. What I can comment is that we are obviously absolutely within every covenant of the bond. And you should expect some richer prizes in the future.

**Q - Jose Bernal** {BIO 5617114 <GO>}

Okay. And I have two questions regarding, related to average export prices. JBS' average prices declined because of the product mix, according to the press release. Could you give us more color on this?

And my second question is regarding that JBS mainly export premium cuts. And also sell non-premium cuts domestically.

**A - Andre Menenzes**

I'm sorry, would you repeat the second question, Jose?

**Q - Jose Bernal** {BIO 5617114 <GO>}

My second question is, I'd like to know if JBS mainly export premium cuts and sells non-premium cuts into the domestic market.

**A - Andre Menenzes**

Okay, hold on one second.

**A - Unidentified Speaker**

Hi Jose. With regard to the first question, average export prices have decreased due to the product mix. For instance, in the First Quarter of 2006, as you saw in the press release, we exported only 8% of our revenues to Russia. In the First Quarter of 2007, that number increased to 15%. Russia is a company that consumes mainly, not just the normal cuts, also some second tier type of cuts. So it basically relates to the product mix exported during the quarter. Okay?

With regards to your second question, are we only exporting premium cuts, no. We export premium and non-premium cuts. Russia is a good example of that. And also we sell premium and non-premium cuts in Brazil as well. A good example of that is the



famous Brazilian pecoya. So the strategy is always to sell the cuts where we can get the most profitability from.

**Q - Jose Bernal** {BIO 5617114 <GO>}

Okay. And do you export mainly fresh beef to Russia, or is this mostly processed beef?

**A - Unidentified Speaker**

Mostly fresh and frozen.

**Q - Jose Bernal** {BIO 5617114 <GO>}

Do you have a percentage?

**A - Unidentified Speaker**

Hold on one second. Jose, mostly it is frozen beef.

**Q - Jose Bernal** {BIO 5617114 <GO>}

Okay.

**A - Unidentified Speaker**

Okay? And there are no exports to Russia of processed beef.

**Q - Jose Bernal** {BIO 5617114 <GO>}

No processed beef?

**A - Unidentified Speaker**

No processed beef.

**Q - Jose Bernal** {BIO 5617114 <GO>}

Okay. Thank you.

**A - Unidentified Speaker**

You're welcome.

**Operator**

Thank you. Our next question is coming from Alex Roberts of Santander.

**Q - Alex Roberts** {BIO 16281499 <GO>}

Hi. I just had a follow up question on the acquisitions. If you look at the SB, Pioneer and Double B deals, is it safe to assume that these three US companies have net income; in

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other words that they're generating profits, net profits? And do you guys expect, or can you give us the sense of how much investments are going to be needed or do you plan to make in these companies during the year?

**A - Andre Menenzes**

Okay, hold on one second Alex.

**A - Unidentified Speaker**

Hi, Alex. With regards to the profitability of the companies, they are profitable at the moment, all three, SB, Double B and Pioneer. However, we do believe there is some improvement to be made. So that's where we expect to come in the future.

With regards to the investments. In the joint venture the total investment, including all plants relating to the joint venture, is at \$30 million.

**Q - Alex Roberts** {BIO 16281499 <GO>}

Okay. But as far as the other three companies, do you guys plan to invest during the year?

**A - Andre Menenzes**

You mean additional investments?

**Q - Alex Roberts** {BIO 16281499 <GO>}

Yes.

**A - Unidentified Speaker**

(Foreign language).

Hi Alex. All investments are included in the \$30 million.

**Q - Alex Roberts** {BIO 16281499 <GO>}

Got you. Okay, good. Thank you.

**Operator**

(Operator Instructions). Our next question is coming from Margaret Kalvar of Harding Loevner Management.

**Q - Margaret Kalvar** {BIO 18450283 <GO>}

Yes. Good afternoon. I have a question about working capital. Basically, at the time of the IPO, it looked as though your working capital needs were quite high. And I was wondering what was the cause of that? Was it a structural change enhancing receivables due to more exports? And what is your outlook for working capital going forward?

Then I have another question as well but let's handle that one first.

**A - Andre Menenzes**

Okay, hold on second Margaret.

**A - Unidentified Speaker**

Hi, Margaret. Accounts receivable should remain in the current levels for the future. Obviously, this is a very working capital intensive industry. So as we grow, also working capital will tend to grow.

In other words, for the net debt to EBITDA, we do expect also to maintain within the three times net debt to EBITDA ratio.

**Q - Margaret Kalvar** {BIO 18450283 <GO>}

Okay. And the second question on trade, recently there was another report that Europe was seeking to increase trade restrictions for Brazilian beef. and I know these come out frequently and I'm not sure how much gets acted upon. What is your view on the current outlook for trade restrictions in Europe?

**A - Andre Menenzes**

Okay, hold on one second.

**A - Unidentified Speaker**

Hi, Margaret.

**Q - Margaret Kalvar** {BIO 18450283 <GO>}

Hi.

**A - Unidentified Speaker**

With regards to your question, we did hear this news. We don't think at this point it is very sustainable. We don't know how it came about. On the contrary, last month we had a visit from the European Commission.

And they were very satisfied with the level of sanitary control that we have. Recently, there was some news published in Brazil right around the same time of the embargo article that was published, saying that Sao Paolo is expecting that Europe is going to lift the bans for the export of beef. So we're hearing both sides of the story. But concrete the fact that we received a visit last month from the European Commission. They were very pleased with what they saw.

**Q - Margaret Kalvar** {BIO 18450283 <GO>}

Okay.

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## A - Unidentified Speaker

And in addition, Europe is currently very dependent on Brazilian beef. So they will need to purchase this from us. That's how we see it.

## Q - Margaret Kalvar {BIO 18450283 <GO>}

Okay. And I'd like to chat with you offline about the working capital a little bit more intensely. But we can do that at another time. Thank you very much.

## A - Unidentified Speaker

You're welcome. No problem, you can just give me a call and we'll talk further.

## Q - Margaret Kalvar {BIO 18450283 <GO>}

Okay. Thank you.

## Operator

(Operator Instructions) Our next question is coming from Ruth Mazzoni of Standard.

## Q - Ruth Mazzoni {BIO 6695550 <GO>}

Yes, hello gentlemen. I have three questions. The first is I'd like just to clarify, just to be sure that I understand, that you are comfortable with net debt to EBITDA of three times on an ongoing basis. In other words, as growth perhaps stabilizes. And slaughtering capacity, expansions in slaughtering capacity diminish, you still think that leverage of three -- net leverage of three times EBITDA is a level that you are comfortable with.

The second question is in terms of expansion and growth in slaughtering capacity, what percentage of that will be in Brazil, or do you expect to be outside of Brazil?

And the third question is the impact of a potential further appreciation in the real. Say that the real goes to 1.8, if you could please comment on what you expect the impact to be on EBITDA. Thank you.

## A - Andre Menenzes

Thank you. Hold on one second Ruth.

## A - Unidentified Speaker

Hi, Ruth. With regards to the impact of the real valuation, or possible real valuation, we still see that Brazilian beef still has some margin that we can operate to compensate a possible valuation of the real. So we feel pretty comfortable with that. We do see an impact on the producers if that occurs.

## Q - Ruth Mazzoni {BIO 6695550 <GO>}

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So you do see an impact on EBITDA? A reduction in EBITDA margin if the real appreciates?

### **A - Unidentified Speaker**

Not exactly, because we don't see anything different, because there's two margins we still have room to work on in terms of prices.

### **Q - Ruth Mazzoni** {BIO 6695550 <GO>}

Okay. So you think you could pass it all through?

### **A - Unidentified Speaker**

Well obviously it would depend on how low it gets. But -- (inaudible).

### **Q - Ruth Mazzoni** {BIO 6695550 <GO>}

Yes, because actually prices domestically were better. Prices domestically -- were better domestically in 1Q than for exports right? So that would suggest that, probably, that there would be an impact, albeit perhaps containable, or manageable?

### **A - Unidentified Speaker**

Yes. We think at this point it's manageable.

### **Q - Ruth Mazzoni** {BIO 6695550 <GO>}

Okay.

### **A - Unidentified Speaker**

Your second question, we can't really precise how much expansion will be in Brazil or outside Brazil. All we can comment is that we do look at every opportunity where it falls within the company strategy, whether it's in Brazil or outside of it. But at this point, we can't precise how much the percentage of expansion will be in the country.

### **Q - Ruth Mazzoni** {BIO 6695550 <GO>}

Okay.

### **A - Unidentified Speaker**

For the first question, our maximum net debt to EBITDA ratios as we see it during our growth period is at three times. However, we plan to continue growing. We don't see a stop growing within the coming year. So I don't see de-stabilization during this growth period. We want to maintain three times net debt to EBITDA.

### **Q - Ruth Mazzoni** {BIO 6695550 <GO>}

Okay. So no de-leveraging with rapid growth on the horizon?

## A - Unidentified Speaker

Not so far.

## Q - Ruth Mazzoni {BIO 6695550 <GO>}

Okay. And no additional de-leveraging coming from the IPO proceeds?

## A - Andre Menenzes

Hold on one second.

## A - Unidentified Speaker

Yes, hi Ruth.

## Q - Ruth Mazzoni {BIO 6695550 <GO>}

Hi.

## A - Unidentified Speaker

Obviously, with the IPO proceeds, the ratio decreased to 2.5. And we do see the 3 as a target. So not in the coming future we don't see de-leveraging.

## Q - Ruth Mazzoni {BIO 6695550 <GO>}

Okay. Thank you very much.

## A - Unidentified Speaker

You're welcome.

## Operator

Thank you. Our final question comes from Shamaila Khan of TIAA Investment Management.

## Q - Shamaila Khan {BIO 17397271 <GO>}

Hi. My question relates to your operations in Argentina. If your new acquisition is approved by the Argentine authorities, could you comment on how significant Argentina will be as a percentage of your EBITDA?

And also can you comment on are there any export restrictions on beef in Argentina currently?

## A - Andre Menenzes

Yes, hold on one second Shamaila.

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### **A - Unidentified Speaker**

Hi Shamaila. Currently Argentina, companies in Argentina, represents approximately 7% of our total sales. We do see, if the acquisition is approved, we don't see a significant impact on the -- additional impact EBITDA. We do see a market share gain in Argentina. Okay?

With regards to the export restrictions, they're still imposed by the government currently. However, in the medium term, we do see it lifting these restrictions for the future.

### **Q - Shamaila Khan {BIO 17397271 <GO>}**

Are there export restrictions on processed as well as fresh beef?

### **A - Unidentified Speaker**

Just fresh beef, it doesn't apply to processed beef.

### **Q - Shamaila Khan {BIO 17397271 <GO>}**

And are some of your operations involved in processed beef as well?

### **A - Unidentified Speaker**

Yes.

### **Q - Shamaila Khan {BIO 17397271 <GO>}**

Do you know what the split is between processed and fresh?

### **A - Unidentified Speaker**

Hold on, let me check the numbers.

Hi Shamaila. I'll just give you the precise numbers. Last year was approximately 70% processed beef and 30% fresh beef.

### **Q - Shamaila Khan {BIO 17397271 <GO>}**

Okay. And domestically, do you also have price controls on your beef production there?

### **A - Unidentified Speaker**

In Argentina you mean?

### **Q - Shamaila Khan {BIO 17397271 <GO>}**

Yes.

### **A - Unidentified Speaker**

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Hi Shamaila. The government has attempted to restrict price controls, imposed price controls. However, the majority of our sales from Argentina are export sales. So it doesn't have a significant impact on us.

**Q - Shamaila Khan** {BIO 17397271 <GO>}

Okay. Thank you.

**A - Unidentified Speaker**

You're welcome.

**Operator**

Thank you. There appear to be no further questions. I will now turn the floor back to management for any closing comments.

**A - Andre Menenzes**

Hi again. On behalf of JBS, we'd like to thank you for your participation. This is our first conference call at JBS and we plan on your support to improve and make continuous improvement within the market.

**Operator**

This does conclude today's JBS First Quarter 2007 earnings conference call. You may now disconnect your lines. And have a wonderful day.

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