



**Operator:**

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everyone to the JBS 2Q07 earnings conference call. Today we have with us Mr. Joesley Mendonça Batista, CEO, and Mr. José Paulo Macedo, Director.

We would like to inform you that this call and the slides are being broadcast on the Internet, on the Company's website [www.jbs.com.br/ri](http://www.jbs.com.br/ri), and that the presentation is available to download at the investors' 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 section. At that time, further instructions will be given. Should any participant need assistance during this call, please press \*0 to reach the operator.

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 assumptions, 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 will turn the conference over to Mr. Batista, CEO. Mr. Batista, you may begin your conference.

**Joesley Mendonça Batista:**

Good morning. This is Joesley Batista, CEO of the Company. We did another call two hours earlier, in Portuguese. My Portuguese is much better than my English. I will try my best.

First, I would like to thank everybody for joining us in this call. This is our second call talking about the results after the IPO. We are trying to improve our information, we are trying to improve the numbers, how we show the numbers, and we hope to keep improving.

So, I would like to say that we continue growing, continue growing our slaughter capacity; we are increasing our sales, cost reduction.

We keep focused on the efficiency on the yields and the internal **efficiencies(3:17)**. We continue to add value in our products – we will talk further about this. We are confident that we will be able to achieve our goals to be here, in terms of revenues, in terms of growth.

I would like to start talking a little bit about cattle price. It is a concern that some people asked us about, the cattle price, that is increasing. In reality, the cattle price is decreasing. It is not new to us. It is usual from the transition from the grass cattle from the feedlots, **(4:45)** in the supply.



In Brazil, ten years ago, the feedlots used to be from August to November, three or four months. The technology of feedlots is improving; the ingredients that they use to feed cattle are changing too; so, the feedlot period is changing, and the feedlots are becoming earlier and earlier, year by year.

Nowadays, we can see cattle in feedlots from March to December, almost ten months per year. And while the feedlots anticipate their period, it anticipates this gap from grass fed and the feedlots' cattle. That is when you stop having... You do not have the grass fed cattle anymore, and feedlot cattle is not ready yet.

What we have been improving is our capacity to reorganize the prices of the beef, the price of the cattle to keep the margins as they are. We are scared about these factors; we understand them as part of our business.

We are in August, we can say that we have been already successful in our strategy, because the beef price is already increasing, you can hear a little bit... The cattle prices going down, and we have been able to rebuild our margins.

Talking about adding values in our products, we started a new plant of beef jerky, a new plant that was built 100 kilometers from São Paulo, that will be focused on producing beef jerky products to sell to the United States market.

We started up in these last three months Teófilo Otoni unit, Pontevedra and Berazategui, in Argentina. We may mention that all of these units have started up in March, April, May, June, so, when you look at the numbers, it is not on a year basis; there is only one month, two months or three months of revenues in our results, in the consolidated JBS' results, but they are already running.

We acquired a plant in Maringá, that will start next month. It is a big and important plant; we are improving this plant to lift the technology to the JBS numbers. It will start in September.

We bought, as I told, I think in the last call, we bought a feedlot in the state of São Paulo; we are making some improvements there, we expect to be able to have 100,000 heads of cattle next year.

This year, we have 25,000. As I told you in the last call, we are not changing our strategy, it is an experience to us, we are not expert at feedlots. The feedlots' technology is changing quickly, very fast.

The feedlots are being... As agribusiness industry grow, the feedlots are growing, because it uses the byproducts of these industries, as the soybean industry, the sugarcane industry.

Nowadays, the business of feedlots is a profitable business, when you look only at the feedlots business.

We expect more than this, that we expect to make money in the feedlots, and we expect that this will be a better integration from the feedlots to the slaughter plants.



We will be running this business for one, two, three years and maybe, after this, after understanding the results, we can decide if it will be a strategy or not, if we will invest more money on this business or not.

It is just a coincidence that we bought a feedlot when the cattle price grew up in June, there is no relation between feedlots and the cattle prices. The feedlots are a long-term investment, and the cattle price is a monthly concern.

In the next extraordinary shareholder meeting, we will be proposing to have the Investor Relations department independent from the financial department. We have hired a person that is already running this area, that is here with us and that will do a presentation after me, Mr. José Paulo. Mr. Sérgio Longo will keep running the financial department.

We did a huge important deal, the Swift acquisition. We have done three calls talking about the Swift acquisition, that made JBS the world's largest distributor, and now we hope we will be the most profitable industry.

As mentioned in the past, we were supported by BNDESPAR, a shareholder of JBS, that, in the first moment, approved an investment until US\$750 million, but, in the end, all the minority shareholders exercised the (14:31) rights.

We are adjusting the operation, we are following our plans. We have no surprises; we are confident that we will be able to deliver what we expected. We have seen a big opportunity to add value through of Swift acquisition.

We have the new management; they are already running the Company. Wesley is the CEO of the United States operation, and Ian Mars is the CEO of Australian operations.

We are reducing the costs, we are being able; and we continue confident on the recovery of these operation growth.

In South America, the new management is running the business, as well as it was in the past. (16:05) is currently supporting them, to guarantee there is nothing new (xx) with our plants. And, again, I analyzed these three months, I am very proud of all of our teams, that was able to do such an important acquisition, a very complex view, so successfully.

I would like to ask José Paulo to continue the presentation and, at the end of presentation, we will be open for the Q&A. José Paulo, please.

**José Paulo Macedo:**

Good morning or good afternoon everyone. I would like to start with the details of our slaughtering performance for the quarter.

During the 2Q07, JBS achieved total slaughtering capacity of 947,000 heads. That is 14.1% higher than the 830,000 heads, achieved in 2Q06, and 6.8% higher than the 886,000 heads during 1Q07. For the 1H07, the total slaughtering figure amounted to 1,833,400 heads, up 11.3% when compared to 1H06.

The other tables, on the bottom of the page, show the historical slaughtering data by quarter, something which we have been asked to disclose since the last conference call.

Turning the page, talking about net revenues. We can see that net revenues for the quarter rose by 25.2% when compared to the 2Q06, mainly as a result of an increase of 27.6% in sales volumes, and a slight decrease in average prices in reais of 1.9%. With respect to the fall in average prices, we will see further on that this is explained by increases of 2% in the domestic market, and a 7.4% increase, in USD terms, in the export markets, which were offset by the appreciation of the Brazilian real against the USD of 9.4% in the period.

When compared to the 1Q07, net revenues grew by 7.8%, volumes sold by 10.1%, with a decrease in average prices of 2%.

For 1H07, net revenues rose 23.9%; volumes, 23.8%; and average prices remained stable.

Here, it is worth mentioning that whenever we analyze average prices, we must bear in mind that differences in product mixes from one period to the other can have a significant impact in the conclusions.

Turning the page, and speaking about net revenue distribution by market. We can see that during 2Q07, exports represented 58.3% of our net revenues, while the domestic market was responsible for 41.7%. Pretty much similar figures when we look at the 1Q07 and 1H07.

If we compare with 2Q06, you can observe a slight change in the picture, with exports representing 60.6% of net revenues, and domestic markets, the remaining 39.4%. These slight differences are explained by JBS' constant focus on redirecting sales efforts to the specific markets which pay the best margins at each moment.

During 2Q07, approximately 68% of net revenues were represented by fresh and chilled beef sales; 14.1% for processed beef; and 18.2%, for others which are mainly represented by (20:46). Again, these percentages are very similar when compared to the 1Q07, and in comparing the 1H07 with 1H06, and just a slight variation when compared to the 2Q06.

In the export markets, 71% of revenues came from fresh and chilled beef, and 28.9% from processed beef. When comparing to the 2Q06, we can see a great participation of processed beef in total export sales for 2Q07.

Turning the page, and speaking about the performance on the domestic markets, we can see that revenues rose by 32.3%, comparing to the 2Q06, and a 29.7% increase in volumes sold, coupled with a 2% increase in average prices.

Comparing with the 1Q07, domestic market revenues increased by 6%, with an 11% increase in volumes, and 4.5% decrease in average sales prices.

The fall in prices is explained by the differences in the product mix sold, as the 1Q in Brazil coincides with the summer period, which is known for showing high demand for



higher value-added products. For the 1H07, domestic markets revenues rose by 25.8%, the volumes sold, by 21%, and prices in average, 4% higher than 1H06.

Next page, breakdown of the performance of our exports. Net revenues achieved R\$683.3 million in the quarter; this figure is 20.5% higher than 2Q06, and that was thanks to a 23.9% increase in volumes sold, 7.4% higher prices, in USD terms, which was partially offset by the appreciation of the Brazilian real, vis-à-vis the USD of 9.4% in the period.

Comparing to the 1Q07, export revenues increased by 9.2%; volumes were 8.3% above, an average prices in reais were 0.8% higher, considering that during this period, the real appreciated 6% against the USD, and the average prices in USD rose by 7.2%.

For the 1H07, export revenues achieved R\$1,309,200 billion, a growth of 22.5% when compared to 2006. Volumes were 29.4% higher, with a 5.3% decrease in average prices in reais terms, which were affected by the appreciation of the real against the USD, of 6.7% in the period.

In the next slide, taking a closer look at the breakdown of our export destinations, we can see that the UK was the largest individual importer of JBS in the quarter, with 12% of net revenues, followed by the Netherlands, Russia, Italy, United States and Hong Kong.

It is worth mentioning that, when comparing to the 2Q06, exports to the United Kingdom were 32% higher in volume, and 23% higher in USD terms. The same comparison for the Netherlands, 46% higher in volume, and 69% higher in USD terms; and, for Russia, 56% higher in volume, and 15% higher in USD terms.

Decrease in average prices for Russia during the 2Q07 is explained by the very high volumes that they imported during the 1Q07, which drove inventory levels in Russia very high, with an effect which caused them to reduce purchases in the 2Q07, with an effect in prices.

Our expectation is that Russia will increase import volumes again during 2H07. The 2H is traditionally a strong period for exports to Russia, when they build inventories to face their winter season.

It is also worth to point out that exports to Hong Kong has grown 19% in volume, and 120% in USD terms, when comparing to the 2Q06, which explains the increase in 5% and 9% on the participation of Hong Kong in total export revenues for JBS.

Next page, looking at our EBITDA and EBITDA margin; EBITDA reached R\$165.2 million for the 2Q07, against R\$139.6 million for the 2Q06. That shows an 18.3% growth year-on-year, and 5.8% growth compared to the 1Q07.

BITDA margin for the quarter reached 14.1% against 14.9% in the 2Q06, and 14.4% in the 1Q07. For the 1H07, EBITDA rose by 23.5%, and EBITDA margin was 14.2%, against 14.3% in the 1H06.





Margins are remaining stable when you compare the six months of 2007 with the first six months of 2006. At the same time, net debt/EBITDA level decreased from 2.5x, at the end of 2007, to 2.3x at the end of 2Q07.

With respect to CAPEX, during the quarter, a total R\$112.7 million were invested on the following projects, mainly on projects of increasing capacity of our plants in Brazil. That compares to a figure of R\$77.2 million of CAPEX invested during the 2Q06. For the 1H07, CAPEX stood at R\$326 million.

As I have mentioned, the CAPEX for the quarter was directed, mainly, to the continuation of capacity expansion projects on our Brazilian units, also for the construction works at our value-added plant in Andradina, in the state of São Paulo, and the beef jerky plant which started operations in June.

With that, I conclude the presentation. Thanks again for participating in this call today, and we are now ready for the Q&A session.

**Steve Kay, Cattle Buyers:**

Good afternoon, gentlemen. It is a privilege to listen to you today talking about your results. I want to congratulate you on what seems to... (28:50) United States, a very impressive quarter, and I also... Mr. Batista, I wanted to say that, firstly, your quarterly results are far more detailed than any filed by any publicly traded United States Company. I observed and I appreciate that.

And secondly, the processes in the United States would certainly be very envious of your net income percentage, 3.3% of total revenues, a very (29:20) results.

As you might understand, I have two questions about JBS - Swift here, in the United States. I would like to ask you firstly... The first question relates to the move that you are making towards expanding your case-ready production here in the United States, of meet.

And the second question relates to the possibility of replacing the Louisville Kentucky pork processing plant with a new plant.

**Joesley Mendonça Batista:**

Hi. In terms of rumors about our plants, what I would like to clarify is that, officially, all of our plants, we have already told in the last call, and everything after this is unofficial.

**Steve Kay:**

I am sorry. Could you expand on that? I am not quite sure what you are referring to.

**José Paulo Macedo:**

Steve, actually, in this call, we are not taking questions from the press. We wanted to leave the Q&A session for the analysts and for the market in general.



But what we would like to reinforce here is that we are basically working on the plants that we have developed for Swift, and that we have widely announced in our last three calls.

**Steve Kay:**

And do they include what I have just spoken about?

**José Paulo Macedo:**

No.

**Steve Kay:**

All right. Thank you.

**Paul Hollingworth, BB Securities:**

Good afternoon, good morning everybody. Thank you for the presentation, which is very detailed.

Just two questions: one, I wonder if you could refresh for me the precise shareholder structure now, of JBS.

And the second question is with regards what you envision with the (32:06) Company, what your objectives are with regard to that? Thank you.

**José Paulo Macedo:**

OK. With the capital structure, we are still finalizing the private placement of equities, that we announced in the end of June.

Before the private placement of equities, we have J&F, which belongs to the main shareholders of JBS, with 65.88% of the capital of JBS. Roughly, 10.3%, with J&F, which also belongs to the individual shareholders family. And the free float of the market, with 23.8% of the capital of JBS.

The price for exercising the (33:05) rights on the private placement of equity expired on July 31, but there are still some shares remaining to this subscribed, and the new period goes up until the August 21.

So, we still do not have the final figures, but as we explained today, most of the minority shareholders have already exercised their (33:33) right. There are only 1.88% of shares to these subscribers.

So, we envisage that, at the end of the day, the market will continue with roughly 23% of participation in the capital of JBS.

BNDESPAR will have around 13%, and the family will own the rest, the remaining balance.



**Paul Hollingworth:**

Thank you.

**Joesley Mendonça Batista:**

But for the division, our Hygiene and Cleaning division; we did a spin-off of this division from JBS before the IPO. And JBS has plans of increasing sales and investing in that division we have been running for a long time.

We hope we will be able to increase this division, take this division to up than R\$1 billion revenue in a year basis.

And if there is room to make this Company a public company, we will be studying, with good eyes, but, again, there is nothing decided until this moment.

**José Paulo Macedo:**

And also just to complement on that, as Joesley has mentioned, the business was a spin-off from JBS, so it did not affect JBS. It is a separate business, controlled by the family.

**Operator:**

Thank you. This concludes today's presentation. You may now disconnect, and have a nice day.