purchase of Swift Foods from ConAgra Foods, Inc. in 2002 exceed a minimum threshold of $7.5 million. On January 29, 2008 Swift Beef was notified that the appeals court ruled in favor of the defendants on all counts. Swift Beef is now seeking the recovery of a portion of the legal fees it expended in this matter. As the claimants rights to appeal expired during the third quarter ended December 28, 2008 the reversal of the previously accrued trial court verdict amount was recorded as an adjustment to the Acquisition, not as a reduction of expenses on the Consolidated Statement of Operations.

Swift Beef was a defendant in a lawsuit entitled United States of America, ex rel, Ali Bahrani v. ConAgra, Inc., ConAgra Foods, Inc., ConAgra Hide Division, ConAgra Beef Company and Monfort, Inc., filed in the United States District Court for the District of Colorado in May 2000 by the relator on behalf of the United States of America and himself for alleged violations of the False Claims Act. Under the False Claims Act, a private litigant, termed the “relator,” may file a civil action on the United States government’s behalf against another party for violation of the statute, which, if proven, would entitle the relator to recover a portion of any amounts recovered by the government. The lawsuit alleged that the defendants violated the False Claims Act by forging and/or improperly altering USDA export certificates used from 1991 to 2002 to export beef, pork, poultry and bovine hides to foreign countries. The lawsuit sought to recover three times the actual damages allegedly sustained by the government, plus per-violation civil penalties.

On December 30, 2004, the United States District Court granted the defendants’ motions for summary judgment on all claims. The United States Court of Appeals for the Tenth Circuit reversed the summary judgment on October 12, 2006 and remanded the case to the trial court for further proceedings consistent with the court’s opinion. Defendants filed a Motion for Rehearing En Banc on October 26, 2006. On May 10, 2007, the Tenth Circuit denied that motion.

Issues in the case were bifurcated and two separate jury trials were held, the first trial centering on beef certificates was held from April 28, 2008, to April 29, 2008 and the second trial centering on bovine hide certificates was held from March 9 to March 19, 2009. Following the April trial, a verdict with respect to the beef certificates was returned ruling in favor of the Company on all counts. Following the March trial, a verdict with respect to the bovine hide certificates was returned ruling in favor of Company on 99.5% of the claims. Specifically, Company prevailed with respect to approximately 995 bovine hide certificates and the relator prevailed with respect to only 5 certificates. Based on the False Claims Act, this verdict resulted in a judgment against Company of $28 thousand and the court ordered that each party pay its own attorneys’ fees and court costs. The relator timely issued a notice of appeal and entered a motion for attorneys’ fees and costs alleging that, because it prevailed on 0.5% of its claims, it was entitled to the payment of its attorneys’ fees and costs, estimated at $3 million. The Company has timely responded to the relator’s notice of appeal, filed a cross appeal, and responded to the relator’s motion for attorneys’ fees and costs. The parties await final adjudication of these issues, which could come as early as the third quarter, 2009.

The Company is also a party to a number of other lawsuits and claims arising out of the operation of its businesses. Management believes the ultimate resolution of such matters should not have a material adverse effect on the Company’s financial condition, results of operations, or liquidity. Attorney fees are expensed as incurred.

Commitments

JBS USA Holdings enters into purchase agreements for livestock which require the purchase of either minimum quantities or the total production of the facility over a specified period of time. At December 30, 2007, the Company had commitments to purchase 34.7 million hogs through 2014 and approximately 35% of cattle needs through short-term contracts. As the final price paid cannot be determined until after delivery, the Company has estimated market prices based on Chicago Mercantile Exchange traded futures contracts and applied those to either the minimum quantities required per the contract or management’s estimates of livestock to be purchased under certain contracts to determine its estimated commitments for the purchase of livestock, which are as follows (in thousands):

Estimated livestock purchase commitments for fiscal year ended:	
2008	$3,167,672
2009	1,010,143
2010	940,570
2011	609,332
2012	547,507
Thereafter	439,003

Through use of these contracts, the Company purchased approximately 65% of its hog slaughter needs during the 173 days ended December 30, 2007.

Note 11. Business segments

JBS USA Holdings is organized into two operating segments, which are also the Company's reportable segments: Beef and Pork. Segment operating performance is evaluated by the Chief Operating Decision Maker ("CODM"), as defined in SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information*, based on Earnings Before Interest, Taxes, Depreciation, and Amortization and interest and exclusion of certain non-cash items which affect net income ("EBITDA"). EBITDA is not intended to represent cash from operations as defined by GAAP and should not be considered as an alternative to cash flow or operating income as measured by GAAP. JBS USA Holdings believes EBITDA provides useful information about operating performance, leverage, and liquidity. The accounting policies of the segments are consistent with those described in Note 3. All intersegment sales and transfers are eliminated in consolidation.

Beef—The majority of Swift Beef's revenues are generated from the sale of fresh meat, which include chuck cuts, rib cuts, loin cuts, round cuts, thin meats, ground beef, and other products. In addition, Swift Beef also sells beef by-products to the variety meat, feed processing, fertilizer, automotive and pet food industries. Furthermore, Australian's foods division produces value-added meat products including toppings for pizzas. The trading division in the US and Australia trades boxed meat products to brokers and retailers who resell those products to end customers.

In August 2005, the Company closed its Nampa, Idaho non-fed cattle processing facility. The closure was due to continued difficulty of sourcing older non-fed cattle for slaughter in the Northwestern US and the uncertainty surrounding the opening of the Canadian border to the importation of livestock older than 30 months of age. On May 26, 2006, the Company completed the sale of the idled Nampa facility as well as the operating Omaha, Nebraska non-fed cattle processing facility. Due to significant continuing involvement with the non-fed processing facilities through a raw material supply agreement, the operating results related to these plants for all periods presented have been reflected in continuing operations.

Pork—A significant portion of Swift Pork's revenues are generated from the sale of products predominantly to retailers of fresh pork including trimmed cuts such as loins, roasts, chops, butts, picnics, and ribs. Other pork products, including hams, bellies, and trimmings are sold predominantly to further processors who, in turn, manufacture bacon, sausage, and deli and luncheon meats. The remaining sales are derived from by-products and from further-processed, higher-margin products. The lamb slaughter facility is included in Pork and accounts for less than 1% of total net sales.

Corporate and other—Includes certain revenues, expenses, and assets not directly attributable to the primary segments, as well as eliminations resulting from the consolidation process.

	Predecessor		Successor
	Fiscal year ended December 24, 2006	198 days ended July 10, 2007	173 days ended December 30, 2007
	(in thousands)	(in thousands)	(in thousands)
Net sales			
Beef	$ 7,576,136	$ 3,757,295	$ 3,942,231
Pork	2,152,583	1,234,133	1,063,644
Corporate and other	(37,287)	(20,804)	(16,891)
Total	$ 9,691,432	$ 4,970,624	$ 4,988,984
Depreciation, amortization, and goodwill impairment charges (i)			
Beef	$ 65,443	$ 32,913	$ 25,627
Pork	23,679	11,925	9,617
Total	$ 89,122	$ 44,838	$ 35,244
EBITDA			
Beef	$ (13,034)	$ (24,878)	$ (103,354)
Pork	65,027	31,234	57,352
Total	51,993	6,356	(46,002)
Depreciation, amortization, and goodwill impairment(i)	(89,122)	(44,838)	(35,244)
Interest expense, net	(118,754)	(66,383)	(34,340)
Foreign currency transaction gains	463	527	5,201
Gain/(loss) on sales of property, plant and equipment	666	2,946	(182)
Loss before income tax expense	(154,754)	(101,392)	(110,567)
Income tax benefit/(expense)	37,348	18,380	(1,025)
Net loss	$ (117,406)	$ (83,012)	$ (111,592)

(i) The fiscal year ended December 24, 2006 includes a goodwill impairment charge of $4.5 million related to the Beef segment.

	Predecessor		Successor
	Fiscal year ended December 24, 2006	198 days ended July 10, 2007	173 days ended December 30, 2007
	(in thousands)	(in thousands)	(in thousands)
Capital expenditures			
Beef	$ 39,304	$ 29,390	$ 28,129
Pork	7,990	4,310	5,332
Total	$ 47,294	$ 33,700	$ 33,461

Corporate and other—Includes certain assets not directly attributable to the primary segments as well as the parent companies' investments in each operating subsidiary. Also includes eliminations resulting from the consolidation process.

Total assets by segment (in thousands):

	Predecessor		Successor
	December 24, 2006	July 10, 2007	December 30, 2007
Total Assets			
Beef	$1,210,242	$1,322,788	$1,572,928
Pork	338,940	289,408	487,160
Corporate and other	(10,585)	(33,846)	105,727
Total	$1,538,597	$1,578,350	$2,165,815

Sales by geographical area based on the location of the facility recognizing the sale (in thousands):

	Predecessor		Successor
	Fiscal year ended December 24, 2006	198 days ended July 10, 2007	173 days ended December 30, 2007
Net sales			
United States	$8,159,577	$4,111,114	$3,980,369
Australia	1,531,855	859,510	1,008,615
Total	$9,691,432	$4,970,624	$4,988,984

Sales to unaffiliated customers by location of customer (in thousands):

	Predecessor		Successor
	Fiscal year ended December 24, 2006	198 days ended July 10, 2007	173 days ended December 30, 2007
United States	$ 7,499,398	$ 3,749,312	$ 3,520,268
Japan	682,773	373,372	365,759
Mexico	390,115	212,232	245,475
Korea	285,122	139,224	161,606
Australia	217,365	137,881	256,987
Other	616,659	358,603	438,889
Total	$ 9,691,432	$ 4,970,624	$ 4,988,984

Long-lived tangible assets by location of assets (in thousands):

	Predecessor		Successor
	December 24, 2006	July 10, 2007	December 30, 2007
Long-lived assets:			
United States	$ 315,841	$ 332,274	$ 449,013
Australia	174,277	185,844	281,750
Other	113	106	121
Total	$ 490,231	$ 518,224	$ 730,884

Long-lived assets consist of property, plant, and equipment, net of depreciation, and other assets less debt issuance costs. Long-lived assets by geographical area are based on location of facilities.

No single customer accounted for more than 10% of net sales in the fiscal year ended December 24, 2006, 198 days ended July 10, 2007, or 173 days ended December 30, 2007.

Note 12. Subsequent events

Acquisitions

The allocation presented below reflects the finalized fair value of the individual assets and liabilities as of July 11, 2007 (in thousands) for the purchase of JBS USA Holdings:

Purchase price paid to previous shareholders	$ 225,000
Debt paid including accrued interest of $22,872	1,197,124
Fees and direct expenses	48,544
Total purchase price	$1,470,668
Preliminary purchase price allocation:	
Current assets and liabilities	$583,643
Property, plant, and equipment	693,672
Identified intangibles	188,761
Deferred tax asset	56,537
Goodwill	42,762
Other noncurrent assets and liabilities, net	(94,707)
Total purchase price allocation	$1,470,668

On March 4, 2008, JBS Southern Australia Pty. Ltd ("JBS Southern"), an indirect subsidiary of JBS USA Holdings entered into an agreement with Tasman Group Services, Pty. Ltd. ("Tasman Group") to purchase substantially all of the assets of Tasman Group in an all cash transaction ("Tasman Acquisition") and the purchase was completed on May 2, 2008. The assets acquired include six processing facilities and one feedlot located in southern Australia. This acquisition provides additional capacity to continue to meet customer demand. The aggregate purchase price for the Tasman Acquisition was $117.3 million (including approximately $8.6 million of transaction costs). JBS Southern also assumed approximately $52.1 million of outstanding debt.

On March 4, 2008, JBS and Smithfield Foods, Inc ("Smithfield Foods") entered into a Stock Purchase Agreement ("Smithfield Agreement"). Pursuant to the Smithfield Agreement, JBS purchased Smithfield Beef Group, Inc. ("Smithfield Beef") for $563.2 million in cash (including $26.1 million of transaction related costs) and contributed its ownership in Smithfield Beef to JBS USA Holdings, Inc. (Smithfield Acquisition). JBS USA Holdings contributed its ownership in Smithfield Beef Group to JBS USA, Inc. (now known as JBS USA, LLC). The purchase included 100% of Five Rivers Ranch Cattle Feeding LLC ("Five Rivers"), which was held by Smithfield Beef in a 50/50 joint venture with Continental Grain Company ("CGC," formerly ContiGroup Companies, Inc.). On October 23, 2008, the acquisition of Smithfield Beef was completed. In conjunction with the closing of this purchase Smithfield Beef was renamed JBS Packerland and Five Rivers was renamed JBS Five Rivers Cattle Feeding LLC ("JBS Five Rivers"). The assets acquired include four processing plants and eleven feedlots. This acquisition provides additional capacity to continue to meet customer demand.

The purchase excludes substantially all live cattle inventories held by Smithfield Beef and Five Rivers as of the closing date, together with its associated debt. The excluded live cattle will be raised by JBS Five Rivers after closing for a negotiated fee and then sold upon maturity at market-based prices. Proceeds from the sale of the excluded live cattle will be paid in cash to the Smithfield Foods/CGC joint venture or to Smithfield Foods, as appropriate. The parties to this agreement believe most of the live cattle inventories will be sold within six months following closing, with substantially all sold within 12 months of closing.

Five Rivers is party to a cattle supply and feeding agreement with an unconsolidated affiliate ("the unconsolidated affiliate"). Five Rivers feeds and takes care of cattle owned by the unconsolidated affiliate. The unconsolidated affiliate pays Five Rivers for the cost of feed and medicine at cost plus a yardage fee on a per head per day basis. Beginning on June 23, 2009 or such earlier date on which Five Rivers' feed yards are at least 85% full of cattle and ending on October 23, 2011, the unconsolidated affiliate agrees to maintain sufficient cattle on Five Rivers' feed yards so that such feed yards are at least 85% full of cattle at all times. The agreement commenced on October 23, 2008 and continues until the last of the cattle on Five Rivers' feed yards as of October 23, 2011 are shipped to the unconsolidated affiliate, a packer or another third party.

On October 7, 2008 JBS USA, LLC became party to a cattle purchase and sale agreement with the unconsolidated affiliate. Under this agreement, the unconsolidated affiliate agrees to sell to JBS USA, LLC, and JBS USA, LLC agrees to purchase from the unconsolidated affiliate, at least 500,000 cattle during each year from 2009 through 2011. The price paid by JBS USA, LLC is determined pursuant to JBS USA, LLC's pricing grid in effect on the date of delivery. The grid used for the unconsolidated affiliate is identical to the grid used for unrelated third parties. If the cattle sold by the unconsolidated affiliate in a quarter result in a breakeven loss (selling price below accumulated cost to acquire the feeder animal and fatten it to delivered weight) then JBS USA, LLC will reimburse 40% of the average per head breakeven loss incurred by the unconsolidated affiliate on up to 125,000 head delivered to JBS USA, LLC in that quarter. If the cattle sold by the unconsolidated affiliate in a quarter result in a breakeven gain (selling price above the accumulated cost to acquire the feeder animal and fatten it to delivered weight), then JBS USA, LLC will receive from the unconsolidated affiliate an amount of cash equal to 40% of that per head gain on up to 125,000 head delivered to JBS USA, LLC in that quarter. There were no payments under the loss/profit sharing provisions of this agreement for the thirteen weeks ended March 29, 2009.

The unconsolidated affiliate has a $600.0 million secured revolving credit facility with a commercial bank. Its parent company has entered into a keep-well agreement with its subsidiary (the unconsolidated affiliate) whereby it will make contributions to the unconsolidated affiliate if the unconsolidated affiliate is not in compliance with its financial covenants under this credit facility. If the unconsolidated affiliate defaults on its obligations under the credit facility and such default is not cured by its parent under the keep-well agreement, Five Rivers is obligated for up to $250.0 million of the obligations under this credit facility. This credit facility and the guarantee thereof are secured solely by the fixed assets of the unconsolidated affiliate and Five Rivers. This credit facility matures on October 7, 2011. This credit facility is used to acquire cattle which are then fed in the Five Rivers feed yards pursuant to the cattle supply and feeding agreement described above. The finished cattle are sold to JBS USA, LLC under the cattle purchase and sale agreement discussed above.

Five Rivers is party to an agreement with an unconsolidated affiliate pursuant to which Five Rivers has agreed to loan up to $200.0 million in revolving loans to the unconsolidated affiliate. The loans are used by the unconsolidated affiliate to acquire feeder animals which are placed in Five Rivers feed yards for finishing. Borrowings accrue interest at a per annum rate of LIBOR plus 2.25% or base rate plus 1.0% and interest is payable at least quarterly. This credit facility matures October 7, 2011. During the thirteen weeks ended March 29, 2009, average borrowings were approximately $149.0 million and total interest accrued was approximately $1.6 million which was recognized as interest income on the statement of operations.

On January 27, 2009, the Company reached agreement with Smithfield Foods for final settlement of the working capital component of the purchase price pursuant to the Stock Purchase Agreement. The settlement called for a payment of $4.5 million from Smithfield Foods to the Company as full and final settlement of the working capital delivered at October 23, 2008. The Company recorded the settlement as a reduction of purchase price upon receipt.

On February 18, 2009 an agreement was reached with the sellers of National Beef whereby JBS USA Holdings terminated the acquisition process of National Beef effective February 23, 2009. Related litigation with the DOJ was also terminated. As a result of the agreement, JBS USA Holdings, Inc. reimbursed the seller's shareholders a total $19.9 million in February 2009 as full and final settlement of any and all liabilities related to the potential acquisition.

Intercompany debt with JBS S.A.

On March 2, 2008, JBS S.A. contributed $400 million in additional paid in capital to repay a portion of the $750 million unsecured bank debt. On June 30, 2008, the Company entered into an unsecured loan agreement with JBS S.A. totaling $350 million with a maturity date of June 30, 2011. Interest payments are due semi-annually at a rate of six month LIBOR plus a margin of 3%.

On April 28, 2008, the Company entered into an unsecured loan agreement with its parent, JBS S.A. for $100 million with a maturity date of April 28, 2011. Interest payments are due semi-annually at a rate of six month LIBOR plus a margin of 3%. The funds received from this loan were used to fund the purchase of Tasman Group.

On May 5, 2008, the Company entered into an unsecured loan agreement with JBS S.A. for $25 million with a maturity date of May 5, 2009. Interest payments are due semi-annually at a rate of six month LIBOR plus a margin of 3%. The funds received were used to fund operations.

On June 30, 2008, the Company entered into an unsecured loan agreement with JBS S.A. for $25 million with a maturity date of June 10, 2009. Interest payments are due semi-annually at a rate of six month LIBOR plus a margin of 3%. The funds received were used to fund operations.

On October 20, 2008, the Company entered into an unsecured loan agreement with JBS S.A. for $250 million with a maturity date of October 21, 2011. Interest payments are due semi-annually at a rate of six month LIBOR plus a margin of 3%. The funds received were used in the acquisition of Smithfield Beef Group.

On April 27, 2009, JBS USA Holdings refinanced its five separate intercompany notes with JBS HU Liquidity Management LLC ("JBS HU"), a subsidiary of JBS S.A., which is organized in the country of Hungary, into one note with a stated interest rate of 12% and a 10 year maturity.

On May 6, 2009, the Company entered into an unsecured loan agreement with JBS HU for $6 million with a maturity date of May 6, 2019. Interest payments are due semi-annually at a rate of 12%. The funds received were used to repay a portion of the intercompany loans with JBS S.A.

Revolving credit facilities

On February 26, 2008, Swift Australia entered into an Australian dollar denominated $120 million unsecured credit facility to fund working capital and letter of credit requirements. Under this facility AUD $80 million can be borrowed for cash needs and AUD $40 million is available to fund letters of credit. Borrowings are made at the cash advance rate (BBSY) plus a margin of 0.98%. The credit facility contains certain financial covenants which require the Company to maintain predetermined ratio levels related to interest coverage, debt coverage and tangible net worth. This facility has an evergreen renewal term with review periods each June, commencing in 2009.

On November 5, 2008, JBS USA Holdings entered into a secured revolving loan credit agreement (the "Credit Agreement") that allows borrowings up to $400.0 million, and terminates on November 5, 2011. Up to $75.0 million of the revolving credit facility is available for the issuance of letters of credit. Borrowings that are index rate loans will bear interest at the prime rate plus a margin of 2.25% while LIBOR rate loans will bear interest at the applicable LIBOR rate plus a margin of 3.25%. At December 28, 2008, the rates were 5.50% and 4.66%, respectively. Upon approval by the lender, LIBOR rate loans may be taken for one, two, or three month terms, (or six months at the discretion of the Agent).

On April 27, 2009 the Credit Agreement was amended to allow the execution of the senior unsecured note offering of JBS USA, LLC described below. Under the amendment, the existing limitation on distributions between JBS USA, LLC and JBS USA Holdings was amended to allow for the proceeds of the senior unsecured bond offering, less transaction expenses and $100 million retained by JBS USA, LLC to be remitted to JBS USA Holdings as a one time distribution. Also, the unused line fee was increased from 37.5 basis points to 50 basis points.

Debt offering

On April 27, 2009, JBS USA Holdings refinanced its five separate intercompany notes with JBS S.A. through JBS HU into one note with a stated interest rate of 12% and a 10 year maturity with a balance of $133 million at the reporting date.

On April 27, 2009, JBS USA, LLC, a wholly owned subsidiary, entered into a $700 million senior unsecured note offering bearing interest at 11.625% with interest payable semi-annually and a maturity of May 1, 2014. The proceeds net of expenses were $650.8 million and were used to repay $100 million on the Credit Agreement and the balance was used to repay intercompany debt and accrued interest owed to JBS HU.

Other

On October 14, 2008, the Company purchased $1 million in additional bonds from the City of Cactus, Texas (See Note 3).

On October 23, 2008, JBS USA Holdings issued a promissory note to a third party for approximately $173 million the proceeds of which were contributed to JBS USA, LLC. The promissory note bears interest at a rate of three-month LIBOR plus 2.0% per annum and matures on December 30, 2016.

The promissory note also contains events of default, including failure to perform or observe terms, covenants or other agreements in the promissory note, payment defaults on other indebtedness, defaults on other indebtedness if the effect is to permit acceleration, and entry of unsatisfied judgments of orders against JBS USA Holdings and its subsidiaries. If an event of default occurs and is continuing the payee may accelerate the note and declare all amounts due and payables or at the payee's election, convert amounts owing under the promissory note into voting stock of JBS USA Holdings.

JBS USA Holdings is also party to a raw materials supply agreement with a customer, pursuant to which JBS USA Holdings has agreed that it and its affiliates will sell certain raw materials to such customer on an exclusive basis. To the extent that the customer is required to pay a premium under the supply agreement, an amount equal to such premium is required to be paid in respect of the note. Payments are applied toward accrued interest first and then principal. JBS USA to distribute to JBS USA Holdings payments received from this customer in respect of premium pursuant to the agreement to allow JBS USA Holdings to satisfy its obligations due under the promissory note in accordance with its terms. Amounts outstanding under the promissory note are recorded as long term liabilities in the financial statements of JBS USA Holdings and payments or other reductions in obligations are recoded as the realization of deferred revenue.

On December 29, 2008, JBS USA Holdings, Inc., was renamed JBS USA Holdings, LLC and converted from a C Corporation to a Limited Liability Company. As a result of the conversion in legal form, the outstanding share which was 100% owned by JBS USA Holdings, Inc was converted into a single member interest held by JBS USA Holdings, Inc.

Beginning in mid-April 2009 the world press began publicizing the occurrence of regionalized influenza outbreaks which were linked on a preliminary basis to a hybrid avian/swine/human virus. As a result commencing on April 14, 2009 several foreign countries including Russia, Thailand, Ukraine and Mainland China closed their borders to some or all pork produced in the affected states in the USA or other affected regions in the world. The company is not able to assess whether or when the influenza outbreak might lessen or whether or when additional countries might impose restrictions on the importation of pork products from the USA, nor whether or when the existing import bans might be lifted.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholder
JBS Packerland, Inc.

We have audited the accompanying consolidated balance sheet of Smithfield Beef Group, Inc. (now known as JBS Packerland, Inc.) and subsidiaries as of April 27, 2008, and the related consolidated statements of operations, changes in stockholder's equity, and cash flows for the year then ended. 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 audit. We did not audit the financial statements of Five Rivers Ranch Cattle Feeding LLC (a corporation in which the Company has a 50% interest). Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Five Rivers Ranch Cattle Feeding LLC, is based on the report of the other auditors as explained in Note 5.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that 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 that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Smithfield Beef Group, Inc. and subsidiaries at April 27, 2008, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Milwaukee, WI
March 31, 2009

Smithfield Beef Group, Inc.
Consolidated balance sheet
April 27, 2008
(dollars in thousands)

Assets	
Current assets:	
Cash	$ 56
Accounts receivable, less allowances of $1,131	110,754
Inventories	234,935
Deferred income taxes	6,233
Prepaid expenses and other current assets	10,314
Total current assets	362,292
Property, plant and equipment, net	143,889
Investment in Five Rivers Ranch Cattle Feeding LLC	157,561
Investment in other joint ventures	1,057
Goodwill	115,921
Intangible assets	4,252
Other assets	6,019
	$790,991
Liabilities and stockholder's equity	
Current liabilities:	
Accounts payable	$ 70,051
Accrued payroll and benefits	19,661
Other accrued liabilities	28,642
Current portion of long-term debt due third parties	1,247
Total current liabilities	119,601
Long-term debt due Smithfield Foods, Inc.	503,741
Long-term debt due third parties	736
Deferred income taxes	20,359
Other long-term liabilities	21,316
Commitments and contingencies	
Stockholder's equity:	
Class A Common stock, $.01 par value; 15,000 shares authorized, 1,000 shares issued and outstanding	—
Additional paid-in capital	242,640
Accumulated deficit	(115,038)
Accumulated other comprehensive loss	(2,364)
Total stockholder's equity	125,238
	$790,991

See accompanying notes.

Smithfield Beef Group, Inc.
Consolidated statement of operations
For the year ended April 27, 2008

(Dollars in thousands)

Net sales	$2,909,214
Cost of sales	2,802,848
Gross profit	106,366
Operating costs and expenses:	
Selling, general and administrative expenses	61,879
Corporate service fees from Smithfield Foods, Inc.	16,180
Royalty fees to Smithfield Foods, Inc.	4,953
Total operating costs and expenses	83,012
Gain on sale of property, plant and equipment	2,140
Income from operations	25,494
Other income (expense):	
Interest income	726
Interest expense:	
Smithfield Foods, Inc.	(41,486)
Third parties	(278)
Equity in income of Five Rivers Ranch Cattle Feeding LLC	12,853
Equity in income of other joint ventures	147
Loss before income taxes	(2,544)
Provision for income taxes	536
Net loss	$ (3,080)

See accompanying notes.

Smithfield Beef Group, Inc.

Consolidated statement of changes in stockholder's equity

For the year ended April 27, 2008

(Dollars in thousands)

	Class a common stock		Additional Paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Total Stockholder's equity
	Number of shares	Par value				
Balance at April 29, 2007	1,000	$—	$242,640	$(111,958)	$(2,491)	$128,191
Comprehensive loss						
Net loss	—	—	—	(3,080)	—	(3,080)
Proportionate loss on derivatives held by Five Rivers Ranch Cattle Feeding LLC	—	—	—	—	127	127
Total comprehensive loss						(2,953)
Balance at April 27, 2008	1,000	$—	$242,640	$(115,038)	$(2,364)	$125,238

See accompanying notes.

Smithfield Beef Group, Inc.
Consolidated statement of cash flows
For the year ended April 27, 2008
(Dollars in thousands)

Operating activities	
Net loss	$(3,080)
Adjustment to reconcile net loss to net cash provided by operating activities:	
Depreciation and amortization	18,659
Gain on sale of property, plant and equipment	(2,140)
Equity in income of Five Rivers Ranch Cattle Feeding, LLC	(12,853)
Equity in income of other joint ventures	(147)
Deferred income taxes	(303)
Changes in operating assets and liabilities:	
Accounts receivable	(12,875)
Inventories	99,456
Prepaid expenses and other current assets	(1,423)
Accounts payable	1,202
Accrued liabilities	(171)
Other noncurrent assets and liabilities	(7,079)
Cash provided by operating activities	79,246
Investing activities	
Additions to property, plant and equipment	(12,910)
Proceeds from sale of property, plant and equipment	5,961
Other	42
Cash used in investing activities	(6,907)
Financing activities	
Net payments under debt agreement with Smithfield Foods, Inc.	(76,178)
Payments on debt due third parties	(1,105)
Cash used in financing activities	(77,283)
Decrease in cash	(4,944)
Cash at beginning of the year	5,000
Cash at the end of the year	$56
Supplemental disclosures of cash flow information	
Cash paid for interest to third parties	$269

See accompanying notes.

Smithfield Beef Group, Inc.
Notes to consolidated financial statements
April 27, 2008

1. Description of the business

Basis of presentation

Smithfield Beef Group, Inc. (the Company or Smithfield Beef Group) now known as JBS Packerland, Inc., processes, prepares, packages and delivers fresh, further-processed and value-added beef products for sale to customers in the United States and international markets from four beef processing facilities. Smithfield Beef Group sells beef products to customers in the foodservice, international, further processor and retail distribution channels. Smithfield Beef Group also produces and sells by-products that are derived from its beef processing operations and variety meats to customers in various industries.

Sale of the company

On October 23, 2008, Smithfield Foods, Inc., (the owner of Smithfield Beef Group prior to this date) completed the sale of Smithfield Beef Group, to a wholly-owned subsidiary of JBS S.A., a company organized and existing under the laws of Brazil, for $565 million, net of postclosing adjustments. The sale included 100% of Five Rivers Ranch Cattle Feeding LLC (Five Rivers), a 50/50 joint venture with Continental Grain Company (CGC).

2. Significant accounting polices

Principles of consolidation

The consolidated financial statements include all wholly-owned subsidiaries. The Company's investments in Five Rivers, Five Star Cattle Solutions, LLC and Mountain View Rendering Co. LLC are accounted for under the equity method. The Company has a 50% ownership in each of these entities. All intercompany transactions and balances have been eliminated.

The Company's fiscal year consists of either 52 or 53 weeks, ending on the Sunday nearest April 30th. The Company's fiscal year ended April 27, 2008, consisted of 52 weeks.

Employees

Certain hourly employees of the Company's production facilities are represented by a variety of labor unions, with labor agreements having various expiration dates. The Company has one union contract expiring in fiscal 2009. Union employees represent approximately 42% of the total employees of the Company at April 27, 2008.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Financial instruments

The carrying value of the Company's financial instruments, including cash, accounts receivable, accounts payable and long-term debt at April 27, 2008, approximates fair value.

Accounts receivable

The Company has a diversified customer base, which includes customers located in foreign countries. The Company controls credit risk related to accounts receivable through credit appraisals, credit limits, letters of credit, and monitoring procedures. The Company evaluates the collectability of its accounts receivable balance based on a general analysis of past due receivables and a specific analysis of certain customers that management believes will be unable to meet their financial obligations due to economic conditions, industry-specific conditions, historical or anticipated performance, and other relevant circumstances. The Company continuously performs credit evaluations and reviews of its customer base. The Company believes this process effectively addresses its exposure to accounts receivable write-offs; however, if circumstances related to changes in the economy, industry, or customer conditions change, the Company may need to subsequently adjust the allowance for doubtful accounts. The Company adheres to normal industry collection terms of net seven days.

Inventories

Inventories consist primarily of product, live cattle, and manufacturing supplies. Product inventories are considered commodities and are valued based on quoted commodity prices, which approximate net realizable value less cost to complete and disposal costs. Product inventories are relieved from inventory utilizing the first-in, first-out method. Live cattle includes the purchase cost of the cattle, direct materials, supplies, and feed. Cattle are reclassified from live cattle to carcass inventory at time of slaughter. Manufacturing supplies are valued at the lower of first-in, first-out cost, average cost or market.

Property, plant and equipment, net

Property, plant and equipment is stated at cost, and is depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	20 – 40 years
Machinery and equipment	5 – 10 years
Automobiles and trucks	3 – 5 years
Furniture and fixtures	5 years
Computer hardware	5 years
sehold improvements	Shorter of useful life or the lease term

Depreciation expense is included as either cost of sales or selling, general and administrative expenses, as appropriate, and totaled $17.9 million in fiscal 2008. Repairs and maintenance charges are expensed as incurred and totaled $20.1 million in fiscal 2008. Improvements that materially extend the life of the asset are capitalized. Gains and losses from dispositions or retirements of property, plant and equipment are recognized in the period they occur. Interest is capitalized on property, plant and equipment during the construction period. There was no interest capitalized in fiscal 2008.

The Company periodically assesses the recoverability of long-lived assets, including property and equipment, in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. This statement requires that all long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparison of the carrying value of such assets to the undiscounted future cash flows expected to be generated by the assets. If the carrying value of an asset exceeds its estimated undiscounted future cash flows, an impairment provision is recognized to the extent that the carrying amount of the asset exceeds its fair value. Assets to be disposed of are reported at the lower of the carrying amount or the fair value of the asset, less costs of disposition. Management considers such factors as current results, trends and future prospects, current market value, and other economic and regulatory factors in performing these analyses. The Company determined that no long-lived assets were impaired as of April 27, 2008.

Goodwill and intangible assets

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets of businesses acquired. Indefinite-lived intangible assets consist of tradenames.

Goodwill and indefinite-lived intangible assets are tested for impairment annually in the fourth quarter, or sooner if impairment indicators arise in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. The fair value of indefinite-lived intangible assets is estimated based upon discounted future cash flow projections. In reviewing goodwill for impairment, potential impairment is identified by comparing the estimated fair value of a reporting unit to its carrying value.

The fair value of a reporting unit is estimated by applying valuation multiples or estimating future discounted cash flows. The selection of multiples is dependent upon assumptions regarding future levels of operating performance as well as business trends, prospects and market and economic conditions. When estimating future discounted cash flows, the Company considers the assumptions that hypothetical marketplace participants would use in estimating future cash flows. In addition, where applicable, an appropriate discount rate is used, based on the Company's cost of capital or location-specific economic factors. When the fair value is less than the carrying value of the net assets of a reporting unit, including goodwill, an impairment loss may be recognized. The Company has determined that goodwill and indefinite-lived assets were not impaired as of April 27, 2008.

Intangible assets with finite lives consist of patents, which are amortized over their estimated useful life of 15 years. Patents, net of accumulated amortization of $0.5 million, were $1.1 million at April 27, 2008. Patent amortization expense for the fiscal year ended April 27, 2008, totaled $0.1 million and is estimated to be approximately the same amount in each of the subsequent five years.

Investments

The Company records its share of earnings and losses from its equity method investments in "Equity in income (loss) of affiliates" in the accompanying consolidated statement of operations. The Company considers whether the fair values of any of the equity-method investments have declined below their carrying value whenever adverse events or changes in circumstances indicate that recorded values may not be recoverable. If the Company considers any such decline to be other than temporary, then a write-down of the investment would be recorded to its estimated fair value. The Company has determined that no write-downs were necessary as of April 27, 2008.

Income taxes

The Company is included in the consolidated U.S. federal income tax return of Smithfield Foods, Inc. A formal tax-sharing agreement between Smithfield Foods, Inc. and the Company does not exist. The benefit for income taxes in the accompanying consolidated statement of operations has been calculated as if a consolidated federal and appropriate state income tax returns had been filed separately by the Company. Deferred income taxes are provided on the differences in the book and tax basis of assets and liabilities at the statutory tax rates expected to be in effect when such temporary differences are expected to reverse. A valuation allowance is provided on the tax benefits otherwise associated with certain tax attributes unless it is considered more likely than not that the benefits will be realized. Smithfield Foods, Inc. pays domestic taxes on behalf of the Company and reflects the funding through an intercompany payable account.

The determination of the provision for income taxes requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. Significant judgment is required in assessing the timing and amounts of deductible and taxable items. Reserves are established when, despite the Company's belief that its tax return positions are fully supportable, the Company believes that certain positions may be successfully challenged. When facts and circumstances change, these reserves are adjusted through the provision for income taxes.

In July 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which clarifies the accounting for income taxes by prescribing the minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company adopted FIN 48 effective April 30, 2007. The Company accrues interest and penalties related to unrecognized tax benefits as other noncurrent liabilities and recognizes the related expense as income tax expense.

Derivative financial instruments and hedging activities

The Company uses various raw materials, primarily live cattle and corn, which are actively traded on commodity exchanges. The Company hedges these commodities when it determines conditions are appropriate to mitigate these price risks. While such hedging may limit the Company's ability to participate in gains from favorable commodity fluctuations, it also tends to reduce the risk of loss from adverse changes in raw material prices. The Company attempts to closely match the commodity contract terms with the hedged item.

The Company accounts for derivative financial instruments in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which requires companies to recognize all of their derivative instruments as either assets or liabilities in the balance sheet at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as either a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation. Since none of the Company's derivative instruments were designated as hedges in accordance with SFAS No. 133, the gain or loss related to the change in fair

value for each derivative instrument is recognized in operations during the period of change. For the year ended April 27, 2008, the Company recognized a gain of $24.8 million, which is included in cost of sales in the accompanying consolidated statement of operations related to derivative financial instruments. As of April 27, 2008, the fair value of derivative financial instruments was $2.6 million and is included in prepaid expenses and other current assets in the accompanying consolidated balance sheet.

The Company records its proportionate share of the fair value of derivative financial instruments entered into by Five Rivers through other comprehensive loss as these derivative financial instruments are accounted for under hedge accounting.

Self-insurance programs

The Company is self-insured for certain levels of general and vehicle liability, property, workers' compensation, product recall and healthcare coverage. The cost of these self-insurance programs is accrued based upon estimated settlements for known and anticipated claims. Any resulting adjustments to previously recorded reserves are reflected in operations.

Revenue recognition

The Company recognizes revenues from product sales when title passes upon delivery to its customers. Revenue is recorded at the invoice price for each product, net of estimated returns and sales incentives provided to customers. Sales incentives include various rebate and trade allowance programs with customers, primarily discounts and rebates based on achievement of specified volume or growth in volume levels.

Advertising and promotional costs

Advertising costs are expensed as incurred. Promotional sponsorship costs are expensed as the promotional events occur. Advertising and promotional costs totaled $2.2 million in fiscal 2008.

Shipping and handling costs

Shipping and handling costs charged to customers are included in net sales, and the related costs are included in cost of sales.

Segment reporting

The Company operates in one segment: the raising, processing and packaging of beef products for sale to customers in the United States and international markets.

Recent accounting pronouncements

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133*. SFAS No. 161 requires (1) qualitative disclosures about objectives for using derivatives by primary underlying risk exposure; (2) information about the volume of derivative activity; (3) tabular disclosures about the balance sheet location and gross fair value of derivative instruments, and income statement and other comprehensive income location and amounts of gains and losses on derivative instruments by contract type; and (4) disclosures about credit-risk-related contingent features in derivative agreements. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Management believes the adoption of this pronouncement will not have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations* (SFAS No. 141R). SFAS No. 141R establishes principles and disclosure requirements on how to recognize, measure and present the assets acquired, the liabilities assumed, any noncontrolling interests in the acquired company, and any goodwill recognized in a business combination. The objective of SFAS No. 141R is to improve the information included in financial reports about the nature and financial effects of business combinations. This statement is effective for business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Management believes the adoption of this pronouncement will not have a material impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51* (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards for a noncontrolling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. This statement clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity and should be reported as equity in the consolidated financial statements, rather than as a liability or in the mezzanine section between liabilities and equity. SFAS No. 160 also requires consolidated net income to be reported at amounts that include the amounts

attributable to both the parent and the noncontrolling interest. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. Management believes the adoption of this pronouncement will not have a material impact on the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. It does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years for financial assets and liabilities, and for fiscal years beginning after November 15, 2008, for nonfinancial assets and liabilities. Management believes the adoption of this pronouncement will not have a material impact on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to choose to measure many financial instruments, and certain other items, at fair value. SFAS No. 159 applies to reporting periods beginning after November 15, 2007. Management believes the adoption of this pronouncement will not have a material impact on the Company's consolidated financial statements.

3. Inventories

The components of inventories at April 27, 2008, net of reserves of $1.5 million, are as follows (in thousands):

Live cattle	$146,325
Product inventories:	
Fresh and packaged meats	56,010
Carcass inventory	15,238
Manufacturing supplies	14,582
Other	2,780
	$234,935

The sale of the Smithfield Beef Group as discussed in Note 1, excluded substantially all live cattle inventories held by the Company and Five Rivers as of the transaction date. Live cattle owned by Five Rivers on the transaction date were transferred to a new 50/50 joint venture between Smithfield Foods, Inc. and CGC, while live cattle owned by Smithfield Beef Group on the transaction date were transferred to a subsidiary of Smithfield Foods, Inc. The excluded live cattle will be raised by JBS Packerland, Inc. for a negotiated fee and then sold at maturity at market-based prices. Proceeds from the sale of the excluded live cattle will be paid in cash to the Smithfield Foods, Inc./CGC joint venture or to Smithfield Foods, Inc., as appropriate. The live cattle inventories are expected to be sold within six months after the transaction date, with substantially all live cattle sold within 12 months after the transaction date.

4. Property, plant and equipment, net

Property, plant and equipment, net consist of the following at April 27, 2008 (in thousands):

Land	$ 13,946
Buildings and improvements	90,619
Machinery and equipment	127,021
Automobiles and trucks	5,629
Furniture and fixtures	3,581
Computer hardware	2,835
Leasehold improvements	176
Construction in progress	14,032
	257,839
Accumulated depreciation	(113,950)
	$143,889

On December 21, 2007, the Company sold the land and buildings of its Showcase facility, located in Philadelphia, PA, for approximately $5.2 million. As a result of the sale, the Company recorded a gain of approximately $2.3 million. In addition, the Company paid approximately $5.8 million to exit its equipment lease agreement with a third party and purchase all the leased equipment.

The sale of the Smithfield Beef Group, as discussed in Note 1, excluded certain land and land improvements that totaled $9.2 million at April 27, 2008.

5. Investment in Five Rivers

In fiscal 2006, Smithfield Beef Group and CGC formed Five Rivers, a 50/50 joint venture. Five Rivers is a stand-alone operating company, independent from the Company and CGC, currently headquartered in Greeley, Colorado, with a total of ten feedlots located in Colorado, Idaho, Kansas, Oklahoma and Texas. Five Rivers sells cattle to multiple U.S. beef packing firms using a variety of marketing methods. Five Rivers has a fiscal year ended March 31, 2008, and was audited by other auditors.

For its 50% interest in Five Rivers, the Company has contributed cash of $106.3 million and net assets of $44.7 million. There currently exists a difference between the carrying amount of the Company's investment in Five Rivers and the Company's proportionate share of its underlying equity in the net assets of Five Rivers primarily due to the difference in the fair value of cash and net assets contributed by the Company in relation to its ownership interest in Five Rivers.

Following is a reconciliation of the investment in Five Rivers and equity in income of Five Rivers as of and for the year ended April 27, 2008, from the report of other auditors to the amounts included in the accompanying financial statements (in thousands):

50% interest in the net assets of Five Rivers at March 31, 2008 (per report of other auditors)	$157,385
Excess of the cost of investment over the amount of underlying equity in net assets of Five Rivers	22,828
50% interest in the loss of Five Rivers for the month ended April 27, 2008	(5,736)
50% interest in other comprehensive loss of Five Rivers for the month ended April 27, 2008	(16,916)
Investment in Five Rivers at April 27, 2008	$157,561
Equity in income of Five Rivers for the year ended March 31, 2008 (per report of other auditors)	$ 18,729
Less proportionate share of the income of Five Rivers for the month ended April 29, 2007	(140)
Plus proportionate share of the loss of Five Rivers for the month ended April 27, 2008	(5,736)
Equity in income of Five Rivers for the year ended April 27, 2008	$ 12,853

Five Rivers meets the definition of a significant subsidiary (per Regulation S-X) with respect to the Company. Condensed financial statements for Five Rivers as of March 31, 2008, and for the year ended March 31, 2008, are presented below (in thousands):

Current assets	$ 647,245
Noncurrent assets	103,936
Current liabilities	436,242
Noncurrent liabilities	170
Revenues	$1,657,103
Costs and expenses	1,593,731
Operating income	63,372
Net income	37,457

6. Other assets

Other assets consist of the following at April 27, 2008 (in thousands):

Other assets:	
Aircraft	$2,065
Deposit	725
Tax benefit related to uncertain tax positions	2,057
Computer software	380
Other noncurrent assets	792
	$6,019

Other assets include the Company's 25% ownership interest in an aircraft and a deposit with the Arizona Department of Water Resources for water rights related to its facility in Tolleson, Arizona. The ownership interest in the aircraft was purchased on December 31, 2004 for $2.6 million and is being depreciated over its useful life of 20 years. Amortization of capitalized computer software was $0.7 million in fiscal 2008.

7. Long-term debt

Long-term debt consists of the following at April 27, 2008 (in thousands):

Long-term debt due Smithfield Foods, Inc.:	
Debt due Smithfield Foods, Inc.	$304,316
Term notes due SFFC, Inc.	199,425
	$503,741
Other long-term debt due third parties:	
Note payable	$ 989
Other	994
	1,983
Less current portion	1,247
	$736

The Company had a lending arrangement with Smithfield Foods, Inc., under which Smithfield Foods, Inc. financed the working capital needs of the Company. Amounts outstanding under the facility bore interest at rates ranging between 4.5% and 7% as of April 27, 2008. The lending agreement did not have a stated maturity date nor did it contain any financial covenants. The debt with Smithfield Foods, Inc. has been classified as long term based on the intent of Smithfield Foods, Inc. for these amounts not to be repaid in the next fiscal year.

On January 1, 2007, the Company entered into a series of term notes with SFFC, Inc. (a wholly owned subsidiary of Smithfield Foods, Inc.) totaling $199.4 million. The term notes bear interest at 7.75% and are due December 31, 2016. The term notes do not contain any financial covenants.

In connection with the purchase of Murco, Inc., now known as JBS Plainwell, Inc., the Company issued a note payable (Note) to the former owner for $13.3 million. Principal and interest payments under the Note are due weekly, decreasing from $30,000 to $20,000 over the life of the Note. As the Note does not bear interest, the Company discounted the estimated future cash flows under the Note and adjusted the carrying value of the Note to $8.2 million at the purchase date, which approximated the fair value of the Note. The effective interest rate on the Note is 10% and the Note matures May 12, 2009.

8. Income taxes

Significant components of the provision for income taxes for the year ended April 27, 2008, are as follows (in thousands):

Current tax expense (benefit):	
Federal	$(1,034)
State	1,873
	839
Deferred tax benefit:	
Federal	(273)
State	(30)
	(303)
	$ 536

A reconciliation of income tax benefit computed at the federal statutory rate to the provision for income taxes is as follows (in thousands):

Federal income tax benefit at statutory rate	$(890)
State income taxes, net of federal tax benefit	617
Manufacturer's production deduction	(274)
Increase in uncertain tax positions, net	944
Other	139
	$536

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax reporting purposes. Significant components of the Company's deferred income tax assets and liabilities as of April 27, 2008, are as follows (in thousands):

Deferred tax assets:	
State net operating losses	$ 9,486
Accrued liabilities	9,124
Employee benefits	865
Inventories	514
Allowances	924
Valuation allowance	(7,490)
Total deferred tax assets	13,423
Deferred tax liabilities:	
Property, plant and equipment	(19,621)
Investments	(4,878)
Intangible assets	(3,050)
Total deferred tax liabilities	(27,549)
Net deferred tax liabilities	$(14,126)

Deferred tax assets and liabilities are recorded in the accompanying consolidated balance sheet as follows:

Current deferred tax assets	$ 6,233
Noncurrent deferred tax liabilities	(20,359)
Total deferred tax assets	$(14,126)

The Company had state net operating loss carryforwards of $189.7 million at April 27, 2008. A partial valuation allowance has been established against the state net operating loss carryforwards at April 27, 2008, as the Company does not believe it is more likely than not that the carryforward will be utilized in full prior to expiration. State net operating losses generally begin to expire 5 to 20 years after they are generated.

A reconciliation of the beginning and ending liability for uncertain tax positions is as follows (in thousands):

Balance as of April 30, 2007	$5,592
Additions for tax positions taken in the current year	993
Additions for tax positions taken in prior years	125
Settlements with taxing authorities	(2,310)
Lapse of statute of limitations	(174)
Balance as of April 27, 2008	$4,226

The Company operates in multiple taxing jurisdictions within the United States, and is subject to audits from various tax authorities. As of April 27, 2008, the liability for uncertain tax positions included $1.5 million of accrued interest and penalties. The Company recognized $0.5 million of interest expense in tax expense during fiscal 2008. As of April 27, 2008, the liability for uncertain tax positions included $3.7 million that, if recognized, would impact the effective tax rate.

9. Other accrued liabilities

Other accrued liabilities consist of the following at April 27, 2008 (in thousands):

Feed	$12,108
Self-insurance reserves	3,000
Utilities	2,898
Freight	2,084
Customer programs	1,120
Litigation-related matters	935
Property taxes	724
Legal and professional fees	483
Other	5,290
	$28,642

10. Retirement plans

The Company sponsors three defined contribution plans, which cover the majority of full-time truck drivers, salaried and office personnel, and certain hourly plant employees under a multiple-employer plan administered by Smithfield Foods, Inc. Contributions under the plans are based on miles driven by certain truck drivers and on a percentage of salary or rate per hour for other personnel. Retirement benefits are based upon the amount allocated to each individual's separate account and are fully funded. Total expense related to these plans were $1.5 million in fiscal 2008.

11. Commitments

The Company leases tractors, trailers, automobiles, railcars, buildings and equipment under operating lease agreements. Certain of the lease agreements contain renewal or purchase options as well as rental escalation clauses. The lessor assigned its rights under one of the building leases to Smithfield Foods, Inc. concurrent with the sale of Smithfield Beef Group. Future minimum rental payments for leases having initial or remaining noncancelable lease terms in excess of one year are presented below and reflect the assignment of the building lease to Smithfield Foods, Inc. (in thousands):

	Related-party	Third parties	Total
Fiscal Year			
2009	$780	$5,571	$6,351
2010	780	4,351	5,131
2011	780	3,946	4,726
2012	780	3,069	3,849
2013	780	2,116	2,896
Thereafter	15,784	10,720	26,504
	$19,684	$29,773	$49,457

Total rental expense for operating leases was $10.2 million in fiscal 2008.

As of April 27, 2008, the Company had capital expenditure commitments of approximately $6.6 million. The Company also has purchase commitments with certain cattle producers that obligate the Company to purchase all of the cattle that these producers deliver. The Company has entered into commodity forward contracts that obligate the Company to purchase a fixed amount of cattle at fixed prices. As of April 27, 2008, the Company had $490.3 million of commodity forward contracts for the purchase of live cattle. As of April 27, 2008, the Company was also committed to purchase approximately $3.0 million of fixed forward corn contracts. The Company believes the risk of default or nonperformance on contracts with counterparties is not significant.

12. Related-party transactions

The Company has a trademark and license agreement with SF Investments, Inc. (a wholly owned subsidiary of Smithfield Foods, Inc.) for the right to use certain trademarks of Smithfield Foods, Inc. in connection with the sale of certain food products. The Company made royalty payments of $5.0 million during fiscal 2008 related to this agreement.

Through an informal agreement with its parent, Smithfield Foods, Inc., the Company was provided certain administrative services by Smithfield Foods, Inc. During fiscal 2008, the Company was charged $16.2 million under this arrangement.

13. Regulations and litigation

The Company is subject to various laws and regulations administered by federal, state and other government entities, including the Environmental Protection Agency (EPA) and corresponding state agencies, as well as the United States Department of Agriculture, the United States Food and Drug Administration, the United States Occupational Safety and Health Administration and similar agencies in foreign countries. The Company believes that it is in compliance with these laws and regulations in all material respects and that continued compliance with these laws and regulations will not have a material adverse effect on its financial position or results of operations or cash flows.

In February 2003, the EPA promulgated regulations under the Clean Water Act governing confined animal feeding operations (CAFOs). Among other things, these regulations impose obligations on CAFOs to manage animal waste in ways intended to reduce the impact on water quality. These new regulations were challenged in federal court by both industry and environmental groups. Although a 2005 decision by the court invalidated several provisions of the regulations, they remain largely intact.

From time to time and in the ordinary course of its business, the Company is named as a defendant in legal proceedings related to various issues, including worker's compensation claims, tort claims and contractual disputes. While the resolution of such matters may have an impact on the Company's financial results for the period in which they are resolved, the Company believes that the ultimate disposition of these matters will not, individually or in the aggregate, have a material adverse effect upon its business or consolidated financial statements.

Report of independent registered public accounting firm

To the Board of Managers and Members of
Five Rivers Ranch Cattle Feeding LLC
Loveland, Colorado

We have audited the accompanying balance sheet of Five Rivers Ranch Cattle Feeding LLC (the “Company”) as of March 31, 2008, and the related statements of operations, members’ equity and comprehensive income (loss), and cash flows for the year then ended. 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 audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2008, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP
Denver, Colorado
May 30, 2008

Five Rivers Ranch Cattle Feeding LLC

Balance sheet
as of March 31, 2008

(in thousands)

	2008
Assets	
CURRENT ASSETS:	
Cash and cash equivalents	$ 3
Receivables	13,667
Receivables—affiliates	3,152
Inventory	600,161
Advance deposits on cattle	1,567
Derivative asset	27,792
Prepaid expenses and other current assets	903
Total current assets	647,245
PROPERTY, PLANT, AND EQUIPMENT:	
Land and land improvements	65,581
Buildings	8,898
Machinery, equipment, and fixtures	33,347
Capitalized software	636
Construction-in-progress	2,009
Total property, plant, and equipment	110,471
Less accumulated depreciation	22,132
Net property, plant, and equipment	88,339
INTANGIBLE ASSETS	12,144
OTHER ASSETS	3,453
TOTAL	$751,181
Liabilities and Members' Equity	
CURRENT LIABILITIES:	
Cash overdraft	$ 11,171
Borrowings on margin accounts	10,012
Accounts payable	9,156
Accrued liabilities	5,197
Derivative liability	5,406
Revolving line of credit	395,300
Total current liabilities	436,242
Deferred compensation	170
Total liabilities	436,412
COMMITMENTS AND CONTINGENCIES (Note 7)	
MEMBERS' EQUITY:	
Members' equity paid-in capital	274,416
Accumulated other comprehensive income	29,104
Retained earnings	11,249
Total members' equity	314,769
TOTAL	$751,181

See notes to financial statements.

Five Rivers Ranch Cattle Feeding LLC

Statement of operations
for the year ended March 31, 2008

(in thousands)

	2008
REVENUES:	
Live cattle sales	$1,537,178
Feedlot sales	95,057
Other	24,868
Total revenues	1,657,103
COST AND EXPENSES:	
Cost of sales	1,578,635
General and administrative expenses	15,179
Gain on disposal of assets	(83)
Total cost and expenses	1,593,731
OPERATING INCOME	63,372
OTHER (INCOME) EXPENSE:	
Interest expense and other financing costs	28,893
Interest and investment income	(1,095)
Loss on involuntary conversion of assets	109
Other income	(190)
Gain on settlement	(1,802)
Total other expense—net	25,915
NET INCOME	$ 37,457

See notes to financial statements.

Five Rivers Ranch Cattle Feeding LLC
Statement of members' equity and comprehensive income (loss) for the year ended March 31, 2008

(In thousands)

	Members' Equity, Paid-In Capital	Comprehensive Income	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE—April 1, 2007	$274,416		$(26,208)	$(8,634)	$239,574
Comprehensive income:					
Net income		$37,457	37,457		37,457
Other comprehensive income:					
Net gain on cash flow hedges		29,104			
Reclassification adjustment for losses included in net income		8,634			
Other comprehensive income		37,738		37,738	37,738
Comprehensive income		$75,195			
BALANCE—March 31, 2008	$274,416		$11,249	$29,104	$314,769

See notes to financial statements.

Five Rivers Ranch Cattle Feeding LLC
Statement of cash flows
For the year ended March 31, 2008
(in thousands)

	2008
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$37,457
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation and amortization	9,637
Gain on disposal of assets	(83)
Loss on involuntary conversion of assets	109
Gain on involuntary conversion of assets	(1,200)
Equity in earnings of investee	(267)
Dividends received from investee	375
Changes in operating assets and liabilities:	
Cash overdraft	(3,192)
Inventory	(96,054)
Derivative instruments	2,105
Receivables	(1,307)
Prepaid expenses and other assets	19,973
Accounts payable, accrued liabilities, and deferred liabilities	793
Net cash used in operating activities	(31,654)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sales of assets	139
Insurance proceeds related to fixed assets	1,200
Investment in unaffiliated company	(500)
Additions to property, plant, and equipment	(13,883)
Net cash used in investing activities	(13,044)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net increase in revolving line of credit	34,700
Equity contributions by Members	
Net increase in borrowings on margin accounts with brokers	10,012
Other	(17)
Net cash provided by financing activities	44,695
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3)
CASH AND CASH EQUIVALENTS—Beginning of period	6
CASH AND CASH EQUIVALENTS—End of period	$ 3
Cash paid during the period for interest	$28,103

See notes to financial statements.

Five Rivers Ranch Cattle Feeding LLC
Notes to financial statements
As of and for the year ended March 31, 2008

1. Nature of business

Business and Basis of Presentation—Five Rivers Ranch Cattle Feeding LLC (the "Company") is a limited liability company organized on May 20, 2005, in the state of Delaware. Prior to May 20, 2005, the assets and liabilities of the Company were owned by ContiBeef LLC ("ContiBeef"), a wholly owned subsidiary of Continental Grain Company ("CGC"), and MF Cattle Feeding, Inc. ("MF"). ContiBeef is a wholly-owned subsidiary of Continental Grain Company, and MF is a wholly-owned subsidiary of Cattle Production Systems, Inc. ("CPS"), whose parent company is Smithfield Beef Group, Inc. ("Smithfield Beef"), which is a wholly-owned subsidiary of Smithfield Foods, Inc. On May 20, 2005, the operating assets and certain liabilities of ContiBeef and MF were transferred to the Company at net book value in exchange for equity interests in the Company. The Company is a 50/50 joint venture between ContiBeef and MF (the "Members"). The Members exercise joint control over the Company.

The Company is engaged in the raising of feeder cattle for the Company and for outside customers, and the sale of live cattle to meat packing companies ("packers"). The Company's sales and cost of sales are significantly affected by market price fluctuations of its principal products sold and of its principal commodity inputs—feeder cattle and corn. Feedlot operations are located in Idaho, Texas, Colorado, Kansas, and Oklahoma.

The Company owns a 50% interest in Northern Colorado Feed, LLC, which is an unconsolidated subsidiary accounted for under the equity method. The contributed investment to Five Rivers was approximately $1 million, which is recorded within Other Assets in the balance sheets. The Company's share of earnings in the investment for the year ended March 31, 2008 was approximately $267,000 and is recorded in interest and investment income in the statement of operations. During the year ended March 31, 2008, the Company received dividends of approximately $375,000.

During 2008 the Company began a strategic alliance with Southfork Solutions, Inc. ("Southfork") which included the purchase of 500,000 shares of Southfork stock through a private placement. Southfork is in the process of developing animal identification technology in which Five Rivers' locations are serving as test sites. This investment is accounted for under the cost method and carried a balance of $500,000 as of March 31, 2008 and is recorded within Other Assets in the balance sheet.

On March 5, 2008, Smithfield Foods, Inc. announced that it signed a definitive agreement to sell Smithfield Beef Group, Inc., including 100% of the ownership of Five Rivers, to JBS S.A. ("JBS") Smithfield Foods and CGC entered into an agreement providing that, immediately before the closing of the JBS transaction, Smithfield Beef will acquire from CGC the 50% of Five Rivers that it does not presently own in return for 2.167 million shares of Smithfield common stock. Live cattle currently owned by Five Rivers will be transferred to a new 50/50 joint venture between Smithfield Foods and CGC. The excluded live cattle will be raised by JBS after closing for a negotiated fee and then sold at maturity at market-based prices. Proceeds from the sale of the excluded live cattle will be paid in cash to the Smithfield Foods/CGC joint venture.

2. Significant accounting policies

Revenue Recognition—The Company sells live cattle to packers located primarily in Colorado, Idaho, Nebraska, Kansas and Texas. Revenue is recognized when live cattle are shipped to customers, based on terms as set forth by The Packers and Stockyards Act of 1921. The Company records transactions based on lot by lot accounting, recognizing revenue as cattle are shipped or on delivery depending on the terms of the sale, and will adjust revenues to reflect the results of the grading process as reported to the Company by the packer. Risk of loss transfers to the packer upon shipment, unless the Company has hired the transporter for shipment, in which case risk of loss transfers at delivery. Hotel revenue charged to customers for cattle feeding and care is recognized on a daily basis and is recorded in feedlot sales in the statement of operations. Animal feed supplement sold to third parties is recognized when the product is delivered and is recorded in feedlot sales in the statement of operations.

Derivative Instruments—The Company enters into futures and option contracts for the purpose of hedging exposures to changes in commodity prices, primarily live cattle, feeder cattle, and corn. These contracts are accounted for as derivatives in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. This statement requires the Company to record all derivatives on the balance sheet. The Company has reflected derivatives at fair value. Derivatives that are not accounted for as hedges must be adjusted to fair value through current earnings. For derivatives designated as cash flow hedges and used to hedge an anticipated transaction, changes in the fair value of the derivatives are deferred in the balance sheet in

accumulated other comprehensive income (loss) to the extent the hedge is effective in mitigating the exposure to the related anticipated transaction. Any ineffectiveness associated with the hedge, along with gains and losses on derivatives not designated as hedges, are recognized immediately in the statement of operations within other revenues. Amounts deferred within accumulated other comprehensive income (loss) are recognized in the statement of operations within cost of sales upon the completion of the related hedged transaction.

Cash and Cash Equivalents—Cash equivalents are composed of all highly liquid investments with original maturities of three months or less. Book overdrafts are reclassified to current liabilities.

Margin Accounts—The Company maintains margin deposits with brokers as collateral on open positions in derivative instruments. These deposits are not included in the balance of cash and cash equivalents as the balances, when positive, are not able to be withdrawn by the Company at any time. When the Company's derivative positions are in an asset position the Company is allowed to borrow against the margin accounts. As of March 31, 2008 the Company had net borrowings on margin accounts with brokers.

Inventories—Live cattle inventories and inventories of feed, silage, processing supplies, and medication are stated at the lower of cost (first-in, first-out) or market.

Property, Plant, and Equipment—Property, plant, and equipment are stated at cost. Depreciation of property, plant, and equipment is provided by the straight-line method over the estimated useful lives of 25 years for farm buildings, 10 to 30 years for land improvements and buildings, and 2 to 12 years for machinery, equipment, furniture, and purchased software. Expenditures for maintenance and repairs are charged to expense as incurred. Depreciation expense for the year ended March 31, 2008 was $8.7 million.

Intangible Assets—The Company has recorded intangible assets in the form of water rights with indefinite lives at the Kuner and Gilcrest feedlots which were contributed to the Company by MF. This intangible asset is recorded at its carryover basis of $12.1 million. The Company's annual impairment testing date coincides with its fiscal year-end. If an assessment indicates impairment, the impaired asset is written down to its fair value based on the best information available in accordance with SFAS 142, *Goodwill and Other Intangible Assets*. There were no impairments recorded for the year ended March 31, 2008.

Debt Issuance Costs—Debt issuance costs of $4.5 million are capitalized and are being amortized over the terms of the related loan agreements using the straight-line method. Accumulated amortization of the debt issuance costs was approximately $2.7 million at March 31, 2008.

Impairment of Long-Lived Assets—The Company continually evaluates the carrying value of its long-lived assets for events or changes in circumstances which may indicate that the carrying value may not be recoverable in accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

Income Taxes—The Company is treated as a flow-through entity for income tax purposes and, therefore, the Company's taxable income is included in the Members' respective consolidated U.S. federal income tax returns. The Company is not allocated any current or deferred U.S. federal income expense (benefit) arising from the Company's operations included in the Members' results.

Self-Insurance Accruals—The Company is self-insured for expected losses under its workers compensation and automobile liability programs. Reserves recorded for workers compensation and automobile liability claims were $1,038,000 at March 31, 2008 based upon estimates of the ultimate costs to settle incurred claims, both reported and unreported.

Accounting Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements—In September, 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, *Fair Value Measurements.* This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements. In developing this standard, the FASB considered the need for increased consistency and comparability in fair value measurements and for expanded disclosures about fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price.) The emphasis on fair value is that it is a market-based measurement, and the statement clarifies that market participant assumptions include assumptions about risk, therefore, a measurement that does not include an adjustment for risk would not represent a fair value measurement if market participants would include one in pricing the related asset or liability. The guidance in this statement applies to derivatives and other financial instruments

measured at fair value under Statement 133 at initial recognition and in all subsequent periods. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, issued in February 2008, defers the effective date of SFAS No. 157 for one year for certain nonfinancial assets and nonfinancial liabilities measured at fair value, except those that are recognized or disclosed at fair value in the financial statements on a regular basis. The Company is currently evaluating the effect that these Statements will have on the Company's financial statements.

In February 2007 the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value with the associated unrealized gain/loss in earnings. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related financial assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is currently evaluating the effect that this Statement will have on the Company's financial statements.

In March 2008, the FASB issued Statement No. 161, *Disclosure about Derivative Instruments and Hedging Activities—an amendment to FASB Statement No. 133* ("SFAS 161"). The adoption of SFAS 161 is not expected to have an impact on the Company's consolidated financial statements, other than additional disclosures. SFAS 161 expands annual disclosures about derivative and hedging activities that are intended to better convey the purpose of derivative use and the risks managed. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008.

In December 2007, the FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51* ("SFAS 160"). As the Company owns 100% of its consolidated subsidiaries and it does not currently have any minority interests, the Company does not expect the adoption of SFAS 160 to have an impact on its consolidated financial statements. This statement amends ARB No. 51 and intends to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards of the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008.

In December 2007, the FASB issued Statement No. 141R, *Business Combinations* ("SFAS 141R"). SFAS 141R may have an impact on the Company's consolidated financial statements when effective, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of the acquisitions the Company consummates after the effective date. SFAS 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in business combinations and determines what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for financial statements issued for fiscal years beginning after December 15, 2008.

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 requires the evaluation of tax positions taken by the Company to determine whether it is "more-likely-than-not" that those tax positions will be ultimately sustained. A tax liability and expense must be recorded in respect of any tax position that, in Management's judgment, will not be fully realized. In February 2008 the FASB issued FASB Staff Position No. FIN 48-2 which deferred the effective date for certain non-public enterprises to fiscal years beginning after December 31, 2007. The Company has evaluated the implications of FIN 48 and does not currently anticipate any impact to the Company's financial statements. The Company will continue to monitor the Company's tax positions prospectively for potential future impacts

3. Receivables

Receivables at March 31, 2008 were as follows (in thousands):

	2008
Trade	$13,584
Affiliates	3,152
Employee advances	82
Other	1
Total receivables	$16,819

4. Inventory

Inventory balances at March 31, 2008 were as follows (in thousands):

	2008
Livestock	$574,082
Silage	13,657
Feed	10,356
Medication and other	2,066
Total inventory	$600,161

5. Accrued liabilities

Accrued liabilities at March 31, 2008 were as follows (in thousands):

	2008
Employee compensation, bonus, and benefits	$2,820
Reserve for workers compensation and automobile liability insurance	1,038
Interest	286
Other	1,053
Total	$5,197

6. Debt

On May 20, 2005, the Company entered into a $550 million revolving credit agreement (the “facility”) with a maturity date of May 20, 2010. During April 2006, the line of credit was reduced by $25 million as provided for in the credit agreement. At March 31, 2008, the Company was utilizing $395.3 million of the facility, and had an outstanding letter of credit of $1.5 million leaving $128.2 million in unused line of credit with $116.8 million available to be borrowed by the Company according to the terms of the credit agreement. Borrowings under the facility bear interest at variable rates based on LIBOR (4.45% at March 31, 2008). The Company’s policy is to pay down the outstanding principal balance of the line of credit and to borrow additional amounts to finance working capital requirements. Accordingly, the Company classifies the debt as a current liability in the balance sheet. The credit agreement is collateralized by certain fixed assets, accounts receivable and inventories of the Company. Among other requirements, the Facility requires the Company to maintain certain financial ratios, minimum levels of net worth, and establish limitations on certain types of payments, including dividends, investments, and capital expenditures. The Company is in compliance with all covenants.

7. Commitments and contingencies

Operating Leases—The Company utilizes buildings and equipment which are leased under operating lease agreements, extending through March 2013. The following is a schedule of the future minimum obligations under the operating leases that have initial or remaining non-cancelable lease terms in excess of one year at March 31, 2008 (in thousands):

Years Ending March 31	
2009	$ 325
2010	261
2011	211
2012	211
2013	189
Thereafter	142
Total	$1,339

Rent expense under all operating leases was approximately $1.4 million for the year ended March 31, 2008. The initial term of the Loveland office lease is seven years with one five-year extension. There is also a separate lease for 2,254 square feet of adjoining office space that is currently being occupied by Five Star Cattle Systems, a MF subsidiary. The lease allows for 3% annual escalations, and includes the tenant’s pro rata share of operating expenses.

Legal Matters—As of March 31, 2008 there were no pending legal matters against the Company, however, the Company is a party to a proceeding currently pending with the Colorado Ground Water Commission ("GWC") in which Pioneer Irrigation District and others have requested a modification of the boundaries of a designated ground water basin in which the Yuma feedyard of the Company is located. This case is scheduled for a three-week hearing in front of the GWC's hearing office beginning on June 2, 2008. If the petitioners fully prevail the Company would be required to supply water to the North Fork to replace the withdrawals of ground water from wells serving the Yuma feedyard, or cease withdrawals from those wells. Replacement water would have to be secured. It is not possible to estimate the amount of potential loss at this time.

Loss on Involuntary Conversion of Assets—During February 2008, the Company wrote off a loader that was destroyed by fire at the Grant County Feedyard. An involuntary conversion loss of approximately $109,000 was recognized.

During March 2007, the Company wrote off a retention pond after routine inspections revealed active seeps on three of the four embankments. A loss of approximately $434,000 was recognized and the engineering firm and all parties relevant to the construction of the pond were notified that we intend to build a new pond and hold them responsible for the costs. On April 22, 2008, the Company filed a complaint in the United States District Court for the District of Kansas against KLA Environmental Services, Inc. and Stoppel Dirt, Inc. seeking damages.

8. Related party transactions

On May 20, 2005, the Company entered into the Conti Services Agreement whereby the Company would be provided certain services by ContiGroup Companies, Inc. for $1 million annually. Expenses for the year ended March 31, 2008 were $450,000. The Company also feeds cattle for CPS. At March 31, 2008 approximately 37,000 head were on feed for CPS. There was an outstanding receivable due the Company from CPS of $2.9 million at March 31, 2008, and revenue recognized during the year ended March 31, 2008 was $59.3 million. The Company permits employees and their relatives to enter into feeding agreements at the individual feedyards, with the consent of the feedyard General Managers and with Executive Management approval. For the year ended March 31, 2008 this activity totaled $1.5 million.

9. Significant customers

Outside customers accounted for approximately 10% of the total cattle on feed at the Company's feedyards, at March 31, 2008. CPS was the largest single customer accounting for the majority of customer cattle on feed at March 31, 2008. Company cattle are committed under marketing agreements to Swift and Company, Cargill Meat Solutions Corporation, and National Beef. During the year ended March 31, 2008, approximately 54% of company cattle were sold to Swift, 14% to Cargill, and 32% to National Beef.

10. Employee benefit plans

Defined Contribution Plans—Effective April 2006, the Company sponsored a defined contribution plan (401(k) Plan), administered by Vanguard. All employees may participate by contributing a portion of their annual earnings to the plan. The Company's contributions are based on each participant's level of contribution and cannot exceed the maximum allowable for tax purposes. Total contributions were approximately $571,000 for the year ended March 31, 2008.

Deferred Compensation Plans—The Company granted certain key members of Five Rivers' management team participation in the Five Rivers Long-Term Incentive Plans, which covers the three years ending March 31, 2008, 2009 and 2010 (the 2008 Plan) and the three years ending March 31, 2007, 2008 and 2009 (the 2007 Plan). The performance measure for the plan is return on net assets (RONA), with a hurdle rate of 9% RONA and a target rate of 12.0% RONA. There is no cap for the bonus pool, but vesting occurs at a rate of 33.3% at the end of each fiscal year. The targets were not met for the 2007 plan, but the 2008 target was met, and there is an accrual of approximately $170,000 in long-term liabilities for this plan.

11. Derivative instruments and hedging activity

The Company is exposed to market risk, such as changes in commodity prices for its main raw materials—feeder cattle and corn, and its finished product—live cattle. The Company's exposure to commodity price risk relates to raw material and finished product price fluctuations caused by supply conditions, weather, economic conditions, and other factors. To manage volatility associated with these exposures, the Company may enter into derivative transactions pursuant to established Company policies. Generally, the Company utilizes commodity futures and option contracts to reduce the volatility of commodity input prices on corn and feeder cattle and commodity prices on live cattle. Options are used to economically hedge a portion of the market risk, even though the Company has elected not to designate these positions as accounting hedges. The Company enters into futures and options transactions with established brokers.

The Company considers its use of derivative instruments to be an economic hedge against changing prices. At March 31, 2008 all open derivative contracts were recorded at fair value in accordance with SFAS No. 133. These contracts are recorded within current assets when the unrealized value is a gain and within current liabilities when the unrealized value is a loss. The Company designates contracts for the future purchase or sale of certain commodities as normal purchase normal sales and thus these contracts are not marked-to-market. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking the hedge transactions. The Company links all hedges to forecasted transactions and assesses whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items, both at the inception of the hedge and on an ongoing basis.

Trading Activities—During 2008 the Company had the following derivative activities, which while economic hedges, were not accounted for as hedges and whose gains or losses are reflected in “Other revenues” on the Statement of Operations:

- *Corn Purchases*—As of March 31, 2008 the Company had open derivative contracts on 3.605 million bushels of corn to hedge or unwind pricing on future purchases at various feedyards. At March 31, 2008 these positions had a net unrealized loss of approximately $195,000. During the year ended March 31, 2008, the Company recorded $1.6 million in realized gains on these positions.
- *Feeder Cattle Purchases*—As of March 31, 2008 the Company had open derivative contracts on 8.5 million pounds of feeder cattle to hedge purchases at various feedyards. At March 31, 2008 these positions carried an unrealized net gain of $168,000. During the year ended March 31, 2008 realized losses were approximately $295,000.
- *Live Cattle Sale*s—As of March 31, 2008 the Company had open derivative contracts on 230.92 million pounds of live cattle to hedge future sales at various feedyards. At March 31, 2008 these positions had net unrealized losses of approximately $4.8 million. During the year ended March 31, 2008, the Company recorded $14.9 million in realized gains on these positions.
- *Natural Gas Purchases*—During the year ended March 31, 2008 there were no hedging activities relating to natural gas.
- *Soybean Meal Purchases*—As of March 31, 2008 the Company had no open derivative contracts on soybean meal. Realized gains and losses during 2008 were immaterial.

Hedging Activities—During the year ended March 31, 2008 the Company had the following derivatives which were appropriately designated and accounted for as hedges:

- *Feeder Cattle Purchases*—As of March 31, 2008, the Company had no open derivative contracts of feeder cattle. During the year ended March 31, 2008, the Company realized $1.9 million in losses on feeder cattle hedges. Of this, $2.0 million of losses have been recorded in cost of sales, and approximately $95,000 of gains have been recorded in other revenues due to ineffectiveness on these hedges.
- *Live Cattle Sales*—As of March 31, 2008, the Company had open derivative contracts on 542.5 million pounds of live cattle to hedge future sales at various feedyards which are being accounted for as a cash flow hedge. These positions had an unrealized gain of $27.2 million which was recorded in AOCI. During the year ended March 31, 2008, the Company realized $37.4 million in gains on live cattle hedges. Of this, $1.9 million of gains are deferred in AOCI at year end, $29.1 million of gains have been recorded in cost of sales, and $6.4 million of gains have been recorded in other revenues due to ineffectiveness on these hedges.

At March 31, 2008 there was $29.1 million recorded within accumulated other comprehensive income for deferred hedging gains to be recognized in fiscal year 2009. These gains will be recorded as either effective or ineffective hedges as live cattle are marketed. The maximum length of time that the Company hedges its exposure to the variability in future cash flows is approximately 12 months.

12. Fair value of financial instruments

The fair value of the Company's debt approximates market value as its line of credit bears interest at floating market rates based on LIBOR. Open derivative contracts are marked to market on a daily basis and are recorded in the balance sheet. For cash and cash equivalents, trade receivables, and accounts payable, the carrying amount is a reasonable estimate of fair value due to their term to maturity.

13. Gilcrest fire

On February 9, 2006, a fire occurred in the generator room which connects to the Motor Control Center for the Gilcrest Feedlot feed mill, which the Company has accounted for as an involuntary conversion. At March 31, 2007, approximately $1.2 million had been spent to replace and repair the capital assets destroyed by the fire, and the Company had received $500,000 in insurance proceeds. It is expected that the cost of all property damage will be recovered, less the $100,000 deductible. During 2007, an additional $1.0 million was spent for cleanup and to return the mill to operating capacity, including the costs of generator rental, fuel, installing new wiring, and hauling feed from the Kuner Feedlot. During 2008 the Company received a final settlement of $2.0 million in insurance proceeds.

* * * * * *

Smithfield Beef Group, Inc.

Condensed consolidated balance sheet

(Unaudited)

July 27, 2008

(dollars in thousands)

Assets	
Current assets:	
Cash	$ 99
Accounts receivable, less allowances of $2,139	117,836
Inventories	202,412
Deferred income taxes	6,233
Prepaid expenses and other current assets	10,079
Total current assets	336,659
Property, plant, and equipment, net	142,889
Investment in Five Rivers Ranch Cattle Feeding LLC	155,469
Investment in other joint ventures	1,186
Goodwill	115,921
Intangible assets	4,227
Other assets	5,948
	$762,299
Liabilities and stockholder's equity	
Current liabilities:	
Accounts payable	$63,172
Accrued payroll and benefits	20,390
Other accrued liabilities	41,986
Current portion of long-term debt due third parties	1,009
Total current liabilities	126,557
Long-term debt due Smithfield Foods, Inc.	456,649
Long-term debt due third parties	734
Deferred income taxes	20,359
Other long-term liabilities	21,198
Commitments and contingencies	
Stockholder's equity:	
Class A Common stock, $.01 par value, 15,000 shares authorized, 1,000 shares issued and outstanding	—
Additional paid-in capital	242,640
Accumulated deficit	(103,800)
Accumulated other comprehensive loss	(2,038)
Total stockholder's equity	136,802
	$762,299

See accompanying notes.

Smithfield Beef Group, Inc.

Condensed consolidated statements of operations

(unaudited)

July 27, 2008

(dollars in thousands)

	Quarter ended	
	July 27, 2008	**July 29, 2007**
Net sales	**$819,717**	$754,733
Cost of sales	**763,734**	735,259
Gross profit	**55,983**	19,474
Operating costs and expenses:		
Selling, general and administrative expenses	**20,165**	15,387
Corporate service fees from Smithfield Foods, Inc.	**4,531**	3,111
Royalty fees to Smithfield Foods, Inc.	**1,639**	1,269
Total operating cost and expenses	**26,335**	19,767
Income (loss) from operations	**29,648**	(293)
Other income (expense):		
Interest income	**89**	206
Interest expense:		
Smithfield Foods, Inc.	**(9,784)**	(10,408)
Third parties	**(88)**	(206)
Equity in income (loss) of Five Rivers Ranch Cattle Feeding LLC	**(2,417)**	5,031
Equity in income of other joint ventures	**130**	396
Income (loss) before income taxes	**17,578**	(5,274)
Provision (benefit) for income taxes	**6,340**	(1,970)
Net income (loss)	**$11,238**	$(3,304)

See accompanying notes.

Smithfield Beef Group, Inc.

Condensed consolidated statements of cash flows

(unaudited)

July 27, 2008

(dollars in thousands)

	Quarter ended	
	July 27, 2008	**July 29, 2007**
Operating activities		
Net income (loss)	**$ 11,238**	$ (3,304)
Adjustment to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	**4,578**	4,536
Gain on sale of equipment	**—**	(4)
Equity in (income) loss of Five Rivers Ranch Cattle Feeding, LLC	**2,417**	(5,031)
Equity in income of other joint ventures	**(130)**	(396)
Changes in operating assets and liabilities:		
Accounts receivable	**(7,082)**	(11,773)
Inventories	**32,523**	49,113
Prepaid expenses and other current assets	**235**	1,650
Accounts payable	**(6,879)**	(8,063)
Accrued liabilities	**14,073**	10,881
Other noncurrent assets and liabilities	**(203)**	40
Cash provided by operating activities	**50,770**	37,649
Investing activities		
Additions to property, plant and equipment	**(3,601)**	(2,992)
Proceeds from sale of property, plant and equipment	**—**	90
Other	**206**	13
Cash used in investing activities	**(3,395)**	(2,889)
Financing activities		
Net payments under debt agreement with Smithfield Foods, Inc.	**(47,092)**	(36,231)
Payments on debt due third parties	**(240)**	(215)
Cash used in financing activities	**(47,332)**	(36,446)
Increase (decrease) in cash	**43**	(1,686)
Cash at beginning of period	**56**	5,000
Cash at end of period	**$ 99**	$ 3,314
Supplemental disclosures of cash flow information		
Cash paid for interest to third parties	**$ 46**	$ 70

See accompanying notes.

Smithfield Beef Group, Inc.

Notes to condensed consolidated financial statements

(Unaudited)

July 27, 2008

1. Description of the business

Basis of presentation

Smithfield Beef Group, Inc. (the Company or Smithfield Beef Group) now known as JBS Packerland, Inc., processes, prepares, packages and delivers fresh, further-processed and value-added beef products for sale to customers in the United States and international markets from four beef processing facilities. Smithfield Beef Group sells beef products to customers in the foodservice, international, further processor and retail distribution channels. Smithfield Beef Group also produces and sells by-products that are derived from its beef processing operations and variety meats to customers in various industries.

Sale of the company

On October 23, 2008, Smithfield Foods, Inc., (the owner of Smithfield Beef Group prior to this date) completed the sale of Smithfield Beef Group, to a wholly-owned subsidiary of JBS S.A., a company organized and existing under the laws of Brazil, for $565 million, net of postclosing adjustments. The sale included 100% of Five Rivers Ranch Cattle Feeding LLC (Five Rivers), a 50/50 joint venture with Continental Grain Company (CGC).

The unaudited condensed consolidated financial statements of the Company included herein have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulation, although the Company believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, the condensed consolidated financial statements include all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of the results of operations for the interim periods. It is suggested that these condensed consolidated financial statements be read in conjunction with the audited consolidated financial statements of the Company, including the notes thereto for the year ended April 27, 2008, included elsewhere in this filing. The Company's financial information included herein is not necessarily indicative of the financial position, results of operations and cash flows of the Company that may be expected in the future.

Principles of consolidation

The condensed consolidated financial statements include all wholly-owned subsidiaries. The Company's investments in Five Rivers, Five Star Cattle Solutions, LLC and Mountain View Rendering Co. LLC are accounted for under the equity method. The Company has a 50% ownership in each of these entities. All intercompany transactions and balances have been eliminated.

The Company's fiscal year consists of 52 or 53 weeks, ending on the Sunday nearest April 30th. The quarters ended July 27, 2008 and July 29, 2007, each consisted of 13 weeks.

2. Other comprehensive loss

Other comprehensive loss includes the net income or loss of the Company plus the Company's proportionate share of the fair value of derivative financial instruments entered into by Five Rivers, which are accounted for under hedge accounting. Other comprehensive income (loss) totaled $11.6 million and $(10.6) million for the quarters ended at July 27, 2008 and July 29, 2007, respectively.

3. Inventories

The components of inventories at July 27, 2008, net of reserves of $1.4 million, are as follows (in thousands):

Live cattle	$106,751
Product inventories:	
Fresh and packaged meats	62,935
Carcass inventory	14,679
Manufacturing supplies	14,728
Other	3,319
	$202,412

The sale of the Smithfield Beef Group as discussed in Note 1, excluded substantially all live cattle inventories held by the Company and Five Rivers as of the transaction date. Live cattle owned by Five Rivers on the transaction date were transferred to a new 50/50 joint venture between Smithfield Foods, Inc. and CGC, while live cattle owned by Smithfield Beef Group on the transaction date were transferred to a subsidiary of Smithfield Foods, Inc. The excluded live cattle will be raised by JBS Packerland, Inc. for a negotiated fee and then sold at maturity at market-based prices. Proceeds from the sale of the excluded live cattle will be paid in cash to the Smithfield Foods, Inc./CGC joint venture or to Smithfield Foods, Inc., as appropriate. The live cattle inventories are expected to be sold within six months after the transaction date, with substantially all live cattle sold within 12 months after the transaction date.

4. Property, plant and equipment, net

Property, plant and equipment, net consist of the following at July 27, 2008 (in thousands):

Land	$ 13,946
Buildings and improvements	72,725
Machinery and equipment	146,400
Automobiles and trucks	5,784
Furniture and fixtures	3,581
Computer hardware	2,835
Leasehold improvements	176
Construction in progress	15,796
	261,243
Accumulated depreciation	(118,354)
	$ 142,889

The sale of the Smithfield Beef Group, as discussed in Note 1, excluded certain land and land improvements that totaled $9.6 million at July 27, 2008.

5. Investment in Five Rivers

In fiscal 2006, Smithfield Beef Group and CGC formed Five Rivers, a 50/50 joint venture. Five Rivers is a stand-alone operating company, independent from the Company and CGC, currently headquartered in Greeley, Colorado, with a total of ten feedlots located in Colorado, Idaho, Kansas, Oklahoma and Texas. Five Rivers sells cattle to multiple U.S. beef packing firms using a variety of marketing methods. Five Rivers has a fiscal year ended March 31 and fiscal quarters ended June 30, September 30, and December 31.

Five Rivers meets the definition of a significant subsidiary (per Regulation S-X) with respect to the Company. Condensed statements of operations for Five Rivers are presented below:

	Quarter Ended	
	June 30, 2008	**June 30, 2007**
Net sales	**$363,688**	$304,100
Cost and expenses	**380,263**	288,339
Operating income (loss)	**(16,575)**	15,761
Net income (loss)	**(20,933)**	9,479

6. Other assets

Other assets consists of the following at July 27, 2008 (in thousands):

Other assets:	
Aircraft	$2,032
Deposit	725
Tax benefit related to uncertain tax positions	2,156
Computer software	285
Other noncurrent assets	750
	$5,948

7. Long-term debt

Long-term debt consists of the following at July 27, 2008 (in thousands):

Long-term debt due Smithfield Foods Inc.:	
Debt due Smithfield Foods, Inc.	$ 257,224
Term notes due SFFC, Inc.	199,425
	$ 456,649
Other long-term debt due third parties:	
Note payable	$ 751
Other	992
	1,743
Less current portion	1,009
	$ 734

The Company had a lending arrangement with Smithfield Foods, Inc. under which Smithfield Foods, Inc. finances the working capital needs of the Company. Amounts outstanding under the facility bore interest at rates ranging between 4.2% and 7% as of July 27, 2008. The lending arrangement did not have a stated maturity date nor did it contain any financial covenants. The debt with Smithfield Foods, Inc. has been classified as long term based on the intent of Smithfield Foods, Inc. for these amounts not to be repaid in the next fiscal year.

On January 1, 2007, the Company entered into a series of term notes with SFFC, Inc. (a wholly owned subsidiary of Smithfield Foods, Inc.) totaling $199.4 million. The term notes bear interest at 7.75% and are due December 31, 2016. The term notes do not contain any financial covenants.

In connection with the purchase of Murco Inc., now known as JBS Plainwell, Inc., the Company issued a note payable (Note) to the former owner for $13.3 million. Principal and interest payments under the Note are due weekly, decreasing from $30,000 to $20,000 over the life of the Note. As the Note does not bear interest, the Company discounted the estimated future cash flows under the Note and adjusted the carrying value of the Note to $8.2 million at the purchase date, which approximated the fair value of the Note. The effective interest rate on the Note is 10% and the Note matures May 12, 2009.

8. Income taxes

The provision (benefit) for income taxes for the fiscal quarters ended July 27, 2008 and July 29, 2007, are based on an estimated income tax rate for the respective full fiscal year. The estimated annual effective income tax rate is determined excluding the effect of significant unusual items or items that are reported net of their related tax effects. The tax effect of significant unusual items is reflected in the period in which they occur.

A reconciliation of the beginning and ending liability for uncertain tax positions is as follows (in thousands):

Balance as of April 28, 2008	$4,226
Additions for tax positions taken in prior years	124
Balance as of July 27, 2008	$4,350