International Conference Call
JBS S/A
2nd Quarter 2011 Earnings Results
August 15th, 2012

Operator: Good morning everyone and welcome to JBS S.A.'s Conference Call. During this call we will present and analyze the results for 2nd Quarter of 2012. As requested by JBS this event is being recorded and the recording will be available to listeners this afternoon and can be accessed by following the instructions posted on the Company's website at www.jbs.com.br/ir.

Taking part in this call we have Mr. Wesley Batista, President and CEO of JBS S.A., Mr. Jeremiah O'Callaghan, Director of Investor Relations and Mr. Don Jackson, CEO of JBS USA.

Now I will turn the conference over to Mr. Jerry O'Callaghan. Mr. O'Callaghan you may now proceed.

Mr. O'Callaghan: Hello, good morning. Thank you all for being with us today to discuss the numbers for the second quarter of 2012. We just finished our call in Portuguese, from 10 to 15 minutes ago, so we're very pleased to have our international investors with us on this call now.

I will start by making reference to the press release we filed with the CVM in Brazil last night, we also have a deck of the slides which we filed in English and in Portuguese this morning and I'll make some reference to those slides as we go through the call. But firstly I would like to start by highlighting the events of the quarter and bringing to the attention of everybody what we think is relevant during 2Q12.

We posted a consolidated net revenue of R$ 18.5 billion and that's 26% higher than the same period of last year. We had a consolidated Ebitda also for the period for the second quarter, of more than R$ 1 billion, that's 72% higher than the same period in 2011. And specific highlights for the quarter were our South American business, JBS Mercosul, where we had R$ 4.3 billion of revenue in the period and that's an increase of 19%, almost 20%, over the similar period in 2011. The Ebitda increased 47% in South America comparing the same period reaching R$ 630 million in 2012.

Also in the US, as a highlight, our chicken business Pilgrim's Pride Corporation posted US$ 2 billion revenue in the quarter and Ebitda of north of US$ 125 million, which is an inversion of what we saw in 2011, where our chicken business in the US had negative Ebitda.

Our adjusted net income for the period was R$ 213 million, more than US$100 million, and that's excluding and deferring income tax due to the goodwill in Brazil, if we include that income tax, our income tax would've been R$ 170 million. At the end of the quarter we carried R$ 5.5 billion in cash and that's more than 110% of the totality of our short-term debt.

Looking at the semester briefly, just comparing semester with semester, we had R$ 34.5 billion revenues in the semester, that's up 17.5% on the first semester of 2011. Consolidated Ebitda for the semester also was R$ 1.7 billion, again, 20% up in the same period in 2011. Our Ebitda margin, our consolidated Ebitda margin for the semester was 5%.

Adjusted net income also for the semester was just north of R$ 450 million and, again, if we exclude the income tax due to the goodwill, that would have been R$ 286 million.

Some of the strategic events during 2Q12; we started up our chicken business in Brazil, the company was called '"Doux Frangosul", so now it's called JBS Frangosul, it's quite a substantial business, the third largest chicken producer in Brazil with capacity to process more than 1 million birds per day. We also increased our beef capacity in Brazil, we've been increasing the number of facilities over the last six months and that's resulted in an increase in our processing capacity in Brazil during the second quarter by 8000 head/cattle per day, and that's quite substantial.

Also, during the second quarter we had the independent listing of our dairy business through a voluntary public share swap that business has gone independent and it's now floating as an independent company on the São Paulo Stock Exchange in the same segment as JBS in the "*Novo Mercado*" since near the end of June, so that was a relevant matter during the second quarter of 2012.

Now to talk a little bit specifically each business unit and making reference to our press release of yesterday, and specifically on JBS Mercosul, speaking about how revenue has evolved over the last number of quarters, I can mention that R$ 4.3 billion in revenue in this area in the second quarter of 2012 and an Ebitda of R$ 630 million, 14.5% Ebitda margin. This business has improved on a quarter by quarter basis and it has demonstrated a lot of consistency, and our CEO Wesley will talk a little bit more about how we see things going forward in our South American business before we go to Q&A.

Our beef business in the US, again, we had revenue increase and we had a slight improvement in the margins, still negative but very very marginal in marginal Ebitda of US$ 9 million in the quarter, and negative Ebitda margin of 0.2%, but, again, we see a trend from the first to the second quarter an improvement in profitability and an increase in our revenues.

Our pork business in the US, JBS pork business in the US, again, revenue is always in the US$ 850 million dollar category. Margins have been a little bit flat over the last number of quarters, we see that leveling off at historical levels, somewhere around 6 to 8% and we've seen that happening over the last number of quarters.

Our chicken business, Pilgrim's Pride Corporation, we had US$ 2 billion in revenues in the period and, again, we see a margin improvement quarter over quarter from the end of last year coming into part (inaudible X7:48) we were looking forward to a very positive 2012 and, obviously, there was grain issue which we need to address and we will address during the Q&A for the second half of this year, and we will talk about that later on. But we had US$ 125.7 million in Ebitda in the second quarter and in Ebitda margin of 6.4%. So all of that are quite relevant.

And from our Capex point of view, we had a total Capex just over R$ 400 million in the quarter, that was a little bit above our quarterly average because of the ramp up and the business in Brazil, we see that coming back to historical leverages in the third and fourth quarter of 2012.

To speak a little bit about our indebtedness, our leverage net debt to Ebitda last 12 months was 4.27 times at the end of the quarter, slightly down of what it was at the end of the first quarter, of 4.3 times and as I mentioned earlier we had in cash or cash equivalent R$ 5.5 billion at the end of the period, which represents more than 110% of the totality of our short-term debt.

Interesting to look at, and we've highlighted this in our press release and, again, this slide we put on our webpage this morning the fact that if we dollarize, if we convert into Dollars, our total net debt and we take the average exchange rate over the last 5 quarters we actually observe a diminishing total net debt in US Dollars from US$ 7.8 billion at the end of the second quarter in 2011 to just about US$ 7.5 billion at the end of the second quarter of 2012, a reduction of 3% in our net debt in US Dollars excluding the effect of the devaluation of the Real in the period.

Also regarding that, the profile of short-term and long-term we see our short-term debt diminishing, it's now at 23% of the total debt 77% long-term and that has been gradually improving over the last number of quarters.

To speak briefly about our exports in the period, our exports for the first half of the year was just US$ 4.4 billion for the first half of 2012 and, again, would like to highlight the fact that our exports are spread in many emerging markets in very diversified into many markets, we had 15% of our exports going to Mexico, just under 15% going to China, Hong Kong, and Vietnam, just under 12% going to Japan, Africa and Middle East was 9%, Russia again was 9% as well, South Korea just over 6% and then we see European Union representing 6.1% and then, the other markets, particularly in South America, Chile and Venezuela markets that grew quite substantially during first half of 2012 (these markets in South America; Chile and Venezuela).

With that, I'll hand you back… I'll hand you over to our CEO for him to make some comments and some forecasts for the second half of 2012 before we take questions. Thank you very much.

Mr. Batista: Thank you Jerry and good morning you all. We closed our second quarter, like Jerry mentioned, with R$ 18.5 billion on revenue and around R$ 1 billion on Ebitda. We believe that we had a reasonable quarter, some business units performed very well and some business units were weaker in terms of results than we were looking for but, in the end we closed the quarter in a level that we believe that is a reasonable level in terms of results.

Looking forward, each business unit, we are very confident and we are very optimistic about our Mercosul business, we believe that the Mercosul business, especially Brazil, the Brazil business, we will keep operating in a very high level in terms of performance and in terms of delivering the results that we expect, we believe that this business will keep running at a double-digit type of margin, so our beef business in Brazil and also our high leather business in Brazil are doing very well.

As you know, and Jerry mentioned here, we did a quite large expansion in our beef business in Brazil in these last two quarters, so we had around 2 million heads annualized, around 2 million heads capacity in our beef business in Brazil and we are very happy that we were able to do this expansion because the margin in Brazil is getting better, things in Brazil, condition in terms of the market is getting better, I have been mentioning this that we're getting a new cycle in Brazil and we are seeing more cattle available, we are able to run our plants with a better capacity utilization and also exchange rate in Brazil is helping the business, so exports in Brazil are more competitive today than it was a month ago.

So, overall, again, we are very optimistic and we believe that this business will keep delivering a double-digit type of margin in these coming quarters and in these coming years in a sustainable basis – this is an important point.

So, moving outside of Mercosul and outside of Brazil, going to the US in our different business units in the US, our beef business, as you all know, has been quite difficult in this first semester, in these first two quarters (1Q and 2Q) was well below then the margin that we achieved last year. We are seeing the business condition improving, we believe that the second quarter and the third… sorry, the second semester in the beef business will be better than the first semester, we are more optimistic in terms of results, we are confident that third quarter will be a reasonable quarter, we will be able to make reasonable margins in the beef business, I think everybody is seeing a better discipline structure in the beef business in US, I think all the packers are looking to reestablish margin in the beef business and I think we're getting the results of this discipline and, again, second semester things are looking well better than it was in the first semester.

In the pork, business we had also a reasonable last two quarters, but below when comparing to last year, but, again, we believe that the second semester will be better than the first semester. We are already seeing some improvement in the pork business, who followed the features market in the US, so pork price in US declined quite sharply in these last 30 days or so. So margin is quite better and the hog market is improving in some areas and in some points. Again, pork we believe we will see some improvement.

The chicken business; this first quarter much better than the first quarter last year, second quarter well better than second quarter last year, second quarter you all know that it was a very difficult year for the chicken industry in the US, this year it starts in a much better mood and we are seeing better results, but, again, you all know that in these last 60 days things have changed, the grain market has changed quite substantially in the US (not only in US but around the world), corn price and soybean price are much higher than it was 60 days ago, so this is for sure will put challenge in the chicken business.

We will see a reasonable third quarter in our business, the biggest challenge will be for the fourth quarter (the last quarter of this year) even though we believe that the industry and ourselves can be able to pass… to increase some sales price to offset or to try to compensate a portion or, maybe, the totality of the grain impact in our cost. But, again, it will be a challenge in the first quarter to increase price to offset this grain price impact in our business, but we believe that… one thing that we believe that will help US, that Brazil is also facing, US and Brazil are the two largest chicken producers around the world, so Brazil is also facing a challenge in the chicken industry in Brazil will need to adjust price, we will need to increase sales price and it's already doing this; chicken price in the Middle East is quite higher than it was 60 days ago, so this will help US to increase also sales price especially in the export market, Brazil doing this it will help the chicken market overall.

Looking in a consolidated base we believe that the second semester will be better than the first semester and we will be very focused in our business to get the best results in each business unit and to add value to all of our shareholders and all of our business. So, with that I will ask the operator to open for the Q&A. Thank you.

Q&A Session

Operator: Thank you. Ladies and gentlemen we will now begin the Question and Answer session. If you have a question please press the star key followed by the one key on your touch-tone phone. If at any time you would like to remove yourself from the questioning queue press star two.

Our first question comes from Ms. Farha Aslam, from Stephens Inc.

Ms. Farha Aslam: Hi good morning.

Mr. O'Callaghan: Hi Farha.

Mr. Batista: Hi Farha, good morning.

Ms. Farha Aslam: I thought you have finished your comments with a discussion on the corn grain situation. I would just like to focus on that. Given the corn grain situation, where do you think the rationalization is going to come from? Is it going to be in the US or are we going to see greater rationalization in the international markets? And how do you think that is going to impact exports and imports out of the US in Brazil?

Mr. Batista: Farha, I will give you my view and Don Jackson is also in the call, so I'll ask Don to make some comments also, but my view Farha, I think it's the grain market is a global market so it's not only the US that is facing a higher grain price and I think around the world industry the chicken industry will need to balance supply and demand, and prices will need to be higher all over the place to compensate this impact in grain price. I think Brazil and US, that are the two largest chicken producers, will be the place where the adjustment will come from – Brazil and US – and we are already seeing this, so for you to have an idea, chicken price in the Middle East was US$ 1800 per ton, in the Middle East today it's already US$ 2200 per ton, so Brazil is already doing some adjustments and rationalizing will come from US in Brazil especially.

I don't know, Don, if you want to add something?

Mr. Jackson: Farha, again, as to Wesley's point, you will see some rationing around the world that will be reflected in the US market with less US corn exports. Today we are not seeing any further reductions in the US chicken placements, they are basically year-over-year at about half to last year, I would expect that we will see some decrease in chicken placements, but we haven't seen that till this point, we are beginning to see some liquidation of the seller on the pork side, then I would expect that to occur as our production had increased maybe 2% year-over-year, so there is plentiful numbers of hogs, so we do think that there will be some liquidation on that side.

Ms. Farha Aslam: Thank you. Can you also comment on cattle? Because perhaps to have the most global view on cattle of all companies.

Mr. Jackson: Relative to the US, you mean?

Ms. Farha Aslam: US as well as Brazil. Where do you think that the supply is going to be, here or in the US? Can you talk about cattle flows into your plants? As well as what you think exports will do given the rise in price that's anticipated in cattle over the next year?

Mr. Jackson: Well, in the US right now cattle supplies are plentiful and their prices are edging now, but we would continue to believe that cattle supply will be adequate, but there should be some tightening in the supply in 2013, but at the same time I think that there is a reasonable balance of supply and demand, again, with good packer discipline in terms of the slaughter I think that the margins can remain positive in 2013.

Ms. Farha Aslam: Okay. Thank you very much.

Mr. O'Callaghan: Thank you.

Mr. Batista: Thank you Farha.

Operator: Excuse me, our next question comes from Mr. Wesley Brooks with Morgan Stanley.

Mr. Wesley Brooks: Good morning guys.

Mr. O'Callaghan: Good morning.

Mr. Batista: Good morning.

Mr. Wesley Brooks: So, a couple of questions for me. Firstly, on the Mercosul business, you grew 17% your slaughter year on year; I wanted to understand how much of that came from running your existing plants at higher rates and how much of that was a contribution from the new plants? I'm trying to get a feel for how much incremental volume we can extol expect in Q3 and four from the new least plants.

Mr. O'Callaghan: Wesley, this is Jerry here. During the second quarter we were ramping up business, so at the end of the quarter then we would have been higher than in the beginning of the quarter, it's kind of difficult to give you something precise on that, but I would say 75% of the new capacity was up and running at an efficient level by the end of the quarter, so we will see some incremental slaughter during the second half of the year during the second half of the year, during this quarter and the last quarter of the year, as a result of the new facilities, but most of them were up and running by the end of the quarter.

Mr. Wesley Brooks: Excellent, thank you. And then, my second question was coming back to the US chicken business, you guys have talked at the start of the year about having price escalation clauses in most of your selling contracts, actually to move that we've seen in grains has activated that. Can you talk around how much protection you have from those? And how those contracts are... whether you're actually being able to escalate your prices given that prices in the market aren't necessarily going up enough to recover the cost as yet?

Mr. O'Callaghan: Don?

Mr. Jackson: Sorry, I didn't understand the question Jerry.

Mr. Wesley Brooks: Sorry. The question was, at the start of the year you guys were talking quite a lot about having price escalation clauses in most of your chicken selling contracts. I wanted to understand how much those are working and how much of a protection that might be relative to how spot prices are looking?

Mr. Jackson: No, again, I can't quantify that for you on the call but, yes, we do have some escalating contracts. Now, they are all looking in the past and not into the future, so until we realize the increases that's really another quarter or two quarters away before those price increases occur, so we are not going to have immediate release based on escalation in corn prices. We'd begin to see that in 2013, now at the same time, we realize we are entering the time of the year when most of those agreements will actually be renegotiated and so, between now and the end of November we will begin to renegotiate those and obviously we will do more focused on having that kind of sensitivity into our pricing formulas. But I'd say the existing agreements you really wouldn't see any relief from those through the end of 2012.

Mr. Wesley Brooks: Okay, great, thank you very much.

Mr. O'Callaghan: Thank you Wesley, thank you.

Operator: Our next question comes from Mr. Reza Vahabzadeh.

Mr. Reza Vahabzadeh: Good morning.

Mr. O'Callaghan: Good morning Reza.

Mr. Batista: Good morning.

Mr. Reza Vahabzadeh: On the US beef side was there a meaningful hedging in your loss in the second quarter?

Mr. Batista: Well, there was a loss in the second quarter at around US$ 60 some million.

Mr. Reza Vahabzadeh: Okay, got it. And then you mentioned you would expect a reasonable margin in the US beef and US pork in the third quarter. What is the reasonable margin in the US beef and pork in your mind?

Mr. Batista: On the third quarter Reza, when I say reasonable margin I'm talking about, in beef, 3 to 5%, this is what I mean reasonable margin for beef and for pork between 5 to 8%, 6 to 8%, these are the numbers I mean when I mentioned reasonable margins.

Mr. Reza Vahabzadeh: Okay. And as far as the impact of the drought in the Midwest and the rising grain cost, how do you see that impacting the US beef and pork businesses? Is it really just a moderate tightening of supplies? And can that be passed through for the most part? Any comment on that would be really appreciated.

Mr. Batista: In beef and pork, as we are not fully integrated, we don't have hog production in terms of hog, and in cattle even though we have some cattle on feed, grain impact in our segment, in our hog business, in our beef business is not meaningful, it's completely different from chicken, so chicken of course the impact is directly in terms of price and cost in the chicken business. But it's not the same in our pork business and also in our cattle business. So I don't expect a lot of the impact because of this movement in grain price in our pork in our beef business.

And, again, one thing that it's important that I would like to mention here in our view, in JBS's view, grain price can be US$ 8 or US$ 7 and it's for everybody. So I think, we believe that the industry… the question is more about "when" and the "time" to adjust, but the industry can do just itself to run profitable with corn at US$ 7 or US$ 8, the question is the industry will need to adjust supply and demand to pass price through the system, to offset this increase in grain price.

Mr. Reza Vahabzadeh: Got it. Don, last week US beef slaughter volume was roughly 640,000. Is that enough discipline for you?

Mr. Jackson: That's become a higher number for sure when we are operating below that margin obviously we are more favorable, so I think that is definitely one of the highest segments where we probably need to see more moderation on that kind of slaughter going forward.

Mr. Reza Vahabzadeh: Got it. And Wesley one last question since you see the global angle on exports. Has the US lost any share of the beef export pie because of the strengthening in the US Dollar and the softening in the Brazil Real?

Mr. Batista: No, basically it's is still very competitive even though the Real is not as strong as it was a few months ago but, if you look in our presentation Brazil is still selling beef price almost at the same level that it was some months ago. And it's important to remember that US Dollar is weaker…sorry, is a stronger comparing to some other currencies (not with all the currencies), comparing to the Aussie Dollar, US is too weak, and Australian dollar is a very important currency in terms of the beef business, the competitiveness of the US beef business. So US this is still very competitive Reza.

Mr. O'Callaghan: And also, bear in mind that the markets that the US serves basically are markets that Brazil doesn't serve very much, like Mexico, Canada, Asia, whereas Brazil has its own captive market in the rest of the world.

Mr. Reza Vahabzadeh: Got it. Thank you very much.

Operator: Ladies and gentlemen our next question comes from Ms. Carla Casella with J.P. Morgan.

Ms. Carla Casella: Hi, thank you for taking my question.

Mr. Batista: Hi Carla.

Ms. Carla Casella: On the US beef side, I wonder if you could discuss the trends that here seeing in food service versus retail and if you're seeing any change in food service demand?

Mr. Batista: Don, can you answer?

Mr. Jackson: Yes. Again, Carla, as a company we are not overly subscribing food service on the beef side, definitely we are more retail centric. Generally speaking, you know, food service is stable, should be not aggressively improving relative to beef.

Ms. Carla Casella: Okay. And then on the retail side we have heard early in the year that there was a lot more promotional activity on beef then even on chicken. Are you seen any change in that trend?

Mr. Jackson: Year-over-year beef ads have decreased to the extent about maybe one less ad per month for any given retailer, so beef has declined. On the other side, generally chicken feed trend has increased.

Ms. Carla Casella: Okay. And then just one last question. Have you changed your leveraged target at JBS S/A or at JBS USA?

Mr. Batista: No Carla, we still have the same target.

Ms. Carla Casella: Okay, great, thank you.

Mr. Batista: Thank you.

Operator: Our next question comes from Mr. Bryan Hunt with Wells Fargo.

Mr. Bryan Hunt: Thank you. Most of my questions have been asked, that just a few follow-ups on poultry. You all mentioned that the industry needs to institute some production discipline to achieve pricing offset feed. How does PPC plan to achieve production discipline in this environment? Is it through headcount reduction or through weight reduction?

Mr. Jackson: Well, generally speaking, again, we've gone through some seasonal adjustments in our placements going forward that would be head. We don't really plan any weight adjustments internally. You know, history has taught us that despite increase in corn cost that the only solution is by adjustments in supply relative to the demand. We continue to modify our placements to make sure that these are in balance with our own company demand. So we are not seeing any changes on the industry side at the moment but, again, this has all changed so quickly, it's a little early to say that there is not going to be any change in the industry placements.

Mr. Bryan Hunt: Okay. Do you see industry placements being reduced by cracking more eggs in your opinion? Or do you think there will be some layer reductions, important reductions?

Mr. Jackson: Again, the breeder flock in total is it still at relatively low level based on historic numbers, so it looks like that there has been discipline in that regard. I'm not aware of companies breaking eggs if you will that would indicate that the reduction will have to come in terms of further reduction in the breeder flock, and I have to say that that couldn't happen. I think at these prices you will see a reduction in placements, but like I said, there is no material evidence of that just yet.

Mr. Bryan Hunt: Okay. You mentioned earlier there is an important time coming up in terms of contract negotiations for food service and retail. Do you foresee a greater percentage of mix of variable price contracts based on what feed has done and the impact to the industry, overall? And do you foresee an event where you walk away from unprofitable relationships?

Mr. Jackson: I think that's always the case under any market conditions, you were always going to have some gains on the customer side, you are generally good have some losses on the customer side, so I don't know that that issue will be any more dramatic than it has been in the past, I do think that you'll tend to see a tightening in terms of sensitivity of pricing formulas meaning that they will be shorter in duration and move more quickly as commodity prices move. So I think you'll tend to see formulas that will move faster and move more in concert within food cost.

Mr. Bryan Hunt: And then my last question has to do with beef. Some large food service or restaurant operators in the US have talked about promoting more poultry to keep value on the menu in light of higher inflation estimates going into 2013, you know, that would imply your consumption decline next year. Do you believe, when you look out in the next year that there will be a greater mix of exports for the domestic beef business or the US beef business relative to domestic consumption? And how does that impact your business model?

Mr. Jackson: Our business model in the US basically can come as relative to Brazil, but our business model in the US very good concern exports, we would expect in 2013 to continue to grow our export business although actually year-over-year there is a slight decline. This past quarter on beef export is still basically on a par with last year's exports. Again, we've done our pork exports year-over-year, and we will continue to grow our exports year-over-year, that's very simple to our business model.

Mr. O'Callaghan: And Don, also, on the US beef balance, the US imports quite a bit of beef, we will probably see a declining trends towards importing beef into the US because there are demands on so many other markets around the world, so I suspect that also would be a fact over to whether adjust supply and demand basically inside the US.

Mr. Bryan Hunt: I appreciate your time this morning. Thank you.

Operator: Our next question comes from Mr. Jose Yordan from Deutsche Bank.

Mr. Jose Yordan: Good morning everyone.

Mr. O'Callaghan: Good morning.

Mr. Batista: Good morning.

Mr. Jose Yordan: Most of my questions were answered, so I just had a couple of follow-up questions. One is if you could share with us your utilization rates in beef Brazil. And a related question is whether you are thinking or will eventually break out the results of Brazil poultry operations in Brazil or does that need to get bigger before you consider it? And I guess a related question is; with all the high price in corn, etc., in Brazil, would this be likely to leap through additional M&A opportunities distressed, additional distress in some of the smaller players, could that be an opportunity for you to grow that business in Brazil?

Mr. O'Callaghan: Okay Jose, I'll answer the beginning of the question and then I'll ask Wesley to take the last part of our M&A potential in the chicken business.

Our utilization in Brazil is pretty much close to where we would like it to be, 85/90% utilization of our beef facilities in Brazil. Our chicken business is almost like a day-old chicken to renew sale, whether we are going to report it separately it's something that we will discuss similar to the model that we have with the other business units that we report and we make a decision about that through the second half of the year. Regarding M&A and the chicken business Wesley will comment.

Mr. Batista: Hi Jose. Basically we, as Jerry mentioned, we are like a day-old chicken in the chicken business in Brazil and we just got Frangosul in these last 2 to 3 months, so our focus now is more to consolidate what we already did. So we are not actually looking to M&A or to distress opportunities in the chicken business but, after saying that, in some points if we see opportunity to growth in the chicken business in Brazil, in a moment that we believe that we are with the Frangosul operation in a level that we are already comfortable, we can analyze. But, for now, we are focused to run Frangosul very efficiently; this is where we are now.

Mr. Jose Yordan: Super. Thanks a lot.

Mr. Batista: Thank you.

Mr. O'Callaghan: Thank you Jose.

Operator: Our next question comes from Mr. Marcelo Menusso with Oppenheimer Funds.

Mr. Marcelo Menusso: Good morning. I just wanted to follow-up on Jose's question. Can you disclose how much you are paying for leasing the Frangosul plants?

Mr. Batista: I apologize Marcelo. We are not disclosing these numbers.

Mr. Marcelo Menusso: Okay. And then also related to that, I understand you're going to consider M&A with discipline criteria but, the Frangosul operations; could you consider acquiring Frangosul or are you going to keep with the leasing model?

Mr. Batista: We can consider acquiring Frangosul. Actually, when we agreed to lease the assets we mentioned to the market, to everybody, that the first stage was to keep Frangosul running to not let the business stop completely, and in the second stage we will look the opportunity if we can acquire are not. At this point we are doing a due diligence to know exactly what is the amount of debt that there is in the company, so, looking all the liabilities to see. But, in some point we will be looking to talk with the creditors, the Doux Frangosul creditors, about the opportunity to acquire the business.

Mr. Marcelo Menusso: Okay, thank you.

Mr. Batista: You're welcome.

Mr. O'Callaghan: Thank you Marcelo.

Closing

Operator: This concludes today's question-and-answer session. I would like to invite Mr. Wesley to proceed with his closing statements. Please go ahead Sir.

Mr. Batista: Thank you. I would like to thank you all to be with us today, like I mentioned in the beginning of the call we believe that we had a reasonable quarter, we believe that the second semester will be stronger for JBS, globally or in a consolidated base, so we are very optimistic about our business, where we are. We believe that we built a quite strong operation in terms of location, geographic location; we operate in the US, Australia, Brazil and all the countries in South America, that are the places that is the most competitive countries or areas to produce protein, so we believe that we are very well positioned for the future.

With the challenges that we have in front of us we believe that we can go through this and keep running our business profitable and delivering good results to our shareholders. So, with that, thank you all and have a good day.

Operator: Thank you. That does conclude our JBS audio conference call for today. Thank you very much for your participation and have a good afternoon.