International Conference Call

JBS

1st Quarter 2014 Earnings Results

May 15, 2013

Operator: Good morning everyone and welcome to JBS' conference call. During this call we will present and analyze the results for 1Q 14. As requested by JBS this event is being recorded. The recording will be available to listeners this afternoon and can be accessed by following instructions posted on the company's website at www.jbs.com.br/ir.

Taking part on this call we have Mr. Wesley Batista, Global CEO of JBS; Mr. André Nogueira, CEO of JBS USA; Mr. Gilberto Tomazoni, CEO of JBS Foods and Mr. Jerry O'Callaghan, Investor Relations Officer.

Now I will turn the conference over to Mr. Wesley Batista. Please go ahead.

Mr. Wesley Batista: Thank you, good morning all, thank you for being in our 1Q earnings teleconference. I will give you a quick summary about our 1Q and I will turn the call to Jerry to discuss with all of you in more detail about each business unit and about some other parts of our numbers.

Starting in our revenue we did R$ 26 billion in revenue, a substantial increase comparing 1Q 14 to 1Q 13, so we grew 35% year-over-year and that represented R$ 6.9 billion in revenue growth comparing year-over-year.

In our gross profit we achieved R$ 3.4 billion. It is a big expansion also (R$ 1.4 billion in gross profit expansion) comparing this quarter and the last quarter last year... The same quarter of last year. This represents almost 68% growth in gross profit.

Our consolidated Ebitda achieved R$ 1.750 billion, a strong growth comparing again this quarter to the same quarter last year so the margin, the consolidated margin we achieved 6.6% margin Ebitda.

Our net income came below the market expectation and below our target as well. We did R$ 70 million in net income that represents R$ 24.40/thousand shares in earnings-per-share, this result was impacted by the cost to have our net dollar exposure. We have around US$ 6 billion in exposure in our balance sheet and we are completely hedged on this exposure and the cost to carry this hedge costs around R$ 300 million. This was a decision that we made to be fully hedged not to be unhedged to have any impact if the real devaluates. But in the end of the day this hurt our net income.

Moving to the exports we did US$ 3.1 billion in exports in this quarter, a very strong growth, 21% growth comparing year-over-year.

Leverage we decreased substantially our leverage so we ended up 1Q with 3.26x leverage comparing to 3.7x leverage in the end of 2013. We mentioned this before, we are fully committed to keep deleveraging our balance sheet. We did a sizable acquisition last year, in the middle of last year when we acquired Seara and now we are very focused to keep deleveraging our balance sheet.

Our first target was to end up in the end of this year at around 3x leverage and now we are more confident that we can be below 3x leverage by the end of the year. So good improvement on the balance sheet in terms of leverage.

To go through each business unit here quickly JBS Foods - that is the new division that we are disclosing the numbers starting this quarter - JBS Foods only to remind you all is the combination of all of our chicken business in Brazil; all of our pork business in Brazil and all of our package food business in Brazil. All these businesses, these four, JBS Foods that is Seara and the other acquisitions that we did in the past we did R$ 2.780 million in revenue and almost R$ 380 million in Ebitda; margin 13.7%.

This business… we acquired this business and we are working really hard and we are very satisfied where we are and where we are going. We were able to turn this business around very quickly and very sustainable is the turnaround. We are very satisfied to see we are running this business and all the things that we are doing to be where we are and to keep improving this division.

Our Mercosul business that now is the beef business, is the leather and hide businesses and Argentina, Uruguay and Paraguay beef businesses that is the summary of this division that we call JBS Mercosul. We did R$ 5.7 billion in revenue, a 15% growth year on year, almost R$ 600 million in Ebitda and 10.4% margin Ebitda, quite stable. The margin has been around these levels, double-digit level and we are very satisfied and we believe this business will keep performing like we have been able to perform in this business.

Our chicken business in North America that is Pilgrim's Pride you already know the results, we published Pilgrim's Pride results a couple of weeks ago so we did R$ 200 million in Ebitda, 9.6% margin Ebitda; US$ 2 billion in revenue. PPC is doing very well. We are improving our business quarter by quarter and very sustainable improvement.

We have been able to improve our business on top of any market condition and looking forward we are going to have even… We are going to have even stronger quarter in these coming quarters, so 2Q will be even stronger than 1Q. PPC will keep doing very well.

Our pork business in the US we did US$ 900 million in revenues, 6.5% topline growth; Ebitda R$ 82.9 million, 9.6% margin Ebitda, also a solid margin and the same thing for the pork business: 2Q looks like to be in the same level or even better.

Our beef business in North America we did US$ 4.5 billion in revenue, 4.8% topline growth but a week margin: US$ 22.5 million negative Ebitda margin, seasonal. This business last year performed weak also in 1Q so we believe we can do better this year than last year but 1Q was weak, below our expectation and below the normalized margin range and 2Q looks like being a better quarter, in line with the last year trend that in 2Q was better.

As you all know we are facing less cattle supply North America and this is putting pressure in terms of cattle price and the spread has been compressed by the lack of supply.

So overall before I turn to Jerry when I look going forward I am confident that we are going to keep delivering strong numbers. I am confident that 2Q will be stronger in every aspect: topline growth; better Ebitda - even better than this year... or than this quarter sorry; and a net income far better than 1Q that was a disappointing quarter for us in terms of net income.

Now I will turn the call to Jerry and we are here to answer anyone of you in the Q&A session, thank you. Jerry.

Mr. Jerry O'Callaghan: Thank you Wesley, thank you and good morning everybody. I will go through a couple of pages on our presentation here before we open for Q&A and for those of you around and who would like to accompany I will mention page numbers to facilitate our teleconference with the presentation.

So starting on page 6 of the presentation we have some details regarding our Capex for the quarter and our cash generation. Firstly Capex which was R$ 711 million in the quarter and we break out what his nonrecurring Capex which is about 40% of that.

Primarily the nonrecurring was related to some acquisitions that we made in Brazil during the quarter (we bought a poultry company in the south of Brazil called Frinal in Rio Grande do Sul and then we bought some biological assets in the State of Paraná also in 1Q and also we acquired a beef plant through a judicial auction, one of the beef plants which was previously owned by Kaiowa. So we need to segregate that as nonrecurring Capex.

The other 60%, let us say the recurring Capex, was primarily utilized to expand our production platform and our distribution business in Brazil and also the regular Capex in the modernization of our industrial complex in North America.

Regarding cash generation we had R$ 504 million of net cash from operations in 1Q 14; we had an increase in the average prices of beef and pork products in North America and this was partially offset by the fact that we had an increase in the purchase of cash cattle in Brazil. We had some issues with cattle supply in Brazil primarily because of climatic issues in Brazil so we had an increase in cash cattle purchases in 1Q and thus there was no free cash flow generation primarily because of the investments which are described in the Capex in this previous chapter that I have just mentioned.

Moving on to page 7 in the presentation and talking about indebtedness Wesley already mentioned the leverage but I think it is important just to have a look at the details of how the leverage has evolved over the last number of quarters. After the relevant acquisition that we made in 3Q last year our leverage increased to 4x and at that time we indicated our intention to bring it back to around 3x range within a year. We are ahead of schedule, we are already at 3.26x and we believe we will reach the target in a shorter period than we had indicated.

76% of our debt is in dollars, the cost of that debt is declining, it is under 6% right now; 24% is in reais… 24% is in reais and the cost of that debt is increasing because of the increase in the CDI in Brazil. 63% is at JBS S.A. and 37% is at subsidiary level.

The reduction of leverage ratio is a reflex of the company's commitment to improve its financial indicators which tend to follow a decreasing trend as JBS Foods results are being incorporated.

Just to remember that the Ebitda for the primary portion of the JBS Foods business has been incorporated into our results only for the last two quarters. So as we progress and complete one full year with JBS Foods under our belt that will definitely help then decrease our leverage.

Continuing on our debt profile and going to page 8 in our presentation we had practically R$ 8.7 billion in cash or cash equivalents at the end of the quarter and that is 93% of our short-term debt; but besides that we also have availabilities, unencumbered available lines in the US of US$ 1.55 billion and if we add the cash and these unencumbered availabilities in the US we have more than 100% of our short-term debt available. The percentage of short-term debt is 29%, pretty stable over the last couple of quarters, 29% of our total debt.

On page 8 also we have… We demonstrate the security cover of our debt and I would like to mention that we issued a bond at the end of March but actually that is going to be accounted for in the next quarter, in 2Q 14… In 2Q 14, so it is still not in its maturity curve which is on page 8 of our presentation.

Moving on to each one of the business units before we move on just a little bit more about our net income. As Wesley mentioned it was R$ 70 million in the quarter and that is R$ 24.4/thousand shares and again just to repeat that was negatively impacted by the carry costs of the hedging position we have because of our dollar exposure in Brazil in the region of R$ 300 million and because of the fact that we did not have pretax profits in Brazil we were unable to maximize utilization of the goodwill we have in Brazil and so we have quite a substantial impact as well in 1Q. As we look to balance our debt in order not… to have a more mature balance of where our debt is located we will be correcting that as we go forward.

Now moving on to our business units at page 10 in our presentation starting with JBS Mercosul and again I would just elaborate a little bit more on what was said about each one of these businesses previously. We can see that as we look at on our slide here we have five quarters one after the other and we see a constant improvement in not only revenue but very stable Ebitda and Ebitda margin in this business: we went from R$ 5 billion in 1Q 13 to R$ 5.7 billion in 1Q 14, an increase of 15.2% and if we look at the Ebitda it has been pretty consistent over those five quarters as well, between 10.5 and 11% regardless of the fact that there were some difficulties in Brazil.

Particularly in 1Q we had a climate issue in the southern part of Brazil where we had drought in the São Paulo/Mato Grosso do Sul area and then we had a flooding issue in the North Brazil where we had some difficulties to bring cattle to our slaughter facilities and so even taking those issues into account we still had a pretty good margin in 1Q: 10.4% in this business.

This business is... Our beef business in Brazil; our hides and leather business which is quite a substantial business; and then we also have a number of correlated businesses which were all adding value to some of the byproducts that come from our beef business and then our beef business in Paraguay, in Uruguay and in Argentina as well.

Pilgrim's Pride in the next page, page 11 in our presentation and again Pilgrim's have published their numbers already but again we see very consistent revenues coming out of Pilgrim's Pride and very strong margins, practically double-digit margins over the last four quarters and a lot of momentum in this business but a lot of good things happening within the company itself as well, so Pilgrim's is definitely doing a very good job within this business unit.

Then moving on to our beef business in North America we see this is probably the most seasonal of all our businesses. 1Q is always the most challenging quarter in the year basically because of a lack of demand for products during the winter months and an increase in demand for the products during the grilling season, so there is a lot more seasonality in these results. There is a challenging environment with capital availability in North America but the industry is handling this pretty well.

When we look at the results for 1Q (-22 million Ebitda with US$ 4.5 billion in revenues) we would expect that to improve seasonally as it had last year and to see a similar seasonality curve in 2014 that we saw in 2013.

Our pork business had a good increase in revenues if we compare 1Q 13 with 14 again, 6.5% increase so a good performance and then also if we look at Ebitda and Ebitda margin over the last number of quarters we see that there has been a step up in the performance of this business: we had 9%+ Ebitda margin this business in the last two quarters: a US$ 86.3 million in 1Q last year and a strong almost US$ 83 million in 1Q 14.

And in our final business unit which is the recently created JBS Foods business in Brazil, which is our previous poultry business here in Brazil plus the Seara acquisition that we made last year and a number of other smaller acquisitions that we will talk about in just a minute forming JBS Foods.

We had a net revenue of US$ 2.8 billion in 1Q 14 that was down marginally in relation to 4Q but taking into account the seasonality and the Christmas trade around the products of this category that is a very marginal decline when we compare quarter on quarter. Ebitda a really good Ebitda of R$ 380 million that was up 67% against the Ebitda of 4Q 13 and an Ebitda margin close to 14% (13.7% Ebitda margin).

And to talk a little bit more about this business Mr. Tomazoni is here with us and the CEO of this business and he will be here to take your questions in just a little while but I will go through a couple of slides we have in our presentation on page 15 onwards.

Firstly JBS Foods at a glance on page 15. We have got basically all the companies coming together to form JBS Foods which is Seara, Tramonto, Agrovêneto, Frangosul, Massa Leve (I should mention that Massa Leve is still pending antitrust approval in Brazil), Sulvale, BR Frango and Frinal. All of these businesses coming together form JBS Foods, which is a branded convenience poultry and pork business based in Brazil.

It is the second largest meat-based packaged food company in Latin America; it is also the second-largest producer and exporter of poultry and pork products in Brazil. There are 53 production units, 12 distribution centers and about 45,000 people working with JBS Foods. It has got a strong domestic and international presence with plenty of growth potential.

And it is an integrated business meaning that it is upstream integrated. It has all the biological assets associated with its production, which is strategically very important, and it has a diversified product portfolio.

Moving on to page 16 in our presentation a little bit about the footprint of JBS Foods. Firstly the capacity to 4.4 million birds per day, 21.5 thousand hogs per day and capacity to produce more than 76,000 tons of prepared foods, further processed products per month in Brazil. Currently JBS Foods has 74,000 customers around Brazil and we can see where they are geographically in the map which is on page 16 of our presentation. But we see a good opportunity, plenty of opportunity to increase that number, eventually to double the number of active customers in Brazil in the coming years.

Something about… on page 17 of the presentation a little bit more about the product portfolio of JBS Foods. There are some really good strong brands here: whole chicken; chicken breast, some of that is salted, precooked, marinated, prepared in various manners; chicken leg quarters, some of those are separated pies and drumsticks some of them are V-bones for the export market, we have got spice-flavored chicken leg quarters as well; turkey breast.

And then in the prepared products category we have got hamburgers under the Seara brand; breaded chicken products; stuffed turkey; meatballs; salamis; mortadella; sausage.

And then besides that we have got other products which would be related to some extent with the use of meat products as well: we have got quite a strong margarine brand; lasagna; pastas particularly meat, meat-filled pastas; also cheese bread, a Brazilian specialty; pizzas and pizza toppings and also we distribute French fries.

On page 18 a little bit about the brand rationalization we have done, that the team at JBS Foods has done for the last six months. We have reduced quite substantially and refocused our brands and put them into separate categories so that there was a very clear understanding of where each brand is and there was no clash between one brand and another. So we have premium brands, mainstream brands and some access and regional brands and there is a very clearly communicated strategy around each one of these categories and each one of these brands.

We initiated a marketing campaign and advertising campaign around the Seara group of products in 1Q 14. So we launched the campaign, a very interesting campaign in the media in Brazil where we have somebody representing the brand who is extremely well known in Brazil. This campaign was launched in February 2013.

And research after the brand was launched shows that there was a really high level of recall regarding the advertising campaign over the three days following the initiation of the campaign: 43% of the people interviewed remembered the campaign; 98% of those people interviewed they saw the campaign as excellent or very good and there was no rejection, there was no negative sentiment around the campaign which was quite interesting and the Seara brand was recognized or was thought as the greatest value-growth brand in Brazil by a magazine specialized in this sector in the recent past as well.

And then recently the largest food fair in Brazil (it is called APAS), it is organized in principle by the supermarket Association in Brazil, it was in São Paulo recently and we launched 10 new, innovative projects at this event in São Paulo just a couple of weeks ago.

So not only are we revamping the products and redesigning the packaging and improving the quality of the products; we are also looking at customer needs and launching some new products at the same time and we have had a share growth in all of our product categories as audited by Nielsen over this period of time.

And finally on page 20 of our presentation, the final page before we go to Q&A, we have a really important synopsis of everything around JBS Foods, of all the initiatives that management have implemented in order to improve performance so I will go through each one of these briefly just to emphasize the transformation that has happened at this business unit in a very short space of time:

We have built team with… Of people with industry experience and with the JBS culture; we have centralized corporate operations at our headquarters in São Paulo, closed down the previous headquarters of Seara down in the south of Brazil and that has resulted in some substantial cost reduction and synergies; we have applied best practices in production using experience gained at our Pilgrim's Pride business; we had substantial, efficiency gains and increased productivity at plant level.

We have completely reformulated our product portfolio, reorganized and rationalized our logistics network; we have expanded our exports through the JBS sales offices and sales network around the world and this has helped us further downstream with customers outside of Brazil; we have renewed our go-to-market strategy; centralized our pricing model and standard processes with the focus on profitability; repositioned our brands as I mentioned earlier; and also initiated the advertising campaign.

All of that is basically - and just to mention what our mission is - to be the best at what we set out to do, completely focus on our business; ensuring the best products and services for our customers; solidity for our suppliers and, very important also, satisfactory profitability for our shareholders as well as the certainty of a better future for all our employees.

With that we would like to open for the Q&A session. Thank you.

Q&A Session

Operator: 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 touchtone phone now. If at any time you would like to remove yourself from the question queue press star two.

Our first question comes from Eric Gottlieb with Stephens.

Ms. Farha XXX: Hi this is Farha.

Mr. Batista: Hi Farha.

Ms. XXX: Hi. The question is more about more of your US focused business. Protein supplies in the US are very, very tight. It would be great if you could provide us some color in terms of what you see in terms of the supply outlook for cattle, hogs and your outlook on pricing on perhaps those two as well as chicken. That would be helpful.

Mr. Batista: Farha this is Wesley. I think for the rest of this year we will keep seeing tight supply in all proteins, in all three: in beef, pork and chicken. I do not see any big change comparing to now going forward by the end of the year.

Four 2015 I think beef will keep being tight. I do not see any increase in the beef supply in 2015 in the US; pork I think we will see a recovery in 15, I think we will see a reasonable increase, not anything that I believe that hurting the margin; and chicken also I think by 2Q 15 I think we will start to see production increasing in chicken, but overall our call for production is 14 will be the rest of the year like it is today; and 15 a modest increase when you put all proteins together.

Ms. Farha: And when you look at this really tight protein supply how are JBS managing through this current situation? Are you able to get the pricing to offset some of the costs you are seeing in terms of animal inflation?

Mr. Batista: Look Farha the results in beef reflect that the industry has not been able to pass the cattle price increase completely through to the sales and this is compressing margin… and this compressed the margin in 1Q. Now the margin is recovering, the industry is more adjusted in terms of spread and so we will see for sure a better 2Q in the beef side. In pork, given some restrictions in supply we have been able to pass price through the system and we are seeing good margins in our pork business.

And in chicken we saw good results in 1Q and in this 2Q we will be far stronger than in 1Q. So this is a clear sign that we have been able to pass price increase in chicken and pork and not in the same extent in beef.

Ms. Farha: Thanks and my final question relates to M&A. Historically you have always wanted to forward integrate into more processed meats. Do you sign that there is compelling opportunities either in the US or in other regions for you to enter that space via M&A in the near term?

Mr. Batista: Farha we did the Seara acquisition in the middle of last year. It is exactly in line with our desire to grow in the value-added business, in the branded business and we are very focused on getting Seara right, in the right track and we think that we are already demonstrating that.

We have been able to get Seara right and so we would like to keep growing our business in South America especially in this area, in the packaged food side and branded business, and we will keep being very focused to expand our business in

South America and keep being focused on the Seara turnaround.

Ms. Farha: Ok great thank you very much.

Mr. Batista: Thank you.

Operator: Excuse me. Our next question comes from Erika Miyazaki-Ross with Barclays.

Ms. Erica Miyazaki-Ross: Hi there, thanks for taking the questions and congratulations on the strong quarter. The questions from my side can you please give us an update with regards to the Brazilian beef ban following the (incomprehensible 36:47) and then specifically from Peru and Egypt and whether you expect that to be lifted early?

And perhaps also if you could give us an update around potentially IPOing of some of the subsidiaries. There has been a lot of press speculation with regards to a potential IPO of JBS Foods.

And then also with the US pork business obviously margins have been pretty solid in the last couple of quarters. Do expect those to be sustainable around the 9% level or should we expect those to normalize over the quarters through 2014? That is it from me.

Mr. Batista: The first question about the sanitary issue up to now nothing is meaningful: Peru only imports hearts from Brazil, only awfuls and only heart from Brazil, so Peru will not change anything for Brazil in terms of… This will not impact the industry. I should not say we will not change anything but this will not impact anything for the industry. About Egypt also it is not anything meaningful. They are not importing products or giving importers license to import products from Mato Grosso but we have a lot of plants in Brazil in a lot of different states.

So what I can tell you now is nothing meaningful is happening about this. I think the Brazilian government did really a good job and I think we did a really good job how we handled this and how we are handling this. So up to now nothing is meaningful to be concerned about.

Your second question I will pass in your second question. And your third question about the margin in our pork business this is sustainable. We saw a good margin, this level of margin in 4Q, the same level in 1Q and we are seeing the same trend for 2Q and for the rest of the year, so I am confident that we will see the pork business performing this year in this range.

Ms. Miyazaki-Ross: Ok that is helpful thank you.

Mr. Batista: Thank you Erika.

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

Mr. Jose Jordan: Hi good morning everyone.

Mr. Batista: Good morning.

Mr. Jordan: Hi. The first question was about… We know the initiatives you are talking about in page 20 of the presentation making clear why margins are up; but I am still struggling to see why, given the large difference in market share between JBS Foods and BRF, there is a large scale difference that would mean… would a kind of negate the fact that you have a higher margin than they do at this point.

I am just trying to understand is it because when you count the existing JBS infrastructure in Brazil there is no difference in scale or is there… What other reasons can you say to explain this? Obviously Mr. Tomazoni has been in both sides and might be able to shed some light on this and that would be very helpful.

And a call earlier to that if this is doing so well why list it? Why IPO? You do not usually want to share things that are better doing, the best units; is it a Capex constraint issue? Would an IPO help to grow the business more? Any color on that would be helpful as well, thank you.

Mr. Batista: This is Wesley. Look basically you mentioned about scale and about market share. The size that we have on this division today and the market share that we have on this division this is enough to consider that we have a sizable scale to run this business very competitive. So remember that we are the second largest operator in this sector in Brazil and my view and my answer to you is that we already have a very sizable… and we have enough scale to compete and to see margins not being in a negative position because the other company has a bigger size than we have.

And on the other hand to remind you we are very focused on costs and we are very lean, so we will run our business very focused on our operation and all the points that Jerry mentioned here that we are doing in JBS Foods is allowing us to have this improvement. And to be honest with you we are not satisfied where we are and the work that we are doing is to keep improving in this business and we are confident that we will keep doing this.

About rumors, the second question about rumors, about an IPO in this business again I will pass in this question; but any equity raise, any equity raise has some objective. So if we decide in any point to do any equity raise in any one of our subs we will have a clear intention why we are going to do this.

So to raise equity for us is very clear: it is growth opportunity and improving balance sheet; the balance sheet we have been able to improve without raising equity, and so if we decide in any point to do an IPO in any one of our subs for sure it will be because of growth opportunities that we are seeing in front of us for the future.

Mr. Yordan: Ok thank you and if I may ask one more question about your expectations for the JBS US business: I agree on the US side; but given that the Australian business, that is a sizable part of the JBS US beef, from what I understand it is a kind of… The business there is poised to begin falling in terms of margins going into the negative part of the cycle and so would not that impact your margins at JBS US beef as well? Or in that sense are you expecting that potential decline in profitability in Australia to be offset by Canada and the US?

Mr. Batista: Look we have been running our Australian business very stable so we are not seeing any big jump or ups-and-downs in our profitability, it actually has been quite stable for a while and I do not expect any big drop in our profitability in Australia; but in any situation we have our Canadian business and as well our North American business that I think we will see better margins going forward for the US beef business.

I think the industry is making some adjustment in terms of capacity to balance more supply and capacity and I think we will see an improvement in the US beef margin and we are already seeing this in 2Q, for sure we will have a better 2Q in the beef business in US. And Canada actually is improving also, so if something happens in Australia I think we have the ability to manage this not to hurt the business, the beef business in a consolidated base. But again I do not expect to see any big drop in Australia.

Mr. Yordan: Fair enough thank you.

Mr. Batista: Okay.

Operator: Our next question comes from Daniel Senssel with J.P. Morgan.

Mr. Daniel Senssel: Hi good morning. Can you explain a little bit more about the derivatives? You lost some… You showed some losses for the quarter; can you also divide what is cash and what is not cash? Thank you.

Mr. Batista: All this is cash. We were 100% hedged so our net exposure in terms of assets and liabilities that is denominated in dollar is around US$ 6 billion and we were fully hedged and the cost to hedge this, the carry cost on the exchange cost us R$ 300 million, or the decision that we made and has been working very well for us. If you look since the real started to devaluate (and of the real was 1.55 for 1.60) until now we have been hedged and this has been working for us, we have not been having a big impact.

So this quarter the real appreciated and worked against us; but again sometimes this works against and it has been working more… More time it has been working in our favor than against us - but unfortunately in this quarter the cost to carry this hedge cost R$ 300 million to us.

Mr. Senssel: Okay but I think that the level was much higher.

Mr. Batista: When I say 300 it is only the carry, the cost to carry the hedge. The total amount on the derivatives was much higher; but on the other hand you have the gain on the exchange rate so it is to watch. So the difference is 300. I do not know if it is clear?

Mr. Senssel: It is clear, I appreciated thank you.

Operator: Our next question comes from Lauren Torres with HSBC.

Ms. Lauren Torres: Good morning everyone. Just going back to the comments of the initiative that JBS Foods and I appreciated what you gave on slide 20. Could you just talk about where you are with respect to the 1.2 billion in gains? I guess this is still a full-year target and if you could give us a sense of where we are now?

And then similarly on the margin we saw some good sequential improvement but I do not know if you could give us any color on what is a more sustainable margin of this business.

Mr. Batista: Look we are ahead of this plan so actually we are looking for a higher number than this number. What I can tell you is that we are ahead of these R$ 1.2 billion in synergies and improvements. We will capture this year a higher number than this 1.2.

About sustainable margin we believe this level is sustainable. We do not see any reason or any problem that this margin cannot be sustainable and actually to be clear we are looking to keep improving this business; we are not in a place where we want to be. We see more improvements and we need to improve more. We are not where we want to be, we will not be satisfied if we stop where we are in terms of margins. We want to see this margin getting better.

Ms. Torres: Can you give any color on where that is coming from? Is it more on the pricing side, the operations side or how do you think about that?

Mr. Batista: From all these areas. Again pricing for sure is an important area that this improvement is coming from. For you to have an idea average we increased 15% our sales price in our domestic sales - not the overall but... The packaged-food side of our business that we sell in the Brazilian market we improved 15%, we gained 15% price and this is adjusted in the portfolio and repositioning the brands, so we were able... and mix also and we were able to improve 15% sales price.

But in the other areas like plant cost and overall cost, SG&A, we took a lot of cost out of this business. For you to have an idea since we closed the deal until now we have already reduced 5000 people in the organization. So we took a lot of plant cost out, a lot of SG&A out. We are very focused on cost. You all know we are very diligent in terms of how we look costs, everything is zero-based budget and we are looking at very, very aspect of our business.

And another big area was distribution and logistics, we rationalized distribution centers. For you to have an idea we were running 24 right Tomazoni?

Mr. Gilberto Tomazoni: 22.

Mr. Batista: 22 sorry distribution centers and now we are running 12 distribution centers. So this was another big area in terms of cost improvement and rationalization and another area was live production: we are… Tomazoni and the team here we have an area that is looking for opportunities and looking benchmarking; we are seeing a lot of opportunities and we are capturing and we are doing a lot of improvements between Pilgrim's Pride and JBS Foods here for both companies and we see and we have a lot of opportunities to improve Pilgrim's Pride and live production and in plant operation and as well JBS Foods.

Again this comes from a lot of different parts of our business and this is how we have been able to improve this business. The good thing here for us and what we really like here is that this improvement is coming from inside. This improvement is coming not from the market; it is not the market that is giving us: grain price is not cheaper than it was before; the exchange rate is not favored compared to how the exchange rate was before. This improvement is not a tailwind that is coming from the market; this is internal initiatives and internal improvement. This is the good thing that we really like.

Ms. Torres: Great thank you.

Mr. Batista: Okay.

Operator: Our next question comes from Pedro Leduc with J.P. Morgan.

Mr. Pedro Leduc: Hi thank you very much for the question. On the use of cash that we see for example last Pilgrim's Pride, tremendous results there perhaps taking the company now down to almost net cash position and we understand that having have profits in the US is harming your income tax rate at the end of the day; but how should we imagine the use of this cash for the US operations that could be seen maybe on the Pilgrim's Pride level or anything like that? Any color would be appreciated.

Mr. Batista: Look, like you mentioned Pilgrim's is generating a lot of cash and we are going to the be debt free… now and very soon, probably by the end of 2Q we will be debt free and we are analyzing all the possibilities that we can do to be better structured in terms of our tax structure. At this point we do not have a conclusion what is the best for us to do.

Of course we have a lot of options and we can do a lot of things in PPC and in the other companies that are generating cash and in some extent it is putting an imbalanced situation in terms of the tax rate because it is paying more tax and we should be generating more profitability in Brazil because we have goodwills to be amortized here.

But we are analyzing a lot of different things and we will be seeing what we should do.

Mr. Leduc: All right thank you.

Mr. Batista: Okay.

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

Mr. Batista: Thank you. So I would like to thank you all for being in this call with us today. We are satisfied where we are but we want to be far better than we are. We are working hard to keep improving our business. We are very satisfied with the team that we have and with all the support that all the market is giving to us and the belief in our company.

So again thank you all and good morning.

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