International Conference Call
JBS S/A
Second Quarter 2017 Results
August 15th, 2017

Operator: Good morning everyone and welcome to JBS conference call. During this call, we will present and analyze the results for the Second Quarter of 2017.

As requested by JBS, this event is being recorded. The recording will be available this afternoon and can be accessed by following the instructions posted on company's website at: www.jbs.com.br/ir.

Taking part on this call we have Mr. Tarek Farahat, Chairman of the Board of JBS S/A, Mr. Wesley Batista, Global CEO of JBS, Mr. André Nogueira, CEO of JBS USA, Mr. Gilberto Tomazoni, President of Global Operations, and Mr. Jerry O'Callaghan, Investor Relations Officer.

Now, I'll turn the conference over to Mr. Jerry O'Callaghan. Please, go ahead Sir.

Mr. Jerry O'Callaghan: Thank you. Thank you, ma'am. Welcome to you one and all for this call in English to discuss the results of the second quarter of 2017.

Before we talk about the results, I'm going to hand you over to the Chairman of our Board, Tarek Farahat, he will have a word about recent events and corporate governance, and then we will hear from the CEO Wesley Batista before we get into the results.

Tarek, please.

Mr. Tarek Farahat: Good morning and good afternoon everyone, thank you for being with us today.

I would like to spend few minutes just giving everyone an update on the administration's efforts in corporate governance, compliance and quality. I'm going to go through a list of things that have been accomplished over the last couple of months and that are bullet points in the presentation that was sent out.

The first one is basically my appointment as them Chairman of the Board, comes right after that the appointment of Gilberto Xandó as member of the Board of Directors of JBS S/A, we have also hired Marcelo Proença as a Global Head of Compliance and he is leading an effort to implement corporate global compliance program for the company worldwide, we have put a name to that program "Always Do It Right", and together with this also, we have contracted

White & Case LLP to support the construction and implementation of this compliance program, we are looking for a program that will be best in class.

Within the committees of the Board, we have created governance committee that looks at structure and other things that are related to governance, we have also created an executive committee in addition to changes in the composition of existing committees, such as the related parties, all the finance risk management and sustainability committee.

We have also discussed with management and have announced the divestiture plan that will generated a cash for the company of R$ 6 billion. The assets were: The 19.4% share and JBS had in Vigor; Moy Park cattle feeding; and farms in the North.

We have also looked over and what could management on the stabilization agreement between the company and the commercial banks, enabling the extension of short-term debt. That's a strong demonstration from the banks on the confidence they have in the company.

Moving to [0:04:10 unintelligible] quality, we have appointed Alfred Almanza as the Head of Global Food Safety and Quality Assurance, huge step for us, he has 40 years of experience in the USDA. Again, that is in line with our strategy to provide products of superior quality in the market and with safety being one of our top priorities.

We have also concluded this deal of the Mercosul beef operation and very recently the announcement of the sale of the stake in Vigor and the cattle beef yard, which is part of the divestiture program that we have.

So, all these have been some recent steps that were made in the last couple of months.

I just want to highlight here an important point, and that is: The Board is acting with diligence and in a well-informed manner, our focus as a Board here is serving the interest of JBS and all (and I repeat all) of its shareholders, all decisions that have been made at the Board have been made unanimously, by all Board members. So, we think we are settling the right things and we basically think that we are on the right track.

I'm going to hand it over now to Wesley Batista to talk about the business and other related topics.

Mr. Wesley Batista: Thank you Tarek. Good morning you all, thank you for being in the call with us this morning.

As you all know, this period was a challenging period for all of us and for all team members and for our company. Despite this challenging period, I am very satisfied with the approach, with all of our team members, you know, all of our team members have been up front with anyone of these challenges, we have been able to act pretty quick and we have been working very, very hard. Like Tarek mentioned, we were able in a couple of months to accomplish many different things, and a lot of things, and we were able to agree with the Brazilian banks on a stabilization agreement that this addresses the short-term debt of the company, so I am pleased that we got this agreement with the Brazilian banks.

Also, our divestment plan is going very well as we plan to divest the Mercosul business, the Moy Park business, the Five Rivers business and the minority interest that JBS has in Vigor. We already closed the Mercosul transaction, we already announced the agreement to divest these minority stake that JBS has in Vigor, and the Five Rivers and the Moy Park divestment is going well and is well advanced to get this done pretty quick.

Again, despite all the challenges, I am very proud and I'm very satisfied to announce a very solid quarter, and for me this definitely represents the capacity and the quality of our operation and our team members.

So, we end up the second quarter with a revenue of R$ 41.7 billion; it’s a slight decline comparing to the same quarter last year, in 2016, but this slight decline in revenue is mainly because of the exchange rate in Brazil this quarter, the Real is much stronger than last year, so the Real, appreciated almost 10% this quarter comparing to the same quarter last year.

So, in terms of volume, almost all of our business units increased volume during this period. So, our Ebitda came at R$ 3.8 billion; 9% margin comparing to 6.6% margin last year. So, pretty good improvement quarter on quarter, and almost all of our business units performed better this quarter comparing to the same quarter last year.

So, our net income was R$ 310 million. It's important to mention that this net income was impacted by R$ 1.3 billion in FX variations. If we exclude the exchange rate variation our net income was going to be R$ 1.6 billion. So, due to the fact the Real got weak in the second quarter comparing to the end of the first quarter, so this had R$ 1.3 billion in impact. So, without this, again, the net income was going to be R$ 1.6 billion.

So, our leverage declined slightly, we got a slightly decline in our leverage even though we closed the Plumrose acquisition in the second quarter that was R$ 740 million. And on top of this 740 million, our net debt again was impacted by the depreciation of the Real that impacted our net debt in Reais term in about R$ 2 billion. So, if we put together the R$ 2 billion, the impact on our debt in Reais term plus the R$ 740 million with the Plumrose acquisition, so with all these 2 items, we were able to reduce our leverage in the quarter even though there was a slightly decline.

So, I'm going to move to our business unit. As you all saw, PPC reported a very solid, a very strong result for the second quarter; 18% margin. So, the business is performing well, did pretty well in the second quarter and is going in the direction to have a very, very strong second half of this year, so we are confident that PPC is going to keep delivering very solid results.

So, our pork business in the US as well delivered a very solid result; almost 12% margin, and we are also very confident and very optimistic that this business unit is going to deliver a very solid result for the second half of this year as well, and we are going to see a pretty strong third-quarter in our pork business, like I mentioned in PPC.

So, our beef business in the US we also performed very good, the performance of our US beef business unit that includes, Canada and Australia, so the margin was 5.9%; pretty solid results. And the good news is that the beef business keeps performing very, very well and we are looking for even a stronger 3Q and even a stronger second half of this year comparing to the first half of this year.

So, we are very bullish over all about how the results from our North American and Australian business units is going to come in the second half of this year.

So, in Europe, Moy Park has been delivering very solid and very stable results and we had a solid and a stable second quarter, and we believe Moy Park is going to keep delivering solid results.

So, here in Brazil, moving to Brazil, the Seara business that you all probably are going to remember, in 2016 this business unit was delivering mid-double-digit to margin. During 16 corn price in Brazil almost doubled the price and this hurt margin a lot in Seara during 2016, and definitely Seara hit the bottom in terms of margin in the first quarter of this year, and it's recovering. We posted 8% margin in the second quarter, and we are confident that the chicken, the pork and packaged food business (that is all part of the Seara business) is back to a normalized margin level (when I said normalized margin level, I'm talking about double-digit margin). So, we are confident that Seara we are going to post in the second half of this year double-digit margin; back to, again, a more normalized form margin level.

So, moving to our beef business in Brazil, we posted 4% margin better comparing to the first quarter of this year, but still below the level that we want to see this business unit performing.

This was the business unit inside of all of JBS business units around the world, this was the business unit that we got some impacted by the challenge that the company faced in the last 2-3 months, and we ran less volume comparing to the amount of volume that we used to run in our beef business in Brazil, but the good news is that the business in the last week… sorry, in the last month or more is already back to running completely normal in terms of volume, in terms of all the plants is running full, and we are confident that also we are going to see a better second half of this year.

So overall, in a consolidated database, again, we are proud and we are very satisfied about our second quarter earnings, and looking forward I'm very, very confident looking how our North American and Australia and Europe the Seara business and the beef business in Brazil is performing. I'm very confident and I'm very bullish that we are going to have a very strong second half of this year.

And we are also very confident the amount of free cash flow that we are going to generate in the third quarter and in the fourth quarter, and solid results with a pretty strong amount of free cash flow, with the divestments that we are doing, I'm very confident that we are going to be able to deleverage our balance sheet, actually, faster than I think the market is expecting.

I'm very confident that by the end of this year we are going to be below 3.5 times that I think is faster than the market is expecting and predicting.

I want to finalize, before I handle to Jerry, like I mentioned, this was a challenging period for our company, all of our team members, and I want to thank each one of our customers, each one of our suppliers, each one of our partners, each one of the banks that support JBS and each one of the creditors, JBS' creditors, and all of our shareholders for the support, for the confidence in our team, in our company, in our ability to keep delivering solid results and keep running this business and generating and creating value.

And I want to finalize with a special thank you for each one of our team members, because without this great, without this special team that we have inside of JBS definitely we were not going to be able to be here talking with each one of you about a very solid earning and results.

So, I'm going to transfer to Jerry, and thank you all. Jerry.

Mr. O'Callaghan: Yes, thank you Wesley. I'm going to briefly go through some more numbers consolidated and each business unit before we open for Q&A, and as I do that I will make reference to the presentation we've put on our website earlier this morning and page numbers, so that it'll help so that we can be aligned with the page we are on.

And starting on page 5, just to talk a little bit more about the consolidated highlights for the quarter, we had R$ 41.7 billion in net sales; down from R$ 43.67 billion the corresponding quarter last year. There was a decline of 4.6% but, as Wesley mentioned, which is important to remember, seeing as the vast majority of our revenues are in US dollars, we had an appreciation of 9.2% of the Brazilian Real at the time, which is basically responsible for this decline in revenues.

The gross profit came in at R$ 6.2 billion; that's a gross profit margin of 14.8%, up from 12.1% in the corresponding period last year; an increase of almost 17% in the gross margin.

The Ebitda, Wesley mentioned also, came in at R$ 3.8 billion; that's and 9% Ebitda, up from 6.6% in the corresponding period last year, practically a 30% increase in the Ebitda of the company year over year.

On net income, we had net income came in at R$ 310 million; R$ 12 per share. Again, we need to highlight the fact that net income was jeopardized because of the FX variations, when we compare the FX at the end of the first quarter against the FX at the end of the second quarter in 2017. If we take into account the FX variation, we would have had net income in the region of R$ 1.5/1.6 billion.

Operating cash flow came in at R$ 900 million (I'm on page 6 of our presentation), R$ 900 million from operational operating activities in the quarter and cash at the end of the quarter was at R$ 11.3 billion, fully available cash.

Leverage, as Wesley mentioned again, a slight decline in the period, which would've been greater were it not for the FX, from 4.23 times to 4.16 times in the period.

Moving on to the debt profile on page 7, as I mentioned, the vast majority of our debt is in US dollars, 93%, there is an average cost over the period of 5.66% and the balance 7% of our debt is in a Reais with an average cost declining to 10.82%, the 7%. The breakdown by source: Commercial banks are responsible for almost 2/3, 62% of our financing, and the balance 38% comes from the capital markets. By company, 50% is at JBS S/A, almost 39% at JBS S/A and the balance at Seara here in Brazil.

The profile short-term/long-term very similar to previous quarters: 70% in the long-term, 30% in the short term. Always important to highlight that the majority of the short-term debt is the rolling trade finance we have in Brazil, which by nature should be short term, so that always composes the vast majority of the company's short-term debt.

Moving to the business units, briefly going through the results for the quarter in which one of the business units. Starting with Seara, which is our prepared foods, fresh poultry and pork products in Brazil: About 50% domestic, 50% exports. Just to give you an idea (I'm on page 9 of our presentation), we had a decline of 6.1% in revenues compared with the same quarter in 2016, from 4.6 to R$ 4.32 billion. Very similar with Ebitda margin, going from 8.3 to 8.2%, with an Ebitda decline from 382 to R$ 386 million.

We had an increase in volumes in all of the segments in the domestic market, and basically, we had a reduction in export volumes, which was partially offset by an increase in sales prices. And again, we talk about the Real appreciation affecting the comparison with the corresponding quarter the previous; R$ 3.21 was the average exchange rate to the US dollar in the second quarter 2017, against R$ 3.51 to the US dollar in the corresponding period the previous year.

Moving on to JBS Mercosul (and just to help you understand, we call it JBS Mercosul because it is Brazil, Argentina, Paraguay and Uruguay), the divestiture that we announced was the business in Argentina, Paraguay and Uruguay, so ongoing we will continue to have this business unit focused upon number beef business in Brazil, which is about 90% of the composition of what we call up until now JBS Mercosul.

We had a decline of 14.2% in revenues, from 7.2 to R$ 6.2 billion in the corresponding quarters, again, remember FX about 40% of this business this in the export market and about 60% in the domestic market. Ebitda came in at R$ 261 million against 457 in the corresponding quarter last year. Ebitda margin declining from 6.3% to 4.2%. If we look at the first quarter in 2017, Ebitda came in at about 1%, so we saw a strong recovery when we look at the first half of 2017.

Our USA beef business, which includes Canada and Australia (and from now on we are speaking in US dollars), we had a relevant increase in revenues going from 4.21 to US$ 5.52 billion in revenues, almost 6% revenue increase in the corresponding quarters. Ebitda a substantial increase from US$ 27 million in Ebitda in 2016 to US$ 324 million in this quarter in 2017. Ebitda margin going from 0.5% to almost 60%.

We had an increase in domestic sales boosted by price growth as well. Net revenue from exports grew due to an increase in volumes and also prices were up in the export market in the period. Australia, although we had a decline in volume due to a lesser cattle supply, this was partially offset by an increase in prices, both in the domestic and in the export markets.

This was the best Ebitda and Ebitda margin posted for a second quarter in the history of the company in this business unit.

Moving on to our pork business in North America, revenue increases by almost 12%, from US$ 1.36 billion to US$ 1.525 billion in the corresponding period, Ebitda margin was up also from 10 to 11.7%, Ebitda going from 137 to US$ 178 million; that's an increase of 30% when we compare the corresponding quarters. We had an increase in net revenue in the domestic market due to increase in volumes and in prices, and we saw a strong growth in the export volumes of our North American pork business.

We integrated Plumrose, the acquisition we made on the first of May, so when we look at this quarter that are 2 months of the Plumrose revenue in the revenue for the second quarter of 2017. The improvement in Ebitda is due to a strong demand for pork, both domestically in the US also in the global market, particularly out of Asia.

Moving on to Pilgrim's Pride, our North American poultry business, which includes Mexico and Puerto Rico, Pilgrim’s announced their results in early August, very solid performance. Revenues went from 2 to US$ 2.25 billion; an increase of 11%, Ebitda margin climbed from 283 to US$ 421 million with the Ebitda margin going from 13.9% to 18.7%. That was almost 49% increase in Ebitda the year on year.

We saw an increase in net revenue due to the integration of GNP (remember that GNP was integrated at the beginning of the year, just first week of 2017, so when we compare these quarters there is the incremental revenue coming from GNP), we saw a growth in volumes and prices in the Mexican market as well, Ebitda obviously was boosted by a reduction in production costs.

The diversification of the PPC product portfolio allowed the company to capture opportunities in each one of its business units, positively contributing to the quarterly results.

Finally, JBS Europe, basically our poultry business in the UK and prepared and convenience products in the UK and on continental Europe, we had an increase in net revenues by 7.4% (remembering that these numbers are in pounds sterling), we went from 365 to £392 million in revenue, Ebitda very similar quarter on quarter, from 33.5 to £33.9 billion, Ebitda margin declined marginally from 9.2% margin in the second quarter 2016 to 8.7% in this quarter.

Increase in net revenue was driven by underlying volume growth combined with favorable exchange rate movement. The increase in Ebitda was due to a positive operating performance, as well as the company's focus on cost controls and synergies that were captured.

So, with that, that completes our prepared comments in our presentation, and I would like to ask the operator now to open for Q&A. Thank you all very much.

Question & Answer 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 questioning queue press star two.

Our first question comes from Brian Hunt, Wells Fargo.

Mr. Hunt: Thanks for your time. First, on the middle question, when you look at Australia can you talk about where you are in the cattle cycle there and when do you expect the availability of that cattle to begin to increase on a year on year basis?

Mr. Batista: Brian, I'm going to ask André. Please, André, can you answer brands question?

Mr. Nogueira: Yes. So, Australia this year is producing 10% less than last year, but we start to see now (starting in the second part of the year) the production in the last few weeks have been around 6% above the same time of last year. So, I think that this year will be the lowest in the production in Australia. The second part of the year will be much better than the first part, so we it be higher than the second part of last year, but in the total, I think that Australia will be less than last year. It will not be 10% less, but it will be 1 or 2% less than last year, and I think that this is the bottom of the production in Australia, the retention going on right now I think that we are going to start to see next year more cattle available.

Mr. Hunt: Great. A couple of follow-ups. One, you know, what was discussed earlier on the call about compliance and governance changes worldwide. Can you talk about the incremental cost of implementing your compliance and governance plans?

Mr. Farahat: Hi, this is Tarek. Obviously, this is a base of the wind business, any scent that is spent there is required, it is a necessitate. The company over the years has been performing aggressive acquisitions and every unit has its own compliance program and internal audit programs. What was initiated here, or what has been initiated is a corporate program that covers all business units, and we want to do it in a… or the program is going to be done in a standard way across every business unit worldwide.

It cannot give you a very specific answer on how much this is going to cost, but obviously we have benchmark and we are going to follow best practices in terms of best value in the market for these things.

But important for us here is the quality, the quality of the service providers, White & Case is an excellent name, with great experience, the person that we hired to report to the Board, Marcelo Proença, a lawyer with extensive experience. So, these are the things we are looking at, and basically, the investment is going to be comparative to whatever exists in the market, we don't think we will pay more than any other company that has those corporate programs.

Mr. Hunt: Great. And just 2 last ones. Regarding credit questions, can you tell us what the RP basket is at JBS S/A under the self-standing, as well as, you know, given the asset sale plan in the plants for leverage reduction by the end of the year, have you had any discussions with the agencies about returning our credit ratings to the double B level? That's it for me, thanks.

Mr. O'Callaghan: Maybe André could take the RP basket question. With regard to the rating agencies, briefly: We have ongoing conversations, very constructive conversations with all the rating agencies, Brian, we're scheduling meetings for the coming days and weeks now that these earnings are out in order to continue that dialogue, and we believe that as we produce these results we will return the company to the levels of ratings where it was previously.

André, I don't have an answer to the RP basket question. I don't know if you have it, if not we can send it to Brian after the call.

Mr. Hunt: Yeah, you can follow up with me, that would be great. Thank you.

Operator: The next question comes from Carlos Laboy, HSBC.

Mr. Laboy: Good morning everyone.

Mr. O'Callaghan: Good morning Carlos.

Mr. Laboy: Good morning. I have a two-part question. Can you update us on the Board's commitment to an [0:37:39 unintelligible] and why is he listing and how timing is looking on that? On a related basis, can you also expand your comment of professionalization of the management and whether it extends to all family members of the controlled group as well, especially if it would facilitate the successful listing?

Mr. Farahat: First of all, regarding the listing in the US, this is the feedback also we are having from the market, this is obvious and logical step. We have initiated that before, we got delayed because of all those recent events, so we continue to believe, I personally continue to believe, management continues to believe that this is the right mid and long-term step that the company can do in order to create value for the shareholders.

So, it's not a matter of if, it's a matter of when. And the management with the support of the Board is taking all the right measures in order to prepare the structure for taking that move.

Mr. Batista: Just one comment Carlos, on this topic. You know, like Tarek mentioned it's a logical and an obvious step for JBS and, you know, we believe that first half of next year we can be prepared for a possible second half of next year doing the IPO like we were planning.

So, this is a step and something that we did not change anything in our view and our objectives.

Mr. Farahat: Just to summarize on that, we got delayed, but not derailed. So, we plan to do with, the management has the focus and the support to do it.

On the second question, family members or not the company looks at the right person for the right job. We have an excellent leadership team in place leading the different business units, the committee that has been formed, which is the governance committee, under the governance committee is the people's committee as well, and that includes succession planning for key roles, it includes structure of the company and, again, I don't want to [0:40:39 unintelligible] has been said: Despite extremely challenging environment, the team in place has delivered very, very strong and solid results in the quarter we just closed.

If my memory doesn't fail me, I think that the margin is the second highest margin that the company posted.

So, the team in place, we're confidence with the team in place and we believe that the steps we're taking in terms of improved governance and having a governance committee, an executive committee, these are all the steps that will build on the structure, we will build on having [0:41:23 unintelligible] succession planning in the key positions.

Mr. Laboy: Thank you.

Operator: The next question comes from Lauren Torres, UBS.

Ms. Torres: Hi good morning everyone.

Mr. O'Callaghan: Hi Lauren.

Ms. Torres: I guess just to take advantage of Tarek and Wesley both on the line, just curious to get your perspective on longer-term strategic direction of the company. You know, in my mind, I guess I'm just separating what in front of you near term that the market environment in Brazil is still volatile, you have a shareholders' meeting coming up in a couple of weeks, I guess you're still focusing on some asset divestitures, then we do hear about paying down your debt and IPOing JBS foods, so, once again, general question on how you think about just kind of managing the near-term volatility versus focusing on the long-term process, the company I think for long-term shareholders to kind of renew their confidence and feel good that directionally that's where the time is being spent.

I'd be curious to get your perspective on that. Thank you.

Mr. Farahat: I would let Wesley lead first and then I will give you a couple of comments right after that.

Mr. Batista: Look Lauren, basically, strategically mid and long-term we definitely see JBS having a structure, a corporate structure in line with the company's operation today. If you look at JBS today, 80% of our business are outside of Brazil and we are much more an international company and a very diversified protein player, and we believe moving to the direction that we plan to move, being listed in the US under US rules, all these things, accessing a broader investors' base over all is the right direction for the company to reflect who we are today, and this is mid and long-term our strategy.

So, I'm going to pass to Tarek to comment more on that.

Mr. Farahat: I'm really going on Wesley's point, I see basically in the short midterm, which would drive to the long term 3 key pillars, one which is establishing stewardship and governance structure that we talked about, we talked about earlier and that would be also a key enabler for unlocking the value in the US, so that for us is very, very important step, management and the Board is taking this very, very seriously and we are making some important investments there.

The second pillar is the business, and I'm going to divide this probably in 2 pieces: The first one, which was what needed to be done yesterday and it has been accomplished, is stabilization agreement and management has done an excellent job doing that and we now have this agreement done with the banks.

Now as part of that, I'd like to think that sometimes crisis is an opportunity you don't want to miss. So, not missing the crisis as an opportunity we have taken the decision to streamline our business, focus on where we can win, play where we can win. We had a big business in the US, we want to focus on that, on North America, we want to focus on that, we want to focus on the core categories where we can expand the margin on how to win, we don't want to get dragged into price competitions or anything; we want to operate at the higher tier whenever that is possible, and then, eventually by having of that business focus on play where we can win, where we have scale, where we are present, where we are meaningful players in the market that would enable us to create shareholder value when we go helpfully public soon in the US.

And the third pillar, we are not going to go and start advertising ourselves through interviews in the press and stuff like that, we just want to do the work, we want management to do the work and as a consequence of that we can start rebuilding the image of the company.

So, I think the combination of excellence governance, good business choices, healthy competitive actions in the market will automatically result in a stronger image.

So, I'm looking at the current situation and again I want to reinforce that really, it's a… the crisis represents for as an opportunity not to miss.

Ms. Torres: Great, that's good to hear. Thank you.

Mr. O'Callaghan: Thank you Lauren.

Mr. Batista: Thank you.

Operator: The next question comes from Mr. Pedro Leduc, from JP Morgan.

Mr. Leduc: Hello everybody, thank you for taking the question and this call as well.

Mr. Batista: Hi Pedro.

Mr. Leduc: Hi Wesley. It will be on Seara specifically, I had a more punctual question here. You mentioned in the release that domestic volumes declined slightly year over year, but that you also raised prices sequentially, and from a local feeling, it feels like you scaled down promotional activity a lot this quarter and raising prices at the same time.

Should we think of this as a specific for this second quarter given all that have happened or is it really a shift in pass for the second half of the year? Should we expect to raise price and continue perhaps with lower market activity or should things go back to as they were? Thank you.

Mr. Batista: Pedro, basically, we are going to keep operating for the second half of this year like we did in the second quarter. So, we are not going to be fighting in promotion activities, we believe we have a very strong and established business, strong brand and the result speak by itself, and we are going to keep focusing on margin, and good execution, and earning, customers' preference and, you know, trying to elevate our products through innovation, through quality, and that's actually been our strategy and we are going to keep operating with this strategy for the rest of the year and ongoing.

Mr. Leduc: And then volumes behaved along the quarter was it particularly bad towards the end, or there is a recovery towards the end or did you not feel any shocks given the events that happened?

Mr. Batista: You know, we did not feel any impact or any meaningful impact regarding what happened. Actually, we had a pretty strong month of June, the last month of the quarter we had one of our best months in terms of volumes in Seara and, you know, in our packaged food business actually volume went up this quarter comparing to the previous quarter.

So, we are not seeing any impact in our volumes, in our packaged food business here in Brazil.

Mr. Leduc: Great, if I might have a follow-up on management quickly, so Gilberto Xandó joined the Board at JBS as well and of course his Vigor was just sold. Should we expect him to perhaps take over more management positions at JBS settle the Board or in your view for now he's stays at Vigor? If you may comment. Thank you.

Mr. Batista: Thank you Pedro. Basically, Xandó is committed in Vigor. We agree on the sale of Vigor to Lala and he is the CEO there in the last 5 years or so, and he's going to keep being focused on Vigor and we are not planning to change anything on the structure.

Mr. Leduc: Thank you very much.

Mr. O'Callaghan: Thank you Pedro.

Mr. Batista: Thank you.

Operator: The next question comes from Carla Casilla, J.P. Morgan.

Ms. Casilla: Hi,

Mr. Batista: Hi Carla.

Ms. Casilla: How are you?

Mr. Batista: Good.

Ms. Casilla: On the group extending, did the banks change at all or is it similar to what it was before?

Mr. Batista: No, I don't know if I understood your question, but the same group that was before is the group of banks that is part of the stabilization agreement.

Ms. Casilla: Okay, great. I was just wonder if there are any new banks that joined in place as if anyone wanted to get out of that agreement.

Mr. Batista: No, no one got out of the agreement and the majority of the banks, if I'm not wrong, over 93%, 94% of the banks got in the agreement and banks that represent a small amount that is the ones that are out of the agreement, but over 93% joined the agreement.

Ms. Casilla: That's great, okay, great. And then, Australia and I know there is some problems between Australia and China. Is that relationship… should we think that could China go back to normal at this point?

Mr. Batista: André, can you answer Carla's question?

Mr. Nogueira: Yes. The impact was not critical and it's normal now. If even in that it was not, it just spent a few plants, it did not have any relevant impact for the Australian operation.

Ms. Casilla: Okay, great. And then, I know that hedging in the US beef, US business had a big negative impact last year, and the second quarter was there any material impact from hedging in this second quarter this year?

Mr. Batista: André?

Ms. Casilla: Can you give us whether there was a benefit or a [0:53:34 unintelligible] this year?

Mr. Nogueira: No, it was not negative, it was not positive. As you can see in the balance sheet that it's relatively small for the size of the operation.

Ms. Casilla: Okay great, thanks. And then just one update. On JBS Five Rivers, how much of that have your US beef business now come from Five Rivers? Did that change materially?

Mr. Batista: André?

Mr. Nogueira: No, it's the same that it was before, around 25%. Of the cattle that we buy, we buy from Five Rivers and will continue to buy from Five Rivers.

If we sell the asset, we are going to have an agreement with who is buying the asset to continue to supply the cattle. So, I don't expect that the ownership change will change any of the supply that we have today.

Ms. Casilla: Okay, that's great. How much did your business of Five Rivers? Is that the majority of the Five Rivers business?

Mr. Nogueira: Yes, over 90% of the Five Rivers business sell to JBS because of the location of the feed lock.

Ms. Casilla: Okay, great. That's helpful, thank you very much.

Mr. Batista: Thank you Carla.

Mr. O'Callaghan: Thank you.

Operator: Our next question comes from Farha Aslam, Stephens incorporation.

Mr. O'Callaghan: Hi Farha.

Ms. Farha: Hi, good morning.

Mr. Batista: Good morning.

Ms. Farha: I have a question. First one on the strategic question about your divestitures, now that you are pretty far into the Moy Park and Five Rivers have a good idea of valuation, do you anticipate that need to divest any incremental businesses from those that you've already announced or we can we consider whatever now is in JBS core without the need for divestitures?

Mr. Batista: Exactly Farha, this is the asset that we are going to divest, we don't see a need to divest anything beyond to what we announced. That's it, so we are going to divest Moy Park, Five Rivers, the minority stake in Vigor and the Mercosul that we already closed.

So that's it, we are not looking in we don't see a need to do anything beyond to that.

Ms. Farha: That's very helpful. And then a question on the US pork and the US beef. You highlighted that your pork results were very strong and you anticipate that to continue. Two questions on that front: We have a lot of core plants coming on in the US and also Chinese hog prices have fallen, so our exports to China have dropped off. Could you share with us your confidence in US pork given the increase in US production and the drop-off the next quarter to China?

Mr. Batista: André?

Mr. Nogueira: Farha, the confidence, if you look the growth of Hog production in US in the last 3 or 4 years you see that what we built in terms of production we continue to build now, for next year is more than enough to offset any new capacity that the industry is putting. So that's the first part, the part of the supply-side.

In the demand side, demand in US has been very strong, you see for the value of the cutout, even this year we're producing much more than last year, the cutout there is higher than last year cutout. US has regained a lot of market share in all the major markets for US pork, and US is extremely competitive, so I believe that as we produce more, we are going to continue to expand the US market share.

Again, if we go back 20 years ago, US market share in the total export was close to 0. Today US market share is close to 35%, and probably will continue to grow because US is extremely competitive. Our growth in China this year is not great, China is 5 largest market for US this year, but have been growing a lot in Mexico, Japan, South Korea, Colombia and all the new markets that US will continue to gain market share.

So, I'm pretty confident that the margins are good and will continue to be good, not only that JBS we have been outperforming the industry, all the major players because of the quality of the assets, because of the quality of the team, the execution, strategy that we put in place.

So, I'm confident in the industry and I'm confident in our capacity to perform better than the industry.

Ms. Farha: That's very helpful. And my last question is on US beef. With increased production in Australia, how much pressure do you anticipate on US beef exports to the Asian market?

Mr. Nogueira: For that I think the most important is the growth in demand in all the Asian countries. We are not replacing Australian beef, in reality, if you see the amount of consumption in China of beef 10 years ago or even 6 years ago and the consumption of beef now, that's above 1 billion metric tons of imported beef. So, we need to production from the US, we need the production from Australia, we need to production from Brazil to supply the growth of the Asian market.

And in reality, if you look at some of the Asian market that's more mature, like Japan and Korea, that are importing much more of the US beef, again Japan the growth this year is 26%, and they import the same amount of Australian beef, Australia did not drop anything in Japan, and they are replacing domestic production. It's growth of consumption and replacing domestic production in Japan, and the same thing in South Korea.

US is exporting much more to South Korea and Australia is not reduced in South Korea because we are replacing domestic production. So, it's a combination of growth of the demand and replace of domestic production.

I believe the same thing applies for China. It's not only growth in demand, is replace of the domestic production. So, I think that we need all the US beef, all the Australian beef and all the Brazilian beef to be able to supply the growth in the Asian market.

And on top of that, if you go back the volumes that Australia can export more and compare with the US growth in production, I think that you need both to supply the growth in the demand in the Asian markets.

Ms. Farha: That's very helpful. Thank you.

Mr. Batista: Thank you Farha.

Operator: Our next question comes from Soummo Mukherje, Mizuho.

Mr. Mukherje: Hi, good morning.

Mr. Batista: Hi, good morning.

Mr. O'Callaghan: Good morning.

Mr. Mukherje: My question is related to the additional liabilities of that the company potentially still faces due to the investigation still underway. Just wondering if you could help us thinking in terms of timing and in terms of magnitude, when you think about the potential liquidity needs of the company given these uncertainties, how do you think about some of these… I think the most pressing ones are probably that DoJ, CVM fines and potentially the … if you can also give us an update on the whole insider trading case and what could potentially become a liability out of that. Thank you.

Mr. O'Callaghan: Ok Suommo, thanks for the question. Basically, these are internal processes that we are not prevue to, we provided all the information in Brazil that we could, we've explained all of the activities of the company is being investigated under, none of them are in any way different from the manner in which the company conducted its business prior to these recent events, and so we await the outcome from the CVM, from the investigations at the CVM, having provided all that information.

With regards to North America, we have appointed legal counsels there representing the company and, again, this is an internal matter, which we are not prevue to the timing nor the size of this investigation. It's been conducted professionally by the representatives of the company.

Mr. Mukherje: Okay, thank you.

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

Mr. Batista: Thank you. I'd like to thank you all again for being in the call with us this morning.

I can mention, we are confident and we are proud about everything that we were able to accomplish in this challenging period, but looking forward, we are very confident in the ability of our team to keep delivering or to deliver even stronger results in this coming quarters in the second half of this year.

I'd like again to thank each one of our customers, each one of our suppliers, each one of our partners, each one of our shareholders, creditors and banks for the support, and I want a special thing for each one of our team members for everything that they have been doing and everything that they do for JBS.

So, with that, thank you very much, I would like to transfer to Tarek.

Tarek.

Mr. Farahat: Thank you all for being part of the call. I just wanted stress an important point here, which we, at the Board, we continue to see management being focused entirely on operation, deleveraging the balance sheet, establishing best in class corporate governance, and that's really what's going to pave the way unleashing shareholder value and getting to the point that we talked about, which is being able to do the IPO in the US.

So, with that I want to thank everyone for being on the call and, again, I want to emphasize the things that also Wesley gave to all the partners and all the banks that supported the company at that point. Thank you very much.

Operator: This concludes today's JBS audio conference for today. Thank you very much for your participation and have a good day.