International Conference Call
JBS S/A
3rd Quarter 2012 Earnings Results
November 14th, 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 3rd 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 Global Operations, Mr. Don Jackson, CEO of JBS USA, Mr. André Nogueira, CED Elect of JBS USA, Mr. Denilson Molina, CFO of JBS USA and Mr. Jerry O'Callaghan, Director of Investor Relations.

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

Mr. O'Callaghan: Thank you. Thank you very much you are welcome to our third quarter earnings release. This morning we had our JBS Day here in São Paulo, in Brazil, so we spoke with the local investors in Portuguese in public and now we are providing the information for our investors in English, basically the same information we discussed in public in Portuguese this morning.

We put a presentation on our webpage so I'm going to go through this presentation rather briefly, at the end of the presentation will talk about the quarterly highlights, but at the beginning we will discuss a little bit about JBS, about the company and the strategy, a little bit about the dynamics of the market locally and then, finally, we will talk about the quarter and the results.

As we go through the presentation, I will mention the pages so that those of you who downloaded the presentation from our side you can follow it page by page.

Starting on page 3, just to remind everybody; we are company that is almost 60 years old, founded in 1953 in western of Brazil, so we will be celebrating our 60th anniversary next year. We were the first beef company in South America to go public; we listed the company under São Paulo *Novo Mercado* stock exchange in March 2007, since then we've made significant acquisitions and done some significant growth on the international market and today we are leading protein company.

Our net revenue for the first nine months of 2012, we will talk about the quarter at the end, but for the first nine months accumulated almost R$ 54 billion and we had Ebitda of R$ 3.2 billion during this period. And I think it's quite relevant to highlight also the fact that independently of the acquisitions that we've made already expansion we did through new facilities in this period we had organic growth, in terms of revenue, of 16%, and the first nine months of this year when we compared with the first nine months of last year.

So, on page 4 the rankings. We are the largest beef and lamb producers globally, we are also the largest processors of hide inter leather (it's primarily in Brazil) processing more than 80,000 hides per day, and today with our Brazilian chicken operations we are also the largest producer of chicken (of poultry made of chicken) in the world. With our pork operations in the US we are the third largest pork producers in the US.

On page 5 of our presentation, a little bit about each phase in the company over the last almost 10 years, the last 7, 8 years. We raised some debt through bond issuances prior to the IPO between 2005 and 2007, basically as working capital and then with the issuance of equity in 2007 we've grown the acquisitions (we made it primarily through equity) while we've gone to the debt capital markets to finance our working capital, so we have had that balance and then with being able to grow without leveraging the company overly leveraging the company in this period.

Between 2008 and 2009 we made some relevant acquisitions, as most of you know, we've been integrating those acquisitions over the last couple of years, so very little M&A activity in 2010, 2011 and 2012. A lot of integration and now as we move through 2012 we see the results of that with more cash generation, gradually a better balance sheet and this is basically what our focus is going forward.

Our strategy has been to grow over our production capacity in regions around the world, which are cost competitive, so that's why we are in South America primarily in Brazil, that's why we are North America; very cost-conscious and efficient production base (that's why we are in Australia as well), and we can talk a little bit more about the dynamics of domestic consumption and exports going forward in this presentation.

On page 6 we have a little bit more about our strategy, which is more of the focus nowadays in sales and distribution and not only domestically in the markets where we operate, which is relevant, but also in the international market, more value-added products – if you look at the results for this quarter you will see that there has been a substantial increase in the volume of industrialized or further processed products that we are producing – and then we have quite a number of regional brands, which we are gradually leveraging to use more and more on top of our further processed and our industrialized products.

On page 7 of our presentation a little bit of our global reach. Basically, the message is; JBS really looks at consumers as global consumers, so we try to be as close as we possibly can be to those consumers adding regional sales offices and distribution centers as broadly as we possibly can with the sensitivity of understanding consumers and providing them products which are customized for each region around the world.

A good portion of our business, particularly for the lowing products that we produce (like mince beef) there is a lot of value to be added to those sort of projects so a lot of, for instance, our burger packing business is growing quite a lot, also a lot of cook products and canned meet items, so that's a big portion of our business and it's a growing portion of our business. We have some examples of those projects on page 8 of our presentation.

On page 9, the brands that we have regionally in South America, some very strong brands, like Friboi, like Swift (which is a global brand, but is very strong regionally in South America), and then we have brands in Argentina, Uruguay, Paraguay as well and in North America with our Pilgrim's brand, also our Swift brand in North America and quite a selection of Australian brands as well.

As from page 11 onwards in our presentation a little bit about the global dynamics of supply and demand of meat and meat products, and just to situate where JBS is in relation to where we see market trends going.

On page 11 very interesting dynamics in terms of surplus and supply, not only of animal protein but of vegetable protein as well, and we say North America and South America and then third place Australia they stand out as regions which have surplus production in relation to their domestic consumption. And then when we look in the Middle East, Africa, Asia and a good portion of Europe (a growing portion of Europe) we see a deficit in terms of production and consumption so, obviously, that augurs for increased trade between those regions in the world that have surplus to those regions of the world that have the deficit, and that's basically where JBS is located and it is within that scenario that we see our business growing and our export business growing.

On page 12, a little bit about global beef production. We see some growth, it's marginal in relation to the other proteins, it's primarily in South America production growing from about 16 million tons, global beef production to about 76 million ton over 20 years span and a lot of that… there would be a lot of exports involved in that and, basically, we are located in the countries where we see most of that extension.

On page 13 of our presentation, a little bit the US herd and beef production in the US, a topic which is quite popular over the last couple of years. USDA and we are forecasting and recovery in the herd in the US and quite substantial growth between now and 2020, the moment is; the cycle is bottoming out, so we see some calf prices in the US are up quite substantially, we see good dynamics towards a growing herd over the coming 8, 10 years.

The page 14 of the presentation a little bit about meat consumption generally, so we've got poultry, pork, lamb and beef, and if you look at how much consumption has grown between the 1960s and projecting it forward to 2030 there is quite substantial growth. And where's that growth? As we look at the next decade in terms of where we see demand growth, 81% of our brand growth is going to come from the emerging markets, just 19% of the developed markets. So, again, we are located to a great extended in the emerging markets and we have a lot of sales penetration in the emerging markets.

On slide 16 of our presentation, just a little bit about what the recommended consumption per capita of meat is, which is about 80 kg per capita, globally today we are at 42 kg per capita annum, so there is a lot of potential consumption growth as income per capital increases in emerging economies and people have more disposable income they will be looking to eat more meat and we definitely see the average global consumption per capita growing closer to a level which is recommended by the Food and Agricultural Organization, which is 80 kg per capita annum.

In terms of the largest exporters of meat, on slide 17, we just have the major beef exporters, chicken exporters and pork exporters. Just for us to remember which countries are more relevant, when it comes to beef India has a substantial volume of exports to its neighbors, but it's a specific type of product to specific regions, so from the point of view of competition, from the point of view of the global market it's not very relevant globally. The countries that are really relevant is Brazil, Australia, the US, and the rest of South America and Canada is also a substantial exporter and, so we see on the chart on page 17 that JBS is inserted in all those countries; in Brazil, in Australia, in the US and the other South American countries and in Canada (more recently Canada, which are the major exporters of meat products… of beef products).

When it comes to chicken, there is a big polarization; it's Brazil and the US which are the two major exporters. 70% of all chicken exported this year and next year probably more than 70% is going to originate either in Brazil or in the US, and JBS has relevant operations in both these countries.

And in terms of pork exports, the US has been very robust exporter and we see some headwinds in terms of costs in Europe making the US even more competitive in the global market, with potential to see US pork exports increasing quite a lot in the coming couple of years.

Now, if you get down the numbers regarding 3Q12 in page 19 in our presentation, a little bit about the net revenue to start with. We had net revenue going from R$ 15.6 billion in the third quarter of 2011 to R$ 19.4 billion in the third quarter of this year; that's a 24% increase year on year. We had Ebitda going from R$ 787 million to R$ 1.3 billion; that's a 75% increase year on year. Ebitda margin going from 5.1% to 7.1% (3Q11 and 3Q12). When it comes to net income, the difference is really substantial; net income in the third quarter 2011 was negative R$ 67.5 million and adjusted net income for the 3Q12 was close to R$ 500 million – R$ 495.4 million.

Also we had positive operating cash flow in the period and free cash flow generated of almost R$ 160 million, and another point, which I think is very important, particularly for the debt market and for rating agencies, our leverage declined quite substantially from 4.27 times down to under 3.7 times – 3.68 times.

When we compare the nine months, first nine months of 2012 against the first nine months of 2011, the numbers are also quite substantial and looking at the numbers on page 20 of our presentation, net revenue accumulated in the nine months of 2012 almost R$ 54 billion against R$ 44.9 billion in the same period last year. Accumulated Ebitda in the period was R$ 3.24 billion this year against R$ 2.2 billion last year and Ebitda margin for that period of the nine months going from 4.9 to 6%, and net income of 100 million negative in the first nine months of last year to almost R$ 1 billion positive for the first nine months of 2012.

Also during… recently, there were a couple of the strategic events on slide page 21, we mentioned those strategic events, and I will go through them briefly here, there are three. Firstly, the signature of an agreement to manage and operate assets of XL Foods in Canada, with a purchase option on those plants in Canada and also the plants in the US, so this is JBS's first incursion into Canada; the 9th largest global beef producer and the 6th larger global beef exporter.

We also announced recently that we signed a term sheet to acquire 100% of a Southern Brazilian chicken company called Agrovêneto – very much focused on exports in the state of Santa Catarina – a modern facility which will fit in very well with our existing facilities that we operate in the South are not in Brazil.

And then, the third strategic event which we announced is; we will be opening, phasing in the opening of six different beef production facilities in Brazil in the coming six months, increasing our processing capacity in Brazil by 1.2 million head of cattle per annum as a result of the opening of these six facilities.

On page 22 of the presentation, it is the consolidated results over the last five months, one can see that how we progressed over this five months in terms of... five quarters, excuse me, five quarters! Over the last five quarters in terms of net revenue growth, in terms of Ebitda growth and Ebitda margin as well.

Speaking briefly about each one of the business units; South America to start with – JBS Mercosul, as we call it – revenues went from 3.9 to R$ 4.6 billion 3Q11 to 3Q12 (3.9 to 4.6), 17.7% revenue increase year on year. Total Ebitda increased by almost 47% to R$ 665.6 million (also the third quarter 2012), and Ebitda margin for the South American business very similar to the second quarter; at 14.5%.

If we look at our North American business, the beef business in North America including Australia, we had revenue growth of 1.6% year on year, from 4.2 to US$ 4.3 billion in 3Q11 to 3Q12. Quite substantial Ebitda; US$ 175.1 million within Ebitda margin of 4.1% in the third quarter 2012, so that's quite a recovery from the first half of this year. And we see quite strong performance out of Australia and the good performance of Australia also in the period.

Our pork business we had marginal decline in revenues and also in Ebitda revenues skimming at almost US$ 850 million for the period with Ebitda just over US$ 40 million. We believe that in this business we'll see advantages, let's say, and international markets in the coming quarters and in the coming years with margin improvement. Our chicken business we had substantial revenue increase from the third quarter 2011 to this last quarter, almost 10%, R$ 2.1 billion in revenues with an Ebitda of US$ 105.6 million in the quarter and Ebitda margin of 5.1%. We see that business quite strong regardless of high grain prices.

On page 27 of our presentation a little bit about the global exports. Very briefly here; just over US$ 2.5 billion in exports in the period, US$ 2.5 billion in exports in three months. The main destinations are the emerging markets, as we mentioned earlier, Africa, the Middle East, Mexico, China, Hong Kong, Vietnam, Russia, and South Korea and in between that there is Japan and European Union, but most of the destinations are to those emerging markets where we see increased per capita income.

A little bit about our debt profile on pages 29 and 30 of our presentation. On page 29 our leverage decreasing from 4.27 to 3.68 times, as I mentioned at the beginning, and quite strong liquidity regardless the amount of cash available, just over R$ 5 billion available. There was also US$ 1.2 billion in available lines (that's JBS USA, which are untapped, by 100% available), so that's quite substantial liquidity.

And then our debt maturity schedule profile is on page 30, with very little debt maturing in the coming quarter and in 2013. And then we've got the breakdown at JBS S/A and at the subsidiaries in Reais and in US$, in bonds and in others, I need to go through that in detail with all of you.

So, just briefly before I hand over to our CEO for his comments, just a little bit about sustainability, which is a subject which always comes up in a lot of our meetings with investors and with stakeholders in general. We wanted to highlight the fact that we are monitoring our suppliers in Brazil in such a manner that is… which is really groundbreaking; we use satellite imagery to control our suppliers in Brazil and this is a very important aspect for a lot of our customers around the world, this is something we do in a pioneering manner and we can guarantee the origin of all the products that will process in Brazil.

And then, finally, just a little bit about our social responsibility and our involvement at the community. Here in São Paulo, in Brazil, we are financing through an Institute (a Learning Center); a school which has the capacity for 630 students, we are wrapping up every year 90 more students every year until we reach 630 students. So we have this involvement in the community here in São Paulo, which is pioneering and we see that of ours… we've had many of our customers and of our stakeholders and of our shareholders come and visit us and see this project and some of them are copying this project in other parts of the world, so it's something we'd like to highlight with our investors our social responsibilities.

With that, I'll hand you over to our CEO Mr. Batista for his closing comments before we open for Q&A.

Mr. Batista: Thank you Jerry. So, thank you all to participate on our third quarter earnings call. Jerry already mentioned all the numbers here. We are talking about the third quarter, that we believe we are delivering a satisfying result. We are seeing a good growth, a good organic growth in our top line, so our growth is around 24% year-over-year and that is a substantial growth.

We did a strong… we are delivering a strong Ebitda on this quarter, almost R$ 1.4 billion, at 7.1% margin Ebitda, almost R$ 500 million on net income. We are deleveraging our balance sheet, so we were at 4.2 times leverage and now we are below 3.7 times leverage (actually 3.68 times leverage). So, overall, we are satisfied by the quarter, we are looking every day our operation and will be very focused to run our business to improve our results and to deliver better numbers. We are very focused to deleverage our balance sheet, we want to keep deleveraging our balance sheet and we are very focused on that, to generate cash. So, these are good things that we are looking every day and focused to do these points here.

We will keep growing our beef business in Brazil we are announcing that we are going to open six new processing beef plants in these coming months, this will add, like Jerry mentioned, 1.2 million heads in 2013 – on top of the numbers that we are going to close this year in terms of beef volume – we already announced that we did the deal in Canada, we believe that this transaction in Canada has a lot of synergy and a lot of things that we can benefit from being operator in Canada and also the US.

And also we announced an expansion in our chicken business in Brazil; we will be very focused to expand exports in the chicken business in Brazil, we believe that we can operate this business in a very low cost structure and being very focused on exports. We believe that this can benefit our results on the chicken operation in Brazil. Pilgrim's Pride you all already know the numbers – Pilgrim's published the numbers weeks before we published our third quarter – even though the grain market is completely different than the beginning of this year, we have been able to deliver results that we believe with this scenario, with the grain scenario it's a reasonable result, and we believe that our team and our structure can handle the company and can deliver results even with the grain market that is working against the chicken industry around the world.

So, with that I would like to open to 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.

Mr. O'Callagham: Hi Farha. Hello? We can't hear Farha.

Ms. Aslam: Hello.

Operator: Excuse me, Ms. Aslam your line is opened.

Mr. O'Callaghan: Hello. Hi Farha.

Ms. Aslam: Hi. My question focuses on beef; could you comment on cattle supplies in Brazil given that you are expanding production in Brazil and also in Canada given your new facility there, as well as the US, and some commentary on beef margins in the US here in this fourth quarter of the year.

Mr. Batista: Farha this is Wesley. So, in Brazil we are in a positive cycle in terms of cattle supply, we are seeing more cattle available, the cycle is positive in this regard, and we believe will keep seeing this in these coming years 2013, 2014 and 2015.

So, we are expanding our beef operation in Brazil and we, of course, are looking to gain market share because the cattle supply will not grow in the same magnitude that we are growing in our capacity in Brazil, but we believe that we have a very efficient operation and a very competitive operation that can compete and can gain some market share.

In Canada, I already mentioned, we believe that the Canada operation has a lot of synergy with our operation in the US. 75% of the Canada export is to the US, so we believe that we can get a lot of synergy operating this business in Canada with our presence in North America.

About US, we all know that we are going to see a tight supply in US in these coming quarters and in these coming years. We will see less cattle available, the industry will need to work out to adjust capacity and supply to be able to keep margins, to keep positive margins and I think that we are seeing more balance in terms of supply and demand and this third quarter, and we are seeing also in 4Q a better balance in terms of supply and demand.

So, you all know, we had a difficult first quarter and a difficult second quarter for the beef business in North America, but we are delivering a good third quarter and we believe that we can deliver a reasonable and good fourth quarter as well.

Ms. Aslam: Great, thank you very much.

Mr. Batista: Thank you.

Mr. O'Callaghan: Thank you Farha.

Operator: Our next question comes from Mr. Alan Alanis, from JP Morgan.

Mr. Alanis: Thank you so much. Hi everyone, congratulations on the results. How do you envision your role in the Brazilian poultry sector going forward in the year and then three years from now? That would be my first question.

Mr. Batista: Alan, with the Frango Sul operation and also with this acquisition that we announced last week, or the week before that, we intend to grow our presence and our chicken business in Brazil, but we are going to another part of the business that we believe will be better for JBS at this point that is exports, so we are not going to dispute the domestic market for industrialized products – we believe that the market is already crowded in this area – so our strategy is to build a chicken operation that is a very low cost structure and a very low cost operation very dedicated to export to the Middle East, Europe, to Japan and we are seeing a good result running our chicken business in this way, and this is the way that we intend to expand our chicken business in Brazil, different than the biggest players in this market that have different strategy.

So this is our strategy going forward Alan.

Mr. Alanis: Yes, now digging a little bit more into this question, Frango Sul and this Agrovêneto then we take the (inaudible 33:35) of Canada; we can say that this basically troubled operations, so there were good opportunities for acquiring them because they were struggling. If there were other operations in Brazil, for example, for more processed foods that they were (for whatever reason) running to trouble, do you consider continue expanding in going through this idea of doing that acquisitions in an opportunistic way? That would be my next question and then one last more than that and that's it.

Mr. Batista: We intend to go and grow our chicken business in Brazil is step-by-step, so we believe that this is the right way to grow now our business, we announced this acquisition – it's a small acquisition in terms of capacity or in terms of expanding – but our intention is to grow step-by-step, to grow and digest and grow again, but we are not looking… we believe that we have opportunity in Brazil to grow doing regional acquisitions or to expand our business regionally.

Mr. Alanis: Got it, okay. And my last question is; what is your capacity utilization right now in Brazil beef and how would that evolve once you complete this expansion during the year and what do you think it can happen to margins once you are… once you rollout complete that capacity expansion for 2013 and 2014?

Mr. Batista: Alan, today we are running the plants that we are operating today, we are running our business at around 85% capacity utilization. So with these new facilities that we are going to open (that are the six new processing beef plants) we will add 1.2 million heads on top of our volume for 2013, so our capacity in Brazil will go to around 10 million head of cattle for 2013.

In terms of beef margins, we believe we have a very competitive structure in a very efficient operation in Brazil today. We believe we can handle this growth and keep being delivering good results. Of course, I cannot say different that we will be putting more competition in the market, so when you plan to grow and to grow market share, of course, you put some pressure on the market. But we believe that we have a very efficient operation and we will add volume and revenue almost without adding any cost because to handle these 1.2 million heads of cattle more than the volume that we handled today, we will handle this with almost the same cost in terms of SG&A and in terms of a lot of varies that we will not add any cost.

So we can be more competitive than we are today. So this is the reason and our plan. And, again, we are very confident that our structure is very efficient in Brazil and we can do this and keep being delivering strong margins.

Mr. Alanis: Okay, that was very clear. Thank you so much. And again, congrats for the results.

Mr. Batista: Thank you Alan.

Mr. O'Callaghan: Thank you Alan. Thank you.

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

Mr. Wesley Brooks: Good morning Jerry, Wesley, how are you doing?

Mr. Batista: Hi Wesley. How are you?

Mr. Brooks: Good. So just coming back to the six plants; can you give us your thoughts on the working capital investment that is going to take you to get those businesses up and running over the next couple of quarters?

Mr. Batista: Around R$ 150 million.

Mr. Brooks: Okay. Then, on the Brazilian chicken business, can you give us an idea, just a bit more color, sort of, around how much the sales were during the quarter and how the margins were and where you see the fourth quarter padding out relative to the third quarter, but in terms of the sales contribution and the Ebitda contribution and margin, please?

Mr. Batista: Basically, at Frango Sul today we are running at around R$ 120 million in sales every month, so that is around R$ 1.5 billion in an annualized base.

And we are running Frango Sul today in this level at 90% capacity utilization, so probably we will expand a little more volume in Frango Sul, but it's marginal, it's not meaningful, so probably you will see the revenue going to around R$ 140 million in terms of net sales per month.

And in terms of margin this, Wesley, we don't disclose at this point margin on our chicken segment in Brazil, but what I can tell you in the way that we are organizing our chicken business in Brazil (that is very focused on exports, very low cost structure, very low spending in terms of marketing or in terms of building brands or these kind of things) that we are more in the export market for the chicken business in Brazil, what I can tell you is that we are running this business in a very strong margin structure, so we are very satisfied where the margin that we are seeing in the chicken business in Brazil.

I apologize, but we don't disclose the margin in exact number.

Mr. Brooks: Okay. Excellent. Thank you. And if I could ask one more just around the acquisition of XL in Canada; it seems there has been some resistance from the US cattle raisers with you buying the whole business and getting the new US capacity as well. What is the status they and how… do you see some risk to you being able to complete that acquisition when you choose to?

Mr. Batista: No, our legal advisors and we don't believe that we will see issue on disregard, of course, the Department of Justice in US and the Antitrust Department in Canada are reviewing the transaction, but we don't believe that we will have or face any problem. When you see the US, it's only one plant that is operating today – that's the plant in Omaha – and the volume that we will add on our volume is not meaningful, so we don't believe (in our legal advisors also don't believe) that we will face an issue or any problem.

Mr. Brooks: Excellent, thank you very much.

Mr. Batista: Thank you.

Operator: Excuse me, our next question comes from Mr. Brian Hunt, with Wells Fargo Securities.

Mr. Hunt: Good morning.

Mr. Batista: Good morning Brian.

Mr. O'Callaghan: Good morning Brian.

Mr. Hunt: Well, that was one of my questions on XL, so I was wondering if you could talk about, you know, given the tightness of the cattle supply in the United States, your outlook for margins over the next couple of quarters?

As well as do you plan on taking any capacity out of your operations to maintain capacity utilization in your other facilities?

Mr. Batista: Brian…

Mr. Hunt: All in North America.

Mr. Batista: Yes, yes. Basically, Brian, we don't intend to close any plant or we don't intend to reduce our output in our beef business, so what we're doing is to manage how many hours we are running our business and we are managing how many hours with the supply that we are observing. So this is the way that we are managing the business.

And we believe that the industry can handle the reduction in terms of cattle supply working how many hours and adjusting how many hours the industry is running, so basically this is the way that we believe the industry will be managing the business going forward.

Mr. Hunt: And then my next question is (and I'll hand it off); when you look at your heads physicians on animals as well as feed, given the outlook for one very tight corners, silly markets in North America as well as too tight animals supplies, how you adjusted your hedging strategies over the last six months?

Mr. Batista: In the last six months or going forward?

Mr. Hunt: Yeah, going forward.

Mr. Batista: Look Brian, in terms of grain we don't have any big position in grains or any big futures position, so we are buying grain more in a spot basis. In the level that grain price is today we believe it's already a very high price level that we are not very keen to lock ourselves and also buy grain in these levels, so we are handling this in a very short position in terms of grain.

Cattle, our policy is to hedge our future sales, so when we sell futures beef, for future delivery, we hedge, so this is the way that we are handling our hedge strategy.

Mr. O'Callaghan: Brian?

Mr. Hunt: Thank you very much. I appreciate your time.

Mr. O'Callaghan: Thank you.

Mr. Batista: Thank you.

Operator: Excuse me, our next question comes from Mr. Reza Vahabzadeh, from Barclays.

Mr. Vahabzadeh: Good morning.

Mr. Batista: Good morning.

Mr. O'Callaghan: Good morning Reza.

Mr. Vahabzadeh: I'm just trying to get some clarification from your comments earlier on this call and as well as the prior call. So for 4Q12 would you anticipate US beef margins to be comparable to 3Q12 or how would you look at 4Q12 US beef margins?

Mr. Batista: We will be positive and it will be a reasonable quarter. I will not say exact number, I cannot tell you the exact number, but we will be positive.

Mr. Vahabzadeh: Got it. And as far as the Australian business – this was noted in your press release as improving year-over-year – can you provide some color on the improvements in Australia and the outlook going forward?

Mr. Batista: I will handle to André.

Mr. Vahabzadeh: Hi André.

Mr. Nogueira: Hi Reza. Australia, as you know very well, suffered with it drought since 2007 and then the last two years in covering the number of cattle has been very strong that is a starting to come to the production side now. So it's clear that Australia is improving, and improving in a strong way, and this will create for the next three years (in Australia) a very positive cycle.

We never publish the Australia number (inaudible 46:26), I will not keep you specific figures, but it's clear that the operation sign is an important contribution for the margins in the beef business in this quarter and it will be very positive for next year.

The number of production of Australia for next year – cattle available for next year – will be around 4 to 5% more and this is very relevant for the Australian business.

Mr. Vahabzadeh: Right. And then my last question is; do you make a comment about how you expect to address the 2014 JBS USA debt maturity?

Mr. Batista: The bond in 2014 is the first debt that we can pay, so the goal for our team now is to generate cash and pay down this debt. We do not anticipate refinanced debt; our intention is to pay down with the cash that we are generating from now on until the maturity of the debt. That's our view now.

The only debt, considering that we are not using the ABL (the amount is pretty small), that is the only debt or the first debt that we can pay down. So it's today our most expensive debt in JBS USA, so the goal and the target are to pay down the debt with the cash that we are generating now.

Mr. Vahabzadeh: Got it. Thank you.

Mr. Batista: Thank you.

Mr. O'Callaghan: Thank you Reza.

Operator: Excuse me, our next question comes from Mr. Ivan Fernandes, from Barclays.

Mr. Fernandes: Good morning gentlemen, thank you for the call.

Mr. Batista: Hi Ivan, good morning.

Mr. O'Callaghan: Hi Ivan.

Mr. Fernandes: Good morning. I have just a couple of questions (most of my questions have already been answered). The Capex guidance for 2013; is that something you guys can discuss already?

Mr. Batista: Ivan, we are finalizing our budgets, probably we will finalize it by the end of November for 2013, but it'll be around… slightly below R$ 1 billion. But this is not a hard number yet, but we can provide this number in the beginning of December or in the first weeks of December, when we finalize all the budget for 2013.

Mr. Fernandes: Okay, and specifically for the six plants you guys are opening for cattle process in Brazil; are you buying those plants? Or are you building them? Or what are you doing there?

Mr. Batista: These plants we already own or lease these plants, so we are not buying these plants. Three of these plants we already own and the other three plants are the plans that are coming from the *Independência* deal that we already announced, so this is not a new acquisition.

Mr. Fernandes: All right, understood. And just one last question, one clarification you guys said earlier; you intend to get in Brazil to total slaughtering capacity of 10 million heads by the end of 2013, is that correct?

Mr. Batista: Yes, correct.

Mr. Fernandes: And what is the capacity currently?

Mr. Batista: Capacity currently in a runaway base is around 8.8 million heads of cattle.

Mr. Fernandes: Okay, understood, thank you guys.

Operator: Excuse me, our next question comes from Ms. Carla Casella, from JP Morgan.

Ms. Casella: Hi, it's Carla Casella from J.P. Morgan.

Mr. Batista: Hi Carla.

Mr. O'Callaghan: Hi Carla.

Ms. Casella: Hi! I'm wondering; on the Canadian agreement was part of the agreement your entering that spurred by the expected tight cattle supplies for the next three years and this has helped you out in terms of using that Canadian cattle to solve some of the demand in the US as well?

Mr. Batista: Carla, I am not sure that I understood the question, but the deal it's four plants; two in Canada and two in US in a feedlot in Canada that has the capacity for 70,000 heads a day. We see the supply for that plant in Canada (that operates 4000 heads a day) in a pretty comfortable level, so we are not concerned about the supply there.

But the strategy, Carla (this is Wesley), the strategy is not because of cattle supply, is more because we believe that it has a lot of synergy between Canada and the US, how we operate our business, we can move products from Canada to US to put this in our distribution structure in the US and to add value on our presence in US, and also Canada exports products to other countries that we have strong presence, like Mexico. So it's not because of the tightness of the US cattle supply, so it's more because other synergies and other things.

Ms. Casella: Okay, that sounds great. And is there any, I guess, lag time in getting that up and running? When will you start to see the results from that business?

Mr. Batista: We are running the plants now, Carla, we did not close the acquisition yet, but it was part of the deal that we have operational agreement, so this is the third week that we are running the plant and this is already part of our results now. We will finish the deal as soon as we can, as soon as we have the authorization from the Canadian government.

Ms. Casella: Okay, that is great. And then I have one question on poultry in the US…

Mr. Batista: But Carla, only to add on this point, the results of the Canada… the XL transaction will be in the first quarter next year. So, this year we will see some addition on revenue coming from Canada, but we are ramping up the volumes in Canada. So full results in the full numbers we will see in the first quarter 2013.

Ms. Casella: Okay, great that's helpful. On the poultry side, there's been two recent poultry bankruptcies in US and I'm wondering if you see any direct benefits for potential business you can pick up with Pilgrim's Pride?

Mr. Batista: Look Carla, we are not looking to buy or to do any transaction or any acquisition in Pilgrim's Pride, we believe that Pilgrim’s we still have a lot of things that we need to capture, we still have a lot of opportunities to be captured on Pilgrim's Pride, so we are very focused on Pilgrim’s in the business that we have today. We are not looking to acquire or to expand through acquisitions our Pilgrim's Pride operation, but, of course, the market can see some benefits that in terms of volume on the market when you see some plants that are being closed, so, actually, the industry is seeing a little benefit that is not meaningful benefit, but the industry is benefiting some on this regard.

Ms. Casella: Okay, great, thanks a lot.

Mr. Batista: Thank you.

Mr. O’Callaghan: Thank you Carla.

Operator: Excus me, our next question comes from Mr. Jose Yordan, from Deutsche Bank.

Mr. Yordan: Hi good morning everyone.

Mr. Batista: Hi good morning.

Mr. O’Callaghan: Hi José!

Mr. Yordan: I have a couple of follow-ups on recent questions. I guess, you know, we hear that the industry… big part in the US are falling to negative territory in the last 3 to 4 weeks and, of course, that's an industry wide number, but if you can kind of talk us through how much you can be above that industry average and I guess you've already said you're going to be positive, but not necessarily a level of where you expect the margin between that 0 and 4 or 5%. We would also be interested in a little more detail on… a little more guidance on where your PPC margins are going to fall in the fourth quarter given that you're paying spot prices now?

And I guess some more long-term question in your page 13 of your presentation you were showing a pretty sharp recovery in herd in 2013 and that's… we kind of looked in here that that's kind of tough to do biologically because of the lack of enough for retention over the last year or two, so how you are reaching that number it wasn't clear whether that was a USDA number or JBS number?

Mr. Batista: Yes, this is USDA projection, so we believe that the cattle herd size in US is in the bottom, we believe we will start to see in 13, 14 we will start to see a recovery in terms of the herd size in the US, and this is USDA numbers.

Let me try to remember all of your question, but you mentioned about PPC. Look, what I can tell you – we don't provide guidance – is that the fourth quarter… the numbers that we are seeing today are positive numbers, week by week these are numbers that we are going to have a reasonable quarter as well, of course, we cannot say now how the quarter will look like – we still have half a quarter to go – but, even though the market condition and the grain price in the US, we are seeing a reasonable number from PPC, and we are optimistic about fourth quarter results.

We believe that for sure we will have a positive quarter in terms of Ebitda and we believe also we can have reasonable numbers for the quarter in PPC. We, in terms of beef (which was your other question), we will see a positive quarter also in the fourth quarter – I cannot tell you the guidance, we don't provide guidance, but – the way that we are seeing the business progressing we believe that we will see reasonable numbers for the fourth quarter as well.

So, overall, I think PPC in the third quarter you already know the numbers, and I think we are making progress inside of our business, not only depending on the grain market or the chicken market, so I think we are improving our operation to be more efficient to operate the business with less cost. We strongly believe that market condition is for everybody, grain price is for everybody and chicken market is for everybody, so we need to be efficient inside of our doors, and this is the weight that we are looking at our business every day and trying to get the most from each operation every day.

Mr. Yordan: Okay, fair enough. If I could just follow up quickly on… can you give us an idea or a sense of what percentage of PPC sales are cost-plus type of arrangements?

Mr. Batista: Cost-plus type of arrangement I cannot tell you top of my head, I apologize. We can follow up this with our team in US how much is cost-plus type of sale, so I don't remember top of my head.

Mr. Yordan: All right, I will follow up with it. Thanks.

Mr. Batista: Okay, thank you.

Mr. O'Callaghan: Thank you José.

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

Mr. Batista: So, I would like to thank you all for participating in our third quarter earnings call. Like I mentioned before, we are satisfied by the quarter, by the numbers, the results, top line growth in terms of Ebitda margin, in terms of deleveraging our balance sheet. We will keep looking at running our business to generate more cash to deleverage more our balance sheet and to add more value to all of our shareholders and to create value on our company. Thank you all and have a good day.

Operator: Thank you. That does conclude our JBS S/A's audio conference call for today. Thank you very much for your participation, have a good day and thank you for using Chorus Call.