# International Conference Call

# Marfrig

# 4th Quarter 2012 Earnings Results

# March 28, 2013

## Q&A Session

35:35

**Operator:** Excuse me ladies and gentlemen, we will now begin the question-and-answer session. To pose a question please press the star key followed by the one key on your touchtone phone. To remove yourself from the question please press star two.

Our first question comes from Alan Alanis with J.P. Morgan.

**Mr. Alan Alanis:** Thank you so much and a good day everyone, thanks for the detailed presentation. I have two questions, the first one I usually do not do it in a conference call but I think it is relevant to do it in this case given the management changes and the situation where the company is right now.

The first one has to do, Sérgio: how much can you share with us of your compensation being based in shares for you, for the new strategy guy, for Ricardo and so on? I mean, how important it is for you in your compensation the price of Marfrig's stock? Any color that you can provide us. I mean, you work too in the United States and you know that that is not an unreasonable question and this is disclosed in many US companies.

**Mr. Sérgio Rial:** Absolutely and I am very pleased to share with you. It will be in terms of total com. potential more than 70% of my potential. So how is it structured? It is structured as so totally my variable com. is completely and only tied up to the company's share price.

Unfortunately... I wish I could discuss an EVA concept but WACC in Brazil are still a misnorth. The WACC (weighted average cost of capital) is still a challenge in this country because of the high level of interest rate. So in order to make it simple and completely aligned with the rest of the shareholders I tie it up to share price.

Not everyone on the management team is; that is work in process to be implemented hopefully as from 2014.

**Mr. Alanis:** Got it, that is actually very useful. My second question is a more traditional question from the operations standpoint and it has to do with your pricing strategy at Seara. We heard Brasil Foods say... well, first of all we saw them grow a lot prices in 4Q for their processed foods and if we understood correctly they were also guiding for pricing increases in 2013. In my view that should allow or open an umbrella for you to also raise prices.

So what is your thinking regarding the positioning in terms of price differential between the Sadia brand and the rest of the BRF brands relative to the Seara brand? As much as you can comment on that I think that would be useful because... I completely agree with your presentation that the key for your company to make it is working capital and that might take a little bit of time; but a way of helping working capital was taking pricing sooner rather than later.

What are your views regarding pricing in processed foods in light of the competitive environment that you are living? That would be my last question, thank you.

**Mr. Rial:** I am going to give you a very... it is actually in the release; but on processed products if you look 4Q11, 4Q12 we were able to increase prices by 23%. I have zero concern about price. We have a highly motivated leading brand trying to focus on high levels of profitability. So I think we go along the way.

The second part of your question: what is the gap, what the differential is? We are really trying to work on average not having higher than 15%. In specialties in some cases we are already down to even one digit but not as far as for all categories. So 15% is a target that I think we have and it will vary from time to time; but we feel very, very comfortable on price power.

That is not a concern and that is why I think I am also giving the market signal that we should be able to give you evidence that throughout 2Q and 3Q out of a much better free cash generation of Seara - and still not at the expense of topline growth - but still keeping double-digit topline growth.

**Mr. Alanis:** That was very clear, thank you so much.

**Operator:** Our next question comes from Wesley Brooks, Morgan Stanley.

**Mr. Wesley Brooks:** Good morning guys. A couple of questions from me, firstly just to try to understand how much of an impact all of this distribution and all of that was in the quarter. Obviously your processed products volumes were barely up sequentially. What sort of volumes do you think you could have done in that segment had you not had all these issues and had you been running more smoothly?

**Mr. Rial:** I think the way for you to see it is pretty much along the lines of 3Q. So I think the disruption that you see in 4Q is fundamentally... I think I remember mentioning 65 was our average fuel rate, which means 35% of everything we produce domestically on the processed side was actually not delivered properly. So what you have here is a significant impact of millions and millions of dollars, which is also reflected on the inventory.

I can go back and really make sure that I give you a percentage which I do not have in front of me right here. We can certainly do that and e-mail it to you, it should not be a problem.

**Mr. Brooks:** Ok and so when we think about the improvements you are expecting from 2Q your prices seem to be ok as you have just said, obviously grains hopefully ease a bit; but would it be fair to say that the vast majority of the improvement you see is coming from that? And then could you just give us an idea, do you expect the business to be cash flow positive from 2Q, 3Q or just burning less cash?

**Mr. Rial:** Very good question. I think besides the two points you mention what I call positive vectors two the business I would say there is a much more benign export market, I mean prices internationally have gone up actually.

So for example last quarter, which we did not necessarily mention, export prices were actually depressed; whether it was Japan still coming out of the earthquake, still a significant export market for Seara Brasil in particular and we are seeing in 1Q much stronger price levels, both for cuts for the Japanese market but also drillers as we call, whole birds to the Middle East. So we are experiencing a very positive export market for the first half, it can certainly change in the second half. That is another one that is important.

Third that is important - and you may not necessarily follow - we certainly have for the year lower labor costs, and part of that is coming on the back of a simplifying push from the government to deregulate social related charges. It is going to be a one-off, you are not going to have that being repeatable; but that is again another... not immaterial thing because we employ in Brazil over 60,000 people in Seara Brasil, so it is not immaterial at all, so that is money.

The other piece that is very important related to cash, since we have strengthened our cash position we were able to bring our financial costs significantly down. So when you look at the 2013 export or import-related lines (more of course on the export) we are basically talking about all-in costs between 5 and 5.5.

So the average cost of the company last year ended at 7.4. Abstracting from the rise in domestic interest rates in the first half I would imagine the first half 2013 will be able to bring that average down in the first half from 7.4 to a lower number that I do not want to mention because first I do not know; I certainly have a target but I would rather not share it with the market at this point in time. So financial costs are also helping us.

And the last one is to bring the logistics or the delivery process of the supply chain planning acting in a more consistent manner. It is totally within our control.

And the last piece of your question certainly Seara will be free cash flow positive. We are working for that. I cannot give you a complete statement; what I can give you is that in 2Q this year you will see improvements. It is just a combination that could be from... for sure it is improvement, we are going to be using less cash. I do not like the word burning because it looks like being put to bad use; but it is being using significantly less cash and eventually to already show signals of potential moving to neutrality, to positive towards the end of the year. But the second will be good, a good referee of that trend.

**Mr. Brooks:** That is very helpful, thank you very much.

**Operator:** Our next question comes from Fernando Ferreira with Merrill Lynch.

**Mr. Rial:** Please, your question? Let us move to the next one please then.

**Operator:** Our next question comes from Alexandre Miguel with Itaú BBA.

**Mr. Alexandre Miguel:** Hi good morning Sérgio. I just wanted to first question related to the logistics and delivery process but not only to this; I just wanted to discuss, if you can break down, to discuss how you are going to achieve these higher utilization rates at Seara, so if you could break it down between how you are, you think you are in production including all the products and packaging, logistics and also in terms of generating demand for your products and the sales force to reach your clients with these products.

So if you can break it down in these three parts on how you think you can turn around the operations of Seara from these low levels that would be very useful. That would be my first question.

**Mr. Rial:** Ok. It is a challenging question because I am not in a position to give you all the data that I would like to give you. Let me try to give you... and I would like to repeat: what happened to the logistic misalignment in 4Q is what I normally call issues related to integration.

We have made - whether we like it or not – the asset swap was a significant addition to the company's portfolio, very significant and in a high-season part of the year. In a year where the company not only was not yet completely stabilized from a cash generation point of view, but it was a year impacted by a number of variables - one very important being grains but not only - and by the fact that also we had these hundreds of new salespeople joining the group having to market brands that they had not marketed before.

So you can imagine the complexity of that integration in that quarter? Ok, you can and I can now looking at the numbers. So the quarter is explainable, and more importantly it cannot be a quarter that you take and extrapolate as a trend; it is not and it will not be.

A better way to see it is actually normalize 3Q when the transaction took place and 4Q. You will find a better answer in two quarters than you find in one quarter.

So what are you doing specifically? We are working. We are making sure that we have the right number of trucks available; we are re-underwriting specific routes; we are putting the right people in the right place; with trying to optimize our CDs - we will close CDs once we have the largest one in São Paulo fully operational and we plan to do that throughout 2013 in the early months of 2014. That should give us savings of 10 to US$ 15 million

We have created an incentive program for those in logistics to perform a lot better; we are committing to the marketplace that our fuel rate - hopefully our competitors are going to disclose their fuel rates - we are disclosing or fuel rate and saying: on average in 2013 we want to be at 75 consistently for Seara Brasil business and we were at 65 in 4Q.

So if you take sales per quarter and you take 10 points of improvement and you take management's word of 75 being a potential target for the rest of the year you start coming to some interesting conclusions. So the 75 target, if you will, synthesizes all the execution behind it, which I am not going to be able to give you all the details on this call.

**Mr. Miguel:** Clear; but you do not think that it is a demand problem by what I understood; like you think it is your execution and reaching the clients, you do not think... you will not have problems to fulfill your whole capacity as you fix the distribution centers and routes, etc., right?

**Mr. Rial:** Absolutely and I want to be unequivocally clear about this point because those who are in Brazil will have a lot more understanding of the statement I am going to make, and I encourage those who are outside Brazil to reach out to your franchises in Brazil: with the movements... Brasil Foods basically is absolutely going through some important changes, I mean the signals they are giving to the market is that it is just a phenomenal company which we admire, we have a lot to learn and we absolutely pay attention to what they do - but they seem to be giving a very strong signal that they are going to be a bit more aggressive, call it that way, from a profitability point of view.

We have the marketplace crying for a credible, reliable, sustainable number two. We have zero problems to position ourselves as the number two in the Brazilian market. As long as we get our execution in order and we get... we are always on top of our price evolution we will sell. We do not have a volume of sales challenge, so topline is not a challenge, which is a benefit.

So I just want to make sure that we, Brazilian customers, retail, food service want Seara to succeed.

**Mr. Miguel:** Ok that was very clear, thank you. Just a follow-up on the debt side and liquidity: by taking a look at your maturity schedule here after the bonds and after the credit facility from Keystone we see that if in the short term you have to pay roughly 30% of your credit, the lines which are now related to exports and working capital, and if we consider on 5% minimum cash you are a kind of tight to meet the maturity in 14.

So I was just wondering if you feel comfortable with your currently liquidity position or if you have plans to do any... sell assets that could improve that throughout the year or do another offer for bonds or for equity?

**Mr. Rial:** Good question. So it is very important that the maturities you see in 2013 are one year, two years export lines, zero concern. We have the main banks supporting the company, completely comfortable how we are going about our improvement on the Seara Brasil. I mean, if a bank would have to repay all its maturities in one given year they would probably not be alive either.

So you have to accept that a lot of those short-term maturities are refinanceable, which I think they are. But they are also because we are doing the right things and we are entering 2013 with a very significant cash position as mentioned.

We are not looking at any additional follow on for this year. We will look at least... I would not call… revising our strategy, our intent, what kind of company we want to be that could be able to structurally create value and reward shareholders and that will probably force us to look for all kinds of different pieces of our portfolio. So nothing is sacred per se. We are going to have to put that through the lenses of does it or not make sense in the overall scheme?

So that should eventually help us to deleverage the company faster. We will announce to the marketplace what our new strategies will be. In the meantime we look at small assets, sometimes to sell like I think we have been working on a small terminal in Brazil which is not core of the Seara Brasil; but there is no push towards at this point in time divestitures, absolutely no push because they cannot and should not be made in the absence of an overall strategy because they should follow a strategy.

Once the strategy is agreed and debated at the board of the company and with the controlling shareholders we will then eventually... I would not in any way say there will not be sales; I think and sales could be done in different ways: total, partial, in all kind of different formats. So I am very, very comfortable with the liquidity position of the company and the dialogue with the banks.

**Mr. Miguel:** Ok thank you.

**Operator:** Our next question comes from Fernando Ferreira, Merrill Lynch.

**Mr. Fernando Ferreira:** Thank you and sorry, I do not know what happened with my line before. The first question if you could strip out - I do not know if it is easy to do that or not - but stripping out the new assets that arrived from Brasil Foods how would the results look like in terms of topline growth and margins, if you have anything you can share with us?

**Mr. Rial:** What we are going to do... just to be sure Fernando we just do not shoot it from the hip; but if you go back to the cash flow position we would have used R$ 3.5 billion for working capital for the whole year eventually as opposed to 4.

So right there I think if you outgave the interest costs of 7.4 which was average 7 points on additional 500 million and on top of that you eliminate hundreds and hundreds of millions of potential disruption that actually occurred, I am very comfortable to say that Marfrig would have posted a breakeven position for the whole year.

But having said that we would not be in a better position strategically because the Brasil Foods assets allow Seara Brasil to be a credible competitor long-term. It impacts the company short-term without a doubt, especially knowing that the company was already relatively fragile in its planning process, normalization process from the industrial point of view.

But two years from now assuming we are executing and doing what we are saying this is fundamentally a much better company, Seara Brasil in particular, than it would have been without these assets.

But my analysis would be around breakeven. We can go through some calculation and give you a better-educated answer through e-mail. So I have the people here making a note of your question.

**Mr. Ferreira:** Sure thank you and just to follow-up from the Portuguese call: I know that you do not provide guidance; but in what sort of trajectory or margins you are expecting or you are foreseeing for Seara throughout this year? I mean, is the 6%, 7% margin level that you had before now the new target to get back to or not? Just for us to... to help us on the modeling side here.

**Mr. Rial:** I have all my people here around me nodding heads. We do not give guidance. I wish... I am always a lot more inclined to share and be transparent because I like markets to price us correctly - but it would be premature.

What I can tell you is definitely look at 2012, put some upside - just some, not too much - and then figure out that certainly it is not going to be 4Q. What I can tell you also call and we have a very... the international piece. Both Moy Park and Keystone are really performing very strongly, very strongly.

So beef probably not as strong as 2012; but probably... I do not know what the rest of the year is going to look like. It does not look like the end of a good deep cycle and I think all the upside of this group is on the performance and execution of Seara Brasil, which again the quarter is too short, 2Q is too short but you have got to see signals, concrete signals in 2013.

**Mr. Ferreira:** Ok thank you.

**Operator:** Our next question comes from Eric Ollom with Citigroup.

**Mr. Eric Ollom:** Hi good afternoon everybody and thank you for the call. Just to dive a little bit deeper into 4Q Seara Foods and the margin contraction that is due to the whole logistical situation, I know you do not give guidance; but is there... can you give us some sort of impact in either dollars or overall margin that was related to the logistics, the inventory buildups vs. just corn prices and delay in passing through these corn prices into selling prices? Just to help us isolate this one or two-quarter kind of phenomena and that would help us develop what 2013 should look like.

**Mr. Ricardo Florence:** Hi Eric it is Ricardo speaking. 4Q as Sérgio mentioned was definitely the peak of the grain prices in the year. We had grains here higher than 33, R$ 34 while now in this 1Q they are being bought already - at the end of the quarter I mean - by R$ 27 and lower.

Regarding to volume there is a very good sign of increase that we had there. If you take for instance just volume that is sold in processed products in Seara Brasil in 4Q they increased by 50% compared to the amount that we sold in volume (134,000 tons) compared to what we had in the same quarter in the previous year.

I do not have at this point the figures in the precise way that you asked me to do; but in a general sense this is the breakdown: there is a positive impact of the new products in volume; there is a positive impact in price; but at the same time we are not in the position that we would like to be in operations, in the plants, and this is definitely what caused the decrease in margins for Seara

Brasil in the quarter, in addition to the issues that we had in logistics. Again, later I can send you more precisely the breakdown; but in a general way these were the reasons for the performance of 4Q.

**Mr. Ollom:** Ok, I will look forward to that. Maybe you could just help me if I am looking at this correctly, just the sort of back of the envelope if I look at the decline of the gross margin which was about 200 bps and the increase in the SG&A, which was close to 200 bps, let us say 400 total and Ebitda margin came down about 5.50... I mean would not the 250 a kind of margin impact be ball parking in or am I just simplifying in that way too much?

**Mr. Rial:** You are not, you are not, you are on the right ballpark.

**Mr. Ollom:** Ok great, thank you.

**Mr. Rial:** Most welcome.

**Operator:** Our next question comes from Josephine Shea with Hartford Investment Management.

**Ms. Josephine Shea:** Hi. I would like to go back to your orders: so 35% of your orders, customer orders were not delivered; has this led to cancellation of any contracts, were there any costs involved like penalties for non-delivery? Secondly was there a right off of inventories? Because some of these are obviously perishable goods and how has this been going through 1Q13? I understand that 2Q is better but has the situation continued?

**Mr. Rial:** Ok. So the situation has improved considerably in 1Q, not to its full normality. Delivery levels actually in January 71%, on average in March we are going to be very close to the target of the year, 75. For us to be able to be on the target of 75 on average for the year we are going to have to do better than that, closer to 80 - and I repeat: in the Brazilian market this level of data is not disclosed, we are not just disclosing in the spirit to give the marketplace complete, tangible data of what the destruction was.

And your other part of the question: the cost of that is pretty much embedded in the full results of 4Q. So there has not been any penalty. What you ended up having, Josephine, is if you do not deliver you have to store that product and what ended up happening, what ends up happening is that you have to pay for third-party warehouse costs.

So your inventory gets impacted short-term. You have a perfectly good product, there is nothing wrong with the product; you are going to have to reroute it, eventually repackage and those are all additional costs. You may have to use it for different use: which calls reprocess it.

So those are all different costs. Of course, the beauty would be to give you all that visibility but we find it to be too much detail in order to give it, it is almost an operational plan. But so all the additional costs, the impact in another way, when you see the decline of 55% of the Ebitda of Seara Foods a big chunk, the majority of that is derived from this complete misalignment in a high-peak sale season, because it would be different within 1Q. When we have Christmas...

**Ms. Shea:** I can absolutely appreciate your answers and it is very helpful. Perhaps also helpful would be to put it in the industry norm. So your aim is 75 and what is the industry norm in Brazil that you attain to? What is an average that is really... you are comfortable with? Is that actually only 80 or 85? I just assume naturally that it is 90 or 100 but perhaps that is wrong.

**Mr. Rial:** So you are absolutely right. You would be wrong at 90 higher, that would be the US. So in Brazil best in class would be on average 85 - best in class - I wish Brasil Foods may, after us disclosing they may be willing to disclose theirs; but I would assume they would be at higher 80s. We are going to this level, at least committed to 75 but we are working towards the year to get to 80% in order to be able to have an average of 75. So my assumption would be best in class somewhere between 80 and 85 and the industry over the next years will move to 90, but that would take three or four years.

**Ms. Shea:** That is extremely helpful, that puts it in a better perspective. May I also finish with one last question: do you have an estimate of what the one-time costs are that were in 4Q that in a normal circumstance we can take off? For example Moy Park I know was through their balance sheet; but are there any costs or any income statement that we can take out, let us say, the second half 2013?

**Mr. Florence:** That is a good point. In terms of working capital I could say that just for 4Q we had at least R$ 350 million - not in the income statement but in the cash flow - that could be considered as extraordinary expenses that the company had. I would say that of these 350 million more than 200 million was in working capital costs related to Brasil Foods. This is part of the lack of efficiency that we had in the ramp-up of integration.

Only in the quarter we had also more than R$ 60 million that were payments that we did for the remaining portion to the earn out of the OSI Group. But in total I would say 350 million in the cash flow.

**Mr. Rial:** The other way for you to think of it, Josephine, is just to look at the SG&A. If you extract... we give you all the Seara Foods breakdown on the presentation on slide 8. So Seara Foods represents the bulk of those numbers... I am sorry, Seara Brasil represents the bulk of those numbers in Seara Foods. I cannot tell you how much effectively at this point in time, we are moving into a high level of breakdown.

But look, there has been a change of more than almost... pretty much 2% called SG&A. So we have SG&A of Seara Brasil at two digit level. I think you should normalize to more like 9% as opposed to 11% or 12%, I think it was even higher than that. But at least 2% of disruption on SG&A in Seara Foods coming out of this, pretty significant.

**Mr. Florence:** At least two percentage points.

**Ms. Shea:** Thank you, this has been extremely helpful. Thanks very much.

**Mr. Rial:** That is what we are here for. Thank you.

**Operator:** Our next question comes from Alex Robarts with Citi.

**Mr. Alex Robarts:** Thanks, hi everybody. I have two questions and a clarification. Earlier in the call you are really talked about the big challenge being completing the redesign of the supply chain at Seara Brazil, I mean, essentially an industrial challenge. Could you drill down into this a little bit more talking about the short-term?

In other words as you think about the process of getting these new DCs up to the ramp-up levels you are looking for as you think about the production assets, the completion of this redesign, is this something that happens in the first half of the year, is this something that happens in the second half of the year?

And related to this I guess one of the benefits of having this call late in 1Q is that could you give us a sense now in this 1Q vs. 4Q on a sequential basis is the level of integration expense higher of lower in this 1Q vs. 4Q? And I guess I had the real point here in the short-term is is it safe to assume sequential margin expense in 1Q vs. 4Q in Seara Alimentos?

The second question goes back on something you also talked about which is the beef. You say in the release and you allude to in your comments that the margins in 1Q saw some pressure. In 4Q you had sequential improvement in the margins better than your main competitor.

But I am just wondering what was the nature in this 1Q of that margin pressure? Could it be the two new plants that... or slaughtering houses that you opened up? Is it the pricing issue? And the covenant it seems that you have the remaining nine months of the year will see improvement? What is that based on? That is the second question.

And the clarification is just you talked about double digit or the likelihood of double-digit topline growth in 2013. Was that Seara Brasil or Seara Alimentos? Thank you very much.

**Mr. Rial:** Let us just make sure that Seara Alimentos is basically what we are calling Seara Brasil just for the sake of understanding. No, thank you, I will try, it is a number of questions. Let me try to give you... I would like to make sure that we do not get into a false box and by that I mean… let me see if I can articulate that well.

Seara Brasil has 32 plants. Of these 32 plants 10 came from the asset swap. The previous 22 most of them pretty well aligned; not to the level of high-quality planning that we would like but no significant disruption. So you are basically moving along the way. If you take one of our plants dedicated to the Japanese market that is a clock, that is working 100% well. The size of the bird, the way the bird gets slaughtered, the way we ship it to Japan - that is working like clockwork, a Swiss clock.

We got 10 new plants, so from 22 we moved to 32 and when you add 10 new plants how do you go about growing birds? How you go about growing pork? It changes, right? Just the nature of the site it changes. So you have to start replanning or particularly for those plants and in some cases retooling the mix: what you were originally producing in plant A you may better off now be producing plant B, for a lot of reasons, which could be proximity to grains, could be proximity, logistics costs and all the rest.

So the misalignment or some level of disruption... not some level; disruption came on the back of the 10 new plants that come in, their process side. As we bring, as we get those plants they were at that point at 45% capacity, 45% capacity and why is it 45?

First of all when you get those plants your competitor does not give you the plant up and running like a Swiss clock, right? You have machines that are not there; you have machines that are not working; you have some of your refrigerated units not working. So there is a variety of operational challenges and it takes time for you to bring maintenance and the quality of the plant to where it should be.

Today in 1Q the 45 production level or... sorry, 55.... sorry, 65 idle capacity has been reduced. We are at 60% capacity on these new ten plants if you will. We will grow that gradually over the year, because we are dealing with processed food and it takes a little bit more planning and time to get it up and running, because if you produce wrongly your customers are not going to take it. If different slaughtering birds or slaughtering cattle, which is cutting, having the right cut and shipping it.

So that is the picture moving from 45 capacity to 60% capacity in 1Q. So we are not about a complete new supply design, it is not. It is about adjusting the supply chain from the agricultural point to 32; it is rethinking, replanning the right mixes in the right plants both raw meat as well as processed meat; and ultimately adjusting the logistics domestically to fulfill the promise of all the sales that we make. That is on the operational front.

You still have a very important pillar which is your commercial engine, your commercial engine needs to be aligned as well, which I think price. We do not see the challenge we thought, you need to keep an eye in volume as well, so that is pretty much it.

On the beef side when I mentioned margin is under pressure? Yes. It is a combination of additional slaughter capacity in the industry. Most players are slaughtering more than they were in 2012. I think that there has been some inventory carried over to 1Q13 and last but not least we have seen a pressure on prices in the wholesale segment, not necessarily retail level but certainly wholesale that has been noticed.

**Mr. Robarts:** Ok that is helpful and just... I am sorry, the last to see if I understand: in this 1Q do you expect to have more or less integration expenses with Brasil Foods assets compared to 4Q?

**Mr. Rial:** I would not say additional costs; I would say we are not optimizing infrastructure as we should. So even if we are delivering at 75 on average in 1Q it is not so. I think there is idle capacity in what we could actually do as opposed to disruption. I mean, in 4Q we had a high-season Christmas period and that was a pretty significant challenge.

Just the demand for trucks; remember in Brazil more than 65% of deliveries are made in trucks and it was pretty appalling. It is not the same in 1Q.

I have gone over time pretty significantly because I want to make sure that we as mentioned we give you all the answers. So we will keep answering all the questions before we hang up. I want to make sure that we entertain all questions. Thank you.

**Mr. Robarts:** Thank you.

**Operator:** Our next question comes from Christopher Vandergrist with Hartford.

**Mr. Christopher Vandergrist:** Hi, thanks for taking my call. I just had a first question on other operating incoming expenses. I looked briefly through the release but did not find exactly what that 62 million expense was.

**Mr. Florence:** Christopher, the main expenses that we had there were provisions that the company had on labor mainly and also on other legal claims that we had there. Of the 60 million close to 32 million was in this.

We had also 14 million in agreement that we did in one of the states and the balance is basically in other expenses. We consider them to be extraordinary and this only had to include in the quarter, nothing extraordinary but this.

**Mr. Vandergrist:** So those would be nonrecurring in 1Q13 and moving forward?

**Mr. Florence:** Yes that is correct.

**Mr. Vandergrist:** And in terms of tax credits now that you guys are hoping to ramp up production I guess what kind of tax credit monetization can we expect to see in 2013?

**Mr. Florence:** Well, most that we have done is basically to balance the generation of tax credits with the higher use that we have in processed products. This is what we expect to see with the increased revenues in processed products in Seara that basically we expect to be able to consume the credits that we still have in the balance sheet.

**Mr. Rial:** Christopher I am sorry, it is Sérgio here, sorry to interrupt you and I just want to add to what Ricardo said: one is we are not anymore accumulating the same sort of speed that we were in the past, point number one; point number two we have a huge opportunity to be a bit more structured how to monetize these credits.

So I can tell the market this has mine and Ricardo's undivided attention for year 2013 and 14. We are actually thinking about creating a group that will have nothing but the only purpose of figuring out how to monetize those credits in the next 24 months, so that is one.

The second one that I would like to reveal to the market place is that there will be also a high level degree of attention to costs. So we will have a group dedicated particularly for Seara Brasil to look at every corner in terms of optimization for costs. It will be done with focus internally with a dedicated group, but also probably helped by people who have done similar things in companies which are world-class in cost management like (inaudible 1:22:21). So this is something more towards 3Q to be given details. So call it tax and costs have our undivided attention.

**Mr. Vandergrist:** Ok and then on the Ukrainian ban on pork I was wondering if that affected processed and fresh products and how that affected your business.

**Mr. Florence:** This ban first I do not believe that it has any impact on us. We have been able to have other export destinations as well and it is not only this; there is a much bigger use on pork meat as well for the domestic market in processed products.

This is what we are doing in order to balance: a higher use in new export destinations. We have increased to other parts, for instance there is an opportunity to increase exports to Asia - not immediately but it is an opportunity - and also in the domestic market. I would say that these are the major points to balance. I do not expect higher impact on pork just because of this.

**Mr. Vandergrist:** And I guess did you see any pressure from any other bans on products such as beef late last year, early this year that have pressured export prices?

**Mr. Florence:** No, absolutely not. All those bans they had a very, very small participation on the total exports of the company and I really do not think so. If I have the figures in my mind I would say that it was about 2.5 or 3% of the total in all the potential effects and we have been able to balance this with other destinations as well.

**Mr. Vandergrist:** Ok thank you very much.

**Mr. Florence:** You are welcome.

**Operator:** Our next question comes from Maruf Siddiquee with Deutsche Bank.

**Mr. Maruf Siddiquee:** Hi guys, good afternoon and thanks for taking my questions. I just had a couple of quick questions to ask you: you talked about coming up with a new strategy for the company overall. I just heard you mention that you did not want to specifically speak for any spinoff or divestiture and you still look to the overall concept of the company.

This is something that has been in the press, in many communication or some kind of alluding from the company itself last year that you shall do the follow-on. So should I look at that as a revival of the dialogue that came out last year and then you guys ended up doing your follow-on equity issue as opposed to what many would talk about a partial sale of Seara Alimentos, your Brazil unit.

If you do have an overall plan that you will announce what is the timeframe that we look at? We noticed that you had a key hire done a couple of days that you announced. Would you be able to give any indication of the timeframe in terms of 1Q, 2Q? What is the timeframe to get the strategy released to the market?

Second a technical question is talk about another focus of the monetization of the tax credit. You say for the next 24 months but can you break it down for us? What is the finality? Do we wait for 24 months to see what happens or you are going to... do you have building blocks where a milestone that you want to see something, some ideas coming out of the task force in 1Q or 2Q? If you can highlight at least part of your more grand strategy, more of a technical strategy on tax monetization that would be helpful.

**Mr. Rial:** The first question is credit and we are looking at 3Q, so that answers your question.

The second question on tax I do not think we are going to see anything on 1Q. We have built-in, at least we have an expectation of doing something for this year between 50 and R$ 200 million, so that would be the range, but that range will get accelerated hopefully in 2014 as we build up our capabilities in the team and ways of doing it. That is very strong state to state, I mean this is not like one side speaks all. You are going to have different strategies for the different states we are operating.

**Mr. Siddiquee:** Ok and one more question if I can ask quickly, I guess I am getting a little bit more hectic. One of the colleagues has asked the question before so I apology for being asking the same thing in terms of the grain costs. One market towards end of 3Q, early 4Q last year we heard that you were opportunistically hedging some of the grain cost. So to be honest I was a bit surprised seeing where the spot market is.

So are you able to tell us are you still opportunistically hedging some of your grain costs as in relation to the poultry division? If so what percentage is a sort of the target you are looking at? And what is the lack for the grain cost to show up in the cost of goods sold? 45 days, 30 days?

**Mr. Rial:** Ok. If I may ask... just I think we need to clarify on the call still: Brazil does not have the same level of debt in terms of futures market than Chicago. So no company in Brazil can say I am 100% hedged on grains. That is important because I do not want to send a signal that we have a crystal ball and that we become opportunistic, we do not. I wish I could actually hedge 100% of my entire grain purchases - we cannot.

So what we do in Brazil we do two things: we hedge whatever we can both in futures but also directly with the sellers in terms of both volume and price. So we make sure that we get the volume that we need (which is a combination of inventory, it is an inventory management strategy) and price to try to face as much as possible. So I think that is very, very important.

The good news is that Brazilians are having a record corn crop and for those in the call Brazil has actually two crops in the year for corn - which I think is the only country - so we tend to be very comfortable at this point in time for the first half with corn at 60 kg bags being priced under R$ 29 against 32, 33, 34 in the latter part of 2012.

So we are going to have a very good relief on working capital particularly for Seara Brasil in the first half of 2013, which is one of the drivers that should help the company also to come up with a better cash flow picture than we have posted in 2011. Hopefully not only this, but also helped by this.

**Mr. Florence:** Maruf, regarding further detail on this, if you go later to a note on the financial statement there is a very detailed explanation on what we have in terms of derivatives on soybean, corn. Later either me or (inaudible 1:30:38) can call you. It is on page 92 on the financial statement, on the notes to the financial statement. In total the company has more than 6000 contracts of derivatives in order to protect our position. I will be more than happy in discussing this later.

**Mr. Siddiquee:** Sure I appreciate it. Let me take a look around and if I have any question I will be with you guys.

**Mr. Rial:** Thank you.

**Mr. Florence:** Thank you.

**Mr. Rial:** We are now going to the last question, this is going to be the last question and I really appreciated everyone to be as long as you have all been on the call. Last question.

**Operator:** Our last question comes from Diego Maia, HSBC.

**Mr. Diego Maia:** Hi guys good morning, thank you for taking my question. I was interested to learn from you about market share. I assume that you guys lost some market share in this quarter because of all the challenges that you have already discussed. Could you guys give us a number? It would be very helpful for us to understand the base you are starting from for 2013. Thank you so much.

**Mr. Rial:** I do not think we lost market share. We may have lost some customers, which maybe you can equal as market share; but there was not any market share erosion for that matter. Our topline growth more than shows you that that is the case.

We increased the number of customers from Seara from 36,000 to 70,000 plus (70 thousand plus). We should be ending the year hopefully getting close to 100,000, which is a target we want to get as close as we can. So zero concern on market share.

But a lot of concern on our reputation in terms of consistency. So we want to ensure that it is not only about the quality of product; it is the quality of being a reliable partner and I think we have lost from certain customers for sure, reliability. The people understand where we were with the integration of the assets.

**Mr. Florence:** And Diego just reminding you that a significant part of the small and middle sized clients that we have here they are not covered by Nielsen. That is the area that we intend to grow and why is that? Because we have a much higher margin with these clients here that also help to improve the working capital. That is the point. What you need to pay attention is in the sales increase of the company in processed products because that is the way to follow.

**Mr. Maia:** Ok thank you.

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

**Mr. Rial:** Again thank you very much for the time and thanks, particularly warm thanks to all those holders, shareholders who have been on the call, friendly media, everyone who has basically been helping hand in making this group what I think it can be. So thank you very much for your support and once again happy Easter to those who are going to be celebrating Easter in the next coming days. Thank you.

**Operator:** That does conclude our Marfrig's conference call. Thank you very much for your participation and have a nice day.