International Conference Call

Marfrig

1st Quarter 2013 Earnings Results

May 14, 2013

Q&A Session

31:24

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 queue please press star two.

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

Mr. Alan Alanis: Thank you, hello everyone. I have a couple of questions, the first one is related to the working capital - first of all congratulations, there is increased clarity in this presentation and I should highlight that, so very appreciated - My questions have to do with... The first one has to do with the working capital. You are guiding for these R$ 40 million of improvement; could you... We saw deterioration still in 1Q; could you give us a little bit more color how do you aim to turn around the trend of working capital and how do you aim to improve that? That would be the first question.

And I will ask you the second question, it is pretty straightforward: we are still missing to see some color regarding organic currency mutual trends. So any color that you can give us, specifically Moy Park but more importantly in the Brazil operations in an organic basis in terms of volumes and prices and so on and Ebitda would be highly appreciated. Thank you.

Mr. Rial: Thanks Alan, it is a fairly good question. So working capital a couple of dimensions: on page 6 of the release we try to give the market what we call the operating cash flow, which is basically... That is where it all starts. It is the operation generating, abstracting from Capex, still to some degree. There is management discretion and abstracting from interest expense, which in our case is a very important piece, but if the operation is generating cash and what you are seeing for the first time that change from 4Q to 1Q13 is significant. So we pretty much came to what I call breakeven or close to breakeven. It is still 35 million but close to breakeven, which is a very significant shift from 4Q to 1Q. Now that is point number one.

This does not in any way is helped by a different environment of grain prices. I expect grain prices to help Seara Brasil in particular around R$ 500 million. That you are going to see more towards 3Q and 4Q.

Seara Brasil is working - and please do not view this as guidance - but Seara Brasil is working towards positive cash flow generation still in 2013. I believe at this point in time if grain prices remain the way they are corn prices in Brazil are under 35% from where they were in the past, there is a very good chance doing what we need to do (closing down plants that are basically using cash and are not generating profit, continue to reduce costs overall and increasing price, managing margin more than increasing price) we should be on our way to better results for 2013.

But I do not think that is enough, I do not think that is enough because I think we need to reduce the interest expense account and that is why I am putting a target and I stick to the ground saying "we will reduce gross debt by at least 2 billion", because that will have a significant impact on the expenses, on interest expenses for the group. We have got to bring that and do you have got to execute that.

So we are working on that as we speak. Do not think that because I announced that we are just quiet; we are working as we speak. We are not using any bank, we are not doing anything; we just we have got to do. It could be as I said a couple of transactions, one or two, three, it could be one transaction. But we will be protecting, observing the earnings power of the remaining pieces, parts of the group because that is what we are committed to.

Mr. Alanis: Got it, ok, thank you.

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

Mr. Wesley Brooks: Hi guys, a couple of questions for me also on Seara and just to understand obviously Seara improved through in 1Q with the full rate, the utilization rate and with grains. Can you give us an idea of where margins were in January vs. where they were at the end of the quarter?

Mr. Rial: You are absolutely right. I would just correct that; we have not really been helped yet by grains in 1Q13; they will more towards 3Q than they were in 1Q.

And the question of margin quarter 2012 to quarter 2013, Ricardo would you like to comment?

Mr. Ricardo Florence: Yes. As Sérgio was saying the effect of the grain prices starts to happen at the end of March. This means that the effect on margins it takes place not there but between 45 and 60 days after that, I mean the full effect of the decrease of the grain prices is expected to take place in 3Q and 4Q. A little bit in 2Q, but it really starts to happen in 3Q and 4Q.

Mr. Brooks: Ok, but even excluding the grains then just the increase in the full rate of utilization on that presumably the quarter started at 4% or 5% Ebitda margin and finished above 6%, which is your average for the quarter right?

Mr. Florence: Yes, there is a lot of different effects there, but I would say that this is the ballpark.

Mr. Brooks: Ok and then just in terms of the utilization rate of those Brasil Foods assets what level do you think you can get them to by, say, 3Q or 4Q at the end of the year, whatever your target is, and what is the incremental sales that that could add?

Mr. Rial: We are trying to target at least 70% and that would be a function of how the Brazilian economy is going to be performing. Also we are not seeing the same level of expansion in terms of volume that we saw in 2012. But we still remain pretty optimistic overall that Seara can continue to grow volume especially as we penetrate more and more in the small to midsized retailer. That is a very important piece for us together with profits and volume increased. So I would say around 70% at this point in time.

Now the second part is what is the additional margin and the additional revenue that will come with it? That would be a function also how much we are going to be able to do that through different channels than the large retailers, the large supermarket chains. So I am not in position to give you the number now but we can certainly do some calculation and get back to you without any problem - and as long as it does not constitute guidance - but we can certainly go through the math.

Mr. Brooks: Ok thanks and then just one quick one just to make sure I understand: the 2 billion of debt reduction that is including potential asset sales right? Just adding up the numbers you have got about R$ 250 million reduction from working capital and all these other things, so I mean to get to that level presumably.

Mr. Rial: Absolutely, absolutely.

Mr. Brooks: Thank you very much and congrats.

Mr. Rial: Thank you.

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

Mr. Alexandre Miguel: Hi good afternoon. My first question is related to the beef business. You mentioned in your press release that you still expect pressure margins for the beef business in 2Q. I just wanted to understand what you mean by that, if you expect some sequential improvement vs. 1Q but maybe still below last year's levels just to get a better clarity on this.

And my second question is related to Seara Brasil and it is how you can... You think you can continue closing the gap, the price gap vs. the leader, if you plan to continue raising prices for processed food products and still on Seara Brasil out of that KPI that you showed if you see continuous improvement in fill rates, maybe if you can share with us April levels if they continue at the same or better levels than March it would be great.

Mr. Rial: Ok so let us go. Beef margin as I said we are going to first to give the market a signal while the rest of the competition was relatively quiet. So we always said that they would be under pressure but still at very healthy levels and we believe this is the case. Cattle levels in Brazil are unchanged, meaning the cattle herd has not really changed much. So I do not see pressure of cattle going down in terms of price, but I see the problem was relatively well-balanced.

What has happened for those on the call is that the industry overall has increased its slaughter capacity, so a lot more capacity went into the marketplace while the export market has been less compelling from a marketing point of view that I think they were. So I think you just had more capacity, balanced supply, export markets being less interesting. We have benefited from our presence in the food services space, which is actually the origin of the controller, Marcos Molina, who basically started the business in the food service space in Brazil and so I think we have a formidable entry in restaurant chains and a number of other outlets in Brazil and it has helped us keep margins still in good place.

So we also believe that by doing what we are doing in Argentina and Uruguay should help us sustain the same level of margins or at least to sustain margins at very good levels. So do not expect 12 that we said in 4Q. Our margin looks more like 11 than necessarily 12; but we still believe - again, not guidance - but we still believe we are going to have a solid performance in the beef space.

Seara Brasil the fill rate I did not mention. In the first two weeks of May we actually reached levels above 80. So nothing to celebrate but I feel very comfortable that the worst that we experienced in 4Q and that we so rightly disclosed, with a lot of pain but it was something we wanted to disclose to give the market a true explanation about where we were at the same time, we were just giving concrete evidences of improvement in that respect.

I think you asked something else about Seara but I missed it.

Mr. Miguel: No, just the price vs. the leader, how do you think to close it.

Mr. Rial: Alexandre the overall target would be to keep 10%. It can be hard; we are dealing with a formidable competitor in many, many dimensions. But they also inspire us to be better. So 10% is something that we really would like to aspire and again, we will be giving you this on a quarterly basis and so you will be the judge.

Mr. Miguel: Ok just a quick follow-up, Sergio, to clarify: you mentioned about reaching free cash flow positive in Seara in 2013. By that you mean that you will reach in a certain quarter in the future or you will close the year with a positive free cash generation in Seara Brasil in 2013?

Mr. Rial: That is a good question. I think 3Q and 4Q is when we will start seeing potentially a significant reversal on the back of obviously significantly lower grain prices by more than 30%. So I think we are expecting on top of the operational work that is at hand. So I think pay attention to 3Q and hopefully 4Q, which is the peak. We have to be much better prepared to lever 4Q than we were in 2012 amidst the integration.

Mr. Miguel: Ok thank you.

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

Mr. Jose Yordan: Hi good afternoon everyone. I just wanted a clarification: on slide 9 you show the price evolution for yourself and the market leader, etc., and it barely shows any increase in the August/September timeframe, and as I understood it there have been significant price increases implemented by Brasil Foods and Nielsen does not pick that up, it would be great.

And then the second question is just looking for some update on the Itajaí Port terminal that has been mentioned for a while as a potential asset sale but we... But obviously it has not been on hold, it is at office table now or is it still a potential source of additional cash for deleveraging?

Mr. Rial: Excellent question. I think it is answered by... We will were right there in amidst the integration of the assets. I think the company was not necessarily in a good time, so this is the impact of integration starting actually in August and we sense it and we feel it more in 4Q12, while the leader was definitely pushing up prices. So call this our own operational challenges of those to the marketplace which is reflected in the unchained price potential. Missed opportunity that is what I would call.

The Braskarne's port terminal yes, I mean we have a number of small, nonstrategic assets that may be sold and are going to be sold. They are not material from a capital structure point of view, but the answer is there were two potential buyers, there is still one buyer and it is basically still tied up in negotiations of warrants and a number of other things. So it can still happen in 2Q.

Mr. Yordan: Thanks a lot.

Mr. Rial: Thank you.

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

Ms. Josephine Shea: Thank you very much for the call. It is very helpful to have the key indicators. I have a question on the credit side. During this quarter there was chatter that you broke one of your banking covenants, perhaps you could give us some color on what actually happened.

So have you refinanced and (inaudible 47:20) during 1Q? Was there a need to ask the banks for any changes in any of your covenants on any of your bank debt? Do you foresee any needs to seek any additional covenant relief that would be helpful to give a final answer and so the market will know what was going on there in the quarter?

Mr. Rial: Excellent thank you. I have been with the group slightly more than five months and I remember last year during this same time there were rumors around Marfrig not complying with the covenants in 2Q12, rather a transaction takes place which is the sale, the divestiture of the distribution arm of Keystone and such a problem did not happen.

Then in 1Q13 on the back of relatively... Weak, not relatively, weak 4Q and the fact that the Brazilian stock market also moves into a different rhythm we are one of the most liquid stocks in the marketplace and when you are one of the most liquid stocks in the marketplace and that you have clearly a leverage level that is not commensurate to where we would like to see, some speculators and market makers start selling our stock short, which is capitalism in action. There is nothing we can do except work.

But unfortunately then there was a rumor primarily from the marketplace by some of the players saying that we would have broken covenants in 1Q, and the only thing and the right thing the company did was to refute profusely such statement that of course is very difficult, unfortunately, to seek where it is coming from because it was actually ill directed, so it had no other intention than to harm the stock and benefit those in short position. As you could see our leverage ratio has actually come down from 1Q to 2Q... 1Q to 1Q, 12 to 13. We have not broken any covenant with any bank.

And then the second part of the question is could that happen? Well we are in 2Q, we have no visibility of that at this point in time. The visibility that we have is we do not want to... We want to reduce the debt levels of this group. That is what we are committed to. Do not expect it to happen in December, we are working to see it happening earlier.

We are also taking a number of actions as you could see in terms of improving the cash flow - not necessarily the Ebitda - but the cash flow for 2Q and Seara Brasil and the rest of the businesses are working as hard as they can to ensure a fair 2Q. So at this point in time I could not give you any other remark but this, because it is nothing that at this point in time would be visible to us.

Ms. Shea: That is great. I understand that every quarter bank debt rolls over, that is normal, that is the regular course of business. So was there any bank that was rolled over?

And second question then is in relation to this, do you have any financing need or other debt that rolls over in the regular course of business over the coming quarters?

Mr. Rial: Well Josephine what we have really is what I call the more working capital kind of transactions that are being rolled over as we speak. I think banks and creditors are reacting positively to our commitment to reduce debt levels with specific numbers and targets and now it is up to execution, we just need to execute. We need to stop talking about leverage and definitely reduce it. So no concerns at this point in time of rolling over short-term debt.

We have no important... We have a number of payments in 1Q debenture related, we paid down a number of debentures, R$ 200 plus, so that is being paid, they are expense of debt as a matter of fact and so that is being paid down. But no concerns at this point in time with any rollover with banks.

So we are not going to be waiting for 3Q and 4Q to see Seara generating cash, we will go beyond that. This needs to happen but along the lines we will also need to do something with the portfolio to reduce down debt.

Ms. Shea: That is great. My last question and I will go back in queue. On the logistics side and sales side could you perhaps give a little bit of color, the last time you said that some new salespeople that came with the acquisition of BR Foods were slow in the uptake of new products.

It is understandable but perhaps you can give an update on where we are today on the sales side of the organization and perhaps a little bit on the logistics side, whether you have seen some notable improvements on logistics and distribution. Thank you very much.

Mr. Rial: Thank you. Part of your answer is actually... Part of your answer is definitely in the price index. So if you look November/December 2012 we were 94.3 relative to 94.8 and then we move up to 97 in 1Q and that is work. That is healthy, that is having sales force positioning our product a lot better than they were in the past underpinned by better logistics or delivery consistency, which you see there also in the fill rate ratio. So if you see January, February on slide 10 you clearly see the improvement from January to March given our average. So this is the way that we think it is better to give you data, tangible data for you to judge that.

The team that was hired, 600 people they have been here now six months. Brasil Food's assets are now with us for nine months, so nothing like time to make us better, right? So overall the things are going in the right direction but there is still a lot of work. We are on the early days but we are optimistic so far.

Ms. Shea: And the logistics?

Mr. Rial: Logistics there is nothing more can give you besides the fill rate, which you see there on slide 10, and the other thing that I did share is that we are going to be reducing the cost of logistics by closing down 4, at least 4 distribution centers. So these are two tangible measures without impacting in any way our delivery process.

Ms. Shea: Perfect. Thank you very much and good luck for the rest of the turnaround.

Mr. Rial: Thank you.

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

Mr. Alex Robarts: Thanks, hi everybody. I have got two questions and I guess the first one is perhaps a nice follow on with what you have just been talking about. It essentially focuses on the distribution and points of sale in Seara. It seems to me as we look out in this turnaround process in 2Q besides grains margin benefit is going to come from, it sounds like, further penetration into the small and midsized retailers.

And as you look out your 32.8% right now average sales in the small and medium-sized how is that process going as far as your penetration? How is your portfolio being accepted in these mostly newly acquired points of sale from Brasil Foods? Are you getting to the maximum penetration?

I guess at some point you talked about reaching 55,000 points-of-sale going to 80 points-of-sale. If you can give us a sense then of how you are going in terms of the penetration rate, how has been the receptivity of your portfolio and to the extent that you are happy or there is still further room to adjust the twin third-party in direct distribution? That would be the first question.

Mr. Rial: On slide 10 clearly we are trying to share with you the level of penetration that I think we have been able to accomplish in 1Q and why is that happening? It is happening for two reasons: first retailers, small and midsized need a second brand, they need a second option, they need a second company that can actually provide them products. Brasil Foods, I guess, they probably have a penetration, market share and excess of 60%.

So here you are dealing with small and midsized retailers having a second choice that is well accepted by customers, it is pretty important, and the Seara brand is probably the only other brand with national scope and reach that can actually create the design in demand by a number of players in the market to buy our products, always on the assumption that we are not compromising on quality. So that is why we think it is so important to share with you this KPI, which is directly linked to the profitability and margin expansion of the business.

The second part of your question is we have, as we get Brasil Foods assets and a number of distribution centers - I think we have got 8 - and we are now rationalizing. We need to get a leaner infrastructure for the logistics footprint of the company so that we can still deliver consistently but definitely at a lower cost. So the cost dimension of Seara Brasil has not yet been addressed. This is the beginning, and again the art and the signs will be doing it without ever interrupting the consistency of what we do and what we deliver.

The third piece in terms of acceptance also is related to innovation. So we as a company we have to ensure that we continue to innovate and not necessarily by creating new-to-the-world, not at all; but just by bringing products that are good. They could be regional cuisine - we have just launched a number of ready-made meals in Brazil with a very good acceptance. There is one for those who are Brazilians that is called "Escondidinho", which is potato purée with (inaudible 58:44) and that is having a phenomenal product in terms of sales.

So adjusting product mix making sure that we are innovating appropriately and definitely also enhancing the capacity utilization of the plants that have the capacity to do so. When we are closing 4 plants what we are actually doing is transferring equipment, processing equipment to bigger plants. So they are bigger plants and can actually have better efficiency levels.

Mr. Robarts: Ok so basically you see further room to penetrate beyond the 33% level with total sales. Is that fair? And in terms of just the split right now you are happy with where you are vis-à-vis third parties and distribution where we see more of a shift toward the direct distribution?

Mr. Rial: That is a tough question. I do not have an optimal mix that I could tell you because it really varies from market but it also varies from the third-party. I think Brazil has not yet created... We have a number of very, very good third-party distributors and logistics companies; but for us it is in the early days. We have got to fix our case, we have got to have a much better platform before we even contemplate insourcing and outsourcing. So we still have work to do in our house, even bringing the right design for our logistics so that we can start thinking about what is next.

Mr. Robarts: Fair enough, ok. Second question and last one I am just intrigued by this new commercial model that you are rolling out in Moy Park and as I think about it I guess there is three elements to the question: first is timing, in other words is this a strategic thing as you see (inaudible 1:00:53) and these folks are really struggling. Is this part of the motivation for why now? Because it would seem to me that you are doing a lot of other stuff back in Brazil, engaged in this. So the first part is the timing question.

The second is there a margin rationale behind this new commercial model or is it a kind of topline volume? In other words do you see this enhancing at the end of the commercial model execution a kind of a margin benefit to Seara?

And the third one is just the kind of tag along here: is it safe then to assume that any asset sales that are contemplated would not then be within Moy Park domain if you are spending this kind of time doing and new model?

Mr. Rial: That is a good question. Let me try to simplify it, it is relatively simple. So here we have one of the largest European food companies selling over US$ 2 billion and we actually had different businesses of Marfrig group touching the same customer. So Seara Brasil would sell raw poultry to Tesco; Moy Park would sell processed and fresh poultry to Tesco; Keystone Asia would sell poultry out of Thailand to Tesco and if that would not be enough Brazil beef would also sell beef to Tesco. So it is a wonderful thing to have the portfolio we have.

But it is not a good thing when we are so fragmented as we approach the marketplace. So think of Moy Park being our go-to-market commercial engine so that we can actually extract better market intelligence, how to position the portfolio of the group. It is not that we are having one person selling everything; it is about having in one infrastructure, more intelligence, how we price and how we sell and also how we deliver. The logistics of all these different things as we were approaching the European market were not even coordinated. So that is a very tangible synergy that I expect to see happening with Moy Park.

Now the second part of the question: fine Sergio; so what? What is the margin expansion for Moy Park? Give us a couple of quarters because we have just started testing. We are managing, measuring how we are going to be able to expand margins, which could actually be in Seara Brasil as opposed to Moy Park. But how does better alignment as a go-to-market in Europe will help the group overall? We will come back more towards 3Q and 4Q.

Mr. Robarts: Thank you.

Operator: Our next question comes from Aaron Holsderg with Santander.

Mr. Aaron Holsderg: Good morning and congratulations. A few questions, perhaps I see a lot of progress; but looking at your short-term debt we were expecting the short-term debt to go down a bit following the equity issuance, the bond issuance and to stretch out of Keystone, but it looks like it has stayed at about the same level and so has cash.

Are you looking to decrease your short-term debt beyond this level and what is the strategy to do so?

Mr. Rial: I will give it to Ricardo.

Mr. Florence: Hi Aaron. I would say that the long-term 20% of the total debt is a more reasonable level to work with. I would not see this in the short term. What we have done is basically part of the operations we have done in ACCs and FEEs and prepayment of exports, all of that related to trade finance. These types of operations usually they mature between six months up to a year. But you can see that together with this we did they move in order to lengthen the profile of the debt that you could see that increased by 0.4 years.

As Sergio mentioned in one of the previous questions we have not had any problem during negotiations. This is basically part of our strategy, of what we have done exactly in order to keep under control the average interest that we have on our debt, because you know that these types of operations they have an interest rate that is lower than the longer-term operations. That is the explanation as far as our strategy.

Mr. Holsderg: Would you be looking at least to have your short-term debt lower than the cash position?

Mr. Rial: I am not so sure. The short-term debt that you see it is primarily really working capital. It fluctuates to a large degree with the working capital needs of the business. What we would like to see really is just low debt, whether short-term or long-term, and that is why we are committed to the 2 billion. Hopefully one day we will be able to come and say we did it as opposed to just saying we will do it. So we are not comfortable with it but at least we are being very specific about how much and by when.

Mr. Holsderg: Ok and the other thing is I just wanted to make sure I understood the answer to a question asked earlier. Following the S&P downgrade many people were wondering if there is anything in any of your contracts or other debt which could be triggered by a downgrade or by an additional downgrade. I think this came up because we saw in Mexico with a couple of issuers, many different contracts were triggered and unexpected things happened.

Mr. Rial: That is a wonderful question, the answer is absolutely no impact whatsoever, we are disappointed but we understand. We are also at least encouraged; in the S&P release they say if not only we come with a target debt reduction but we actually execute it they will review our rating. So I think we got to where unfortunately we got; but the straight answer is no impact whatsoever at this point in time.

Mr. Holsderg: Excellent thank you so much.

Mr. Rial: Thank you.

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

Mr. Christopher Vandergrist: Hello, I want to say congratulations for the strong quarter. I guess I had one question that I asked in the last call related to the recoverable taxes. You guys mentioned that you had maybe a committee looking, addressing that. Because it looks like the use of cash this quarter that was almost 300 million BRL and I was wondering where (inaudible 1:08:13) going forward. Thank you.

Mr. Rial: I think... We certainly have not been... I would not call very astute in how we monetize some of the tax credits that I think businesses in Brazil generate, not only related to us. I think what we have seen with Brazil swaps is that we have stopped adding more to the pie, but we have not really come with a plan and an aggressive plan, how we are going to be monetizing it.

This is work in progress for 3Q. So that is one of the areas that we want to spend a lot of time and being very realistic about what we can and cannot do to the marketplace. There is value in that that we will be working. That is going to be one of the areas of focus for us particularly 3Q forward.

In relation to the cash position clearly 1Q was an improvement but it is not sufficient, it is not sufficient. We are doing everything we can at the velocity that we can to ensure that the market gets reassured that we do what we need to do. We have the creditors helping us and backing us and we are absolutely no concern at this point in time. In particular the four critical banks supporting the group they are still supporting and they are seeing it, they are seeing the work we are doing.

But that is going to take more than a couple of quarters and hopefully I think we pay rightly so for a 4Q. We decided to be as transparent as we could possibly be probably in the worst quarter of the company for a long, long time, and transparency in the short term brings a cost, and hopefully by sharing more and more the market will be able to price us better.

But answering your question on the operational level as we call it, the operational cash flow, we certainly came to a breakeven situation. So that is prior to Capex, which has some discretionary levels and prior to expense. So we are working hard to increase that number on the operational cash flow, as hard as we can, so much so that the entire compensation of the key executives in Brazil is aligned to cash flow generation. And of course we have to be sure that people are not just going to be taking measures for short-term sake; but that is one clear goal that alignment is there. If we are able to reduce debt between 2Q and 3Q we will be able to reduce interest expense account and that starts with the process of improving not only the capital structure, but also the cash flow position of the company.

We are announcing what we are going to do, now it is upon us to execute on the debt reduction. At least we are witnessing these quarters some signals that... Operationally some signals that we are improving.

Mr. Vandergrist: And then on one-time items are there operating expenses? I did not see the explanation; could you comment on that?

Mr. Rial: Fair, I will give it to Ricardo.

Mr. Florence: The other operation expenses and revenues what we had there it was a high amount of provisions on the legal issues that we did in the quarter. We consider most part of them being nonrecurring and this is why we included them in other revenues and expenses. This is most part of what we had there.

Mr. Vandergrist: So should we add then basically that 68 BRL to the headline Ebitda number to get recurring Ebitda like (inaudible 1:20:01)? That is how we should build the company?

Mr. Florence: If you consider as an adjusted Ebitda yes, this would be the case.

Mr. Vandergrist: So those will not be... We should not expect those looking forward?

Mr. Florence: No.

Mr. Vandergrist: Ok thank you.

Mr. Florence: You are welcome.

Operator: Our next question comes from Denis Parisien with Deutsche Bank.

Mr. Denis Parisien: Hi all, thanks very much for taking so many questions and being so patient and congratulations on the result you attained. I am wondering about the cost restructuring that we might see this year. Typically shutting down plants and distribution centers entails some redundancy costs and provisions. You mentioned that there may also be some extraordinary gains from selling such assets in Argentina and in Brazil.

Can you tell us anything about the net... Any estimates of what the upfront costs are and what the ultimate gains might be?

And then my second question would be apart from the R$ 2 billion target for gross debt the company has done a valiant job of selling assets here and there in the past couple of years without attaining a whole lot of deleveraging. Do you have a leverage target for the end of the year that we could attach to the 2 billion gross leverage reduction target? How will we feel comfortable that the reduction in gross debt by selling assets will not to give us a real per real reduction in Ebitda and no deleveraging at the end of the day? I would appreciate it if you could address those two issues, thank you.

Mr. Rial: Very good questions. On the first part of the question the reason why we have not been very explicit around what the potential impact could not be from an accounting point of view is that in the case of the plant we are actually discussions to sell, so until we know where we stand it is difficult really to give you a fair number about the potential impact, and I am now referring to the four plants in Brazil.

In the case of Argentina the 30 million that you are seeing there in terms of potential that is already taking into account a lot related to... Because here it is either closure with people being unfortunately dismissed or renting out the plant to a local operator with all the liabilities whether it is labor or other liabilities, which is our preferred route and there are players interested.

In the case of Zenda, which is Uruguay, there is a plant in South Africa and there are potential buyers. So everything that we are doing... We will close, I mean the decision is to close but properly it is to sell so that we do not take the accounting impact here and there, which would be different depending on the asset. The better position to give you a full picture is toward the end of 2Q. That would be my preferred route.

In terms of debt reduction for R$ 2 billion debt reduction, gross debt reduction, you can take into account 1 point on leverage reduction. So what is our ultimate goal? Probably more around 3.5 and why has not that helped, in terms of divestitures helped the group?

Because I do not think we were at that point in time with concrete signals of the improvements of Seara Brasil. So Seara Brasil has... the debt reduction as such it is not a panacea; there has to be debt reduction coupled with clear, tangible operational performance. Relying only on operational performance we are going too slow; relying only on sale we are fooling ourselves. So it is the combination of both that could actually help the group long-term.

Mr. Parisien: I could not agree more on that last point and the operational improvement I think, as you pointed out consistently throughout this call and in the last one, I think focusing on working capital management, which is obviously the key here, can you give us any guidance for the full year working capital figure?

This is the number that is basically hampering free cash flow generation at Marfrig forever and continued to accumulate in the last 12 months and it is obviously where you are very focused on now. Can you give us any guidance on that figure?

I understand it might be a little bit early, perhaps you prefer to do that next quarter as well; but I think in terms of providing analysts and investors with metrics that we can follow to increase the transparency and improve our understanding of how you are going to arrive at getting to free cash flow, some guidance on working capital numbers would be much appreciated.

Mr. Rial: Absolutely. What I can tell you now so that we do not necessarily postpone the question, I believe at this point in time with all we know, Seara Brasil in particular will have around R$ 500 million less of working capital needs for the remainder of the year, despite being a significant bigger company particularly with the integration of the Brasil Foods assets.

The same phenomenon does not take place to the international front, because Moy Park is a lot more relying on wheat and Keystone relying on corn and they are very much 100% hedged. So they start the year pretty much without taking any price risk at all. So fluctuations do not really matter to a large degree on working capital unless we increase volume and capacity.

In the case of Seara it is different. We are hedged philosophically but in Brazil you do not have the same sort of debt of futures market, so you are hedged for volume, you are not necessarily hedged as much as you would like on price and we have deliberately being a bit more exposed on price on the back of the significant crop expansion in Brazil.

So in summary for Seara Brasil there should be a benefit around R$ 500 million for the current year.

Mr. Parisien: And I can take that from the beginning year number or from the end of 1Q number and deduct R$ 500 million?

Mr. Rial: I would say take it from 2Q onwards because the impact of lower grain prices is not at all felt in 1Q. This will be starting to get being perceived through margin expansion in 2Q and more noticeably in 3Q.

Mr. Parisien: So I am taking that you have roughly 3 to 5 months, 3 to 4.5 months of grain inventory I guess?

Mr. Rial: Correct, correct.

Mr. Parisien: Excellent thank you, thank you very much.

Mr. Rial: Thank you.

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

Mr. Rial: First of all again thank you for those supporting the company for a long, long time. Thank you for trusting us, thank you for believing in what we are trying to do, help us to be better, give us your feedback on how we could improve, we have just heard certainly on the cash flow. It is an area where we need to continue to improve.

There is a lot of work ahead of us. What inspires us is the true potential of the group. We also know that that potential will not be fulfilled without a significant improvement in performance and a significant reduction in debt. So we are committed to that, Marcos Molina and I, we are completely sink in making that happen, which is sometimes when families control the companies, the desire to get it done tends to be challenged, it is not the case here.

So we are very, very much committed from the board of directors through Marcos being the Chairman of the board and myself and the rest of the key executives of the company. That is what we want to do.

So we will continue to work, a quarter is a quarter, it is only 90 days and there is a lot of work and we know what we need to do and, again, it is never too much to say thank you for the support. So thank you very much.

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