Q4 2009 Earnings Call

Company Participants

- Jose Antonio do Prado Fay, CEO
- Leopoldo Saboya, CFO
- Unidentified Speaker, Unknown

Other Participants

- Daniela Bretthauer, Analyst
- Gabriel Lima, Analyst
- Joao Santos, Analyst
- Jose Yordan, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good morning. Welcome to BRF Brasil Foods S.A. and Fourth Quarter Conference Call. This conference call and the presentation are (inaudible) by webcast on our website, www.brasilfoods.com/ir. (Operator Instructions).

Forward-looking statements relate to the company's business for segment, projections, results and the Company's growth potential are provisions; based expectations of the management and to the future of the Company. These expectations are highly dependent on market changes, economic conditions of the country. And the sector and international markets, thus are subject to change [ph].

As a reminder, this conference is being recorded. At this conference are Mr. Jose do Prado Fay, Chief Executive Officer and Mr. Leopoldo Saboya, Chief Financial Officer and Investor Relations Officer. I would now like to turn the conference over to Mr. Fay. Mr. Fay, you may proceed.

Jose Antonio do Prado Fay {BIO 15337837 <GO>}

Good morning, you all. We are very glad to have you in our conference. At first I would like to say that we really are very happy about 2009 regarded to the strategic part of our business. In 2009 we complete this idea of the business that was very important for the future of the company and we begun to build BRF that will be really a star in this market, in the future.

We had a very successful follow-on operation where we picked up BRL$2.5 billion and we use that as we stated in the follow-on to pay the Sadia's debt. Then we went into the tidy [ph] process and the total authorities process and we are expecting to have -- to conclude the total operations in the first half of this year.

Regarding to the short term, in the short term we had a very difficult year regarding the results. Most of the -- the strongest part of the prices occur in the First Quarter where we had backload [ph] from part of our sales in the last quarter of 2008.

Some clients that put -- had been doing some product in the harbor and so on, we had deal with a very strong price's environment in the First Quarter and then we stopped some factories to decrease inventories and to regulate the supply-demand equation. And we too had a fire in our Rio Verde operation, the biggest processed food producer that we have.

So we had a very, very tough time in the first half. Then the things begun to be better, a little, to improve a little and we finished the year with a very good seasonal product campaign, regarding to Turkey. But still facing some problems in external markets mostly due to the supply-demand equation.

So what we feel that we still have problems in external markets in 2010, not as big as it was in 2009. But as we used to say, the things are returning consistently. But not very fast. In internal markets we had good news regarding to the market began to get good answers in the last quarter and we feel that we have a good trend for internal markets.

We really had a very good year in internal markets. Regarded to 2008 mostly in the meat processing, in the dairy markets we took a different strategy. We had better results but in smaller volume looking for profitability in these markets. In summary I would think that we had a strategic, in the long-term point of view, very, very nice and very good year on 2009.

And in the short term we face the biggest crisis that this sector faced in the last 20 years due to the international problems that the world faced in the first and Second Quarter, mostly. So now back to Leopoldo that will give some detail -- will give some detail regarding to our quarter.

Leopoldo Saboya {BIO 16137418 <GO>}

Thank you, Fay. So let's go straight to the result of the Fourth Quarter and also the full year on Page Six. I would like to emphasize that we will analyze all the results in a personal basis as Sadia and Perdigao were merged on January 1, '08. If it's not the case I would let you know.

But first of all, the Fourth Quarter results we understand that we achieved a reasonable EBITDA margin in accordance of our guidance and in accordance of our expectation. I would like just to make a word here of how should we read these results because as of the

Fourth Quarter we needed to do several adjustments to harmonization of accounting practices from Sadia to Bradesco's balance sheet.

And because of new rules, especially the CDM Deliberation [ph] 565, the EBIT margins or the EBITDA [ph] results and also the net income they are not that good for us to analyze this quarter. But in the full year of '09 it's okay for us to read all the results. So first of all, in the Fourth Quarter we achieved sales of -- rough sales of BRL$6.3 billion, 14% lower than last year being domestic markets, 3% lower and export, 31% lower.

In the domestic markets, the focus of the company during this quarter was the profitability and this drop in sales was mostly due to raw product and the dairy division. I will give more details later on. And in the export market this is a very big reduction because we are comparing a quarter last year where we had a poor volume and still very high international prices and a very depreciated Real.

And comparing to this Fourth Quarter '09 where you're seeing we had stable volumes, the very same volumes last year. But international prices 9% lower and FX 24% lower meaning BRL$0.54 lower than last year so a big impact. So going to our EBIT results it was BRL$276 million -- out of that BRL$198 million is due to the depreciation adjustments.

It is basically what did we had to do -- it was a fixed asset usable like Brasil in accordance with a CDM Deliberation 565-08. Basically what we got on here is for full review of the year being impacted only in one quarter and this impact is basically is a reduction of the depreciation or the reduction of our costs. But it's reflected in the EBITDA in the same way. So the EBITDA is the figure that you don't see this impact.

But having said that, it's important to understand how it's going to work from now on, instead of having approximately a billion Real of depreciation in the company we're going to have something like BRL$700 million per year meaning that this BRL$300 million that it will boost our EBIT wil [ph] have the same impact, a neutral impact, in the EBITDA and, of course, will positively impact the net income.

Now analyzing the 2009 figures we had ended the year with a gross sales of BRL$24.4 billion [ph], 4% lower revenues being 4% higher in the domestic market and 14% lower in the export market. In the domestic market, I would emphasize the growth in prices, average prices went up 6% year-over-year. And volumes little lower, 1.9%, lower pretty much due to raw product and the dairy division.

In the export market we got a 6% lower volume prices, average prices in dollar terms, 16% lower and FX approximately 9% higher -- the Real depreciated on average compared to '08. So our EBIT result in the year it was BRL$416 million and the adjusted net income of BRL$360 million is suggested because we are ignoring the absorption of the tax losses relative to the incorporation of Perdigao Agri-Industrial, I say (inaudible) on the First Quarter '09.

And the EBITDA that we achieved BRL$1.22 billion representing a 5.8 EBITDA margin. So going forward, next in line is the breakdown of net sales in the pro forma pages so we can now understand how the company looks like in terms of breakdown of its sales. So Poultry accounts for 31% of our net sales. Pork and Beef 9%, Processed Products and this is processed meats-related products basically, 39%.

And other Processed basically non-meat related like margarine, pizzas, pastas and so on represent 7.6%. This is a growing category in our food (inaudible) and Dairy products plus milk represents 10.4% of our net sales and others, 2.6%.

By markets. So export now accounts for 42%. And domestic markets 58%. Let's go into more detail of the performance of our main market. But first of all, this is an outlook of what we did not go [ph] -- environment we faced, I believe, during the last two years, our main markets -- our main commodity market that influenced our business.

So first of all, the top left we have the floating [ph] prices. Basically the Brazilian prices exported. So we can see a sharp drop from September to February basically, where prices reduced in some cases more than 40% in dollar trend and that has started a reaction. And Poultry was a good reaction from February to June, July, basically and then pretty much stabilizing impact.

Pork faced a different story basically because of the Russia, poor demand on Brazilian exports, which resulted in a consolidated 16% drop in average prices for chicken and 25% drop for pork. The company itself accounted a 16% drop in average prices in dollar, year-over-year.

Now in the bottom left, the grain lowered as well compared to last year so 28% lower corn prices and 16% lower soybean prices. Of course the corn in Brazil had a little different performance because the market sometimes picked up across [ph] international trends. But we were able to have also prices lower in Brazil, in something like 17% to 20% lower corn prices.

And in soybean, on the other realm, it was higher prices, 6% higher soybean prices because of the FX effect. So having said that, we didn't have in Reais the release in cut [ph] in the majority of '09. Only in the ending of the year, more precisely during the Fourth Quarter, we started to see prices coming down a little bit. And this trend is continuing in 2010 where we are seeing costs marginally decreasing. I'll give more details in awhile.

And the dollar, affecting the results in the majority of the year, because of this very sudden and strong appreciation of the Real from the peak and the beginning of the year to the bottom half of October. And it's now -- good thing is that since September is been quite stable -- or more stable maybe around BRL170 to BRL185 approximately. So if it continues, it's good for us because we can plan, in a at least, more stable effects.

Now, going forward on Page 10 this is a detailed performance of our volumes and revenues by [ph] the main category, domestic market and export market. In the domestic market, I would like to emphasize the performance of Elaborated and Processed Meats, which is the Pork, the mainstream of our domestic market operations.

We ended the quarter with a stable volume compared to last year and pretty much stable prices. In fact it helped our profitability was a bit lower cost especially for the Christmas time product -- this year compared to last year.

And the overall performance of the domestic market was very positive in this quarter, not as good as it was in the fourth. But in the year, as we'll comment in the next slide, it was even better. The issue was establishing [ph] the export market where we faced all the turmoil after the crisis that turned out in the Fourth Quarter last year.

So the Fourth Quarter this year, we had the same volumes as last year, no changes. But in terms of revenues 31% lower -- basically prices down 8.8% in dollar terms and the fact, 24% lower. It's important to compare the evolution from the fourth compared to the third especially in the export market where we are seeing this evolution as the main guidance for us to understand how it's evolving going forward.

So comparing the Fourth Quarter and the Third Quarter last year we had volumes a little lower, by 3.8% lower. And prices stable. And that was the kind of guidance we gave to all the market that we shouldn't expect a price evolution. From third to fourth. And it was exactly what we achieved. But in fact also hamburgers again with a BRL0.13 [ph] total Real or 6.8% of the Real depreciation.

And this -- such an impact is the one we don't expect to face from now on because Real is, as I said, on the other way -- it's stable or a little depreciation, which help us to better plan and better effective our revenues in Reais.

Looking to 2009, the year performance on Page 11, we can see -- pretty much the same story. But in the domestic markets the mainstream Elaborated Processed Meats, we could grow 4% in volume and considering that 2008 was a great year for the domestic market. And even that the Fourth Quarter of last year -- sorry, of '08 didn't face any impact of the crisis, at that time.

Because the crisis in Brazil we can say that really started in the beginning of last year, not in 2008, in the consumption especially. So this 4% growth is something interesting. Of course, it's much lower than our historical track record but it was something important, with a 9% higher revenues basically it was prices 6% higher.

And we were able to pass on prices announced this withstanding [ph] higher prices during most of the year. What affected our top line in the domestic market was basically Dairy products, where we touched -- focused on the profitability of that business thus reducing the production of Dairy, remarkably this good milk, UHT milk but being able to pass on prices approximately 5%, which boost our profitability in approximately 200 basis points year-over-year.

Having said that, I can conclude that the domestic market, we got a very positive profitability and a good management of our sales and prices, which helped us to at least minimize the negative effects of the export market. The export market, on the other hand, the total volume suffered, 6% lower and in terms of revenue 14% lower.

Seeing 16% prices in dollars and the affect, 90% higher or as Real depreciated 90% against '08. And the export markets responded poor [ph] almost 100% of our reduction in the EBITDA when we compare the pro forma results of Brasil Foods '09 compared to '08.

Exports revision on page 12, we can see that the Middle East was the main target for not only the Brazilians but also other regions that tried to compensate a very weak European and Asian markets as a whole. So those regions, the Middle East and other countries, where we find Latin America and Africa, were the regions where we could, at least, have a positive result.

On the other hand, Eurasia, Europe and Far East, accounted for the big majority of our problems. It's changing, the picture, at the beginning of the year and in summary the Middle East a little tough in the beginning of the year because of this bigger positions that it traded -- took on this carryover.

But Eurasia, better for Pork prices, Europe being slightly better for turkey and breast meat and Far East mainly Japan backing to a more normalized environment. Now the next page, this is also a way we -- must see the trends, the long-term trend of our key driver of our exports, which would be playing [ph] in this chart of the world's meat space.

But during 13 years, from 1995 to 2008 it was a consistent and constant growth of the total world trade for the total exporting. In average it was -- a consolidated average growth of 4.5% per year and was mostly concentrated in Pork and Poultry. After achieving the very high picture in 2008, it dropped and the expectation as you have seen is a 4.4% drop in these two years.

So from '08 and '10 this drop, which is exactly what is giving us this view of a steadily but gradual recovery of the market. We're not seeing consumption as a rebound, boosting the trade, which would help us to immediately regain profitability in this market. We are not seeing that wave but in a way on gradual [ph]. But consistent recovery of the international markets across this year.

The next page, it's just to show that Brazil, after achieving the very dominant position in the globe trade, which was in 2005, pretty much stabilized in volume and the market share. But for 2010, USDA predicts a growth, a 10% growth in volume. Especially in these, which is expected at 20% higher volume for Brazilian exports.

In the Brazilian market, we are very positive in 2010 and going forward as well. So we have a real income growing. The total wages or the mass of wages are growing even faster because of the employment -- employment being generated. In our segment, more precisely, in our segment, sales of special meats, which is the main driver, the main core of our sales to the mass market, is growing and has surpassed the pick of 2008.

Other indexes, like we will have this year, elections in Brazil and also the World Cup. So we have had -- we have a stable environment where we can expect a growth in volumes that the company is forecasting to see in the range of 8% to 10% volume growth. I forgot to say the expectations for the export market, which is something like 55% volume growth.

Let's take a look at our debt and investments and then I will do the final remarks. First of all, the investments, as always, on a first (inaudible). The true CapEx was BRL803 million and adding the investments in breeding -- the breeder's stocks, we will total approximately BRL1.2 billion of CapEx.

It was in line of the guidance, only BRL100 million above the guidance because of the real burning, an issue the fire that hit that plant. But it was totally covered by insurance. For this year, 2010, we expect a total CapEx of BRL1 billion and for 2011, approximately BRL1.2 billion. This program, as you can see, is a much lower investment than it was during '06, '07 and '08.

Where both companies, Perdigao and Sadia (inaudible) were investing a lot in wind [ph] fields and generation of fresh capacity, which is now being added to the system. So we need just marginal investments to take advantage of this organic growth capacity. In terms of debt, the fire, we are very satisfied with our final position for the year, representing a total liability management of the situation.

We stated by mid of last year, with levering the company and having the net debt to very positive level and the profile of the total debt also showing improvements being out of the BRL8.9 million total debt, 52% is more incurring [ph] and out of this total amount 7% -- 67% is long-term, which is be even longer, considering that we added, by the beginning of this year, the Aerobond [ph] of BRL750 billion.

Which announced -- which will help us to extend the duration, exactly because we are now paying the short-term debt, not only with this net proceeds that came with the bonds. But also, the proceeds that came with the follow-on that we based all the Sadia short-term and expensive debt. But having said that, we end the year with a leverage of 3.2% higher than the third. But not because of a higher debt. But because of a lower -- less low amount of the EBITDA.

Especially because we removed the third -- Fourth Quarter last year of this accounting and shifted by the Fourth Quarter '09, which was. And they -- very different in terms of EBITDA type. Okay? So the shareholders and composition, next pages hasn't shown any changes regarding the last quarter and it's just to show that the main fund, the patient funds, they subscribe -- they arrived [ph] during the follow-on and they pretty much kept their position.

We remarked that 32% of foreign investors and also the very sound position of domestic investors that have been following the company growth, recent growth and recent transactions. And the -- (inaudible), we have -- we are very happy with this figure, showing that in the Fourth Quarter, we achieve an average credit volume of our shares at around US$62 million per day, which represents a 278% higher than last quarter '08.

In 2009, the average volume was US$39.2 million per day, which was 46% higher than last year. Having said that, I turn to the Operator and we are here waiting for your questions. Thank you very much.

Questions And Answers

Operator

Excuse me, ladies and gentlemen, we will now begin the question and answer session. Participants may ask only one question. (Operator Instructions). Excuse me, our first question comes from Mr. Jose Yordan with Deutsche Bank.

Q - Jose Yordan {BIO 1496398 <GO>}

Good morning, everyone. My question is just about the depreciation adjustment that you mentioned. How much of that was from cost of goods sold depreciation? How much went -- was from SG&A depreciation?

A - Leopoldo Saboya {BIO 16137418 <GO>}

All the adjustments, it was in the cost of goods sold.

Q - Jose Yordan {BIO 1496398 <GO>}

Okay. Thank you very much.

Operator

Excuse me, our next question comes from Mr. Gabriel Lima with Banco Santander.

Q - Gabriel Lima {BIO 16224058 <GO>}

Hi. Good morning. Well I have a pretty simple question regarding your expectations on prices. Actually we know that you have a volume expectation on exports growth year-on-year of 3% to 5%, correct me if I'm wrong. In the domestic market, a growth of -- volume growth, of 8% to 10%. So Leopoldo my question is, do you have any pricing expectations on domestic and export markets?

A - Leopoldo Saboya {BIO 16137418 <GO>}

In the domestic market, we don't have -- in fact, we don't need such a big increase on prices. But of course due to a mix enhancement, we expect to have higher prices. I can tell you that a 3% higher prices, which would be lower than inflation. But a little higher than the sectorial inflation, would help us to boost our profitability, put it all in the domestic markets.

Q - Gabriel Lima {BIO 16224058 <GO>}

Yes.

A - Leopoldo Saboya {BIO 16137418 <GO>}

In the export markets, we need to really complete the gradual and consistent recovery of margins in the export market. What we need is, if we -- an average change of prices of approximately 12% to 13% in dollar sense, on average.

Q - Gabriel Lima {BIO 16224058 <GO>}

Yes.

A - Leopoldo Saboya {BIO 16137418 <GO>}

But if you take point-to-point. So November, let's consider November, December '09 against November, December 2010, this type of international prices increase that we need is something lower than that, sometime like 5%, 7% depending on the markets.

So it's not a huge effort of prices. In some cases, we need to defend prices during a part of the year and in some other cases, we can be more aggressive to pass on prices. But in general, this is a picture we foresee.

Just to add that for internal markets, the big question mark is the inflation. We do not -- we did not have a very clear scenario about the inflation. But if there is a normal inflation rate, we should need not very big price growth.

Q - Gabriel Lima {BIO 16224058 <GO>}

Okay. Got it. Very clear.

Just another quick question regarding poultry export prices per kilo, I've noticed that your dollar export prices dropped slightly from third Q to fourth Q. I have 2006 poultry export price per dollar in third Q and dropping into BRL197.

With the Real appreciating, q-over-q, it's -- one should expect to raise -- the share raise on the price per dollar exported. So do you -- can you give us any sense on what happened to the -- does decrease on export prices q-over-q please?

A - Leopoldo Saboya {BIO 16137418 <GO>}

Well the (inaudible) the First Quarter this year is the prices will be better especially because we have better prices in Japan and in the core exports to Russia. Okay? And especially when you compare in the First Quarter of 2010 to the First Quarter 2009, you're going to see a big improvement because last year, the First Quarter, was terrible to us. It was very (inaudible) by prices and by match-making [ph].

The re-negotiations that we had, especially in (inaudible) and Russia, the perspective for this year is much better when it comes to (inaudible) debt. Last year -- in this time of last year, we are in a very bad position, stocks were blowing [ph] up and the price of oil still kept coming down [ph].

Q - Gabriel Lima {BIO 16224058 <GO>}

Okay. That was helpful. Thanks.

Operator

Our next question comes from Miss Daniela Bretthauer from Raymond James.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Hi. Good morning. Two questions. You already received approval from Sadi for -- to do something both in the domestic market and export market. Has any of -- have the changes helped you, captive [ph] synergies in some sort of way? If so, could you just comment a little bit on like the positive impact or what sort of impact do you expect going forward on the already flexibility (inaudible) that you requested?

A - Leopoldo Saboya {BIO 16137418 <GO>}

Regarding to antitrust authorities, we had some approvals. But with limitations. We really could go through external markets to get them, in the commercial matters. But we could not share costs and so on.

So we do not have any synergies inside our results for this year. Perhaps a little in the last quarter. But we still have -- we can operate something. But with limits, mostly due to cost information that we could not share until now. We still could not share yet. We keep on expecting to have this approval for the first half of this year.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

So even though you got some flexibility in a few items, it hasn't really helped you in any material way?

A - Leopoldo Saboya {BIO 16137418 <GO>}

Yes. Yes, yes, yes. We still have some limits to respect and it limits our capacity, our (inaudible) capital.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

And the second question is regarding -- if you could give us a sense of gross margin. I mean, you already mentioned that the depreciation expenses will be booked only at cost of goods sold. But other than that, what sort of other drivers can we expect for the gross margins throughout 2010? What range, if you could give us a range, for gross margin for 2010 that would be helpful.

A - Leopoldo Saboya {BIO 16137418 <GO>}

a very important driver of the first profitability, the general profitability, about the company this year is going to be the cost adjustment to more actual stipulation [ph] of the facts. Meaning that, we don't have or we don't need such a big increase in prices to boost our profitability. But on the other hand, we need this adjustment in costs, which is happening right now.

If you look to our live -- cost of a live chicken and live pork, is marginally decreasing in our value chain, which is going to be the main driver for our operating results to start to open again after being very damaged last year because of all of the changes, the disruption of the market.

So the main driver, I would say, in the short to mid-term is to cut and slightly price management across the international markets at autonomous fed [ph]. So those are the main drivers. Of course, returning to a top-line growth, it will also help us to return to our operating expenses, the commercial expenses, into a more normalized level.

Last year, as you can see on our balance sheet and results, we increased by approximately 200 basis points our commercial expenses. It's too much. But our -- we (inaudible) that we've been doing all the efforts to reduce and to accommodate costs during the year. But when a company, like Brasil Foods, with a very long-term value chain, reduces the top-line after several years in a growth trend, it's very harmful for us. So this return on a positive trend of our top line will always -- will also help to boost our profitability.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Okay. Got it. Thank you very much.

Operator

Excuse me, ladies and gentlemen, as a reminder each participant may ask only one question. Our next question comes from Mr. Jose Yordan with Deutsche Bank.

Q - Jose Yordan {BIO 1496398 <GO>}

Hi, my follow-up is just about the other operating expense line. I appreciate that this is very hard to predict, this line. But your -- but the Fourth Quarter had some -- had a pretty -- a much higher number than had been the case in recent quarters. If it -- to the extent you can give us any color as to what is in there, what is a one-time and what is recurring and sort of guidance for this line going forward, that would be helpful.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Okay. Thanks for the question. This figure, yes, it is not common to the acquired debt [ph]. There is a good portion of that which going to be recurring during the coming quarters and this return is basically regarding the idle capacity [ph]. So the cost of the idle capacity, which is -- in the past, it was in another line. But now it's in there.

In this specific quarter, it was higher than normal because we adjusted all the EBIDTA as [ph] figure harmonizing our accounting practices. So that's why it is extraordinarily high, because of this harmonization. But it should go, going forward, it's going to be the amount due to the quarter only.

This is the part of the order operating results that is going to be seen going forward. And on top of that, we had other several minor adjustments that was -- that we had to do because of the consolidated of the two companies different practices, in which impacted mostly the Fourth Quarter. But this is the main difference of these lines and we should not expect nothing different from the cost of the idle capacity going forward.

Q - Jose Yordan {BIO 1496398 <GO>}

So something like BRL40 million or BRL50 million per quarter is a reasonable thing to expect for this line?

A - Leopoldo Saboya {BIO 16137418 <GO>}

It is, when we start on 2010. But it's -- it should decrease as long as we start to fulfill the capacity in each of the plants that are in the pre-operating levels.

Q - Jose Yordan {BIO 1496398 <GO>}

Great.

A - Leopoldo Saboya {BIO 16137418 <GO>}

I'll give you three examples, which is the Sadia plant of Lucas do Rio Verde/Goias, the Sadia's plant of (inaudible) in the northeast of Brazil and four of Perdigao's plants of Bonton Stereo [ph]. As long as you fulfill the capacity, this figure is going to be low. But as to this BRL40 million to BRL50 million, in the -- for the next coming quarters is okay.

Q - Jose Yordan {BIO 1496398 <GO>}

Okay. I'm just curious, how you calculate that cost of idle capacity exactly?

A - Jose Antonio do Prado Fay {BIO 15337837 <GO>}

This is -- I would ask a group of accounting guys here to answer you. But I will try to sum up. You have what is considered theoretically 100% of capacity -- of the line, which is already invested, already in place of such a plant. So if you start a run, because you never started bottling or processing 100%, you started a ramp up.

So when you start, let's say, at 20% and you are setting up this pre-operating process, this 80% of the non-utilized capacity and other expenses that should have been spread over higher volume or food volume, is considered a cost. As I've mentioned, idle capacity costs. This is the way we calculate it. But of course, it's not that in 2010.

Q - Jose Yordan {BIO 1496398 <GO>}

Okay. That sounds good. Thanks a lot.

A - Jose Antonio do Prado Fay {BIO 15337837 <GO>}

Okay. Thank you.

Operator

Our next question comes from Alex (inaudible) from JPMorgan.

Q - Unidentified Participant

Hi. Thank you. Good day, everyone.

My question has to do with a comment you made previously on the Portuguese call. I know some of my questions have been answered. But my question has to do with China. If I understood correctly, you said that China could go from being 3% of exports to more than 10% by 2011. Is this correct? And what would need to happen for this to happen, for such an increase in China?

A - Leopoldo Saboya {BIO 16137418 <GO>}

As I commented before, China, the system they have in China is that we have to rebuild (inaudible) China. Then for doing imports you need to get the -- the licenses in Beijing. The capacity (inaudible) certain markets for something like 300,000 tons per yea. Okay?

Q - Jose Yordan {BIO 1496398 <GO>}

Yes.

A - Leopoldo Saboya {BIO 16137418 <GO>}

So once we have about 45% of the Brazilian exports. We forecast to have, for China, I mean, for let's say, 2011, 2012, about 12,000 tons to 15,000 tons a month. That's new volumes in new markets. So it's the capacity for (inaudible) in China.

Q - Jose Yordan {BIO 1496398 <GO>}

Yes.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Okay? But the forecast is coming from what they say. They have imported by 2011 or '12, about 300,000 tons a month -- a year.

Q - Jose Yordan {BIO 1496398 <GO>}

Okay. Understood. Now if I may ask a quick follow-up on this, now that the Russians are -- borders are closed to US imports, what is your view of where would those exports of the US will end up being sent to?

I mean, we understand, our calculations say that 5% of the total US poultry production last year went to Russia and now we're entering the third month of 2010 where these borders are closed. As the leading industry participant in the world of exports of poultry, where do you anticipate the US will be sending all this excess chicken that was going before to Russia?

A - Leopoldo Saboya {BIO 16137418 <GO>}

Well normally what they we are doing, they are putting more volumes in accepting new markets like Africa. Okay.

Q - Jose Yordan {BIO 1496398 <GO>}

Yes.

A - Leopoldo Saboya {BIO 16137418 <GO>}

But they are demanding more leg quarters, producing exported prostatin in national markets, American national markets. Okay? So the -- that is what they are doing now. But you actually have -- maybe the export for market-based accounts, which is leg quarters. So they have been splitting [ph] the volumes between those countries that still are there in the market and growing for those kind of cheap sites [ph]

Q - Jose Yordan {BIO 1496398 <GO>}

So basically they're trying to expand their exports in the existing markets. But you're not seeing them yet, trying to look for new markets that they -- ?

A - Leopoldo Saboya {BIO 16137418 <GO>}

No.

Q - Jose Yordan {BIO 1496398 <GO>}

Okay. Fair enough. Thank you. So much.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Thank you.

Operator

Our next question comes from Mr. Alexandre Pizano with Bank of America-Merrill Lynch.

Q - Joao Santos {BIO 6691499 <GO>}

Hi. Good morning, everyone. Actually this is Joao Santos who jumped on Alex's line once again. So just a follow-up question on the cost base, we have seen this improvement mostly coming from, as you said on the Portuguese conference call, US dollar linked costs, mostly grains here.

So if you could look into the export market, margin recovery, throughout 2010, can you give us a good sense of how much of that would eventually come from this cost base, from the grains, specifically, rather than improvements in the business for you to achieve by the end of the year, regular EBITDA margins, the export margins?

Apart from the potential synergies out of the merger, only on the cost base can you address like -- give a little bit of quantity in terms of the margin (inaudible) could get out of the cost based leads? Thank you.

A - Unidentified Speaker

Its little tough to precise how much is -- will come from one and how much will come from another. But roughly what we can tell you is that cost improvements, due to grains and these absorption [ph] in our costs is better effect of those dollar linked costs that represented, throughout the year, something like 60% of the improvement.

The 60% of the improvement not only cost of goods -- sold goods. But also our commercial costs and operating costs is that we'll can do us to have a much more normalized level different than that we faced, especially during the First Quarter -- the first half last year, where we had a lot of extraordinary expenses of high inventories and the mover Gs [ph] and so on.

So this would represent, these costs and expenses, would represent 60% or even a little higher than 60% of the recovery. The remaining 40% or 30% will come with a price, better pricing, throughout the year. I think this is the past guidance that we can share with you regarding the movement of our profitability in the (inaudible) market.

Q - Joao Santos {BIO 6691499 <GO>}

Excellent, that really, really helpful. Just a very quick follow-up on the cash position, in that long-term cash increased a lot, the debt on government bonds. Can you just give a quick glance on that?

A - Unidentified Speaker

The long-term debt?

Q - Joao Santos {BIO 6691499 <GO>}

Long-term cash. Long-term cash position increased a lot.

A - Unidentified Speaker

Cash?

It's basically as long we don't intend to use this cash in the very short term, they are in a position of investment returns, time for us to gather money. But they are -- they have a liquidity. They -- it's not --

Q - Joao Santos {BIO 6691499 <GO>}

Daily liquidity, right?

A - Unidentified Speaker

Yes, daily liquidity.

Q - Joao Santos {BIO 6691499 <GO>}

That's excellent. That's great. Thank you very much for that.

A - Unidentified Speaker

Thank you.

Operator

Excuse me, our next question comes from Miss Alisa Miller [ph] with Blue Bay [ph].

Q - Unidentified Participant

Hi. It's actually Alisa Miller. Thank you very much for the call. I'm sorry if you've already answered this question. But I was hoping you could give me some color on your decrease in EBITDA that you saw over the year in your pro forma figures. I know, Bradesco [ph], it's due to an adjustment to your depreciation. But other than that, if you could talk a bit about what else has contributed to that decrease, that would be great. Thank you.

A - Leopoldo Saboya {BIO 16137418 <GO>}

Okay. So you are asking basically regarding the adjustments that impacted our Fourth Quarter results and how it's going to look like going forward, right?

Q - Unidentified Participant

No. It was more -- like I understand that there is an adjustment to your depreciation, which contributed to the decrease in EBITDA that you saw over the year. But I was just wondering what else contributed to that decrease? I think you might have gone from 10.5% in 2008 to 5.8% this year, pro forma. So apart from the adjustment in depreciation, what else has occurred there?

A - Leopoldo Saboya {BIO 16137418 <GO>}

Okay. So apart from the depreciation, which is important to emphasize again, it's just an impact, a positive impact, on the EBIT. But not on the EBITDA, the EBITDA. So it's a neutral, these changes in accounting rooms [ph], here in Brazil.

As the major impact of our EBITDA or our operating results in the quarter and in the year, it's 100% due to the external markets. So there aren't any other adjustments or impacts that we faced, other than those. If you'd like me -- we can give more details of such an impact on the exports. But looking to the EBITDA as a proxy of our cash generation, as I said, all impacts we faced in the company, in the quarter and in the year is due to the export markets.

Q - Unidentified Participant

Okay. Because I -- from how I can see the numbers, it looks like the export market decreases -- weren't as large as the EBITDA decreases. So I'm just wondering where -- how that kind of worked out that you get a 47% decrease in EBITDA. But still the 14% decrease in your export revenue?

A - Unidentified Speaker

Yes. The decrease in revenues, of course, is another issue for us to keep the profitability as long as we have several fixed costs. Not only in the plans and the production side. But also in the commercial side of the company because we were planning, two years ago, where we started investments for 2009 and '10 volumes forecast to have as a different scenario, of course.

So those kind of a little higher infrastructure that we prepared was more than enough. It was higher than we needed to perform the lower volume '09 compared to '08. So this is another explanation why these lower revenues damaged us in terms of our borderline.

Q - Unidentified Participant

Okay. Thank you.

Operator

Excuse me, our next question comes from George Imalt [ph] with Flexine [ph].

Q - Unidentified Participant

Yes. Hi, thank you very much. Just a quick question on the export side, if -- I know you don't break up the margin between domestic market and exports. But just to get a better understanding on the swing, because of the sharp drop in your top line, I mean if you can give us a sense of how much your EBITDA margin in the export market declined and what was the evolution of the domestic market EBITDA margin?

A - Unidentified Speaker

We don't have such a place and we cannot explain in that way. But I can give you an assess how our results were impacted by the domestic -- the export market, okay?

So if we take the EBITDA of last year, which was on a pro forma basis, it was BRL2.3 billion, the difference of the current EBITDA generated this year, BRL1.2 billion, all of this difference was due to the export market, basically. That's the big summary of the picture that we stated in 2009.

Also if you analyze our domestic markets in 2009 has pretty much the same profitability we had in 2008. So just to clarify how was -- or how big was the impact on our operating results, due to the export market.

Q - Unidentified Participant

Okay. Thank you very much and products [ph] really good.

A - Unidentified Speaker

Thank you.

Operator

This concludes today's question and answer session. I would like to pass the floor to Mr. Fay for his final statements.

Jose Antonio do Prado Fay: So I would like to thank you all for the analysis and coverage that we are having during this time. I would say I will look forward to (inaudible) under my point of view, to strategically speaking, 2009 was a fantastic year for our shareholders and our company.

We really are building a very, very strong view of business in the protein side in Brazil and we are having more scale to international allies with the company, faster than we intended for. So also, we had a very tough year regarding to results 2009, considering this scenario that we faced during the year, I would say that the company has a good performance, although it was not the results that we need to have during our life, as our short-term life.

So I would like to thank you all and we expect to have a 2010 better and we still have some question marks at the end in external markets. We are very positive with that in internal markets, domestic markets and so thank you for your statements [ph] to be clear. Thank you. Bye-bye.

That does conclude our BRF (inaudible) Conference Call. Thank you very much for your participation and have a good day.