Q2 2012 Earnings Call

Company Participants

- Antonio Augusto de Toni, VP
- Jose Antonio do Prado Fay, CEO
- Jose Cabral, VP
- Leopoldo Saboya, CFO
- Unidentified Speaker, Unknown

Other Participants

- Alexandre Miguel, Analyst
- Fernando Ferreira, Analyst
- Pedro Leduc, Analyst
- Thiago Duarte, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good morning. Welcome to BRF Brasil Foods SA Second Quarter of 2012 conference call. This conference call and the presentation are simultaneously transmitted via webcast in our website, www.brasilfoods.com/ir.

At this time, all participants are in a listen-only mode. And later, we will conduct a question-and-answer session. Instructions will be given at that time. We would appreciate it if each participant asks only one question. (Operator Instructions)

Forward-looking statements related to the Company's businesses, perspectives, projections, results. And the Company's growth potential are assumptions based on expectations of the management as to the future of the Company.

These expectations are highly dependent on market changes, economic conditions of the county and the sector and international market that are subject to change. As a reminder, this conference is being recorded. At this conference, we have with us, Mr. Jose Antonio do Prado Fay, Chief Executive Officer; Leopoldo Saboya, CFO and IR Officer; Mr. Antonio Augusto de Toni, Foreign Market Vice President; and Mr. Jose Cabral, Domestic Market Vice President.

I would like now to turn the floor over to the Company's management.

Unidentified Speaker

Good morning, everyone, welcome. Welcome those of you who are here to with us. And also those who are following us over the web. Today is a very special day for us, considering that Atimac [ph] has been on for slightly more than 40 years and it was born with some basic goals, in addition to the most obvious ones, in order to work for professionals.

It was also born with the idea to sponsor a closer relation between investors, analysts as well as companies. Ever since its inception, all these meetings have proved to be a landmark. A landmark of this institution and ever since then, companies have held these meetings on a regular basis.

BRF foods, heir of [ph] Sadia and Perdigao as independent companies, is the only case in which for 30 consecutive years, for 30 years that are being celebrated right now with ongoing meetings -- 30 consecutive years of meetings. The most long lasting continuous relationship ever. So we would like to congratulate the Company for its willingness to be so diligent with us and so close to the market.

The Company's management has already been introduced and next I would like to give the floor to Jose Antonio do Prado Fay, the CEO, for his opening remarks.

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

Good morning, everyone, thank you for joining us today. We'll be starting now with the Company's earnings results for the Second Quarter of 2012. This quarter as I highlight, we had an increase in our top line of 8.4% and considering the current scenario, I consider this to be very good. We also have profitability below the Company's potential, below what we had expected. And that's due to the industry scenario and later on we'll be addressing that better.

The main activity or at least one of the main events, this first half of the year was the beginning of the completion of TCD, our performance agreement. In July last year, we made an agreement with Cade in order to have our merger approved with restrictions. According to this agreement, in March we would have delivered 10 plants, 7 are ADCs [ph], everything you already know about in order to meet that stage.

And actually due to negotiations that didn't happen in March. But rather it happened over the Second Quarter and also early Third Quarter, we still had some activities, we still have some activities to perform when it comes to compliance with a TCD. As to the foreign market, we had the first signs of improvement.

The foreign markets still show some double signs, actually improved foreign exchange rates do show better foreign scenarios, even though we still have a lot of challenges in the domestic market. We also had $750 million funding. As a result, our position is very comfortable when it comes to our own cash status.

In reality, today we'll be focusing on three different blocks. During Leopoldo's presentation who is here with us -- you all know Leopoldo as well as Augusto who is the Vice President for Foreign Market and Cabral, the Vice President for domestic market. Altogether we will go deeper into the Company's performance in these two areas.

Now, when we focus on the macroeconomics in Brazil, I would say it is a neutral scenario. When we are about to work on the TCD, we would like to have a very positive scenario. But I consider it to be a neutral one. It doesn't bother us. But it doesn't help the market that much.

There is some sign of slowdown in the market. But we couldn't say that the macroeconomic scenario is interfering or causing problems to the business, at least the Brazilian macroeconomic scenario, as to the global macroeconomic scenario and you're all aware of all the crisis worldwide, they always hinder our business flow. In moments of crisis, we have about 15% of our business held in Europe and even in other areas. And there is a trend to raise the barrier and the market becomes more sensitive, more nervous and it always causes slight instability, let's put it this way, in our flows.

As a third point, which is also important, is exactly related to our domestic issues. In other words, we have a TCD and we planned with a lot of details. We knew in advance and we already know that that's a very sensitive operation. It was fully planned and controlled. We know now and we knew before, these operations would have an effect in our results, that was anticipated.

But what we failed to anticipate was that operation considering the current scenarios. In other words, we have issues related to the scenario that are really affecting the results more than we expected, over the time frame for TCD, which is basically the second and the Third Quarters of this year.

In other words, we can see that what is happening today has to do with our internal or domestic issues. They are very complex operations; they will be sharing later on. And as I said in the beginning, they were on schedule. We were aware of them and we are still aware and we are working on them as we expected. But what was beyond our expectation has to do with the scenario that we'll be detailing later on. For instance, increase in grain costs at unprecedented speed with maximum or peak amounts and therefore the price bands for speed has to be really fast.

And because we also know in an industry that sometimes it's idle when it comes to price transfer, this comes slower than we expected or wanted to be. But this is really happening and we are strongly focused and we do have to catch up costs with prices particularly linked to grain.

So now, let us start a breakdown of our results. And next, we will be sharing more details on the domestic and foreign markets. And after that I'll come back to address other activities held by the Company and show my closing remarks. I would like to turn the floor over to Leopoldo now.

Leopoldo Saboya {BIO 16137418 <GO>}

Good morning, everyone. Let me adjust my microphone first. So I begin my presentation by showing the financial highlights. In the first chart, you can see that it summarizes in figures and numbers very well what is happening to the Company or the Company's status in the first half of the year. So it's a first overview of the first half of the year, compared to the previous year when we generated about BRL1 billion as EBIT operating.

And this year generation is BRL549 million, on a % basis exactly 50%. The first main deviation still comes from the foreign markets, despite improved signs from the first to the Second Quarter, when I look at all or the whole first half of the year, we still have a major deviation in absolute and relative term, vis-a-vis last year.

So what really happened here? If we imagine or in effect, this scenario of the export market, we would see that the mid part that lapped to that micro balance year on year stems from a scenario of imbalance between supply and demand. Particularly in two major markets of the Company, the Asian market or Japan or Far East and also the Arab market. We explained this in the previous quarter, they lowered the effect in the Second Quarter. But they are still very significant in the first half of the year.

And please remember a comparative purpose. Last year, our results were very strong in the foreign market in the same quarter. So we have this contrast in the foreign market as you can see on the slide. However, in the domestic market, when it comes to more domestically focused operations, known as internal market and Cabral is here to share more details to you.

Food service and dairy products, year on year they have worst margins. These domestic activities also receive what we know as a collateral or side effect of adverse conditions from abroad. Later on, I'll be sharing more details. And on top of that we have a BRF issue, which is the effect that are present stemming from the TCD compliance. And that's something related to the Company. We're working on it and we are doing that as we planned before.

What makes this effect even stronger is that while we were working on this transition process, over the First Quarter and even stronger over the Second Quarter, we had another strong effect related to costs. If we were to add another cost effect, it affects both the domestic and foreign markets. And it comes very strong, because we also had effect related to the exchange rates.

So if we consider the evolution of that rate, now moving from the first to the Second Quarter, even my operating margin or differences between the domestic and foreign markets -- the foreign markets despite higher cost and that's because exchange rate also effect costs. It still can offset by better dollar denominator prices, compared to the First Quarter.

So we do have an evolution as we had expected. As through the domestic market, the effect caused by cost also effect to foreign exchange, it's pure cost. We have no effect of exchange rate in the domestic market and we also have trends [ph] and effect related to TCD.

So that's an introduction to show you the focus of our conversation and we also want to look to the future, considering what we are doing right now and how we see our business evolving into the future. But it's important that each and every one of us are based from the same assumption, the same understanding on the main drivers that affected our result.

Now moving forward, to this comparative vision. And by the way now we are comparing in darker gray, this is year on year and in light green, I always show the short-term vision or the previous quarter, compared to the current one. Here I can see a compression of gross income on three percentage points lost by the Company and we also have an evolution from the first to the Second Quarter, that's true.

Then, to what we have at the bottom -- EBITA. And it shows a stability from the first to the Second Quarter. This difference is related to more operating expenses, also expected for this moment and that's when we start to have trends and expenses related to TCD. Later on we'll be addressing that better.

Next when we check EBIT and net income, this is very much in line, this compressed margin vis-a-vis last year. I already made some previous comments and also compared to the First Quarter. And as to net income we have an even stronger effect with a non-cash effect related to financial expenses.

They are basically related to exchange rates. Now let me digress a little bit just to explain exchange variants. Perhaps, many of you follow what we refer to as the Company's accounting foreign exchange variants, around $500 million or $600 million and the close with $362 million, which is an exposure to the size of our exports, which is relatively small, less than one month of our exports.

However, the breakdown dynamics is not that simple. We have a positive action or -- in euros considering our investments in companies abroad that are euro denominated, inventories, et cetera. And on the other hand, we also have counting short position in dollars. When I add both and convert into dollars, we have $500 million.

Financial expenses taken by the Company this quarter amounted to BRL187 million related to exchange variants. And if you work on the math about $500 million, you won't get to the same figure, because there is a difference considering euro and also the dollar and real. So just to give you a flavor, dollar had $0.20 variation from the first to the Second Quarter, end to end.

$0.20 devaluation and euro was depreciated only by EUR0.13. So just to give you an order of magnitude of what benefits, the 950 active investments in Europe, that did not offset what is sold or showed in dollar, which is about $1.5 billion. That's why my expense accounts with non-cash exchange variants is higher, rather than a pure exposure which is dollar denominated.

I'd also say that -- by the way, I would like to remind you that our exposure is not relatively small. We do some hedge accounting, both for the hedge that we work on an active basis, vis-a-vis our cash-flow exposure and also the foreign currency denominated debt. And we have accounting effects on -- we could have even profit and losses on a monthly basis, if it weren't for that.

Now, next moving to the top line and the total revenues. When we compare year on year, we have 8.7% growth in our revenues, almost 5% in volume, 3.5% in price and mix. Just to give you some color on our prices, it's important to begin to understand the price equations.

Whenever we consider all processed products in domestic market, retail, food service or processed products, there are dairy, which is the big mass we work with, price rises year on year amount to almost 10%. And we're already working on price transfers. But this is not enough to recover our gross margin. But we already have price transfer in the total domestic market including other products that are more challenging due to the access of supply and also the side effect of foreign markets into the domestic market. And as I said before the increase in price goes down to 5.7%, when I include other products in the mix.

And when I focus on the foreign market alone, it is virtually flat, price-wise 0.4% vis-a-vis the same quarter of last year, despite the better exchange rate and that's because, well, price has improved from the first to the Second Quarter. But when I compare prices in dollars today year on year, they are still lower in dollar denominated and that's why the profitability of the foreign market remains compressed.

Next, I already made comments on this scenario, which is very challenging that's related to grain. It is not the first and maybe not the last time we will see that, it's part of our business, we know how to handle it.

What's particularly striking is how fast it all happened. And particularly in a market in which the foreign demand, particularly the foreign demand shows some signs of weakness and therefore the conversion of price or cost into price was not as immediate. If you remember 2010 and 2011, we remember we were ahead of the price curve and we delivered our prices.

This time, we are slower but we're working on it. But the thing is that in this quarter the big change that's not an industry headline, this is in all the media, it's a global issue and also a public problem in the US due to the severe draught. Corn prices in the US were beyond the 29% variation, in the same quarter in dollars. And if you add to that, the exchange effect, this becomes even stronger.

So we have a comfortable position for corn. But that doesn't prevent but delays this increase. So we are properly positioned in corn. But the effect also calls for price transfers in all our markets. The magnitude can be smaller in the domestic market, because we have lower profits. We have 30% and 40% variation and then you have more costs around to 7% or 8% that have to be transferred in order to maintain the Company's profitability.

The secrets but I believe everyone knows that, the cost expected in United States, three or four months ago and that's why the market was going downwards. 375 million tones, the largest corn crop in the United States. And it became the worst, one of the worst there, of 273 million, that is over 100 million tonnes of drop in the expectation.

That's not a problem, that is a situation that has translated in a matter that the Company has to deal with. The cost is not a problem for BRF which is market leader and we become an even more competitive Company in the global market. But in the transition that we are performing right now, we have an important issue about costs to work with, that's the only problem about the soybean meal.

We still have a matter of price increase. So 60% in the year in dollars. If you combine that with the exchange rate, we had a situation where we had almost double price and the domestic market, in some areas really it's a double price, especially compared to the beginning of the year.

And so we have a complex position in this factor, not only for our Company. Also we have the same problems with the drought in the United States. Just to give you an overview in terms of costs of what's going on. I will also talk about expenses, I believe that's something important to be addressed. When we analyze, the first half of last year, we are growing in absolute and relative terms.

Maybe for some of you that have more contact with the Company, we were already expecting that this would happen, we knew that that the Company would have some fixed expenses, some fixed costs in a non ideal way, not totally optimized, because the Company would undergo this transition, keeping some of those fixed costs not spreaded or not diluted due to the TCD or performance agreement. So we have here, several costs and expenses that are transient to the operation.

They are very difficult, almost impossible to be highlighted and precisely identified of where they come from, because they are associated to the TCD performance agreement. But the fact is that we are having an operation that is -- bring more expenses when we are preparing the Company and I'll go into further details.

In the administrative expenses, we are below last year, both in absolute and relative terms and that's why in the total when we add both our operating expenses, 1percentage point above last year. So what is the idea here? The message, the Company is, since the beginning of the year, reducing costs, reducing expenses and working towards that and we intend to conclude this year with the same level of expenses that we had last year.

So if we are able to deliver results with this type of results, with this lowering of expenses, we have done then our homework in terms of expenses. We know that we always have room for improvement here. But where we have the quickest leap to go back to profitability. And the Company is in the growth profitability of the operations comprising costs and not yet regaining prices and this is once again what I would like to stress.

Now talking about investments, we have invested BRL490 million in the quarter and large part of it in efficient growing. We still have a very high expense for the Company standards, these are still investments due to our merging. And I would always like to remind you that we are still undergoing a merging process, not only because we are working on the performance agreement. But also because of such a large margin really takes time.

Especially because we took almost two years-and-a-half, 2.2 years waiting, that is a final decision. So we still have costs related or investment costs related to the total merging of all processes of these teams. And biological assets are our investment in matrix [ph], that's what we have invested every half of the year. So I would like to add that we are accommodating our CapEx, trying to make it compatible to speed of the CapEx and also regaining our cash flow in this operation.

About synergies and this is what we do every quarter, these are the figures that we brought up internally with the same methodology that we have established in the beginning of 2009. Basing on the reference that the separated companies had in 2008, that's very important to understand. So as I said, we have over 200 projects that were identified, they were being followed up strictly and we are delivering results, what is not shown here, in that expense of BRL18 million and we are very faithful to the methodology -- they are just related to those projects.

Here we do not include several expenses with optimizations that we are having now, those are transient expenses, that is true. But they are affecting the short term of the Company and they are not accounted in this figure. It's important to know that.

Talking about our financial status. And I am getting close to wide part of the presentation. So that we have our new guests for their presentation. So they can deliver their messages.

And in terms of the financial position or financial status, the Company has some more robust liquidity. We had funding of 10-year bonding to refinance the short-term debt and take advantage of the market. Moment also we did a revolving credit align and with the purpose of bringing liquidity to the Company, we have almost BRL4 billion in cash. Part of this cash is going to be used to pay debt maturity at the end of the year.

And we already have done 38% and probably we will get to 30% by the end of the year, that is the size of the debt and the profile of the debt with marginal costs -- oh I'm sorry, with average lowered cost that we had before. And that also brings the Company in a good position to keep on pressing and advancing with its plans of growth in all markets in which it works.

Finally, we show the financial leverage of the Company that reaches BRL2.57 billion in the half of the year. And I would like to highlight some points. Obviously, in the comparison base, we have cash flow generation that is lower due to this moment, the EBIDTA that is compressed. But also we have an effect, that is a non-cash effect of foreign exchange rate variation that in the period has represented BRL1.5 billion. That we have to understand how this is going to relate to the foreign exchange matter that I was talking in the beginning of the presentation, that takes into consideration assets and liabilities and as I said, I have part of our cash in dollars or in euro. When I talk about the debt, we have also the cash flow in dollars and debt in dollars. We have here a short position in dollar of $3.2 billion and that's something around that. And that's why in the debt in this $0.46 that the exchange rate has changed the variation. It doesn't bring any cash flow effect for the Company. So if we didn't have that variation in the exchange rate, our leverage line would be higher. But it would end now around 2. And also it's important to highlight that we have inorganic investments, which are positioned that bring an immediate leverage and not the cash immediately of BRL0.5 billion in the same period.

That's then our presentation that is within our parameters, our standards and controls you know for many years. And I don't know if the same 30 years of (inaudible) because I can't remember all this time. But we usually say that for a long time. We have as a parameter it's two times of leverage, sometimes it's a little bit over, sometimes it's a little bit below and we are a little bit over in already converging to this comfortable standard that the Company has always had and always will. Finally, and now, set the floor to introduce Cabral and Augusto.

We would like to take this moment and to go into further details, what is the transition of the performance agreement, the TCD. So how can we discuss more and do the breakdown of everything. So that you have a shared view, once that now, we are really understanding all the effect and everything that we had planned and identified. We want to do that in a simple way. We can classify the effects in three main areas, one that is going to affect the factories, logistics, internal and external logistics and the commercial area of the organization.

So this is what we have agreed on with Cade. We have sold several plants, DCs and brands. And at the same time we have taken away from the market some brands from Batavo, out of the market. These are the two things we have done. Now when I talk about selling, we have an effect that I usually say that we cut out our operations. It's like a live surgery, we removed several up and running assets from our operation, they were producing several products in the Company and we took those assets away. So that they could be removed from the organization. So the effect is not only when I remove the product, I have the effect since months ago when I start preparing disposition, it's very simple.

Some plants we'd go out of the group, those were multi brand plants, Sadia and Perdigao for instance, our designer [ph] brand that was sold. So what do we have to do? Those that manufactured Sadia and Perdigao had to be transferred to a plant, that would stay with us. So we had to prepare a capacity, investment capacity, there is a ramp up.

So if that's going to bring additional costs and everything. So small entropies, small deviations that we cause in figures that are very large in a normal regular operation in a very short period of time. So the factory effect due to that. But they do not stop there. We had several launches of new products, part of our strategy was based in replacing to the consumer offering alternatives to the consumer of products that would be taken away from the market. So that they could have another option.

So we did a lot of innovation. So we have now have a ramp up of products that are happening in the same area. So I do have plants and efficiencies in that. There's not only the grains that are affecting us, we had and are having and will have, we'll have in this quarter -- there's a problem. And the second (inaudible) is also important.

You should think that the Company had to stop selling those products on June 29. So we could not issue the invoice for a specific product. But we never stopped selling in that day. So we have to work with the discontinuation of that product, because if we have left over product it would just be a loss to the Company. So that once again reflects in cost, because we are having an idle production for a period of time. So here we have to do a ramp down.

Once again, all of that was planned, hour-by-hour and day-by-day, we have fulfilled everything that we agreed upon doing. All those effects obviously translate themselves to the future which is the distribution, that change in the breeders of the products who will bring result. So my logistics will have consequences. I have to prepare my logistics so that I can have a better flow of products, I have to exhaust my DC and so on. I'm not going to into further details, otherwise I will talk the whole morning about it.

And finally sales, of course that when we have the commercial effects, we have other consequent effects. We need to restructure the things, rebalance the sales thing. So sale graph started to have no arouse and no job. And all of that has been done with no problems. I hope nobody noticed anything, if you did notice a little bit of something, it's understandable and we had to really balance all the sales routine and Cabral will talk about it to go into more details. And then Augusto will come after him.

I would like to take this moment to say that we finally have here with us Cabral and Augusto. And I don't know if I can say that this is a promise. But we said that as soon as we concluded all the matters about the performance agreement (inaudible) that we would have other executives from the Company for you to meet. So Cabral, the floor is yours.

Jose Cabral {BIO 4728436 <GO>}

Good morning, our great friend he wanted me to come the first day to talk to you. Nice to meet you, I'm in charge of Brasil Foods Domestic Market. After 20 years in Unilever, Wal-Mart and now at Brasil Foods. I'm delighted to be here with this merger process, one of the most complex processes I've ever seen.

Hope I have the chance to come back and show that in this long-term plan, we have amazing outlooks. So we can make everything we see in concrete.

As Leopoldo mentioned, the current slide, I think Leopoldo showed a slide and also introduced the team and addressed the strategy for the domestic market. Just imagine that starting in 2009, when the merger was announced until 2011, we had a negotiations process with Cade. In 2011, on July 13, Cade decided, what should be done and how it should be done. In other words, not also the sale of assets and discontinuation of brands and categories. But also transition rule to be delivered with some market share -- those brands that had been sold and we had eight months up to March to work on the selling process.

Complex sale, because that's not the sale of a company. But a package of assets. As I said before, you have to unplug 10 plants, eight distribution centers from brands, if I am not mistaken. And discontinue some categories or the Batavo brand in hold on Perdigao in some categories, like cured sausage.

Perdigao, was the market leader with 34 market share. And that generated a huge effect to us and that's when we started to rework on our strategy. Interesting to see that back in 2010, we had an exercise BR15, I think Leopoldo mentioned that a couple of times. This exercise we envisage, where we would have to without knowing or being aware of Cade's decision. Upon Cade's decision, we look to our strategies measure the effect of Cade's decision and by in large we defined a road map in a short term basis. And by the way the effect of this transition to the domestic market and the company as a whole is smaller. But for the domestic market, it's quite significant. Just imagine the volume linked to the items that were sold or discontinued. In other words, we had to minimize it, otherwise we would have a scale effect to the domestic market. And also to minimize with legitimate weapons that Cade allows us to compete with.

Cade does not prevent it to complete. But it lets us know the right weapons to use to deliver to shareholders. Innovation, brands distribution, these are the conventional weapons and tools. We reworked on the plan and instead of March, I believe we had a plan, initially for March. But out of negotiation it was postponed to the end of June and early July and that's when we had the delivery of the assets to Marfrig and we still have a couple of items in transition.

Just imagine, doing that in a scenario of two companies that hated one another. Rivalry between these two companies is notorious. Just imagine what that meant, I used to joke that when the companies were merging, they hated each other. But a lot was evoked, they simply disliked one another and things are becoming mature. We still have a long way to go, until we get to a single organization culture as a Company.

But at least, today the atmosphere, first of all we are virtually standardized on top of having different companies that hated each other, their operation modes were totally different when it comes to processes, governance, decision making process, operating systems, IT and so on and so forth.

And it all had to be handled, just imagine our operation is complex. Just due to the nature of our change, the number of integration, the change, the refrigerated items, number of disease, I never imagined it would be so difficult to make sausages before I came here. It is a very complex process. And with this very intrinsically complex operation, just imagine adding the complexity of a transition. We're very proud of what we've achieved.

The bottom line is, fully integrated team, standardized process and strategies that were remolded to minimize the effects of transition in the short-term. So that in a long-term basis we can get to even better figures, compared to our BR or original BR15. In other words, the domestic market, despite the effects of the TCD's transition, we'll get to better figures compared to the original plan.

However, it had to be reinvented and that's why I want to explain right now, break it down into two parts and using the slide as a frame, compared to what you saw last year.

First, let us show some of the effects, out of the TCD and the effects, I would address the results of a short-term to the domestic market and at least one vision in one slide of how we'll be building the Company for the future. Our future strategy is fully defined and we'll stick to it.

The effect of TCD in the domestic markets. The sale to Mafrig was set by Cade and it should be done unblocked for a single buying company. It was the sale of 190 selling items and also some items of the Batavo, although whole Batavo line was discontinued and also Perdigao and some categories had to be out of the market. 290 SKUs were suspended, if you add both of them, we'll have about 500 items. (inaudible) will have to be out of the market.

As Leopold mentioned, just imagine that on the specific day, if you have to stop selling and have zero inventory for inputs and zero inventory of finished goods, because the next day I cannot issue a single inventory or issue a single invoice. Just imagine the chain balance required in a mutant [ph] chain.

And plants, (inaudible) is one of the plants sold to Marfrig in Rio for instance, it was the largest sausage, Sadia sausage producer. We had to unplug sausages and plug it into a huge built plant which belonged to the former Perdigao system. It sounds very simple. But actually the same product has to be manufactured in a different plant, with a totally different manufacturing process.

In other words, we had to redesign product in order to come to the same product in a plant with a different technology. In addition, whenever I have to transfer a production line in order to fit our plans to Cade's condition, you just don't unplug one wire here and plug it in another area the next day. Everything has to be reassembled and re-conditioned. So just imagine this transition in that context as Leopoldo explained.

When you check the effect of these 500 items, the effect by category of family product is totally different, some categories were very much effected, where others were not affected at all. So we had to go back to the strategy of all categories in a short-term horizon for 2012, as I said before. But also on a long timeframe. So we can recover value to these categories in a totally different manner.

Very fast, in the first month after Cade's decision, we had already re-decided all the strategies for all the company categories on a short and long-term basis. Just to give an idea, that's an internal chart, showing the number of projects implemented so far. We generated more than 500 products at the company level. The colors or the line at the bottom is the timeline of implementation and the vertical axis show the volume affected by each one of the projects.

In yellow, we have the so called Crossed Production projects, in other words products that were manufactured under the Sadia system and it has to be produced in the Perdigao production system or vice versa, that's what we refer to as Crossed Production.

Purple or blue, have projects that are really linked to innovation, innovation that was different for every kind of category, margarine for instance, we've just re-launched Claybon brand. We have the brand, we are fully entitled to re-launch it and that's just what we've done.

For sausage, we have a new sausage under the Sadia brand, considering all the weapons and rules set to us by Cade, with a huge volume of innovations. And in the red, we have capacity items. In some cases, the capacity showed, can be remodeled, under Cade's role we can also build capacities. Cade encourages us to do that, because if we have more capacity we have more competition in the market.

This gives you a sense of the huge concentration of projects required for TCD implementation. And at the bottom, we can show that everything is happening in a very timely manner. Once again we are competing in the market and Perdigao's discontinuation gives room in the market and we'll all be fighting for it. It's up to us to fight for it as a company on behalf of our shareholders, obviously in a profitable manner and that's happening very timely. We are really punctual, as our schedule and strongly focused on how to generate value for the companies down the road.

Now, when we check our figures and results, here we have the results that you can see and I would like to make some comments on that. The evolution of our net revenue, vis-a-via the Second Quarter of 2011 is 4.1 positive as revenues. And vis-a-vis the previous quarter, it goes down. Why does it go down? In order to discontinue 500 items, I had to lower the sales volume of the last month.

The tradeoff would go as follows. The items that is sold or discontinued. So that's the sales volumes go down. It is not a retracted market. But rather a reduction and the volume of discontinued and sold items. If I maintain up to June, the estimate sale in the normal amount, our final inventory would not allow me to sell everything and that would generate huge losses the next day.

So in order to rebalance our inventory, we did lower our volumes in recent months. We lost market share, did we? No, not at all because these items were discontinued and sold and actually we just lowered our inventory at a retail area. Our market shares by the way are by in large stable and within our expectations.

As of July, the items that were sold to Marfrig will no longer be considered in our operation. But the market share when it comes to amount, they are totally stable and consistent over time.

So the main reason that explains revenue variation, first of all with volume, is there an effect or effect of slow down or how should I put it, the market is not with such a good performance compared to the first half of last year. Our market growth rates were very high at that time, today our, we don't have a recession but these values don't help as Leopoldo had mentioned before.

They don't favor growth right now. But the cost of lower volumes is not related to that. The main reason as Leopoldo said is, the depletion of our items and the balance of our inventory. Now what about the price equation, here I have some drivers. To start with, here we have prices and mix all together. So this quarter year-on-year which was one of the highest quarters, price wise we still have 6.9% or almost 7% price smash mix growth. Now, when we compare the second to the First Quarter, we have only 1.6%.

Please bear in mind there are series of factors involved; first of all, mix. Please note that I'm just concluding or bringing to an end of volume of brands that were sold and therefore I need zero inventory at home. So it took many important operations in order to have zero inventory at home, even though volumes were already lower so that's the mix effect.

And the second factor, which is not negligible at all, we already have two price tables this year, one in February and another in May. However, none of them expected this cost increase that we visit right now. So I need a table in order to work on a second price table and work on the move.

So unfortunately for us consumers we're really been very aggressive in our rises, considering the cost peak that happened in the past, that's an industry factor not only ours. And it's forcing us to be very aggressive on our prices. So we do have the mix effect, basically influenced by the exit of the brands sold. We also have speed occurred [ph] versus increased speed and we're catching that up. So these are the main factors involved in that equation.

So what do we expect for the future? Maybe a price with positioning very aggressively. And we are on the way. Obviously it does take time. We do have inventory in the pipeline. So this marginal repositioning is our duty and the mix effect will no longer exist. So that's a progressive effect of mark or module with composition. But it has already started and will continue in the second half of the year.

Now what about EBIT? We have a drop of 9.5% from the First Quarter down to 6.1% in the Second Quarter. Please note that here there is a margin effect as the price cost effect. But also an expense effect. Expenses play an important role, those who arrived a little bit late, you'll have some things on the TV screen.

Why are we so strong on TV? I hope you have participated in the promotion with Luciano Huck. Maybe you saw things in the Olympics and there is a reason behind it. This is when we have Perdigao's exit and we have a promotion in order to try and capture the volume of the Perdigao brand within Sadia brand.

It's not something like a mutant. This is the moment for Perdigao's exit. So here we have marketing expenses which are higher than we would have during a margin depression that we have right now. But we are very cognizant, because it would be possible to work on a different strategy. It would be possible to have a strategy to try to have a higher EBITDA in the domestic market. It would be feasible. It would take just more prices, however the long term effect to rebuild the categories could be extremely harmful and we are heavily committed with our long-term strategy in order to generate value.

So unfortunately right now this transition carries expenses for operating inefficiencies, also marketing expenses that are adherent to transition, related to categories that are still here and that's the short-term effect. And the third effect, the price mix has to do with excess supply as Leopoldo mentioned, related to in-natural products or raw materials, that is in the Brazilian market.

It has to flow in the Brazilian market and it comes to the mix, obviously fresh products have lower margins compared to a processed product. The same goes to compress mix. So we have a set of drivers and factors right now and as of the Third Quarter we will be progressively improving. And later I'll be here for you to discuss these results even further.

Now, as I said before, our commitment is on a long-term basis and that's where we are heading to. The Company has an amazing potential to generate value, thanks to the distribution force, the brands and that's where we're heading to. And once again with a capillary strategy broken down by category, product category and we have several fronts. I have to summarize, otherwise we wouldn't have a whole call just on it. But obviously we have revenue management and we'll be obviously adding value through our brands.

I hope you've seen a little bit of sport TV and the Olympics and maybe you saw the massive presence of Sadia brand in the Olympics, it's just the beginning of our Sadia brand repositioning, just a marketing. Historically Sadia and Perdigao came closer when it comes to consumer positioning. It comes to with meaning.

We have a clear strategy to make them unique, when it comes to different positioning. So they mean different things. Historically speaking, they were coming closer and closer and be in position as food as a means to socialize, to gather people via food. Sadia would address family, Perdigao would speak from the heart and they share the same positioning. But now we want to create different shows.

I won't get into details of positioning right now. But when we consider Sadia's investment in the Olympics, it has to do with the repositioning of Sadia and the same will happen in the future with Perdigao. These brands will be very different and that's related to our innovation strategy for Sadia and Perdigao in our future positioning.

There is also another interesting opportunity, maybe you heard that this morning or saw this video, with this slice of ham with 15 calories. I don't know how many of you are aware that our ham slice has 15 calories. Actually ham is something extremely healthy. And re-emerge and there is a lot of prejudice against this category.

Many of the ladies in the room probably prefer turkey breast. But reject ham, because they want to be healthy and actually when we show consumers this kind of data, you also add value to the product. The price of ham and turkey breasts are very different in the market. But turkey breast brings or conveys an image of health in contrast to ham.

And I can mention several examples or taboos related to our categories. The frozen products for instance, it has no preservatives, it is preserved by cold and consumers many times believe that there is preservative agents inside food or frozen food. We have to boost. But we also have opportunities.

When I think of changing the consumer's perception, if I deliver a whole fresh broiler or a roasted broiler, as you can see in bakeries, ready to eat or frozen, because once frozen, how can it be so tasteful. I think you understand what I mean, if you do that you are adding value. So what is the cost of the broiler that you buy at a bakery for instance, I do that and compare that to the price of immature birds.

So what I am trying to say, there are many leverages for growth, related to connivance, health, these are megatrends that will leverage each one of our categories. However, when it comes to the domestic market, we also have several opportunities for operating efficiencies that have not been fully tapped and they are also part of our plan. We already operate under the same processes.

Today, we have a system implemented, fully standardizing, you have no wide idea, what it means to standardize a system and a sales routine. This thing is already standardized. However, we haven't captured all our opportunities, our commercial motto or in the team or sales team, expansion and productivity. Just to give an idea, over the last three years we did not add one single person in our sales team due to our transition. But now with the volume we can remodel the whole sales team and gain distribution.

Neilson shows that we increased the number of stores and if we come back with the same team, we can have more capillarity. So many things are included in our roadmap and we are fully determined to go through this phase, this part of our scenario, we are really proud of our achievements so far and I'll certainly be back to address the results of future quarters.

Thank you. And I will be happy to take your questions later on. So next, I would like to give the floor to Augusto to address the foreign markets.

Antonio Augusto de Toni {BIO 15337840 <GO>}

Good morning. I'm Antonio Augusto. But I have forgotten my own name because really the nick name I go by is Guto [ph].

Pleasure to be here with you and talk a little bit about the foreign market. To share with you what we have been doing to change the foreign market model in a less volatile model, in a model that offer growing and more stable results because basically we sell more amateur products, less processed products, we are evolving in almost all market in which we are at in terms of brand portfolio distribution. And we will show you some of that. And we'll also talk about our results.

Considering we are present in over 100 countries, almost everything that happens in the world effect the foreign market for instance, the tsunami that happened in 2011 Japan, impacted the foreign market. For a period of time we had very good prices, good sales. But also local production in Japan grew and is still right now it's a little bit over the local demand. And probably in the next month we will have an adjustment in Japanese local production.

So just talking a little bit about the foreign market, coming from slide number 5 already presented, basically 2011 we have a very good first half of the year, the second half of the year was more difficult. And I'll tell you why in a little bit. And in this year it's different, in the first half of the year we had the difficult moment. We're able to improve in the Second Quarter but far from what we had in 2011.

But basically why, what happened in 2011? Around July, Brazil had a trade ban of swine to Russia. So we had difficulties with the flow of swine export. Then we had a problem in the Middle East, several countries with instability, Egypt was closed and there was a drop in the demand there. Egypt for instance is a major income source there is tourism and people stopped going there for tourism, therefore the demand dropped there.

And we realized after some times that the stocks in Japan were high. I mentioned in the call that we did in April, that Japanese stocks are around 80,000 tonnes to 100,000 tonnes and it reached 150,000 tonnes and it started dropping. As we expected it was really dropping and it did drop. But it did not drop as much as we expected. It would be right now in the half of the year, it is still a little bit above of what we expected, also due to the local Japanese product.

In terms of results we can see that our revenue has increased, when compared to 2011 in 10%, comparing the first and Second Quarters, our net sales increased 19% to the volumes from one quarter to another. The first two quarter increased another 11% and prices boosted by the dollar also had an improvement. So prices in reais in the Second Quarter, we were much better than the First Quarter. But we are still far from dollar prices that we had in the first half of the year of last year of last year of 2011, when the market we did have this problem. With that was the EBIT that very good in 2011, dropped in the Second Quarter of 2012 to 2.3% but still better than the First Quarter of the year when we had all these problems.

And also, there was another impact, we have to work with the price in dollars as the stocks came down. But cost went up. Actually the dollar impacts our cost, because grains cost go up and also impact capital as only cost. And for me it's cost and also the dollar helps in our revenue. So that is the situation of the market, that's the status of the market right now, right now Japan and Middle East are showing a gradual improvement. In the Middle East, the market has already good level of stocks and as I said, Japan still have stocks little bit above of what we expect.

And we hope that there is some adjustment from now to the end the year. Basically that's it; this is the scenario of the foreign market.

Right now, I would like to mention and to talk about each market. I'll talk a little bit about Europe and especially what we are doing to turn the foreign market in a less volatile market and a more qualified one.

Since Fay has taken over as a CEO, we created strategy to replicate in the foreign market, a model that we have in the domestic market. This domain that we have in the distribution chain, a very diverse portfolio, known brands in Brazil and also to have the ability to transfer price or to transfer cost whenever needed.

About Europe's performance, it was satisfactory considering the market situation ongoing in Europe. I don't need to say that Europe is undergoing financial crisis. Germany has surplus overproduction, also Poland and the local European prices, local production are and the prices they are very low that's why we are not able to transfer prices as much as we would like. So our net sales is almost stable, there was little drop in 3%, also due to volume.

The volume was a little bit lower, because last year we had products (inaudible) where we have higher taxes and we had to direct those products to our alternate markets where we have more profitability for instance, our chicken breasts for the Middle East and so on.

In Europe, we have an operation called Plusfood, these are two plants acquired in 2007. We have one plant in Oosterwolde in the Netherlands and another one in Wrexham in United Kingdom and that already accounts for 18% for retails and food services, especially food service and part of it goes to retail.

We also have stated now with Plusfood, a new line to process products and that is a high productivity to decrease that line specifically for breaded products. So we will be more competitive and we'll have more critical maps to be able to go into. And into specific channels that interested in Europe.

So the main products here for Plusfood are the breaded products in the Netherlands and hamburgers, basically beef with the supply of that raw material in the United Kingdom. That's how we are evolving into this chain with the brand, also with distribution and portfolio in the European Union.

About Eurasia, Eurasia represents to 10% of the market share. We had an increase of net sales of 10% and an increase in volume of 13%. As you can see in the First Quarter, we had a net sale that was lower around BRL100 million lower. And we were able to recover that in the Second Quarter of 2012.

As we've said, in the beginning of the year we were able to reapprove again two of our plans in January 1, 2012. And then we started recovering volumes also for this market. So we have only three Brazilian factories, swine factory is approved for Europe and Eurasia.

And now we have an opportunity to approve another, a third factory, a third plant, we are negotiating with the Russians to go into their market. So that is an important market for us because swine or 40% to 45% of the Brazilian swine go to the Russian market. That's where we have the best prices and also where we are able to have shipments of products with a better price than in the other markets.

Africa has 7.7% of our market share. We had an increase of net sales of 21% and an increase in volume of 9.9%. What is important for us in Africa is that, in all of the countries from Africa we are present in 26, other 26 countries are not open to Brazil. Some of them -- we have the wine or processed food or chicken broiler. But we are doing in Africa is a very good distribution in those 26 countries in which we are present.

And we have an important processed food participation in that market. Africa is the country that really buys more processed food from BRF. We have started a project since Perdigao's time. With African we are very successful with processed food there. And there is a large potential here because Brazil is very competitive and at the same time we have products with a different and better quality.

If we talk about the Middle East -- we are increasing volumes in alternate markets such as Jordan, we are back in Jeddah with a lot of regularity. We are going also in Iraq, that's the country that became important to us. But more than that, in the Middle East we are very strong as a brand. We have a distribution in Saudi Arabia, that's an operation that we call Al Wafi, that's the name of the company, it's very important. It already represents with 20% of the volume that we sell in the Middle East.

Those are distributed directly from the Arab, that is we do the export from Brazil, we import the product in Saudi Arabia. We pay all taxes and then we distribute our own products Sadia e-Hillal brand to the supermarkets, to food services, then also wholesale.

So 20% of the volume that goes to the Middle East is already produced by the BRF. And in this Saudi Arabia operation, we have 280 employees and that represents almost the half of the sales in Saudi Arabia, with our own distribution process. Besides that, we have Sadia brand, which has a premium on top of the brand, is a renowned brand. As I said we are doing a brand awareness that is similar to the brand awareness that we do for Sadia in Brazil. And we operate in Saudi Arabia with outsourced logistics. So the trusts are all outsourced.

Also, we have a presence in the Emirates, the operation is called the Perdix Emirates. And we do a share of distribution at the Emirates through our own company, that is a smaller company, it has a smaller market share or participation. But it has an important future we believe.

And in the Middle East, we are starting to build our own plant in Abu Dhabi, it should be operating by 2013. That's going to be a plant up to 80,000 tonnes a year for processed food and we intend to bring the raw material from Brazil and process it locally to have access to peripheral areas from the Emirates, Saudi Arabia, Egypt, Syria. And from Abu Dhabi we're also able reach the 22 countries from the league, Arab League to some of which Brazil is not authorized to export. But if we do the processing at the Emirates, we can export to those countries with importing tariff close to zero or even zero, they are very competitive taxes.

So this is another strategy, our pillars to grow in the foreign market, to qualify our operation and reduce volatility we still have in the foreign market. So Middle East, that's what we have rated. Now for the second half of the year, we expect it has good results, it really had a difficult time with the Arab spring. But now is in a very good recovery process.

Let's go to another continent, let's talk about Asia and the Far East. The Far East for us is basically Japan, a very important market, Hong Kong, Singapore and China. And we also present in other markets, such as Philippines and Vietnam that have lower participations, lower market share but important potential.

In the Far East, Japan still has some level of stock. We should have reduction on that in the second half of the year, we had net sales of 2.3% higher than the last year and an increase in volume of 8.8%. So here you can see that prices were lower than the ones that we had last year. And we also had higher costs than the prior year that has impacted our profitability in both areas.

Three months ago, we started operations of a new company called Rising Star, that is a JV we have with the partner Dah Chong Hong, DCH. Each one has a 50% share, DCH is a company based in Hong Kong in the market there and they're publicly listed, it has a very similar profile to BRF and it has operations in Hong Kong, Macau and China that is the importing, distributing company for food service retail and also wholesalers.

With this, we developed and are developing Sadia brand in Macau and we also take care of the continental China market because it's going to distribute all BRF products, whether Perdix or Sadia brand in the continental China. So we started operations three months ago. And we had a very good start and probably in 2013 we will define the project to build the first BRF factory in China.

We are now studying to see what type of plant, what type of raw material we'll take from Brazil to process in the Chinese market, therefore keep on adding value to BRF product, to its portfolio and also distribution. That's a really starting operation, we believe we have chosen the right partner, a company that has everything to work and with the very good potential to position BRF in the Chinese market.

About Latin America, Latin America and Argentina specifically, we have acquired Danica and also Avex. The company that produces poultry and Danica manufactures margarines and sausage.

Also with the TCD, in the assets exchange with Marfrig we received big foods that was the owner of the Paty brand that was the leader brand for hamburgers in Argentina, that was an excellent acquisition for our portfolio in Argentina.

So in America, our growth in net sales was 14.6% vis-a-vis the same period of last year. And the volume of 24.3%. There was a change in the mix as well, with Avex operation we started producing poultry in Argentina and there the average price is a little lower than our older and prior portfolio. And what's important in Argentina's operations is that we have there the three pillars on which we believe, we have the portfolio, direct distribution and brand.

In terms of brand, we are leaders in margarines with Danica 62% of share, we are wide leaders in sauces with 20% of share. We are leaders in hamburgers with 66% share. So very significant participation. We also have share of 24% for frankfurters. We are one of the major players for poultry, an important operation that has a future potential, that is very good. Because we have started exporting different markets, the Avex portfolio poultry yield in the structure is that Avex has all over the world with 19 offices in different countries.

And in Argentina we are already one of the largest players in frozen vegetables, that is we are leaders in two categories and we have a very interesting potential through this numeric distribution, to bring the portfolio from Sadia to the Argentinean market.

In the first half of the year, we had problems with negotiations with Argentina and now we have a better understanding with the government there and we are resuming exporting. And we believe that everything will run as smoothly now in the second half of the year.

This operation sells $600 million and we have 2.8 million people working with us in Argentina. So that is just to give you an overview of the foreign market of what we are doing, very briefly in each one of the market.

Qualifying exports from BRF, transforming the models, change in the model, in this journey that we have started a little while ago and that we have sometimes ago. And also letting you know how the market, the foreign market should behave at the second half of the year.

Thank you very much, we'll be here to talk to you after the whole presentation.

Operator

Excuse me ladies and gentlemen. we'll now begin the Q&A session. Would like to remind you that each participant may ask only one question. (Operator Instructions)

Unidentified Speaker

Next time you also ask other people to talk to us from other activity areas, like dairy products for instance. This time we only have two Vice Presidents. But next time we also have our food service president. Also the person in charge of the dairy product.

With dairy products, we decided to do some different structures and the results don't necessarily reflect what happens with dairy products. Dairy products have been improving more than what we see on the slide.

Last year we had a long, many short gains related to the business. But they're not part of the operation. As to the operation, the dairy operation has been improving. As I said before, we solved some structural problems but we still have to fine tune our operations.

A turnaround and having consistent profitability goes down too many details. We have a dairy strategy that involves the four categories, in other words we work with powder or UHT milk. And in this case I would like to get into more details.

We re-launched the yoghurt lines recently, basically two months ago. This line is very innovative, sugar-free with the fruit sugar and it meets adequately consumer's needs and the share is rising as well as the margin. And the same goes for cheese. We launched the Sadia brand earlier this year. And we've been strongly increasing our cheese distribution, managing to improve the category's performance.

As to powdered milk formula, it varies according to the scenario, I'm not related just to baby formula but conventional powder milk. It's not usually a consumer product, it's more an opportunity product or markets with low income or low food security or safety but that's not on our radar. We have a significant profitable share. But it's not our focus. And I just for the last moment, point we have been strongly focusing. First expenses -- considering everything we said today, we released some plans and we have managerial room for our and does grow plan. So we can also handle the dairy products.

In other words, we merge the dairy units inside our industrial unit. This plant works with 16 plants, now we have ten labs but we have 11 plants from dairy products. When it comes to the management capacity of these organization at the Company level, we remain the same and we decide just to have the synergy.

We also focus on distribution in the business, because a lot of the topics and key points to be settled when it comes to dairy, has to do with the absorption of distribution which is different from our own distributions.

And as to UHT, we are trying to find the right point of balance in this category, that's a key category, it is huge, it is significant and we are seeking the point of balance, volume, price in our business.

Today we run with 15% premium over the market, about for UHT milk and we are trying to increase the premium in order to see the right point in the category. Therefore, for dairy products we have a lot of cost savings from the moment we are lowering our structures and joining structures. Adding new to existent ones and trying to improve the portfolio, there is strong marketing action related to refrigerator products and cheese, trying to come to a balance for UHT and also for powder products.

As to food service, now I'd just like to take a moment to address a couple of things not only related to food actually. We can see that the price set between 2% or 3% from one quarter to the next, if we want to have a magnitude of cost and the speed required to implement cost at any structure 3% price on a quarterly basis, with no inflation in Brazil, that would be very reasonable in order to recover margin.

It's not enough right now; there's volume of price increase is not enough. As Cabral mentioned before, we respect our consumers and our clients. However, we do need to be faster when it comes to our pricing.

We decided to work better on our volumes, being more selective. We work as a settlement channel. We tried to settle some movements that are instable when it comes to flow, we use foods. However, in the domestic market we still see that our EBIT is around 9% or 10%, which is below our potential. But is still healthy for the Company.

And we have to be around 12% or 13% as EBIT. And we're working in that direction. We still have a long way to go, either in the domestic market and when it comes to price increase and positioning.

As through the first half of the year, this is where we address that in -- I would just like to highlight dairy again. It has been growing when it comes to product launching and that's all part of our product to recover the value share, that's something we have been engaged in and is asking use are included in those that we address during the foreign and domestic market presentations.

Sadia sponsorship, now based on what Cabral mentioned we have the two individual gold medals in Brazil that were sponsored by Sadia. Sadia is repositioning the brand on top of vitality, that's why this focus is so important right now, sponsoring games. And at the same time we are also building our image with these athletes.

The Company was awarded many times over this half of the year. And we are very happy with that. It's a time to celebrate our achievements. However, each one of this awards increases our expectation. And a lot of what we are saying today has to do with expectations and the potential result of the Company. These things are key to us, these are external acknowledgements. But we are also cognizant that does increase our responsibility and expectations.

Just to conclude and before we move to the Q&A session, allow me to mention just a couple of things. As I mentioned in other meetings, our merger process is a long one and I've have been working on this process very successfully.

We're very confident when it comes to the structural basis of our business and we have to keep our long time vision obviously without losing the sense of energy. If you go back to 2010, up to 2012 -- in 2010 and 2011 we had good results. 2011 was not an easy year when it comes to the scenario when the industry and the Company did improve its results, facing low dollar rates and also results even during the merger profits.

We used to say that 2012 would be and is the most challenging year in the process as a whole, basically due to the TCD extension. It is not something for now [ph] to sell or move from BRL3 billion in sales, which is what we are doing. And by the way, we've discussed that at line. This happens within our plans and our expectations.

We already expected to have 2012 more challenging compared to 2011. But our expectation or what is not in our expectation, is basically the scenario we are facing right now and that has to be on the screen.

The Brazilian swine industry has never been in such huge crisis. Usually harmed by grains, lack of markets. And that will bring consequences in the future, when it comes to the availability of these products.

We have this global issue which is instability of foreign markets that accounts for 40% of our business. And we also face the higher rise in grain over the last 16 years.

So in 2011 what happens is that, by the way, it all boils down to the proper performance of a complex operation, within adverse scenarios, results are below our expectations, our previous expectations. However, the fundamentals we're working on, in order to solve our short term horizon, do not affect our long-term horizon. It is very clear to us that this shouldn't impact our fundamentals. And this is harder. And maybe even more long lasting.

But what are the key points we are handling right now? We are lowering the Company expenses through a series of moves in order to control costs and expenses. We are also focusing on our working capital. We had weak cash generation. And we are hedging our working capital, being very selective in our investments. We are committed with the investment grade that we achieved last year. And earlier this year.

We're also strongly engaged at working in price transfer to recover our margins. We are also strengthening the Sadia brand, because Sadia, in the categories in which Perdigao left that categories, it needs to grab the market share for value, the value share. Therefore, we're strongly focusing on the Sadia brand. So we can takeover that value that is lack from the Perdigao brand.

We're also strengthening Perdigao's portfolio. So it maintains its weight and consistency in the market. Perdigao brand became very significant in several categories. It is the second best food brand in Brazil and we're strongly engaged and in three years, will come back with Salami Ham, all the important categories, others in five or in five years down the road.

On top of that, we also maintain our strategy of internationalization. As Guto mentioned, we are consolidating Argentina, Abu Dhabi as well, growing in China. And structuring the Chinese business.

Adverse conditions, under adverse conditions, we have to change our tactics it changes our sense of urgency. But not our strategy. Very confident in the fundamentals of the business we are working on, it is based on internationalization, brand -- that's what we are seeking and when the scenario is more challenging. I think it's extremely important not to lose your guidelines. And not to commit the long term horizon. And that's exactly what we are doing, without putting aside a sense of urgency, because we have to go back to our results, taking them to a more natural point even though the scenario will still hurt and affect the results in the industry for some time have a challenge for a big challenge for the Third Quarter.

And by the way I don't think we addressed our grain position. Our grain position, particularly for corn is very interesting. What happens is that a grain position that is very well set, in a long ramp-up, does not prevent cost increases, it just smoothest to the fact that it doesn't prevent it, when you just have just one surge, one peak and you have a good position.

Costs will not be reflected in your business but when you have a long series of cost increase with a very good position, you smooth the behavior but you don't prevent it at all and we have a surge in the increase. Well nobody can hit exactly the point. But you can come to right range and therefore you mitigate the impact of prices. But you cannot prevent once and for all and when you dismantle the process, you have a cheaper position and cost go down.

So the thing is that grain costs, although the winter corn harvest in Brazil was amazing and despite the proposal of corn and soybean plant is really huge in Brazil and by the way they're already starting the planting in Brazil with early varieties. So there will be an inversion sometime or another, when it comes to grains.

What's happening right now in the U.S. is really serious. There is a big need to reposition consumption there. Grain consumption or the yearend inventory in the US in under huge threat, they have to do something about it. But the thing is, we still have to face a scenario that in my opinion did not alleviate us in a short term basis. It will be very challenging in future months until we have better visibility of the exact point.

So just to conclude and before we move to the Q&A session, we are very solid. But when it comes to our business fundamentals, we feel very solid with a single base, not reproducible and we are working with our sense of urgency. But without hurting or affecting the perpetuity and the fundamentals of our business. Thank you very much.

Questions And Answers

A - Unidentified Speaker

Excuse me we will begin now the Q&A session. Would like to remind you that each participant may ask only one question. (Operator Instructions)

Before moving on to the Q&A session -- before beginning the Q&A session, allow me to give to CEO, Fay, our unprecedented CEO of 30 consecutive years of attendance by Sadia and Perdigao at (inaudible) meetings. We are the only Company with a CEO so far with 30 year ongoing relation with (inaudible). Congratulation.

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

For those of you who are following us over the web, you have already been instructed. For those of you who are in this room, I would like to ask you, who want to ask questions, please raise your hand.

Fabiana has the microphone and will bring the microphone over to you. It is necessary to speak on the microphone because our call is being broadcasted over the web. Please introduce yourself. And in order to give more people the opportunity to ask questions, please try to be brief.

Q - Fernando Ferreira {BIO 2389113 <GO>}

Fernando Ferreira from Merrill Lynch. Thank you for your presentation. I would like to ask Cabral.

Operator

Unfortunately, we couldn't hear the question.

A - Jose Cabral {BIO 4728436 <GO>}

The first month -- well at first, there is relief. One thing is to look at the Company and focus on a daily strategy. And then go through the transition period. The first month is still a period of accommodation, actually the whole market will go through a lot of accommodation in terms of opportunities and the rooms created in the market our top priority; number one, is to recover profitability.

We need to recover or have healthy margins again. In other words, the market share and our fight for the market share that's something we need to do, obviously within the room left by Perdigao, when I talked about the brand showed I'm mentioning a 30-year brand and we don't have a portfolio and we don't even want to compete in the third tier with any other brand right now. May be in the future but not now.

So our priority is profitability. And to capture market share and that goes to brand innovation. But we shouldn't put profitability aside, if I understood your question

Q - Fernando Ferreira {BIO 2389113 <GO>}

Don't you consider change in Sadia's price points to recover market share?

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

Not really. Our focus is innovation let me give an example, ham for instance we no longer have Perdigao ham right however we have Sadia's ham process products so if you work category by category it is not through price investments that we will be gaining market share but through innovation and growth in those categories.

And that's something very interesting. On July 14 we had a first meeting last year by the way the R&D department of both companies and it was just amazing to see for the first time ever for two companies with totally different innovation philosophies but also very successful, how their ideas and projects can add to one another.

In other words, there is a whole armamentarium of big ideas and innovations that have to be profitable in the bargain but our long term strategy is to recover value and market share where we also fight for it but not through prices.

Fernando, just to add to what Cabral mentioned, that's a crucial point in our strategy. Like I said, the fact that we have an adverse scenario when we have some problems to solve, we shouldn't lose our strategy. And the focal point is exactly related with a market leadership with Sadia and Perdigao and that's the most challenging way.

I would just like to highlight that it's also costlier and on a longer term it would be naturally easier considering Sadia and Perdigao's strength if we lower the price we can have the bulk of the market very soon because the brands are very strong. But that would compromise our strategy.

And that's something I would like to highlight now when we say that we stick to our strategies, fundamentals, that's the focal point. By doing that would be destroying a very important part of our vision of the business in the future and for a three-year horizon under the worst scenario our effort in launching advertising in order to strengthen the categories make us naturally recover that without having to make use of the price weapon which by the end of the day destroys our strategy.

Q - Pedro Leduc {BIO 16665775 <GO>}

Good morning, Pedro Leduc here, representing Alan from JPMorgan. Our question has to do with the cost structure mentioned by Leopoldo, which is still suboptimal. How long will that last and how will that be optimized through revenue gains, through a still high cost structure or gains of efficiency or earmarked costs?

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

I will start asking the question and may be if I can make other comments. Pedro, basically we have both. When we speak of cost we are more related to the costs of goods sold than other expenses. The costs way or path is slightly different. Naturally, as we move away from these lines and units that until they are as efficient as they were before inevitably will come to an optimal efficiency level that we had by the end of last year when we first started to be prepared.

It might take at least one year to make it all happen and please know that this it's a stage process, whereas two delivering plans and still launching a series of products adding to the ramp up effect in growth that we showed remember the dots with different colors. So that will take and still over next year when it comes to cost efficiency. Remember that cost has an internal component as also a scenario related component and how are -- we absorb corn prices and meal as well as other costs.

Now, as to expenses, like I said, we are still working on a series of reductions, expense, structural expense reductions. However, the growth in revenue still this year already allow us to envisage a very satisfactory net turnover rate and this is our goal for this year.

Despite this cap or reduction in revenues due to TCD and please know that we already expected to have some loss of our operating efficiency this year. We mentioned that probably the Company when it comes to net turn over point would be worse to 2011 which was the base year we're trying to match. So on a structural basis, we did lower some expenses to make it all happen.

We still have a long way to go but that will be in 2013 when we'll be under normal operations and then we will have stronger synergy when it comes to expenses to be collected but we still have some more work to do until December.

Actually, right now we are going through our most difficult moment in terms of costs because we have new lines new products, we increased loss, there is a replication of efforts and so on all of that is going to come down. It's not fast. But it's going to come down but in the next month -- or in next month, we had a de-optimization moment in terms of costs.

Q - Thiago Duarte {BIO 16541921 <GO>}

From BTG Pactual, Thiago Duarte. We're still talking about the domestic market, Cabral, I would like to understand does the share that -- Perdigao is no longer occupying in the market. So there's going to a vacuum there. So what is the capacity or the speed with which you are being able to fill this vacuum with other brands with you strategy, with your launchings and also to make sure you still have the profitability?

A - Jose Cabral {BIO 4728436 <GO>}

That answer depends on the products category. As I said, the impacts are different and the strategies per categories are also different. What Cade has determined is that on the sold brand and I'm not talking about Perdigao, I'm talking about the other ones. I had to deliver that with a market share that was equivalent to the ones I had in 2010.

So these brands were normally worked on and when we talk about, Perdigao, we started slowly and that's why you see several innovation processes that are ongoing since last year unto the first half of the year and different categories we are working on innovations and portfolio changes. So trying to capture that process and it has already started. And we are using different strategies and then for instance if you have a categories such as a sausage, cured sausage, which is a huge hit that we have, Perdigao was a leader and had 34% of market share with that product. We have launched a Sadia sausage and we have been able to tap into that market. And it's very interesting it's about the question on the price the Perdigao sausage was more expensive that than Sadia's sausage in the market.

So when consumer migrates to Sadia, I have an even a reversed opportunity in this category. And for instance we have been doing this work to try to optimize their operation in each category the dynamics are different. So since this is something that changes a lot.

The best answer to you is that we are above the curve that we ourselves have estimated that is the best answer because we're going very well. Our implementation plan with all this complexity is going very well but some of the things we are impossible to predict for instance, if you cook beans and you have used sausage to add to beans, which is one of the characteristics of this cured sausage. And if you have 34% of market share obviously there is a level of loyalty of the consumer, what the consumer is going to do when they cannot find a Perdigao sausage, if that's going to be replaced by Sadia or the competition's or if the consumer is going to add bacon to the beans that is to change categories.

There -- no economic model based on the past is able to evaluate to, assess how is the effect of market structure. So we are doing the studies to try to capture it but in some areas that even reduces in the market because consumers change categories sometimes they go to other one that we still have participation on. So everything is very combined. So in the overall the best answer should we are ahead of the curve that we have forecasted in terms of global operations for our domestic market.

Q - Thiago Duarte {BIO 16541921 <GO>}

Great and I also would also like to ask about the domestic market you talked a lot about a gradual recovery then being more, significant in the Middle East, Japan not as good as still Latin America with quick foods. So there are a lot of movements there. I would like to understand if the trend that we've seen from the fourth, first and Second Quarters will be also the trend after second half of the year? Just to also I would like to know what Fay believe is going to be at this moment?

A - Jose Cabral {BIO 4728436 <GO>}

The external or the foreign market should improve in the second half of the year. It's important to say that there is also a strong impact in terms of costs. The American crop changed the whole scenario costs in 15 days after the report from the FDA. With that, we'll have the need to transfer price. There is going to be an important movement towards that, we are working to improve our prices. Some markets allow that, others don't and I can give you two examples.

Japan will not allow such as an improvement, Europe will not either. There we need to do an adjustment. In Europe, the local production that should happen because wheat in Europe is $9 per bushel, is more expensive than corn. So grains are a matter of worldwide impact, it's not only BRF's problem.

So this adjustment should happen all over the world with all the players we have in the market. Therefore, we expect to have a better performance than we had in the first half of the year. But we should be cautious because we do need to transfer prices above what we had expected.

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

Just under same train of thought and I don't want to use any statements. But I mean the crisis is a great opportunity for our business and it's interesting. If we analyze a long history, we can check that from 2008 on analyzing the commodities price curve, specifically for grains, that has increased a lot and also the prices frequency have increased as well. That changes the behavior pattern and it reinforces the companies that are well structured to face this type of volatility.

I believe we will still have a selective process in the market that will benefit the structural matters of the companies and the areas in which those companies are in. For instance, Americas, United States and Brazil should be benefited. And all the companies that have their bases in these countries should benefit and come out of those economic downturns stronger and the companies that are going ahead in the value chain also have a chance.

So I don't want to get away from the answer. But in a regular situation, if we don't have anything major happening, 2012 should be a strong recovery year. We will see well. Well the Brazilian crop is really a determinant this year. If Brazil has a crop problem, Brazil and Argentina, as Argentina had last year and Brazil did not, with the crops that Brazil has and early planting process. If that works, under my point of view things will go smoothly because then the market will establish prices and there is a change in the position.

So going back to your question, if Brazilian or Latin American crops are regular or normal, if there -- if nothing major happens in Europe, 2012 should be a good year, especially because a large crisis starts causing problems in the market and that's what happening. Thank you.

Q - Alexandre Miguel {BIO 20048366 <GO>}

Alexandre Miguel from Itau BBA. Thank you for your presentation. There is a question about domestic market. Actually, two questions in one. About price transfer. And the need of being more aggressive considering the increase price in grains.

What is the scenario for the price adjustment implementation considering the scenario you presented? The demand doesn't help very much and maybe the surplus of a natural product in the market is not good, if has that improved for the second half of the year or not?

And what is going to be the reaction of the large wholesalers to the price increase. So I just would like to understand how do you see the price increase for the Third Quarter?

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

Okay. My boss would like to speak so. I believe that here we are talking something that has to do with the structure and with the factor. First, the domestic market is not helping. But has not been a hindrance yet. It does have some consistency. It was very strong. It's a little bit slower but it's not getting in the way.

Second, that also impacts everything as Leopoldo has mentioned even when we analyze the processed foods and then depends on the levels of influence of the commodities.

But the curve that we see here is a vertical that I had never seen. With that, all the companies and we always try and all our products deliver something different, a different product to the consumers. And we are not readjusting prices because we want to -- we are readjusting prices because everything has increased. And that is an inevitable decision and movement from the market. Now Cabral, could talk a little bit more about mechanism.

A - Jose Cabral {BIO 4728436 <GO>}

I believe your answer is perfect boss. And I have very little to add. But in summary, it has to happen and it will happen because the whole sector will have to do it. We do not have a choice. The risk if you allow me is what could happen to consumption up ahead in the future, because, yes, there might be a risk of decrease in the demand.

Then it's going to depend on economic matters, the reliability of -- from the consumer and that could happen. It's very difficult to predict what's going to happen. But the recovery of the margin is not an option. So the margin will be recovered and we will then fight for volume.

Q - Alexandre Miguel {BIO 20048366 <GO>}

Can you go into detail about surplus of supply in the domestic market, if that is already balanced in the second or Third Quarter?

A - Jose Cabral {BIO 4728436 <GO>}

We still have some balance of that not only ours but from everyone's. And with that we have a large supply of in-natura product and the best way to send products to Russia that has barriers to export is to manufacture, to produce sausages from the meat that we have.

So the fact is and despite of having the surplus or some extra products if you compare the prices of swine or pork and broiler in the market and despite of that surplus, the margin in the sector is such that we do have to react if you understand me because then we would realize a huge loss if we did enter that and this could be a problem for those that have very tight liquidity.

So yes, there is some surplus that we do have to sell that is going to bring some impact. But the margin situation is such in the market, it is so difficult that especially those that depend on more basic products know that there is not a chance that these prices will not go up. The prices for chicken and pork meat have gone up in the last 10, 15 days.

Q - Alexandre Miguel {BIO 20048366 <GO>}

And just to conclude, I would like to understand the equation of prices and margins in the domestic margin?

In the domestic market. Now in the Third Quarter, in terms of quality, how do you see the transfer price and loss of income and costs are going up and cost and expenses pressing on prices? Do you believe that could increase in the short term, or do we have to look up ahead two to three quarters above?

A - Jose Cabral {BIO 4728436 <GO>}

Yes it will improve. But it's not going to be solved. To solve, means to bring back the margins to where they should be in the Third Quarter. That is not very likely. We will still have a quarter, taking a lot of impact. But we will see the expenses going down. But yes it should slowly improve, that will happen. But it's not going to be solved now in the Third Quarter.

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

Just adding to Cabral's comments, we have a Third Quarter, a matter that is going to bring in fact, of what's -- going, what's bringing some effect from the TCD, the performance agreement. And also the most sensitive point of the curve is now going to happen in this Third Quarter. And we do not have -- no increases, up to a month ago we had a different scenario. Three months ago the American crop was a record one.

So speed of changes is huge. If we stop, we see that the moment in which we were going to have the most impact in terms of costs, is going to be now. That is the trend, I believe, that's the best. And it's important to understand that the Third Quarter, due to all the issues ahead. And even more difficult tests in terms of recovering brands, because in some channels that is already happening. We see the evolution. But in average, that is important. Now for the Third Quarter, we'll have a challenge, a more severe challenge than the one that we had in the Second Quarter.

Operator

Now we will have a break for the Q&A session. To answer questions that came from the Internet. One of the questions is from someone that is with us. And another question came from the Internet, to Saboya's computer on --

A - Unidentified Speaker

So we were asked with a question from Bernardo from Ibiona Investments [ph]. Excuse me, the next question comes from Mr. Bernardo, Ibiona Investments

Q - Unidentified Participant

Congratulations on your initiatives and on the presentation. Actually, I only have one question, it has to do with Christmas products. In the Fourth Quarter of last year, some analysts predicted cost reduction. And in the Fourth Quarter, we had a drop in prices. And we had a few surprises.

We understood that it had to do with Christmas products at the end of the year. Considering 28% of the sales happened in the Fourth Quarter. And we have this grain scenario, what can we expect after the performance agreement, the TCD with the production that you have for Christmas products at the end of the year. And considering the grain impact. So that's the seasonality of the product, at the end of the year, what's going to happen?

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

As time goes by, the company becomes more optimized and operational expenses tend to be soft. And that's good, because up to the end of the year, we have time. And at that time the company will be in better operation.

The matter of the grain impact in Christmas products, is that our campaigns are created in March. So in March, we decide how the Christmas campaign will be. And we designate most from March and June. So grains are being consumed. So the same cost increase that we are seeing now with foods -- we now with grains, we'll now -- we'll see the same thing happening with Christmas poultry.

Q - Unidentified Participant

I understood it. Thank you.

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

Thank you.

Operator

We have received from Mr. Bradley Burke [ph] Morgan Stanley. He sends the questions via email. And it really is a sign of the connectivity and the worldwide connected world. I hope he is receiving the translation.

He asked three questions, one of them has been addressed. And he even says that his questions have been addressed that we didn't need to answer them. But anyway, in one of the questions he's asking if the grain may make us more competitive, we agree with that. But analyzing the short term, where do we have more opportunity to do the price transfer. And where do we already see that price transfer happening?

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

I will answer the question, I may be go to (inaudible) talk a little bit more about it. Right now we are seeing a market reaction, considering that immediate cost pressure, we are seeing that in the Middle East, also in other regions there with a combination of the future costs. And there is not a total balancing of this chain, in this pipeline. So right now, we see the market reacting, anticipating higher costs, therefore higher prices in the future. And that is happening in the Middle East, in the domestic market, Cabral had mentioned that the costs are already reacting, especially on the live swine.

And let me remind you, that is a reaction that is not impacting us immediately, because our costs, is the cost of -- the converted cost for the corn and the soybean meals. So when the prices were very low for live animals, that has changed. And these are fine. But they are not imposing right now, the increase of prices in the domestic market, for in-natura products. But this is a sign that shows the trend in the foreign markets. We already feel it coming, we see it coming. Guto?

A - Unidentified Speaker

Yes. We feel that in the Middle East, the increase -- the higher prices are happening faster than we have in Africa, because they follow prices from the Middle East. They kind of walk together. Some countries from Asia, China and Hong Kong, also they should have a change, that is important in the second half of the year. And the major hindrance or the major problem is going to be Europe with the local consumption and the Japanese markets.

Operator

Wesley asked two more questions. And we have already addressed the second one, in which he's asking if costs would go up -- or if costs went up in the Second Quarter. And due to the recent scenario, how do we see this evolution for Q3 and Q4?

A - Jose Cabral {BIO 4728436 <GO>}

That's the scenario that I mentioned. Q3 is going to be another leap and Q4 will have a better scenario, as I said in the corn scenario. We will still be lacking in the recent spike of the corn. But the largest impact is going to be on Q3, there is something that is going to go over Q4. But there we we'll have a situation mitigated we believe, to change the game in terms of profitability.

And we go over to this third question, if we are more cautious now with the outlook, considering all these implemented costs from TCD and everything else that's going on.

As it has been said, just considering the seasonal effect, we have a favorable outlook. That comes with the recovering the profitability of business in our main markets. So as soon as this slowing curve is recovered in this quarter, we can expect better results in Q4.

But as it has been mentioned, we still have some limits to this more future overview or scenario when this scenario of cost increase stabilizes and show us what is the balance point where it should be. So I believe Mr. Wesley Brook's [ph] questions have been all addressed.

Q - Unidentified Participant

I have two questions. I would like to go deeper into the domestic market sales force, Cabral, what about the teams previously in charge of the other brands? Will they be focused on Sadia? You do have important gains. So what is the size of this potential? Can you have better performance as a point of sale or better coverage in Brazil, vis-a-vis the new earmarked efforts of the sale force?

Second question, I believe the grain issue -- well, it takes time until you come to the balance. But when you consider the systems and processes of the Company, do you believe your Company is more integrated today? Do you believe you feel comfortable to seek all the growth you envisage or do you still have some homework to do when it comes to systems and processes? Thank you.

A - Jose Cabral {BIO 4728436 <GO>}

Let me address the sales force first and they can address the systems. Oh, you do like me, right, asking me so many questions. Thank you. There are three sales force in the domestic market; one for Sadia, another for Perdigao and one known as the base platform.

The base platform is known as such because we did have three brands in the portfolio, because there is room for big brands in the portfolio.

The thing is that based on Cade's decision, we don't have a third brand to work with. We do have some options. We could have reduced, for instance, the sales force. However, when you check our scale and volume recovery curve, that would bring a huge loss to lower the sales force and hire it again in three or four months. Nobody is so kind to maintain the sales force. It's just all the costs related to turning on and turning off.

All the teams so much used to all the systems and routines. So we'll be betting to recover the scale and that's exactly what we're doing now. And that's why I say there is a huge opportunity for productivity gains. Our first move is to turn a lemon into lemonade.

By the way it's very interesting to understand and imagine all the sentiment behind merger. Think about a sales force, they learn that they no longer have a brand to sell. But it's also amazing to see the teams' reaction when they say, now you'll be selling this and check the effect generation.

When I mentioned the lemon and the lemonade, the first move with the team was to try and go for a very efficient and profitable channel to sell in-natura products, both for Sadia and Perdigao. Today we have team that sells Sadia's processed foods, Perdigao's processed foods and a team that -- well for the moment they sell Sadia but they will be selling both in-natura brand product.

As to in-natura, it was also in the domestic market, always in the domestic market. It was a mechanism to settle the foreign market. In other words, if the price in the Middle East was good, there was no product to sell in Brazil. If foreign prices were bad, we had products available. The point is we need in-natura channel that still plays that role of a flow involved. We do have that role. But there are also profitable flow involved whenever that happens.

So when I mentioned lemon and the lemonade, if you define a strategy for in-natura products. Remember the example of the broiler that you buy in the bakery, it goes through in-natura innovation. The capillary distribution of in-natura products and not only when you need to settle and make the sale more profitable and also make better use of the transportation fleet, lowering transportation needs. We also need a pricing system, a smart system, just as we have for processed products for in-natura products is nothing but a mechanism to settle the balance.

So in-natura products are going through a significant strategic change, becoming very structural in our business which is not the goal behind growing. Our goal is growing in processed products, that's correct. But we also want to build a profitable channel, allowing us to absorb any occasional changes or variations in foreign markets in a profitable manner. So that's the first move with our sales force.

It is clear -- well, by the way, why am I speaking of productivity opportunities in the sales force and also business models. I tell you that because the transition of our portfolio was so violent that for risk management purposes, if I accumulated all the risk of moving the whole portfolio, the whole commercial structure, all the sales team, I would run the risk of losing control of the operation and we couldn't afford to do that.

We focused our risk on portfolio transition. However, now once the transition is over, in the future I can go and seek increased capillarity or an increase in our master file base. As I said before, we did not increase the number of sales people into the year. So maybe that can have an impact on the client base because capillary retail has increased in recent years. So I do have the chance to go for synergy.

Quantification is not something we can talk about yet. Maybe we can talk about it in the future. I would just like you to understand that while there is a strategy by category, in-natura was to turn lemon into lemonade and have a really efficient and profitable flowing channel in order to absorb all the changes you'll find and are so characteristic of exports in a profitable manner, that was the first move.

And next -- as of next year and late this year, we'll seek opportunities of synergy as well as productivity and changes and standardization of our business models. Did I answer your question?

Q - Unidentified Participant

What about systems?

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

Just to add, I think Cabral touched an important point. Making up and training a sales force is something expensive and it takes a long time, very time consuming and I believe the sales force is one the most important assets of a company.

Preserving the sales force is very important to us and we'll stick to that direction trying to preserve our whole sales force, trying to make the best use possible under our portfolio and the brands that have come to stay. They are the most important. They're not irrelevant at all. When we made that agreement with Cade, we preserved the core having Sadia and Perdigao together and we have the structure to move to the future.

As to the Company's structure, last year we merged our ERP. The skeleton of the Company is unified and we work under a single system. The thing is, if you work with Sadia and BRF, Sadia and BRF. So just imagine we have BRF invoice and Sadia invoice with the same client, because I still need to separate that. By year-end we'll be integrating Sadia and our operations will be far easier. However, the core processes S&OP which is the basic process, it is unified.

Pricing process is also unified. So the major processes of the Company are already unified. What we still don't have yet -- imagine when I produce a Sadia product in a Perdigao, then you have to send everything over, it's so complex and this complexity disappear by year end when we fully integrate Sadia. So I would say I'm very comfortable when it comes to our basic processes of the Company that are already unified but we still have some homework to do, once we start working with a single company with multi-brands like BRF and Sadia and all the other brands.

Considering we already have a wide range of questions already answered and for time constraints, we will give the floor to one last question and we'll be closing the presentation afterwards.

Q - Unidentified Participant

Alisha [ph], a shareholder. I have two questions, very brief questions. On CapEx you didn't mention a lot about CapEx in your presentation. You only mentioned a match in the level of return. So could you elaborate that? What about this match?

There are two points something CapEx on a yearly basis. Could it potentially be lower or is it linked to BRF '15 in terms of margin or profitability or additional effects. I wondered if you could elaborate on that? And another point is working capital. You didn't mention so much about working capital in the -- on a long-term basis or 2013?

A - Unidentified Speaker

I'll begin answering the question and maybe my colleagues can add to my answer. Matching and reconsolidation all boils down to a short-term outlook of our cash position without compromising our long-term strategy. For CapEx when we have a long-term look, our type of Company, our industry demands anticipating several kind of investments in order to have all the manufacturing lambs, slaughter facilities, everything has to be prepared in advance. That's why with that in the Company's growth, organic growth and it takes a lot of investment because the bulk of those investments are about BRL1 billion, BRL1.2 billion or BRL1.1 billion and it was just for maintenance and the size of our depreciation.

Obviously this matching is being made without hurting the rate of growth or the Company's vision of growth on a long-term horizon. We expect to control the speed of our projects and dispersement. We do have some maneuver in ideal capacity or stress capacities. So we can marginally change the mix also like mix that are not ideal. So we can also focus on profitability.

So under those terms, we don't see any changes in this amount when we consider 2015. All we are doing is to match the figures in this exercise and we also have a lot of feedback considering how the Company will be after the full TCD is completed. Then we'll have a better idea of our growth and the new phase of the Company for future growth once we have all the categories sowed and is continued.

Working capital is another key point that I didn't mention. But the Company is really engaged in that action. Today, it grows a lot year-on-year and that shows why we have an increase in our net debt. Part of it stands from the increase in the economic content of our inventory. We have a long chain, therefore the accumulated inventory has important intrinsic inflation. We have this phenomenon and our finished goods inventory is not ideal yet.

It was stemming from the fact of foreign markets and also the trans-shipment shipment of deploying to the domestic market. Tonnage is higher and also the value of finished products in the inventory are higher, because costs are higher. So we do have an increase in working capital and on a gradual basis, we expect it to go down.

And that's the goal of the Company to start 2013 at more or lower working capital levels. And obviously in 2013, that will depend on our scenario for cost to work with. But from the operating efficiency view point, naturally the working capital will come back to the organizations cash over the next six to nine months.

That concludes our presentation. Once again, thank you all for joining us today. I ask BRF Foods permission to invite you to our 22nd ABIMAC [ph] Congress to be held on August 30 and 31 in Sao Paulo at de Comercio.

And special thanks to Sadia, Sadia and Perdigao now BR Foods. Thank you for this partnership. As we said in the beginning, it's a long-lasting partnership, 30 years consecutive years our presentations in ABIMAC meetings and this shows that BR Foods that comes after these two companies more than ever keep the flame alive. Always being present but total transparency and very candid, as we could see today in the dialogue taken by the Company, very broadly with investors.

Welcome Jose Cabral and Guto. It's always important to have this more organic view of the Company. The possibility of having direct contact with other officers as well. Special thanks to the IR team to be actively involved to make this meeting possible. Saboya, thank you, bye and now I would like to give him the floor for his final remarks.

Thank you, again for joining us and I'd like to highlight that if I have to summarize this moment, I would say I'm not calm but I feel comfortable. These are different things. I'm not calm because with the results below our expectations, you can never be calm. There is sense of urgency, many things to be done and they have to be done fast, very properly with a lot of competence.

Now, I feel assured because the fundamentals of our Company remain very solid. Brazil has an optimum production base. Our brands are really strong and they stand for prices and awards. Our distribution is very scattered. And we're also building the Company now. And sometimes there are moments that are more critical and that's part of our walk together that will take three or four years. But we are already getting into the third year now, with this vision that whatever is being built takes to a leading Company in the industry and we'll add a lot to its performance. Thank you very much. See you next time.

BRF Brasil Foods conference call has been concluded. Thank you very much for joining us. Have a good day.