Q3 2012 Earnings Call

Company Participants

- Ely David Mizrahi, VP, Food Service
- Jose Antonio do Prado Fay, CEO
- Leopoldo Saboya, CFO
- Luiz Henrique Lissoni, VP, Supply Chain & Dairy
- Marcelo Maziero, Chief Products and Customers Officer
- Ricardo Tadeu Martins, VP
- Unidentified Speaker, Unknown

Other Participants

- Alexandre Miguel, Analyst
- Gabriel Vaz de Lima, Analyst
- Henrique Grimage, Analyst
- Pedro Leduc, Analyst
- Unidentified Participant, Analyst

Presentation

Ricardo Tadeu Martins {BIO 15240074 <GO>}

Good morning, everyone once again. It's a pleasure and honor for me as Vice President of Apimec Sao Paulo to Chair this session, this really important session, not only for us analysts and investment professionals but for the Company itself, for BR Foods. So its relationship with Apimec Sao Paulo for the last 30 years is a long-term partnership. We have learned a lot for this relationship with the market and I believe that analysts and investment professionals have also helped in the process.

Today we are here also celebrating this day because in this quarter, the merging process of the Company was approved by CADE. They have reached the final approval moment. And I also would like to remind you that in August 14 we also had an initial meeting where the seal of Apimec 30 years Sao Paulo was awarded to the company.

I also would like to thank all participants via internet, you can check our website and you will see a slide presentation so that you can follow all the presentation.

So we will have with us Mr. Leopoldo Saboya and also Mr. Luiz Henrique Lissoni, Vice President of Supply Chain and Dairy. We have also with us Mr. Ely David, Vice President of Food Service, Mr. Jose Antonio do Prado Fay, CEO of the Company. He will be with us shortly. And as soon as he arrives he is going to join us at the table.

So I would like us to start the presentation. So please turn off your cell phones or put them in the mute mode so that we don't have any interference. So now Leopoldo will have the floor to start the presentation.

Leopoldo Saboya {BIO 16137418 <GO>}

Thank you very much. Thank you, Ricardo. I would like to thank everyone for being here. This is another important day for the Company, the BRF Day. And we're holding it here in this such important venue for the capital market in Brazil. And as it has been said, this is an important day for the Company, for us from BRF because this is a new company with over 70 years of history and it is fulfilling all its obligations agreed with CADE in order to have the total approval and we have just started a new life, a new stage in our Company that is starting right now.

When we talk about the quarter that we just went through we have several highlights and let's understand the results and let's go into all the details, not only in the presentation but we will open the floor later on for a Q&A session.

But I'm sure that all of us, we know what we went through and everything that has been planned and everything that has been done and concluded now, we are able to see the results and we know how important this step was and how difficult it was as well. It was really -- we had to work hard to withdraw assets to later on sell them and also to change some of the brands and remove them from Perdigao and Batavo. So that was not easy.

Along with the scenario that we had last year and the first half of the year, when we analyze the results of the Company from the bottom up, we know that we're still below of what we expected, below our potential. But we have to highlight what we have done for our results, which was to recover revenue, to recover the size of the Company and that was not by chance. This has been planned and carried out carefully by the Company and from now on we will surely be able to benefit from our strategy.

So now I will start the presentation and the today just like in the other Apimec we had the participation of two business leaders. So on my left we have Mr. Lissoni that is going to talk about Supply Chain and Dairy and to my right I have Ely and he is going to talk about Food Service. Mr. do Prado Fay has just come in and he's going to join us and conclude the session with his message.

So other highlights for this quarter was that we had a very significant growth in revenue vis-a-vis last year if we consider the decrease in the business of the internal market, the domestic market. We will talk about the joint ventures with Federal Foods and Carbery as well.

So we have here the same chart we had from the prior presentation that summarizes nine months of our results. It's a summary of the Company's results so far so vis-a-vis 2011 there was a great impact from the export market. And in the first half of the year we had a fact of higher costs and also a mismatch of supply and demand, specifically the Middle East.

And in despite of having improved markets and our ability to transfer price, in the Third Quarter we had a strong cost impact and I'll talk more about it later on. And the domestic market is a phenomenon that we had for the First Quarter due also to specific area pressures and also from costs and some inefficiencies that we ended up having due to the transition to the TCD, the performance agreement.

So here we see the behavior of the short-term. In the second and Third Quarter we can see that we were expecting that this Third Quarter would not be better than the second. We thought it could even be worse. But it was aligned. It was a little bit worse than the Second Quarter. We will see the domestic market went well. Even losing revenue we were able to hold expenses and results and I would say that in the foreign market and the size of this compression of the market we were able to go 11% over price and the current exchange rate for the dollar has been almost stable. So we were able to transfer that price so we had an EBITDA that was better. But here the cause effect by our biological cycle of animals up to reaching CTV has concentrated an important share in this semester, in this half of year, that's why we don't see an improvement on the external markets. But the general conditions are improving.

In the domestic market we had an average of prices in all the areas, Dairy, Retail and Food Service. We did have a behavior in terms of price of 4%, 4.5%. That's an average. That was higher than thought because the internal -- domestic market cost is lower in terms of percentage when compared to the impact that we had in the export market. But we also had a mix impact and that has a negative impact. Even if the Company has recovered part of revenue, we cannot take that away right in the beginning of the quarter, specifically in July when the Company decided to no longer sell Perdigao products still.

So that is a quick overview of this first half of the year.

So I will now go briefly about the performance. Just like I have been saying, our gross profit grows but the margins are squeezed.

The EBITDA has the same absolute figure but in the marginal one it decreases because revenue has increased in the Second Quarter and is still way above our revenue of last year, even if we consider the same categories as last year.

So as I said, we have around the same figure of EBITDA. And after a first half very difficult we are again with a profit and it's rather small, away from our potential. But we do have a positive bottom line.

Now talking about revenue, we were able to see that in one year we had a quarter that was 14% above in terms of revenues with volumes -- with lower margins which is understandable considering our critical mass loss in the domestic market. But we were able to keep the same revenue vis-a-vis last year and also we were able to keep the total revenue of the Company above the Second Quarter.

This Company had impact due to the transition to the TCD and the removal of some products from the line but we were able still to have an increase in revenue, especially coming from prices and that's what we discussed last meeting. That is we are doing exactly what we said that we would do.

Now, analyzing this overview of the domestic market and I chose this slide just to stress that. Vis-a-vis one year ago we have 7.4% of revenue growth and let me remind you that last year the Company was operating with a complete portfolio with all the brands. That is all the potential that we would have. The Company was able to mitigate and we do have under our point of view an excellent positive result and obviously, now we are going to create value.

Once again I would like to stress what I've said in the beginning, this did not happen by chance. This has to do with the Company's planning. Since the day we knew that we would suffer this impact we started planning. We talked about that in our last meeting about over 500 projects and initiatives that the Company dedicated itself to, to be able to innovate, launch new product categories and to be present at the consumers and retailers alike with the same strength it had before, fulfilling with all obligations it had to.

Here we, once again, show a little bit of the launches. These are the launches for this quarter. But all over the year we have launched 280 products and over half of that all in the domestic market. In just nine months doing that to mitigate all the impact we had with the implementation of the TCD, the performance agreement.

Now talking about costs, we still see that pressure on our gross margin. That has decreased 60 basis points, on our gross margins. And that is explained because the average price for the second to the Third Quarter changes in the Company 6.9%. That is, the Company transferred the cost that we had in the chain. But the cost of the sold product, the average cost sold, has increased 7%. Why did it increase? Because there was a mismatch between these two moments.

So during the First Quarter, or this quarter, we were not able to offset totally that cost. But we left the quarter strong in this cost offset considering our price/cost. This is an average cost that I mentioned. At the end it is higher and it places the Company in a normal path of business for the Fourth Quarter even when we consider the positive effect of seasonality.

Another important highlight has to do with expenses control in the Company. We have discussed openly with almost all of you I believe about how careful we were being. We expected to have what we called at the time transition inefficiencies; the operating costs in which we would lose some revenue in the Company and many of those costs we didn't have any way to avoid them.

But you can see that in terms of net revenue, we have it lower than in the Second Quarter so you really can see that the Company has been preparing itself to control expenses and to be able to recover its efficiency, which now we have to go on for the Fourth Quarter and 2013.

About investments, we have in the quarter a CapEx of BRL419 million and BRL409 million in fixed assets. And BRL121 million biologic assets. For the Third Quarter we will see a deceleration of investment that has to do with our need of growth. And also analyzing all areas of the Company to see where greater investment is needed, where the Company can be more efficient in terms of invested and implemented capital.

Now, briefly talking about some investments and I'll really go very fast at this to remind you about what we are investing on. We have here the plant of the Middle East. It's going to be ready in the second half of next year and that's in Abu Dhabi. It's a processed food factory. That's our idea of adding value in that area.

We also have the margarine factor that is in Vitoria de Santo Antao and in Pernambuco in the north-east of Brasil.

Also processed added value. We have our technology center. That is for the whole company. It is in Jundiai. We will have a different agenda of innovation and product launching.

And also we have Lucas do Rio Verde. That is a major park and we are investing there to increase our installed capacity and the improvement also in processed foods.

In terms of synergies, we are delivering what we have expected, which should be around BRL700 million of net synergies. Once again, I tell you that these synergies are from the identified projects in 2009 and they do not include any type of expenses or inefficiency that we had, especially this year, with all the changes and the turbulence we went through, that we had to face to implement the performance agreement. So these are the figures for the projects identified, the improvement projects.

About our financial position, it's still very sound. Our liquidity is the same almost. The leverage increases and the margin not by the debt because you can see it has been established. It's not growing any more. Part of the working capital we have there and part of that is also due to the exchange range variation and we end up having future EBITDA that are incremental. That is they are higher than the last 12 months.

So this is still a very comfortable situation for us to have that leverage and each quarter it's going to bring us to an even more comfortable position and we will resume our normal steps.

So in the domestic market, as I have mentioned, we had a good performance. When we compare it to the Second Quarter of 2012 we see that there's a little bit less volume 4.5% more price and revenue growth 4%. So we were able to keep the profitability of the domestic market in a very challenging environment which was the suppression of revenue that ended up happening in this quarter -- in this Third Quarter. So once again, I would like to highlight this performance and obviously after this quarter we can see that the Company is stronger than in the beginning of the Third Quarter.

Now quickly talking about the domestic market, maybe I should go a little longer here. We had a worse performance when compared to prior year of BRL40 million but that was still very representative. We have some matters to take care and with Japan now with a foreign market, this is the market in which we expect to recover. It's been around 12 months if we consider the end of the year. That's when things started happening.

We had a cost impact in the general sector. That is very important, inevitable actually. And for us we should take a few more months to have a price reaction. Right now we already see a price reaction which is positive and now we are carefully analyzing to see if this is going to maintain like that for the end of the year and for the beginning of next year.

So I'll open the floor for Q&A session later on so that I don't take away the time of my colleagues. I'll turn the floor over the Ely, Food Service VP for BRF.

Ely David Mizrahi {BIO 16428831 <GO>}

Good morning. Thank you, Leo. I'd like to start by introducing myself. I'm Ely. I'm responsible for Food Service at BRF, seven years in the Company and many years ahead of this project. It's a pleasure for me to be able to share with you some of our business views.

Talking a little bit about our market, this market has been growing steadily. Both on the sell-in and sell-out it's growing in excess of the GDP -- Brazilian GDP. It's the retail market and it's supported by a few economic and social demographic trends.

Consumption habits in Brazil and here I highlight a few. For example, increased supply jobs and income, more women on the labor market, urban mobility becoming increasingly more difficult and causing people to look for conveniences. An important change in the family structure. We see more people living alone and childless couples, the rise of a new class that now has gained access to the away-from-home food market not only for convenience but also for entertainment purposes. And an entire generation that is growing with completely different and new habits that tends to remain.

When we look at all these trends, what we see is that today virtually 31% of the disposable income used for food is directed at away-from-home spending and this is the Brazilian average. When we look at the large urban centers this is around 37% but we still see a big opportunity when we compare that to more mature markets such as the US market where 50% of the income that is spent on food is in restaurants and diners. All of that influences a number of moves on the market. The market has become more professional and requiring increasingly more professional solutions.

This business potential ends up creating attractiveness or an appeal for new entrants. So the main international chains see in Brazil a huge opportunity for growth since the mature markets have come to a standstill.

There is the shopping mall industry that is taking an important step not only to grow but to go into the hinterland bringing this consumption habit because today the food court has become an important anchor for shopping malls to attract the public.

The growth of new opportunities for consumption, particularly at large urban centers such as breakfast changing the profile of cafeterias from a convenience venue to a local consumption venue. And a platform for great sports events coming on 2014 and 2016 that have been driving important industries, particularly the hotel industry.

All of that has led Brasil Foods to build a Food Services model that is very structured. We, through this model we try to meet the needs of 62,000 POSs in the various locations and also the main fast food chains and casual dining, not only in Brazil but elsewhere, capturing an incremental margin that is strategic to our business model and therefore, creates an important competitive edge.

And this competitive edge becomes real when it's consistent and in line with the value proposition. This value proposition that we've built is supported by a direct service model with a sales team of 850 people, dedicated people, working on routines and processes and a very strong execution discipline coupled with the dynamics and the needs of the market. And a portfolio solution that is professional, customized to the market with strong traits of innovation, as mentioned by Leopoldo. And year-to-date we've had the launch of 36 new products geared at this market.

We are present in the most important categories, particularly those which are relevant and what we call, the center of the plate. So dairy, protein and others.

We have a very robust proposition for our brands and they transfer their quality reputation and the value perception to our clients boosting their businesses.

And most important, we have services which supplements our business. It's, in fact, the essence of our business with a service and relationship platform that supports our clients in a number of initiatives such as revenue increase, training of employees, transfer or technologies, processes, management and the idea is to create perpetuity in this value chain.

Talking about results, what we see in terms of growth for this year is in line with market growth. This has been a very challenging year and our emphasis is on price.

As regards volume our entire strategy has been leaning towards protection of margins, attaching priority to channels that are less sensitive to sales. And we have tried to transfer all the cost pressures that we've felt. Obviously, this has an impact on volume and our margins have been pressured down by the scenario that Leopoldo has painted to you.

However, what we see over the next months, over the next quarter and this can already be seen in this quarter particular in the closing days, is a gradual recovery of margin going back to our historic level.

Our vision is that Brasil Foods has a huge opportunity to build up a business model for Food Services that is capable of capturing these growth opportunities and creating incremental value to the Company in line with our strategic vision and our ambition.

Thank you very much. I'd like to pass the floor to Lissoni.

Luiz Henrique Lissoni {BIO 17588445 <GO>}

Good morning, everyone. My name is Luiz Henrique. I'm responsible for Supply Chain and now recently Dairy products is an interesting challenge. I'm really willing to work in this segment.

Let's talk about Dairy products. Dairy products is a very interesting division, a $32 billion business in Brazil. And it has a huge growth opportunity. When we look from the structural point of view, there's an opportunity behind the figures which is to cause this chain of agribusiness to reach the same level of development that we have in livestock farming. We have a very good integration platform, costs are low and quality is high so I think that the path for Brasil Foods, like what was done with poultry and swines makes sense. Cattle is to move ahead on this chain and make the business more professional.

After the merger and the performance agreement that took a lot of time of the organization, eight plants and 10 DCs were delivered and there was a lot of re-routing. So now we'll be able to focus on the Dairy division more carefully and we see we have a long way to go.

From the point of view of the interest in the Dairy segment, this is a category that is present in every moment of consumption in the life of a consumer. For example breakfast, a snack, lunch, afternoon snack and then dinner. These products are spread out in all categories with a huge capacity of penetration. Perhaps with the exception of carton milk where the penetration is very high, they is very profitable categories and there's a long way to go and this is the work that we want to do over time and increasingly bring this project into the daily routine of consumers being supplemented by the Meat division of the Company.

Here we deal with two large universes; the universe of large volumes such as carton milk and powdered and cheese and chilled. The strategy is different. When we look at the left-hand side, what we have UHT milk and powder. The strategy is to find out the correct size. To sell more doesn't mean to have more profit. What we're really pursuing and we believe we have found is the correct size of the UHT operation that will require redesigning all the plants and the production grid. And with powder we do not want to get very high. Correct size, correct price is a very good entry platform and more than that, it's a platform for the distribution of dry products.

When we move to the other side, cheese and chilled products, very attractive margins, very good penetration, an entire universe to be developed. We have all the necessary infrastructure to have a very interesting path in cheese and basically grow and integrate and develop brands and innovate.

Looking at the strategic drivers, this is exactly what we're talking about. Cheese now has a name. It's not cheese any more. Cheese has a name. Batavo, Sadia, Brasil Foods will lead trends in this division and there's this growth potential particularly in new POSs that is incredible.

In Chilled we want to reinforce the brand equity. We want to capture operating synergy. That starts to be possible at the end of the performance agreement. Just to make it clear, we have a very big operation. We delivered 10 factories and eight distribution centers. We revisited the routing of 4,000 delivery vehicles. So we're now starting on a journey that is not short; it's long. But it will be very fruitful. And capture synergy between Dairy and Meat.

Powdered Milk, as I said, we want to find the correct size, the correct price. These categories cannot travel far, with the exception of chilled or chilled meat that enable us to do that. But UHT and Powder have to be sold close to the factories in attractive channels and the correct price.

Grocery Products, to bring in profit and look for the correct channels here.

When we look at innovation, very good things are in the pipeline. We're preparing incredible things. This is a world of opportunities.

Now the competitive advantages that we have, a distribution grid with huge capillarity that makes us different from the competition. This can be tapped from now on.

An incredible coverage. We have an ability to increase our client base now that the TCD has come to an end.

And a go-to-market model which envisages to couple our strength in product placement and others so that we can have a clear differentiator from the competition.

So we're now very clear about our growth path strategy and we want to build a fully-fledged foodstuff company. We want to diversify structure and we look for appropriate growth path. With product innovation we want to lead trends. This is our vocation, to lead trends with profitability and differentiation and operation and execution, category management, distribution synergy. And at the end we want to have the correct size and the correct channel with impeccable execution and advocating a winning go-to-market model. And now we're ready to start on a new efficiency path.

As regards results, you see already effects in terms of revenue and volumes of the strategy adopted which was to reduce UHT volumes. We cut that drastically looking for the channels and the most attractive opportunities and obviously, prices grew.

EBIT does not show signs of that yet because this is very recent. But the opportunity for price to grow and costs to drop owing to the strategy of resizing the business and focusing on the more profitable categories, this will show very quickly. And we will see an inflection point. But over the medium and long-term of the operating results.

Now, when we talk about the supply chain, this is a very complex chain. The supply chain starts in the field with soybeans and ends in the consumer table. We use all the delivery modes possible, road, river, small, medium-size and large vehicles. But we have an incredible delivery grid. It's very complex and it took us an enormous time to build it and it was more than 2 million or 3 million lines of delivery path.

But the infrastructure is very sound. It's supported by 52 factories, more than 80 distribution centers. We have over 14,000 employees in the supply chain grid. We have 2 million tons that are moved every month. So it's very powerful.

A fleet of over 7,000 vehicles on the roads. So 24-hours a day, seven days a week. This was an enormous effort when we revisited this grid. We had to re-plan more than 7,500 vehicles that sometimes do three or four travels a day. So we had to do a lot of re-routing. We carry more than 1.7 billion of head of poultry, more than 10 million head of swine and usually we say that this is a moving, a live chain.

And we have lots of opportunities here after the TCD. For example, for the current scenario where we still make separate deliveries of the various brands, Sadia, Dairy and Perdigao, we're already starting with the new distribution centers. We're starting restructure so that we can capture synergies in transport, in handling and storage. This is a process we started in August and it will take another year before we can have a totally integrated network or chain.

We have a very agile procurement division. The standard is very high. More than 16,500 suppliers, more than 200,000 SKUs and more than 25,000 contracts -- orders per year and this is what feeds into this grid. And the purpose here it to maximize all the Company's resources. We work with automatic sorters. We have new distribution centers at the most important capital cities operating with leading edge technology.

The Salvador DC inaugurated 15 days ago will be the first one to have automatic sorters for high capillarity grids. That means we're no longer going to need so much labor, which is one of the most difficult resources to find. We have overhead conveyors for automatic transportations which are much more reliable.

And we have a very efficient fleet routing system. All our vehicles have a specific route. We know exactly where they start their journey, where they end and cities like in Sao Paulo where the average speed is 12 kilometers a day when it doesn't rain. It's vital for us to know exactly what's happening. We have more than 2,000 vehicles making deliveries right now at this moment in Sao Paulo. We have a temperature and performance control. The entire fleet is monitored from the temperature and quality point of view. We work with temperatures between minus 25 degrees to normal temperature.

And we have scenario layout simulators. Everything is planned. Everything is structured. The operations are completely planned.

We have a sales route management system that is certainly efficient. It's nearly 4,000 sales people on the streets. They must have their routes and we must pursue greater efficiency. And all of that happens every day and we have a very efficient monitoring system for the sales team.

All of that so that you can rest assured that this sound network is supporting the Company's operations.

And we have five pillars. We attract and retain the best people, the best staff. It's important to have the right people at the right place uplifting [ph] performance. We have sound processes; a very sound process culture that allows us to grow with a quick ability to multiply. We also want to know the origin and the cause of deviations. That's why we're able to do a very good control of costs in one year.

We have the state-of-the-art support system such as SAP ERP controls for the whole Company and we do not accept flaws. So now with this complete network, with the performance agreement implemented, we really have to carry out all those processes.

So concluding, we have this Dairy area that is going to grow and also another area to support the growth of Brasil Foods.

That's what I have to say to all of you, thank you very much for your attention.

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

Good morning, ladies and gentlemen. I'm sorry I was late but despite of living in Sao Paulo since '94 I still get surprised by traffic. I'm sorry. But I was not able to arrive here after two hours driving. So let's go.

So that we discuss a little bit of our expectations and strategies I would like to mention two businesses, two deals that we've done in this last quarter. These are things that we were looking for, for a while. We have a pipeline. We check all the companies that might be of our interest and what can add to our strategy. And also our strategy to add value in the foreign markets.

One of them was Federal Foods. Federal Foods is our distributor for a long time in the Middle East. It has its headquarters in Abu Dhabi and they have a very sound and interesting distribution system, especially in the Emirates and the Arab Emirates. So we analyzed and we thought if we wanted a start-up operation, we always think, or if we want to find the right partner with the abilities that we need and then we try to negotiate.

So in Saudi Arabia we had our own distributions. We have a company that does our distribution. We have merchandising, product placement and we have hired logistics companies just as here. And we do have a distribution system that we have created because in Saudi Arabia we did not find a company that had the abilities that we needed.

But in the Arab Emirates we found Federal Foods. It's a very interesting company that should work for us.

So starting with Federal Foods we started working our distribution in the Emirates. So that's part of the project that Leopoldo has shown for our plant in the Middle East. This Abu Dhabi plant is going to manufacture 60,000 tons of processed food and it should be operating in the second half of next year. So we are preparing all the trade. Not only preparing the plant. But along the way working on a pipeline to the sales of this portfolio that we'll have available in the market from 2013 on and we are working there then with Federal Foods.

Carbery now is a company. We were talking to them for a while and that's part of our project for Dairy in the cheese area. Since we are already one of the major cheese producers in Brazil and that generates a lot of whey and we need to find destinations for this whey, Carbery allows us to add value to the whey chain, to the whey stream.

So whey has been gaining a lot of attention nutritionally. It is recognized as a product that brings nutritional benefits, hydration and so on. So it is really the soybean of this decade of the beginning of this decade. So they have launched in the past the soybean beverage and now we know that in the future we will have the whey beverage.

So we really need to find a path in that area and Carbery is bringing us the technology. We have the whey; a quality whey, concentrated basically in Riberio du Sul in the south of the country. We have a large production of cheese, that's why we have major availability of whey and Carbery brings us the technologies. That's not a simple technology. But then we can use the whey and using the protein that we have in the whey and that is going to be a very important step in the project.

This is going to open a new line of business for the Company because the products that come from the whey are industrial products and basically all of them are imported in Brazil. Brazil does not manufacture that. So this is going to open a new area and is going to complete our Dairy production. So we are not going to lose anything, we are going to add value to this side chain which is with the production of the whey product. It's a great strategy. We now are going to start implementation along with this joint venture with Carbery. I think that is very interesting and the whole project is going to do a good use of these side area and the use of the whey will avoid the use of it in feedstock for animals.

So the second step is to talk about the scenario. When we look at 2013 there is a macroeconomic scenario that still has some difficulties in the foreign market. Europe still shows difficulty. Japan also has some growth problems right now. It starts to show in agri GDP and it has a negative growth perspective. So we could say that the world is not in a good mood yet. A lot of things are yet to come to improve the general situation. But we sell processed food basically from chicken which are the most affordable proteins. So in spite of not being immune to this economic downturn we do have some good possibilities. There is no cheaper protein than the one from poultry. We know that there are problems in the world. But we do not have a negative perspective or a negative forecast for the next year.

In the domestic market, which is 60% of our business, we see the Company in a different position. But talking about the market itself, we believe that income and employment should remain positive. We should have a better growth. This year we had a low growth in the country. We believe in a better growth in a better GDP for next year and the Company will benefit from this growth and the advance of the middle class.

This year's scenario was very challenging. I have never seen commodities with so high volatility. In one month we had a 20% increase in grain price. When the American crops deteriorated though the grain prices rose. There was a lack of corn and soybean and a lot of pressure came upon it.

So we see for the next year a better scenario. Why do I say that? Because the problems that they had with crops in the US is not going to happen again. The United States exports a lot of corn. Brazil exports very little. Argentina little. So no one has the volume and the export capacity that the United States have and this year they will export less because there is not enough product. So just to give you an idea, they lacked volume in the United States. The correspondent of two Brazilian crops and that is going to take some time to take away the pressure from stocks. Those are going to be buffer stocks.

I believe this is a very sensitive point. If there is a question in the area is how is going to be the summer crop in Latin-America? Both Argentina, Brazil and Paraguay are fundamental in the soybean production, differently from corn. This area produces more soybean than North America so that is the major driver for commodities pressure. And if the summer crops go well, probably we will have a better price for the soy oil and soybean meals. But if that doesn't happen, from February on might have a larger gap with very little stock of grains all over the world, which could pressure the cost of animal feed. Other than that, if the situation carries out normally we should have a relief in the cost of our byproducts from soybean meal and cornmeal as well.

Now talking a little bit about our Company, whenever we meet I talk about our acquisition process we started in May 2009 and we are working on it, on this merging process. This is a long and difficult process. That merging effort involves 120,000 people and up to the end of this year when Sadia SA will be totally merged or incorporated by BRF, we will have had fulfilled up to the end of 2012 around 80% of the whole process. There's still a lot to be done in internal processes of the Company. But this is still a major landmark.

But the other processes that we had to go through which was a CADE, a major barrier that we had before the performance agreement and then the compliance to the performance agreement and that has been very well done. And now we are incorporating Sadia.

So when we have sales, we use two different companies; either Brasil Foods or Sadia. So now all products sold by BRF will be sold under BRF. Sadia will no longer exist as a company. So there is a very detailed plan and from now on we will be able to focus on after having solved the performance agreement we will be able to focus on our business, on our consumers, on our brands. We have been involved in a lot of replenishment in our R&D and in our last meeting Cabral explained everything.

So this year the Company really focused on reorganizing its portfolio with the brands we chose to keep and to launch new products to the consumers so that the consumer could replace some products and still be with us.

This is also a new activity. There's not much written about how to remove for a certain period of time the second largest brand of some categories and Perdigao that came out of sausages and ham and how to deal with the commercial brand attached to it. Now we understood those dynamics, we are working on it and the domestic market from 2013 on will be able to implement its strategy geared to the market. No matter what is the internal moment of the Company, we will be geared to our consumers now because now we have our brands, our categories, we know how things work and then in 2013 we will work looking for the consumer and the market and not as much our implementation needs.

In terms of expenses costs, we are strongly working on that. Working also on our synergies controlling company costs. We have had many costs that were due to all the processes and right now we should start a simplification process after concluding the performance agreement.

In terms of the internationalization, we have the focus on the emerging markets. We have done some acquisitions in the Middle East. We are building a plant.

There is a study being carried out on a JV in China in which we are starting to place Sadia on the shelves. It's still the very beginning but if you go to Hong Kong or Shanghai you will see trays of Sadia products and from them on we will grow in the Chinese market being very careful, as we should be, in China. As we usually say China is very easy in the top line but difficult in the bottom line. So we have to go step-by-step just like we do business in the East.

I'm sorry, Leopoldo reminded me that in the previous slides there's our vision. So we are, within the scenario that I've explained, we expect to continue growing between 10% and 12% in our top line, that is we will continue moving ahead in Brazil and elsewhere including Argentina which I forgot to talk about. Argentina is important.

We got into Argentina with a strong foot. And we have the huge job of merging companies; three companies there. And CapEx, we will have BRL2b. We will start investing less and focusing more specifically on processed products.

As for our strategic plan, we always say that we've always worked with five-year plans but next year we will start writing BRF20. And now we're moving with BRF15. Here we have established this really important strategy. We had this strategy for the merger. And we had our globalization strategy. When -- well, the Brazilian market is the stronghold of the Company. Here we have a strong brand. We are present in consumers' minds. This is very important. It is consumers that support the Company through the relationship with our brand. And we have huge distribution.

And we've been working to improve market service after the merger. We've been moving ahead. This is still something that we'll need to do by mid-next year.

Innovation is also important. We've been recognized by Forbes as the most innovative company in Brazil and among the top 100 in the world. And this shows that the Company really has the potential to develop products and deliver flavor and novelties to consumers.

The unification of our R&D division is very important. We built a center and we invested about BRL50 million to build this research and development center. And it's ready in Jundiai and the start-up is scheduled for this year. And this will unify our R&D because today there are still a few people in the hinterlands of Brazil and even in Sao Paulo. So everybody will go to this modern center of innovation.

And innovation is very important. It's part of our market vision. We continue growing organically in Brazil and in the areas where we already have certain maturities such as the Middle East. And global expansion is an important part of our plans, particularly looking at the emerging markets, which are our focus. And moving on with the value proposition.

The Company has lots of technology of logistics and distribution. Mr. Lissoni showed you the complexity that we deal with every day. And the replication of these models elsewhere will add value. But there's still a lot to learn about the local cultures; how you buy an operation such as this, Federal Foods. We know that we must respect the local cultures. We must learn. There's a lot to do.

But we've got the G&A. And this willingness to learn about the local cultures which is key to establish a successful operation abroad.

So wrapping up, I'd like to say that we are very optimistic about 2013. There are these issues which have been mentioned, which will clear up by mid-summer when the crop year will be better established. And we're prepared to start obtaining the gains of this merger. That is, everything that was done in terms of preparation over the past three years will now come to fruition.

We have had a very satisfactory execution. The day after the agreement with CADE on July 14, we had a meeting of the company to plan how this would happen. And we planned freight to occur in March. But we didn't manage to, because we needed some more time to -- well, buyers needed more time so it was extended until August. We went through very adverse situations. The scenario was very adverse. And grain prices shot up -- since 1976. We never had such a shortage of grain as the high prices we had this year.

Despite it all, the Company is now showing signs of recovery. So 2013 will be a year that as usual will be still very challenging. This is how the food market is. And the Company is used to this kind of competition. This is part of our daily routine. Volatility on the foreign market I believe has come to stay. But we've always dealt with volatility. And now we must be sure -- we are sure that volatility will grow. Since 2008, the world has grown more nervous. And we have to deal with it, the same way we have in the past.

So I'd like to wrap up here. And thank you very much for the trust of our investors, of our employees and the great job they've done. And say that the Company is really sounding healthy and very well structured to move ahead. And not only did we go through the merger. But we're pulling together a structure that will ensure globalization of the Company.

Thank you very much.

Ricardo Tadeu Martins {BIO 15240074 <GO>}

Thank you very much, Mr. Fay, Leopoldo, Luiz Henrique and Ely, for your presentations and your comments.

So the head table will be pulled down so that we can start the ceremony for the BRF Day.

Ladies and gentlemen. we'll pause now for our ceremony and then we'll come back for the Q&A session. First of all, on behalf of BM&F Bovespa, we'd like to thank you all for your presence.

Now we are welcoming BRF to celebrate the conclusion of the merger process that started in 2009. The purpose here is to expand its visibility. And also make more visible the role of each company and the economic growth of the company. The stock exchange helped reinforce the performance of the companies. On the one hand, the sustainability dividend, future emissions and corporate governance helped to add value to the stock. On the other side, options and incentives, market incentives, create greater liquidity. And attract investors. This way BM&F Bovespa is prepared to meet the needs of companies of different sizes from different industries, always trying to create value and increase liquidity.

I'd now like to pass the floor to the Director of Products and Services of BM&F Bovespa.

Marcelo Maziero {BIO 17059146 <GO>}

Good morning. Welcome to BM&F Bovespa. It's a great satisfaction to welcome Brasil Foods to open the trading floor. I'd like to greet everybody here, particularly Jose Antonio do Prado Fay, Leopoldo Saboya, CFO of BRF Brasil Foods.

We'd like to thank Brasil Foods for having had its meeting with investors here and we would like to congratulate you, congratulate your team for concluding the merger. There were difficulties, I said. And unheard of in the world. Really, we have to congratulate you not only today but throughout the coming year.

Brasil Foods is today among the top five players in the foodstuffs industry. And it's a domestic champion that grew based on solid pillars, transparency and quality. And BRF also stands out because it is in an industry where Brazil has a huge potential, which is agri-business. And in addition, to creating sustainable value to shareholders, Brasil Foods also contributes to development Brazilian society as a whole, in helping farmers to get organized and to have better production, adding brand and value to field products, making products all renowned quality. And exporting products to other countries in the world, as we've just seen. We're very proud of having Brasil Foods and within this elite group of top governance companies and have it as a member of the Brazilian Sustainability Index since its inception in 2005.

And we can see how a global success story is built, based on respect to employees, consumers, investors, community and environment. And I'd also like to highlight the humility, the professionalism dedication of the entire Brasil Foods' team here represented by the CFO, with whom I was privileged enough to be in contact over the past 10 years.

But I'd like to highlight that you're Latin American leaders and very important company in Brazil. But you're still very humble and working very hard. And here at the stock exchange, this is something we do appreciate greatly. So once again, I'd like to congratulate this team not only on the merger but also on the way they've managed the company with transparency, with predictability. And particularly contributing with quality to Brazil, since Brazil is in dire need of that.

So I wish Brasil Foods and team great success. Have a nice day. And thank you very much for being here.

Ricardo Tadeu Martins {BIO 15240074 <GO>}

Thank you very much, Mr. Marcelo Maziero. Now I'd like to invite Mr. Jose Antonio do Prado Fay to make this comments.

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

Good morning, again. I am very happy and very proud to be here, because in fact Brazil's food should only be built. And I'm very proud of being Brazilian right now, because here we have a modern stock exchange that actually works and enjoys great credibility.

When we look at our capital structure, we are a corporation. We have around of -- well, 35% of our investors are foreign investors and 10% come from the New York Stock Exchange, which has great reliability. But most foreign investors who invest in our Company, do so through Bovespa. So Bovespa gives licit companies in Brazil a huge opportunity. And I personally am a huge fan and supporter of these companies that are driven by their shareholders that deal with the market and relate to the market through credibility. And the translation of this relationship of trust goes through the stock market.

Few countries have such a modern stock market as we do, with the credibility that Bovespa has; not only Bovespa. But all the entities that are around it and that deal with the corporations, the CVM, the Brazilian SEC. So I believe that in Brazil we do not appreciate enough these entities. And we do not see the strength and the potential that companies have.

BMF is the sixth company in the world in terms of market cap and everything is traded here. Whenever you look at the companies who are ahead, these are huge multinational companies. And our shares are traded preferably here in Sao Paulo. So I think this is an unequivocal sign of modernity and every decade that goes through we see that Brazil is moving on. And it's important that we really trust as Brazilians that we can grow without this inferiority complex, valuing what we have. And what we have was not done with little effort; quite the contrary, with big effect by a community that works very hard. And we have now a very promising market.

And this is what attracts foreign investors to Brazil. If we did not have everything that we've built over the years, if we didn't have a trustworthy and consistent and reliable stock exchange in Brazil, it wouldn't be possible to set up a company such as this. So thank you very much, Bovespa. And good luck to all of us. Thank you very much.

Marcelo Maziero {BIO 17059146 <GO>}

Thank you very much, Mr. Jose Antonio do Prado Fay. Right now we would like to invite you for the bell-ringing ceremony for the trading floor. Bells starting now, also that is representing this merging process.

First, I would like to invite Mr. Jose Antonio do Prado Fay, CEO from BRF; Leopoldo Saboya, CFO, IRO of BRF. And all council members and VPs from BRF that are here. Please come to the stage so that we can carry on the bell-ringing ceremony.

Bell-ringing ceremony [ph]

And we have BM&F Bovespa and BRF. We thank you all for being here. And please would like to ask you to stay in your seats for our q&a session that will happen right after this. And it will be conducted by Ricardo Martins from Apimec Sao Paulo. So please let's wait for a few more moments for our q&a session.

Ricardo Tadeu Martins {BIO 15240074 <GO>}

On behalf of Apimec Sao Paulo and behalf of our President Reginaldo Ferreira Alexandre, our CEO that could not be here, I congratulate BR Foods for this day, for the well execution of the merging process. It was a really huge process that required a lot of dedication and that came through very well, meeting the compliance from the CADE. And also, it was very well done, very transparent. Our analysts and investors were very happy. And we were able to understand the whole process.

Before opening the session, the Q&A session, you will see that you have received an assessment questionnaire. That is very important for us, for our understanding of the presentations, of the event and the Company. Also we use this to adjust itself to your needs. And also its space so that according to other scoring process, we can choose the best meeting of the year. It is very important that you hand back these sheets when you leave today.

For those of you that would like to ask a question, please raise your hand. Receptionist will bring you a mic. And please state your name and where you're from.

Questions And Answers

Q - Alexandre Miguel {BIO 20048366 <GO>}

Good morning, Alexandre Miguel from Itau-Unibanco. Congratulations on having completed the merging process. Two questions.

First is more a concentrated on the domestic market. And I would like to understand if really the CADE has considered the whole process concluded, is finished for CADE, or if there is any pending matter. I would like to know if there is anything that CADE might be -- is still examining to approve.

And also, in terms of profitability, you mentioned a slow process to recover profitability in the domestic market. The margins were stable along the quarter. But we see --

And that second question has -- probably goes to Luiz in the logistics area. Do you have cost impact in the second part of the process by having done logistics changes or expenses with innovations that might be carried forward and still impact the Company in the future? Even if there is a mix effect, because you have had worked now with part of the revenue with a Natura product. So how is your margin now? So how do you see that margin recovery from now on?

A - Luiz Henrique Lissoni {BIO 17588445 <GO>}

Alexandre, when we did the performance agreement with CADE, we had two main lines to comply with. The first one had to do with the structural measures. We have complied with everything. We had an agreement in which we had to sell so many plants. So many CDs. So brands. And we have done all of that.

Of course, right now CADE is going to check if everything has been complied with. And there is procedures in CADE. But for five years we need to have that Perdigao brand suspended with some categories who cannot launch new brands along those lines. So it's a whole process.

There was a structural area which had more complexity. But also, we had a few complications and costs in terms of removing Perdigao from some categories. And at the same time, to work so that Perdigao would still be a robust brand. So we had to launch new brands there and to open a new range where it was possible, because some categories are there and they have no restrictions. And despite of all the categories that the company has. And we have 60 of them, 14 categories are the ones analyzing which we have categories. There we didn't have any restrictions. So even in some meat categories, we were not as dominant.

So just addressing your question, we did fulfill all structural matters. But we still have other behavioral measures to take care in the next five years, or behavioral requirements. There is a pressure on our variable expenses due to all this that I mentioned. We have launching of new products. We were changing products from one factory to another.

Thank you for your question, Alexandre. We will not have perpetuity. What -- the net worth that we have now is healthier, is streamlined, because we have an optimization of our factories and our distribution centers. And obviously, if we remove 500 SKUs and if we change our SKUs and 500 of them, we'll have an impact in cost. This month we have opened three new DCs -- Rio de Janeiro, Curitiba. And Salvador. These are transition distribution centers with -- in regards to the older ones. So we will have an overlap of costs.

But that will reduce along time when we're able to work in a more integrated way. We just have to take into consideration that there are external factors. So the drivers' law will have a major impact. We have millions of kilometers run by our fleet. So this new drivers' law is beneficial. But it's going to impact on us.

But we did not have major losses interims of raw material and inventory. Those were minimum. The future network will be healthier, just -- also in the point of view of production and delivery. And we will have more optimized distances. So these impacts should not be perennial. We just have to be careful and do more on time or present analysis.

Q - Unidentified Participant

I'm an investor. I'm also shareholder of the Company. Very good presentation. It is a role model presentation. I would like you to talk a little bit about indebtedness. How are you managing that? If that is forecasted what is that behavior like?

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

Thank you for your question. The cost of indebtedness is aligned with interest rates in the worldwide trend, which is downward trend. And that applies for national currency. That's as well as foreign currency debts. And this year we were able to have lower costs and longer term. If you analyze the average term of our debt right now it looks 4.7 years. That's the average term, vis-a-vis three years that we have in the end of prior year, on 2011.

So in nine months we were able to extend our debt term and so have a quicker turn. So when we renew our debt, we're able to pay, let's say, more expensive debt from the past and renewal it at lower cost. The funding area in the Company has three main pillars. The first of them is what we call trade finance, which is export based on our receivables from the foreign market. We have 40% with very competitive costs and good terms. Another important pillar are the CapEx financing lines also at lower marginal costs and third, capital markets.

We are also growing that share so we have a market source for investors that want to buy our credit. So that is a very positive matter. We are close to our portfolio to have access -- to offer access to new investors. And that allows us to have a sustainable and forward-look funding.

Thank you.

A - Ricardo Tadeu Martins {BIO 15240074 <GO>}

I'd like to remind you that you can ask questions, send your questions, by email.

Q - Pedro Leduc {BIO 16665775 <GO>}

Good morning. Pedro Leduc here from JP Morgan. My first question is around the profitability. So we've seen that you have a forecast of the revenue 10%, 12% growth. So how this will impact EBITDA or your profit for 2013?

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

Thank you very much for your question. In fact, our growth indicator for CapEx is what we have now, our -- when our business model is concluded.

Now about profitability we do not provide guidance. We provide you market juncture. We certainly expect a better year, not only in terms of the scenario but in terms of performance since we will not have to face a number of restrictions and the executions that were mandatory this year. So this is absolutely -- it's absolutely fair to expect that the Company will come back to a more satisfactory performance.

But how much better, well, two factors come in mind. The about-turn in the year and how close to the margins we are, how close to business as usual will be. And to what extent these other macro-economic and sectorial factors will impact us next year. It may be that we will have satisfactory wins. And if it happens, we're in for a year with higher margins. But as I said, we do not give you precise figures and we do not provide margin guidance for next year. So looking at the terms, we see a number of costs that in the wake of the performance agreement since --

Q - Pedro Leduc {BIO 16665775 <GO>}

How much will be carried forward to the Fourth Quarter and early next year? Have you wiped out all the non-recurring costs in the wake of the performance agreement?

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

Well most of it, yes. These are not direct costs, identifiable direct costs. But these are costs of gradually returning to full efficiency. That is, production to complete the production ramp-up for the new lines at new plants and there is the learning curve. There is a ramp-up. So we must take into account what Lissoni said about this redesign of the logistics grid and the new parameters for our customer service. There's also a learning curve. But there's nothing else in terms of identifiable costs in this respect.

Another issue is that the Company -- in fact if you look at the operating spend, we are in line with what I told you last -- in the last meeting, which was the internal target of getting to 2012 with the same MTO percentage of 2011. So we were able to absorb a good part of this transient inefficiency that the performance agreement brought to us.

Q - Pedro Leduc {BIO 16665775 <GO>}

Thank you.

Q - Henrique Grimage

Good morning, Henrique Grimage [ph] from BTG Pactual. My first question. I have two very brief questions. The first one is about your foreign market margin. It was 0.8%. There was a little drop. Perhaps it's not comparable because in this quarter you had new items. So I'd like to understand what was the impact on the bottom line, how has the margin suffered. And from now on, what will be integration like. And how will it contribute to the bottom line?

And the second question is for your estimated CapEx number BRL2 million and how does it break down in terms of investments and synergies?

A - Luiz Henrique Lissoni {BIO 17588445 <GO>}

Well I will start and Fay will comment as well. About the foreign market, in the benefit of time for us to -- well, because of the trading for opening, I went quickly through that. But I'll go back. We've seen the headway on foreign markets. Prices moved up. But we had a cost effect that was very concentrated on that. This is first point.

But secondly, within the quarter there is a huge variation in July. We did not only have this cost impact but there was also shipment and port problems in July. It was a very complicated month to the organization and to the foreign market, together with the domestic market because it was the first month when we had the full enforcement of the performance agreement. So October started off different.

Argentina as a whole. But Quickfood comes in in this quarter. It was not there in the Second Quarter, if you observed. In fact, on average, it doesn't change much because Argentina's result as a region is EBITDA positive. But it's been on a recovery path. And in Quickfood we've had a number of adjustments and costs to absorb this Company. For instance, in the beginning of systems projects and personnel adjustments and this is only natural when you incorporate the company.

So the third -- this will not change the impact of the foreign market. But of BRF.

I have more revenue but not bottom line. So it doesn't change that much.

Fay is going to talk about Quick.

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

Well I'd like to talk about Quickfood and Argentina. Argentina, in structural terms is very, very well equipped to be a great player in terms of protein. They have certain difficulties in terms of government. But we should not get mixed up. The country has a huge potential to be a strong player in the game and one day it will. And we had established this vision that we were going into Argentina and we did that through two acquisitions.

Danica is very, very well. It's a pleasant surprise. It's a company that has been operating very well.

Aveka [ph] is still under pressure. It has this inclination for exports that in the future we intend to keep. Quickfood came along as an opportunity. It gave us a brand, a powerful brand in Argentina which was the party brand which holds 52% of the hamburger market. And Argentineans are big hamburger eaters.

So Quick was a great opportunity. But we knew that Quickfoods would also add complexity to our business, because in fact we had to merge two companies. And now we have to merge three. We can even believe that Sadia's operation in Argentina was the fourth company. But since we're very experienced at dealing with complexity, there's nothing else we could do.

But we know there's a long way to go. I think that Quickfoods really brings a fantastic strategic advantage now. We have a brand and distribution in Argentina. Danica is an important brand. But the category is small. Margarine is 10% of the spreads market in Argentina. But hamburger is the top category in our processed products. In frankfurters we have the Partizienna [ph] brand, which is very important to us.

So Quickfoods was an impassible opportunity. It brought complexity. It slowed us down in terms of recovery in Argentina. But strategically it holds huge value in our portfolio and this will become clearer as time goes by.

Just adding to your question about CapEx, this number is a reference number of what we've been talking about. It's slightly below the previous figure of BRF15 before we learned about the effects of the performance agreement, around BRL2m. We believe that it could be BRL2 million trending downwards. But I'd like to highlight that here we have BRL550 million which are breeders. So it's like working capital. So we're talking about BRL1.4 billion of pure CapEx.

Inside this CapEx we have a number of issues but most of them I mentioned in the presentation. We have Abu Dhabi process, margarine process, new frankfurter and sausage and pizza category. And we have the ramp-up of Lucas Verde, which is a plant that we inherited. And now we have to build on top of this greenfield so that it becomes profitable so all investment has been directed to that.

We also have investments in DCs, like Lissoni talked about to conclude this preparation phases so that the DCs will be multi-brand and multi-product. So these just focus on the front end of the company and on processed products for the most part.

A - Ricardo Tadeu Martins {BIO 15240074 <GO>}

Just to -- I was entrusted with the task of asking this question that came through the Internet. And then we'll move on to the BL. So this question came via email. Can I go on? Maria Christina Costa of Abfilis Sociale [ph]. Good morning. Incorporation of Sadia, will it have any accounting effect? What would be the figure?

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

The answer is yes, we will have an accounting effect. And it will be the loss of the tax loss that was accumulated. What we cannot recover since a taxpayer's number of a company is illuminated, we have to recognize that. When we announced and approved the merger late last year, we projected that this would be BRL215m. And today we did not expect to add to this number or subtract from this number. But obviously we will only have the exact figure when we conclude the merger of Sadia this year into BRF. So this is the objective.

Ask if Maria Christina has a reply. Please send us another email, that we'll be pleased to answer your next question.

A - Ricardo Tadeu Martins {BIO 15240074 <GO>}

So let's move on to Gabriel.

Q - Gabriel Vaz de Lima {BIO 16224058 <GO>}

Good morning. Leopoldo, when you talked about Quickfoods, I would like to know, or actually I would like to offer a suggestion to Elege. Often Argentina is considering we have different dynamics of price, of volume. So we want to understand how the company works. So that would be a future suggestion.

But my question has to do with one of the slides. And I would like to go into more details. It has to do with the worldwide competition which is still high, as you have in the presentation. So I would like to understand that better. Are you having a threat from Thailand or United States that would be a little odd, because they had the problem with the crops? So I would like to understand what you mean when you say high worldwide competition.

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

Thank you, Gabriel. The foreign competition has to do with a not very clear scenario. But with increased costs of production for everyone, usually Brazil is more competitive. But it's difficult to know how much and when because we do have negative premium in the port. We have a negative spread in the port right now.

And with that, Brazil becomes larger exporter. We are exporting more maize. Even the soybean crop, it has an important role. So Brazil starts exporting foreign as well. When we analyze the competition scenario, a major competitor for Brazil are North America, specifically United States. And some pockets that are not as large; Thailand.

So there's a few concerns and not much others. It depends on how they will position because they were banned due to sanitary situations. Thailand is not cooking a lot of the raw material.

In terms of just possibility, that is better. If they go back to export any of their products to Europe, then we have two areas to which we export commodities, just two areas in the world. China still receives a little bit. But mainly we export to Russia swine carcass. And

Europe, where we export poultry. Then we have developed in Europe a project that is called preferred supply. We have plant in England and also in Ireland. And for those plants we are using a different go to market, because our basic strategies for distribution there, it doesn't work. There we don't have a strong brand and so we don't have a profitable retail penetration. So Thailand ends up having a cold and it becomes a competitor in Europe.

But the cost of production in Thailand are higher than Brazilian production costs and then it depends on the type of the poultry meat. Thailand is not competitive in costs. But they value more the dark meat of the chicken. And so they are more competitive with the chicken breast. For Japan, the scenario's a little different. We did some analysis for 2013. But Thailand is coming back to the market. It was away for a while. We took that chance to consolidate some of our positions in Europe and they become competitive again. In terms of costs, Americas are still very competitive and that will depend on how the United States will export corn and how the flow will be for the foreign market for the American product. And again, how our crops will be in the summer.

I would like to add to this comment. What we see for the worldwide market for meat and protein next year. And as far as we can see. And as long as statistics allow us to forecast anything, we believe we are going to have a more fair balance because Brazil and United States are the countries that cause imbalances, whether they have demands also with cash flow generation.

Q - Gabriel Vaz de Lima {BIO 16224058 <GO>}

You have improved a lot the working capital, especially between clients and suppliers. And that is important. But I want to understand, is that because Brasil Foods has renegotiated prices? Are these possible future gains, when we look ahead? Or is this something that is due to seasonality?

A - Unidentified Speaker

We have been working and you have seen what we had along the year. This is several factors. And some of them attached to the TCD implementation of performance agreement. We invested, we carried out more working capital. The cost increase, the stock became more expensive. So the working capital was increasing, of course. So now we have plans to start optimizing late in this quarter.

We don't see stock as much. You will start seeing it in the Fourth Quarter. We have strong work being done with customers, with clients, suppliers, sectors. We work with the financial areas to increase our terms, our payment terms. And every quarter we analyze opportunities, what kind of amortizations we can do. But the major work was done in a consistent way to increase terms with suppliers and to decrease terms with customers and with clients in the small retail. We standardized terms, for the best, of course. We needed to standardize that anyway because that's also important for our commercial model. So that's starting to show up and this is the one of the approaches the Company is dedicating itself to.

I only haven't seen BRL1b. I would love to see it -- that figure. But it's a little less that we have in our accounts. But we are going after a larger figure. I would like it to be all of that in this quarter. Thank you very much for your question.

Q - Unidentified Participant

My question, Leopoldo, is geared to the domestic market. We had an important increase of prices in this Third Quarter. And I would like to understand what was the need for this additional increase to have higher costs in the next quarter? If we do have a favorable seasonality what can we expect in terms of price increase? And what is there a strategy to recover market share? I want to understand what kind of market share recovery you have had, especially considering the free room that Perdigao left.

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

So in the last presentation we said that we were forecasting an increase of 10%. That is a profit that has two important sides. One is the retail and the other one the consumer. We are doing that in a very careful way so that we don't damage consumers, not even our clients which are the retail sector. And that will be carried out up to the end of the year with this gradual increase of prices with the retail and the consumers. And because there is a time to have these prices transferred.

And that's not something that is coming from BRF but also from the whole food sector because the commodities are under pressure. This is ongoing. The second plant in terms of market share recovery also involves two sides. One, we have brands that we sell that are still on the market. And on the other side, we have suspended some brands. And there is some room, free room there. Then everyone. And all the competition are aiming at that area with empty products, or with no product, then we are trying to gain that share. And to work with this brand suspension.

We don't have a brand for price entry any more. So with most of the categories, we have Sadia and Perdigao. So that came within some areas just Sadia and we have strategies based on our major distribution process, which is one of our strengths to recover the market share.

A - Ricardo Tadeu Martins {BIO 15240074 <GO>}

I'll take this opportunity and ask another question that came from Serge Tigall [ph], SS1 Capital. The question is could you assess the outlook on the African continent. How do you assess the potential on the difficulties in this region?

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

Okay. Africa is going through a very interesting juncture from the point of view of global trade. On the one hand, everybody looks and sees that part of Africa is moving ahead, laying down infrastructure. China is very active in the sub-Saharan Africa. And somehow opening up a region that will be a grain producer within 15, 20 days. So this is what's going on and fueling the economy. But governed is something difficult, government.

So we have certain commercial operations. We have certain vitality there. We export -- I don't have the figures on me. But it's between $600 million and $700 million for Africa, which is already significant.

As a matter of fact, this is a very distinctive continent when we look at the North. And there is South Africa and there is sub-Saharan Africa. We are very interested but still with more commercial operations rather than physical operations, although this possibility is not discarded, owing to a number of similarities that Africa has with us. Africa is like Brazil some time ago. And it's likely to tread on the footsteps of Africa. And it's possible that within years we'll talk about Africa as we talked about Latin America.

But right now, when commodity prices shoots up, Africa suffers a hard blow because the possibility of buying protein in Africa is very elastic. It is very sensitive to price. I believe that 2013 will be a very hard year. I'm always very much concerned. I think that we as civilization have left Africa behind over the past years. And that is a place of great suffering. And I am very concerned about the ability of the population to feed themselves when commodity prices go up because their purchasing power is still very low. And their ability for dry distribution is very low.

There's a lot to be done in Africa. But they have huge potential. These are big countries with great consumption potential as long as this process starts. And it has started in a few countries. But it's not across the board in terms of purchasing power of the population. Obviously interesting countries like Nigeria are very difficult to operate in; lots of instability, political instability. And when we are out to make an investment political issue, weighs very heavily because what's the stability of your investment there? And there are areas of great instability.

But I personally believe in the future of Africa. But there's a long way to go. And it's not simple. And it has a lot of suffering from the point of view of availability of foodstuffs.

I'd like to remind you that our market information is key. But anyhow, information must be very well dealt with, well published and we have coding to guide companies in this respect. And everything that comes to us for the purpose of evaluation or risk management and strategy assessment and not reflecting on the market cap of the Company on the business and share pricing of the Company on the stock market.

So I'd like to reaffirm or again congratulate the Company for the 30 years of relationship with Apimec Sao Paulo. And over this time information has always been quality information and very well accepted by investment professionals and maybe set an example throughout the Company since Brazil has a huge potential to grow.

A - Ricardo Tadeu Martins {BIO 15240074 <GO>}

So on behalf of Apimec Sao Paulo, I thank you all very much for participating. And once again, please hand in the questionnaire filled out. And very briefly I would like to talk about our site apimec.com.dr. This month we'll have a number of meetings. So please find a slot in your agenda to be present. And so those analysts who are accredited have to issue public reports. This meeting provides half a credit for the continued education program for the purpose of renewal of certification. So I'll now pass the floor to Mr. Fay so that he can make his final remarks.

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

I'd like to thank you all for this meeting. Thank you for the trust, the positive announced by our investors, our employees and reinforce our confidence in the future of the Company and in the market. Thank you very much.