Operator:

Good afternoon, and welcome to Hypermarcas 1Q11 results conference call. Today with us we have Mr. Claudio Bergamo, CEO, and Mr. Martim Prado Mattos, CFO and Investor Relations Officer.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the Company's presentation. After Hypermarcas remarks there will be a question and answer session for investors and analysts, when further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator. Today's live webcast maybe accessed through the Company's Investor Relations website, at www.hypermarcas.com.br/ir.

We would also like to inform you that statements made during this conference may constitute forward-looking statements. Such statements are subject to known and unknown risks and uncertainties that could cause the Company's actual results to differ materially from those set forth in the forward-looking statements.

Now I will turn the floor to Mr. Claudio Bergamo, who will begin the presentation. Mr. Bergamo, you may begin your conference.

Claudio Bergamo dos Santos:

Thank you all very much. Thank you for participating on the call. Let us start on page five, please. So, just to give you a background on the quarter, as we have been already speaking since the last quarter, we started this year with a new trade in the economy in Brazil, which increased interest rate and acceleration of inflation. And then, I think it is a consensus among all the economists that we have a slower economy from the year, and despite the fact that we should continue having good levels of employment and income.

The whole environment, especially inflation, it is running at 6.5% and with the expected growth of something around 3.5% to 4% of the GDP, so the Government is in the middle of the process of increasing the interest rates.

That said, we started as a Company in the year at a very large cycle of acquisitions. And for the year the Company decided to focus on the integration of other conditions and improvement within Company. So, as we started the year we saw major measures, first with increase in prices. We reduced payments terms for the clients with the objective to improve the working capital. We anticipated an acceleration of the integration, especially the Mantecorp acquisition, and as well we took the opportunity of these integrations to reduce some expenses.

So, the Company has pretty much taken many actions in the beginning of the year to be able to leverage in the next quarters profitability level.

If you go to page six, and the results from the quarter itself, in terms of net revenue the Company reached R$825 million in net revenues, which represented 30% vis-à-vis last year on a comparison basis based on the numbers of the Company.

The Company introduced this quarter a new metric called "Reference Base", which is pretty much a pro-forma figure for all acquisitions made since last year with the objective to give more transparency and a better base for comparisons, given many of the feedbacks we have received in the market.

Based on that metrics the Company's sales declined 3.4%, which reduced the Cleaning and Food businesses that was about -1%, which is pretty much a stabilization. The reason for that sales decline was mostly because of wholesaler stocks variation, given that the policy of the Company to reduce payment terms and increase prices, and given that the wholesalers have a large amount of stock in the market and Carnival was in the first half of March, the orders came too late in the quarter and the Company decided not to take many of these orders given that the average was not attractive in the policies for the Company.

In terms of gross margin, the Company reached a historical peak in the 1Q, reaching 52.2%, which when compared to the 1Q10 is 4.4 p.p. above, as well as against the reference base. And that gross profit level does not account the price increase that the Company had pursued in the 1Q since those price increases are due to April on. But the increase of the gross profit vis-à-vis last year's the reference base is mostly because of the initiatives that the Company had already been pursuing since 2009 and 2010 and the same trend that we have seen in the 1Q.

In terms of EBITDA, the Company reached R$215 million in EBITDA for the quarter, which is close to 10% above reference base and 27% vis-à-vis last year. In terms of EBITDA margin the Company reached 25.4% for the quarter despite the slight decline in sales.

It is very important that all understand, moving onto page seven, that what we saw in the 1Q is mostly a question of a seasonal stock adjustment for distributors and wholesalers. On the demand side of the products, the sellout side, the brand of the Company continues being in a very healthy trend.

On page seven, we have here what are the results for the demand for Hypermarcas vis-à-vis the market for the quarter. And in generics business, this business grew at 165% vis-à-vis 27% of market evolution in the quarter. That was pretty much resulted from the strategy of the Company to grow into the generics market since we made the acquisition of NeoQuímica by the end of 2009.

In the similars market we also grew in the quarter 50% vis-à-vis 33.5% of market since we grew above the market. In the OTC market, the Company grew close to 15%, the same level of the market. In the OX market, the prescription business, the demand was 6.7% compared 9.3% of the market. That was much lower because of Mantecorp; I mean, if we 8:35 Mantecorp, it would have been close to 15%.

In total, the demand for Company products grew in the market 35.2% vis-à-vis 18% of the total market. As a result of that, the total Company market share in the pharmaceutical marketing business grew from 6.9% to 7.9% in the quarter, which is close to – if we consider the R$35 billion market – R$350 million in additional market for the Company. So, in terms of market share it was pretty good quarter for the pharmaceutical business in all segments and in total.

If we go to page eight, we have been asked many times about the result of our strategy in the generics market. And I think this chart pretty much shows what had been the results. Basically we started in January 2010 when we bought NeoQuímica, with an index of 100. The Company has grown all the way through 247% by the end of February, not even accounting March, and it was very faster than the total market.

And also in terms of rank, the Company started its strategy successfully, and now it has been the third in the rank of the Company since August 2010. So, the Company is pretty much consolidated as the third largest player in the generics market, this market has been very well and we have been launching many products on every quarter, as I am going to show later on.

On page nine, I think it is also important to show what are the trends in our key markets, from the Personal Care and Beauty categories, such as the sweeteners, condoms, shaving, body, and nail polishes and diapers. And as we can see, all these markets have being growing, especially the nail polishes has been growing at close to 30% a year, and the diapers is the second that is growing more. In terms of market share, the Company has been able to stabilize or even grow its market share in all these markets except for nail polishes, which there was a specific action from the low-end brand in the market.

If we go to page ten, and I believe there was a big highlight for the quarter for Hypermarcas was the speed of the implementation of the synergies from the integrations. With Mantecorp in our base nowadays, the Company had in total R$257 million in synergies to be captured; out of that the Company had already implemented R$156 million in synergies.

As I give the highlights on Mantecorp, which the total synergies or expected synergies is a R$135 million, the Company was able to implement 70% of those synergies by the end of the quarter. The Company expected to finalize all the Phase 1 and 2 synergies for Mantecorp by June 2011, in anticipation of six months from when we announced the deal. In total, the Company has already implemented 51% and expects to implement 100% by the end of 2011.

If we go to page 11, just to give a highlight of what we have done, we were able to close the São Paulo office of Mantecorp by April 29th, which was a big task, and we were able to bring all the people we wanted into our own headquarters and be able to shut down that office by the end of April, which was the largest SG&A structure they had in Brazil.

If we go to page 12, that is very important because this is the update of the implementation of the transfer of the plants, some pharmaceutical plants into Anápolis, which is the project magnum, and this project per se represents a 55% value in synergies. The project is pretty much on time should be ready in the end of June, and we are at this point now, already transferring some of the equipments from the other plants into the Anápolis, and we will be able to be operating from Anápolis from October on and to give it back the lands from the previous, besides Monange and Farmasa, to the previous owner and stop paying rent of that and take advantage of the gains of this still in this calendar.

Just to give an idea, on page 13, the warehouse was built during this process, which is 100% already performed, and this represents the largest warehouse of pharmaceutical products in Brazil.

Going to page 14, just to give an example of the type of things we have done at Mantecorp. I think of the key areas was the doctors' visiting force. And if we took the Farmasa corp it was R$32 million, Mantecorp was R$68 million; so, the pre-merger of both of them was R$100 million, and we were able to bring down that cost to R$70 million, with a 30% reduction of the total cost to combine forces, which was close to 45% of the Mantecorp force alone.

But it is very important that the Company was able to do that, not only reducing 30% of the cost but also increasing the total amount of doctors' visits from 75 to 106,000 doctors. So, we were able to reduce by 30% the cost, and increase by 40% the total amount of visits. So, that is pretty much the type of things we have been able to do through the consolidation of many of these operations of the acquired companies.

On page 15, just to give you a 'hello' from our new sales force here. Basically last week we ended the process and launched the new doctors' sales force, as we can see in this chart that we have here close to 700 people. These people are extremely enthusiastic about this new force, and I think we have done pretty much an outstanding job, being able to do this integration in such an effective manner. And that was very important to really to be able to do that, and now we are working very hard to improve the demand for Mantecorp's products, which were not so high for next year.

Going to page 16, just to give a highlight on the innovation process. The innovations are going very well. I think this year we have been able, in the Pharma division, to launch 28 new products. We have a pipeline of close to 60 products for the year. And in a consumer package group, were able to launch 108 products. We have close to 700 new products for the year. So in total, we expect this year to be able to launch at least, which was the target for the Company, 3 products per day. So, we are in the right direction to this.

And in terms of generics, we have been able to end the year reaching close to 80% of all the top generics in Brazil, which will be as much as the key two leaders in the market. As well, we are going after to launch unique generics that no other company has in the market and also some other products such as umbrellas, and other innovative types of products. So, we have lots of things going on there.

And we have lots of things going on as well as in the consumer package front. We have relaunched Denorex, which is an antidandruff shampoo; Lucretin, which is a feminine intimate care; Biorene, the new line mid-priced shampoo; the aerosol from Monange; the new line of Avanço MOB, which is for teenagers; as well as we relaunched all the professional line for hair saloons.

If we go to page 17, just to give a flavor of the type of initiatives we have now, we have at this point 143 new products already registered at ANVISA have been pretty fast in approving approvals for generic drugs. The Company has been able to launch in the quarter the Viagra generic for the quarter. And so things have been very well in that front.

Just give another idea, the total market size of all those launches is close to R$6 billion, which is a market that the Company is not competing on. And if we assume that we could get close to 80% market share of that market, only those products here represent close to R$500 million in terms of additional markets that we are competing in terms of additional revenues.

We go to page 18, just to give a flavor, we ended the quarter as well, the new innovation center, CECI project, which is the largest and most modern innovation center for Personal Care products in Brazil.

In page 19, a quick and really just a glance of the new launches: the Monange aerosol on the deodorant line. On page 20, the new line of Monange for teens. On page 21, the new line for Lucretin. Page 22, the Denorex relaunch. Page 23, the Biorene relaunch. Page 24, Leite de Colônia relaunch. On page 25, Bozzano also relaunched; we launched a new version of a hair gel in the market.

On page 26, this launch is already for the 2Q. We already launched out in the market, which is the new diaper from Pompom. We have been working in this project for 1.5 year in this new launch. We can say now that we have probably the best diaper in the market.

And when we go to page 27, in Pompom as well we have launched the first company to launch fashion-design diapers for the younger kids. On page 28, the new professional line, we have launched for the hair saloons.

Page 29, the new line of Etti for ready-to-eat foods. Page 30, the new Fluss desinfectant. And page 31, Assim.

Just to give some flavor of the things that our innovation people have done. So, people are working very hard on many of these launches, and we are very happy that we have been able to do such a large amount of innovation, and that has been an investment we have been doing since 2009, in infrastructure and innovation, and I think from 2011 on that infrastructure will be pretty well paid off given that we will be able to accelerate the amount of new products to introduce in the market.

On page 32, just to give some highlights on other supporting factors, such as logistics, IT, sourcing, HR. We can see that in logistics we have just finalized an organizational restructuring and we have been paying off with the clients; the clients are very happy with that, we have improved our services to the clients. In terms of IT, we have finalized also in the quarter the implementation of SAP at York, Sapeka, and Inal. So, this is a pretty hard work that our teams have accomplished. And nowadays the only two companies that are not under this platform are Mantecorp and Madesa, which we believe will be by the end of this year. So, we will enter 2012 with 100% of all the operations in the SAP platform.

In terms of sourcing, we centralized 100% of the sourcing in the quarter and we have been able to continue having reductions in raw material costs through the initiatives of centralizing and comparing the costs among the different companies we acquired. So, that has been an initiative that has been supporting the improvement of our gross profit level.

We also launched in the quarter and new program, we call it Hyper Talentos. We already selected 35 persons to participate in the quarter to become the Hypers of Hypermarcas and the new managers of the future. And in terms of operating network we are in the process of evaluating a new plant consolidation that we do have a very good opportunity to do similar to what we have done for Pharma, to consolidate into Anápolis. We have also a new project coming out in the next quarter; we probably will be able already to announce that project that we have an additional further saving from that project, which is not included in the value of the synergies so far.

On page 33, my last chart, then I pass over to Martim. Basically, the Company was able to issue, to enter the long-term bond market. The Company issued US$750 million in a 10-year bond at a 6.75% interest. This was pretty successful in the market, I mean it was 12x our subscribed book, more than US$6 billion in the end, 96% anticipation of all the bidings. And through that the Company has been able to increase pretty much its debt maturity from 2.5 to 4.1 years, and also be able to reduce its interest rates.

So, thanks very much. Sorry it was too long, but too many things happened in the quarter. So, I will pass over to Martim Prado, who will explain in more details the numbers. Thank you very much.

Martim Prado Mattos:

Good afternoon. So, we may begin at page 35. As we have seen the net revenues for the quarter were up R$845 billion compared to the R$648 million that we had last quarter. This represents an increase of 31%.

As you know, this figure of 31% is influenced by the acquisitions that we have done through this time since the 1Q of last year to the 1Q of this year. To address that question we used to disclose a metric, which was called SBS, organic growth from a same-brand sales basis, which after some feedback that we have been getting from investors, we decided to change for a broader type of metrics, which also includes not only the same-brand sales development but also what has been happening with the companies that we acquired.

To do that we built complete results for the year of 2010, on a quarter-by-quarter basis. You may see that on the last page of our earnings release. And because of that we were able to see what was the pro-forma revenues that we had on the 1Q of last year and all those subsequent quarters as well.

So, based on that, which we are calling reference base, the organic growth for the quarter was of -3%, as Claudio mentioned. And again it incorporates both the SBS and also the development and the growth of the companies we acquired. We are going to start using that reference base not only for net sales but also gross profit and EBITDA through the year of 2011.

The growth per business unit, as Claudio also highlighted, was affected by Home Care and Foods. If we were to disconsider that, looking only at the core businesses of Hypermarcas, we had a decline of 1% in net revenues comparing the 1Q11 with the 1Q10 on a reference base. The good side of that is that we had a good mix effect coming from that, given that Personal Care and also Pharma tend to have higher profitability levels in terms of gross profit than Home Care and Food.

Which is what we see in the following page, number 36, that we achieved a gross margin level of 62.2% in the 1Q11 comparing to 57.8% in the 1Q10, an increase of 4.4 p.p., which we may think or we would think that is only attributed to acquisitions into the mix, a better mix especially because of Mantecorp.

However, when we look at the reference base figure, which we also see in this chart, of 56.5% we see that actually it was not only a matter of mix from one quarter to the other but we did have significant improvements through these years, especially in terms of net prices that we use for the Company. And also in terms of our cost we were able to reduce a lot of them in different categories we participate. So, all accounted for at the end on a combined basis for the quarter, the mix effect existed but the margin effect was much more representative.

We can see the details of that on the following page, number 37. On a business unit basis, as we have been disclosing since the last quarter, Personal Care delivered gross margin of 52%, Pharma 72%, Home Care and Food approximately 32%. But when we compared that to the reference base of the 1Q10, we see that we had an appreciation of 7 p.p. for Personal Care, which is quite significant, 5.4% in Pharma, which was also important, and a decline of close to 9% in Home Care and Food. The total increase in gross profit was of 6.7 p.p., as we saw on the last page.

So, if we look at the mix effect, mix and margin effects for each of these business units, we see again that they were quite important; in Personal Care they represented an appreciation of close to 10 p.p., again very substantial. In Pharma, of close to 3%; and in Home Care and Food of -8%, making a total of 4.5 p.p. due to the margin effect on a combined basis.

In respect of the Home Care and Food, it is important to highlight that the decline in gross margin that we saw can be explained, most of it, because of idleness on our plants, given that the volumes declined recently. As you may have noticed, we made a big adjustment on the production to control the inventory levels for the Company. So, those low levels of production caused us to book the cost of that idleness on the 1Q11.

In the next page, we see that the EBITDA for the quarter was of R$215 million, 27% higher than the 1Q10. On a reference base, we see that the EBITDA that we would have had on the 1Q10, considering all the acquisitions, would have been of R$196 million. So, despite a decline in net sales that we saw compared to the reference base, the EBITDA appreciated close to 10%, so from R$196 million to R$215 million.

In terms of margin, the effect of that is a declining 70 b.p. in terms of the 1Q11 compared to the 1Q10, but comparing to the reference base figure we see that we had an appreciation of 300 b.p. on that figure, going from 22.4% to 25.4% of our net sales. This is an important figure, which we were highlighting here because it represents most of the synergies that we have been working on through the year of 2010 and also beginning of 2011. They are starting to be shown in the figures, which is why we had that big increase on our EBITDA margin.

It is also important to highlight, as we had disclosed on our earnings release, that we are disclosing the figures, how much we are expecting synergies yet to be captured going forward. So, you may use that to better forecast the results of Hypermarcas.

By the way, again this is the main reason why we are using the reference base; you may see that data on the end of the earnings release. So, using that information along with the information of the expected synergies, you can probably drive to more precise conclusions about how we are going to perform during the year of 2011.

So, on page 39 we can see the cash earnings for the quarter, which were of R$126 million, a 2% decline comparing to the 1Q11, of R$123 million. In terms of profitability of that, we saw that there was a decline of 4.9 p.p. on the cash earnings margin, which is mainly attributed to the increase of net interest expenses that we had on the quarter. So, out of that 4.9 decrease in the cash earnings margin, 4% is explained by that. And the cause of that increase in net interest expenses is because of the increase of our average net leverage, which was caused by the different acquisitions that we did from the 1Q10 to the 1Q11.

On page 40 we can see the leverage of the pro-forma leverage of the Company. We ended the quarter with R$2.893 billion. We do not have subsequent events that would affect that net leverage. So, on a pro-forma basis we ended the quarter also with R$2.893 billion. However, because of the bond issuance that we had on the beginning of the 2Q, we increased our cash position but also increased our gross debt by R$1.16 billion, which is mainly composed by the bond issuance.

So, because of that, if we look at the right side of the chart we see that we ended the quarter with R$2.893 billion in the net debt, a pro-forma cash position of roughly R$3 billion, and a gross debt of R$5.896 billion, which is composed by R$4.55 billion long-term financing including the bond and including also other debentures that we issued; and R$1.336 billion in acquisition installments payables.

So, those were the main messages that we had to address to you. We will be happy to take your questions now.

Robert Ford, Bank of America/Merrill Lynch:

Yes. Thank you. Good day, everybody. Claudio, I had a couple of questions. And the first one was what prompted you to kind of change your tactics quarter on quarter? You mentioned higher interest rates and that sort of thing, but I have got to believe there is a little bit more to it then just higher interest rates, right?

Martim Prado Mattos:

Hi Bob. What we are trying to do at the end is in a way we are testing the bargaining power that we have. After recent acquisitions, after every acquisiton last year we felt that at this point in time it was in our interest, the more focus in terms of our commercial policy in the profitability levels that we applied, that we get from our clients because of discounts, after discounts, and also in terms of the commercial policies in terms of terms that we give to the clients.

So, basically what we did during the 1Q was to be tougher on our clients. We did not take orders from our clients that would not comply with these rules, that would not comply with the terms that we were aiming and that would not comply with the levels of pricing that we aim for those clients.

So, again we were more concerned with the medium and long-term healthiness of the Company and of our process of sales instead of doing just a good figuring of our growth. It is important to mention that the objective of that is not aiming to the short term. So, on the other hand we will not see and we have not seen a big increase in our profitability because of that. But we had the perception here and we are very comfortable with the decision that this new behavior that we are having with our clients could potentially resolve in the future of better negotiations with our clients.

So, we started negotiating with our clients being on a better position then we were before, in a situation that we now know that their inventory levels are not as high as they were before, and given that we continue seeing demand for our products, we know that these clients, especially the distributers and wholesaler, they have to replace the product that they sold, meaning that they would have to buy more from us.

So, we see that situation going forward as something healthier, at the end it was an adjustment process that we were taking, that should last for a few quarter, so it is not something immediate; it is just something that we were doing for the entire year, but its something that we feel that is going to be the good benefit of the Company.

Robert Ford:

Hey, Martim, in the 1Q was there significant difference in the performance on a revenue basis from your own brands versus the newly acquired brands?

Martim Prado Mattos:

We saw a very good behavior on the newly acquired brands. So, especially Mantecorp and Madesa we saw very good results, but in general the situation that we saw for the quarter, as we disclosed on an organic basis, was a decline of 1%. To be frank, initially we did not expect that big of an impact on our sales, on our overall levels of organic growth, but that is what happened at the end. But we are still comfortable with the decision that we have taken because we know that being tougher with our clients will mean that going forward we will be better positioned to negotiate with them.

Robert Ford:

And is competition following your moves in terms of pricing in working capital?

Martim Prado Mattos:

In terms of working capital, we are now probably adjusting. Last quarter we were more flexible than the competition. So, we are now probably heading into something closer to them. And in terms of prices, we were probably less flexible than our competitors, meaning that probably the prices that we negotiated with our clients, even after discounts, that price increase was higher than the prior price increases the competitors took with their clients.

Robert Ford:

And then, when I look at the trade discounts this year, it is up almost by a factor of 3x compared to last year. What should I read into that? Because I have got you at R$28.9 million a trade discounts versus R$10 million last year.

Martim Prado Mattos:

You mean in terms of trade deals on our market?

Robert Ford:

Yes. I am sorry, it is actually a little bit more than that. I got you at R$78.5 million consolidated. And so, in your line if I look at – you have *produtos e serviços, devoluções e descontos*. And in *descontos* is R$78.5 million versus R$10 million last year.

So, it looks as if the trade deals that you are booking at least in the gross lines have increased dramatically. And I do not know if you are just reallocating expenses or if you are giving more discounts to the trade, but it suggests that your sales struggled despite a dramatic elevation in trade discounts, at least that is what you are reporting in your ITR.

Martim Prado Mattos:

No, Bob. Bob, that is not the right line to look at our trade deals. Under IFRS, the right metrics to use, the right line to look at is trade deals on our marketing expenses, because that is what we do intentionally with our clients giving them deals so they can allocate that on the trade.

So, if you look at that figure, we see that on a proportion to net sales, as you can see on table 6 of our earnings release, that decrease to 4.2% is compared to 6.1% the 1Q10. Looking at the gross sales to net sales might lead you to wrong conclusions because we have the effect of mix of segments of difference in the way we account for discounts in different companies, especially for Mantecorp, because at Mantecorp they also used to book their gross sales inflated by the unconditional discounts. So, again, the better figure to look at is gross expense. And we can certainly discuss more in that later on if you would like to.

Robert Ford:

No, that is very comforting, it is great. And then with respect to the price increase, the gross margin improvement that you are reporting again is before you implement the new price tables for Personal Care and for OTC and Pharma, is that correct? And then I just wanted to verify the timing and the magnitude and what kind of gross margin improvement you expect as a result of the price increases, please?

Martim Prado Mattos:

Yes. We are implementing price increases effective as of the 2Q only, so the price increases did not affect Pharma; that was close to 4.5%. I think in the other consumer

goods it was something between 6% and 8%. So, the gross margin of 62.2% that we saw on the 1Q is not affected by that, but as you probably know during the 1Q we tend to have a very good mix comparing to other quarters, especially compared to the 4Q. Even that we sell more medications than on other quarters. So, because of that, given that Pharma will have a better gross profit level, so the level of gross profit was good.

Robert Ford:

Great. Thank you very much.

Jose Yordan, Deutsche Bank:

Hi, good afternoon everyone. I was also listening to the previous call, I understand all the explanations for all the different adjustments and all the changes in the quarter, but what I am not sure I understand is, why another change in the information context. This change to the reference base seems to be a change for the worst. As far as I can see so far we lose visibility on what is happening to your existing brands by division.

And also I am not sure why, I guess I want a clarification of whether your synergies are still being stated gross and not net of these non-recurring expenses that in this quarter were basically over R$40 million, R$41 million and change. So, I guess where I am getting to is in the R$1 billion guidance, is this an adjusted EBITDA number that we should expect, let us say, to be affected by all these non-recurring expenses, or is it a real number? And what is the real number when taken into consideration all the recurring severance expenses etc.?

And I guess my broad second question is, the Food and Home Cares businesses seem to be going from bad to worse, and I guess if sales keep falling the margins will continue to deteriorate, etc. And you had mentioned you were looking for a buyer for that business; any update you can give us on that process? That will be great.

Martim Prado Mattos:

Well, beginning with the synergies and our guidance, our guidance is for the metrics, the line that we call EBITDA. And if you look at all the reports that we have been disclosing since the last quarter, EBITDA is adjusted by non-cash events and non-recurring expenses. So, that is what we are using, exactly that line adjusted by those two factors that we are using for the guidance of 2011.

Jose Yordan:

No, I know that. I guess the non-recurring expenses were always in the single-digits, as far as I can remember. And then so, it is a bit of an inflated figure. I mean, I think we have been using the unadjusted figure, anyway, because I think it is probably a better indicator of what is truly happening this year. But anyway, I take your point.

Claudio Bergamo dos Santos:

Yes. We are in a process pretty much in this quarter, Jose, the Mantecorp. So, it was a big effort in that trend. That is why we have a higher level than it used to be.

Talking about Food and Cleaning, just for me to help you on that, basically the Food and Cleaning, the elasticity for the sector was larger than the other one; that is why we have the higher impact. And the process is doing very well, it is going OK.

Jose Yordan:

The process of finding a buyer, you mean?

Claudio Bergamo dos Santos:

Yes.

Jose Yordan:

OK. All right. Thanks a lot.

Martim Prado Mattos:

There is another point that you asked, right? The reference base; why the change? Jose, we truly think that this reference base that we are using is much more complete and will give you more information than we used to give you before. The same-brand sales was an explanation for only a portion of our current results.

So, in 2011 we would only, for instance, if we were looking at that, we would only be looking for a like-for-like comparison with last quarter, with the 1Q10. The reference base will give you a full picture, because it is a full comparison with not only the same-brand sales but also the companies that we acquired in the meaning time.

And besides that...

Jose Yordan:

But then you were not managing the Company last year, I guess as a distinction of that. Either way it is, I guess, incomplete. But I am not sure; we can always talk about it offline. But I think consistency, I mean, you have had that scheme for a few quarters and I think introducing another level of inconsistency will probably lead to more consternation.

Martim Prado Mattos:

But we also heard a lot of times that the same-brand sales would not give market the full picture of what was going on with the acquired companies. Investors would only get information about what we had one year before.

But anyway, besides that I think you are not considering the fact that the reference base includes net sales, but also includes gross profit and EBITDA. So, this is an information that you did not have before and it certainly is going to be more helpful for the market to forecast the figures of 2011, and that was also one of the objectives of the change in the metrics.

Jose Yordan:

So, you are committing to keeping this present information content for the foreseeable future, not just for 2011 but hopefully forever, as much as ever can be defined in this business?

Martim Prado Mattos:

Yes. The intention for 2011 is to use that, use reference base. And thinking of the possibility of not doing acquisitions anymore, in 2012 we would not need that, we would not need because the reference base and the official figures would be the same.

Jose Yordan:

All right, got you. Thanks a lot.

Marcel Moraes, Credit Suisse:

Hey, good morning everybody. First question, Martim, is where have you booked all the non-recurring expenses, the R$40 million? If it is all booked as other operating expense, or spread through the main expense line?

Martim Prado Mattos:

Well, let us look at in parts. Fees related to acquisitions were booked as other operating expense. All the rest, the most important part of the rest, if not all, were booked as OPEX. The other lines, mainly admin.

Marcel Moraes:

Right. Mostly booked as wages, right?

Martim Prado Mattos:

Say that again?

Marcel Moraes:

I mean, they are mostly booked as wages?

Martim Prado Mattos:

Wages on G&A.

Marcel Moraes:

Right, that is it. And is there any tax gain in this 1Q that was booked as other operating expenses?

Martim Prado Mattos:

Yes, it will be the difference of the figure that we disclosed, approximately R$5 million in other. But that was affected by approximately R$20 million of fees, so at the end we need R$25 million of tax credit.

Marcel Moraes:

OK. Thank you. And if we take what you are calling, let us say, the recurring EBITDA, I mean I assume that this tax gain of R$25 million is something recurring that is going to be booked somewhere in the coming quarters; is that right?

Martim Prado Mattos:

Yes, it is going to be recurring. As we have been seeing this figure for lot of quarters already, if I am not mistaken since the beginning of last year, it should continue to exist for a few more quarters going forward.

Marcel Moraes:

OK. So, if we assume that and then we take out all of the R$58 million in synergies that you said were already absorbed the 1Q. Then we get an EBITDA ex-synergies of R$167 million. And if we compare that number to what would be, let us say, the recurring EBITDA last year, taking now...

Martim Prado Mattos:

Marcel, sorry to interrupt. Your calculation is not correct. The R$50 million is on an annualized basis.

Marcel Moraes:

The R$58 million that you would have absorbed, right?

Martim Prado Mattos:

Yes, on an annualized basis. But we can discuss the details of that later on, if you would like.

Marcel Moraes:

Right. So, I mean, you do not have what would be the actual number related to the 1Q?

Martim Prado Mattos:

Well, a good indication would be to divide that by four, given that it is annualized basis.

Marcel Moraes:

Right. So, let us say that, I am just trying to understand what happens to the EBITDA margin on a recurring basis, if we extract that. So, we would have EBITDA, I mean if

we divide the synergies by four, we would get an EBITDA of R$200 million, ex-synergies, and that compares to R$153 million last year. And this will be a flat EBITDA margin. Is this a fair judgment?

Martim Prado Mattos:

This is a deeper way of looking at it, but at the end we disclose the EBITDA the way we disclose because that is exactly the results without being affected by non-recurring events. That is why we use that figure. So, if you want to take them out from both quarters, it is up to you. But we think that it is better way of looking at it, exactly the way we disclose.

Marcel Moraes:

OK, perfect. Thank you.

Lori Serra, Morgan Stanley:

Good afternoon. I wanted to ask a couple of questions, maybe I could just start by asking Claudio a question. The 1Q conference call was mid-March and at that time you said that the revenue outlook might be a little bit difficult because you are starting to see some issues with the wholesaler just getting nervous about bad debts, but you were still sticking to your guidance. If at that point you knew you were changing your terms pretty importantly, why would you not have highlighted that to investors at that point? Because that obviously would show a big risk on top of the one you highlighted in the call.

Claudio Bergamo dos Santos:

Well, I think we did highlight it. We said that we were seeing some movements from the clients given the increased interest rates. And people worried about it, the bad debt, the issue then...

Lori Serra:

I am sorry to interrupt, but when did you change your commercial terms? And did you talk about that on the call? Because I might have missed it, but I do not remember it.

Claudio Bergamo dos Santos:

Well, the issue was that pretty much by the end of March we did not expect that the clients would not send the orders so late. So, at that point we did not have enough information to disclose a relevant information, as you are saying.

Lori Serra:

So, in mid-March you knew you were going to change the terms but you did not think that it would have a material impact?

Claudio Bergamo dos Santos:

Sorry?

Lori Serra:

In mid-March you knew you were going to change the terms, but you were not expecting it to have an impact on your business, is that the idea?

Martim Prado Mattos:

Yes, Lori, that is it. By mid-March we had already the new commercial policy out in the market, but initially when we did it, as I mentioned during my portion of the presentation, we would not expect that to have the impact that it had. We are still comfortable with the decision, but the impact was higher than we forecasted. But we only had the full information, the full impacts of that by the end of the quarter.

Lori Serra:

OK. So, you know what would be really helpful to understand, is how much inventory do you see right now in the channel? Maybe you could talk about it, I do not know, your main products, Pharmaceuticals and Personal Care, because we also saw in the quarter was your inventories levels rose. So, I guess two things need to happen: the wholesalers and I guess the retailers that you sell directly to need to work down their inventories to levels they are comfortable with, and maybe they are there now, maybe they are not. I would love to know how many days you think is there right now.

And then your inventories have to come down, because I guess your inventory days went up a lot in the 1Q, and I suppose some of that was we never get a complete glimpse because of the new acquisitions. But it looks like your inventory days almost doubled. So, can you talk about how long it is going to take to sort of maybe unclog both parts of the chain, please?

Martim Prado Mattos:

Lori, it is an adjustment process that will not be immediate. Just to finalize what I was saying, this adjustment that we did with the clients, this new commercial policy that we implemented with our clients, we did not know how big the impact would be. But because of the macroeconomic conditions, certainly the impact was higher than it would have been if the interest rates were not increasing and the inflation was not increasing. So, that is when the two effects meet; one and the other.

So, in a macroeconomic condition that is all accelerated and the feeling is good among our clients, if they have a big inventory level that is not a problem. However, in a macroeconomic situation that they do not see a bright future in the next quarters, they become more conservative. At the same time, we were harder on them trying to decrease the terms that we were giving to them. So, again, the two impacts meet and the effect was higher than we forecasted, but if you have...

Lori Serra:

I am sorry, I understand that. I think it is helpful to understand that you misinterpreted. That is fine. But on a go-forward basis, I mean, the good news you have mentioned in the call is at the end demand remains robust. So, if that is the case, then the wholesale stocking levels have to be coming down at a pretty good pace, if you are seeing the kind of growth you have talked about on the Pharmaceutical side.

So, is the idea that the inventory levels are really high, or what is causing you to be conservative about this not being a one-quarter problem? I mean, I could see the inventories on your balance sheet. What I cannot see is how much is in the system, but if the sell through is as good as you say, that should be a temporary issue; no?

Claudio Bergamo dos Santos:

Well, it is a one-shot effect. And what we are saying is that given the conditions for demand are OK, we will see the recovery in the next quarters. It is one shot.

Lori Serra:

OK. So, that is not what I understood. I thought you said it was going to be multiple-quarter impact.

Claudio Bergamo dos Santos:

Wait. It depends on how macroeconomic conditions are, like Martim was saying, even that the one-shot effort can come back. But, if it comes back, it will come back at better prices and in better terms. It depends on the how the market develops. We would all love it that we get all this back on the 2Q at once, but we have to be responsible to do in a way that we do not jeopardize profitability for the Company.

Lori Serra:

That is helpful. But, you would be still helpful to get an understanding of how much inventory is in the system in the wholesalers and the retailers. Can you give us a sense of that?

Claudio Bergamo dos Santos:

We can give the details later on.

Lori Serra:

OK. Thank you.

Martim Prado Mattos:

The message, Lori, is that the inventory levels were adjusted in our clients and they are now at a much more normalized level. However, going forward we do not know if the situation will go back to the previous one, the inventory levels will go exactly back to the levels that we had before; if they will remain exactly the same. So, sell-in and sell-

out will be exactly the same, or if eventually they will reduce them a little bit. That last scenario is a not very likely scenario in our perspective. But anyway it could happen; that is why we are not giving you a firm indication that we it was only a one-quarter effect. And that is it.

Lori Serra:

OK. Thank you.

Irma Sgarz, Goldman Sachs:

Hi. Changing a little bit the topic, I would like to understand two things: firstly, where your total SKU level is going. I see plenty of innovation coming through the channel and I would be interested to understand whether that is more than offset or offset in part by a rationalization of the rest of your SKU portfolio.

And the second question, as you highlight innovation on that new innovation center in your presentation, I would like to understand whether there is any change in tact here in terms of whether you are investing more on the innovation level or whether it is still the very low levels that you have had historically. Thank you.

Claudio Bergamo dos Santos:

Well, in terms of the SKUs, as we move forward and we launch new products we had to keep visiting former ones to see how much we can rationalize with this complexity. So, that is on an ongoing basis in the Company. Some of the new items sometimes substitute previous ones. So, it is not all those ones will be new SKUs. So, one substitutes ones, and then we basically relaunch; when we relaunch basically it is not a new SKU. It is a...

Martim Prado Mattos:

A Replacement.

Claudio Bergamo dos Santos:

It is a replacement of an existing SKU. But anyway we have an internal process of continuously evaluating the profitability and the acceptance of SKUs, and once in a while we always reduce, on the other hand, when we see that is not a good potential moving on.

Irma Sgarz:

But overall, do you see SKU levels going up at the moment, and going forward over the next couple of quarters?

Claudio Bergamo dos Santos:

Overall, we will be increasing SKU levels. And that is why we have also invested in the operations in order to be able to manage more complexity. It is not a question of having more complexity; it is a question of if you have the conditions to manage that.

And that is pretty much what we have been working on. For example, the new warehouse we built in Anápolis is a good example that we are able to manage more SKU on a SKU level. For example, the generics business clearly you have to increase the amount of products you have to increase the amount of SKUs. Then what you have to do is basically – that is the rule of the game for the market. So, what you have to do is you have to set up your operation in a way you are able to manage that, as opposed to not doing it. That is it.

So, what was the second?

Martim Prado Mattos:

What was the second question, Irma?

Irma Sgarz:

On spend on innovation; I would be interested how you see that going forward especially given that there is quite a bit of focus on innovation in the Pharma channel. I understand that is not product development in terms of creating patents, but I imagine those require a little bit more innovation spend than probably on the Personal Care or Hygiene side? Thank you.

Claudio Bergamo dos Santos:

Yes. Many of those innovation initiatives are still not in the, let us say, new moleculars. We are always talking about more development as opposed to research. So, our amount of investment is something around 1% to 1.5% of net sales. And as we move forward and continue growing that we will be enough at least for this year and the next one. We are not still in the phase but we need to develop new moleculars and that is more in research; we are still in the phase of investing into development.

Irma Sgarz:

OK. Understood. Thank you.

Gustavo Oliveira, UBS:

Hi, good afternoon everyone. A couple of questions: do you think that the change in your commercial polices should it be perceived as a preemptive strategy? Because you could see some deterioration in bad debt expenses with your distributors. Or is already that you are seeing? Because in the 4Q call – I am just explaining where I am coming from with the question – on the 4Q call you mentioned that your distributors were already experiencing some increase in bad debt expenses at the moment for stores. So, you are raising prices now and being more cautious on your commercial strategy because you are afraid that that effect will get to you, or you are already seeing that effect?

Claudio Bergamo dos Santos:

No, we are not seeing but you could say that we are preempting if that potentializes, if that deteriorates. So, you could say that. It is not only for debt; it also for the whole

inflation issue, which is going on now in Brazil as well. We definitely are still not having our input costs increasing as much as we have increased our prices. On the other hand, we do not know how this spiral can go to. Unfortunately, Brazil, as you know, is pretty much an indexed economy still. So, hopefully that is not getting into a spiral. But if that is so, we are preempting any potential deterioration moving forward. So, we have to see what is going to happen.

Gustavo Oliveira:

OK. And the other question, again going back to the level of inventories in the distribution chain, why you think that the inventory level was so high, especially at the distributors level of your products? And do you think that the inventory levels were high for everyone else, or it essentially was only for Hypermarcas' products?

Claudio Bergamo dos Santos:

Well, we did push last year, we gave more flexibility in the terms of payment. And given, as I said, that the Country has lower interest rates and we had more cash position. So, we were dealing terms above our competitors' inventory levels. That was a strategy we have done. It is not something that we have pushed them to maintain a high inventory level as a means to gain market share.

So, when you are growing you have to keep them in a high inventory level. Because normally they look backwards in terms of days of inventory as opposed to look forward. So, when we did push harder on the new policy, like we said, the orders came late in the quarter, and we decided to take the moment and to de-stock a little bit the market as a means to improve our commercial force moving forward.

Gustavo Oliveira:

OK. And still on that move, as you try to adjust your supply chain to a new reality, it seems. I have a question on your market share numbers, that you have on page nine in your presentation, what is the source of that chart?

Claudio Bergamo dos Santos:

Page 19?

Gustavo Oliveira:

Nine.

Claudio Bergamo dos Santos:

Page nine, Nielsen data.

Gustavo Oliveira:

It is Nielsen data. OK. And...

Claudio Bergamo dos Santos:

It is the measure for January and February 2011.

Gustavo Oliveira:

OK. So, it would not have that much —

Claudio Bergamo dos Santos:

Sorry?

Gustavo Oliveira:

It would not have an impact on March when most of the price increases were being realized?

Claudio Bergamo dos Santos:

No, not yet.

Gustavo Oliveira:

OK. Another question on the price increases and the effect on the suppliers, especially on the Pharma business, the distribution into more formal channels, the distribution business is relatively concentrated in the hands of a few distributors. And it seems that you changed a standard practice, because most of those distributors usually buy in anticipation of price increases. And if we understood well from the Portuguese call, you decided not to provide products to these distributors ahead of that price increase, because of your tactical decision. Do you feel that they are going to retaliate now?

Claudio Bergamo dos Santos:

No.

Gustavo Oliveira:

And why not?

Claudio Bergamo dos Santos:

The retaliation from them?

Gustavo Oliveira:

Yes. Perhaps, let me ask you the question differently: were you the only ones that did not give them the volumes ahead of the price increases, or your competitors did not give them the volumes ahead of the price increases? In that case, it is a new kind of standard of practice that the whole Pharma business...

Claudio Bergamo dos Santos:

Still it is a combined effect of price and terms. When you have the combined effect, people reduce the stocks; that is it. We refinanced part of that; there were talks and we decided we stopped financing. And then that is a stockout.

So, they had to go in the market, had to go to the banks to find money to finance their working capital. But then it is too expensive money, say, like Martim said, they prefer having lower inventory and take the risk of not having eventually one stockout, as opposed to incur into a new working capital burden, given that when everybody notices what is going to happen with the interest rates, nobody sees the trend going down. Everybody sees the trend going up. So, that is it.

Gustavo Oliveira:

I understand your explanation, but I think the question is slightly different. I understood that you did not allow the distributors to buy products in the old prices. You told the distributors that you were not going to supply them in the old prices...

Claudio Bergamo dos Santos:

Yes. In the case of Pharma, which is organized process, it is different from consumer. The package goods is more, the terms, which created a slowdown, as opposed to in the consumer is more the price. So, if you split by business what affected more the Pharma was the terms, and the other it was more the price.

Gustavo Oliveira:

OK. That is much clear.

Claudio Bergamo dos Santos:

We said on general, but if you segmented that is how it. So, what affected more the Pharma was the term.

Gustavo Oliveira:

OK. Much clear. I have a last question, which is, in your debt, you raised debt in USD at attractive rates; are you going to hedge it to Reais or not?

Claudio Bergamo dos Santos:

We will continue hedging the next 12 months forward obligations and we will hedge the portion of the short-term USD debt we have by 2011 and 2012, and we will hedge the interests. But we will not hedge the principal, you know, one-shot 10 years, because that is unhedgeable, it is too expensive.

Gustavo Oliveira:

OK. Thank you.

Operator:

At this time, the question and answer session has ended. I would like to turn the call back over to Mr. Claudio Bergamo for his closing remarks.

Claudio Bergamo dos Santos:

OK. Thank you, everyone, for participating in the call. I hope we have clarified what happened in the 1Q, but we will be more than open to further clarify any questions you may have. Martim is available. I will also be available if necessary.

And we internally here firmly believe that we have taken the right actions for the 1Q. It is never easy to come and say, "Well, we did not have the sales as expected but we believe that that was important for the Company to maintain the medium to long run profitability for the Company". We are pretty convinced that we are in the right track.

So, thank you very much all, and have a nice afternoon. Bye, bye.

Operator:

The conference is now concluded. You may now disconnect, and have a nice day.

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