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EDITED TRANSCRIPT

CQB - Q4 2012 Chiquita Brands International, Inc. Earnings Conference Call

EVENT DATE/TIME: MARCH 11, 2013 / 8:30PM GMT

OVERVIEW:

Co. reported 2012 GAAP net loss of $408m or $8.85 per diluted share and 4Q12 GAAP net loss of $335m or $7.24 per diluted share.

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CORPORATE PARTICIPANTS

Steve Himes *Chiquita Brands International Inc - IR*

Ed Lonergan *Chiquita Brands International Inc - President and CEO*

Brian Kocher *Chiquita Brands International Inc - CFO*

CONFERENCE CALL PARTICIPANTS

Bryan Hunt *Wells Fargo Securities, LLC - Analyst*

Brett Hundley *BB&T Capital Markets - Analyst*

Mary Gilbert *JPMorgan - Analyst*

Carla Casella *JPMorgan Chase & Co. - Analyst*

Jonathan Feeney *Janney Montgomery Scott - Analyst*

William Reuter *BofA Merrill Lynch - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen. And welcome to the Chiquita fourth-quarter 2012 earnings conference call. Today's call is being recorded.

At this time, it's my pleasure to turn the conference over to Steve Himes. Please go ahead.

Steve Himes - *Chiquita Brands International Inc - IR*

Thank you, Katherine. Welcome, everyone, to Chiquita Brands International's fourth-quarter and year-end 2012 earnings conference call. On the call today are Ed Lonergan, President and Chief Executive Officer, and Brian Kocher, Chief Financial Officer. After today's prepared remarks, we will take questions as time allows. A copy of today's press release is available on the Company's website at www.chiquita.com, and you may also contact Chiquita's Investor Relations department at 980-636-5637 to receive a copy.

Our press release includes reconciliations to US GAAP of any non-GAAP financial measures that we mention today. This call contains forward-looking statements regarding operating performance or industry developments, and any such statements are intended to fall within the Safe Harbor provided under the securities laws. Factors that could cause results to differ materially are described in the forward-looking statements section of today's press release and in Chiquita's SEC filings, including its annual report on Form 10-K and quarterly reports on Form 10-Q.

And now I'd like to turn the call over to Ed.

Ed Lonergan - *Chiquita Brands International Inc - President and CEO*

Thanks, Steve. Good afternoon and thank you all for joining us. We have a number of topics we'd like to cover with you today, but I thought it was important to spend a few minutes sharing my impressions after five months here at Chiquita. As you'll recall in the last call I'd been in this role just one month. I'm pleased to report that my optimism for the Company formed during my due diligence process has been validated by extensive meetings with our customers, suppliers, employees, and the Board. In both one-on one-discussions and large industry conference settings, our constituents share my optimism for the future of Chiquita.

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The pieces are largely in place for a successful turnaround of this business. We have products that our customers and our consumers want to buy, and global health and wellness trends will further contribute to the desirability of our products over time. The Management team is strong and is committed to our strategy and successfully implementing it in the marketplace. The restructuring that the Company announced late last year has been executed quickly and efficiently and key efficiency choices are paying dividends as we look to 2013 and beyond. And as Brian will discuss shortly, we now have the financial flexibility to allow us to focus on our businesses and execution of our new strategy.

In my first call in November I said you can expect our team to make strategic decisions to accomplish the following. First and foremost, to increase revenue and profitability in our core bananas and salad business, with particular focus on creating value for customers and consumers in our space. Second, to drive costs out of our value chain to be more competitive in our core markets. Third, to align our overhead structure to industry benchmarks. Fourth, to evaluate and address non-core unprofitable businesses and minimize investment and diversification and innovation outside the core. And lastly, to limit our consumer marketing investments to those portfolio products, vehicles, and geographies where we can demonstrate a verifiable business return.

We noted our confidence in this strategy to enable Chiquita over the next two to three years to achieve target operating margins of 4% in bananas and 7% to 8% in salads. With five months now under my belt I can tell you this is undoubtedly the right path to bring Chiquita back to its luster. I've met with employees across the globe, have visited our farms and plants, our R&D centers, our ports, our banana and salads growers, our suppliers, and numerous key customers and stakeholders. It's clear we made the right choices, that we have the skills and capabilities to execute against these choices, and the passion to deliver.

In December we took an additional step to more sensibly organize the Company around our two core businesses. In alignment with the Company's new strategic direction, we will consolidate global sales, business unit, and food safety capabilities into a single organization under one Chief Operating Officer, focused on increasing cash flow in core businesses, and driving value via customer relationships. I announced late last year that Brian Kocher will fill this role. The Board and I have complete confidence that Brian is the right person to lead this effort thanks to his depth of experience in both the financial and commercial operations of the Company across the globe. Brian will continue to serve as the CFO until a replacement is found. That search is underway and we expect to fill the role during Q2.

As we move forward under the new strategy, the Company is focused on the right things; capital stewardship, controlled overhead and value chain cost, building value for customers, and building the team. I have received consistent feedback from customers that they value Chiquita Brands for our quality, consumer preference, and velocity advantage in their stores, and they are interested in growing their business with Chiquita. However, the value proposition for both bananas and salads is not always balanced in their metrics. We are taking the right steps to make sure it is aligned in the future. This includes ensuring that we have an effective cost structure to compete, and that we extract the right value for our superior performing brands. This balance is good for Chiquita and is good for our customers.

So what have we been up to? First, with regard to increasing revenue and profitability in our core products, our choices have delivered the renewal of key contracts globally, and some strategic incremental wins that will provide volume growth as 2013 progresses. As we've discussed, we secured five million boxes of incremental volume in our core North American bananas business in late 2012. This volume was largely regained at former Chiquita customers. The contracts were won on accretive terms and on factors beyond price. In fact, we were not the lowest bidder in these decisions. The contracts were awarded due to the value of our brand and the competitively advantaged velocity it offers, plus recognition of fruit quality, and areas of customer service, including distribution support, logistics capabilities, and customer partnering.

In Europe, we maintained or increased our price premium across countries and renewed all targeted contracts. Consistent with our strategy for 2013, we chose to walk away from some low value, second brand contracted volume that accounted for about one million cases of business in 2012. We continue to focus on building our brand in the growth markets of Russia, Eastern Europe, the Mediterranean, and the Middle East. These moves delivered value accretion in Q4 and should also do so in 2013.

We continue to believe global banana supply is relatively balanced with demand, which supports pricing in the short-term. At this point we don't anticipate that dynamic changing for at least a few months. However, this is the banana business, and if supply from key markets increases because of improved weather or increased yields, it could have an impact on pricing later in the year.

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In salads, we've successfully commenced shipping private label product against our communicated strategic win. We anticipate that the several private label wins to date will deliver approximately two million annualized cases, beginning from the second quarter of this year. We also continue to receive positive feedback regarding our opportunities to add incremental volume in both existing and prior customers. That said, we continue to cycle out the volume losses driven by our former strategy and we'll not have clean quarterly comparisons until Q2 2013.

Fresh Express retail measured market share stabilized at just above 31% in March of 2012, down 10% from the prior year. Market shares were stable in the balance of 2012. Through Q1 of 2013, however, we will continue to compare against higher volumes and reduced share resulting from the tail of the customer losses in 2012. Currently, we're experiencing significant weather related supply issues in the salad business in the Yuma growing region that have constrained supply and impacted quality, limiting our ability to capitalize on our new strategic direction in the short term. Brian will speak further to the bananas and salads 2013 outlook in his commentary.

Looking at the business as a whole, Chiquita's return to the core strategy will generate real and lasting benefits as we better align our value proposition to customer expectations. To that end, the most important thing we can do is to drive cost out of the value chain so as to be more competitive in our chosen markets. As part of that process, during 2012 we evaluated our entire portfolio for relevance and opportunity. As a result, we identified and exited four non-core product lines in our businesses. We put a plan together, put the teams in place, and then exited those businesses as quickly as possible. In the aggregate, those product lines annually diluted operating income by approximately $12 million. A few more small businesses are under review and we expect our portfolio to be clean by the close of the second quarter of 2013 and with no material cash outlay.

In 2013, we are reducing our cost of goods sold per unit by further optimizing our banana shipping configuration to be less dependent on long-term, fixed price obligations to dedicated reefer vessels, and to build in more flexible methods of bringing our fruit to market by utilizing shorter-term engagements and container shipping partnerships. These new methods and contracts were implemented as planned by January 1. We are improving productivity on our owned farms by implementing new agricultural growing and harvesting techniques. Maximizing productivity on our farms not only improves yields, but lowers our cost profile and increases our sourcing flexibility. We began harvesting under these new techniques in January and are already seeing substantial yield improvements. We expect that these and other value chain initiatives being implemented this year will generate at least $35 million in annualized savings. The cost to achieve these efficiencies were minimal and are largely behind us.

Still, our efforts are far from complete and we are not declaring victory on efficiency actions. The new Chicago plant will add an estimated $8 million of annual benefit beginning later in 2013 as discussed in earlier calls. Additionally, we've launched a strategic sourcing Initiative with a third party advisor with whom I have worked successfully in two prior companies. We expect to begin accruing benefits from this activity in late 2013. Also important to getting our value proposition in line is to align our overhead structure to industry benchmarks. In the last few years, Chiquita's SG&A expense has averaged close to 10% of sales, which is significantly above the run rate of our peer companies. The headcount eliminations that accompanied our restructuring will save the Company almost $25 million annually, and we started seeing the benefit of those savings in Q4. Already in 2012, SG&A was $26 million, and more than 8% lower than 2011. And our 2013 SG&A is expected to be below 8% of sales, despite rebuilding the employee variable compensation pools in 2013.

Now let me turn it over to Brian to review the financial results and provide more commentary on the year ahead.

Brian Kocher - *Chiquita Brands International Inc - CFO*

Thank you, Ed. As you are well aware, Chiquita preannounced certain financial metrics in late January. Although there has been a lot of work done since then to formally close our books, the results came in as we expected and are in line with our pre-release announcement.

For 2012, we are reporting a GAAP net loss of $408 million or $8.85 per diluted share, compared to 2011 GAAP net income of $57 million, or $1.23 per diluted share. Fourth-quarter 2012 GAAP net income was a loss of $335 million or $7.24 per diluted share, versus a loss of $16 million or $0.36 per diluted share for the same period in 2011. For the reported periods, any adjustments between our comparable operating income results and our GAAP results, such as the $180 million goodwill and trademark impairment at Fresh Express, are reconciled in a table in the press release.

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I will provide more color on one such reconciling item. GAAP results for 2012 include a $130 million non-cash charge to income tax expense, to establish a valuation allowance against our US federal and state deferred tax assets, which are primarily net operating losses. US GAAP requires a tax valuation allowance if, based upon the available evidence, it is more likely than not such assets will not be realized. When analyzing whether a valuation allowance should be considered, accounting guidance considers a cumulative loss in a three-year period, such a significant piece of negative evidence that only objectively verifiable positive evidence, regardless of the likelihood of outcome can be considered.

Due to the restructuring and relocation activities in 2012, the trademark impairment in 2012, and the reserve for grower receivables in 2011, our North American businesses experienced a three-year cumulative tax loss position as of December 31, 2012. Achieving the Company's long-term earnings targets would generate enough US taxable income to consume our net operating losses. However, under the accounting guidance, these projections are generally not sufficient to overcome the negative evidence of cumulative losses in recent years. In such cases, we generally give these projections of future taxable income little weight for purposes of our valuation allowance assessment pursuant to US GAAP. Recording of valuation allowance does not affect the cash that will be paid for income taxes, does not restrict the Company's ability to utilize the future deductions and NOLs, and does not affect the Company's liquidity, borrowing ratios, or the availability of other capital resources.

Now, switching to operating results. Chiquita reported comparable operating income of $7 million compared to $78 million for 2011. Significantly lower euro exchange rates resulted in a $45 million negative impact year over year, and were the single largest factor in the year-over-year comparison. Other factors that affected the comparable results include the banana product supply surcharge that was in place in 2011 and not in 2012, higher fuel costs net of hedging, and lower salad results. These negative factors were partially offset by higher local pricing for bananas in Europe and logistic savings largely from shipping. For 2012, Chiquita generated $70 million of comparable EBITDA versus $139 million in 2011.

For the fourth quarter of 2012, we are reporting a comparable operating loss of $14 million, compared to a loss of $2 million in the fourth quarter of 2011. In addition to some of the trends above, including currency, the results for the quarter were burdened by certain unusual charges. All of these charges impacted the salads and healthy snacks segment, and among other smaller items, consist of a $5 million reserve for pineapple ingredient inventory, and $2 million in casualty losses related to a fire at one facility and a separate salad raw product event. But for these items, fourth-quarter comparable income would have been well above our expectations. In Q4, the Company generated $3 million of comparable EBITDA versus $14 million in 2011.

Looking specifically at bananas, sales for 2012 were 2% lower at just under $2 billion, while sales for the quarter were 2% higher. Segment comparable operating income for the full year was $83 million versus $132 million in 2011. For the quarter, comparable operating income increased from $9 million in 2011 to $31 million in 2012, as a result of higher volumes in North America and higher local prices in Europe, which increased approximately 11% versus the fourth quarter of 2011. For the year, North American banana pricing was around 4.5% lower, principally because of the product supply surcharge that was in place during the first six months of 2011 and not in 2012. Unit volumes were 2% higher, primarily as a result of volume wins in the fourth quarter.

In Europe, local prices were 4% higher in 2012. However, because of the lower exchange rates, resulting US dollar pricing was almost 4% lower for the year. Volumes in Europe were approximately 5% lower as we chose to prioritize price over volume throughout the year.

Turning to our salads and healthy snacks segment. Sales for both the full year and the fourth quarter were flat at $953 million, and $223 million respectively. Sales volume of retail packaged salads were approximately 5% lower for the year and 4% lower for the quarter relative to their 2011 levels. Increased sales volume in both our food service and healthy snacking businesses continued to offset the revenue effect of lower retail salad volumes.

For the full year, the salads and healthy snacks segment reported a comparable operating loss of $4 million, compared to a comparable operating income of $8 million in 2011. For the quarter, salads and healthy snacks segment reported a comparable operating loss of $18 million versus flat results from Q4 a year ago. For the year, the segment was burdened by more than $13 million of unusual charges, including $8 million in the fourth quarter alone, such as the casualty losses and the pineapple ingredient inventory reserve which we discussed above. Additionally, lower retail salad volumes and higher raw product costs negatively impacted 2012.

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As Ed mentioned, we spent the second half of 2012 completing our restructuring from which we are already seeing annualized benefits. Additionally, we have been unwinding our non-core businesses, products, and investments, and we have prepared our balance sheet for operational success. We continue to focus on reducing the volatility in our business from things that are beyond our control. Currency risk has been largely mitigated through June 2014. We monitor our exposure to fuel volatility risk and continued our fuel exposure risk mitigation processes through both financial and commercial mechanisms.

Lastly, as you know, we completed the refinancing of the majority of our debt last month. The Company issued $425 million of 7.875% senior secured notes due in 2021 and entered into a new secured asset based credit facility. The proceeds of the new debt was used to redeem the remaining 7.5% senior notes due in 2014 and refinance our prior credit facility and term loan. The refinancing provides the Company with financial flexibility that will allow us to focus on running the business and executing the new strategy.

The refinancing allowed us to achieve many goals, including maintaining liquidity via a new asset based credit facility, extending maturities on a large part of our debt portfolio, preserving the opportunity to deleverage within the terms and conditions of the senior secured notes and the credit facility, and substantially eliminating the financial maintenance covenants of the previous facility. We were able to accomplish all of this while locking in some fixed rate debt at historically low levels for our credit profile.

The operating changes implemented in the second semester of 2012 will have a positive impact on our 2013 results. Not only do we expect comparable income and EBITDA to increase, but the pacing of EBITDA throughout the year will differ from historical trends. Remember our cost saving initiatives are in place throughout the calendar year of 2013, which should benefit the third and fourth quarters of the year disproportionately. For context, we now expect approximately one-third of our annual EBITDA to be earned in the second half of the year.

As we look forward to 2013, the Company is already seeing tangible progress following restructuring. With bananas, as we've discussed, our North American contract wins in Q4 2012 will drive US market share growth in 2013, and we continue to maintain a leadership position in our European markets. In salads, shipments of private label salads have commenced and positive year-over-year retail salad volume comparisons should start in the second quarter of 2013.

Beyond our core products, a few non-contributing business lines have been identified for potential exit or elimination. As mentioned, I do not anticipate any exits would require material cash costs. Finally, related to costs, opportunities exist for further value chain and overhead simplification. Our work on driving out costs and delivering a more competitive business model will never be finished.

Before we answer questions, I'd like to turn the call back to Ed.

Ed Lonergan - *Chiquita Brands International Inc - President and CEO*

Thanks, Brian. We covered a lot this afternoon. And before we take questions, I'd like to reiterate some of our key take-aways. Our restructuring is complete and we're seeing the results we expected. We'll continue to drive costs out of the value chain to leverage the velocity advantages of our brands with the right value proposition to the customer and the consumer. We did a lot of pairing in 2012, and while we have a few more businesses to exit in 2013, we do not expect that to be accompanied by material cash outlay. And the pacing of our earnings in 2013 will be more balanced across quarters as a result of the changes we've made to the business model.

Chiquita's focus in 2013 and beyond will be on driving sustainable competitive advantage in our core products. All the initiatives that we have been discussing over the last few months, our restructuring, our increased volumes, pricing, and a balanced supply situation, support our progress along the path to our long-term earnings targets.

With that update, Katherine, we'd like to open the call for questions. Thanks.

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Bryan Hunt.

Bryan Hunt - *Wells Fargo Securities, LLC - Analyst*

Ed, I was wondering if you could talk about this third party sourcing company and cost savings company that will -- what they've done for you in the past? And what type of cost savings you believe you can generate from this relationship, I guess really looking to the back half of this year.

Ed Lonergan - *Chiquita Brands International Inc - President and CEO*

Okay, Bryan. In all of the roles that I've had over time, I always want to take a look at the key spending pools of the Company. And while we always consider that we're the best in the world at everything we do, it's helpful to get a third party perspective on how we're doing.

The firm that I brought in I've worked with twice before and worked with over time. And asked them to take a look at everything that we buy from the largest, most scaled spending pools the to our smallest.

And the feedback was really quite intriguing, in many cases we're quite good at what we do, particularly on large pools that we've been buying for a long period of time. But throughout our value chain and our operations there are areas that we haven't focused.

So we've identified a fairly broad group of spending pools that we'll tackle over the next 12 months in two waves. And we've set some targets for savings that we'd like to see in those pools working in collaboration with our suppliers. Our idea is to create value for them and for us and to take those benefits to the bottom line.

And then over time, ideally we'll look at our spending pools every year and find ways to mitigate inflation by how we purchase and what we purchase over the course of time. So we're not making any promises in terms of what we'll deliver this year, but it will be a critical part of how we offset inflation going forward in the Company.

Brian Kocher - *Chiquita Brands International Inc - CFO*

And I would -- the only thing I would clarify, Bryan, is I would say that would be considered incremental to the restructuring savings that we've already announced. So if we do something, we did something, we should expect to see that on top of whatever we've announced already, as Ed said, maybe offset inflation or provide incremental dollars to the cash flow.

Ed Lonergan - *Chiquita Brands International Inc - President and CEO*

As we referenced Bryan, in all of the other things that we talk about in terms of restructuring we'll be transparent in what we find there as well.

Bryan Hunt - *Wells Fargo Securities, LLC - Analyst*

Thanks, Ed. And Brian, when you look at operating income, and hopefully I'm looking at this correctly in bananas for the fourth quarter. On a currency constant basis it looks like EBITDA would have been -- operating income would have been $38 million versus $9 million year over year. One, am I looking at that correctly?

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And two, is there possible -- is there a way you can kind of parse out where the gains came from, because I think that was one of the best EBIT margins in Q4 for bananas in quite a while.

Brian Kocher - *Chiquita Brands International Inc - CFO*

Well, a couple of things. First of all, if you take the exhibit C of the press release and look at the net currency impact, I would say that, yes, year-over-year on a constant currency basis it would have been $38 million of operating income.

It really came from two key components. One was the strength in pricing in core Europe. If you look at local currency pricing in Europe in the fourth quarter, it's about 11% ahead of the 2011 levels.

The other area that was important was North American banana volume. Again, about 10% year-over-year in volume increases. Most of that we've talked to this group about before in terms of the distribution wins we had at the beginning of the fourth quarter.

Those were really the two items that led to the year-over-year increase. We certainly had costs that helped us but those were the two big ones.

Bryan Hunt - *Wells Fargo Securities, LLC - Analyst*

So with regards to your distribution savings or your shipping savings, that really is not in that number so far?

Brian Kocher - *Chiquita Brands International Inc - CFO*

Well, we had a little bit of benefit that was in that number, but I wouldn't say it offset or changes the year-over-year positive variance we're expecting in 2013.

Bryan Hunt - *Wells Fargo Securities, LLC - Analyst*

My last question, then I'll --

Ed Lonergan - *Chiquita Brands International Inc - President and CEO*

Sorry. The shipping changes we're talking about recently actually take effect from January 1.

Brian Kocher - *Chiquita Brands International Inc - CFO*

January 1.

Ed Lonergan - *Chiquita Brands International Inc - President and CEO*

2013.

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Bryan Hunt - *Wells Fargo Securities, LLC - Analyst*

Great. And then my last question is when you talked about weather events in Yuma imparticularly, are you expecting reduced supplies of salad and lettuce and that impacts your sales in Q1? Or is there also a substantial cost implication here, because spot market prices are up over 100% year-over-year in certain weeks so far in Q1.

Ed Lonergan - *Chiquita Brands International Inc - President and CEO*

Yes, I think the industry broadly has been impacted of course by the weather conditions in Yuma and the impact on supply. For us, it's forced us to restrict merchandising in the quarter which has an impact on volume, but there's not a significant amount of spot purchasing that we would have to do.

Bryan Hunt - *Wells Fargo Securities, LLC - Analyst*

Great. I'll get back in the queue. Thank you.

Operator

Heather Jones.

Brett Hundley - *BB&T Capital Markets - Analyst*

This is Brett Hundley standing in for Heather. I had a question, Brian, I was wondering if you could go back to some of the comments you made in your prepared remarks and just help to revisit both the level of cost savings that you guys expect to start realizing this year and the cadence of kind of how those come in.

Brian Kocher - *Chiquita Brands International Inc - CFO*

Okay. Sure. So let's -- we'll cover this. We've tried to make sure we were crystal clear the last couple of quarters but let's make sure we go through this again.

In August, we announced a restructuring that we believed would save us annually about $60 million a year. At least $60 million. That was split between about $25 million worth of savings that were SG&A or base cost related, which we executed -- announced in August, executed in August, and had out of the business at the end of September. So we did start seeing some positive impact of that $25 million of annualized savings in the fourth quarter.

About $35 million of the $60 million was related to value chain initiatives, mostly in shipping and in owned-farm productivity, all of which we believe start on January 1. So we've executed the contracts on January 1, or we've changed the harvesting practices and started harvesting on January 1. So that $60 million we expect to -- again, is on an annualized basis.

We probably have recognized in the fourth quarter somewhere around $5 million or $6 million of that related to the SG&A. And so the year-over-year positive variance that you could expect from those initiatives, call it $55 million, $54 million at least. And remember, we've always said there were some other items, some other costs that were going to offset some of those savings, inflation and some other things. But the majority of that $60 million would fall through to the bottom line. Did that help?

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Brett Hundley - *BB&T Capital Markets - Analyst*

That does. That's perfect. I only had one other question and it was on the European market.

We've of course seen banana pricing come under pressure there during Q1, and I guess we had expected it to stay stronger for a longer period of time. And I know there have been a number of supply conditions that have been talked about out there. But I just want to get your guys' take on kind of what's happening in the European market, especially with the backdrop that you guys talked about how for the moment you see supply and demand in pretty good symmetry. I wanted to get your take on Europe right now.

Brian Kocher - *Chiquita Brands International Inc - CFO*

Our take on Europe is the first quarter has some positive pricing trends. Remember, we entered the year of 2013 quite a bit higher than what we would have entered 2012. So there's some positive year-over-year trends there.

But the fact of the matter is that the supply situation has not tightened like it has in prior years. If you remember, when we did this call last year, we were talking about very tight conditions in the market, and I would say now they're more balanced. We've had some opportunities to hold pricing where we can, but we've not seen further opportunities to increase pricing.

As Ed mentioned in his prepared remarks, this is the banana business. If all of a sudden we see a lot more bananas or a lot more supply coming into the market, then we'll see more pressure. But at least for the next couple of months we would see that outlook as balanced.

Brett Hundley - *BB&T Capital Markets - Analyst*

Okay. Great. Thanks, Brian.

Operator

Mary Gilbert.

Mary Gilbert - *JPMorgan - Analyst*

Yes. I just wanted to sort of take the cost savings you've realized really the $60 million and most of it will flow through. And given adjusted EBITDA of $70 million, can we just layer that over there, over that number before factoring in volume gains that you've achieved both on the salads and bananas side? Is that a fair way of looking at it?

Brian Kocher - *Chiquita Brands International Inc - CFO*

It's one way of looking at it. Here's what I'd say, Mary.

We recognize 2012 is a very muddy year. We've got strategy change. We've got a relocation. We've got a restructuring. And it's very hard for anyone to kind of see what that means in terms of long-term earnings power of the business.

And we recognize that and because of that, because of wanting to bring clarity to what we expected internally of ourselves and what our compensation is tied to, we issued our long-term earnings guidance. And that was a run rate EBIT target of sort of 4% for bananas and 7% to 8% for salads, two to three years out. And we tried to do that as a way to help people understand the earnings power of the business.

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This is a hard business to predict quarter-to-quarter. You do have some impact related to currency and fuel and even some of the pricing exposure that we have in the markets we price banana weekly. So it is a hard business to predict and, therefore, we haven't issued point estimate guidance for the year.

But I think if you looked at those long-term numbers, the 4% EBIT target on bananas and 7% to 8% on salads. And you kind of look at that when you translate that on $3 billion of revenue, you quickly kind of get to $175 million or so of EBITDA, two to three years out.

I think it's fair to say we'll make a significant jump from the level of $70 million, on our path towards the $175 million. We're not going to get all the way there, for sure. But we're going to make a significant path, because we do have volume that helps. We do have the cost savings that help.

But at the same time, we certainly have inflation, whether it's labor or currency devaluation in the tropics, there is inflation. You'd still have fuel to manage. So we do have some of those things that offset our cost savings but we do expect to make a significant jump in EBITDA, along the trajectory of that two to three year target.

Mary Gilbert - *JPMorgan - Analyst*

Okay. That's helpful. And then -- yes, because it seems like there's going to be a big jump, looking at the $175 million and looking at some of these numbers. And I understand there's some puts and takes with -- on the cost side or inflation, but it does seem like you're going to be over the $100 million level and maybe even closer to that $130 million that could be inferred.

But the other thing I wanted to find out, it sounded like you identified some opportunities to sell off some maybe non-strategic assets or businesses. And I wondered if you could talk about that and what the magnitude of that could be? Did I hear that correctly?

Brian Kocher - *Chiquita Brands International Inc - CFO*

I would change it around a little bit. I don't know that we said sell off but we did say exit, and exit without a material cash cost. So they're more some of the product lines that -- remember, last year we evaluated a lot of product lines and whether or not we should stay, whether or not they were critical to our core mission.

We just didn't get through all of them. There are a couple more that we have that for confidentiality purposes I'd rather not say, but we don't expect there to be a significant cash outlay of exiting those businesses.

Mary Gilbert - *JPMorgan - Analyst*

Okay. But also not -- okay, not a significant cash -- no cash generation either; right?

Ed Lonergan - *Chiquita Brands International Inc - President and CEO*

Likely not.

Mary Gilbert - *JPMorgan - Analyst*

Okay. That's very helpful.

Okay. That's -- how should we look at working capital year over year, given the volume increases that we're seeing, how should we look at that metric? Should we be assuming that we're going to have an increase, and then what percent should we factor in when we're modeling.

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Ed Lonergan - *Chiquita Brands International Inc - President and CEO*

We ended 2012 at $53 million of capital, and we're guiding $50 million to $60 million. So think of it as about the same as this year. That's down about $20 million from 2011 and that's probably a reasonable going forward number. We have rejuvenation.

It's just going to be spent in slightly different ways than it has in the past. We have focused now on regeneration of our farms and our core business. In the past quite a bit of capital went to new businesses that are no longer part of the fold.

Brian Kocher - *Chiquita Brands International Inc - CFO*

That's on the CapEx side. If you look on working capital, I would expect us to be about breakeven. The last year we've been about breakeven from a working capital perspective. We continue to try to push on the collection side to make sure that we can manage our receivables appropriately.

Mary Gilbert - *JPMorgan - Analyst*

Great. That's very helpful. Thank you.

Operator

Carla Casella.

Carla Casella - *JPMorgan Chase & Co. - Analyst*

Question on the salad business. What percentage of the sales now is retail versus food service and where do you see that leveling off?

Ed Lonergan - *Chiquita Brands International Inc - President and CEO*

Hi, Carla. We're at about 20% of the business in food service today, and we like that business. We have a pretty significant exposure to quick service restaurants where we bring the value of our scale across North America, but as well, we're in the sweet spot of their more healthful menus. And so as they create better products to feed the global consumers we're at the right place to intersect that.

We expect that businesses to continue to grow and contribute. We expect our apple business and healthy snacks business to continue to grow. And of course with our new strategy in salads business, packaged salads business we expect both private label business to grow and our branded Fresh Express business.

Carla Casella - *JPMorgan Chase & Co. - Analyst*

Okay. Great. And then when you look at cost of goods, you talked about the shipping costs and at one point you talked a bit about fuel. Have you ever said how much of your costs are just the fuel and how much -- can you update us on how much a change would affect EBITDA?

Ed Lonergan - *Chiquita Brands International Inc - President and CEO*

Fuel price changes related to EBITDA changes.

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Brian Kocher - *Chiquita Brands International Inc - CFO*

At one -- it always depends on the hedge position and remember, we have a hedging program that starts with the base layer of coverage and then adds on certain amount of coverage, depending upon dips in the spot price. So it always depends on that. But I think at one time we talked about a $10 change in metric ton would impact our business by about $1 million.

Carla Casella - *JPMorgan Chase & Co. - Analyst*

Okay. That hasn't changed given the changes you've made?

Ed Lonergan - *Chiquita Brands International Inc - President and CEO*

The only thing that will change over time is the ships are getting more efficient, there will be less bunker that's required.

Carla Casella - *JPMorgan Chase & Co. - Analyst*

Okay. Great. And then as you break into some of the newer markets you mentioned where you said you've got growth opportunities, Russia, Mideast, some of the Mediterranean, is it that you're displacing competition there. Or are you entering new arrangements where there are new relationships where there weren't any of the similar type bananas and there were just the other varietals?

Ed Lonergan - *Chiquita Brands International Inc - President and CEO*

A little of both, I guess. What's important is we're bringing Chiquita quality bananas to these markets for the first time, and so we're stepping up the quality of the market on a going basis. In the past, a lot of these markets were in and out businesses. So when there was excess fruit available in the global marketplace, they were in the market, and when there wasn't then it was pulled back.

Our objective over the last several years, actually under Brian when he ran the European business, was to create a more stable 52-week businesses in those markets. And they're a key focus for us going forward, from Russia down through the Eastern Europe republics and into the Mediterranean and Middle East. I don't know if you want to --

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Brian Kocher - *Chiquita Brands International Inc - CFO*

I think the only other thing is, remember, those are also the markets where GDP is growing, consumption's growing, disposable income's growing, and actually banana consumption is growing. So there is a little bit of both phenomenon. That it's a market that's growing as well as we have a chance to, as Ed mentioned, introduce and maintain the Chiquita quality banana which creates a little bit of market share growth as well.

Carla Casella - *JPMorgan Chase & Co. - Analyst*

Okay. Great. Thanks a lot.

Operator

Jonathan Feeney.

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Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Just a few questions here. First Brian, I thank you for going through all that great detail on the costs. But I wanted to follow up on that. Your commentary that about one-third of EBITDA for next year might occur in the second half. I wonder how much of that is related to changes in how profitable the North American and the non-European banana businesses have become and how much of that is cost savings specifically?

Brian Kocher - *Chiquita Brands International Inc - CFO*

Well, if I had to parse it out, Jonathan, I'd say it's two things. One, it's the impact of a salad business which has volume growth. That certainly is one of the impacts that would make the third and the fourth quarter stronger relative to some of our previous years.

Secondly, if you look at our cost savings initiatives, the SG&A thing, the SG&A savings, they happen ratably throughout the year. The shipping savings that we talked about happen more or less ratably throughout the year. The owned-farm productivity that we mentioned happens ratably throughout the year. So if you look at this year, which had more or less zero EBITDA in the second semester, and then you add in the benefits of cost savings that will happen in the third and the fourth quarter, it sort of disproportionately impacts the second semester. Does that make sense?

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

It does. It answers my question directly. Sounds like it's mostly cost savings.

Brian Kocher - *Chiquita Brands International Inc - CFO*

Yes, I think so.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Thanks. Turning to Europe, obviously there's some good pricing and looks like that must have helped profitability quite a bit, net of the currency, of course. How much of that is voluntary loss of market share of that volume decline there? And how much of that like, apples-to-apples for market that you're in, and how much of that is maybe like shifting resources away from Southern Europe towards Northern Europe, or maybe any other defensive moves you might be making to respond to the economic environment?

Brian Kocher - *Chiquita Brands International Inc - CFO*

Let's -- to answer that question, Jonathan, let's go back maybe two years. Over the last two years, we've changed every shipping rotation into Europe. We've changed every port operation's procedure. We've changed every port operation's relationship, and we've unburdened the European business from trying to invest in innovation and diversification and selling smoothies and other things.

So I think part of it is we've got a much more competitive business model in Europe today than we had had two years ago. That's the first part.

Second part is we have made a conscientious decision, there is some volume decline in Europe, part of that is some of the second brands -- part of that is the fact that we prioritize price over volume. And you can really only do that in the banana business when you have a portion of your supply chain that's variable. So now, when we prioritize price over volume, in the past if we would have purchased the bananas and purchased the shipping, heck, we had to go ahead and ship it. Now we have a little bit of flexibility in that system and that's been very advantageous for us.

And so this is a culmination of certainly we've taken advantage of a strong market and I'm never going to apologize for bad luck, Jonathan. But another part of it is that we've been preparing our business model in Europe to be more efficient and effective for the last two years.

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Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Great. And that relates directly to my last question, which is the euro saga continues, right, and I don't know if this is a euro saga or if it's just euro culture now. But it is -- talking about making that supply chain a little bit more variable, can you talk a little bit about contingency plans for like what would happen -- what do you think would happen in a situation where there was a severe decline in the value of the euro, potentially countries leaving unexpectedly, et cetera?

Obviously no one knows if that's going to happen but it seems the volatility's increased. What would that look like and what steps have you taken and can you take to protect some level of -- protect the Company's equity in that situation?

Ed Lonergan - *Chiquita Brands International Inc - President and CEO*

If that's the case, the last thing in the world we'll be thinking about are bananas.

Brian Kocher - *Chiquita Brands International Inc - CFO*

I think a couple of things. First of all, Jonathan, if all of that happens and no one eats, then it's very bad for us. Right? If all of that happens and no one eats bananas.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

What I'm getting at is listen, bananas have proven -- I get it. Bananas have proven to be a very inelastic product historically. And yet there seems to be a great deal of fear out there that in the event of a significant currency depreciation that wouldn't be the case. I guess if you could talk a little bit about what gives you comfort that banana demand is somewhat inelastic. And what defensive moves have you made that would keep you relatively at least somewhat protected in that unlikely event of explosive decompression.

Brian Kocher - *Chiquita Brands International Inc - CFO*

Let's go through a couple of scenarios. First of all, we've had not just the last six months but several periods of time when we've gone through economic crisis. Whether it was the United States in 2008, whether it's been Europe, kind of since then, whether it's Greece. Remember this time last year my goodness we didn't even know if Greece would exist anymore as a culture.

So we've been through that and consistently banana volume stays about the same. And in fact, globally it's growing because of the markets in Russia and the Med and Eastern Europe like we talked about before. So when you talk about boy, bananas seem to be inelastic, we've had opportunity after opportunity to see that. That's one.

Second thing is we've got a euro that's been as low as $1.23, it's been up in the last 12 months let's say, it's been as highs as $1.35, right now it's about $1.30, which if I remember right is about the historical average the last 10 years, maybe it's $1.29, but it's right in that ball ballpark more or less. Even in spite of all the turmoil we've got a euro rate that's about the 10-year average.

And then the last thing is there are some operational activities that we can do and we've taken some of those moves. So for instance, we have a very healthy business in Greece, about the middle of 2012 we switched that business to a cash upfront business. It took a little work. It was a little painful for a month or so.

But now we're on a cash basis in Greece. And I think you can count on us to kind of manage through some of those political climates as we see. We're not particularly exposed to Spain. We're not particularly exposed to Ireland.

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So there are some things that if you look across the list of horribles that could happen in Europe, we're not that exposed to some of the major economies that are really, really struggling. And ones that we are we've tried to take a corrective action already, so if the there is a catastrophe, at least we're a little bit ahead of the rest of the group.

Ed Lonergan - *Chiquita Brands International Inc - President and CEO*

Brian, I think I'd add just a couple other things. Bananas are still the cheapest high-value nutrition available in the store. It doesn't matter whether you're in the United States or Europe or Eastern Europe, that's the case everywhere. And they represent significant share of the velocity of the produce department in any given retail store.

We are in a dollar based business but our job is to offset any declines in local currency with pricing that recovers our cost as we go through the year. And so we constantly look at our sell-out price in local currency relative to our cost prices, and our objective over time is to get back where we want to be on an operating income perspective. And operated in 2013 versus 2012 in exactly that way and you started to see the benefits in quarter four.

Jonathan Feeney - *Janney Montgomery Scott - Analyst*

Great. Thank you. That's all very helpful.

Operator

William Reuter.

William Reuter - *BofA Merrill Lynch - Analyst*

A couple quick questions. The first, in terms of the one-third of your banana production that you guys currently own, are there any plans with regard to changing this either with regard to purchasing more capacity or kind of outsourcing more of that sourcing?

Ed Lonergan - *Chiquita Brands International Inc - President and CEO*

Yes, I mean, I've spent a lot of time on the farms since I've been in the Company, and I like the way we lead our farms. And we have capacity to manage more hectares with the divisional structure we have in the tropics tomorrow than we do today.

Of course, you guys can see our balance sheet just as well as we can. There's not a lot of cash laying around to go buy ground, but we are particularly good at managing farms. And so as we look to the future it would be our objective to have more managed hectares under our system than we have today. We think we can do it without significant outlays.

William Reuter - *BofA Merrill Lynch - Analyst*

If you were ever to decide to monetize the current production that you do own, do you have any sense for what that might be worth or how easy or hard it would be to complete such a transaction?

Ed Lonergan - *Chiquita Brands International Inc - President and CEO*

People ask the questions all the time but I don't think there's as much there as the world thinks.

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Brian Kocher - *Chiquita Brands International Inc - CFO*

Well, I think the other aspect is if you look at it on an EBITDA basis, if you get rid of the farms you own, you still need the volume. So now you're talking about really a financing transaction. Do you sell in the farms and do you lease it back or do you sell the farms and do you go into a long-term purchase commitment with the buyer? And when you do, the buyer needs to have a profit margin in there too.

Part of the modeling that you go through when you do this analysis. And we've looked, I mean, when you go through and do the analysis, there's one thing about the cash that you can generate, but when you look at a go-forward basis, rarely is it EBITDA positive. And in fact, as Ed mentioned, we really like some of the changes that we've been able to make in our agricultural operations and the productivity that that's delivered. Owning more of your own farms or owning your own farms and making them more productive gives you some flexibility in your system that I think you can turn into cash easier than selling them and entering into some long-term purchase agreement.

Ed Lonergan - *Chiquita Brands International Inc - President and CEO*

I think the easiest thing to say is we look every year at the cost of production on our own farms. So we look at a cost per box on our farm versus those we purchase, and as long as they continue to be cheaper to grow on our own farms there's no reason not to keep doing that.

Brian Kocher - *Chiquita Brands International Inc - CFO*

Right.

William Reuter - *BofA Merrill Lynch - Analyst*

Okay. And then just lastly from me, in terms of the packaged salad business, I was wondering if you had expectations or how the industry was thinking about how growth would be there, just for the entire industry domestically this year.

Ed Lonergan - *Chiquita Brands International Inc - President and CEO*

Yes, the salad business -- we've been talking a bit about where we play in the salad business. The packaged salad business in North America is about a $2 billion segment. The total salad business is around $5 billion. People consume about 11 bagged salads in the course of a year, and about 36 salads overall per capita, and so we have some interesting opportunities within the category. First, we weren't playing outside the $2 billion share of that business, and second, we have opportunity to convert to higher value salads.

But the overall category's been fairly low growth over the last several years. And my view as the market leader in our space, both in bananas and salads, is it's our responsibility to grow the category. It's okay for me if all the boats float but our job is to drive that growth so that our retailers and our consumers are excited about what they see when they approach the shelf.

And so we're doing some work now to think through what is it that's going to drive consumer experience in the salad business that will change their view of that segment and encourage them to purchase more. At the same time, we are extending our play into private label and into the whole head lettuce businesses as a way to participate in a broader part of the category and grow our own business, while the overall category may not be growing as much as we would like in the short term.

William Reuter - *BofA Merrill Lynch - Analyst*

Okay. Great. Thank you very much.

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Operator

And gentlemen, there are no additional questions. I'll turn things back over to Ed Lonergan for any additional or closing remarks.

Ed Lonergan - *Chiquita Brands International Inc - President and CEO*

Okay Katherine, thanks. Thank you all very much for your questions and for joining us today. Hopefully you can appreciate that while 2012 was certainly a challenging year for Chiquita, we're optimistic about the next few years. We look forward to updating you on Chiquita's continued progress with full transparency throughout 2013, and thanks again for joining us.

Operator

Thank you. Again, ladies and gentlemen, that does conclude today's call. Thank you all for your participation. And have a good day.

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