Q4 2011 Earnings Call

Company Participants

- Edison Ticle de Andrade, Financial Officer
- Fernando Galletti de Queiroz, CEO and IR Officer

Other Participants

- Alessandro Arlant, Analyst
- Fernando Ferreira, Analyst
- Ivan Fernandez, Analyst
- Jose Glicksburg, Analyst
- Karen Aldrich, Analyst
- Leslie Brooks, Analyst
- Rebeca Sarmiento, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for waiting. At this time we would like to welcome everybody to Minerva's Fourth Quarter 2011 Results Conference Call. Today with us we have Mr. Edison Ticle, CFO; Mr. Eduardo Puzziello, IRO, and Mr. Fernando Galletti de Queiroz, CEO of the Company.

(Operator Instructions)

Before proceeding, we wish to mention that forward-looking statements may be made during this presentation relating to Minerva's business prospects, operating and financial estimates and goals. They are based on the beliefs and assumptions of the Company management and on information currently available. They involve risk, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Minerva and could cause results to differ materially from those expressed in such forward-looking statements.

I will now turn the conference call over to Mr. Fernando Galletti de Queiroz, CEO of Minerva, who will begin the presentation. Mr. Queiroz, you may start the presentation, sir.

Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Thank you. Good morning. Good afternoon for some of you. We are very pleased that you all have been able to join us for our teleconference to discuss Minerva's results for the fiscal year 2011 and for the Fourth Quarter of 2011.

We will start on slide two going through the main highlights for the quarter. First, in the Fourth Quarter of 2011, we generated a positive operating cash flow of BRL73.9 million after interest payments in the period.

We ended the year with a record revenue of BRL4.3 billion and BRL1.2 billion in revenues in the Fourth Quarter, a 36.8% increase over the same period of 2010.

In 2011 our EBITDA came to BRL347.2 million accompanied by an EBITDA margin of 8.7%. That represents a 30.5% jump over the EBITDA of 2010.

In the Fourth Quarter EBITDA totaled BRL116.4 million with an EBITDA margin of 10.7%.

Net income in the year came to BRL41.7 million yielding a dividend distribution of approximately BRL0.11 per share and interest on equity of around BRL0.17 per share.

Moving to slide three, in 2011 our exports reached a market share of 22.3% of the total Brazilian exports, up 2.1% compared to our share in 2010.

Return on invested capital in 2011 came to 23.8%, which is 18.2% higher than the 2010 level.

Regarding our financial liquidity, we pointed out that the Company ended the year with BRL746.4 million in cash, which is 37.8% more than our short-term debts obligations.

Finally, we would like to emphasize that the average cattle price quoted in arroba fell 3.4% in the Fourth Quarter of 2011 compared to the same period of 2010, which we see as a sign that we are currently experiencing a turning point, the inflection point of the curve in the cattle price cycle.

Let's go a bit different on that on slide four, an overview of the (inaudible) of 2011. In 2011 cattle prices remained stable but elevated levels with global activity during the quarters and the dry season. However, there was a decline in the cattle price in the Fourth Quarter relatively to the same period in 2010.

The Brazilian market saw a record calf production of approximately 50 million heads in 2011 due to heavy retention of breeding stocks in the past four years. Despite the dip in cattle price in the Fourth Quarter, the slaughter volume was higher than in the same period of the last year indicative of our greater cattle cycle supply in the Fourth Quarter of

2011. That shows that inventories of cows and calves went up and with production of inventories going up there was a more selling pressure in the Fourth Quarter.

Let's move to slide five, looking at the fundamentals of the cattle cycle. We do believe that the Brazilian cattle industry is moving towards what we call the low point in the cattle cycle in which the higher supplier for cattle for slaughter tends to drive down cattle price, as can be seen from the calf production graph. Production last year reached 47.5 million heads indicating of a better supply of cattle for slaughtering in the coming year.

That strong level of calf production means that the bridging operations were profitable creating a production initiative as can be seen from the graphic comparing the slaughter of females versus the breeding margins. However, as we can see from the graph that it shows the breeding margins dipped below the (inaudible) benchmark created in the last 2011 and early 2012.

This will likely mean that higher rates offer for to the slaughter of the less efficient females in the coming years due to the decrease of profitability of breeding and new improved genetics of the cattle in the following years.

This is a normal cycle of improvement of genetics that is very favorable and very positive for the cattle ranchers, for the cattle producers and also for the industry. We can thus expect to see an increased supply of cattle for slaughtering in the coming years as a result affirmative cost production in the past few years and the increase in forcing[ph] the slaughter of breeding stocks, which should end up putting downwards pressure on cattle price.

Going on for slide six, domestic and export market for beef consumption fundamentals, we noticed increased consumption of red meat in the domestic market resulting from the economic growth and better income distribution in Brazil. So far in 2012 there has been already being a 14.1% increase in Brazilian -- in Brazil's minimum wage and the Central Bank is forecasting higher growth in the years and a slowdown of inflation, this translating to more consumption of proteins, especially beef.

In 2011, we observed our growing demand for beef from the (inaudible) called emerging economies with 10.5% growth in total exports were in 2011 relatively to the 2010.

With demands for beef on the rise, Brazil is in a favorable position as a provider of beef relative to its primary competitors, particularly the US which according to USDA has its smallest herds since 1952. Moreover, the European farmer has been facing shortage of subsidies from the government due to macroeconomic conditions and Argentina's farmers are facing political issues that has hampered its exports.

Proof of this scenario is the fact that these prices increased in international market in 2011 compared to 2010. This scenario shall continue for 2012 and being even more evident given the privilege for the Brazil and South American Countries.

Moving on to slide seven, we'll go a bit deeper on Minerva. Our 2011 operating results, in 2011 gross revenues came to BRL4.3 billion, up to 19.2% over 2010.

In the Fourth Quarter gross revenue was 26.6% higher than in 2010 reaching BRL1.2 billion.

Our Fourth Quarter EBITDA margin was 10.7% on EBITDA of BRL116.4 million, a 36.8% increase over the same period in 2010. In the year, our EBITDA reached a record of BRL347.3 million, 30.5% than in 2010. We end 2011 with a couple of (inaudible) rate of 34.3% after including all investments. This is an industry benchmark.

In the last quarter of 2011, we generated an operating cash flow of BRL73.9 million after considering interest payments.

Let's move to slide eight to look at domestic and export market and operating results. In the domestic market, we maintained our focus on small and medium size retailers. Our distribution keeps growing. We expanded the coverage of our domestic distribution at work by opening two new distribution centers in 2011, most notably, our first distribution center in the Northeast Brazil in the City of Fortaleza.

We increased our share of the export market compared to 2010 reaching to 22.3% in 2011. Our structure, comprising nine sales offices spread all over the world, has played a vital role in this development. We never thought export destinations of primary emerging economies, as the graphic in the upper left illustrates.

I will now turn over to Edison, who will present Minerva financial highlights. Edison.

Edison Ticle de Andrade {BIO 15435343 <GO>}

Thank you, Fernando. Let's go to slide nine where we're going to talk about the financial highlights.

So gross revenues increased 27% in the Fourth Quarter 2011 comparing to the same period in 2010, an almost 20% in the year of 2011 reaching a record amount of BRL4.23 billion[ph].

Our EBITDA margin expanded by 10.7% in the Fourth Quarter and in 2011 we posted record EBITDA of BRL347.3 million with an EBITDA margin of 8.7%. Let's move to slide 10 and talk about our capital structure.

We showed a pretty comfortable cash position at the end of 2011 that enabled us to easily honor all of our 2012 debt obligations. We would also like to highlight our recent capital market operation by which we successfully raised $350 million[ph] through an issue whose demand was six times higher than they initially stock volume. After the bond issue operation we ended 2011 with a cash position that will enable us to honor all of our debt obligation and through 2017 as the chart in the upper right of the slide illustrates.

At the end of 2011, growth of 56% of our net debt was in eliminated in dollars and the remaining 44% was eliminated in Reals. It's important to highlight that a portion of this debt is hedged against currency variation.

On December on the end of 2011 our cash position reached BRL746 million leaving us in a pretty comfortable position to capitalize on market opportunity. More important, our leverage measured by the net debt to the valuation has been steadily declining for 10 quarters in a row setting 3.65 times at the end of 2011.

I will now turn the presentation again to Fernando, who will address Minerva's end of the (inaudible) and outlook.

Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Take a look on slide 11 on the first pictures. In the coming years, Minerva will maintain continuous focus and remain committed on the deleveraging our financials. This is part of our policy and this is what we have as a main driver for the coming years.

Our risk management policy will continue to safeguard our margins and even in economically adverse times. That's why Minerva had the least volatile and the most stable margins on the sales detector. Our risk management team has as its main objectives not only hedging the margins but protecting the volatility of it.

Our quest for operational excellence through better use of installed capacity, continuous improvement of our productivity efficiency and exploration of the most profitable channels has been a successful formula. We will continue to apply this strategy in the coming years.

We will maintain our focus on optimizing the balance of our sales mix between the domestic and export market seeing through the strategies essential to guarantee our better margins. Having invested more than one billion over the past five years, we are fully committed to generating cash flow in 2012. So for 2012 our maintenance, our CapEx will be limited to the month-end stoppage. So therefore, the extension period, the CapEx of extension, it's finished.

Beginning in 2012 promises to be a very favorable year for the industry in terms of cattle prices, since we are currently beginning what we call the low growth point of the cycle characterized by lower prices resulting from increase of our supply of cattle.

On the other hand, you have the demand being very stable with the cattle price going down, which leads a very positive perspective of enhancing margins.

I will now turn over to the operator to start the Q and A session.

Questions And Answers

Operator

Thank you, sir. We will now start the question and answer session for investors and analysts. (Operator Instructions) The first question we have comes from Karen Aldrich of Goldman Sachs.

Q - Karen Aldrich {BIO 20883184 <GO>}

Thank you. Can you maybe gives us -- do you have a target number for utilization rate for this upcoming year?

A - Edison Ticle de Andrade {BIO 15435343 <GO>}

For this coming year we shall be on the low 80s for in (inaudible) utilization.

Q - Karen Aldrich {BIO 20883184 <GO>}

Great and do you have a CapEx number as well?

A - Edison Ticle de Andrade {BIO 15435343 <GO>}

Our CapEx is around BRL20 million to BRL25 million per quarter.

Q - Karen Aldrich {BIO 20883184 <GO>}

And this past year you obviously had some important accomplishments with lowering your working capital. Is this sustainable and is there more opportunity and maybe you could elaborate on what some of the drivers of that reduction was?

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

It's sustainable, Karen, and we believe that there is always room for improvement, so definitely sustainable in all the process that we have. They are according to what you saw in the last quarter.

Q - Karen Aldrich {BIO 20883184 <GO>}

Great and you've also mentioned in the past how the potential opening of markets in Asia could also be a huge growth opportunity for you. What are kind of some of the barriers to that happening and how -- what kind of time frame do you think it potentially could happen in?

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Well the Far East if -- there are many countries that are increasing the demand now for beef. There are promises of new markets like Indonesia but we feel focal, especially in the Far East and the Mainland China. Mainland China has been supplied by Hong Kong, mainly by Hong Kong. Each of the providences in China they have different legislation. They are very dependent so there is not a single line of affection of all (inaudible) are to supply the Mainland China.

So we keep increasing our volume of sales through Hong Kong and we also keeping increasing for Mainland China but the majority goes through Hong Kong.

Q - Karen Aldrich {BIO 20883184 <GO>}

Great, thank you very much.

Operator

Ivan Fernandez, Barclays.

Q - Ivan Fernandez {BIO 18283288 <GO>}

I was listening to the Portuguese call when you mentioned probably expect the 50 bips increase in EBITDA margins for 2012 compared to 2011. My question I have for you is if you're forecasting cattle prices should probably 5% lower year-on-year in 2012 and you're also expecting beef prices should be stable in the year. And given that cattle is about 80% of your COGs then wouldn't it be fair to expect about a 4percentage points increase in gross margins and 4% is basically 5%, which is a decrease in cattle prices times 80%, which is the participation of that in COGs. So how do you get from the 4% to 50 bips only for improvement in EBITDA margins, if you could explain a little bit the mechanics there, please?

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

First, Ivan, we always try to be conservative what you leave for the market, the positive (inaudible). But the answer for your question is that we foresee more increase on the export side of the business, right. That is a percentage of the total sales. The Brazilian local markets shop[ph] hedge are important but are hold but the margins will be -- the price increase and the price decrease in the cattle, they are translated faster in the Brazilian local market than on the export side. So that's why we go for an estimation of 50 bips being conservative, but with room for further improvement.

Q - Ivan Fernandez {BIO 18283288 <GO>}

Okey. Another quick question. Up until the last quarter you guys use to record LTM EBITDA pro forma for the whole acquisition. The reason you didn't do that for the Fourth Quarter is because the whole year is already including pool[ph] or do you have a number you could give us for the pro forma?

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

The whole year includes full.

Q - Ivan Fernandez {BIO 18283288 <GO>}

Okay, so full has been consolidated since January 1st, 2011?

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Yes.

Q - Ivan Fernandez {BIO 18283288 <GO>}

Okay.

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

It's 100% owned by us.

Q - Ivan Fernandez {BIO 18283288 <GO>}

Okay. Another quick question on the recoverable taxes, so the ICMS taxes were basically stable on the quarter so should we already assume that this would start to fall in the First Quarter already or is this something that you will see later in the year in terms of the stock of that recoverable tax asset on your balance sheet?

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

In the end of December, the market slightly around the 20, 22nd of December, we had new measurements adopted by the Brazil -- or by the State Tax Authority that won't ICMS. From there on generally we had a positive. We had more tax monetization than tax credit accumulated so the delta of that we are estimating in that around BRL5 million per month and I tell you that after generating traffic we are more than that but that we keep a conservative approach that the monetization will be of BRL5 million per month for the year 2012, mainly due to these new measurements taken by the State authorities, State Tax Authority.

Q - Ivan Fernandez {BIO 18283288 <GO>}

Okay and the fiscal things for those taxes we can basically -- should we assume about fixed percentage of revenues going forward?

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Fiscal opinions is something that all the Brazilian export sectors, they are working together. There are some positive news ahead but now we see the monetization faster on the state taxes than the ICMS but we see that effort to come as well. We shall see also very, very big improvements on the fiscal things.

Q - Ivan Fernandez {BIO 18283288 <GO>}

Okay and the last question, on the Portuguese call you guys went over the explanation for the intangible, a part of your CapEx in the Fourth Quarter. Could you go over (inaudible) what you expect in intangibles, the changing participation of non-controlling shareholders?

A - Edison Ticle de Andrade {BIO 15435343 <GO>}

Ivan, Edison speaking. The intangible on the cash flow statement was related to an increase of our share in Brascade, which is a company that we had 50%. Now we have the control of the company. This is a company focused on the casing market so this was the decrease on share was the main factor for the intangibles to reach BRL96 million of the cash flow statement in the Fourth Quarter. But there is a counterpart of this BRL96 million, which is a BRL50 million operation in minority acquisition so if you sum the intangible (inaudible) the valuation in RT equity, you have BRL46 million.

So BRL74 million was the operating, the cash flow from operating activities minus BRL46 million, which is the difference between the intangible and the valuation in minority equity, you get approximately BRL30 million, BRL28 million and we have the additions to investments, the CapEx, in the quarter that was BRL25 billion. So the Company in the direct mold, direct way to calculate the cash flow statement generated like BRL3 million to BRL4 million of free cash flow after interest payments, after CapEx, after all the cash expense.

If you go to the indirect way to calculate using the change on net debt, you will see the net debt expressed nearly the same but there are -- there is one big difference. To calculate the net debt we normally use the shares in Treasury to calculate the number but in the Fourth Quarter we reduced it in almost BRL16 million, the shares in Treasury that we use the BRL16 million, which is around 200 -- is around 2.7 million shares to (inaudible), the companies required that we bought in January.

So if you take into consideration the BRL16 million that we reduced it, our share in Treasury and in the other side you sold them assets at the same level, you will see that the Company generated roughly BRL20 million, at least BRL20 million of free cash flow in the quarter. So this is a very interesting question. It gives me the opportunity to show the cash flow statement in the two ways of calculating the cash flow generation in the quarter.

Q - Ivan Fernandez {BIO 18283288 <GO>}

Thanks, Edison. So just to understand then, so the intangible is basically you guys had an acquisition in the quarter. You increased the stake in an affiliate that you previously had a partner with, is that correct?

A - Edison Ticle de Andrade {BIO 15435343 <GO>}

Yes that's correct. It was a very small acquisition but it allowed us to let's say to mark-to-market all the shares that we have in this company that was in our budget.

Q - Ivan Fernandez {BIO 18283288 <GO>}

Okay and just one more question, on MDF you mentioned that we should expect about double-digit margins by end of the year. What should we assume for revenues for MDF for 2012?

A - Edison Ticle de Andrade {BIO 15435343 <GO>}

Yes it will be around BRL200 million for MDF.

Q - Ivan Fernandez {BIO 18283288 <GO>}

Okay thanks very much and congrats on the results.

Operator

Fernando Ferreira, Merrill Lynch.

Q - Fernando Ferreira {BIO 2389113 <GO>}

First question, could you tell us how the First Quarter is shaping up as we recently saw some deceleration of beef exports out of Brazil?

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Normally the First Quarter of the year is the worst quarter of all. This year we've already seen an improvement over 2010 but traditionally it's the weakest quarter that we will have, the hangover of the end of the year. Many counters on exports, they are really finding their quota system is (inaudible) their quotas, distributing[ph] their quotas and also we can see that local market is low down a bit.

Q - Fernando Ferreira {BIO 2389113 <GO>}

Okay and we recently saw the volumes to Iran, they have been very weak. Have you been able to continue to shift volumes to other markets like you did in the Fourth Quarter and maintain a favorable mix with this lower exports that we are in?

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Definitely we analyzed here all the possible outlets where to place our products and we go for the most profitable ones. Iran was easily replaced by an increase in Russia, Egypt. Algeria is playing an important part and so is the Middle East. So we are seeing an improvement in these areas that more than compensates the decrease in Iran.

Q - Fernando Ferreira {BIO 2389113 <GO>}

Perfect. Then lastly, do you have any targets or any views for how cash flows will shape up this year as your CapEx has slowed down?

A - Edison Ticle de Andrade {BIO 15435343 <GO>}

Well what's about to have we expect to raise something between BRL50 million to BRL100 million of free cash flow after interest payments and after CapEx, Fernando.

Q - Fernando Ferreira {BIO 2389113 <GO>}

BRL50 million to BRL100 million, right?

A - Edison Ticle de Andrade {BIO 15435343 <GO>}

Brazilian Reals.

Q - Fernando Ferreira {BIO 2389113 <GO>}

Okay thank you.

Operator

Alessandro Arlant, Bank of America.

Q - Alessandro Arlant {BIO 15732215 <GO>}

Thanks for the call. I have two questions. The first one is regarding the trade finance market. Maybe Edison could speak about what is the cost right now for the trade finance lines? Have you been able to access these lines after now that we've seen that situation in Europe more or less under control than in the beginning of the year? How does this have changed or affected your cost of bank lines now looking into the Second Quarter?

A - Edison Ticle de Andrade {BIO 15435343 <GO>}

Alessandro, since June, as the situation in Europe, the financial situation, especially in the banking system in Europe was worsening, we saw a very significant increase on the cost of straight finance lines. It's not only for Minerva but for the market in general. And you know the European banks are the most -- were the most important banks to give lines to the Brazilian banks in order to offer these lines, the straight finance lines, for the Brazilian companies. So the cost that in June, July was around 3% to 4% per year, talking about one year or 1.5 year line, they jumped in the third and Fourth Quarter to something between 7% to 8%.

In the Fourth Quarter the cost is pretty the same that you have seen in the third and Fourth Quarter so it is around 7% to 8 % in dollar terms for one year, 1.5 year line.

Q - Alessandro Arlant {BIO 15732215 <GO>}

Okay if the cost of this trade finance line decreased during this year we assume there is more normalization that maybe geopolitical risks are not into play. Would you foresee doing any liability management in 2012? I say this because the cost of your new bond is over 12% in dollar terms so maybe there -- and the bond has performed really well since issuance. It's trading at a high premium so maybe it would make sense for them doing this year to do a liability management. Would you entertain such offer?

A - Edison Ticle de Andrade {BIO 15435343 <GO>}

It's hard to say. The scenario that we see right now is that the straight finance callers cost, straight finance lines cost, are still very high so looking for a scenario from this standpoint we don't see any opportunity along this management right now.

Q - Alessandro Arlant {BIO 15732215 <GO>}

Okay thanks for that. So and then my second question would be if you could remind us again what is the accounting of when you buy cattle on a cash basis and you have a discount if the discount is accounted for as a reduction of gross revenues or if the discount is below the line in the financial income, financial expense line?

A - Edison Ticle de Andrade {BIO 15435343 <GO>}

The discount that we get on paying lower prices for cattle, it goes directly on the cost of products sold.

Q - Alessandro Arlant {BIO 15732215 <GO>}

Okay so above the line. Okay thank you very much.

Operator

Rebeca Sarmiento, Deutsche Bank.

Q - Rebeca Sarmiento {BIO 16493825 <GO>}

I was wondering if you could perhaps elaborate on some of the actions you took this past year to improve your SG&A costs and whether or not you think that the reduction that you were able to achieve is sustainable into 2012?

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Rebeca, most of the reduction on the SG&A comes from the rationalization of mainly of the operations, the implementation of the SAP, the implementation of the center of shared services. Also, there is significant drop in relation to the cost of freight because we exported less live cattle so there is a big impact off the reduction of it. And also the steady operation allowed us to make a better negotiation in the world (inaudible) to better negotiate with service providers, especially freight operators or port operators and all that contributed to the decrease of SG&A.

Q - Rebeca Sarmiento {BIO 16493825 <GO>}

Okay and so most of this, with exception to maybe some of the live costs, other costs related with live cattle do seem to be sustainable going forward?

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Our cost of live cattle slate will go up if we increase the export volume. It's a variable expense but also translates into margins. The way that we do the live cattle is they have to gain at least the same margins for us to operate than the increase[ph] does so if there is an increase in SG&A because of freight, it will not affect the margin.

Q - Rebeca Sarmiento {BIO 16493825 <GO>}

Okay great. And also maybe if you could discuss a little bit your outlook for sales in 2012, how they will be balanced between exports and domestic sales as well as whether or not you see potential to continue passing through prices?

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

We see that the market varied demand on the export side, especially from the developing countries, so we don't see any price decrease. Prices reached the level where Brazil has no competition due to the reasons that we explained during the call so US/Argentine, Europe, Australia, they are not competitors to Brazil in the main markets. So we see that the prices are all high CPs[ph] and cattle some of the best on the slice of meat on the export side.

On the Brazilian local market we will see also a market that keeps very strongly demanded. The growth of brazil keeps delivering more, keeps delivering results and delivering more consumption[ph] so we see that we don't see that the prices of this, our sales price, having -- being drastically affected. On the other hand, we are predicting and we are already seeing that the prices on the cattle are -- they are 5% to 7% below what they were last year. So the demand will keep steady mainly due to the lack of contribution from Brazil and the cattle price in the favorable cycle will improve the cost of goods sold.

Q - Rebeca Sarmiento {BIO 16493825 <GO>}

Okay many thanks.

Operator

Valerie Cisneros, Morgan Stanley.

Q - Jose Glicksburg

This is Jose Glicksburg at Morgan Stanley. Congratulations on results. I have a few questions also regarding on what the other people asked before and maybe wasn't clarified. First, do you have -- I mean I am going to ask the three questions first.

Do you have a free cash flow guidance, maybe you can do free cash flow guidance or operating cash flow guidance for 2012?

Then second, if you can explain it's just more an accounting question, how you calculate your financial expenses, basically page 89 of your Brazil[ph] (inaudible) what other expenses financieras[ph] means, what it's included in this number and what should be basically the final cash, interest cash number, that we should use plus any derivative costs.

And finally, if you can repeat again the rationale from the question that was asked before on EBITDA margins, why basically it's got at least 80% of your cost, why you don't have a bip increase in margins based on lower cattle prices for this year? Thank you.

A - Edison Ticle de Andrade {BIO 15435343 <GO>}

The first question about free cash flow for 2012, we don't have a guidance. What we told remember it comes from (inaudible) was the projection that we have inside of our Company that we're going to generate something between BRL50 million to BRL100 million of free cash flow in 2012.

The question about the financial expenses, the total financial result was around BRL105 million. BRL67 million was interest expenses. BRL67 million is what we call other expenses. The breakdown of the other expenses the most important figure is FX hedge, which was BRL37 million, up from the BRL67 million on the other expenses, financial expenses.

If you want to have the -- well, the other expenses, so FX hedge is 37; cattle hedging was 15, financial discounts were around BRL8 million; fees and commissions around BRL7 million.

And your last question about the margin?

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Yes can you repeat the last question?

Q - Jose Glicksburg

Yes it's same question that was asked before why you expect only 50 bips increase in margins when cattle prices are going to be lower this year?

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

We are being conservative and considering that Brazil will gain competitiveness we will buy a bit of a competitiveness in international markets and also the local market tends to react faster to movement on the capital sides. We were conservative on estimating a 50% bips increase. It definitely -- or I think that there is a big chance to be more than that but we believe that we're being -- giving a conservative prediction is healthy.

Q - Jose Glicksburg

Okay thank you.

Operator

Leslie Brooks, Morgan Stanley.

Q - Leslie Brooks

Just one last sort of big picture question around the cycle, obviously there were some expectations it was going to turn a couple years ago. What is in your view the risk that in a few quarters time we will be discussing why it hasn't improved to the extent that we all thought it would and what are the sort of things we need to watch out for? What could go wrong?

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

What we are seeing is our normal cycle of farmers discarding, getting rid of less productive cows. That will improve the genetics and basically improve the productivity of the farmers, so we think that what we are seeing is a cycle that normally lasts three to four years. It's a cycle that we've seen it happening before and it's the final result of the cycle is that you increase the volume of steers. You exceed[ph] the volume of cows in the market and you increase the volumes of calves in the market so all the inventories are up and we see this pressuring the market now on the other side.

So what are the points to watch is basically the profitability of the breeders. If the profitability of the breeders starts to go up but too much, they have less incentives of getting rid of cows so I would say that this would be that this would be the main item to be watched and to be monitored.

Q - Leslie Brooks

Okay great thank you.

Operator

(Operator Instructions) It appears that we have no further questions at this time. This concludes the question and answer session. At this time, I would like to turn the floor back to Mr. Fernando Galletti de Queiroz for any closing remarks. Sir?

A - Fernando Galletti de Queiroz {BIO 15387377 <GO>}

We ended 2011 having achieved great success with regard to all of our purpose objectives and challenges thanks to the consistency provided by the right strategic plan and a highly trained team to carry it out efficiently. I would like to say thank you for all Minerva employees support and dedication on this year to cause for us this great result.

As for 2012, we believe that Minerva will be fully capable to contribute and continuing to implement this strategy due to all the investments made in the previous years on training, capacitation, the retention of our talents, enterprise and resource planning SAP and business intelligence, our state-of-the-art plants, capularity[ph] and capacity of the distribution channel in the domestic market and the strategically located international offices widespread around the world far to exploit market opportunities.

Minerva has been consistent on its strategy and we keep delivering the results and we keep having as our main goal to create value for our investors. Thank you very much and see you next quarter.

Operator

And we thank you for your time, sir, and to the rest of management. We thank you all for attending today's presentation. This does conclude the conference call. You may disconnect your lines at this time. Have a nice day.