# Q3 2016 Earnings Call

## Company Participants

- Edison Ticle de Andrade Melo e Souza Filho, Chief Financial Officer
- Fernando Galletti de Queiroz, Chief Executive Officer

## Other Participants

- Andrew De Luca, Analyst
- Andrew Muench, Analyst
- Lauren Torres, Analyst

## Presentation

### Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everybody to Minerva's Third Quarter of 2016 Results Conference Call. Today with us we have Fernando Queiroz, Chief Executive Officer; Edison Ticle, Chief Financial Officer; and Eduardo Puzziello, Investor Relations Officer.

We wish to inform you that this event is being recorded and all participants will be in listen-only mode during the Company's presentation. (Operator Instructions) The audio and slide show of this presentation are available through a live webcast at www.minervafoods.com/ir. The slide show can also be downloaded from the webcast platform in the Investor Relations section of this website.

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 Company management and on information currently available. They involve risks, 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, and 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 Queiroz, CEO, who will begin the presentation. Mr. Queiroz, you may start the presentation.

### Fernando Galletti de Queiroz {BIO 15387377 <GO>}

Thank you very much. Good morning, everyone, and thank you for participating in Minerva's conference call on the results for the third quarter of 2016. We will begin by presenting the quarter's highlights detailed in the slide 2 of this presentation.

Minerva net income totaled BRL47.4 million in the third Q of '16 and BRL182.7 million in the nine months of 2016.

Company return on invested capital reached 24.8%, approximately 4 percentage points higher than in the third Q of '15. Gross operating revenues amounted to BRL2.7 billion in the third Q of '16 and BRL10.4 billion in the last 12 months, once again, a new record for the Company. Due to the appreciation of the real in the third Q of '16 and the signs of recovery in the domestic market, we moved [ph] 40% of the Company's total revenues to debt market. As a result, the Beef division domestic sales revenues increased by 43% over the third Q of '15.

EBITDA grew 4.5% in the third Q of '16 over the second Q of '16 to BRL49 million accompanied by a margin of 9.8%.

In the 12-month period, EBITDA came through approximately BRL1.1 billion, 22% higher than in the previous years with a margin of 10.9%. In terms of capital structure, leverage measured by the net debt EBITDA, LTM EBITDA ratio stood at 3.2 times at the end of third Q of '16. We closed the quarter with a cash position of BRL3.2 billion leaving us in a comfortable position in a volatile macroeconomic scenario.

At the end of the quarter approximately 76% of the total debt was exported to the US dollar with a current duration more than six years. In September, we concluded the issuance of $1 billion notes maturing in 2026, in order to replace the bonds maturing in 2023 and therefore extending other debts profile and reduce the cost of that in dollars as we conducted an issuance at annual coupon of 6.5%, while the 2023 bonds paid an annual interest of 7.75%.

In addition to discussing our financial and operating highlights and capital structure, we would like to call your attention to the other aspects, which are important for our business and opened good opportunities for Minerva. The first one is the weakening of an important global player Australia, as we have commented since last years, this year we know there is a gap in export from this country. Plus in the first 10 months of 2016, Australia exports fell 22% comparing to the same period in 2015.

Just in the month of October 2016 exports from Australia fell 29%, when compared to the same month of last year. If we analyze the shipments year-to-date from Australia to the US market, the reduction was of 43%. It's also worth mentioning the reduction in Argentina is slaughtering which is currently at one of the lowest level in the last 15 years, as a result of the retention of females for the composition of the herd.

In the first 10 months of 2016, the slaughtering in Argentina reached 9.6 million herds, 8% less than in the same period of 2015. This effect has an impact on Argentina beef production, which fell 5% in the first 10 months of 2016, comparing to the same period of

2015. On the other hand, the internal consumption for beef in Argentina included in 2016, which means that there will be less availability of Argentina beef to be exported.

Another significant event was the opening of the US market to the Brazilian beef, also announced last year. Although, the first shipment has been accounted, we are only affected to conclude from September 2015, we believe that the opening of this market to Brazil grants a seal [ph] of quality to our products, thus favoring the access in other markets, which adopt the same sanitary protocols as United States, such as Canada, Mexico, Japan and South Korea.

It's worth mentioning that we expect the availability of animals ready for slaughter to increase in 2017, leaving the certain technical indicators such as the breeding margin, (inaudible) forecasts and slaughter activities among other, indicates a turnaround in the cattle cycle for the next years, which would pressure the cost of our main material [ph] for the next three years.

Lastly, I would like to highlight the recent acquisition announced, the Frisa meatpacker. This acquisition constitutes a strategic opportunity complementary to Minerva's operations and it represents another step in the sector consolidation in South America as we will detail in an exclusive slide about this operation.

Let's move on to slide 3, where we will talk about the Brazilian sector. The slaughter volume totaled 5.9 million heads in the third quarter, declining by 5.5% over third Q of '15 and 7.5% over second Q of '16. The third quarter is seasonally the period with the lowest availability of animals for slaughtering due to the offseason.

However, animal availability in third Q '16 was higher than expected according to the feedlot surveyors due to the higher numbers of animals produced with pasture supplementation which combined with the industry capacity adjustment increased [ph] the cattle supply during the quarter.

Due to the higher animal availability and reduced slaughtering capacity, the average arroba price fell 3% in the third Q of '16 over second Q of '16. In the third Q of '16 export volume dropped 7% compared to the previous years due to small players (inaudible) focus on exports, giving the still critical credit availability situation in the market and lower demand from Venezuela and Russia, which were the main export destinations in 2015, but reduces the imports in the view of the economic situation of these countries.

China and Hong Kong remain as Brazil's main export destination in the third quarter, accounting for 25% of the total. In the third quarter, the domestic market maintained the trends seen in the previous quarter with domestic performance being impacted by Brazil's economic situation, forcing consumers to migrate to (inaudible) and replacement proteins such as poultry and pork due to the loss of purchasing power.

In the domestic market, from the end of August, we saw a sharp increase in the wholesale beef prices, followed by lower slaughter in the period and the seasonal effect of consumption, commonly felt as of the beginning of the fourth quarter.

Let's move now on to the next slide to discuss the opening of the US market through the Brazilian beef and the positive impact which may arise from it. Slide four; this slide shows the evaluation of the access of the Brazilian beef to the global market. As you can see until last year Brazil access is likely more than half of the global demand. With the entry of the US market, we currently have access to almost 80% of global consumption.

As previously mentioned the representativeness of the United States in terms of volume is still very low, giving that Brazil have access to the market through the other scope [ph] whose annual exports allowance totals approximately 65,000 tons. Nevertheless, US opening for the Brazil beef is a guarantee and a positive indicator for other countries, which adopts the same sanitary requirements of that country and are major consumers of beef. We can give an example of countries like Japan, Canada, Mexico and South Korea.

Let's move now to the slide 5 and talk about sector overview in Paraguay. In the third quarter, Paraguay's slaughter volume increased by 7% over third Q of '15, by declining 8% compared to the second Q of '16. Like in Brazil, the third quarter in Paraguay is also the dry season period, due to which cattle supply is lower. In addition to the off season, the cattle pre-vaccination period in the Expo 2016 held in July also interfered with the negotiation of animals. As a result, the average price of cattle appreciated by 2% over the same period last year.

Paraguay's exports revenues totaled $295 million in the third Q of '16 accompanied by the volume of 74,000 tons, 7% more than in third Q of '15 and stable over the second Q of '16. Export performance was influenced by the increase in the amount from Chile, due to the country's Fiestas Patrias, a strong demand from Russia and the greater volume alluded [ph] to Brazil. Consequently, these three countries were once again Paraguay's main export destination.

Let's now move to slide 6 and discuss the Uruguay market. Uruguay slaughter volume grew by 10% over the third Q of '15 and 5% over the second Q of '16, reflecting the high animal availability particularly in July and August. However, the heavy rains at the end of the quarter impacted cattle price. The average price for cattle in the third quarter was 8% higher than in second Q '16, but 12% lower than in the third Q of '15.

Uruguay's export volume declined to 24% over third Q lower than in the third Q of '15. Uruguay's export volume declined at 24% over third Q '15 accompanied by revenues of $384 million, the highest quarterly revenue figures in the last two years.

This performance was mainly influenced by the reduction in exports from Australia to China. As a result, China was the main destination of Uruguay exports, accounted for 31% of the total, while the United States remained as the second export destination with 80% of the total export mix.

Let's have a look on slide 7, where we will go deeper on Minerva's performance. Minerva continued to be one of the main exporters in the countries where we operate. The Company's performance in Brazil was once again significant with a market share of 22%.

We reached market share of 20% in Paraguay and 16% in Uruguay. This slide also shows Minerva's exports in the last 12 months by region.

Asia is still the highlight of the Company's exports in the quarter. In the last 12 months ended September 2016, the region accounted for 28% of the total exports versus 22% in the same period last year. China's revenue alone grew by more than 60% in the period analyzed. Other countries worth of mention are Malaysia and Vietnam that combined grew by 20% comparing to the 12 months ended September 2015.

In addition to Asia, we also highlight Europe's share, which included some 12% LTM in third quarter '15 to 40% in '16. The Company rerouted (inaudible) to other regions, such as high [ph] quarter cuts whose profitability is higher.

Let's move on to slide 8, which presents Minerva commercial and operational efficiency. I would like to present some of our commercial and operational improvement programs, which have contributed to stabilize the Company results.

On the operational efficiency side, we created programs to standardize process and to minimize the volatility of operating results. These projects are based on exchange of operational experience between units for the moment that are better operational practices identified to the productivity and efficiency index, it is passing on to the units in further reference for operational metrics.

So we are creating the benchmarks including metrics of meritocracy [ph]. The purpose of this program is to rise productivity between our unities [ph], but always giving them autonomy and independence as you go after new techniques. The first program is known as Osso Branco, a project that aims at the more efficient use and debone of the carcass, reducing left [ph] on the bones through a more efficient deboning process. We also developed the Biblia and Atitude Campea programs. These are projects that model -- aim at the standardizing the best practice among the units in order to increase the productivity and efficiency of our operations.

The Atitude Campea program aims to apply key operating management performance indicators to the factory floors and offers an additional premium for the employees of several divisions of our unities [ph], once they rated the number one and the benchmark operation. Biblia and Atitude Campea programs are interconnected because they focus on operational standardization, while Atitude Campea consists on a more efficient implementation of the standardization. After the full implementation of this project, we expect the Company EBITDA to increase by around 10%.

On the commercial efficiency side, we expanded our distribution channels focusing on food service and with modern medium retailers, giving priority to gaining new customers in this segment. That initiative resulted in a significant margin improvement for the operation. We improved our distribution in Paraguay and opened two new distribution centers; one in Colombia and one in Chile, applying the same operational models as that of the distribution centers in Brazil.

We also enhanced the integration between international office and grew in a balanced manner, all this based on risk management instruments, while preserving our GDP, efficiency and commercial flexibility.

We took another step in our commercial strategy this year with the third-party products passing through our trading companies in Brazil, Uruguay and Paraguay and Australia. We believe that the imbalance between global supply and demand gives us the opportunity to become increasingly commercial, focusing on sourcing via trading companies or via our own plants and that development of efficiency and distribution of channels are key for them in our future.

I will now pass on to Edison that he will comment on our financial and operational highlights.

## Edison Ticle de Andrade Melo e Souza Filho {BIO 15435343 <GO>}

Thank you, Fernando, and good morning to all. We will present Minerva's financial and operational highlights on slide 9. Minerva's net revenue reached BRL2.5 billion in third Q '16, 6% up when compared to the second quarter '16. As shown in the upper right chart, EBITDA reached BRL249 million in the third quarter, 4.5% higher than in the second quarter of '16, reaching a margin of 9.8%.

Return on invested capital came to 24.8% at the end of the quarter, 350 basis points higher than in the third quarter of '15, keeping Minerva also again as the benchmark in the sector in ROIC. At the end of the quarter, leverage is 3.2 times, measured by the net debt to EBITDA ratio, a reduction of 1.6 times when compared to 3Q '15.

Let's move to slide 10 to present Company's adjusted net income. Net income was BRL47.4 million in third Q '16. If we adjust income for the BRL4 million non-cash effects of (inaudible) variation and as a result from FX hedge of roughly BRL20 million, the impact for income and social contribution tax as the Company adjusted results was positive by almost BRL31 million.

The (inaudible) in 3Q '16 net income adjusted by the same effect stood at approximately BRL206 million and for 2016 doing the same adjustments, net income reached approximately BRL108 million.

Moving now to slide 11, we will present the operational cash flow. The third quarter operational cash flow was negative by BRL151 million. The impact of working capital consumption reached approximately BRL480 million, influenced by two main lines. The first one is the receivables line, which was negative by BRL93 million due to the extension of payment terms, and the other -- and the second one was the other accounts payable lines with change of BRL314 million in the quarter.

The impact on the second line is related to our credit policy, which is just reminded by the credit risk of each of our customers and each of the countries that we sell our beef. In the third quarter, we focused on sales to regions with lower or better credit risk, such as

Chile, Europe and Brazil and therefore the need for advance payments reduced affecting directly these lines.

In the (inaudible) in September '16, operating cash flow reached BRL296 million due to the effect from adjustments to reconcile net income from operating activities amounting to BRL225 million and working capital consumption worth BRL277 million. In the first nine months of '16, cash flow was positive by BRL86 million as shown in the table in this slide.

Now let's move to slide 12 to talk about free cash flow. Third quarter EBITDA was BRL249 million, while CapEx with cash effects primary allocated to the maintenance of our operations and also expansion of our plants in Colombia totaled BRL54 million, BRL15 million were from this 54 were used to expand our operations in Colombia.

The financial results with cash effects was negative by BRL163 million, while the variation in working capital was negative by almost BRL480 million, as we have already explained in the previous slide. Free cash flow was therefore negative by BRL448 million in the quarter.

In the last 12 months ended in September '16, free cash flow was negative by BRL419 million, as a result of EBITDA of almost 1.1 billion, cash with cash effects of BRL202 million and financial results, including FX hedge expenses of roughly BRL1 billion.

If we take only the interest rates paid and financial revenues, the 1 billion financial results would turn into a 500 million negative result. Working capital consumption LTM was BRL277 million (inaudible) for BRL419 million of free cash flow in the period.

It is important to highlight that we saw in this quarter an opportunity to increase revenues and also to improve the returns of Company's operation. Therefore the usage of our capital in this quarter was an one-off event related to the improvement of Company's operational profitability that can be measured by the return of invested capital that at the end of the quarter was at 25% level and compared to our costs of capital that is much lower than that.

So by investing cash in the operation having such a high return comparing to the marginal cost of capital for the Company, is something that brings and builds lots of value for our shareholders. And the main return what [ph] is the strategy, will be felt in the coming quarters, by the increase of our operation in the domestic market, by the increase of our popularity [ph] in the commercial side, and by the increase of the capacity of the Company to generate value and to increase the returns from its operations.

So we expect that part of these working capital that was invested during this quarter that will return especially in the next three quarters back to the cash of the Company.

The next slide shows the Company's capital structure at the end of September. As you can see our leverage measured by the net debt to EBITDA ratio was 3.2 times at the end of the quarter. The cash positions through that BRL3.2 billion is almost 3 times higher than short term maturities, allowing us to pay all debt that matures in -- through 2026 and leaving us in a really comfortable position, especially in a scenario of tight credit, especially in domestic market in Brazil.

At the end of September '16, approximately 76% of Minerva of debt was exposed through FX variation and after the liability management transactions that we concluded in September, the duration of our debt is longer than six years to-date.

This quarter we also would like to emphasize the improvements that came from our liability management transaction that allowed us to reduce the cost of capital, to reduce the cost of debt, increase the maturity of our debt without losing the focus on the Company's deleveraging process.

So just to remind, in September we exercised the call on 19 bonds that have an annual coupon of more than 10.75%, totaling $55 million. So we called those bonds in September. In September, we re-issued $1 billion in bonds with annual interest rates of 6.5% that matures in 2026 using roughly 70% of the proceeds to buyback our 23 bonds that have an annual coupon of 7.75.

This strategy will bring an annual savings in financial expenses of around $4.3 million in addition to extending the maturity of our debt. We also intend to exercise the call of the bonds maturing 2022 during the first quarter of '17, totaling $106 million of bonds that have annual coupon of 12.25% per year.

Lastly, we will redeem the 2017 bonds that are maturing in January '17, a total amount of $23 million and those bonds have a coupon of 9.5. So all these operations are improving Minerva's debt profile and are reducing the cost of our -- the total cost of our debt. The main effect of the reduction in our cost of capital will be felt during 2017 and in the years ahead. So part of the benefit were not presented in our numbers yet.

On next slide, we will talk about the acquisition, the Frisa acquisition that we announced on Monday. So the slide 14 talks about Frisa. Frisa is one of Brazil's main producers of beef with three industrial plants with a total capacity of 1,700 heads per day. The facilities are located in Colatina in state of Espirito Santo, Nanuque state of Minas Gerais and Teixeira de Freitas, state of Bahia. Three states that are regions where Minerva doesn't have plants today.

They have also one distribution center in the state of Rio de Janeiro in the city of Niteroi. This acquisition when concluded will increase Minerva's daily slaughter capacity to more than 19,000 heads per day.

It's important to highlight that Frisa today is the sixth most important exporter in the country, with plants to certified export to China and to United States as well. The total transaction will be approximately BRL205 million and will be paid in three annual instalments.

We are going to pay 50% of the total in cash at the closing date of the deal and then 10%, 20% and 20%, respectively of the total amount plus the adjusted working capital in one year, two years and three years. The adjustments of working capital based on December 2015 numbers were approximately BRL45 million.

This acquisition is an excellent strategic opportunity and 100% complementary to our operations, representing another step towards the sector's consolidation in Brazil and also in South America. In addition, with the synergies that we estimate to gain with the new plants, we believe that the transaction having mind the figures for 2016, we will have a multiple pre-acquisition EBITDA ratio of 3.9 times and will generate a multiple of less than 2.5 times after the synergy gains.

As we present in the slide, we expect synergy gains in the general and administrative expenses by roughly 120 basis points on EBITDA margin and by 250 basis points of synergies that will be gained in the commercial side, in the mix of products, in the mix of sales, in the productivity and yields of the plant and also improving the capital procurement area of the Company.

Important to highlight that those numbers were estimates based on the achievements that we had when integrating BRF [ph] plants, Mato Grosso plants, a deal that we concluded roughly two years, three years ago. So based on the numbers, based on the improvements, based on the synergies that we are able to attract from that acquisition we are estimating that the final multiple asset synergies of this acquisition will be lower than 2.5 times (inaudible) EBITDA.

I will now turn the floor back to the operator to begin the Q&A session. Thank you very much.

# Questions And Answers

## Operator

Thank you. We will now start the question-and-answer session for investors and analysts. (Operator Instructions) Our first question comes from Lauren Torres with UBS. Please go ahead.

## Q - Lauren Torres {BIO 7323680 <GO>}

Yes, hi everyone. My first question is on Brazil. As we're all hearing so the economic deterioration is still occurring and you actually delivered very impressive domestic sales growth in the quarter. So just curious to get maybe a better clarity and breakdown on what's supporting that better growth, what initiatives do you have to support better growth if this environment continues?

And then just my second question is on currency, as you mentioned that you closed out the quarter without a balance sheet hedge position. How do you think about managing currency in light of stronger currency, how do you protect margins in light of this?

## A - Edison Ticle de Andrade Melo e Souza Filho {BIO 15435343 <GO>}

Well, I will start from the second question Lauren, this is Edison. We have a risk management policy in the Company for more than seven years. We take the decision of locking up the margins based on the three main risk factors for our business which are the capital products, the sales price and the FX. So every day during the business meeting, we evaluate the scenarios, we evaluate the margins, we evaluate the current FX and the FX profile and normally we take decisions to anticipate or not the hedge of our margin. Hedging not only the FX, but hedging sometimes the three refractive [ph] for our business.

What I can tell you is that, at the level of 320, margins are very close to 10%, that's what's represented during the quarter, which are very reasonable margins for the business. So depending on the other factors; the exports, volumes, price of capital, we will continue hedging the margins in order to protect the profitability of the Company.

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

In terms of our performance in the local market, they are linked first. If you look at Minerva's last quarters, the average exports versus local market overall 70% exports, 30% of local market of our revenues. In this quarter, it was included for 40-60, 40% in local market and 60% into the export market. That means that we redirect more products into the local market.

The second part, it was a strategic decision that we had ongoing after more clients. So if you look at the third Q of '15 versus the third Q of '16, we included from something around 30,000 clients that we were serving to 50,000 clients that we served during this quarter of '16. So we have direct -- redirect more product produced by Minerva. We increased the number of clients that we are currently -- that we are serving and we also increased the amount of products produced by third parties that we are distributing. This is according to our strategy of having a one-stop shop strategy and this is creating even more value for the Company.

And how we did that in this environment, Lauren, it was through a more aggressive credit policy that we increased the terms for the financing our clients. So this creates more loyalty from existing clients and allowed us to having some barriers of entrance in a moment [ph] that Brazil is short of credit lines. So the combination of we -- we have [ph] more product into the local market, increasing third-party products, having more clients and having a more aggressive credit policy allowed us to have this performance in the local market.

## Q - Lauren Torres {BIO 7323680 <GO>}

And can I ask just as a follow-up that increase in clients, is there more room for upside here? Did you exhaust these opportunities that you are speaking of or there is more upside still?

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

There is more room for increasing the clients. The Frisa acquisition bonds together with this strategy. Frisa is very strong in Rio de Janeiro, in Espirito Santo, Bahia and some parts of the northeast of Brazil, where Minerva doesn't have such a strong presence. So definitely the acquisition of Frisa not only will add value on having geographical diversification on the production side, but also will increase our distribution channels.

And as you can remember, we have been giving transparency on Minerva's strategy that one of the pillars is to increase distribution channels, is to increase the commercial part and to keep geographical diversification [ph] the basis of production. So Frisa acquisition affects [ph] exactly inside that. We will have more outlets and we will in-hire the clients that we are sure that (inaudible) now.

## Q - Lauren Torres {BIO 7323680 <GO>}

Thank you.

## Operator

Our next question comes from Andrew Muench of HSBC. Please go ahead.

## Q - Andrew Muench {BIO 17481422 <GO>}

Hi, good morning. Thank you for the question. This is related to maybe a little bit more top-down. I see what you are doing here with the recent acquisitions, but maybe if we take a step back and we think about maybe larger or more meaningful growth via M&A. How does that figure into your, say, top line growth prospects as you look a few years out? Thank you.

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

Thanks for the question. The Minerva has always made it very transparent that our M&A activities, they have to create value to the shareholders, but most important they have to have near to or positive deleveraging effect on our balance sheet. So what guides us is the results and how we will keep the policy of keeping deleveraging the Company. So this is the main pillar of our acquisitions of our M&A activities.

But if you talk strategically, what Minerva did, with the Frisa acquisition, and how we go forward. With the Frisa acquisition we perfectly are covering all the areas that are relevant in Brazil. Frisa is a very niche and very focused company in a part of Brazil that we didn't have a presence. So it was important for us.

For the future Minerva keeps [ph] through its strategy to build more outside Brazil in South America, ex-Brazil, that's where we see more potential to grow. Argentina, it's in the radar. We delayed Argentina because of the bad cattle cycle that the country is going through. And we keep very optimistic with Paraguay and with Colombia that is -- that the ramp up of our operation is going very well.

## Operator

(Operator Instructions) Our next question comes from Andrew De Luca of Barclays. Please go ahead.

## Q - Andrew De Luca {BIO 18025129 <GO>}

Hi, Fernando, Edison, thanks for the call. So you just mentioned that you continue to focus on deleveraging the Company. But you also said that profitability in this quarter benefited from the Company's strong liquidity profile. So I guess the question that we have is how should we be thinking about your cash going forward in terms of maintaining it on the balance sheet and reducing gross debt?

I mean, you mentioned that your -- well the 17s come due in the first quarter and you're calling it 22s. But how would we think about gross debt reduction in the medium-term and maybe specifically related to the 23s?

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

Well, it's a good question. If you take a look what we did during 2016 and through the second quarter, we paid down 1 billion, roughly BRL1 billion of debt using our cash. So we reduced gross debt and also the equivalent cash by BRL1 billion.

We have a minimum cash policy of keeping at least three months of purchase of cattle, that is after Frisa acquisition around BRL2.1 billion, BRL2.2 billion.

So after exercising the call on the 22s, after saying that in the 17s that are maturing in January, our cash balance will be a little bit below BRL3 billion. So our aim is to continue reducing gross debt during 2017, respecting [ph] our cash policy.

So you will see probably further BRL500 million to BRL600 million of further reduction on our gross debt and also reduction on our cash. Because I think keeping BRL2.2 billion, BRL2.3 billion is still a good, a comfortable position in terms of liquidity. If you allow to continue taking advantage of the opportunities that we see in the market, and on the other hand allows us to reduce the total financial cost for the Company by reducing the gross debt.

## Q - Andrew De Luca {BIO 18025129 <GO>}

Great. That's (inaudible).

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

Another important -- yeah, another important highlight is regarding the working capital, it was a one-off event. During this quarter, we saw a great opportunity in the markets to improve the profitability of the operation, then to grow further the Company, especially in the domestic market.

However, we expect that the money that we invested in working capital during the third quarter to come back -- to return to the Company in the coming quarters, specifically in the next three quarters. So this money will also come back to our cash balance in the next three quarters.

## Q - Andrew De Luca {BIO 18025129 <GO>}

Great. So that was actually my follow-up question. So we should be seeing reversal in the working capital in the following three quarters?

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

Yes.

## Q - Andrew De Luca {BIO 18025129 <GO>}

Great. Okay. Thank you very much guys.

## Operator

(Operator Instructions) It seems like there is no --

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

I would like to close this conference call by once again thanking Minerva's entire team for their efforts and dedication and for the Company's performance in such a challenging scenario as the third quarter of 2016.

We believe that South America has all the competitive advantage to become the world's most important beef production platform, mainly due to its natural advantages. We therefore expect the region's [ph] share of the international market to grow substantially in the coming years. I'd like to invite you all to participate on Minerva Day, that are going to take place tomorrow, November 10th in New York, at New York Palace with the presence of the former Minister of Finance, Mr. Mailson da Nobrega as the keynote speaker and on November 18th in Sao Paulo at Unique Hotel with the presence of Mr. Alexandre Mendonca de Barros, the advisor for the Agro business from MBAgro and also the management of the Company.

Please find more information in the Company investor relations website. I also thank you for the interest in the Company and we remain at your disposal for any question and clarifications. Thank you very much.

## Operator

Thank you. This concludes today's presentation. You may now disconnect your line at this time. Have a nice day.