Q4 2011 Earnings Call

Company Participants

- Antonio Guedes, General Director
- Elie Horn, CEO
- Jose Florencio Rodrigues Neto, CFO
- Raphael Horn, Planning Director
- Unidentified Speaker, Unknown

Other Participants

- Alain Nicolau, Analyst
- Bianca Cassarino, Analyst
- David Lawant, Analyst
- Eduardo Silveira, Analyst
- Felipe Rodrigues, Analyst
- Guilherme Rocha, Analyst
- Marcello Milman, Analyst
- Marcelo Motta, Analyst
- Rafael Pinho, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for waiting and welcome to the Cyrela Brasil Realty Conference Call. We will discuss the results for the Fourth Quarter in 2011. All participants are connected as listeners only and later on, we will open for Q&A and we will give you the instructions at that time. (Operator Instructions)

This conference call is being recorded and the recording will be available on the Company website at www.cyrela.com.br/ri. This is conference call is being translated simultaneously into English and questions may be asked by participants connected from abroad.

The results released disclosed yesterday on March 26th after the closing of BMF Bovespa can be seen on the Company website, www.cyrela.com.br/ri. This conference call as well as the slides are being translated simultaneously on the Internet and can also be accessed on the Company website.

Before we proceed, we would like to clarify that any statements made during this call regarding the Company's business prospects as well as projections, operational and financial goals concerning its potentials for growth or forecast based on the expectations of the management for the future of Cyrela. These expectations are highly dependent on domestic market conditions on the general economic performance of Brazil and international markets. And are therefore subject to change.

We have with us here today Mr. Elie Horn, CEO, Mr. Antonio Guedes, General Director of Living, Mr. Jose Florencio Rodrigues Neto, Financial Vice President and Director of Investor Relations and Mr. Raphael Horn [ph], Planning Director.

Now I'd like to pass the floor to Mr. Elie Horn. Please, Mr. Horn, you can proceed.

Elie Horn {BIO 1823000 <GO>}

Good morning, ladies and gentlemen. The year of 2011 was favorable in the real estate industry. Although there were macroeconomic uncertainties in the Eurozone, the Brazilian economy was solid and healthy.

With the decrease of the foreign uncertainties, domestic perspectives are good. In Brazil, we had a continuous growth of workers income together with low unemployment and credit availability. Those are the three main drivers of the demand in the real estate market. That gives us confidence in the future of this sector. The demand is solid and sustains real estate prices for 2012. We believe that this trend will continue, however, in a more moderate manner. Prices will maintain high -- will remain high.

In 2012, we're planning on selling BRL6.9 billion to BRL8 billion. We're continuing our efforts to recover the margins and we should reach a growth margin between 30% and 34%. Living will continue to gain relevance in our portfolio, however, in a more gradual manner, reaching a share of 34% to 42% in the launches.

For this year, we'll focus our efforts on sales of inventories. We expect based on the quality that's recognized of our products and the innovation of our projects in the -- and also the name of the brand, which makes a difference when customers are picking real estate.

In that sense, we have specific strategies for the product based on profitability. For the ninth consecutive year, we received an award from the Carta Capital Magazine, which is the most admired companies in Brazil in the category of construction companies and developers, which reiterates the strength of the Cyrela brand.

Our strategic focus is still the sustainable growth with profitability. As the result of the trip, Ubira could not take part in this call. He's with his wife in New York. That's why I'm going to pass the word -- floor to Raphael, our planning director. And he will talk about operating results.

Raphael Horn {BIO 19714328 <GO>}

Good morning. On slide five, we're going to talk about consolidated results of Cyrela, which includes Living. In 4Q'11 we launched 41 projects, totaling 98 projects launched in 2011. Quarter launches totaled BRL3.3 billion, 90% higher than 3Q'11. In the year-to-date volume reached BRL7.9 billion, a growth of 4% year-on-year. With that volume Cyrela reached 104% of guidance low end established for the year.

Average price of units was BRL295,000, 7% year-over-year. The price of the square meter was BRL4,900 20% year-on-year, up year-on-year. Cyrela's participation, 78% in the quarter and 79% year-to-date compared to 82% 3Q '11 and 78% 2010.

Geographically, the regions of Sao Paulo, Rio de Janeiro and south represents 76% of the launches in the year. Living products represent 36% of the total of launches in 4Q '11 and 34% of launches, 2011. It's worth noting that in the Fourth Quarter that Thera Faria Lima launched in Sao Paulo with a PSV of BRL600 million and is currently 85% sold.

In 4Q '11, contracted sales reached BRL2.4 billion including partners, 64% growth compared to the previous period, BRL2 billion referred -- related to Cyrela's participation. In total of 2011, presales totaled BRL6.5 billion, 5% year-on-year -- up year-on-year.

56% of the sales of 4Q '11 related to the sales of the quarter itself. The states of Sao Paulo, Rio de Janeiro and in the south are responsible for 83% of the sales of the year. Living represents 27% total sales of the Company in the Fourth Quarter and 30% year-to-date. The annual PSV was 51%, which we believe to be a good level -- I'm sorry, sales based on supply.

On slide seven, at the end of December, land bank had a sales potential of BRL49 billion. Cyrela's participation in inventory is 86%, which equals BRL43 billion. Approximately 68% of the PSV of Cyrela's landbank are units with prices of up to BRL500,000.

In line with the strategy of strengthening in the regions where the Company has more solid presence, Rio de Janeiro, Sao Paulo and south represent 74% of the Company's landbank. In the Fourth Quarter, Cyrela acquired nine plots in the region south.

Sao Paulo and Rio, totaling a potential PSV of BRL1.5 billion to our landbank. And the land acquired six were from the middle and high-end segment and three from economic and super economic, which is represented by Living. Of the land acquired 65% were through swaps, maintaining landbank with 78% of acquisitions in that site.

On slide eight, in the Fourth Quarter, Cyrela and Living delivered 24 projects representing 6,300 units. In 2011, deliveries totaled 88 projects with a 23,800 units delivered. And of the total, 96% of the units were already sold. Of the total units delivered, Living represents 56%. For 2012, we're planning on delivering between 25,000 and 30,000 units.

Now for the works. The end of 4Q '11 we had 205 ongoing work sites, of which 97 were Living. According to our strategy of becoming more organic of the ongoing works, 81%

are our own works or joint ventures. For the new projects, 95% will be built by our construction company or by our joint ventures. Now, Guedas will talk about Living's results.

Antonio Guedes {BIO 17964221 <GO>}

Good morning, everyone. The next slide, slide number 10 is about launches and sales for Living. In the Fourth Quarter, Living launched 26 developments with a total PSV of BRL1.2 billion, 159% higher than the Third Quarter of 2011.

In 2011, we launched 54 projects with BRL2.7 billion of this PSV, 21% higher than that of 2010, reaching 34% of the volume launched by Cyrela in the year. Of the 16,700 units launched in 2011, 51% are within the Minha Casa, Minha Vida program.

As far as sales, Living has sold BRL801 million in this quarter and BRL2 billion in 2011, representing 30% of the total of Cyrela sales for the year. In 2011, 13,000 units were sold at the average price of BRL150,000. The sales of the Fourth Quarter in 2011 are segmented as follows.

35% of the sales were in the super economic sales within the MCMV program, 53% in the economic segment, between BRL170,000 to BRL250,000 per unit, BRL1,000 per unit. And 12% of the sales are in the medium segment, between BRL250,000 and BRL500,000 per unit.

We highlight two launches in this Fourth Quarter, Bela Vista in Rio de Janeiro and Vega [ph] Park in Campinas, both with 87% of units sold so far.

Slide 11 is about Living's land plots. In the Fourth Quarter of '11, we acquired three new plots with a total potential PSV of approximately BRL400 million in 2,700 units. At the end of December, Living's landbank totaled BRL13.2 billion in potential PSV and approximately 83,400 units with an average price of BRL158,000. 64.3% or 53,600 units are electable for the MCMV program. Geographically, Living is present in the main markets, Sao Paulo, Rio and the south responding to approximately 72%.

Now Jose Florencio will discuss Cyrela's financial results or highlights.

Jose Florencio Rodrigues Neto {BIO 17498585 <GO>}

Good morning. Starting on slide 13, we start with the financial results. The net revenue in the Fourth Quarter of '11 total BRL2 billion, approximately 22% higher than the Third Quarter of 2011 and 43% higher to that and of the same period in the previous year. In 2011, the net revenue totaled BRL6.1 billion, 25% higher than 2010. In the year, Cyrela initiated receiving for 66 developments launched in this period which brought revenues of BRL691.3 million in the Fourth Quarter of '11.

On slide 14, we'll talk about gross profit and gross margin. Gross profit totaled BRL576 million in the quarter, 29% higher than the Third Quarter of '11 and 70% higher than the

Fourth Quarter of 2010. The gross margin increased 0.5percentage point compared to the previous quarter, reaching 29.1%.

Year-to-date, the gross margin was of 28.3%, 3.1 pps lower compared to 2010 due to the recognition of high cost of the projects in the period of 2007 and 2008. For 2012, we expect the growth margin to be around 30% to 34% as we said before, also according to the guidance released in the beginning of the year. The revenue margin to recognize is of 33.8% and the recognized as of 2010 respond to approximately 86% of the gross profit, with a margin of 36%, while the remaining projects of a margin of 24%.

Moving on to slide 15, discussing the EBITDA and the EBITDA margin. The EBITDA for the quarter was of BRL337 million, a margin of 17%, an increase of 2.2 pps compared to the previous quarter and 6 pps compared to the same period of the previous year.

This improvement in the EBITDA compared to the previous quarter is a result of the improvement in gross margin in the maintenance of the G&A expenses levels observed in the previous quarter. In 2011, EBITDA margin was 14%. Adjusted EBITDA margin for the year was of 17.4%.

The Company remains engaged in reducing its costs and expenses. We remain focused in the reduction and rationalization of commercial expenses and optimization of systems and processes leading to more efficiency in the back office, which will certainly be better recognized in 2012.

Slide 16 brings net profit. As a result of the performance presented, net profit in the quarter presented a recovery compared to previous periods. In the Fourth Quarter of '11, the net profit was BRL181 million, 24% higher than that of the Third Quarter and 120% higher than the same period of 2010.

Net margin was of 9.1%, 0.3 pps lower than the Third Quarter and 3.2 pps higher than the same period of the previous year. In 2011, the net profit totaled approximately BRL500 million, a margin of 8.1%, 4.2 pps lower than that obtained in 2010.

Now about accounts receivable, we closed the quarter with BRL12.5 billion in receivables, 13.3% of which are in contracts of delivered units that responds for BRL1.7 billion. Receivables of units under constructions have maintained the same level of the final totals for September of 2011 and the receivables of built units increased in approximately BRL6 billion in the quarter due to the large volume of deliveries.

The average deadline to realize the accounts receivable is of about two years and the cost of constructions to incur the unit sold is approximately BRL5.8 billion. That is 47% of the receivables pertaining to those units.

On slide 18, in 2011, we transferred BRL2.1 billion, an amount 47% higher than the previous year. Of these approximately BRL1 billion or 47% represent units in the medium and high-end segment. And BRL1.2 billion or 53% of the units in the Living segment.

In terms of units transferred in 2011, we had an increase of 10% compared to 2010, highlighting the greater volume of transfers of the middle and high-end segments. In addition to the transfers, we should note the high number of payments.

In 2011, approximately 3,000 units were paid off, representing a volume of BRL720 million. Therefore, the transfers and the paid -- the finalization of payments totaled 17,000 units in 2011. Transfers expected for 2012 are between 15,000 and 18,000 units, three quarters for Living and one quarter for the middle and high-end.

On slide 19, we'll talk about indebtedness level. Net debt at the end of December was of BRL4.6 billion, the same level of the Third Quarter of 2011. Cash position at the end of the last quarter was of BRL1.8 billion, an increase of BRL52 million or 3% compared to the previous quarter. Our net debt has reduced or decreased compared to the previous quarter. We moved from a leverage of 58% to 55% considering the total debt. And minus 1% if we considered only the corporate debt.

This reduction in the net debt for the quarter was a result of the generation of operating cash. Of the total of our debt, 61% was done through the financing of construction with the SFH. The net debt index over the EBITDA is up 3.2 times if we considered total debt. If we disregard the SFH, the Company has net cash of BRL34 million. 70% of the Company's debt is for the long-term. The average duration of the Company's debt is of 2.5 years. The average rate including the debt to this SFH is 106% of the CDI.

Well now, we're going to talk about the cash burn. In the quarter, we had operating cash generation of BRL130 million. If we disregard the repurchase which was BRL54 million in the quarter, in the year, operating cash consumption was BRL7 million, significantly lower than what we showed in 2010, almost breakeven of cash flow.

In this quarter, we have the first securitization through the sale of Cyrela [ph] in the amount of BRL47million. The securitization was for performed receivables and doesn't require us to have a co-obligation and risk of default or prepayment. Given the excellent quality of our receivables, they were widely accepted in this operation. If we disregard securitization, we have a cash generation of BRL82 million in this quarter and a cash burn of BRL55 million in the year.

We accept to present cash generation in 2012. Now I'd also like to talk about some questions that were asked by analysts in regard to two topics. One is other expenses, BRL36 million. And other results of investment of BRL44 million.

The first context is we began some work in 2010 and continued in 2011 to adjust our balance sheet and these are the results of that work. And the other expenses in great parties explained as a result of three topics. One, some matters with plots that we have that we acquired or we invested and that we believe that they were no longer able to be used, either for an environmental issue or because of the difficulties in getting approvals to use the land.

The other explanation has to do with the donations to Cyrela Institute from CBR to the Cyrela Institute. And of another is our legal suits or lawsuits that we lost, civil lawsuits and tax lawsuits and workers lawsuits. And we didn't have contingencies for them. Therefore, they're non-recurring and they went into other expenses.

In regards to other investments, a great part of that has to do with the equalization of CBR and SPE [ph] in projects that have already been concluded in the previous period. An example here would be the SPEs or projects where the dividend flow was different than the percentage that Cyrela had at SPE. So we had to equalize that and we had a loss of investment there.

That was a specific, therefore, it is non-recurring. Okay. Thank you. Now, we're going to go on to the Q&A session.

Questions And Answers

Operator

Ladies and gentlemen. now we will begin the Q&A session. (Operator Instructions) Our first question comes from Mr. David Lawant from Itau BBA.

Q - David Lawant {BIO 16370172 <GO>}

Good morning, everybody. Thank you for the presentation. Actually, I have two questions or doubts about the results. The first one is, if you can talk a bit about the sale of Thera Corporate, which was one of the examples that you gave for the Third Quarter.

And in a real estate funded in the Fourth Quarter, I'd like to understand that impact on CRE [ph] and in cash generation what came from these two transactions. And the second question is the financial result that was impacted by the finance line from partners. So I'd like to understand where that, in fact, comes from. Thank you.

A - Elie Horn {BIO 1823000 <GO>}

I'm going to answer the commercial aspects and Florencio will talk about the accounting aspects. The Thera Berrini was land that we bought many years ago and it was split into three development, a residential one, the Salitos [ph] the office one, small office and the corporate.

Salitos was sold to the public and the residential was also sold and corporate was from both. In the middle of the way, we decided to put that into a real estate fund. CCP gave up on the fund and didn't want to sell anymore and Cyrela continued into the fund to sell their part. At a certain CCP decided instead of selling to buy our parts. So we split half to the real estate fund which was sold 100% in one week and part was sold to CCP cash and the amount is the same that it's told to the real estate fund.

Now the accounting part, Mr. Florencio can answer that.

A - Jose Florencio Rodrigues Neto {BIO 17498585 <GO>}

Well in regards to the impact to cash flow, the total of this operation was BRL150 million including the funds and the participation of CCP. Well said that, I'd like to put that into context.

So the impact, in fact, was very high for the quarter. But I think the message learned here is in the year-to-date. Since the development, we started selling for this development at the end of 2010. The total impacted the year, is what is important to us. And we came out of a cash burn of 1,124 [ph] to one which is minus 7 [ph]. So that's practically cash neutral.

In regards to your question about the income from partners, well, there's a slight mistake. That's not profit to some partners. That's just segment from financing no partners. And it has to do with monetary and foreign currency and currency variation. So the release has the wrong wording. Sorry about that. Thank you.

Operator

Our next question is from Guilherme Rocha from Credit Suisse.

Q - Guilherme Rocha {BIO 17303509 <GO>}

Good morning. My question is about the revenues to recognize. You have on the release, page 31, there's a detailed table. I wanted to understand the financial evolution of some projects done in the Fourth Quarter. What exactly represented land, what was the construction itself, because some of the percentage seemed high? I know that some lines are highly valued. But there's an increase there of 79% for the quarter. So the revenue for the quarter. The other one is 50%. There are some examples that Thera Faria Lima 50%. So I just wanted to understand the rationale behind it, what were the criteria used.

A - Unidentified Speaker

Rocha. Good morning. The answer, I'm not going to get into so many details, that's not the idea here. But our standard answer is that there's a large recognition according to the plot of land.

So since the project sold very well, you start already recognizing everything that was invested in land. That's the explanation. In terms of recognitions for the quarter, we had a strong increase on the Thera Faria Lima due to that and Vega and other projects as well. But the quick answer is that.

Q - Guilherme Rocha {BIO 17303509 <GO>}

So if I can ask a second question considering your gross margin and the quarter-on-quarter. If we were to exclude the capitalized interest, we'll see a decrease in margin. So I'd like to understand a little bit the reason behind this decrease if there was something or if we're even looking at it the right way.

A - Unidentified Speaker

Yes. You're looking at the right way. But I think the focus here is the gross margin itself and it has increased. The fact of excluding the capitalized interest, we had a decrease due to the number of projects delivered. So the expenses entered into financial expenses. That's the reason. But given the right focus. So the positive scenario, the gross margin has actually increased.

Q - Guilherme Rocha {BIO 17303509 <GO>}

Excellent. Thank you.

A - Unidentified Speaker

Guilherme, an answer? About the way of Ipanema [ph], it's been in the Company for more than 10 years. And the profit margin was relatively high because in 10 years the land has diluted a lot. That's why the volume was so high. We sold at approximately BRL40,000 per square meter in one month without advertising.

Operator

Our next question is from Mr. Rafael Pinho from Morgan Stanley.

Q - Rafael Pinho {BIO 15321539 <GO>}

Good morning, gentlemen. We've had discussed Thera a little. But from the math that we did based on the release, when the standard that the Thera project responded to a large portion of the revenue. So it's substantial. But I'd like to understand if you could clarify about the gross margin of this project compared to the average for the quarter. That would be interesting. In the remark, he was talking about the profits of financing to partners.

In the Third Quarter, the charge of the same names. But regardless of the main news, I think the other question that didn't get into this. But the variation quarter-to-quarter was strong. You talked about currency exchange variations. But this line registered BRL87 million in the year. But that quarter in particular was very strong.

So if you could get into more detail about this variation, we would like to know that.

A - Unidentified Speaker

Rafael, the margin, you're asking about the margin of Thera Faria Lima, right?

Q - Rafael Pinho {BIO 15321539 <GO>}

Yes.

A - Unidentified Speaker

The margin for Thera Faria Lima, I don't have it individually. But it's in the block. What I can say is that the projects that I entered in the aggregate total, these projects on this new season are coming with a gross margin higher than 37%, much higher. And Thera is certainly contributing to this margin for the project, the new project. About this specific question you asked, I'm going to have to get back to you. I don't have the answer here ready to give you.

Q - Rafael Pinho {BIO 15321539 <GO>}

Okay. Thank you. Have a good day.

Operator

Our next question is from Mr. Marcello Milman from BTG Pactual.

Q - Marcello Milman {BIO 7252528 <GO>}

Good morning, everyone. My question is about the landbank. The PSV has a large increase from BRL45 billion to BRL48 billion and in the balance sheet, the cost of land has decreased. So there's an -- the historical position cost is much lower. And when we look at the balance sheet, we can see that it has greatly contributed to improved cash flow.

So how are the acquisition of land in the quarter through swaps, through cash and how is the average price evolving? The variation seems very substantial. Your stocks in the landbank has decreased BRL500 million.

A - Elie Horn {BIO 1823000 <GO>}

Part of the explanation has to do with what I was saying before about some investments write-off. In the other part, in terms of investments for the quarter was -- that they were very much in line with the average of previous quarters, approximately BRL80 million of cash investment. So basically, that's the explanation.

Operator

Our next question is from Mr. Felipe Rodrigues from HSBC.

Q - Felipe Rodrigues {BIO 16350661 <GO>}

Good morning, everybody. Just a quick question, Florencio mentioned in the part about streamlining systems, streamlining back office that we're going to start to see some news on that front in 2012. So what do you think can be improved in G&A, in percentage of sales in -- or income? And based on that, I heard that NBG is helping you out in the works. Can you expect some improvements in gross margin in that sense? So what is in that front that NBG is working on with your works?

A - Elie Horn {BIO 1823000 <GO>}

Well the NBG project for the works, it started -- Felipe, it started back in 2010 which was to map everything that was done in all the regional, areas. So compile all the best practice and level them out among all the business units. So based on that, we reached many different types of controls and we created one unique system for works control for

Cyrela, which was, in fact, concluded at the end of last year. So that was -- that represents huge gains for the Company.

The system is called Phoenix and it's absolutely integrated with SAP. And that gives us clarity about the results of the works, better control of the work sites and even integrated with the purchases.

On the back office part, in 2011, we did a lot. And I'd like to highlight the stabilization of the consumer -- customer service aspects and we're also improving accounting aspects. We have a new team. We created our back office area by centralizing many prophecies and putting it in to one single region.

And we have -- still haven't reaped all the fruits from these efforts. We hope to reap them in 2012. In regards to specific reductions, I prefer -- I'd rather not give you any specific figure. But instead say that we expect improvements. And we didn't -- not talking about a bit up [ph] but we're talking to you and -- we talked to you individually about those figures but our expectations of it, in the margins for 2012.

Q - Felipe Rodrigues {BIO 16350661 <GO>}

Okay. Thank you.

Operator

Our next question is from Ms. Bianca Cassarino from Goldman Sachs.

Q - Bianca Cassarino {BIO 16399861 <GO>}

Good morning, everybody. I'd like to ask you how the launches and sales are going for the First Quarter.

A - Antonio Guedes {BIO 17964221 <GO>}

Hi, Bianca. This is Guedas. The launches for the First Quarter now, we are focused mainly on inventory sales, especially because we had many launches at the end of the year in November and December. And our focus in this quarter is to sell the inventory.

Sales were good. They're continuing to be good. We see -- customers are more selective but their response to our product is very good. In regards to the launches right now for the Second Quarter, we should speed up some launches. But that is in line with our schedules.

Q - Bianca Cassarino {BIO 16399861 <GO>}

Thank you.

Operator

Our next question is from Mr. Eduardo Silveira from Banco Espirito Santo.

Q - Eduardo Silveira {BIO 16201252 <GO>}

Good morning, everybody. I have two questions. The first one is following up on David's question about other expenses. I'd like to hear about the figures, how much are the lawsuits that you have with legal suits, with lawsuits?

And the other is the inventory of concluded units, 366 to 700. So that's 12% of the total. So what's the Company's strategy to sell the inventory that had been concluded?

A - Antonio Guedes {BIO 17964221 <GO>}

Well in regards to the lawsuits, the legal -- the labor lawsuits, they're specific ones. We made some agreements and the overall total is in fact relevant. However, we did book them all into the Fourth Quarter. And the difference is because we didn't have any provisions throughout the year.

So the entire amount was booked into that quarter. Not just the labor ones but also the civil and tax lawsuits. We include legal fees and also the amounts that were the settlement amounts. And in regards to the inventory, I'm going to pass the floor to Mr. Elie.

A - Elie Horn {BIO 1823000 <GO>}

For inventory, our policy does not give major discounts or small discounts. It's just like for the live focus on the sale and brokers, how they're working in the market as we've always done. We don't see many problems. The market is buying. And we're working together with the brokers who are our main media to sell.

A - Antonio Guedes {BIO 17964221 <GO>}

Eduardo, just to add to what Mr. Elie said, just an example. We just had this huge sale in billing [ph], a three-day sale and for leasing [ph] and we did very good. We sold 120 units. So it's a marketing campaign. It's bringing in the customers instead of working with discount lines.

And this increase in inventory happened because we had a lot of finished units and that's why the inventory was high. But our focus as mentioned before in the First Quarter is, this is our focus, of selling inventory. But working on campaigns, working with the brokers instead of giving discounts or affecting our margin.

A - Raphael Horn {BIO 19714328 <GO>}

Well this is Raphael speaking. In about finished units, we sold over BRL200 million in finished inventory. And in the year, we sold BRL650 million. And from the third to the Fourth Quarter, the number dropped from BRL800 million to BRL700 million of inventory in the Fourth Quarter, 2011. So that -- those numbers are dropping. And as they mentioned, our focus is selling inventory without lowering price. Focusing on marketing, we're going to reduce that number more and more.

Q - Eduardo Silveira {BIO 16201252 <GO>}

Okay. Thank you. Good morning.

A - Unidentified Speaker

Before we go on to the next one, Rocha. I'd like to answer your question. I'm sorry it took so long. But to add what was already said in terms of monetary variation and mutuals, we had some in fact regulations and created additional mutuals. And these mutuals provided income to CBR. So that explains the variation.

Q - Eduardo Silveira {BIO 16201252 <GO>}

Thank you.

Operator

Our next question is from Mr. Marcelo Motta from JPMorgan.

Q - Marcelo Motta {BIO 16438725 <GO>}

Good morning. I have two questions about the buyback. I'd like you to talk a little bit about the plan for the actions. If it's to cancel resell, what you have in mind and about the cash flow expectation. You're expecting a positive cash flow. But could there be a range or a value or something that you can tell us if it's going to be on land acquisitions, launches so that we can have a better idea?

A - Elie Horn {BIO 1823000 <GO>}

Marcelo, we're not providing cash guidance. You've asked us a few times and I repeat what I've said. For many of the guidance's, this one we don't disclose. But what I can tell you is that we will generate cash in 2012. Our expectation is to generate cash in 2012 even before securitization. That's what I can say.

About the question of what to do with the action, parts will be destined to -- a small part being -- of stock options. The remaining amounts, we're still debating internally in the Company. One of the options is to cancel them, in fact.

Q - Marcelo Motta {BIO 16438725 <GO>}

Excellent. Thank you.

Operator

Our next question is from Mr. Rafael Pinho from Morgan Stanley.

Q - Rafael Pinho {BIO 15321539 <GO>}

I'd like to go back to what you were saying before the Q&A about the other -- the line -- others. If I understood, part of that has to do with all the adjustments for budgets and the restructuring of the Company throughout the year.

I had the impression based on previous calls and talks that this adjustment had already been done before the Fourth Quarter. So I was thinking that there were more adjustments in the Fourth Quarter. Will there be more adjustments up ahead? Are they finalized? If you can tell us how this process is and how it's been panning out.

A - Elie Horn {BIO 1823000 <GO>}

Rafael, just to separate things, what I said has nothing to do with cost adjustment. The cost adjustment is following its course as the works are finalized. That has nothing to do with this. When I was talking about equalization -- I'll give you an example. It's accounting adjustments. We had cases where the agreement with our partner was an agreement based on percentage of dividends, of cash flow and our percentage in this SPE was not according to this dividend flow.

We had to adjust this percentage and reduce it, noting that these are projects that have finalized the -- and there are projects where Cyrela is a minor holder. So that has nothing to do with cost adjustment. But with share participation based on the agreement of the capital flows to the partners are now participating on SPE.

Q - Rafael Pinho {BIO 15321539 <GO>}

Okay. So the issue, I just can't understand because I understood that there was a little bit of a reassessment of SPE in this value. The dividend part is very clear with you answer. But this reassessment of the SPE is something that's not clear to me. Is it a post project conclusion adjustment?

A - Elie Horn {BIO 1823000 <GO>}

Yes. Maybe I wasn't clear. Most of this adjustment is what I was telling you about. Of this balancing and equalizing what was provided for in the contract with our partner based on dividend flow versus our share in the SPE itself. So that explains the majority of these recognitions in the Fourth Quarter. This is not non-recurrent, there's no value. It may occur occasionally. But we believe that most of it has already been settled.

Q - Rafael Pinho {BIO 15321539 <GO>}

Okay. It's clear. Thank you. Have a good day.

Operator

Our next question is from Mr. Luiz Mauricio Garcia from Bradesco BBI. Our next question is from Mr. Guilherme Rocha, Credit Suisse.

Q - Guilherme Rocha {BIO 17303509 <GO>}

Good morning. If you allow me to ask for further clarification, in the prospect of the Thera Corporate project, there's an obligation there guaranteeing a profitability of 9%. I wanted to understand how this is actually going to work, this obligation, if it's included in your balance sheets, if there's any explanation notes that we weren't able to find to understand the impact of this in the position of Thera Corporate. I have a next question later.

A - Elie Horn {BIO 1823000 <GO>}

Well Rocha, this wasn't booked in the first -- in the Fourth Quarter because it has not yet happened. In fact, it's a guarantee of profitability throughout the works, the construction. We are discussing with audits of how to book this, we have two options.

Basically, one, this gives a monthly percentage as if it were a rental in practice. So we have two options. One is to consider it a cost, the other is to consider it a financial expense. This will be discussed with the auditors. My personal vision Cyrela's view is that this is a financial expense. But this is going to have to be fully understood and agreed with the auditors.

Q - Guilherme Rocha {BIO 17303509 <GO>}

Excellent.

A - Unidentified Speaker

Just one minute, Guilherme. The price of the guarantee is included in the total sales plan. So the value -- the net sales value is the sales value minus this guaranteed rental. So it's the same. This was something that was put together to guarantee the liquidity and it works perfectly well. So for us, it makes no difference.

That's why Rocha we considered this a financial expense since we believe that this is an expense of a funding or restructuring.

Q - Guilherme Rocha {BIO 17303509 <GO>}

Okay.

A - Unidentified Speaker

So this 9% would be over the PSV, theBRL136 million of the fund as it incurs because it's a monthly -- it's basically a fixed monthly value but over the value of the sale. But note that this has had no impact in the result of 2011. This is going to start impacting the result throughout 2012.

Q - Guilherme Rocha {BIO 17303509 <GO>}

So about the transfers then on the slides that you showed that you transferred to BRL2.126 billion [ph], the term transfer means that this amount came into your cash or a percentage of this?

A - Unidentified Speaker

That's a good question that the transfer is transferred, it doesn't enter our cash. Usually, there's a delay. I don't have the actual number that entered the cash. I have it somewhere but it's not ready. But the number that we're talking about is at the time of signing the transfer, there's a delay between signing the transfer and receiving the cash effectively.

So BRL2.100 billion transferred, approximately BRL300 million are blocked and the remaining probably entered being in the debt with the SFH. Most of it has been paid and 15% will be on the upcoming month. That's an important point for you to have in mind.

The transfers, when the bank transfers -- or the bank that transfers, this is the bank that has financed us in the project. They take it off, the total debt. So then we have transfer volumes that include what was subtracted, what they received and what is still cash flow and transit. So as Mr. Elie said, we have just over BRL300 million transfers -- in transfers that are in transit at this time to be received.

Q - Guilherme Rocha {BIO 17303509 <GO>}

How about the paying off of BRL750 million that you had? Was there a campaign for that or was that usual? Was there a special policy or something for that? Or is that just a normal course of business?

A - Elie Horn {BIO 1823000 <GO>}

That's our day-to-day.

Q - Guilherme Rocha {BIO 17303509 <GO>}

Excellent, Mr. Elie. Thank you.

Operator

Our next question comes from Mr. Alain Nicolau from Bradesco.

Q - Alain Nicolau {BIO 17913545 <GO>}

Good morning. I just wanted to go back to the perception of the First Quarter. How do you see mixed between the medium, high-end and living? Is it tending more to one way, the other way? How do you receive the market?

A - Antonio Guedes {BIO 17964221 <GO>}

Hi. This is Guedas. What we've received is that it remains as it was last year. The demand is great for the Living products but the regions where we're working at have market enough for both segments and it should remain in line to what we've been doing. We don't see any relevant change in the market. It remains the same. We don't feel any difference.

Q - Alain Nicolau {BIO 17913545 <GO>}

Okay. Thank you.

Operator

Excuse me. (Operator Instructions) Excuse me, since we have no more questions, I'd like to pass the floor to Mr. Elie Horn for his conclusion.

A - Elie Horn {BIO 1823000 <GO>}

To close this conference call, I'd like to mention that we are aware of the market that is still solid. And we believe that our strong brand and good reputation are very important. We'd like to reiterate our trust in the Brazilian real estate sector and we've been actively working to reduce our cost and expenses.

A lot has been done but unfortunately this work never ends. We'd like -- we're still going to focus growing in a sustainable and a profitable manner. Lastly, I would like to thank our employees, partners, customers for the trust they have in the Company. Thank you very much.

Operator

The Cyrela conference call is closed. Thank you for your participation and have a good day. Thank you.