

Q2 2021 Earnings Call

Company Participants

- Gustavo Marder da Rosa, Executive Investor Relations Manager
- Joao Alberto Fernandez de Abreu, Chief Executive Officer
- Ricardo Lewin, Chief Financial Officer and Investor Relations Officer
- Unidentified Speaker

Other Participants

- Alfonso Salazar, Analyst
- Andre Hachem, Analyst
- Bruno Amorim, Analyst
- Lucas Barbosa, Analyst
- Pedro Bruno, Analyst
- Regis Carodoso, Analyst
- Unidentified Participant
- Victor Mizusaki, Analyst

Presentation

Operator

Good afternoon, everyone, and thank you for waiting. Welcome to Rumo Conference Call to discuss the Second Quarter of 2021 Results. Today with us we have Mr. Ricardo Lewin, CFO and IRO; and Mr. Gustavo Rosa, Investor Relations and Treasury Director. We would like to inform that during the company's presentation, all participants will be only able to listen to the call. We will then begin the Q&A session and further instructions will be given. (Operator Instructions)

We also would like to inform that the conference call will be presented in English by the Company's management and there will be simultaneous translation to Portuguese. This event is also being broadcast simultaneously on the Internet via webcast.

Before proceeding, we would like to mention that forward statements are based on the briefs and assumptions of Rumo's management. All information currently available to the company. They involve risks and uncertainties, because they relate to future events and therefore depend on circumstances that may or may not occur. Investors and analysts should understand the conditions related to macroeconomic conditions, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

I will now turn the conference over to Mr. Ricardo Lewin. Please, Mr. Lewin, you may proceed.

Ricardo Lewin {BIO 20342706 <GO>}

Good afternoon, everyone and thank you all for joining us in this earnings conference call for the second quarter of 2021. I would like to start by providing some highlights on ESG initiatives. Recently, we issued our sustainability report, bringing once again advances in our ESG agenda.

We would like to highlight the evolution on diversity by advising that Rumo's Board of Directors reached 30%, of women in each current structure. Furthermore we included ESG indexes in the variable compensation of all employees. We also made significant progress in our public commitments and brought an even more ambitious goal to reduce CO2 emissions by 2030. We invite everyone to read the report and know even more about our progress in ESG results.

On the next chart, we are going to go through the main highlights of this quarter. Rumo presented a good performance in all main KPIs in the second quarter. Consolidated volumes grew 9.1%. A better market outlook and higher fuel prices allowed a huge expansion of 13.8%. EBITDA reached almost BRL1.2 billion approximately 32% growth, when excluding the non-recurring effects of Paulista Network renewal. Therefore, net income in the second quarter of 2021 was BRL314 million, growth of more than 200%, when excluding effects of Paulista Network renewal.

In May, we had the first test in Rio Verde terminal, and in July, the terminal was inaugurated increasing even more our presence in Goias. Also worth mentioning the public call made in July, by the Government of Mato Grosso to enable the railway expansion from Rondonopolis terminal to Lucas do Rio Verde and Cuiaba. The deadline for choosing the winner is 45 days after the publication of the notes.

On the next chart we will present the operational results. Our operational results in the second quarter presented growth in all the operations and segments, highlighting the Container segment which increased 32.8%. Looking to the assortment of cargo, the highlight goes to the recovery of fuels volumes and containers, which had been previously affected by the pandemic. Pulp and Paper segment continuous present in consistent growth. In Commodity segment the highlight was sugar which grew 33%, while grains grew 5.5%.

On the next chart, we will see results by operations. The EBITDA expansion of 32% excluding the non-recurring effects of Paulista Network's renewal was a reflection of gains in all operations especially South Operation. Volume growth came with an expressive huge gain which boosted net revenues. Fixed cost dilution also contributed to margin gain.

On the next chart, we will see highlights of consolidated financial results. When comparing the financial results it's necessary to remember that in the second quarter of

2020 we had a recognition of BRL131 million as non-recurring gains, regarding the Paulista Network renewal affecting the comparability. Anyway the financial result came worst than the second quarter 2020 due to increases in CI and inflation indexes.

With better operational performance, the net income reached BRL314 million a significant improvement in relation to the previous year when excluding the non-recurring effects of the Paulista Network renewal.

On the next chart, we will see more details of that. We have closed the second quarter with 2.1 times net debt EBITDA. As I mentioned in the previous call, the prepayment of the bond 2024 has improved the debt amortization schedule with a lower concentration of short-term debt, allowing the execution of our long-term investment plan.

On the next chart we have the market outlook for soybean and corn. Regarding the soybean market in 2021 according to Agroconsult projections Brazil should have record harvest of 137 million tons, an increase of 11 million tons compared to 2020. Of this total 84 million should be exported, 2 million tons more than in 2020.

In the first half of 2021, soybean exports were down 1.2 million tons compared to the same period in 2020, due to the delay in the soybean crop, suggesting that there is still an opportunity for an increase of 3 million tons in exports in the second half of the year.

On the next chart, we will corn outlook. According to Agroconsult, we had a new update on the corn scenario showing an additional decrease of 13 million tons in Brazilian production and a drop of 11 million tons in exports volume when comparing to previous forecast. This crop failure is more severe in the states of Mato Grosso do Sul, Parana, Goias, although not so severe in Mato Grosso, the failure may result in lower exports as part of these state production should be used to supply the domestic market in northern states.

The higher uncertainty of the corn market make it difficult to project corn volume for the entire second half, reason why, Rumo decided to discontinue its guidance for 2021.

On the next chart we will talk about the scenario for 2022. For the next year we remain confident and we expect a huge growth in exports because that we are maintaining the long-term guidance for 2025. Farmers profitability skyrocketed in last years increasing 12 times for corn and 3 times for soybean. Therefore from a supply standpoint we should continue to see crops improvement over the next years. Once farmers could expand investments in productivity and their expansion. On the demand side, Chinese recovering fast from the African swine flu and the consumption of soybeans is going up. At the same time Chinese becoming a relevant importer of Corn which increases significantly the global demand for grains.

Of that, once that our investment thesis is stronger than ever and we should continue to pursue the development of Brazilian logistics infrastructure. On the next chart. I would like to comment on the Port of Santos. In previous calls, we have been highlighting improvement in transport infrastructure. This time I would like to highlight that we have

completed the third line of Paqueta and export corridor. The Macuco expansion is expected to be delivered in September 21, thereby we are going to have a much better and more efficient port.

On the next chart I will comment on Central Network. As we had already disclosed in July we officially inaugurated Rio Verde terminal thereby we have two grains terminal operating Goias.

The second quarter 2021, results show a strong performance evolution both in terms of volume and in margins. Thus Rumo is positioned in a very competitive place in the grain market what should generate the relevant increases in volumes over the next few years.

Here I conclude my presentation, and we can go now to Q&A session. Thank you.

Questions And Answers

Operator

(Operator Instructions) Our first questions come from Andre Hachem with Itau. Please Andre, go ahead.

Q - Andre Hachem {BIO 20209966 <GO>}

Hello, Rica and hello Gustavo, thank you for taking my questions. My first question is related to the extension of Lucas right. Basically, I mean we'd like to understand a little bit more -- the judicial safety you have been going through with a state-owned model instead of the federal model? Still on this question I'd like to better understand the BRL12 billion CapEx, which was described within the project. I understand there is a new patch over the new -- railway which would go to Cuiaba. I'd also like to better understand a little bit about these volumes. Will be the potential demand there? So that's my first question. I'll make my second question after this one.

A - Joao Alberto Fernandez de Abreu {BIO 20362451 <GO>}

Hi, Hachem good to have you in the call, and thank you for the question. Just to put everybody in the same page just say we have limited things that we can say about the process. Okay, there is still no winner of this process, but Mato Grosso Government did an announcement, a few weeks ago requiring potential investors to apply for the authorization process to connect that they're holding off -- terminal in Mato Grosso, to Lucas do Rio Verde and Cuiaba.

What we can say by now Hachem is that people are already applied. We delivered very advanced the studies regarding this. You all know that we have been studying this for long time. So we are well advanced engineering project, environmental project. So we've already provided everything for the local government.

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And we now from the day of the announcement, we have 45 days to have the results of the requirement. So this is the first purchasing. I would like to reinforce before going to your point, that you guys know this is a very important project, not only for Rumo. This is a very important project for the producers from Mato Grosso. This is a very important project for the State of Mato Grosso and this is a very important project for Brazil.

And for obviously for us is maybe the most important project in the pipeline -- it's a project, as I already said, we have a very high return. We are talking about double-digit Rio terms project. Having said that Hachem regarding the CapEx, I think the value provided in the announcement is a reference regarding the government we are studying these. There is feeds that we can save. You know we have a -- a lot in these last 6 years since nearing methodologies. So this is more a reference from the local government. Once we have the winner of this announcement or these requirement of the government and if we are the one chosen we will provide details on CapEx.

Regarding the stretch to Cuiaba. Obviously it's necessary to see that the high return comes out from Cuiaba but comes from Lucas do Rio Verde. But it's important, and I always repeating my meeting Hachem that there are two returns when you build a new railway. And this is very clear in (inaudible) for example. First thing is that you provide a better service for the people that is there.

So if there is a farmer already in the way of the railway you improve the quality of service, you improve the costs, you bring efficiency. And the second thing, and I always refer here to Matteo Roberto and you read his books. In that you bring development where the railway reaches. So it can have, and these, you can see in Central Network. People calling us understanding what are the cost of railway and investing more and where the railway is closed. And this will happen in Cuiaba. It's a very interesting stage for containers. So general cargo, you can provide there. And there is enough area in multiples in the west of Mato Grosso to support the return of this stretch.

But obviously the bulk of the returns of the project are indeed the North of the state in direction of Lucas do Rio Verde. Hachem I don't know if I, there is still something to be answered?

Q - Andre Hachem {BIO 20209966 <GO>}

No, no, that was very clear. And if I could ask a second question on Central Network port. You guys have made, I mean there is a lot of -- there's already been about going out within the port, there seems to be a lot of new capacity opening up. And when we think about the Central Network it is diverting cargo that was going to other regions of the port into the main part of the port. Right.

So my question is do you see more opportunities to consolidate other players terminals or were to make more agreements to use other players spare capacity. I think you used to securely of (inaudible) and maybe by the capacity (inaudible).

A - Ricardo Lewin {BIO 20342706 <GO>}

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Hachem, can I help you to just make the question again. It's not very clear for me.

Q - Andre Hachem {BIO 20209966 <GO>}

Absolutely.

A - Ricardo Lewin {BIO 20342706 <GO>}

A bit marginal yields Thank you.

Q - Andre Hachem {BIO 20209966 <GO>}

So when we think about the Port of Santos, you guys have already done a lot of things to expand -- just mentioned the Macuco, Cuiaba. When we look into the future mean we still see a couple of different areas of the port, which you're going to become underutilized. Right so when we look into (inaudible) when we look into the capacity owned by (inaudible) there seems to be more opportunity consolidate or to do more agreements with other players? How do you see this going forward? How do you see the opportunities to consider doing more expenses within Santos?

A - Ricardo Lewin {BIO 20342706 <GO>}

Yeah, you are right Hachem, like we and not only Macuco, I said in the last call that we would be delivering a completely different port in the second quarter and we did it. I have been in (inaudible) last week and you can see the improvement of efficiency brought not only the Macuco that is still in the finishing the project, but the third line of Paqueta and (inaudible).

So there is a huge development. I have -- I had also went T39, T39 that Caramuru and ourselves together we viewed another 4 million tons of capacity. It's a great first-class terminal in my opinion. We are from now on building additional static capacity. Okay, that we could be even more efficient of T39 but you are right, we had the first fertilizer, the loading of (inaudible) terminal.

Okay. So, we do have an agreement with (inaudible) that's good for both parties and there is plenty of room in the left margin a lot, mainly in the left margin. In the right margin we will have next year STS-11, there is the opportunity all the (inaudible) is left margin dependent[ph], that we are still working with them defending the project so there's plenty of opportunities for building new capacity, Greenfield, Brownfield and improving the partnership that we have both with -- we've for example Caramuru and (inaudible).

So you know that's very interesting for railway had a different opportunities to load grains and unloading fertilizers and we are working very hard on that.

Q - Andre Hachem {BIO 20209966 <GO>}

Perfect. Very clear. Thank you for the answers.

A - Ricardo Lewin {BIO 20342706 <GO>}

Thank you, Hachem.

Operator

Our next question comes from Pedro Bruno with XP Investments. Mr. Pedro, you may proceed. Pedro Bruno your line is open.

Q - Alfonso Salazar {BIO 18358082 <GO>}

Can you hear me now?

A - Ricardo Lewin {BIO 20342706 <GO>}

Yes. Perfectly, Pedro.

Q - Pedro Bruno {BIO 19082978 <GO>}

Okay, thank you. Thanks for the question. First of all, congratulations on the transparency of discontinuing the short-term guidance given the high level of uncertainty in the near term. I have a question regarding CapEx. We saw a high level of investment on expansion in the quarter. You disclosed in the release that it relates mostly to the Malha Central, the Central network about BRL300 million if not mistaken. If you could give us a bit more detail on the evolution of this CapEx going forward, meaning Malha, the Central Network until when this high concentration will go? And overall in terms of the long-term guidance which you have kept unchanged over BRL60.5 to BRL18.5 billion. If you can give us a bit more clarity on the distribution on time of the CapEx that would be great. Thank you very much.

A - Gustavo Marder da Rosa {BIO 18811470 <GO>}

Hi, Pedro. Thanks for your question. Let me start with this year. So you're right, there was a concentration of the investment in the first half. Mainly to afford the operations of Central Network. We are not expecting as much CapEx in the second half as we did in the first half. This is pretty much the seasonality that we came up with the plan for this year. So we can say by now that the CapEx will be pretty much inside of the previous range. So we are not expecting any additional CapEx for this year.

With regards to the upcoming years, you know, we might have to do to adjust the CapEx throughout the years. It depends a lot on how strong next year volumes will be. So as Ricardo just mentioned, we are very excited about 2022. We are expecting huge volumes for grains, and also, we believe that Central Network is going to continue to grow fast. And therefore it's going to require some additional investments, pretty much on rolling stock to support them to afford the additional volumes.

But, when it comes to infrastructure then the investments that will be much more spreads. So it will be more steady over time, because it has to consider our ability to execute on the CapEx. So the only thing that might change from one year to other is how much volumes -- more volumes we are expecting to have, but I would say that on average the

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CapEx should be close every year, maybe a bit more next year due to the ramp up in the volumes in the Central Network.

A - Unidentified Speaker

If I can just complement your answer here. Bruno Pedro, Bruno Pedro actually -- it's important say sometimes I repeat, but maybe these are things that in (inaudible) I don't see. But every single year we are improving. We are investing a lot and we are improving. Our knowledge in the investment.

So, and also our knowledge in the operations. I always say that we are still a baby. We are a very recent company and every single year when we learn more about our operation, we are able to improve our cycle. So we do have a lot of focus in the improvement of our cycle that at the end of the day that means improvement, When I say improvement in this sense is a reduction of CapEx mainly in ruling stock.

So we have been very disciplined in terms of CapEx and every time we improve our operations we see a reduction of overall CapEx that we first saw. We will see this year still a reduction compared to what we thought and we expect to see also in the next year, due to improvement of operations.

Q - Pedro Bruno {BIO 19082978 <GO>}

Perfect. Thank you very much.

A - Joao Alberto Fernandez de Abreu {BIO 20362451 <GO>}

Thank you, Pedro.

Operator

Our next question comes from Victor Mizusaki with Bradesco BBI. Please, Victor go ahead.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Hi, I have two questions here. The first one is a follow-up on port capacity. Rumo, I mean as a said the company concluded the infrastructure projects at the Port of Santos and based on your presentation the company will conclude another two in the second half. So I don't know if you can give any kind of color on capacity grades? So maybe even if you cannot precise the number, but if you can say you are talking about here, maybe 10%, 15%, of capacity increase and how important it is capacity expansion for (inaudible).

And the second question is related to the second half, even though which are hard to predict volumes for especially in for the first quarter. I don't know, if you can comment a little bit about volumes in July and August? And if we -- I mean in some extent, if you could make sense to compare the second half of this year with the second half of 2016? Thank you.

A - Ricardo Lewin {BIO 20342706 <GO>}

Okay. I will begin here, Gustavo and I, we are fighting here to answer this question. That's good. But Victor regarding port, as I told you, just there are ways to increase port capacity. One is improving the railway the efficiencies of the railway and the others generate capacity. We are doing both. As I told you, we just increased like 4 billion tons -- but this is not capacity, but all the orders increase a lot, the capacity because you improve your cycle inside the port.

Also by our agreement, we feel like, we can go to the left margin. So, you open room you're right margin to and you generate more efficiency. Because left margin it's a margin with less traffic. So I don't like to give a number here. I can tell right by what's public (inaudible) for example, it will be another 8 million tons for grains, \$3 million tons per fertilizers. But what's important to say is that the port will not be a bottleneck for the growth of the North and the Central Network in the next few years. And when it becomes close to be, we will be doing a new terminals, the ones that -- the are being kept at opening capacity.

So that's not a concern that this support will be a bottleneck for our group. So this is regarding the port. Sorry the second one? What we could you?

Q - Victor Mizusaki {BIO 4087162 <GO>}

Yeah, the second one --

A - Ricardo Lewin {BIO 20342706 <GO>}

In July, and August. (Inaudible) you would like add to this?

Q - Unidentified Participant

Yeah, I can take this one. Digital, we will be releasing the numbers for July today as soon as the market closes. So you'll be all having the data available. I can say so far that July was okay in line with our expectations. So we have been saying that you know for the third quarter, we have a significant amount of take or pay that somehow, protect us against any major loss in terms of a crop failure. All the uncertainty lies on the fourth quarter which is hard to predict and where we have lower amount of take or pay. So we depend more on the market, and what we know right now is the market is not clear and the crop scenario might be difficult to predict with disruption that we have right now, but you know, we are not foreseeing any major losses for July and August. And we believe that any volatility might come from the fourth quarter.

But as I said, it's hard to predict right now and that's the reason why we suspended the guidance, because we don't have visibility -- we don't have enough visibility on that right now to provide a new number. But numbers for the third quarter should be okay.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay. And I mean can we compare these I mean the current situation therefore what happened in back in the second half of 2016?

A - Unidentified Speaker

There are some differences, first. You know I think this year, especially in the third quarter, the amount of take-or-pay is higher than it was in 2016. Another important thing is that this year we have Central Network and we didn't had that back in 2016. And another thing was that in 2016 also the sugar market which is an important alternative for cargoes for Rumo was also bad. This year sugar is evolving well, so we might try to take more -- try to transport more sugar and other cargoes.

So we are less dependent only on grains in 2016. We did have much other cargoes to offset any losses from corn, but that being said, you know the size of the trailer it's still not clear. So it's still too early to compare with 2016 because the things could get you know better or worse from now on. So we really need to have a better view on the fourth quarter, and we believe that we're going to have only a better view as we approach the fourth quarter.

So as of now, it's really hard to come up with any prediction about this numbers.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay. Thank you.

A - Ricardo Lewin {BIO 20342706 <GO>}

Thank you, Victor.

Operator

Our next question comes from Regis Carodoso with Credit Suisse. Please Regis, go ahead.

Q - Regis Carodoso

Thank you, Lewin. Thank you, Gustavo for taking my questions. One of my questions was very similar to the previous one. Just wanted to make sure, I mean, the reason why you did not provide a new guidance, is it because you were let's say very uncertain about the volumes, or do you also if you very uncertain about the EBITDA. So that you, I mean you sort of canceled the last guidance so we presume EBITDA could be below BRL4 billion, but we don't know how low that could go right. So my question is there uncertainty mostly on volumes or is it EBITDA? And then on those same lines, what are you believe third quarter should be similar to current this quarter, second quarter levels? And then I'll ask the second question afterwards.

A - Ricardo Lewin {BIO 20342706 <GO>}

Hi, Regis. I would tell you very transparently that this is a bit tricky question, because volumes and EBITDA are very correlated. But what I can tell you is that there is a huge uncertainty in volumes. That's obviously can affect our results. The point here is Regis that as we said, I think the first and second call, we have good levels of take-or-pay even in the

third quarter when compared to previous years. So, but by the end of the quarter and the last quarter is very uncertain.

So if you see Mato Grosso the failure of the crop was not that bad. However, there is a huge consumption of range from the internal market. So it's very unclear for us first. If there is any improvement or worsening of the scenario, but there will be year how much we stay in the local market, how much we will be exported. Also there is something around 3 million, 4 million tons of soybean that is that in Brazil, we had, and can be exported.

So it's very unclear for us. The main point here, our volumes that we, and though that we stay in Brazil, that will be exported. But the tricky point that variables are for later. So it's not easy to answer this question, but there is a huge uncertainty of still the scenario mainly from September on, September, October, November and December. And what new stay here in the account will be exported.

Q - Regis Carodoso

So, second question, and actually, if I may, just a quick one. And then a more the quick one is yields on the Central Network are declining. I think as expected because they come from a very high base. Is this a trend we should expect going forward? And whether -- where do you believe this should normalize that something like 80 or 90 per RTK or TKU? And the second question is in regards to Lucas do Rio Verde and (inaudible) expansion project. My question is whether you see any benefit let's say in potentially waiting for the federal government who has proposed the provisional measure sort of accelerated process in (inaudible) to create (inaudible).

I mean, do you believe first that provisional measure will be successful in accelerating that discussion? If that will be an option and if it is, if you see any advantage, let's say in going through the Federal alternative as opposed to the state level?

A - Gustavo Marder da Rosa {BIO 18811470 <GO>}

Hi, Regis. I will answer the first question and then Ricardo answer the second one. So with regards to the tariffs in Central Network, it's pretty much a strategy. So when we first started we were operating only with five small terminal in some Sao Simao. So there was an excess of demand. So we could pretty much choose whatever cargo, we would like to transport. And of course we choose the ones that were paying more.

Right now as we open the capacity in Rio Verde terminal the both capacities combined will be almost 10 million tons of grains. So therefore we could be more aggressive in the market in -- to try to speed up the ramp up in the volumes.

So that is something that we will certainly do. So we are trying to get the volume as fast as we can. And also, of course, when we have a different assortment in the very beginning we were serving only soybeans, from now on we should be also serving corn and soybean meal. So those other cargoes might have different tariffs, and they could change a little bit the mix in the assortment of cargoes that we transport.

But the most important thing about Central Network is that we were capable, as we've shown in the presentation to increase our margin from 47% last quarter to 56% EBITDA margin this quarter. So tariffs is not the problem. The real, the thing that matters most here is how fast can we capture all the volume that is available in the market. And if we do that margins could be even beyond this 56% level that we are today. Now, Ricardo?

A - Ricardo Lewin {BIO 20342706 <GO>}

Regis let me try to answer the second part. Regarding PLS (inaudible) we are this was all the questions. But I'd be to be clear here that we -- favor a familiarity[ph] in our opinion is very transformational. The only point here that we need to take care is that hadn't two models, that are together in the same moment you need to take care to, not to harm the current one. The current one is the -- we have been invested a lot.

So we just need to take care with this model leading together. So I don't know what's the right way, it's imposing or not imposing (inaudible) discussing to reach an agreement that brings -- regulatory tariffs. I think this is important for the railways is important for the country. So the way the government does that I will not comment, but it's important to reinforce here our points.

Regarding having our federal expansion or a state expansion, I will repeat what I always say in my meetings is that obviously we would prefer to fill one. I always said that because we know all the regulation everything, but the point that we have been working bold alternatives.

And the local government at the Mato Grosso has been done a very fewer work on that, because this extension is very, very important for the state, and very, very important for the culture in the country. So, now it doesn't matter like, for us it's a state. It's a federal. It's important that we have a solution for that. The winner of the announcement here who is chosen by the government contribute. In our opinion if we are the winner we will be ready to start to build by the end of the next year.

So we are very excited, and in my opinion, all the regulation of the state will be very similar to the federal one. It will work very well for everybody. So the question now is that which one is better, which we prefers what we have, what the railway in Brazil has in hands.

Q - Regis Carodoso

Very clear Lewin and Gustavo. Thanks for the answers. Good bye.

A - Ricardo Lewin {BIO 20342706 <GO>}

Thank you, Regis.

Operator

Our next question comes from Bruno Amorim with Goldman Sachs. Please, Bruno, go ahead.

Q - Bruno Amorim {BIO 17243832 <GO>}

Hi. Good afternoon. Thank you for taking my question. I have a follow-up question on what's expected for the second half. I appreciate you cannot provide a guidance, but I wanted to clarify one point on the take or pay, Gustavo, mentioned that you currently have more take or paying out then back in the third quarter of 2016. So, I remember back then, you were under those three-year contracts, where you seem to be more contracted under take or pay for 2016, '17 and '18. And I understood that even though we have been closing some take or pay contract short-term one, more recently. They were not as relevant as they used to be in the past. So, just wanted to clarify, if I misunderstood or the reason for you to believe were more the taxes going into the second half of the year, maybe not only the third quarter, but also the fourth quarter. Thank you so much.

A - Gustavo Marder da Rosa {BIO 18811470 <GO>}

Thank you. Thank you, Bruno for your question. Just to clarify, you're right back to 2016, we had those longer agreement. But you know most part of the time the volumes were steady throughout the years. So, we were not seeing volumes growing too much at least the agreement, they were fix it. So every year, we had to add up some volumes to the agreement. This year we sold in advance most part of the volumes for the third quarter. So, if you look to do you absolute volumes we are far more sold than we were back then in 2016.

The problem, as I said before lies all in the fourth quarter. Fourth quarter is typically a quarter, where even when we have normal market conditions, trading companies, and farmers always struggle with the idea, whether or not they should carry over some inventories for next year. So, we don't have full visibility, even in a normal year what could happen in the fourth quarter. And for that reason, trading companies try to be more conservative with the volumes, they have under agreement to have some kind of flexibility. Of course, this year we sold more, but at the same time they never expect to buy everything in advance. So, we still need to sell more take or pay for the fourth quarter. And of course, that's only going to happen if we have more availability in the market. So, and one other market. So, and one other thing, as I mentioned before, when we try to compare with 2016 as the entrance of Central Network. So that brings a whole new market to serve. So it was a market that we didn't have the ability to back then to approach this year we have. So of course the same that I mentioned for the North and the South Operation applies to the Central. So farmers and trading companies are not willing to engage with all the volumes for the fourth quarter because they always know that there might be some uncertainties there.

And the most important thing about those volumes that we sold in the advance is that we not only secured the volumes, but also secured some pricing level. So the price that we sold in advance it's very good. The fame now is that as the market conditions are worst off. Of course, if we have to sell more now for the fourth quarter, prices are definitely going to be lower than the prices that we have under a take-or-pay. So that's another reason why we have some uncertainties, because it's not only, if we're going to have the

volumes, but whether or not this price, it's going to be pressured by a lower demand that's going to be available in the market.

Q - Bruno Amorim {BIO 17243832 <GO>}

Thank you very much, Gustavo. Just to make sure that I understood you correct. So, you said you have sold a higher volume versus third quarter '15 is it as a percentage of the expected volume or is it in absolute terms? It makes a difference because the company will significantly sees them, right.

A - Gustavo Marder da Rosa {BIO 18811470 <GO>}

Yeah, I don't know, I have the numbers by heart. But I would say definitely in absolute terms, the volumes are higher. I'm not quite sure about the percentage, but you know at least from overall standpoint volumes are definitely higher.

Q - Bruno Amorim {BIO 17243832 <GO>}

Thank you very much.

Operator

(Operator Instructions) Our next question comes from Lucas Barbosa with Santander. Please Lucas, you may proceed.

Q - Lucas Barbosa {BIO 20835372 <GO>}

Good afternoon, Lewin and Gustavo. Thanks for taking my question. So, I have a question on the BR 163 road. So the road construction was optional last month, and the toll collection should start in the first semester of 2022. I just wanted to hear what will be Rumo strategy as a response to starting the toll collection? So in other words, is Rumo thinking about increasing prices next year as a response to the BR 163 toll collection? Or will Rumo maintain quite a stable and focus on expanding volumes? Thank you very much.

A - Ricardo Lewin {BIO 20342706 <GO>}

Hi, Lucas. Thank you for your question. I got a part of the question because I dropped here. But let me if I got -- what's important here is that -- it's not expected to have the roads ready, and -- beginning of 2023, actually end of 2022. The winner of the BR 163 concession needs to do some improvements in BR 163, because they can charge that road fees. Okay? So, for next year there we still not have the BRL20 or BRL25 per ton additional going up. Okay? Having said that, there is -- this BRL20 or BRL25 per ton more can be used for both -- for price improvements or can be used to get additional market share to be more competitive. So in this sense, we still need to wait closer to the moment, that the rules are ready to know how is the market, to say, where will be used. But our strategy will be used partly in price improvements, partly in gaining competitiveness.

Q - Lucas Barbosa {BIO 20835372 <GO>}

Perfect, Lewin. That's very clear. Thank you very much.

A - Ricardo Lewin {BIO 20342706 <GO>}

Thank you.

Operator

(Operator Instructions) Our next question comes from Bruno Amorim with Goldman Sachs. Please Bruno go ahead.

Q - Bruno Amorim {BIO 17243832 <GO>}

Thank you for taking my follow-up. I just wanted to just follow up on the take-or-pay on the profitability side as we have always said, the profitability of the take-or-pay clause is never the same as transporting the grains themselves. So is there any color you can provide in terms of how to quantify, how much protected you are not in terms of the percentage of volumes which aren't take-or-pay. But on the profitability of the terms of the take-or-pay contract. Any color you can provide? Maybe if you can provide anything concrete for the second half of this year, maybe directionally the terms that you are closing out, do they throw back to more or less than in 2016 for each million ton under the take-or-pay? Thank you so much.

A - Gustavo Marder da Rosa {BIO 18811470 <GO>}

Hi, Bruno.

A - Ricardo Lewin {BIO 20342706 <GO>}

Go ahead, man.

A - Gustavo Marder da Rosa {BIO 18811470 <GO>}

Okay. No. If you look through the take-or-pay structure, probably the structure is protects us a bit more this year then what we had back then in 2016. So the percentage of the fee is higher. But that is a better protection for the third quarter where, as I mentioned we have higher, the most part of the volumes secured by take-or-pay. So if you have any failure in volumes in the third quarter take-or-pay might offset well in terms of profitability. Because either way most part of the volumes are going to be there. Trading companies are not happy take-or-pay.

But when it comes to the fourth quarter it's already a quarter where we have some idle capacity. So we never sell 100% of the capacity because usually the market is not high enough to do that. The structure it is still better, but you know, as long as with you have a significant portion of the volumes to be sold, that could arguably hurt our profitability.

We can deny that without having the volumes, especially when we are not fully protected with take-or-pay that might hurt profitability because we depend a lot on fixed cost dilution. Of course, the company will do all the efforts in costs, also trying to get other cargoes to offset, or to prevent any major drop in terms of profitability. But it's -- as we are

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being saying throughout this call, we still have uncertainty, especially on the size of the failure in corn, but we are working hard internally in the company to bring out the cargo that we can to the system in order to protect the profitability of our operations, but it is real hard as the same way it is to provide guidance for volumes and for yields. The same is true for profitability, because profitability is ultimately driven by the volumes.

So we will do our best to try to get into operator with as much profitability as we can in the fourth quarter. Very likely third quarter as I said, it's going to be okay with profitability. We are still predicting good volumes, and where is our Central Network, much more mature with higher volumes. So the scenario of things much brighter for the third quarter than it is for the fourth quarter.

Q - Bruno Amorim {BIO 17243832 <GO>}

Thank you very much. Thank you, both.

Operator

Our next question comes from Alfonso Salazar with Scotia bank. Please Alfonso go ahead.

Q - Alfonso Salazar {BIO 18358082 <GO>}

Thank you for taking my question. Suzano announced the weak investment for our new pulp mill in the State of Mato Grosso do Sul, and what we have seen something wave of both investments by different companies CNPC, (inaudible) now Suzano. Just wondering what is the outlook for growth of transported volumes over the coming years? If you can comment on that.

A - Gustavo Marder da Rosa {BIO 18811470 <GO>}

Hi, Alfonso. You're right, we are seeing pulp producers growing a lot over the past few years, and also our volumes of pulp are growing fast. Last year we had an important debottleneck at the Port of Santos. So the government did the auction of two new terminals for pulp that have the ability to operate with railway. So we have a couple of projects together with the pulp producers that very likely are going to boost our volumes of pulp going forward.

So we operate with all the major players like (inaudible) like Suzano and as those negotiations and those agreements advance, we are going to be able to capture to be able to capture most part of the volumes that we are seeing in that market. But just to be clear on that, we are presenting sustainable growth on pulp over the last three -- two years at least. And definitely going forward, we continue to expect a large growth coming from pulp producers in South Mato Grosso state, and which also brings more volumes to us in Mato Grosso state.

A - Ricardo Lewin {BIO 20342706 <GO>}

Just to complement here the question, and also Klabin -- just to understand the difference, Klabin is transported, the volumes produced by Klabin is transported by

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containers by Brado. So, the agreement that we are now, in the last call refers to 50% of the total volume of Klabin plant. Just to have an idea, usual year, but are they transported 90,000 containers, clubbing contract Klabin contract represents another 30,000 containers. So this is really expressive. In my opinion it's transformational for the brand, mainly because we do have opportunity to increase from 50% to 100% of the capacity of the plant, once we provide good service and the plant is 100% working.

Regarding pulp production in Mato Grosso, maybe you will have seen an interview from our commercial, saying that about our conversations on the new plan for Suzano. And obvious strategy is to take the pulp through the both efficient concession that we have, that's through the north concession. So, what's we are doing is taking a very stable volume and transporting in a much more efficient concession that we did in the past. So the stability, the improvement of profitability is very important for us. So, we reinforce the importance of pulp in our segments.

Q - Bruno Amorim {BIO 17243832 <GO>}

That's excellent color. Thank you very much for that.

A - Gustavo Marder da Rosa {BIO 18811470 <GO>}

Thanks.

Operator

Our next question comes from Guilherme[ph] with J.P. Morgan. Please Guilherme, go ahead.

Q - Unidentified Participant

Hi, Lewin, Gustavo, thanks for the question. Quick follow-up question here regarding question here regarding the Lucas project. Can you provide more color in terms of the environmental approval? I recall that you filed for that back in 2019. Just wondering about your expectations for it to be concluded. Thanks.

A - Ricardo Lewin {BIO 20342706 <GO>}

Yeah. Thank you, (inaudible) for the question. We have started long time ago the analysis and you know that in Brazil these kind of approval this kind of life, the -- is usually the bottleneck. So we knew that and we have been working much before had any announcement of (inaudible), because we are interested in the expansion.

The first important thing is that who is doing these analysis is the local government, the local environmental agents, no (inaudible) because that is a good because (inaudible) has a lot of projects and this is specifically very important for Mato Grosso. So I think that can be a bit faster. Although they are as they do the same requirement then (inaudible), but we are very advanced. What I can tell you is that in the second half of 2022, so second half we expect to have the license (inaudible) building the extension. Once we are the ones chosen by the Mato Grosso government. So it's very well invested.

Q - Unidentified Participant

Very clear. Thanks, Lewin.

Operator

Thank you, everyone. That concludes our question-and-answer session. I would like to turn the floor over to Mr. Ricardo Lewin for his final remarks. Please Mr. Lewin, you may proceed.

A - Ricardo Lewin {BIO 20342706 <GO>}

Well, you guys know that usually I don't any speech by the end of the call, but I think this is a good moment for a brief speech from my side. You know, guys although we have the yields on the corn crop for the next half of the year, I really would like to reinforce that we are in a very, very good moment for the company, and Rumo has a bright future.

Operationally, we have two months of record in this last half of the year, showing in that we can increase our volumes even in the peaks of the harvest. We remember guys that we started to operate the 120 rail cars per train, and here I'm confirming that is the very promising project. Next year 2022, will be fully operating both sides going to Mato Grosso and going to Santos reducing train crossing to Santos, reducing emissions, reducing consumption of fields [ph]. Talking about fields, this was a modern quarter of improvement in construction of field. And I reinforce our -- what I always say that, always say that, we've been improving the consumption of fields for several quarters. There is a lot to do in this sense.

I will not talk more about terms, I think I have focused a lot of things about Santos this call. We delivered two terminals in Goias. We already have double-digit market share in Goias, it's really impressive, impressive efficiency with impressive margins. So we're supporting the agriculture off Goias state. We have been improving our commercial skills by improving the knowledge of the market, by the proximity to our clients. And I think that this improvement is showed by the gain of market share that we had this year. If you see our competitors volumes has been going down, and we have been gaining market share. Financially, I don't need to say, the Company is very stable compared to 2020, every single month we have done better EBITDAs, unless on January because of the postponement of the crop.

Now we have the opportunity to do expansion. We may have the opportunity to expansion, if we are the winners of the bid. This is really transformational for the company. This is the project that we foresee, since the beginning of the company, is serving the middle and north of the state or Mato Grosso, bringing competitiveness for the Brazilian agriculture for Mato Grosso. So, and Brazil is improving in agriculture, the consumption of (inaudible) is continuing to grow. And you know guys that Mato Grosso will serve, Mato Grosso will support this increase of consumption of (inaudible). We are there to serve this growth well.

So just finalizing here my speech, I think that Rumo is stronger than ever. We are very optimistic with next year, and with all the next years of the company. I would like to

support, I'd like to thank the support of all our investors of the sell-side, that understands very well the company. And talk to you during the next quarter. Thank you. Thank you very much.

Operator

Thank you. This concludes Rumo's conference call for today. Thank you very much for your participation and have a good day, and you may now disconnect.

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