

## Y 2020 Earnings Call

### Company Participants

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

### Other Participants

- Analyst
- Bruno Amorim
- Jorge Luis
- Lucas Barbosa
- Regis Carodoso
- Victor Mizusaki

### Presentation

#### Operator

Good afternoon, everyone, and thank you for waiting. Welcome to Rumo Logistica Conference Call to discuss the Fourth Quarter 2020 results. Today with we have Mr.Alberto Abreu, CEO; Mr.Ricardo Lewin, CFO and IRO; and Mr.Gustavo da Rosa, Investor Relations Executive Manager. We would like to inform that during the company's presentation all participants will only be able to listen to the call. We will then begin the Q&A session when 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 a 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-looking statements are based on the beliefs and assumptions of Rumo management and on 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 that conditions related to macroeconomic conditions, industry conditions and other operational 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 conference call for the fourth quarter 2020. Before the results, I would like to invite our CEO, Alberto Abreu to share his view on some Board accomplishments that we delivered in 2020.

Alberto, I give the floor to you.

## **Joao Alberto Fernandez de Abreu** {BIO 20362451 <GO>}

Thank you, Lewin. Good afternoon, everyone. Welcome to our fourth quarter 2020 results. I will start talking about 2020 and also share our views regarding 2021. 2020 presented us many challenges, but also allow us to achieve a great progress in the consolidation of our long-term strategy. We developed our portfolio even further by increasing the capacity of the Terminal in Rondonopolis. We signed the early renewal of Paulista Network concessions until 2058, and completed the investments to render the Central Network operational at the beginning of 2021, thus making history connecting by rail the State of Goias and Tocantins to the Port of Santos in Sao Paulo.

We have improved with our capital structure, conducting a BRL6.4 billion follow-on offering, the pre-payment of concession fees of Central and Paulista networks worth BRL5.1 billion and the issuance of the first green bond in Latin America railways, thus getting Rumo ready to deliver on its business plan. We have also strengthened the organizational structure in key areas such as, Commercial, Pricing, People, Innovation and Regulatory, so we can continue with the solid implementation of our strategy.

We moved our efficiency agenda, with important improvements in several operational metrics, and therefore assuring our capacity to grow. In the Port of Santos, we started and will conclude this year transformational investments that will positively affect port capacity and efficiency, as the third line of Paqueta, the addition of the line in Macuco and the expansion of TXXXIX and Termag terminals.

We had significant advances in our ESG agenda. With respect to the environment, this year we delivered a reduction of 10% out of 15% of our 2025 target on a specific emissions. As for the social component, our personal and rail safety results have been remarkable, having outperformed U.S. Class 1 rails. Regarding governance, we continue to operate at the highest corporate governance level and have recently appointed Janet Drysdale to the Board, who, in addition to being the first woman to hold this position, has broad experience in international railways.

We got off to a better start in 2021 than in 2020 and things are looking up in terms of competitiveness. Strong demand for logistics coupled with the recovery of fuel prices brought more favorable market conditions to Rumo. Therefore, we envision an increase in our volume supported by three drivers: an expansion in the grain market and the recovery of the industrial sector; an increase in market share supported by a higher attractiveness of rail versus other logistics alternatives; and the start of the Central Network operation, which has great potential and was well-received by customers.

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I conclude reiterating my trust, as well as the entire organization's in the execution of our long-term plan, with strong discipline on capital allocation and an enormous value generation for our shareholders and clients.

Thank you very much and I will hand over to Ricardo Lewin to who will manage the presentation.

## **Ricardo Lewin** {BIO 20342706 <GO>}

Thank you, Alberto. Talking about our operational results in 2020. Our volume went up 3.9%. Throughout the year several factors impacted the volume performance of each operation. The North operations had a 7% increase in volume. And grains the most relevant product during the whole year we had higher competition coming from the paving of BR-163, still with no toll charges and also from lower oil prices that prevented the company to improve even more volumes and affected the pricing for grains.

In the second half, producers held back on corn exports leading to lower railway transportation. In this context, we'll used the capacity to transport sugar that grew 76%. Pulp and Fertilizers continued to grow consistently.

The South operations saw a decrease of 5.8% in volume. The industrial segment was affected by COVID-19, decreasing 20% year-over-year. Furthermore, the agricultural segment had a marginally negative performance, especially in Rio Grande do Sul, where the volume was impacted by a shorter crop due to bad climate conditions. Container operation grew 6.9% is still below the usual growth level for this operation due to limited demand because of COVID-19.

The next slide shows our results by operation. EBITDA was 8.4% below 2019 impacted by lower yields and higher costs driven by a less profitable assortment of cargo with more sugar and less grains, which caused additional pressure over margins. North operation EBITDA went down 9.4%. Yields decreased 10.7% due to lower fuel prices and the increased competitiveness of trucks in the North region after the pavement of the BR-163. Highway is still with no toll collection.

Furthermore, volume of port loading and logistics solution grew more than the railway volume. This helped net revenue, but also brought higher variable costs since these operations have lower margins. South operation EBITDA went down 6.4%, pretty much due to lower demand once grains suffered from lower crops due to bad weather conditions and industrial demand was significantly affected by COVID-19. Container operational EBITDA rose 66% due to significant non-recurring gains in EBITDA, as a result of the sale of some unprofitable business units during the years.

Now, we will take a look at our financial results. Regarding financial expenses, I would like to highlight some points. This year we saw concession fee expenses increasing approximately BRL200 million. Let's get back to 2019 to explain it. That year on top of all the previous concessions, we had the entrance of central network that generated additional financial expenses for the last five months of the year.

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In 2020, central network was generating financial expenses since January. And on the top of that once we renewed Paulista Network we started to have additional expenses since June. In September we prepaid BRL5.1 billion in concession fees reducing significantly the level of financial expenses. From a cash flow standpoint, there will be no obligation of payment in the next 15 years for Central Network and 17 years for Paulista Network.

So for 2021, we expect roughly BRL254 million to be recognized as concession fee expenses. On cash flow, there will be approximately BRL121 million to be paid as financial expenses and BRL107 million as amortization. That being said, let's take a look at the financial results. Financial result in the year grew 23%, cost of debt was affected by BRL273 million due to non-cash mark-to-market pegged with a BRL150 million of losses in 2020 compared to BRL113 million gains in 2019. Other expenses increased by their additional impact of concessions fees. Net income dropped by 61% due to the lower EBITDA and the higher financial expenses.

On the next slide, we will take a look at our indebtedness. Our net debt increased from BRL6.6 billion to BRL7.2 billion and the leverage stood at 1.9x broad net debt EBITDA. Rumo ended the quarter with cash of approximately BRL9.2 billion, leaving the company in a very comfortable position in terms of liquidity and amortization schedule.

The next slides show information about the market scenarios for corn and soybeans. Regarding soybean in 2021, AgRural forecast shows 5.6% growth in Brazilian production and 1.2% growth in the country's exports. Production in Goias should reach 13 million tons and in Mato Grosso 35 million tons. The state of Rio Grande do Sul that suffered with bad weather conditions in 2020 should raise its production in 6.6 million tons. Also according to AgRural sales of 2021 crop is advanced compared to previous years having already reached 60% in Brazil and 74% in Mato Grosso. Although crop was late. Grains are already arriving at our terminals. And once we have most of the volume sold in take-or-pay agreements, we hope to have significant volume growth.

The next slide shows information on corn. In the corn market, according to Agroconsult forecasts, Brazil's production should grow 5.8% reaching a 109 million tons and exports should reach 37 million tons in 2021, 5.7% above last year. Mato Grosso is expected to produce 38.3 million tons, 2 million above last year, and Goias should produce 12.7 million tons of corn. Although we still see some uncertainties especially due to late soybean crop AgRural's forecast data also indicates that the sales are pretty advanced 44% in the South Central region of Brazil and 68% in Mato Grosso.

The next slide will show information about the improvement in the Port of Santos. Santos is an important cornerstone of our business. In order to debottleneck its capacity we have several improvements underway. We are also building more lines in the Macuco region segregating trains heading to the export corridor from the ones going to the Pulp and Paper terminals.

Additionally, we have two important expansions, one that in the TXXXIX terminal that will more than double its capacity for grains and the other in Termag seeking to expand fertilizer capacity.

On the next slide, I will comment about central network. As Alberto already said in 2020 we accomplished the investment of BRL711 million in Central Network. And we are very proud to announce that the first train was loaded last Friday. We accomplished the bridge over Paranaíba river between the States of Goiás. And Minas Gerais. And also São Simão terminal is ready to operate. For the first time, we are able to connect by rail, the state of Goiás to the state of São Paulo allowing these important productive area to access foreign market with reliable transportation.

Before ending this call, I'd like to talk about our guidance disclosure expectations. We will announce our 2021 and 2025 guidance in early March. Further details should be given soon. Thank you very much for joining us today, and we are available for Q&A session.

## Questions And Answers

### Operator

Question And Answer

Thank you. We will now begin the Q&A session. (Operator Instructions) Our first question comes from Lucas Barbosa with Santander. Please Lucas, go ahead.

#### **Q - Lucas Barbosa** {BIO 20835372 <GO>}

Good morning, gentlemen, thanks for taking my question. My first question is regarding yields, if you could provide more details on the yield performance on the fourth quarter, how much of that was explained by fuel, how much of that was explained by pressure from the Northern Arc? And how much of that is basically the dynamic pricing that the company is -- was starting to develop in the middle of 2020? So that's my first question. Then I'll ask the second one. Thank you very much.

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

Thank you, Lucas. This is Alberto Abreu, let me take the question and then the team if you want to add anything else, please jump in. Lucas, let's firstly look for the 2021. I will cover your question regarding yields, but let's talk about the volume as well when we talk about the North Operation, which was also, let's say, a downside for us on the corn business.

If you look for the volume in 2020, we grew double-digit in the operation -- the North Operation more preparation for everything but corn. So soybean meal fertilizer even individual products we grew at least 10% in each one of them, the corn was the downside and then we lost 12% of volume on 2020 when we compare with 2019. So that's the -- that's where we have to concentrate ourselves by 2021, which is the covering the market share mainly on corn and keeping grow on the other products.

Regarding yields, I think you answered already. We have this 2 main, let's say, issues during the year. One was the what's extreme, yes -- let's say, which increased competitiveness but also the fuels price, but I think it's important to look ahead as well. And when we see what's going on for 2021, let's take the first semester which we already

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almost sold out in terms of volume. So very confident that we're going to -- it will grow the volume and that doesn't mean that we have to compromise yields.

I also see this is basically because the fuels price is now on a completely different shape. When we compare with exactly the same period last year. We will see even slightly better yields for 2021. And I think we can say this after seeing the -- everything that we sold already for the first semester. And so that's how we see, let's say, 2021 and that's what happened in 2020. So, thank you for your question. If the team would like to add something else, please welcome.

**A - Ricardo Lewin** {BIO 20342706 <GO>}

Thank you, Alberto. Lucas. I don't know if Alberto I think I already answered your question unless you have any clarifications, let me know.

**Q - Lucas Barbosa** {BIO 20835372 <GO>}

Yes, Alberto answered my question, but maybe just a follow-up. Is there any movements in terms of stimulating more prices near Sorriso region for example, in Rondonopolis or is that still that was an idea from the past, has this developed or not up to now?

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

Yes, I have to say. Yes, Gustavo, please go ahead.

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

No, you can take the question, if you want. Go ahead.

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

The answer is, yes. I think we are completely different more this terms of sortification of, let's say, pricing but, what we can see about Sorriso, I think the most updated information is that, the freight cost on the roads has increased more than BRL100 in the last 6 weeks. So the environment has changed completely in the last mainly month and a half. This is -- I'm talking about the cost from Sorriso to Miritituba. So that's what's going on in the market, okay?

**Q - Lucas Barbosa** {BIO 20835372 <GO>}

Perfect. Thank you very much, Alberto. And if I may a second question regarding SG&A. In the fourth quarter, the SG&A increased 60% year-over-year in North operations. I just wanted to understand if there's any specific line causing this increase or if there's any non-recurring there?

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

Gustavo, if you want, go ahead, please, but I also would like to comment on that in the end, please.

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

Well, okay. So specifically on SG&A, Lucas, we increased our costs pretty much related to cybersecurity. As you may know, in March, we suffered with hacker attack. So we review all our systems. Now, we adopted more firewalls, we shift all the data and the main systems to cloud. We also hired consultancy to shift the systems to cloud and to increase security to avoid further hacker attacks in the future.

As North Operation is by far where the most part of the profits come, it also receives the most part of the SG&A expenses. So, we did that at the corporate level, but North Operation has to absorb most parts of -- this cost of the cybersecurity. So this -- we believe it's a one-off, it's not something supposed to last much. And also when it comes to costs and SG&A, we also saw some phasing impact. So in the fourth quarter last year, we had probably the lowest cost ever, on average between the first and the third quarter, our cost was around BRL325 million. In the fourth quarter, it went down to BRL270 million. So it was a weak base in terms of costs and for that reason we saw coupled with the additional costs for cybersecurity, we saw costs going up in the fourth quarter, but then I think Alberto would like to share his view as well.

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

Yes. Thank you, Lucas for the question. I think cost is something critical for us, it's something that we'd really look on a daily base here. And I'm not only cover SG&A but also the fixed cost. As Gustavo said, the last quarter of 2019 is not a good one, but I think when we look for the pace on the three first quarter of 2020, this is something that we really have considered as a good base for us.

So excluding, let's say, Central Network, which will be operational by 2021, really is there's no reason to operate on a different level in terms of pace than the level that we operate again on the three first quarter of 2021. I think this is a really good base to take into account, not only for SG&A but also for the fixed cost.

## **Q - Lucas Barbosa** {BIO 20835372 <GO>}

Perfect. That's very clear. Thanks for taking my questions and have a good day.

## **Operator**

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

## **Q - Bruno Amorim** {BIO 17243832 <GO>}

Thank you, good afternoon. So I have 2 questions. The first one is more short-term oriented and it's a follow-up on the pricing dynamics in the short-term. Between the third and the fourth quarter, we saw an improvement in the level of diesel prices. BR-163 was probably as much of a problem as it was in the fourth quarter, right? It was phased in the third quarter -- it was phased in the fourth quarter.

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So what I'm really trying to understand is why have prices gotten even worse, right? In theory, the variation of price in the fourth quarter was worse than in the third quarter. One of the potential explanation would be, and you correct me if I'm wrong, volumes which were weak in the fourth quarter. I mean, volumes for Mato Grosso as a whole, which might have to read in the scenario of oversupply of transportation capacity. And if that's the case, we won't see prices going up meaningfully when volumes reverse its trend possibly towards the end of first quarter, beginning of second quarter when the planting season will get stronger this year. So how are you seeing the dynamics? Do you agree with this rationale? Are we missing something? That's the first question. Thank you.

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

Thank you, Bruno. I will try to comment and please if I don't cover something, let me know. So let me start. When we think about the yields in the fourth quarter, of course, it was affected by the whole dynamic that affects us in the year, pavement of BR-163, low fuel prices. You're right, we saw some recovery in fuel prices, which brought a better environment, but you have to remember that most part of the volume was sold in the previous quarters, therefore under much worse condition. So we brought the conditions -- the market conditions from the previous quarters to the fourth quarter in our commercial agreements. So that pretty much presented from having better yields in the fourth quarter, even though oil prices were a bit better.

Another thing is, as Ricardo mentioned in his presentation, producers were holding back inventories, of corn. So there was not much availability of grains in the market, so that increased the competition for the grain, once the supply of logistics was much higher than the demand for logistics. So that is something that is more likely to happen in the fourth quarter where we have lower volumes.

And last but not least we have to remember that December 2019, we had very low volumes. And typically December is the month in the year, where we have the lowest tariffs in the year. So because our volumes grew more than 30% in December 2020, it also increased the weight of December, a month where typically the tariffs are low in the quarter, bringing our tariffs a bit down as well. So I think trying to summarize everything I think those are the factors that create pressure -- additional pressure over yields in the fourth quarter.

**Q - Bruno Amorim {BIO 17243832 <GO>}**

That makes sense. Thank you. But looking forward then when do you expect for that trend to reverse? Will it be in March in the second quarter given the potential delay in the export of soybean this year?

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

Good question, Bruno. Of course, January, it's a bit idle, everybody knows that we have a late crop of soybean. So, it won't be a month with great volumes. But we are already seeing trucks arriving at our terminals in Rondonopolis and in Sao Simao, so we are foreseeing strong volumes. And with -- then with much better oil prices and once we

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started to negotiate take-or-pay last year and we have a much higher percentage of take-or-pay,

it's fair to say that right now we can predict slightly better prices without taking into account any additional pricing coming from fuel prices. Right now, fuel prices are helping us to have better tariffs. We cannot predict what's going to happen with fuel in the future, but it continues that way, it could be even better than -- slightly better. So we expect to have better yields definitely at least until the end of the first half which is the period to where we have almost full visibility once we are sold out in terms of -- almost sold out in terms of take or pay.

Second half, but, yes, it's sold. So it will depend a bit on the market, we are evolving also fast in terms of negotiation, but we'll have to see a bit more to have that better figures to share with you guys for the second half, but first half should be way better than the performance the best we had last year.

**Q - Bruno Amorim {BIO 17243832 <GO>}**

Understood. And then I had a -- sorry, a second question on the long term. You usually guide for strong volume growth through time, which probably embeds market share gains. The essential for market share gains on top of some growth in the volume of grains exported to out of Brazil. So can you please remind us what's the rationale behind that? You have consolidated most of the markets in the Southern region of Mato Grosso already. So maybe in order to grow above the volume of grains exported out of Brazil, we would like to have to gain market share over the Northern Arc. So first of all, is this assumption correct? Am I right in reading your usual guidance for the long-term? And if so, how do you intend to deliver those market share gains? Thank you.

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

Gustavo, let me take this one, this is Alberto. I think what's important to say, when we look for the long-term is that in the next 5, 10 years, the world will demand something between 75 million and 100 million tonnes extra of corn and soybean, and most part of this volume will come from Brazil. So that's the number. This is why looking for the market share, it's so important for us.

So Bruno, when we look for what happened in corn for instance, we're very honest with us what hurt us here, it's losing market share. So market share for us is important because in the long-term, we will have a lot of volume, capacity will keep growing, so we have a new geography which is Goias and Brazil will keep moving and keep increasing its participation on the global trading range. So that's what we see in the long term. So Brazil increasing its participation on this global trend. So it's very close now to 40%. We'll keep growing. The world will keep the money more and Brazil will be the big supplier. So we must be very well positioned in terms of market share and keep increasing our capacity. So that's -- regarding the guidance, we will see this in March.

**Q - Bruno Amorim {BIO 17243832 <GO>}**

Thank you.

## Operator

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

### Q - Victor Mizusaki {BIO 4087162 <GO>}

Hi. Thank you. So I have a few questions here. The first one with regards to the expansion of capacity at the Port of Santos. I mean, in the slide, I guess, on slide number 6, you mentioned about a lot of construction works. So, I'd like to understand why do you expect to conclude all these expansions? And if you can also comment about the recent MoU of this road to construct a new terminal for grain and fertilizers outside the Port of Santos?

And the second question related to Malha Central. Lewin, you mentioned that, I mean, the first grain was loaded last Friday. So can you comment about this operation? And if there's any concern about the ramp up? So maybe the company is more confident that there's no problem the the construction and then maybe you can have some positive news here? Thank you.

### A - Ricardo Lewin {BIO 20342706 <GO>}

Victor, good afternoon. Thank you for the question. This is Ricardo Lewin. Well, first we showed a few projects that we have in Santos Port okay? All of them that we -- actually the one that we showed here are expected to be ready by the end of this year, okay? I usually -- I split the projects from Santos in two box. One are the transformational ones and the other are the ones that we -- since we merged with ALL, we have done to support the growth of capacity and efficiency in Santos. So the ones that we showed here are the ones in this bulk that we have always done, we barely talk to you guys about these projects. They are like -- we don't talk about, they are really relevant. They are the ones that we'll be bringing a lot of efficiency and consequently increase capacity.

So we see the Paquet, the third line of Paqueta is a project that we have been trying to approve with the government for the last like 5 years and finally it was approved. It will bring efficiency to the entrance of the port. Third line of Macuco will improve its efficiency and capacity of the ports. The TXXXIX is a partnership that we have with Caramuru, the same one Caramuru, we have a partnership in Malha Central that we'll talk after a bit about that. But we will double the capacity and increase the efficiency in TXXXIX. And bear in mind that we have a minority stake. We are also investing there to increase the capacity of fertilizers that will support the growth of volumes in the next years. And you know the importance of fertilizers for the company, increase in revenues, increase in margins also.

Also about the (inaudible) it was the initial step for the construction of terminal in the land that they have close to the terminal, close to also Suzano. So they have a free piece of land there. And we are starting together the construction of a terminal with 8 million tonnes of bulk, for grains mainly and 3 million tonnes of fertilizers, the capacity for 3 million tonnes of fertilizers. We are evolving on that, we have been, since we announced there was a lot of conversations, we have been evolving in the development of the project. Most probably we will have a minority stake, this land belongs to them. So we'll

be only always, a capitalizer of this project helping them to bring volumes and bring a lot of -- besides capacity, bringing a lot of efficiency.

The terminal will have its own look, okay, it is also that will be a very, very efficient terminal. Hopefully, I answered your question. For about Central Network, I will give the word here to Alberto.

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

Victor, thank you for the question. Regarding the Central Network, I think the first step was to conclude all the civil works of the line. That was concluded last year in December, so the last big bridge, which is a 600 meter bridge was finalized and tested, so this is everything ready. During January, we finalized also the works on the first terminal, which is Sao Simao. So Sao Simao has, let's say capacity to almost 2 million tonnes, and it's ready. We are in this moment commissioning, so we will see this terminal operate in the next couple of weeks. So the train is already there. So all the tests is being done. So, it's very good news for us.

Since we were able to finalize before we expected, we were expecting it to finalize by March, April. And then next, we will have Rio Verde. Rio Verde would be the real terminal, let's say, will be our Rumo to (inaudible) in Goias. And this one we are expecting to be finalized in the third quarter this year. We hope to be in the beginning of the third quarter not in the end of it. We are trying to anticipate 2, 3 months. So the team is working. And it's real. It's a very modern with a great layout with 8 million tonnes capacity and there's also a good information here. We signed it a couple of weeks ago, a contract to have a fertilizer in the terminal plant, 100% funded by third party. And so everything, it's on the plan.

And then by end of the year, we will finalize the container terminal that is being built in Imperatriz, this is in Maranhao. And with the capacity to export 2 million tonnes. So that's the plan for 2021. So a lot of work to do, a lot of the news on the Central Network, so far so good. And regarding volume for this year, the challenge is capacity, it's not demand. So the solution that we have, it's really a very competitive one. So the challenge for the team here is really try to bring as much volume as they can since the demand is there. So thank you very much Victor for your question.

## **Q - Victor Mizusaki** {BIO 4087162 <GO>}

Thank you.

## **Operator**

Our next question comes from Rosauero Varo with (inaudible). Mr. Rosauero, you may proceed.

## **Q - Analyst**

Thank you. Hey, Lewin, hey, Gustavo. Thanks for the call. I have a couple here as well. One is a follow-up on the Central Network. First on Sao Simao terminal. We would be -- so it's

a partnership with Caramuru. And is it going to be exclusive for Caramuru cargo or is it open to other trading companies to operate as well? And also in terms of Rio Verde, do you have any third-party there that is constructing a grain terminal. You mentioned about a fertilizer already. So, is there going to be already a partner there or is it going to be like a completely open terminal to negotiate with trading companies in the region? That's the first one. Thank you.

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

Regarding Sao Simao, yes, you're right, the partnership with Caramuru is 51% Rumo 49% Caramuru and there's no exclusivity here. So, Caramuru has a lot of interest in bringing their soybean product which is great. And but there's also soybean that will start moving first which not necessarily belongs to Caramuru. So, again there's opportunity to bring it's from other tradings. So there's not exclusive to Caramuru, so that's the point.

And there is many opportunities in term of partnership on fertilizers as I said on the fields. And -- but at this time, it's a 100% Rumo investment. And so it's a completely open for grains, it's a completely open terminal and that will be really the heart of the operation of Rumo in that region.

#### **Q - Analyst**

Okay, thank you. And how you are thinking about the capacity in Santos Port. So I imagine that those cargo there it's currently being done with another rail network or with -- or by trucks. So how do you -- how are you planning to add this extra capacity in the right or left margin in Santos? And so any -- so those projects that you mentioned, the third line of Paqueta, so is it an earth? So how are you thinking about the Santos capacity to attend the Central Network.

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

Rosauro, thank you, it's a very good question and Santos critical as you can imagine and for us it was really good news, being able to implement all the projects that Lewin just mentioned and just showed to us, those were important, let's say bottlenecks in the right hand of the board. And we will finalize during 2020 on all the projects that we show already. So Paqueta, Macuco, the expansion of our terminal which the TXXXIX, which -- it's also a partnership with Caramuru, it's a 50/50 partnership, we are expanding that terminal. Termag, which is for fertilizer is also the extension, we'll have 3 times more capacity than it has today and will be finalized this year.

And I think the answer here is to keep promoting more capacity and more efficiency in the port, not only build the capacity, stacked capacity, but also working on the line to improve efficiency and productivity. So I cannot disclose, but there's many projects on the pipeline. We just show few of them but our job here is to keep again working very hard to promote Santos as the main port for all this product that will come from Goias.

#### **Q - Analyst**

Okay, thank you. And just a confirmation. So when you say that according to your negotiations with trading companies for first half '21, it maybe -- we may see likely some

slight increase in yields. So do you mean first half '21 against first half '20, because for the full year, if there is any normalization in the first Q '21. We may see better than maybe low-single digit, right? Because only a normalization of first Q may imply 3 to 5 percentage points of yield increase for the full year if there is a normalization. So just thinking about the -- when you say slight increase, do you mean first half against first half where the full-year can be more than that or is it for the full year?

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

When we said it's basically comparing first half 2020 compared versus first half 2021 with 2020. As I mentioned, second half is still not clear. Of course, it will depend on the market and on fuel prices as well. So, what we have good visibility at this point is pretty much for first half. So, second half we'll try to get the best yield we can. But we have to remember that we are a scale business. So, we must be sure that our operating will be running with full volumes. So, it will depend more on the market side in the second half of the year. But first half, we'll be as I mentioned before good, especially because right now fuel prices are helping us to increase even more the tariffs.

**Q - Analyst**

Okay, very clear. Thanks so much. Have a great day, everyone.

**Operator**

Our next question comes from Regis Carodoso with Credit Suisse. Please, Regis, you may proceed.

**Q - Regis Carodoso**

Good morning, everyone. Thanks for taking my questions. Okay, one question and then two quick follow-ups. The question is regarding the Lucas do Rio Verde expansion of Ferronorte. What do you believe are the next milestones for that project? Is it something that you believe could be included in the next meeting of the PPI? When is the next meeting of the PPI if you know and whether you expect or does it make a difference if the Bill of Law 261 is approved or not whether that makes a difference for that project. So if you could update on those fronts, which would be pretty appreciated.

Then the follow-ups are regarding your speech at the beginning. You talked about the guidance in the beginning of March. I wanted to know and I suppose this new guidance will include the Central Network and from your comments earlier, I understood that this ramp up of the Central Network will still take a few years, if there's maybe a guidance for few years down the road not any more of a 2023, when is it that you would be -- you would have the Central Network fully operational, fully ramped up and whether this will be part of the long-term guidance?

It's still on the Central Network also a question there, I guess, whether you believe the value was essentially in the grains? Or if you see more upside in other kinds of cargo?

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And then just maybe one last follow-up in same topic as Rogrio's question right before. Regarding the yields for 2021. If you could maybe -- I mean just to be clear I understood it correctly, it's up year-on-year versus 2020, but it's probably still down versus 2019, I imagine. And you talked about Sorriso and Miritituba freight increasing very sharply. But the data we have so far in there was actually through the end of January was a still that freight was coming down very sharply. I think later, the data point was close to BRL140 per tonne. I just wanted to confirm, I understood it correctly that you would expect it improved sequentially, but still below 2019 and that -- the freight you'll see higher for Miritituba is already more recent than that latest data point at the very end of January? Thanks.

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

So, thank you for all the questions. Let me start with Lucas do Rio Verde and also some information regarding Central Network and then I'll hand over to Gustavo and to Lewin.

Regarding Lucas do Rio Verde, let's say, I have been saying that we have quick thoughts on that project, one is the environmental license, the second one is the uptoolment in the government. And the third one is on engineering side. There's many question regarding the way and the regulatory side. And firstly I have to say that the project not necessarily will go to the PPI, okay. Actually, we will not. We are discussing directly with the regulatory agency and there are a couple of alternatives but the PPI it's not necessary here. And this is we're working on that.

We are also working on the engineering side. But to be very honest with you for me the bottleneck, it's not that part of the project is the environmental license, which we stopped year and a half ago. And we think we would need at least an extra year at Central until at least the end of the year maybe early next year to be ready. But for me that's the bottleneck in the whole process, okay. I think this fix here somehow the milestones.

On the Central Network, there is some actual opportunity beside grains or the sugar, so we will have by 2022 another terminal, Iturama, Minas Gerais. This one is already being built. We work there. And this is 100% third-party investment. It's being done by Coruripe. It's -- we also have a lot of opportunities on biofields and liquids as a whole, so going with gasoline diesel and bring biodiesel and ethanol. So there's also a lot of opportunities on that side. And by 2022, let's say, we also see opportunities on buaxite. So maybe he's also putting in some kind of (Technical Difficulty).

So, I mentioned everything related to 2021. But when we look for the medium-term, there's some excellent-opportunity on that way, okay? Hand over to Lewin or to Gustavo to go through the other questions.

(Multiple Speakers)

## **A - Ricardo Lewin {BIO 20342706 <GO>}**

Okay. Well, I will start it. If you have anything to add, let me know. But Regis, if I remember all the questions that you read. But regarding yields in 2021 being still below in 2019.

Remember that we had in 2019, all at the end of 2019 that we started the government pavement BR-163. That was the most important reason for this balancement in prices for moving to North Arc or going down to Santos.

So we imagine that BR-163 maybe by unique mid-2021 to 2022. We don't foresee in our prices being affected in 2021 by a privatization 2021. But this privatization was a reason really for having the prices going back to 2019 levels or maybe the new start for improving in prices once prices were going up, actually, toll roads can increase the prices of transportation going to the North Arc by -- in other populations between BRL16 and BRL22 per ton.

So the second part of your follow-up on prior yields, you said something around (inaudible) should increase shortly and could you repeat this please, this part -- the second part of the question on the following up in yields, so --

### Q - Regis Carodoso

Yes, regarding the yields, just question on the EMEA data on the freight, the most up-to-date data point we had was from late January and it still showed prices coming down other than up. So I just wanted to make sure that this view of increasing prices you are seeing for freight is already more recent than that data points.

### A - Ricardo Lewin {BIO 20342706 <GO>}

Yes. Well, what we -- and what we have of information that from stuck from quity prices from Miritituba in the last two months have been going up, okay. So prices as fuel has been going up, we see that still are -- more or less at the level of January 2020. So at the end of the peak prices of 2020. And as the North Arc prices -- logistic prices are very influenced by fuel prices. What we have seen is the increase in the last months. Gustavo has something to complement here.

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

Yes, as is maybe the difference is because the new harvest are rising right now.

So right now, the demand for transportation is pretty high. Maybe in EMEA that data didn't capture that yet, but they will soon because the market is very -- prices are going up due to the entrance of the new harvest of soybean. So, we have checked the price with other sources as well. And right now, what we are seeing the market is higher prices. But we hope that EMEA will show that soon as well.

I think there was a missing point in your questions, Regis, before, you asked about the value of other cargoes. And as we announced in the previous earnings call, there's going to be a lot of other cargoes to be transporting in a central network. Wings are going to be the most important cargo this year because we're going to have only terminals for grains. But alongside, in the next upcoming years, there's going to be also other cargoes.

### Q - Regis Carodoso

Thank you. So, maybe just on that last point is I was maybe thinking if the other way, right, going up other than down is inputs going of more value-added products containers. I mean it's that kind of thing was part of the plan. And in also the timing of all of this especially for the guidance, right? I imagine by 2023, the central network will not be fully ramped up. So, you might want to provide a guidance for later down the road. So, that's what I'm trying to understand.

#### **A - Ricardo Lewin {BIO 20342706 <GO>}**

Regis, this is Lewin. We will be providing in some weeks the guidance and we will explain a bit more on the next few years what will happen with central network, okay. So we will not be providing anything on numbers today. But you're right, in 2023 it's on the peak. There is a ramp-up, we'll be providing guidance to 2025. So in two weeks, just to wait a little more. But you'll see that in 2025 the volumes in central network will be going up and will be close to mature, let's say, some maturity, okay. But I just ask you to wait for additional 2 weeks here as we'll be providing the guidance until 2025.

#### **Q - Analyst**

Very clear. So thanks.

#### **A - Unidentified Speaker**

Let me just complement one thing. You could take the presentation that we did as third quarter, you see that we provide all the terminals and the product that will be viewed from the central network. So, it's one of the last slides, so this gives you a good clue about what will be transporting and when, okay? So that already said about -- when you see other projects that we are -- will be transporting and other terms that would close it will today that the -- quarter presentation and things like that.

#### **Q - Regis Carodoso**

Very clear. So thanks. --

#### **A - Unidentified Speaker**

Let me just complement one thing. If you take the presentation that we did in the third quarter, you see that we provide all the terminals and the products that will be built from the central network. So, it's one of the last slides, so this gives you a good clue about what will be transporting and when, okay? So that already said about So Simo. Then you see other projects that we will be transporting and other terminals. This is a good close. It will be in the third part of the presentation and take it live on that.

#### **Q - Regis Carodoso**

Very clear. very clear, thanks.

#### **Operator**

Our next question comes from Jorge Luis with Morgan Stanley. Please, Jorge, go ahead.



**Q - Jorge Luis {BIO 15232286 <GO>}**

Good afternoon, everyone. Thank you for taking my question. Just a quick one on Malha Central. Could you provide a rough breakdown of how much of volume growth in the next maybe three to four years you expect to come from incremental production in the influence area. And how much you expect to come from shared gains from trucks and other real operators? Thank you very much.

**A - Unidentified Speaker**

Again. I just ask you to be a bit more patient. In the upcoming two weeks, we'll be providing guidance. So, we don't want to provide any guidance in this call. But although remember that we already talked about that central network is going through the heart of growth of grains in )Goias, okay. So this is the natural market for Rumo. Having said that, I'd like to remember that our market share today is 0. It will be zero. We'll be zero only for few days because we already loaded our train there. And naturally we'll be gaining a lot of market share in this area, okay.

So there is a huge growth of market share and when you compare obviously growth of the market in the same for metro, it's a bit lower than that in the north network. But there is also like if you take that at least there was a calculation that we did based on all other sources. But when we bid for Central Network, the size of the potential market for Central Network, doubling 10 years, okay. So and only for grains, okay? So then potential market in 2018 when we did was something around like 12 bonds and it double until 2020, so there is a huge gain in market share and the markets growing, okay? So, but just wait for the guide -- the long-term guidance that we do, we can provide more details on the equity.

**Q - Jorge Luis {BIO 15232286 <GO>}**

Okay, very clear. Thank you very much.

**Operator**

That concludes our question-and-answer session. Now, 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>}**

I would like to thank you everybody for participating in the call. It was a very rich conversation and see you in the next quarter. Thank you.

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

I also would like to thank you for everyone for their great questions, great conversation and we hope all of them, all of you have a great year. Thank you very much.

**Operator**

That concludes Rumo's conference call. Thank you very much for your participation. You may disconnect now. Have a good day.

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