

## Q1 2015 Earnings Call

### Company Participants

- Guilherme Machado, Investor Relations Manager
- Jose Cezario, Chief Financial Officer and Investor Relations Officer

### Other Participants

- Alexandre Falcao, Analyst
- Marcio Prado, Analyst
- Rodrigo Mugaburu, Analyst
- Rogerio Araujo, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Rumo Logistica and America Latina Logistica ALL, first quarter of 2015 results conference call. Today, with us, we have Mr. Jose Cezario, CFO and Investor Relations Officer; and Mr. Guilherme Machado, Investor Relations Manager.

We would like to inform you that this event is recorded, and all participants will be in listen-only mode during the company's presentation. After Rumo Logistica and America Latina Logistica, ALL's remarks, there will be a question-and-answer session for industry analysts. At that time further instructions will be given. (Operator Instructions).

The audio and slide show of this presentation are available through live webcast at [www.all-logistica.com.br/ir](http://www.all-logistica.com.br/ir). The slides can also be downloaded from the webcast platform. Before proceeding, let me mention that forward-looking statements will be made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Rumo Logistica and America Latina Logistica ALL's management and on information currently available to the Company. They involve risks, uncertainties and assumptions, because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

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

Now, I will turn the conference over to Mr. Jose Cezario. You may begin your conference.

## Jose Cezario {BIO 19290961 <GO>}

Good morning, everyone, and thank you for attending ALL's first quarter of 2015 results conference call. In this call, we will present as well the result of Rumo Logistica, which was disclosed last Wednesday, May 6th. So, in this presentation we will be covering the results of Rumo Logistica, the consolidated results of ALL, as well as segment rail operations and Brado.

Exceptionally this quarter we will also present the combined results of Rumo and ALL in order to give you a better idea of how we see the business follow on.

It is also worth remembering that this is the last earnings release that we will present Rumo in year end's results individually.

So let's go straight to slide 5. Beginning with Rumo ALL results, the we do below that won't fell by 8.8% in the first quarter '15 versus last year. Usually the sugar shipments in the first quarter are lower due to the harvest period and in the first quarter of 2014, we had a considerable higher level of sugar shipments which will effect of far on Coopersucar's terminal at the end of 2013, and by the price as such on that harvest, which caused the concentration of the bottom loaded in the first quarter 2014.

Despite our lower volume, net revenue remain literally flat in the quarter moving from 208 million to 206 million. EBITDA fell by 33.7% equivalent to 31 million mainly impacted by the increase in transportation cost due to higher mix of (inaudible) and by the hiring of new service provider for rail freight, with higher tariff then Rumo's negotiation with ALL, which caused reduction in the EBITDA margin from 45.5% to 30%.

Now let's move on slide 7 for consolidated results. Here you can see we ALL's consolidated results. Consolidated net revenue declined by 2.6% in the first quarter of 2015, which reduced the rail operation volume mainly as a result of the truck drivers' strike. However, it's important to mention the commercialization dynamic and how it affected our operations in this quarter versus last quarter.

Pricing trade in the quarter were much more less than in this first quarter of 2015 causing increasing volumes loaded instead of 255 million as reported.

The net results was a loss of 229 million, impacted by the increase of approximately 70 million in financial expenses in addition to the factors already mentioned, such as the strike in non-recurring expense.

Now, let's talk a little bit about the market overview. The soybean harvest and sugarcane crushing we began in mid-February-March, respectively. The first quarter seasonally recorded the lowest transported volumes in the year. In addition, we had an usual scenario of (inaudible) volumes in the first quarter 2014 represents that will be not repeated in the first quarter '15, including the anticipation of soybean import demand by China in the first quarter 2014. The transportation postponement of part of the second crop of corn from 2013 to the first quarter of 2014, and extraordinary volumes of sugar

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originated in first quarter 2014 due to the fire in Copersucar's terminal at the Port of Santos, which were shifted to Paranagua.

Also, at the end of February and mid-March 2015, the truck drivers' strike substantially impacted the shipment of grain volumes in Mato Grosso and Parana preventing the arrival of the grain at our terminal. Consequently, we could only handle already-stored volumes resulting in a reduction of around 430 million RTK in total transported volume. Brazilian exports of agricultural products fell by around 28% over first quarter '14, according to the Ministry of Development, Industry and Trade in Aliceweb. And highway freight prices on the spot markets fell by approximately 16% on the Rondonopolis-Santos stretch according to the Mato Grosso Agribusiness Institute.

And this volume fell by 8.5%, primarily impacted by the 30-day stop of the refinery and reduced demand from the construction and steel industry.

Now, let's go to slide 9, talk specifically about rail operations now. The transported volume fell by 4.2% in the first quarter '15, impacted by the truck drivers' strike already mentioned in February 2015, which lasted around 10 days, in the first quarter 2014, an usual scenario which we talked about in the market registration, as well as the reduction in industrial volume due to the economic slowdown. For the same reason, net revenue recorded a 3.1% decline to approximately 790 million.

As explained in the consolidated figures, we adjusted EBITDA for non-recurring expenses related to the conclusion of the Rumo-ALL merger. As a result, adjusted EBITDA from rail operations fell by 29.5% and the adjusted EBITDA margin stood at 35.4%.

Moving on now to Brado Logistica on slide 10. Brado's transported volumes increased by 21.5% over the first quarter 2014, while the average tariff remained flat. As a result, net revenues due by 11% quarter-on-quarter. Brado's EBITDA moved up by 16.2% to 17 million, with a margin of around 22%.

In slide 11 we show the financial results and the cash flow movement for ALL in this quarter. The financial results presented a growth in expenses of approximately 28%, mainly due to higher banking interest rate, measured by CDI in this quarter, as well as the increase in debt average balance. Additionally, other expenses mainly related to monetary variation over lease and concessional agreements. The cash flow movement showed a cash consumption of around 788 million in this quarter. We had a growth in operational cash flow of approximately 40 million, compared to the quarter of last year.

Investment cash flow increased 25%, mainly due to a higher investments in marketable securities of approximately BRL190 million, offset by a CapEx reduction of 30% in the same period. Growth in financial cash flow was approximately 49% or 164 million, due to amortization of debt principal, receivables and financial leases, in a total amount of approximately 140 million.

So, moving on to slide 13; here we present the combined results of Rumo and ALL, to give you a better understanding of the operations of the new company. As you can see, net

revenues fell by only 1.3%, reaching 920 million in the first quarter of 2015. Adjusted EBITDA recorded a reduction of 26 million -- sorry 26% to approximately 350 million, reflecting the impact as described and the usual first quarter of 2014, which was a particularly strong basis of comparison.

And as well for (technical difficulty) the combined net banking debt grew by 14.6% from 5.9 billion in the fourth quarter 2014 to 6.8 billion at the end of this quarter. This increase was basically due to the reduction in the cash position of approximately 690 million as we have explained prior in the cash flow movement explanation for ALL.

In addition, as disclosed in our fourth quarter of 2014 earnings release, the company obtained a waiver for all its creditors except for the B&F [ph] for the net debt-EBITDA ratio of up to 5.5 times.

As a result, think that except this (inaudible) would reclassify to the long-term on March 31, 2015. As a result, the first thing that in March 31, 2015 represents 55% of the total net banking debt and the long-term is 45%.

After the prepayment of the debentures, which happened late 2015, with that doing in the next 12 months, we represent around 37% even before the B&F to reclassification from the short to the long term debt. That should happen next quarter when we listed the final waiver from the B&F.

Now, let's go to Rumo's consolidated guidance on FY'15. Here this guidance is the same as it grows on April 23. There were no change than we conceal the ranges for both EBITDA and CapEx.

With this, I finished my presentation and we move to the question-and-answer session. I will be at your exposure together with Investor Relations manager as well as the team of financial department who will have to specifically issue that many (inaudible). Thank you.

## Questions And Answers

### Operator

Thank you. We will now begin the question-and-answer session for investors and analysts. (Operator Instructions) Our first question comes from Alexandre Falcao, HSBC.

### Q - Alexandre Falcao {BIO 5515455 <GO>}

Hi, good morning. I just wanted to have a little bit more clarity on the cash burn and the rate of the cash burn. I guess in the first quarter you burned more or less BRL500 million to BRL600 million. What do you expect in terms of cash burn going forward and -- that's the first question.

And second, in terms of the working capital bit that you guys invested on in this quarter. Is this a seasonal thing or we should expect this going forward as well? Thank you.

**A - Jose Cezario** {BIO 19290961 <GO>}

Okay. In terms of the working capital, as you saw, in this quarter we had relative high number of working capital needs. We are still analyzing all the opportunities in all the things that has to be done, in order to reduce this need of working capital and even if possible to take some advantage on that. We are still analyzing all the opportunities, but we are not expecting for the next quarter the same need that we saw in this quarter in terms of working capital.

So, right now, we are not foreseeing any additional needs as we saw in this quarter, but we are still analyzing and understanding all the opportunities and aspects related to that.

When you ask for the next quarter's trend in terms of cash burn, let's remember our -- first of all, let's remember our CapEx guidance. As you know, we have roughly 1 billion in terms of expansion CapEx, and 800 million to 1 billion in terms of recurring CapEx. So, first of all, let's remember all these figures. This will impact a lot in terms of cash needs.

And in terms of the financing aspects of the cash flow, we have around 1.2 billion per year, 1.1 billion and 1.2 billion per year just related to financial expense net. So, if you think that it is quite regular in terms of quarters, division of this amount, we have roughly BRL300 million in financial expenses per quarter.

So, what we are looking to the next quarters is the same trend in terms of financial expenses, even though we are still looking at opportunities and even alternatives to reduce these needs into optimize our financials 2 trillion and have all these cash position. But these are the most relevant figures. I think you have to bear in mind when you assess our cash flow position, our cash flow trend. Hope it helped you.

**Q - Alexandre Falcao** {BIO 5515455 <GO>}

Yes; thank you. And just one quick follow-up on -- there is a big package from -- infrastructure package from the government coming along. Apparently, one of the items is going to be terminals on the Port of Santos, specifically the one which is -- should be (Technical Difficulty) for grain and sugar, whatever. So, just wanted to know if you guys are looking at that, and if you were, and in what vehicle this possible acquisition will be made? Thank you.

**A - Guilherme Machado** {BIO 17920567 <GO>}

Falcao, it's Guilherme. So, we have been following up all the developments along with the agency and the government for opportunities in the new concessions. It's specifically for the port, we are following up all the developments on these aspects. There is nothing concrete at this moment that we could disclose to the market; but certainly, it's very strategic for us, the Port of Santos. So any movement will be something that we're going to look very closely. But nothing firm so far that we can anticipate for you guys.

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**Q - Alexandre Falcao** {BIO 5515455 <GO>}

But if it is done, it's going to be done in the Rumo level or in the Logistica level, just to clarify? Thank you.

**A - Jose Cezario** {BIO 19290961 <GO>}

Rumo level, Falcao.

**Q - Alexandre Falcao** {BIO 5515455 <GO>}

Thank you so much.

## Operator

Our next question comes from Marcio Prado, Goldman Sachs.

**Q - Marcio Prado** {BIO 15398968 <GO>}

Hi, good morning, everyone. Thanks again for the call. I'd like to just confirm the EBITDA adjustment that you have mentioned in the Portuguese call, in -- when you show the combined financials for Rumo and ALL, and the last-of-month EBITDA of BRL1.388 billion. If you could confirm to us the adjustment that you guys are making to this EBITDA?

And just to understand if this number is clean of the adjustment, is clean of the one-offs or has the one-offs? Thank you.

**A - Jose Cezario** {BIO 19290961 <GO>}

This is Antonio speaking. The number is clear of the one-offs. Just keep in mind that the balancing of the payables and receivables of the Rumo contract was adjusted in the fourth quarter of 2014. Therefore, when we add up the company to make a combined P&L and combined EBITDA, we need to get -- to move back that adjustment from the numbers.

But that would be the reconciling item by just adding the two EBITDAs together. And also, we did not consider that you should take into account three adjustments that would add up that EBITDA. The first one is related to the credits we have with the federal government that we made a provision in the fourth quarter of BRL56 million. Also, a tax credit that's related to IPI credit that we made a provision of 50 million in the fourth quarter of 2014; and also, the one-off that we have in this quarter related to the deal fees of about BRL33 million.

**Q - Marcio Prado** {BIO 15398968 <GO>}

Antonio, thanks for the clarification. Let me just understand a little bit better. So, the accounting EBITDA which would have taken into account the three items you just mentioned, would be lower than the 1.388 billion, is this correct interpretation? So, if I would consider the IPI credit, the merger related fees and accountings against the Federal government, if I consider these, the EBITDA would be lower? That's the first question.

And second is, with regards to the covenant, if like for covenant purposes, if the EBITDA is the adjusted EBITDA or the accounting EBITDA? Thank you.

**A - Jose Cezario** {BIO 19290961 <GO>}

Just to clarify, the 1.388 is the EBITDA straight from the financial statement with the eliminations, considering the balancing of the Rumo contract payables and receivables period.

In order to get to an adjusted EBITDA, you need to add to the 1.3888, the 50, the 56 and the 33 that I've mentioned, okay?

**Q - Marcio Prado** {BIO 15398968 <GO>}

Okay, very clear. Thank you.

**A - Jose Cezario** {BIO 19290961 <GO>}

For covenant purposes you would consider the 1.388.

**Q - Marcio Prado** {BIO 15398968 <GO>}

Okay, great. Thank you.

**A - Jose Cezario** {BIO 19290961 <GO>}

Plus the combining Rumo and ALL.

**Operator**

(Operator Instructions) Our next question comes from Rodrigo Mugaburu, Morgan Stanley.

**Q - Rodrigo Mugaburu** {BIO 20980025 <GO>}

Hi, good morning. Thank you. On the Portuguese call, Julio mentioned that the EBITDA could have been BRL45 million to BRL50 million higher, if I'm not mistaken, but it was affected by the strike -- the truckers' strike. We also know that farmers' sales during the first quarter was low; farmers were waiting for higher prices. Should we expect the second quarter to be much stronger, because those volumes are still there; it's more a timing issue. So I just wanted to understand if we should expect those BRL40 million to BRL50 million to be in the second quarter. Thanks.

**A - Jose Cezario** {BIO 19290961 <GO>}

Rodrigo, look, traditionally the first quarter, as we mentioned, is a lower quarter compared to the second and especially to the second into the third quarter of each year.

So, part of the problems that we lost in this quarter due to the strike we mentioned, be absolutely captured by our next month, April and May. But of course, this is not

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completely clear as we intend to capture it as much as we can in terms of volumes, in terms of credit [ph] possibilities using our maximum capacity, but of course, there is a maximum capacity. So, in case the market need additional capacity for a specific day, week or month that we do not have, we'll not be able to provide such service. So, there is a possibility that part of the problems that we lost in the first quarter will not be recovered in the coming months due to the reasons I mentioned.

And Rodrigo, just adding up what this is automation and for some stretches that we have some idle capacity we could eventually grow a little bit the cargoes being transported to the port, mainly in the south operations that we have, in the north is much more in line with (inaudible) but we are going to try to optimize all the flows in order to see what is possible to catch, but again, we are in line with the guidance that we get to the market, so the object is to be in the rank.

**Q - Rodrigo Mugaburu** {BIO 20980025 <GO>}

Okay. Thank you very much.

## Operator

The next question comes from (inaudible), Brasil Plural.

**Q - Rogerio Araujo** {BIO 17308156 <GO>}

Hello, good morning, everyone. Actually this is Rogerio speaking. Just a quick question, in a local newspaper today, it was mentioned that the government is starting to include the renewal of real concessions in the constructor package, to be announced in June. My question is do we expect to have the final terms of concession renewals already in June? And do you think that this term should include concession fees instead of only additional investments added to what's announced by -- in homes investment plan? Thank you.

**A - Jose Cezario** {BIO 19290961 <GO>}

Rogerio, as we have been telling to the market, our expectations in terms of renewals continue to be up to the next year to penalize all these costs. Of course we have seen in the newspapers recently, many speculations and some information that perhaps the government will anticipate some discussions in terms of new concessions in the event of the existing concession, but we cannot confirm that these dates that you mentioned, June 2015 is feasible and will happen.

Lots of things have been discussing, but we cannot confirm that it's coming so fast. So, our -- understanding the term that we told you up to the next year, to the end of next year, is a reasonable term and we have to anticipate, but it's true, just want to have this understanding right now.

**Q - Rogerio Araujo** {BIO 17308156 <GO>}

Okay, great. Do you think that it's plausible that the government includes concession fees?



**A - Jose Cezario** {BIO 19290961 <GO>}

You mean, increase the concession fees?

**Q - Rogerio Araujo** {BIO 17308156 <GO>}

No, actually, charges for concession fees in the second phase of the concession instead of only requiring investments.

**A - Guilherme Machado** {BIO 17920567 <GO>}

Araujo, it's Guilherme. This is a point that, certainly, is in the full package that we are negotiating, in our particular case, in our concession, and all the negotiations which include the extension of the trends of the concession, potential discussion of return of some stretches to the government and also all the liabilities are being discussed in a combined section that certainly we'll potentially include some of these negotiations. But we cannot anticipate so far what is going to be the overall end game of these or the final format for this. But as soon as we have more color on these, we're going to update the market.

**Q - Rogerio Araujo** {BIO 17308156 <GO>}

Okay. Thank you very much.

**A - Guilherme Machado** {BIO 17920567 <GO>}

You are welcome.

**Operator**

Thank you. That concludes the question-and-answer session for investors and analysts. I would like to invite Mr. Jose Cezario to proceed with his closing statements.

**A - Jose Cezario** {BIO 19290961 <GO>}

Thank you very much for your participation in our conference call, and see you soon.

**A - Guilherme Machado** {BIO 17920567 <GO>}

Thank you.

**Operator**

This concludes the Rumo-ALL conference for today. Thank you very much for your participation. Have a good day.

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