

## Q4 2012 Earnings Call

### Company Participants

- Aurelio Pavinato, CEO
- Ivo Marcon Brum, CFO, IRO
- Unidentified Speaker, Unknown

### Other Participants

- Martin Tapia, Analyst
- Robbie Jane, Analyst
- Rodrigo Mugaburu, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. Thank you for waiting. At this time, we would like to welcome everyone to SLC Agricola Fourth Quarter of 2012 Earnings Conference Call. Today, we have with us, Mr. Aurelio Pavinato, CEO and Mr. Ivo Marcon Brum, CFO and Investor Relations Officer.

We would like to inform you, this event is being recorded and all participants will be in listen-only mode during the Company's presentations. After the Company's remarks are completed, there will be question-and-answer session, at that time further instructions will be given. (Operator Instructions).

Also, today's live webcast, both audio and slide show, may be accessed through SLC Agricola website at [www.slcaagricola.com.br](http://www.slcaagricola.com.br) in the investor relations section by clicking on the banner Webcast 4Q12. The following presentation is also available to download on the webcast platform. The following information is available in thousand of Brazilian reais and in IRFS, except when otherwise indicated.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of SLC Agricola management and on information currently available to the Company. They involve risk, uncertainties, and assumptions because they relate to future events and therefore depend on the circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of the Company and could cause results to differ materially from those expressed in such forward-looking statements.

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Now, I'll turn the conference over to Mr. Aurelio Pavinato, CEO. Mr. Pavinato, you may proceed, sir.

## **Aurelio Pavinato** {BIO 16456795 <GO>}

Well. Good morning, everybody and thank you for -- thank you for participating at our SLC Agricola conference call for the Fourth Quarter and full year 2012 results.

We may now move to slide three, where will highlight some of the Company's achievements in 2012. Our volume invoice was 21.4% higher than 2011. Mainly due to the increase in -- plus the area between year 2010, '11 and 2011, '12 crop years. We conclude the LandCo Project with the bridge private equity funded Valiance, the conclusion of this project will enable us to acquire some 80,000 hectares, being approximately 52,000 for planting.

We also obtained the tribe certification at Planalto farming, ISO 14001, NBR 16001 and OHSAS 18001. The obtainment of these certifications is a pillar for the sustainable production and will be replicated to the other farms in the following years.

Moving on to slide four, we present the overview of the joint venture with Soares Penido group, disclosed to the market two material facts, date March 8th. SLC Agricola will own a 50% stake at the new company that will be created. The purpose of this enterprise is to explore area of 20,000 hectares at the State of Mato Grosso. The area today is pasture land, the soil could actually be necessary to begin the agricultural operation. The total potential planted area is estimated at 30,000 hectares, once the project is to plant a second crop, at least 50% of the physical area.

At slide five, we present the evolution of the international prices for our main products. In 2012, soybean price were at the high levels, having reached a new historical record of \$17.8 per bushel at the CBOT during the peak of the summer in the United States, due to the problems caused by the drought. The average yield in the United States was about 10% in comparison to the initial forecast, according to the USDA.

We see these sharp declining yields, Brazil, and Argentina made the considerable increases to the planted area for (certain). However, at the moment, the highest production forecast from the USDA for the region, 83.5 million tons for Brazil and 55 million tons for Argentina, already suffered some official reductions. For Brazil Conavi currently forecasts a production of 82 million tons.

Then for Argentina, Buenos Aires Cereal is forecasting 48.5 million tons. Once the profit in the south hemisphere is consolidated, attention will be brought to the United States, where the market at this point is forecasting a full crop.

Cotton prices signaled our reaction at the end of 2012 and beginning of 2013. After some months of stability in the (quotations). The main reasons behind this is the fact that most of the surplus in global output essentially was absorbed by the Chinese government, that

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with the policy of sustained price for the crop producers and increasing its inventories, but (inaudible), both from the local and external market.

This crop is now immediately for the -- is not immediately available for the market. This way, other crop imports such as Turkey, Pakistan, Bangladesh and Indonesia, among the others needed to sort the cotton from producing countries and Brazil, the United States, India and Australia, where inventories are at a lower level, which end up by increasing cotton prices.

Also, the International Cotton Advisory Committee is forecasting a 14% decrease in global output for 2013, '14. In the Brazilian production is forecast to be (25.5%) lower in 2012, 2013 against 11/12, due to lower price -- lower prices and lower planted area. On the top of that, considering that Brazil is important export of cotton, the internal market should pay a positive premium for the product to avoid (catastrophe).

Corn importation also posted record highs in 2012, having reached \$8.3 per bushel in Chicago, in response to the severe drought in the United States. The poor weather condition ended up translating to significant yield loss (deci) according to the USDA was (26.5) against the initial forecast, a total of 103 million tons. Given the persistence of the tight scenario for the old crop, corn in the United States, the new 13/14 crop will be crucial to balance the global corn demand.

Please let's move to the slide six where we show update numbers related to the operational performance of our field in 2012/2013. In First Quarter 2012, we've analyzed the planting for cotton and corn first crop. Besides having conduct the cotton (randomly for soybean). In the months of January and February of 2013, we begin the harvest of inspecting at the (center west) region and the consequent planting of the second crop futures cotton and corn.

For soybean, since 7% of the area was already harvested as of February 28. We made an adjustment for the expect yield due to lack of the rainfall that the farmers in Bahia and Piaui states. It is the second consecutive year with this abnormal climate behaviors. This also impact forecasts yields for corn first crop, bring an expected reduction of 7.2% against the initial forecast.

Now, I will pass it over to the colleague, Ivo Brum, CFO and IRO for the comments on the financial results for the period.

**Ivo Marcon Brum** {BIO 16639894 <GO>}

Thank you. Good morning. Let's move to slide seven, where you have a summary of our income statements for 2012. Our net revenue increased 11.2% due to the increase in the volume and price of the invoiced products. Gross profits totaled BRL253.8 million, a reduction of 30.3% in comparison to 2011, chiefly due to impacts on biological assets on the cotton crop, once cotton price were at the lower level at the harvest period. Excluding the effects from biological assets, gross profits in the year was off BRL300.9 million

against BRL330.2 million in 2011, mainly due to the variation in the effects hedge results between the periods.

The operational cash flow measured by the adjusted EBITDA in 2012 was of BRL290.3 million, against BRL291.7 million in 2011, with a margin of 29.5%.

Net profit was of BRL38.4 million in 2012, against BRL159.9 million in 2011, this variation occurred mainly due to a reduction in gross profit as already commented, added to the negative impact of BRL45.4 million from monetary variation at net financial results, against a positive results of BRL2.7 million in 2011.

The monetary variation was negative in 2012, due to the increase in the selling price in reals, which is indexed for the Company's debt related to land acquisition. The effective income tax rate was 47% in 2012. The high rate was also due to the recognition of the monetary variation, once one of the Company's subsidiaries, is taxed under the presumed profit methodology, this variation is not included in the calculation of the tax, only the presumed profit methodology.

With the event our reduction in the selling price, there will be a positive monetary variation, which will not be taxed due to the compensation of the previous monetary variation.

We may now move to slide eight, where you present the breakdown of our net debt. Company's gross debt closed the year at BRL810.8 million, an increase of 26.7% on 2011, due to loans received for working capital investments, both in dollar terms, and also an increase in the rural credit line.

With that, company's net debt closed the year at BRL653.6 million, or 2.2 times EBTIDA against 1.6 times at the end of 2011.

Thank you. And now you open the call for questions.

## Questions And Answers

### Operator

Thank you, sir. Ladies and gentlemen. we will now initiate the question-and-answer session. (Operator Instructions) The first question we have comes from Rodrigo Mugaburu of Morgan Stanley. Please go ahead.

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

Thank you. Hi Aurelio, hi Ivo. I have two questions, actually, one on the Grupo Dois Vales JV. I want if you can give us some more detail in addition of the land that they're going to contribute, are they also going to contribute cash or any other basically contribution to get to the 50% stake? That's the first question. And the second, related on the yields. The

drought that you mentioned in Piaui and Bahia, do you think that also that could have a negative impact on cotton looking forward? Thank you.

**A - Aurelio Pavinato** {BIO 16456795 <GO>}

Yes, hi, Rodrigo. Pavinato speaking. The JV with Dois Vales, we are going to establish a company and so (inaudible) we'll have 50% of the Company and Dois Vales another 50% of the Company. So the same amount of cash we are going to put, they are going to put. So and this company will work on -- will lease the land from the Israelis or we are we are discussing it leasing or partnership. So this company we pay some value for the land for Dois Vales and this company, and we will be partners on this company.

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

Okay. Thank you.

**A - Aurelio Pavinato** {BIO 16456795 <GO>}

(inaudible)

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

(inaudible).

**A - Aurelio Pavinato** {BIO 16456795 <GO>}

And the second -- the second question about the drought in Piaui and Bahia they -- we had some rains over the last two weeks, actually in Piaui and Bahia, in our case we have the -- we had the quarter only on two farms, of the (other) farm is there so as we had some rains on that farm, the cotton yield will be (inaudible) on our farms in that region.

In the areas of the region, in Bahia especially, because in Piaui there are not -- actually there is a few cotton in the area of the region. It might (accept) that we are going to some yield reduction.

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

Okay. Great. Thank you.

**Operator**

The next question we have comes from Martin Tapia of Raymond James.

**Q - Martin Tapia** {BIO 19204832 <GO>}

Hi. Good morning. Thank you for the call. I would like to know which is your plan for the CapEx in 2013?

**A - Unidentified Speaker**

(inaudible).

**A - Aurelio Pavinato** {BIO 16456795 <GO>}

Our CapEx approved by the board is BRL146.5 million for this year.

**Q - Martin Tapia** {BIO 19204832 <GO>}

Perfect. Thank you.

**Operator**

(Operator Instructions) It looks like we have a follow up from Rodrigo Mugaburu of Morgan Stanley.

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

Thank you for taking the question. Aurelio, can you give us an update on LandCo, where we are in the negotiations with farms? Should we expect any acquisition any time soon? You can give an overview on the land market, where are you seeing in Brazil in currently?

**A - Aurelio Pavinato** {BIO 16456795 <GO>}

We are on the market and we are prospecting -- we are negotiating, so we intended to close some deals in the few -- next few months -- few months, in terms of LandCo. Actually, as you know -- probably know, we postponed the decision to buy the land because the selling price was too high last year, so it was for now the basis came -- or the price came to the normal -- we can say a normal comparable price comparison to (Chicago) (inaudible), so now you can see it's right time to negotiate the land.

And the price of land in Brazil, the price land increase over the last few years you can say, you can say that increase a lot, actually the years of last 10 years increase 9% a year, last year in some region increased 15%, some 20% last year. As I said, mainly due to this high selling pricing.

As you know, the future soybean prices can be stable, can be lower, so, as the soybean -- the land prices come active in soybean pricing, we are negotiating, we are but you -- our decision to (inaudible) to negotiation to do a good deal.

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

Okay. Thank you.

**Operator**

Next we have (Robbie Jane) of HSBC. Please, go ahead.

**Q - Robbie Jane**

Hi. Good morning, guys. I just -- could you give us an update on your plans for sugar cane and your plans to grow outside Brazil, please?

### **A - Aurelio Pavinato** {BIO 16456795 <GO>}

Sugar cane is a new crop for us, so this year we are planting almost 500 hectares of sugar cane that our first field. So is -- can say is a cash field for us to learn, to develop the technology, to understand the crop. So our long term strategy is to increase the planted area of sugar cane, but we intend to go slowly to understand the market, to understand the crop itself and maybe in seven or eight years to reach something like 5% or 10% of the -- of our area. Is the idea in terms of sugar cane.

Actually, we include the sugar cane as a -- can see a fourth crop on our company, now we have cotton, soybean and corn. So sugar cane will be a fourth crop on our company. We are started a new crop as a second crop, sunflower as well, so we intended to start these new two crops on the Company, sunflower and sugar cane. To be part of this crop, this business, and to diminish the risk because we have a 14, now 15 farms spread out in the (other) regions, so we minimized the rather risks, if it is four or five crops, we also minimize the market risks, and the weather risk as well because depend on the crop, you can have some big or lower losses (inaudible) as well.

About the -- to go to our other countries, we are evaluating, discussing, we have some, we can say good opportunity in South America. We analyze to go to Africa, but to go to Africa, we decided to postpone to our long future because in our review is not the best -- the goodest time to go to (Africa) all day, because it's not possible to buy land there.

So the real estate business is not -- they will not have real estate business, only the farming business. So to own the farming business is not impressing to be the first to go to a new frontier where there is a lack of everything. A lack of labor, a lack of logistics, a lack of everything. So this is now our decision to postpone for a long term this -- some project in Africa that can be in long future the new frontier of the world.

But in South America, we can say that we have some opportunity, we have evaluate. But now at this time, we are focused in Brazil, because we have this LandCo project so we intend to buy this land and to develop this land. So we had a -- and we had a really good opportunity in Brazil. So we are working harder to develop this project and to deliver what we promised on our agreements with the (bank).

### **Q - Robbie Jane**

Very helpful. Thank you, so much.

### **Operator**

(Operator Instructions). It appears that we have no further questions at this time. We'd like to first thank management for your time, this does conclude today's presentation. At this time, you may disconnect your lines. Thank you, everyone, and have a great day.

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