

## Q1 2012 Earnings Call

### Company Participants

- Eduardo Machado de Carvalho Pelleissone, Managing Director
- Paulo Luiz Araujo Basilio, Chief Executive Officer
- Rodrigo Barros de Moura Campos, Chief Financial Officer and Investor Relations Officer

### Other Participants

- Mark Suarez
- Nicolai Sebrell
- Raian Santos

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome you to América Latina Logística's First Quarter 2012 Earnings Conference Call.

Today with us we have Paulo Basilio, CEO; Eduardo Pelleissone, COO; and Rodrigo Campos, CFO and IRO for ALL. We would like to inform you that this event is being recorded and all participant will in listen-only mode during the company's presentation. After ALL's remarks are completed, there will be a question-and-answer section at that time. Further instruction will be given. [Operator Instructions]. The simultaneous webcast can be accessed through ALL's IR website [www.all-logistica.com/ir](http://www.all-logistica.com/ir). The slide presentation may be downloaded from this website. Please feel free to flip through the slides during the conference call. There will be a replay facility for this call for one week.

Before proceeding, let me mention that forward-looking statement are based on beliefs and assumptions of 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 condition, industry conditions and other operating factors could also affect the future result of ALL and could cause result to defer materially from those expressed in such forward-looking statements.

Now I'll turn the conference over to Mr. Rodrigo Campos, CFO and IRO for the company for a brief explanation of how ALL's figures are presented. And then Mr. Paulo Basilio, CEO, who will start the presentation. Mr. Campos you may begin the conference.

## Rodrigo Barros de Moura Campos {BIO 16203706 <GO>}

Thank you. Good morning, everyone.

Before to pass to Paulo I would like to give you some brief comments on the numbers we are releasing in this presentation here. When we talk about the consolidated numbers, we will be comparing the numbers released in 1Q 2012 with the number we released in the 1Q 2011.

For a better comparison, when we talk about the discussions of the business units, we will compare the numbers released in 1Q 2012 with the pro forma numbers of 1Q 2011 as if Brado and Ritmo had been created in the 1Q '11.

With that, I would like to pass to Paulo Basilio to start the presentation.

## Paulo Luiz Araujo Basilio {BIO 15046605 <GO>}

Thank you, Rodrigo. Good morning, everyone. I'd like to present ALL's first quarter results. And as usual I am going to start with the quarter highlights. Then I am going to pass to Eduardo to go over the business results in a more detailed way.

Going to slide four, we consider the business highlights in the 1Q. EBITDA in the consolidated basis grew 6.4%, achieving R\$320 million in the 1Q.

Given facing a top market that we because of the drop in 80% of the drop that we have in Brazil, the Brazilian railway volumes grew 7.6% pushed by a 11% grow in the Ag business segment. But our yields were down 3.5% pressured by the spot market. But we were able to hold EBITDA margins to managing fixed and the variable cost, which was very good in the tough scenario that we have.

The new business posted volume growth of 17% in Brado and 11% in Ritmo, where we had a good advantage and we have a good advance in the mines certification process and port license in Vetria, which is our mining project released last December.

In last Friday we announced that Eduardo Peleissone is stepping up as the new AR CEO in the end of next month. Here, I would like to say that Eduardo has been Vice President of the company since 2005, with strong experience in operational and commercial areas. And since the end of last year he has been in charge of the Rail Division.

I am very pleased that the Board agreed with my indication of Eduardo to replace me as the new CEO. And I would like to say that we share the same visions for the company, culture and the business model of the company as in the following years.

That being said, I would ask Eduardo to participate and to present our rail business. Thank you.

## Eduardo Machado de Carvalho Pelleissone {BIO 7120426 <GO>}

Thank you, Paulo. Good morning to all.

Now we start presenting the rail operation in Brazil on page six. The rail volumes grew 7.6% in Brazil, another quarter that the volume growth was supported by productivity gains, especially in commodities that we grew almost 11%. Our EBITDA grew 3.3% to almost R\$305 million with stable margins.

Going to page seven, we show that Brazil's soy bean and corn crop in ALL's region is estimated to fall 7.1%. Excluding safrinha, the second crop with the harvest supposed to be on July, is expected to grow around 38% in 2012. Even with excluding that, the production in our region might fall around almost 80%.

In Mato Grosso, the first crop should grow around 7.5% in 2012. So, we might expect a not so tough markets in our large gate, our grain cargo comes from the state of Mato Grosso, where we expect the corn and soy beans crop increase around 18%, especially second semester. But a very tough market in the South of Brazil, where the grain crop should decrease 25%.

Going to page eight, as the crop falls, the transportation demand reduce and the freight price in the spot market that represents 30% of our volume. The other 70% is locked in take-or-pay agreements, decreased almost 23% according to Sifreca, a highway freight information from the University of São Paulo.

Going to page nine, as I already said on another quarter, our growth was supported by productivity gains, without material additions of locomotives and railcars. With productivity we increased 7% and 9% respectively.

Going to page 10, even in a tough market as we showed before, in our agriculture segment, the volume grew almost 11% in this quarter, and our market share changed from 70% to 76%.

Going to page 11, in commodities, the net revenues grew 6.1%, driven by almost 11% volume growth and a 4.1% decrease in yields caused by the spot market as already explained. EBITDA grew 5.1% to almost R\$232 million, which was very good job to reduce our costs and maintain the EBITDA margins.

Going to page 12, in the industrial segment volumes increased 1%, driven by 18.5% growth in intermodal flows, and partially offset by a 12% drop in pure rail flows, which suffered with a volume drop in civil construction and field product segment 23% and 10% respectively.

Going to page 13, in industrial products, our net revenues decreased almost 2%, driven by a 1% growth in volumes and an almost 3% decrease in yield. Our EBITDA decreased 2% to

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R\$73 million, again, a very good job to reduce our costs and maintain the EBITDA margins.

So, just to summarize is that quarter that our volume grew 11% in commodity, a good growth, our yield decreased in the first quarter as the first crop in ALL's region falls almost 80%, pressure from the freight price in the spot markets. And we did a very good job to reduce our costs and maintain EBITDA margins.

Talking about Argentina, in the first quarter Argentina grew 22.5% to almost R\$1.5 million, increasing our yields and with stable margins. Our yield increased almost 32% and our volumes increased around 4% in the 1Q.

I am now passing the word to Rodrigo.

**Rodrigo Barros de Moura Campos** {BIO 16203706 <GO>}

Thank you, Eduardo.

Going to Brado, our container business volume increased almost 17% in the 1Q 2012. When we open this volume growth, we can see that the volume growth came basically from two corridors that we add additional railcars and locomotives to capture volumes and gain market share.

So, the first one was corridor of Rio Grande as volumes increased like 72% as we added a 111 refurbished rail cars and two locomotives. And also the White Gate corridor which goes from Mato Grosso to Santos, where we grew 51% in terms of volumes with addition of a 145 new spinning rail cars and two locomotives.

The volume growth was not bigger because I mean the Mercosul corridor, which is the corridor which links São Paulo to Buenos Aires. Volumes went down like 12% because of the import restrictions in Argentina, which created a very inefficient customs, process which impacted the transit times of our rail cars and volumes that we hold there.

Going to slide 16, we can see that Brado revenue increased 17%, EBITDA increased 18% and our margins increased, a little... improved a little bit from 16.4% to 16.7% from 1Q '11 to 1Q '12.

Moving to page 17, when we released the results of Ritmo, which is our trucking business, we see that volumes increased 11% in 1Q 2012. You see that the volume growth is basically related to the intermodal operations. I mean you can open the Ritmo operations in two big business units, dedicated operations and intermodal operations.

When we look to the dedicated operations of volumes was stable. Actually it is going down a little bit to 0.7%, with a good quarter in specialized assets unit but which was offset by a 30% volume drop in the automotive unit, which also was affected by the

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import restrictions in Argentina. The automotive business units basically have transportations between São Paulo and Buenos Aires.

So, dedicated operation with stable volumes and we start this intermodal business unit, remember that when we created Ritmo we had this big opportunity to start to take, to participate on these trucking connection market around the railroad. All the trucking connections that bring cargo to the railroad, it would be a good opportunity for Ritmo to capture that. So, these operations started with a volume of R\$2 million remunerated kilometers in 1Q12.

Going to page 18, we see that net revenues of Ritmo increased 10% which is basically the addition of these new intermodal operation, but the EBITDA got stable as compared to the last year. I mean dedicated operations were stable with a stable EBITDA. Intermodal operation we start to do these R\$2 million volumes. But I mean EBITDA in these intermodal units is already close... is still close to zero because in order to capture these volumes we added the team structure, the fixed cost structure and ads the transportation of the crops to start, which should happen in the 2Q and 3Q. Volumes should grow and we should start generate EBITDA on this business unit and the operational leverage should take place.

Then we go to page 19, just to give an update in Vetria, remember that in the next year and a half in Vetria we should address four base areas, four different areas. The first one is the certification of the mine. The second is to have the environmental licenses for the project. The third one is to get the governmental approval, and the fourth one is to bring a new investor to the project in order to finance the CapEx which will be needed..

I mean we started the first three fronts: so certification, environmental license and governmental approvals. We already got the approval of the antitrust authority in Brazil for the project. And once all these fronts are more robust, are more advanced, we will start the process of finding a new investor for Vetria..

When we go to page 20 and we start the financials we see that our consolidated revenues increased 16.2% in the 1Q.

Going to page 21, we see that our EBITDA increased 6.4% in the 1Q and margins dropped from 46% to 42%. Here, I mean the margin drop is basically related with the mix of new businesses.

Remember last year we didn't have this Ritmo business, this trucking business and also the Brado business, the container business. So, this margin drop reflects mostly the mix of different businesses. Because of the individual business we didn't lose margins, we got margins more or less stable, as compared to the previously quarter.

When we go to page 22, the net income, we see the net income gets stable, as compared to last year, with the operational income increasing marginally, which was offset by a marginal increase also in the interest expenses.

And going to page 23, when we see our balance sheet, I mean EBITDA increased... the ratios increased from 2.4 times net debt to EBITDA to 2.6 times, and here are two main things. We keep doing our CapEx related. These new projects of Rondonópolis, which we should end at the end of this year. So it's an additional CapEx which pushes our leverage up. And also the 1Q is the lowest season quarter we have throughout the year, so it's normal to have a peak in leverage in the 1Q of every year.

With that, I would like to pass to Eduardo Peleissone, who would like to make some additional comments.

**Eduardo Machado de Carvalho Pelleissone** {BIO 7120426 <GO>}

Thank you, Rodrigo.

Well, this year we started to operate a new terminal in the city of Itiquira, which is a very important step for us in our construction of the new rail to Rondonópolis. Itiquira opens a new market for us, a market around 2 million tons a year, and we are under schedule to be finished and to be in Rondonópolis on December.

We started the first phase of the rail duplication in the State of São Paulo, between Campinas and Santos, specifically between Caucaia and Embu, which will bring a lot of productivity to our assets in the second semester.

And, as we said, we should face a very tough market environment in 2011. That should be more pronounced in the first half of 2012, and the second crop of corn, which will be harvested in the beginning of July. It is estimated to grow 38%. That means that the second semester should be not so tough as we are facing the first semester.

Obviously, we are very happy with the process. I would like to thank Paulo for the support, and thank you that ALL strategy does not change. Our focus maintain in gains of productivity in order to become free cash flow positive, which we expect happens next year.

In our new businesses Brado, Vetría and Ritmo, we want to create value without effects... without any effect in ALL's free cash. And we want to take advantage from the opportunity that the new sector regulation will create.

I would like to open for questions. Thank you.

## Questions And Answers

### Operator

Thank you. The floor is now open for question. [Operator Instructions]. Our first question comes from Nicolai Sebrell of Morgan Stanley. Please go ahead.

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**Q - Nicolai Sebrell** {BIO 7321622 <GO>}

Good morning, gentlemen. I was wondering if you could talk a little bit more about Argentina and whether you are still exploring strategic alternatives for that unit. Any information you could give there will be helpful?

The second question, if you could talk a little bit more about the yield environment, the spot market and what your outlook is for the rest of the year. Obviously it's been a tougher environment and maybe we expected for 2012 so far and might we expect that to improve in the second half, particularly the harvest pick up and then shipping.

And if you could answer third question just quickly, any progress on the COSAN purchase? What's the status of that? I understand there is some negotiations going on.

**A - Rodrigo Barros de Moura Campos** {BIO 16203706 <GO>}

Nick, I will start with the question of Argentina. I mean there is not anything that we can talk in addition to the material effect we did.

Actually, we had that material effect because we knew that there was some news about that would be released on the subject, so we had to do the material fact. We received some proposals, but the conversations are on the very beginning stage so there is not too much we can talk about the subject. Of course, I think everybody knows that Argentina assets is not strategic for us. We would consider proposals to sell that business, but I mean nothing that I could comment right now.

**A - Eduardo Machado de Carvalho Pelleissone** {BIO 7120426 <GO>}

Nick, Eduardo speaking.

About the spot market, we should circle more in the first semester. In July, we might have the harvest of the second crop of corn. We expect that that crop increased around 40% against 2011. As we stay competitive in international market to export corn, so we should not suffer that much on the second semester with the exportation flows through the Port of Santos and Paranaguá that we should have with the corn.

**A - Paulo Luiz Araujo Basilio** {BIO 15046605 <GO>}

And this is Paulo, talking about the COSAN deal. We have no deals about the... that is also a negotiation. But we know and that we've been discussing with the current shareholders that they are discussing to see if they agree in the new agreement, in the new shareholders agreements in all the negotiations issues that we are discussing. That's only the net information that we know.

**Q - Nicolai Sebrell** {BIO 7321622 <GO>}

Okay, understood. Thank you very much.

**Operator**

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Our next question comes from Raian Santos of Citigroup. Please go ahead.

### Q - Raian Santos

Hello there everyone. I would like to ask you what's the latest on ANTT CapEx requirements? And if they do design more CapEx to come, how do you expect to be compensated? Thank you.

### A - Rodrigo Barros de Moura Campos {BIO 16203706 <GO>}

Raian, there is no additional CapEx requirements from ANTT, so what there is, is that there is some rules that we called low -- rules that should be delivered or should be maintained to keep the same kind of maintenance that we had prior to get this rail concession. So in all these low density tracks, we have a plan that we set with ANTT of CapEx there. But it's not new and it's all now a 650 million guidance of CapEx. So, there is not new requirement of CapEx for the ANTT.

### Q - Raian Santos

Sounds good, sounds good. Very clear. Thank you.

### Operator

[Operator Instructions]. Our next question comes from Mark Suarez of Euro Pacific Capital.

### Q - Mark Suarez {BIO 16366613 <GO>}

Good morning, gentlemen. Just looking at your volumes, you had volume losses in growing traffic in Q1 with the exception of soy and soymeal for the same train we are seeing as of late.

When you say that any potential volume offside this, as you very much depend on the strength of the second corn crop and then green production in Mato Grosso, would that be fair assessment? Just want to get a sense of what are those sort of two big variables going forward this year?

### A - Rodrigo Barros de Moura Campos {BIO 16203706 <GO>}

Mark, I believe that, of course, we are facing a very tough market, even tougher than we expected, than it was anticipated. So, I think that even the under the guidance of 10%, the volumes of the 1Q was good and 7.6% gaining strongly market share.

If you take only the crop which was harvested in the 1Q we are talking about the market growth going down like 18%. So, these are big drop in market. We are still gaining market, are still gaining productivity so it was good.

I believe that in the second half of the year, will be an opportunity with increase in the corn crops. So I believe you are right. We have an opportunity here. But when you think overall the year we should face a tougher market sure. Because the balance of the crop

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would be like 7% to 8% lower than last year. What I mean the tougher market we will face is exactly 1Q and 2Q of this year.

**Q - Mark Suarez** {BIO 16366613 <GO>}

And with that assuming a likely improvement as you said of crop transportation demand and with the expectation of increasing industrial activity, will you say that we should expect a stronger rebound in steel product volumes, if you look at the industrial segment as move into the second half of the year?

**A - Eduardo Machado de Carvalho Pelleissone** {BIO 7120426 <GO>}

Yeah, sure Mark. Especially in the alcohol or ethanol transportation that should start at the end of the second semester, second quarter.

**Q - Mark Suarez** {BIO 16366613 <GO>}

Got it. And just to maybe, I don't know maybe I missed this in the earlier conference call. Just trying to understand why the management changed at this point. I don't know Paulo, maybe you can comment after the main catalyst or reason behind your move to sort of step down as the CEO, that will be great?

**A - Paulo Luiz Araujo Basilio** {BIO 15046605 <GO>}

Mark, I know, we did not mention anything in the last call. After 12 years in the company, I just decided for personal reasons to leave. And I think that Eduardo and I am very glad that Eduardo is ready to step up as CEO. We've been working together in the last 10 years in the company. So, no specific reasons, mainly in our personal reason, okay?

**Q - Mark Suarez** {BIO 16366613 <GO>}

Okay. Thank you.

**Operator**

We have a follow-up question in queue from Nicolai Sebrell of Morgan Stanley. Please go ahead.

**Q - Nicolai Sebrell** {BIO 7321622 <GO>}

Hey guys. Thanks for taking my follow-up. Two questions in the follow-up. The first is the project infrastructure rail project up for the north from you by VALEC. When do you think that might be ready for operations? And is that something that you've been looking into or making any plans on potentially participating, in other words operating, rolling stock on that network?

And then the second is not too long ago the regulator reduce the ceilings on some of your tariffs. Now with this Selic rate falling further, do you there is likelihood of doing another review? And if you could just explain a little bit what is the period of this or how

often can the regulator review rates and, and what is their ability to change in terms of how much flexibility they have in their decision to change rates going forward? Thanks.

**A - Paulo Luiz Araujo Basilio** {BIO 15046605 <GO>}

Nic, considering the new rail lines that the government is building, I mean it is very hard to anticipate the schedule for that. It could take two years, three years or even more because it depends on the government schedule.

Sure. We see this as a big opportunity like I mean once the rail line is there the government wants to open that in this open model that anyone could pass a train thing right of ways and we see no one more that have more know-how wide-scale than us to operate those lines. So, we are completely prepared to operate those lines when those lines are ready. And in a model which is very free cash because I mean in a very more asset like model that we are speaking. Because I mean just to buy trains passing through lines being only rights of ways. So that's how we see the new CapEx from the government.

And about the tariff ceiling just to make it more clear, I mean there is not the resolution regarding the tariff ceiling, yet. What happens is that there was a public audience where the government presented a methodology and this methodology would result in lower tariff ceilings.

Of course, we still have a cushion with the tariff ceilings that exist today. So we don't expect a major impact if these methodology that government presented would prevail. But I mean that's not what happened yet. I mean the public audience ended in the end of April. There are a lot of distortions in this methodology. I don't know if you want to enter on details here, but we have been talking about these distortions.

We pointed on our contributions on the public audience all the distortions we see. And now ANTT has a to analyze all the contributions in order to see what they will change the methodology, what they will not change in methodology in order to public to release a new resolution on this subject.

So there is resolution on the tariffs yet. It should come in a month or two months. It's hard to know because it depends on ANTT's schedule on the subject. One is it's said I mean what ANTT wants is to do a tariff revision every five years if they follow what they proposed in the public audience. But it's an open subject yet. Discussions are happening. Contributions were made. So let's see what's the next steps on the subject.

**Q - Nicolai Sebrell** {BIO 7321622 <GO>}

And your contract allows for that. I apologize I don't remember what was in your contract in terms of the ability for the government to reset tariff freights... tariff ceiling, excuse me?

**A - Paulo Luiz Araujo Basilio** {BIO 15046605 <GO>}

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I mean, Nic, the process, the way that ANTT is conducting this process, there are two kinds of problems with the process. There is a legal problems and which is inline with your questions here. And economic problem the way that the methodology, the way that the tariffs are calculated by ANTT methodology.

Now our concern is basically armed as economic stream. I mean if the economics of the methodology is okay, or else it's also okay. I wouldn't have a problem. I wouldn't go to legal issues and fight against legal issues. So, our main concern is on the economics of these tariffs position.

But if you want to enter into a legal client, I mean what our agreement says is that you could have a tariff revision every five years. But only if there was some this equilibrium in the economics of the agreement. So, something that was not anticipated on the privatization option happened which creates... which caused an impact in favor or against the concessionary. So, only in this case you could review this price gap. Otherwise, the price gap should increase with inflation.

So, I mean there is a legal problem the way the ANTT is doing that. They are doing that as an ordinary thing. And clearly through looking at the contract they should a motive to do that, they should have something that had basically created the equilibrium of the concession contract.

What I mean, again this is not our major concern. Our major concern is to have a methodology that makes sense. And here it's simple. I mean we believe that their well sense prevail that the methodology will be reviewed to makes sense in economical terms. But if don't I mean we go to the court, I mean we have strong case.

**Q - Nicolai Sebrell** {BIO 7321622 <GO>}

Yeah, that makes a lot sense. Thank very much for the response.

**Operator**

We have no further questions in queue at this time. I will now turn the call over to Mr. Paulo Basilio for final consideration. Mr. Basilio, you may give your final consideration.

**A - Paulo Luiz Araujo Basilio** {BIO 15046605 <GO>}

Okay. Thank you, everybody. I'd like to say that Rodrigo, Eduardo and myself are available for furthers questions that you may have. And please, I would like to wish Eduardo in this new function of the company. Thank you. Have a nice day.

**Operator**

Thank you. This concludes ALL's earnings conference call. You may disconnect your lines at this time.

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