

## Q3 2020 Earnings Call

### Company Participants

- Gustavo Marder, Investor Relations Manager
- Ricardo Lewin, Chief Financial and Investor Relations Officer

### Other Participants

- Andre Hachem
- Bruno Amorim
- Regis Carodoso
- Rogerio Araujo
- Stephen Trent
- Victor Mizusaki

### Presentation

#### Operator

Good afternoon, ladies and gentlemen. We would like to welcome everyone to Rumo's Third Quarter 2020 Results Conference Call which will be led by Mr. Ricardo Lewin, Chief Financial and Investor Relations Officer.

We would like to inform you that this event is recorded and all participants will be in a listen-only mode during the company's presentation. After Rumo's remarks, there will be a question-and-answer session for investors and industry analysts conducted by Mr. Ricardo Lewin, CFO together with Mr. Gustavo Rosa, Investors Relations Executive Manager. At that time further instructions will be given. (Operator Instructions)

The audio and the slideshow of this presentation are available through a live webcast at [ir.homolog.com](http://ir.homolog.com), and the slide can also be downloaded from the same IR website.

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's management and the information currently available to the company.

They involve risks, uncertainties and assumptions because they relate to future events, and therefore depend on circumstance that may or may not occur in the future. Investors should understand the general economic conditions, industry conditions and other operating factors could also affect the future results of Rumo and also cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Ricardo Lewin. Mr. Lewin. Mr. Lewin you may begin the conference.

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

Good afternoon, and thank you all for joining us in this earnings conference call for the third quarter 2020. I'd like to begin this presentation by commenting on ESG aspects.

The COVID-19 scenario forced Rumo to restructure the way we operate to avoid contamination and protect the health of our employees. This was imperative to guarantee the continuity of our operations, but intervening to motions from the North to South. Since then we carried out over 17,000 tests, with roughly 2% of positive results demonstrating the success of the actions we took.

In our 2019 sustainability report, we announced our long-term commitment to a few targets for the 2020, 2025 period. In the first nine months of 2020, we continue with a significant evolution in terms of safety with a 44% decrease in personal injury rates. In emissions, which are highly influenced by our fuel use performance, we already achieved 5.3% reduction in this year. This tells us we are on the right path to achieve our long-term goals.

The next slide shows the main highlights in our results. In the third quarter, despite all the challenges, we delivered our best quarter in terms of volume, surpassing the third quarter 2019 record. We also maintained our cost discipline, delivering a 4% reduction from last year. EBITDA reached BRL1.1 billion, down 7.9% from the same quarter of the last year, impacted by a 4.2% decrease in tariffs, and a revenue mix with higher volumes of sugar boosting port loading volumes and logistic solution, both with lower margins than the railway transportation.

Net income in the third stood at BRL171 million, down 53.7%, compared to the third quarter '19 due to lower EBITDA, and higher finance expenses since for the most part of the third quarter '20, we recognized an interest under a new agreement for the Paulista and Central Network. We also point out the follow-on, which not only reduce leverage in the third quarter but also allowed for the prepayment of concession fees for the Paulista and Central Networks, which will be further reduced financial expenses in upcoming quarters.

The next slide shows more operating results. Some factors impacted the volume performance of each operation. The North operation had a 3.1% increase in volume, a new record for the operation. The fact that producers held back on corn exports, limited cargo availability for the railway. In this context, we knew that the capacity to transport more sugar making total volume in tons grew 9%, although not generating that much RTK and margins since the product has lower profitability compared to grains.

Pulp and fertilizers continue to grow consistently. The South operation saw decrease of 5.8% in volume. The industrial segment continues to be affected by COVID-19, decreasing 20% year-on-year. Furthermore, the agricultural segment had a marginally negative

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performance, especially in Rio Grande do Sul where volume was impacted by a shorter crop due to climate conditions.

Container operation grew 5%, still below the usual growth (inaudible) operation due to limited demand because of COVID-19.

The next slide shows our results by operation. North operation results were affected by a decrease in tariffs due to agreements negotiated in early 2020 as well as increase of competitiveness of trucks in the North region after paving out BR-163 highway was completed, still with no toll collections.

Furthermore, expanding with port loading and logistics solution grew much more than railway volume. These offset net revenue but also bring higher railway variable costs since these operations have much lower margins. The higher tariffs in the South operation helped offset part of the volume loss, bringing revenue close to the third quarter '19 levels.

EBITDA was impacted by nonrecurring gains in other revenues in the third quarter '19. The container operation saw significant gains in non-recurring EBITDA due to the sale of the Cambe service unit, which is a non-core and unprofitable business unit.

Now, we will take a look at our financial results. This quarter we prepaid BRL5.1 billion in concession session fees for the Paulista and Central Networks. As a consequence, these liabilities in the balance sheet dropped from BRL7.9 billion to BRL2.7 billion. Worth mentioning that there has been no change in accounting for the right-of-use which will continue to be depreciated over the course of the useful life of the respective concessions.

With regards to interest expenses, since the prepayment was made in second half of September, interest decreased only slightly in the month. Had the prepayment being made since September 1, the interest line in the month would have been approximately BRL26 million suggesting potential gains for the fourth quarter.

The next slide shows our net income and financial results. Financial results in the quarter grew 40%, cost of debt was affected by BRL23 million by the lower mark-to-market gain, partially offset by the decrease in CDI. Other expenses increased especially with the BRL88 million growth in concession fees and operational leases due to early renewal of the Paulista Network concession.

Net income dropped by 54%, due to the lower EBITDA and the higher financial expenses we mentioned earlier. Low debt with the capital increase and the consequent prepayment of the concession fees in the quarter, we will have a significantly lower financial expenses starting in the fourth quarter '20, resulting in better contribution to net income.

On the next slide, we will take a look at our indebtedness. Our net debt dropped from BRL7.9 billion to BRL6.5 billion, mainly due to remaining churns from the capital increase

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and the amount of BRL1.3 billion. With that, leverage was reduced to 1.7x EBITDA. Rumo ended the quarter with cash of approximately BRL10 billion, leaving the company in a very comfortable position in terms of liquidity and amortization schedule.

The next slide show information about the market scenario for corn and soybean. In the corn market according to Agroconsult forecast, Brazil expected to export 35 million tons of the grain in 2020, a decrease of 4.3 million tons from 2019. Note that between January and September exported volumes was 6 million tons lower than the same period of 2019, suggesting availability of the grain for the fourth quarter.

However, since Brazilian producers have been reducing the pace of trading activities, it is possible to guarantee that these volumes available will be exported in 2020. Record production is expected for 2021 to be 8% higher than the '19, '20 crop year with projected inventories of 8 million tons to 10 million tons. Sale of crop is well advanced having reached 40% in the Central South of Brazil and 63% in Mato Grosso, much higher than the historical average.

The next slide will show information about soybean market. For 2021 Agroconsult's preliminary forecasts for soybean show a 6.4% growth in the Brazilian production, and a 2.6% growth in the country exports, and an increase of 4.7% exports for the State of Mato Grosso. Planting was delayed in the early stage due to unfavorable climate conditions and is already recovering reaching 62% in Mato Grosso in November 2020. Also, according to AgRural, sales of 2021 crop is advanced comparing to previous years, having already reached 56% in Brazil and 68% in Mato Grosso.

The next slide shows information on Central Network. Work are advancing for Central Network that will become operational in 2021. On this slide you can see the railway works in certain stages of our network.

On the next slide you can see other details on the terminals of these operations. For the beginning of operations in 2021 two terminals will be concluded between the first and third quarters of the next year.

The first one will be in Sao Simao Terminal in Goias, focusing on grains. It is built through partnership with a client of us called Caramuru. This terminal will be finished by the first quarter 2021 with capacity of 1.5 million tons. The second one is the Rio Verde Terminal also in Goias, which in its first stage will serve grains with capacity of 80 million tons. It should be ready to receive volumes by the third quarter 2021.

As shown in the table on Slide 20, our clients have shown great interest in this operation, making them fair with a series of investments. These points show significant growth of the Central Network over the next few years.

Let's take a look at the next slide. On this slide, we illustrate works at Sao Simao and Rio Verde Terminals, both in the state of Goias. Terminal works keep their accelerated pace so that the schedule mentioned above is fulfilled. We are very excited for the start of this

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operation. We should continue to share more information as construction approach truckloads.

This concludes my presentation for the third quarter 2020. I'm now available for the Q&A session. Thank you very much.

## Questions And Answers

### Operator

(Question And Answer)

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

### Q - Andre Hachem {BIO 20209966 <GO>}

Hello, guys. Thanks. The first one is related to the north. So, if you can discuss a little bit about how you're seeing pricing pressure? I mean we've seen the -- quarter falling quite a bit. So, if you could discuss what your expectations are for next year, and how your negotiations for contracts for next year's volume have been evolving? That would be very helpful.

My second question is in regards to capital allocation. We saw yesterday the government approving that current owners of railway networks, Canada price bid in the FIOL auction. So, if you guys can discuss a little bit about how you see this auction, I'm sure you guys will not disclose on whether or not you will participate, but how complementary this could be to the North-South railway or how detrimental it could be? So, that would be of your take on this new project, which is expected to come on stream over the coming years? Thank you.

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

Andre, this is Ricardo. Thank you for your questions. The voice was not that good, but I think that the first question was about pricing pressure.

Well, actually, you were asking about contracts pricing exactly, so a lot of items here. But let me start here by talking a bit about the competition of pricing pressure. It's not new for you guys that the pavement of BR-163 became cheaper to transport to the north part. So, this is the first item that brings broad pressure for us during the year. The second item that brought for us price pressure was the change or actually the decrease of fuel prices. So, when you decrease fuel prices, trucks get more competitive. And you know that in north part depends more on trucks than we depend. So, this brings more competitiveness to the north part.

So, we know there is a sharp run in competitiveness is what I call. I always say in all my meetings that this is a completely asymmetric competition. Once there is no reason for

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the government paving BR-163 and not including to toll plaza there. So, I call this a completely asymmetric competition. And you know that this brought -- this asymmetric competition brought pressure on prices. But this is the reality. And the company is dealing, and we will continue to be dealing with this, okay? So, the company will not change its strategy because the short term, the short-term asymmetric competition. We will keep our strategy. We'll keep in being a company that focuses on scalability, okay? We are focused on cost. I always repeat, we are focused on reducing our costs, diluting our fixed costs, reducing the variable cost by improving efficiency, reducing the indebtedness of fuels. Once we do this, we will be every single time more competitive; and this is what we are doing.

We have also our extension that we are working on it for Lucas do Rio Verde that will make our solution more affordable, okay? So, what depends on us, we are dealing with this pricing pressure. On what it does not depend on us, we are waiting for the auction of BR-163. It was supposed to happen by the end of this year. It seems it will not happen. It will go through 2021. I don't know if it's at the beginning or at the end of the year, but this lack of toll roads or it will end at one time, okay? So, the action will happen. And the auction -- the auction or the action -- the auction will take place. And this will bring another BRL15 to BRL25 per tonne for the price of trucks going on. So, this will make again asymmetric competition between the two ways going -- going to the north or going through Santos. So, this is the first part of your question.

But you were asking about corporates for next year. You know that I never like to answer about this. This is very strategic information. And I don't want to disclose too much information on that. What I can say is that you have been following very closely. There are no crops have been commercialized (inaudible) this year if you compare to the average of previous year or to this year right now. So, it's really fair to say that the demand for take-or-pay has followed this anticipation, and it's far better than previous year, at least when we refer to the first half of next year, that's soybean. That's what we have sold more volumes, okay?

Related to prices, also, what I can tell you is more related to the first half of the year. That is slightly better than this year right now. But there, it's important that you take into consideration everything that I told you, like BR-163 is there with no toll roads. So, there is no miracle regarding yields for the next year. It is slightly better. You know we have been doing a very good commercial and work. We have right now a new Vice President, who 100% focused on the commercial relation to be closer to the clients. We have been working a lot in bringing people to understand better the market. So, we have right now, our marketing intelligence area. We have the pricing area. We're working on technology to understand better. So, things will come. However, you have this asymmetric competition that I told you. So, I hope this part of the question was complete.

You asked about capital allocation. I don't know if I get very well, because your voice was not that good, but you asked --

**Q - Andre Hachem** {BIO 20209966 <GO>}

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I'll ask again. So, the question -- your first part of the question was very clear. Thank you for your answer. I think everyone is aware of the short-term pressures regarding BR-163. The second question was in regards to FIOF. If you could comment, I mean, how complementary could it be to the Norte-Sul Railway, if it would help in originating new volumes with new grains from the Far East or if you could see that as a potential risk, should you not participate or should not win, in removing cargoes from the Norte-Sul, and bring it to other ports?

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

Here, I will be really, really direct, Andre. We don't see a potential risk for Central Network. Central Network is going all the way through grains growth in grain growth in Tocantins and Goias, mainly south of Goias. And while FIOF, it's basically a railway based on minerals. There is nothing related to agriculture. Remember that FIOF goes only to Cajati. So, it's not a risk for us, okay? You know that we have our fiduciary obligation. We will study FIOF, okay? You know that there is only a few opportunities in railway through Brazil, but it's really not 100% related to our business. Remember that I always say we are the spine of agricultural Brazil. We take agriculture products from the areas, where we have the highest or the most important crops of West Brazil, and our focus is to take this in the North to Santos, in the South to Paranagua (inaudible). So, I can tell you that this is not 100% related to our business. But as it is our obligation, we will study it.

**Q - Andre Hachem {BIO 20209966 <GO>}**

Thank you. Very clear.

**Operator**

Our next question comes from Bruno Amorim, Goldman Sachs.

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

Hi, good afternoon. I have two questions to begin with. The first one is a follow-up on your comments on the saving of BR-163, and the effect of lower diesel prices. Has the company reacted somehow? Have you invested to some extent in your commercial efforts? What initiatives have been implemented, if any, in that sense?

And the second question is just to get your view on what should happen next year given that the planting season for soybean was delayed. Does it mean that the strong volumes for soybean exports should be delayed by maybe one month or two, and maybe the strong volumes will start and show up on March as opposed to February. And if that's the case, should that imply that the corn cycle should also be delayed by one or two months? What's your view there? Thank you.

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

Hi, Bruno. Good to talk to you. I will answer the first part of the question. I will let Gustavo answer a bit here about the soybean crop.

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But as I told you, the pavement, what we have done in -- during this year that are initiatives on the commercial side, okay? I think that what I have talked, it's very important. So I will reinforce that. From the beginning of the year, we have now a market intelligence area, 100% focused on understanding the market, where the grains are, where the grains are going, what are the competition, things like this. We have a price scenario seeing how we can optimize our results. And when I say optimize, Bruno, I'm not talking about 2020, about 2021, but railways are long-term companies.

So, when we talk about optimizing, we aren't talking about this year in the longer run. So, that's connected to a new Vice President team. We are acting together with the clients and making -- working on long-term partnerships with the clients, understanding their needs. And a lot of things we have been doing here, okay? I'm really not entering in details here. That's very strategic, but we have been working strategically and thinking about the long run to have the -- to be dominant in mainly in Mato Grosso. Bruno, we always talk about this. We put in our mind and to all investors, we are the most competitive logistics for Mato Grosso, okay? There is no other way that's more -- our logistic solution -- that's more competitive than us.

Well, talking about the second the second part of the question, Marder, would you like to take this for the --

**A - Gustavo Marder** {BIO 20672733 <GO>}

Yes. Yes. I will take this one, Lewin.

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So, Bruno, you're right. We have a different dynamic for next year. So everybody knows so far that the crops of soybeans started late this year. The seeding and the planting of soybeans started late. Corn starts -- the first corn starts a bit earlier. So, what we're going to have next year, it's first crop of corn that typically provides cargoes for the local markets. We don't benefit much from this type of cargo. It's more to serve the consumption of corn in Brazil. So the corn crop, the first corn crop will arrive in the regular window, but we're going to have a late soybean crop.

And with that sense, it's important to highlight that we are expecting to have this year strong inventory carrying over to next year. And one of the reasons why these inventories are being carried over, it's because there will be this gap between the first corn crop and the second corn crop, because the second corn crop, which is the crops that we transport to export, it's going to start only after we finish with soybeans. So, once soybeans started late, second crop of corn will also start a bit late. So, inventories could be very profitable to farms, so they can fill up this gap between the first and the second crop of corn using inventories that they had this year.

So, one of the reasons why the producers are holding back some corn to next year is because they predict that especially during this gap between the first and the second crop of corn, inventories of corn could be very profitable, because it will be the only have availability that we're going to have in the market. With that, we are expecting to have -- it's too early to say, but according to the increase in the area used for corn, which is expected to grow 4% in Brazil and almost 6% in Mato Grosso, we are expecting a



production to be growing around 8%. And when we couple that with the inventories, it's likely that exports will be growing 12% year-over-year. So, it could be a very good availability for corn, but it will be specially in the beginning of the window it will be much more based on inventories rather than -- in the second crop of corn, which will arrive a bit late as well as it happens with the soybean.

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

Thank you, very clear.

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

Bruno, just complementing one thing that Gustavo said and also coming back to Andre's question, it's important to say that -- just to reinforce exactly that last year, we took longer to close our take-or-pay. Remember that we -- this year -- last year -- no, we are assuming 2020. So, this year, it took longer for us to close the take-or-pay contracts. We got more exposure to spot market. This was one strategy that we are following. But just to reinforce that with the growth, reinforcing what I said to Andre, who asked about commercial additives that we are taking here.

The point year that once we have more commercialization, is what I said, it's really we are better in terms of take-or-pay, because we are following this anticipated commercialization. So, as Marder said, the commercialization is anticipated for mainly for soybean. We are also anticipating our contracts we've -- the clients. What makes us more optimistic related to certainty of volumes at least when you are talking about soybean? You know we talk every single call about that. Corn is more difficult to understand because we need to wait a bit more during the year, okay? But we will also work on that commercially talking.

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

That's good color. Thank you.

**Operator**

Our next question comes from Victor Mizusaki, Bradesco BBI.

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

Hi. I have two questions. The first one, when we take a look on the CapEx activities this year, actually the company already invests like BRL1.2 billion in capacity expansion. And I mean, in this number, we also have the conclusion of (inaudible) Malha Paulista. So, I'd like to know if you can give any color on the capacity growth this year. And what can we expect for next year, specifically in the case of Malha Paulista? And the second question, I think that recently there was a change in the State Constitution of Mato Grosso that could allow the local government to approve new investments in railway. So, I'd like to know if is there any plan to maybe try to apply for Lucas do Rio Verde using this new legislation. Thank you.

## A - Gustavo Marder {BIO 20672733 <GO>}

Hi, Victor. I will take the first question and then maybe Ricardo you can comment on the second one.

So, regarding the expansion CapEx, we did our job this year, we expanded capacity. Unfortunately, we saw some changes in the assortment of cargoes that we transport that are not producing as much RTKs that we could do if the mix was the same as last year. So for instance, we saw higher volumes of sugar that they generate a lot of tonnes transported, but they don't produce the same amount of RTKs once the average distance is a bit lower. So, we are not maximizing our capacity when we transport as much sugar, but it turns out that it was the only option. As I mentioned before, the farmers were holding back corn to export later on at higher prices.

Another thing that is important to highlight is that due to COVID-19, we didn't have much of our industrial volumes. So, we saw, especially in the South Operation, some significant decline in the demand for industrials. So, that part of our capacity is kind of idle. And of course, as long as we recover this demand, and hopefully, this will happen soon, we're going to be able to start transporting more volumes to -- and then I think our capacity will be more clear. You guys can look at the volumes and see how well we are doing in terms of volumes.

With regards to next year, the plan, as Ricardo mentioned before, continues. So, we're going to have some -- in the beginning of the year, the entrance of the longer trains. We have very important investments happening in Malha Paulista. We're going to have the entrance of central operation, which will request also more capacity in Malha Paulista. So, we are doing all the expansions trying to follow our schedule in a way that we can afford significantly more volumes next year, especially because there will be this new trigger, which is the Central Network, requesting a lot more of capacity. Then I think Ricardo can comment on the second question.

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

Yes. Thank you, Gustavo. And Victor, thank you for the good question here. Just to align the knowledge of everybody in the call that recently, Mato Grosso state has approved an amendment in the local constitution, the State of Mato Grosso constitution, what we call in Brazil, (inaudible), that allows the state to authorize any railway project within the state, not can be outside the state, but in the state of Mato Grosso, okay? That already exists in the South of the country in Parana; the OSG is an example of that. But how we see that is that this approval reinforces the importance of this project to the community of Mato Grosso, okay?

And also that the government wants to speed up things. So, for us, it's very important, because this is another option. So, now we have other options to start to build our extension to Lucas do Rio Verde, remembering that Lucas do Rio Verde is an important project for the competitiveness of agriculture in Mato Grosso. Mato Grosso, that's the frontier of agriculture, not only in Brazil, but in the world. So, I think that's a broad understanding of importance of this project, okay? So -- but it's important to say that, although we have this optionality, we still believe that the federal government will be

approving this project soon. This project is much more efficient than any other project that is being studied for Mato Grosso and will increase competitiveness.

One thing that's not -- maybe you people have not read in the newspaper, but it's important, not many people talking about this, is that (inaudible) formula proved that the environmental licensing for the extension was transferred from (inaudible) to call SEMA. That's the Environmental Secretary from Mato Grosso, okay? So, that will speed up the environmental approval for the project. So, I think that besides the packet, I think this change is also very important. And we continue to work on that in getting the approval, approving in our project. Once it's 100% approved, we are 100% ready to start to work on that.

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

Okay. Thank you.

## Operator

Our next question comes from Jose Araujo, UBS.

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

Hi, everyone. Thank you for the opportunity. I have a couple of questions here. One is a follow-up on yields. So, is there a way of isolating the BR-163 pavement on the fares on the freight prices in the north? So, do you have an idea on how much freight prices came down in terms of reais per ton, isolating that? I'm asking this because I want to know if there is any kind of additional yield pressure in the short term, so before the tolls start to be collected there. So any additional potential pressure in yields? So, could you make this calculation? That's my first question. Thank you.

**A - Gustavo Marder** {BIO 20672733 <GO>}

Hi, Rogerio. I will try to answer this one. So, when we compare with last year, we saw trade prices going down by approximately BRL35 per ton in the north parts. I think it's fair to say that probably BRL12 to BRL15 per tonne is related to lower fuel prices. But all the rest, we can put in the account of having the BR-163 paved without toll roads. So, we believe when we look to the documents of this auction that the price for going north after the privatization and consequently, the toll roads could be between BRL15 to BRL25 per tonne higher. BRL25 is probably to take the assumption that the trucks will go up, loaded, and they will have to return empty, which is kind of the base case. Of course, there might be a few trucks returning with other cargoes, but we believe that the majority of the trucks will be returning empty.

So, this could make a huge impact in terms of competitiveness. So today, with the current fuel prices that we have to get back to the previous level of competitiveness, we need to have the toll roads in place. And as Ricardo mentioned, it's not clear yet when we're going to have this. It depends on the action from the government. So that is probably the fast way to get our competitiveness back to the levels it was before the pavement of BR-163.

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

That's very clear. Thank you. And my second question is regarding a couple of items related to your capacity. So, the first one is what you mentioned, the 120 rail-wagon trains. If you could give us some color on when exactly it should start and the expected impact on the volume on the cost due to that. And in addition to that, also some -- any kind of color you could provide us on the part of Santos, the investments being done there with (inaudible) with the port terminals with (inaudible). So, what and when to expect some kind of debottlenecking events there? Thank you very much.

**A - Gustavo Marder** {BIO 20672733 <GO>}

Thank you, Rogerio. I will start, and then Ricardo will comment about the Port of Santos.

So, we are planning to have the 120 railcar train in the beginning of next year. It will not be 100% of the trains running with longer trains at the beginning. But we'll have throughout the year, the option to increase the percentage of trains running with longer trains. When talking about cost, this is almost for granted. Of course, when we shift to longer trains that helps us to increase the average speed. It helps us to improve the fuel consumption. So, it makes our operation far more efficient. It allows us to reduce our costs and also to increase the scalability of this business.

When it comes to volumes, of course, it will be subject to the port capacity that Ricardo will comment, but also to some -- certain market conditions. So, by having the longer trains, the company will have some degree of flexibility trying to increase capacity in the short run. In the past, when you are -- when you depend on building infrastructure, it's much harder to provide more capacity in the short term. I think the long trains are a quick response in terms of capacity, that the company can speed up, depending on how much volumes and how high it could be the demand in the short term. But we have to put all those things together. It depends on how high is the demand, how willing the customers are to engage with more take-or-pay agreements and also, of course, the capacity that we have in the Port of Santos.

So, Ricardo, if you can comment on Santos.

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

Hi, Rogerio. Rogerio, we have been investing in Santos for the last five years, okay? We never -- maybe we never gave you names to the projects for invested, also sites. But we have basically invested in a series of projects that is rolling the debottleneck, the -- are debottlenecking the Santos Port and making it more efficient, okay? You have been following all the investments that we have done in our P16, P19 and many projects that we have done in the entrance of the port, that's the most problematic part of the port.

Currently, we have in our pipeline projects that are not transformational, but projects that the bottleneck, mainly the right side of the port. And I will tell the name of two that's probably you heard, but (inaudible), the third line of (inaudible). So, these are improvements that we are doing that are not that expensive projects, but that brings a good improvement of capacity for Santos Port. There are other projects that we are

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working on. One that you probably read in the newspaper, talks about the loop that will be -- that the government is studying to be built close to actually part of our terminals in the right side.

So, this loop is very important to improve the capacity of the port. At the same time, you have a line that will be going outside the port and the entering the port and doing all the unloading of the trains. So, this loop is important. And there are other projects that are under study that are more focused on terminals. That -- we mean we can be part of this project in different ways. So, for example, we can be part of improvement of terminals or building new terminals, by being equity partners or by being commercial partners, giving contracts that incentivize people to improve their terminals or build a new terminal.

The point here, just summarizing what I'm saying, Rogerio, is that we are -- we look very closely at two things, capacity of the port and the efficiency of the port. And we never stopped working on that. And with the time once we start to -- this first one that I told you that our improvement of efficiency as (inaudible) third line of (inaudible) we are working on that. And you will hear from us, other projects related to terminals, not only on the right side of the port, but on the left side of the port, that will allow us to invest in Paulista, increasing capacity that will allow us to take more volume in Mato Grosso without having Santos as a bottleneck.

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

That's very clear, Lewin and Gustavo. Thanks so much. Have a great day.

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

Thank you, Rogerio. Have a great day too.

**Operator**

Our next question comes from Regis Cardoso, Credit Suisse.

**Q - Regis Carodoso**

Hi, guys. Gustavo, Ricardo. Good afternoon. Thanks for taking the questions. A few follow-ups on my side, first one on yields. How can we explain the improvement in the third quarter over the second quarter? So, you saw already some sequential improvement there. Is that in any way related to mix, because now you have more corn instead of soy or is it really early signs of recovery in yields? And also, I mean, you're talking in third quarter and second quarter, but if you could also comment on how that impacts fourth quarter and 2021 as you explained.

Second topic, still on the discussion around the yields and volumes. More specifically on the extension of the Rondonopolis transshipment terminal, whether you believe that could reduce truck lines, and if you believe that could also have any sort of impact for freight between Sorriso and Rondonopolis? And then just finally, if you allow me a third one, it's about CapEx. If you can sort of describe what are the order of magnitude or the size of the investments you plan to make in Malha Paulista, Central and in the first few

years, now '21, '22, '23, given that you reduced leverage quite substantially after the recent follow-on. So, these three questions. Thank you.

**A - Gustavo Marder** {BIO 20672733 <GO>}

Thank you. Thank you, Regis. I will -- Gustavo speaking. I will address the first question and then Ricardo maybe can comment on the last one.

So, starting with the yields, yes, you're right. We had some improvements in yields from the second quarter to the third quarter. Indeed, a lot of things changed in the second quarter. We were transporting soybeans, which most of these soybeans were negotiated in the beginning of the year, where we had low trucking prices, and we also had the effect of the low fuel prices in the market. Since then, we saw some improvements in fuel prices, which helps our -- which helps to increase the price of trucks and, therefore, our competition. So, that definitely helped us to improve the yields compared to the third quarter.

Another thing is that in the third quarter, we shift from soybeans to corn. So, it was a completely different dynamic. We negotiated more of the volumes in the short term. So, therefore, we did better negotiations than the ones that we did earlier in the year. So, as a consequence of that, we had better yields in the third quarter.

When it comes to the fourth quarter, it's still unclear. Of course, we have already a big chunk of the volume negotiated, but there is still some capacity left to be negotiated with the customers. And that's why it's so important to see how much willing the producers will be to sell all the corn in the fourth quarter. So, depending on how much we sell those additional volumes and how much more volumes we can transport, that could change our yields in the fourth quarter. So, I would say that the volumes that we already negotiated, they could be close to the pattern that we did in the third quarter, but we are not 100% done. So, there is still some volumes to be negotiated. And so far, it's too early to say how well can we negotiate those prices.

And I think when it comes to 2021, Ricardo already answered. So, we have slightly better prices for soybeans so far. We are well advanced in the negotiations for soybeans. And when it comes to corn, it's not the priority of the farmers and the trading companies right now. We should start to negotiate corn maybe in December, this process can speed up. And then I think in a couple of months from now, maybe January or February, we can have a better view on pricing for corn. So, it's still too early to say. But when it comes to soybeans, it's fair to say that it's at least slightly better at this point.

With regards to the expansion of capacity that we did in Rondonopolis, I will ask Ricardo comment on that.

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

Yes. Thank you, Gustavo. Regis, thank you for the questions.

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You know that the extension from Rondonopolis, the extension to (inaudible) we are not still releasing to the market any kind of yields or volumes, okay? Let me just -- it's important to you to understand the reason of what brings value to the extension, okay? So, you can do your calculations on that. Some people make confusion that the extension will bring more capacity true -- this is not true. What brings more capacity is improvement of Paulista network, okay? And that comes to your second -- your third question, actually. I will go through this. But our investments that we will be doing in the next years that in Malha Paulista that will double the capacity from Malha Paulista and allow us to bring more volumes from Mato Grosso.

So, here is when you talk to volumes in the long run, like we talk about doubling the volumes from the capacity from Paulista that allow us to take more volumes here. And here, you can take market analysis from long run for Mato Grosso. What's important for the -- what brings value with the extension is the following. That currently, the transportation from Sorriso or from Lucas do Rio Verde to Rondonopolis is made by trucks, okay? So, we can do the same transportation, okay? And maybe with a similar tariff or obviously, we can charge less than this, but with a much better margin than the truck does today. So here, you can start to make your assumptions. You can take the truck prices, but probably we'll be a bit cheaper than that. But our margins in this stretch that's much more efficient than Paulista, for example, even more efficient than (inaudible) you have good margins there that this will bring value for the CapEx that we'll be investing in this extension.

And going to your third question, that CapEx for Malha Paulista, what we have released, and that's public by now is that like we have a commitment to invest BRL6 billion. What are in the documents that this BRL6 billion? 50% of that will be invested to 2028 and 50% of this figure or 25% of the total would be invested in Q2 2023, okay? So, this is what we can say from now. And next year, we will just probably be releasing a new long-term guidance. You'll see this CapEx there in the long-term guidance.

Is that good, Regis?

### **Q - Regis Carodoso**

Ricardo, just a follow-up on the second question, maybe I wasn't completely clear. Thanks for the comment on the extension. It's very clear on that one. But I also wanted to know about the expansion of the transshipment capacity with more truck loaders in Rondonopolis, truck dumpers, sorry in Rondonopolis, whether --

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

Yes. So sorry, Regis. Because every time we talk about expansion, I connect the expansion (inaudible). We're saying that we did investment in Rondonopolis doubles the type of capacity there. So, this is done by now. We have finished. What's important for this -- the turn of Rondonopolis that's not only the most important terminal from Brazil, but the most important grain terminal from Latin America, the turn was too high. It's more than one time a day, okay? So, this stressed too much the terminal.

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With this increase of static capacity and unloading capacity also, loading and unloading capacity, unloading trains, unloading capacity for the train. We think with the increase of this capacity, you reduce a lot the stress of the terminal, increase capacity for transportation, okay, and reduce the risk of having any problem in the terminal. So, this is already done. This is one thing that allows us to improve capacity for the next year. And a third thing, another thing that is important here is that once we reduce also the turn time of trucks, as you get more efficient as you have more extended capacity, it gets more attractive for the trucks coming to Rondonopolis and sometimes going to the north parts, for example. Because in the past, trucks need to stay for a long time in the terminal. And that was drastically reduced with this project that we did. So, it gets cheaper for the truck drivers to come to Rondonopolis and get more attractive. So, you call more volumes for the terminal.

Marder, I don't know if you want to complement anything here about the expansion -- the expansion of capacity? Sorry, Regis, I misunderstood you.

**A - Gustavo Marder** {BIO 20672733 <GO>}

I don't know -- I think Ricardo just answered the question. If you have any other follow-ups, let us know.

**Q - Regis Carodoso**

Very clear, guys. Thanks so much. Have a great day.

**A - Gustavo Marder** {BIO 20672733 <GO>}

Likewise.

**Operator**

Our next question comes from Stephen Trent, Citibank.

**Q - Stephen Trent** {BIO 5581382 <GO>}

Yes. Good afternoon, gentlemen. Thanks for taking my questions. I just had two just to make sure I understand. When you mentioned in your release that logistics solutions created some EBITDA margin pressure, should we think of this as a temporary phenomenon related to high sugar volumes or extra measures you took doing the COVID pandemic or is this -- or could this be something more structural? And then my second question, when you mentioned outside investors, is this something that we could still eventually see for the Southern Network? Thank you.

**A - Gustavo Marder** {BIO 20672733 <GO>}

Hi, Stephen, good to hear from you. I will answer the first question, and then Ricardo can comment on South Network.

You're right. Somehow, logistics solution is temporary, but not due to COVID. It's indeed a function of strong volumes of sugar that we had this year. So, as long as the effect it's



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helping the export of sugars, we are seeing a strong demand for sugar. And as we mentioned before, we didn't see the market as strong for corn. So, there was a lot of capacity in the railways that we used to transport more sugar. If you look at our sugar volumes transported by railway, it grew like 80%, above 80%. So, it was a pretty high growth.

And on top of that, we own -- as long as we own a terminal in the Port of Santos that has capacity for almost 10 million tons of sugar, we have to complement our -- the amount of sugar that we transport with railways using third party. Of course, when we have more capacity over time, the company will be able to shift from third parties to increase the percentage of volumes transported by railway. Right now, it was what was over the table. So, we did well in terms of railways volumes when it comes to sugar, but we also relied on third-party volumes to fill up all the capacity that we had in our port operation. But over time, as we add more capacity, this will be clearly shifting from third parties to the railway. And that's the reason why we are doing this right now. It's a way to keep the volume there. And as long as we have the capacity, we could be able to serve the whole amount of volume.

**Q - Stephen Trent** {BIO 5581382 <GO>}

Makes sense.

**A - Gustavo Marder** {BIO 20672733 <GO>}

Ricardo, if you want to comment on the second --

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

Sorry, could you repeat your question about the South Network, please?

**Q - Stephen Trent** {BIO 5581382 <GO>}

Yes, certainly. So, I think I heard you respond to an earlier call participant about other investments with potential equity partners joining you in other investments, if I heard correctly. And I remember some time ago, there was potential discussion with potential equity partners in China perhaps, in terms of looking at a long-term equity partner for the Southern Network. I mean this was going back some time. And I was just wondering how you guys are thinking about that now.

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

Yes. Well, Stephen; in this call, when I talked about partnerships, things like this, is our partnership in the Santos Port to incentive the improvement of capacity in terminals or efficiency in terminals in Santos. So, this is what I said in this call. But you're right; in the past, we did have discussions on having partners in the South Network. The discussions took too long. So, as we are close to the end of the term of the concession, we decide to stop this kind of conversation. And today, we are 100% focused on the renewal of the South Network. We started already the discussions with ANTT, with the government. So, we are evolving on discussions for renewal of the South. Once we have the renewal done, we can think about as we have a portfolio of concessions. If for this specific session, we

will study and analyze if we will be -- if you want, if we will bring a partner. But today, the focus is on the renewal of the concession.

**Q - Stephen Trent** {BIO 5581382 <GO>}

Understood. Thanks very much, Ricardo and Gustavo.

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

Thank you, Stephen. Have a good day.

**Q - Stephen Trent** {BIO 5581382 <GO>}

You too.

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

I think that we have one more question from -- okay, sorry, are you still --

**Q - Stephen Trent** {BIO 5581382 <GO>}

No. I said you too. Thank you very much.

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

Okay. Great. Thank you. I think we have one more question from Rogerio; that's right?

**Operator**

Our next question comes from Rogerio Araujo, UBS.

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

Yeah. Hey, guys. Thanks so much for the follow-up. So, you mentioned in the report that there was some pressure on some components on the maintenance side due to the BRL depreciation. We have until now annualized at BRL1.1 billion (inaudible). So -- but this includes the (inaudible) as well. So, can you provide us some kind of normalized maintenance CapEx figure, excluding (inaudible) how much can you think about it on an annual basis and also how much of the components on maintenance is dollar -- in terms of dollar? Thank you.

**A - Gustavo Marder** {BIO 20672733 <GO>}

Hi, Rogerio. I'll take this one. Yes, you're right. Due to the FX rate, we saw an increase in some costs, the cost of some investments, especially rolling stock. We have some parts in locomotives and the railcars that are denominated in U.S. dollars. But at the same time, we have some agreements with the suppliers that sometimes avoid a major pass-through in the cost. So, it was not the full impact of the currency exchange. But definitely, we had some kind of impact due to that.

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The amount of investments, the recurring investments in the Central Network at this point is not that much significant. So, you can think about BRL1 billion -- BRL1.1 billion in terms of recurring CapEx without Central Network. Right now, it doesn't make much difference. Of course, as we start to operate the Central Network, these numbers -- this recurring CapEx in Central Network can be higher. But as of now, it's not that much relevant. Another thing that we have to take into account is the very fact that last year, the recurring CapEx was a bit lower in the third quarter. So, there is a phasing issue. But if you think about BRL1 billion, BRL1.1 billion, you won't be wrong. So, that's the kind of recurring CapEx level that we should have going forward.

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

Very clear, Gustavo. Thanks a lot again.

**A - Gustavo Marder** {BIO 20672733 <GO>}

Thank you, Rogerio.

## Operator

That concludes question-and-answer session for investors and analysts. Now, I will turn the floor over to Mr. Ricardo Lewin for his considerations. Please, Mr. Lewin.

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

I was on mute, sorry. I'd just like to thank you all for the good questions you had today. Any doubt or follow-up you would like to do, please contact myself, Gustavo or Mariana. Thank you very much. Have a good day.

## Operator

That concludes Rumo's third quarter results conference call. Thank you very much, and have a nice a nice day.

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