

Q1 2022 Earnings Call

Company Participants

- Aurelio Pavinato, Chief Executive Officer
- Rodrigo Gelain, Financial and Investor Relations Manager

Other Participants

- Gabriel Barra
- Guilherme Palhares
- Lucas Ferreira
- Thiago Duarte

Presentation

Rodrigo Gelain

(Foreign Language) (Call Started Abruptly) in English you have the option to mute the original audio in Portuguese by clicking on mute original audio. As for the Q&A, we suggest that you submit your questions using the Q&A button in the lower part of your screen. Your names will be announced so that you can ask your question in there. At that time, you will be prompted to activate your microphone. If you prefer to have your question read, please write no mic at the end of the question.

We would like to let you know that the information contained in the presentation and any statements that may be made during the conference, relative to the business outlook protections, operational and financial targets of SLC Agricola are based on the beliefs and assumptions held by the company's management as well on information that is currently available.

Considerations about the future are not a guarantee of performance. They involve risks, uncertainties and assumptions as they refer to future events. As such, they depend on circumstances that may or may not occur. Investors should understand that general economic conditions, market conditions and other operating factors may affect SLC's future performance, leading to results that materially differ from such considerations about the future.

With this, I would like to hand it over to our CEO, Mr. Aurelio Pavinato, who will begin the presentation.

Aurelio Pavinato {BIO 16456795 <GO>}

Thank you very much, Gelain. Good morning to all. We would like to thank you all for joining us on the 1Q '22 earnings conference call of SLC Agricola. Please, let's move to Slide 3, on some comments -- for some comments on the cotton market.

The first quarter of 2022 was characterized by growing cotton quotes in the international and domestic market, a scenario of global logistic hurdles coupled with resilient consumption has been an important support factor for the maintenance of high commodity quotes internationally. Consumption of global fiber is expected to grow to 124.1 million bales according to USDA estimates, which is the highest level in the historical series. This has led to a deficit in supply demand balance for the second consecutive year, representing approximately 3.9 million cotton bales in USDA's estimation.

Now, we turn to Slide 4, to speak about soybean. Soybean quotes in CBOT spot contracts and the prices paid for the oil seed at the Paranagua/CEPEA base continued to appreciate over the first quarter of 2022. The highs observed in Chicago plus the premiums and the exchange rate depreciation allowed soybean quotes to reach levels that surpass those observed in the previous cycle.

In a quarter that was marked by losses caused by the adverse climate conditions in southern states of Brazil, the domestic production shranked approximately 11% in relation to the previous season, this according to CONAB data. For the 2021-2022 crop year, production of approximately 122 million tons of soybean is expected. This number is 21 million tons short of the initial expectations of 143 million tons of production. Globally for the '21-22 crop year, consumption is expected to outstrip production by approximately 11.2 million tons. This happens in the wake of the negative balance of 18 million tons also observed in the 2019, 2020 cycle. A fact that should sustain our price levels.

In Slide 5, we have some comments for you on the outlook for corn. Corn spot prices in CBOT and in the domestic market showed significant volatility over the first quarter of 2022. Throughout April, the trajectory favoring price increases was consolidated on the American Stock Market. With the release of the report of intentions to plant in the United States and this planted area is expected to decrease approximately 4% resulting in an estimated acreage close to 89.5 million acres.

Another key factor contributing to the increases was the unfolding of the Russia-Ukraine conflict. Ukraine is the world's fourth largest corn exporter. Problems arising from this conflict can exacerbate the uncertainty around grain supply, spiking the demand for exports from other countries. Among them Brazil, which is the second largest global corn exporter. On the world stage, for the first time in five years, production volume will be higher than consumption, a surplus of approximately 28 million tons. However, there are some uncertainties related to the availability of Ukraine's '21-22 crop and also some questions about the final yield in Brazil, since some regions were under water stress in Mato Grosso in March and April. This will receive even firmer prices for the commodity.

Let's turn now to Slide 7, focusing on the company's recent corporate governance initiatives. We are working very hard on ESG. The company is using all of its resources to make its activities sustainable and responsible. SLC adopts the world's best practices to

FINAL

create a positive impact on environmental and social issues, where we operate. Through low carbon production, SLC is contributing to minimize climate change and acting in alignment with its big dream. We highlight that the company was included in the carbon efficient index and the great place to work index in the end of 2021. The carbon efficient index is composed of companies that adopt transparent practices with respect to their GHG emissions. As for the great place to work index, it comprises companies with certifications and that are considered to be the best companies to work for international ranking. The updated version of our integrated report is now available on the company's website. Please feel free to download this document. It compiles all of our ESG initiatives.

And lastly, in this section on Slide 8, we would like to share with you the fact that SLCE3 is now on the IBOVESPA. In May '22, the company was added to the IBOVESPA theoretical asset portfolio, B3's main indicator. This is the first time the company's shares appeared on the index since its listing in June 2007.

And now I turn the floor over to my colleague Rodrigo Gelain, Financial and Investor Relations Manager for comments on the main indicators which are connected to the pillars of financial soundness and shareholder value.

Rodrigo Gelain

Thank you very much, Mr. Pavinato. We can now go to Slide 10 with some highlights of our income statement for the first quarter 2022. In the name of comparability, data for 1Q '21 reflect a combination of data released by SLC Agrícola and by Terra Santa Agro in these periods. Our net revenue in the quarter grew 96.3% in comparison with the same period of the previous year, a substantial hike that was due to the increase in unit prices for all crops.

Additionally, our crops had greater volumes sold, highlighting soybean, which was the result of the company's sales strategy. And in the case of cotton, we had some volumes from the previous crop that were still being shipped. Adjusted EBITDA in the quarter reached almost 1.3 billion, up 176.5%. The adjusted EBITDA margin was 52.3%, growing 15.2 percentage points compared to 1Q '21.

The increase in gross profit was the principal variation with an increase of 886.8% ex-biological assets. In addition, we had an EBITDA additional adjustment of R\$1.4 million related to the sale of 39 hectares in the Paiaguas Farm to Kothe Logística, as disclosed in material fact on February 17, 2022. Net income grew by 152.5% ending the period in R\$797 million with a net margin of 33%. The main factor that contributes to this variation was the improvement in margins and the increased volume of cotton and soybean shipped.

Now we can advance to Slide 11, where we present the net debt. We ended the first quarter of '22 in R\$2.6 billion. This represents a reduction of R\$387 million compared to the end of 2021. The net debt reduction reflected mainly the period's cash generation.

To conclude this session, we go now to Slide 12. The good results of the company in recent years with strong free cash flow contributed to maintaining an adequate level of

Bloomberg Transcript

leverage. And on May 18, we will be paying dividends to our shareholders in the total of R\$504.4 million, which represent 50% of the adjusted net income of the parent company, representing a dividend yield of 4.8%.

I will now turn it back to Pavinato who will talk about the outlook for the '21-22 crop year.

Aurelio Pavinato {BIO 16456795 <GO>}

Okay. Please, let's go to Slide 14. On the operational side, we ended another soybeans season with record yield for the fifth consecutive year. This is 33.1% higher than the national average as reported by CONAB. Since the '17-18 crop year, despite weather instabilities and throughout the years we have managed to maintain increasingly higher yields, leaving the national average well behind us. This is the result of the company's matured land portfolio, crop rotation varieties, soil management, geographical diversification and of a very well-trained team. In summary, processes, technology and people. We finished planting cotton both first and second crops and offseason corn within the ideal window.

In terms of yield for the other crops, in Slide 15, we show our current estimates for the '21-22 season. In keeping with our commitment to transparency, we are adjusting the estimated use of cotton first and second crop, and second corn crop. For first-crop cotton rising from 1,871 (inaudible) to 1,873, down 3.4%. Second-crop cotton adjusted from 1,800 kilo hectare to 1,642 kilo, a 9% decrease in relation to budget. The second crop corn, estimated yield changes from 7,586 kilos per hectare to 7,188 per hectare, that is down 6.8% lower than budget, but 22.5% higher than the previous harvest and 30.3% higher than the average national yield. We had deficit rainfall in three farms in March and April in Bahia. The rainfall deficit in western Mato Grosso at the same time is affecting the potential yield of the second crop cotton and corn in that region. This is the reason why we are reducing our projections.

On Slide 16 we represent our updated hedge position. We have made advances in our hedge position for the 2021 crop year, reaching international price levels that are offsetting the increase in costs. This will preserve margins for 2022 just like in '21. Additionally, we have made progress in the hedging for the '22-23 crop season by purchasing part of the inputs. We have so far acquired 83% of the needs for chloride potassium, 49% of phosphate, 70% of pesticides. Nitrogen was not purchased yet. But conception occurs only at the end of the second half of 2022, considering the cost formation for '22 to '23 and the prices we have locked in via hedging together with current prices and future commodity prices, we estimate an EBITDA margin in very high levels for year.

Thank you very much. And with this, we open the Q&A session.

Questions And Answers

Operator

(Question And Answer)

We will now begin the Q&A. We kindly request to ask your questions all at once and to wait for the company's answer. (Operator Instructions) Our first question is from Gabriel Barra, Citibank you may open your microphone sir, and ask your question.

Q - Gabriel Barra {BIO 22244309 <GO>}

Hello Rodrigo and Aurelio can you hear me well?

A - Aurelio Pavinato {BIO 16456795 <GO>}

Yes we can.

Q - Gabriel Barra {BIO 22244309 <GO>}

Thank you very much. I have two questions, the first of them focusing on the inputs, for the '22, '23 crop years. As you have said in the release, you are really quite advanced as one should expect and you're in the same level as in the previous quarter. However, there is a window of time in which you can start purchasing the input. But my question is about how this will be done in the market. I would like to understand how this will occur? We know that some distributors are accelerating the sale of fertilizer. Some producers and growers are making advanced purchases. So what do you envisage for this dynamic?

What about nitrogen? What about this supply are you concerned about supply and availability? And what is the potential impact of this on your margins for the next crop year? And as we saw in the results, with this single acquisition and looking to the future, what other new avenues for growth can we expect you have been investing in seed production? We could also think of a spin-off. Could you please explore avenues for growth? It would be great to get a little more color on this. Thank you.

A - Aurelio Pavinato {BIO 16456795 <GO>}

Thank you very much Gabriel for the question. About fertilizers and inputs, well as for we know that the crop protection market is doing business as usual, even though there is an influence of China, but we don't believe there will be a bottleneck in getting what we need. We don't believe that will have any shortages for the next crop year.

As for fertilizers, when we look to the world market and to Brazil, we are four months into '22 and Brazil has imported 11.1 billion tons of fertilizer higher than last year. So, there is a market. Ships are arriving in spite of the war, Russia is shipping fertilizers. So in our vision Gabriel, fertilizer supply won't be a problem this year.

The problem is the prices fertilizer is fetching. We used to have a level of about \$300 to \$400 per ton with the pandemic, with high demand and shrinking supply those prices, doubled to \$700 and \$800 and now with the war in Ukraine prices have increased by three fold \$1,000, \$1,200.

FINAL

Bloomberg Transcript

FINAL

So now nitrogen, which is what's left on our buying list has dropped 14%. It had reached \$95 up in Brazil and now it's at \$740 approximately. So, we believe that there will be a price adjustment for this input together with other products. Phosphorus has decreased 7% for from peak prices and potassium is 3% down, so now \$1,040. We are now in phosphorus \$1,205 for premium phosphorus. So, prices are high.

We believe that there will be price adjustments along time because we will see shrinking demand. Demand is that now being estimated in Brazil at 9% to 10% and it's estimated that there will be a decrease from 10% to 15% in the world. Demand has always been more sluggish when prices are too high. So, it's a natural consequence and this will help -- this adjustments in supply very significantly. So with the slower demand and tighter supply, the naturally, the market will naturally adjust. This is what we expect for the year. And this is what will enable us to have lower production costs than we have now, ensuring therefore, the adequate margins for next year because prices are also much higher. Prices are very high the future, the prices on the future markets are not as high, but the ones that are being realized in the current crop year that has already been hedged.

We're getting higher spot prices than future prices. So, considering the conflict and the conditions in Russia and Belarus, the volume that both of them make an export, when we think of potassium, then we can know that they're already prominent in the market. They represent 30% of the world's production and 40% of world's exports. But now, when the subject is phosphorus and nitrogen, they account for 6% of the world's production.

With 10% to 12% of exports in the world, so with the downward adjustment in consumption, and this is taking place in Brazil, a country where adjustments should be radically less. It's not the same as countries, like Argentina and United States, or even Russian and then in the Ukraine, where the soil is so fertile and this gives them the ability to save on fertilizer. So, we don't think that will be a triangle hall, what we see is an adjustment along the year.

As for growth Gabriel, you know the ag business right? Sometimes it is simply not possible to have a major growth project in every single year. So, we are producing corn, cotton and soybean. So, we can -- we expect and we hope to continue growing through leased lands and some acquisitions. And we continue to grow and we continue to generate cash that will fuel our growth. It's not a linear growth curve and sometimes opportunities do not emerge. When everything is going well, sometimes they appear when things are looking down, but we need to be prepared strategically to seize the right opportunities.

So, we'll continue to grow. And in the medium term, we will maintain the pace of growth. We have achieved in recent years, but in addition to growing our business and seeing more maturity in our operations, we're also expanding in new businesses. The seed production project is something we have already talked to the market about and we are just waiting for the end of the harvest season. We have signed an agreement, outsourcing with Kofi they will build a plant in Mato Grosso for us to produce 1 million more bags. So it's going to be a big business for us.

FINAL

In addition to soybean seeds, we'll have cotton seeds. We will produce 900,000 bags this year. So the issue here is whether to make the spin-off or to maintain everything in integration. For now, we're keeping it in integration because of the synergies. We believe that like this will add more value than if we make this spin-off. However, we're not saying that depending on the opportunities that arise we might not change that option, we are investing in the fifth product which is cattle this year. We are working on 35,000 head of cattle last year we had 28,000 head of cattle. This is our fifth product line. And as I said cash generation is performing very well.

Our leverage is low. So we are well poised to enjoy new business opportunities and to continue growing the company in the future. Thank you very much, very clear, thank you, sir. Thank you, Gabriel.

Operator

Our next question is from Lucas Ferreira, J.P. Morgan. You may open your microphone, sir. Thank you so much.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Thank you very much for taking my question. Firstly, in relation to the guidance, on margin from 31% to 39%, what's implicit in each scenario? Let's do an exercise here. If fertilizer prices and commodity prices remain stable, do you think we should hit 31% or 39%. I'm trying to understand what spot prices represent in this range.

And secondly, about capital allocation with the very low leverage are you thinking of buyback operations or dividend payouts, can we expect this in the short term. And just to follow-up on the last question in which you discussed growth opportunities, considering your size wouldn't it make sense to have a JV to make a corn-based ethanol, because one of the difficulties there is to have a constant source of biomass. Maybe it would make sense for you to develop a project like this.

A - Aurelio Pavinato {BIO 16456795 <GO>}

Thank you so much, Lucas. Well, this margin range -- in the current scenario, what will determine if we're going to be at the low or high side of the spectrum, yield in one word. Because we had a complete or a full crop last year. And this year, we're not having a full crop in cotton. When we have the full crop in the three products, even with high production costs, we can maintain our margins at a higher level.

So, that's why we are talking about a range, there are many open variables. Production costs as I have mentioned, it's possible that those costs will drop with every \$100 slash out of a drum of fertilizer. They were at such high prices that it's quite likely to see that we'll be seeing a reduction, cost reductions of this magnitude. So when we think about the coming year, while there's still a lot in store for us, many things are up in the air. But if the current scenario is maintained what would really make the difference is whether we have a full crop or not.

FINAL

In relation to dividends, our policy has been to pay out 50% of our adjusted EBITDA, the dividend yield and this is something we have been doing since 2015. Dividend yield has been 5.7 in average and this year 4.8%, which is based on the dividend payout date. And with this perspective of continuing to grow and continuing to drive more net income we believe that the dividend yield will continue to be high, or maybe the stock price will go up and the dividend will shrink a little bit or it's going to be a high dividend yield.

Either way, the scenario is very positive for our shareholders, whether they're bent on the dividend yield, or when they want our stock to appreciate. Buyback is always a possibility. We have a buyback program. It's an opportunity to allocate capital. So, considering our current business and the fact that two thirds of our land is leased, one-third is owned considering our EBITDA. When we consider the end net value of our assets, we are now price according to NAV which was a BRL48 per stock.

Not considering the appreciation of the land that will probably take place this year. So it's a very favorable situation in terms of appreciation of our assets. Our plants don't get rusty in fact, they appreciate in price, I'm talking about the 22 farms and this is a striking difference between ag business and industrial businesses. Because a long time, everything becomes rusty and appreciates, but this is not our case where asset base only appreciates in value.

So, if you compare buyback, we'll compare buyback with new projects, new opportunities, we have some alternatives to allocate capital and buyback is one of them. As for ethanol, Brazil is becoming a huge player in corn based ethanol. We could never have imagined that Brazil could take such a position, but now in fact it's gaining market from sugarcane based ethanol. But it's all about the opportunity and the return on investment. So we are thinking of working with high efficiency in our operations, and we are always considering the return on investment and comparing it to the current return on investment.

And today Brazil plants 52 million hectare of land on first crop cultures. And then the second crop with another 22 million hectares. Just the first crop represents a huge amount of ag production. In the next 20 years we'll continue to grow 1 million hectares more every year. Because Brazil has to meet the world's demand for ag commodities.

So, as a strong player in this sector, we will enjoy growth opportunities in the near future. So it's a range of opportunities and we have to allocate our capital, where the greatest return on investment lies. Thank you very much. Lucas.

Operator

We have a question from Guilherme Palhares, Bank of America. You may proceed sir, open your microphone if you please.

Q - Guilherme Palhares {BIO 21271598 <GO>}

Good morning Pavinato, good morning Gelain. Thanks for taking our questions in fact, I have -- we have two questions and we would like to follow-up on Gabriel's question. Firstly about the volume sowed in the quarter, very high volumes. Is this driven from then

Bloomberg Transcript

from the Terra Santa Incorporation to the company. And what part is SLC, what part is coming from the new operation and about your yield perspective well, we know that the forecast for May in Mato Grosso was still uncertain. There was some unpredictability. So, due the adjustments you have recently made, consider this scenario more stressed scenario. And secondly, in relation to your use of fertilizers, you have talked about reducing the use of fertilizers, and I would like to understand how much of this reduction depends on soil reserves and how much is coming of this reduction from the digital projects of the company. Thank you very much.

A - Aurelio Pavinato {BIO 16456795 <GO>}

Okay, Gelain will start answering.

A - Rodrigo Gelain

Well, thank you very much Palhares. It is about the volumes, we acquired Terra Santa and all of its production. So we sowed their volume last year. We continued to sell their volume this year. Now, the bulk of volume this year is due to two reasons. We had higher yield than expected in soybean and it was the cotton carry over from last year, that was not marked all in 2021. So, it was projected that we would be shipping this cotton last year, but it was shipped only in the first quarter 2022. That's why volume surpassed our expectations for the first quarter. About the sources of our productivity and yields, in the numbers we have just disclosed we are considering that there will be rainfall in May.

And we have a forecast of rain both in Maranhao and Mato Grosso and everything is looking great in Maranhao. Now in Bahia there is low rainfall, this has been consolidated, we have accounted for those losses, it's already calculated in the Maranhao we have a high potential that if there is rainfall will reach even higher peak yield. And in Mato Grosso and Gerais where it's drier, we're considering that there will be rain fall. If there is no rainfall in May, then maybe you have to adjust yield.

As for the use of fertilizers, precision farming, we well for the past five years we have, intensified our application of variable rate and precision farming. Since we are not opening new land, our land is mature, we have cotton and soybean where we plant cotton. The soil is very fertile. And is the what is the nutrient that is important for this soil. It's phosphorus. So this is the only possibility we have to save on fertilizer without sacrificing yield using the phosphorus in the soil. So, this is -- we are doing this operation as a standard and the reduction this year will be very consistent and uniform for us to use up the soil stocks of phosphorus. This is our strategy considering that in the near future, well when we look at prices, prices for fertilizer in the last three years, they were cheap. They were below the standard prices. And we for the last two crop years, we used fertilizer to build up our stocks. But now we're going to get and this phosphorus and our and maybe next year, we'll be able to use fertilizer as usual. Once fertilizer prices go back to normal.

Next year, we'll be able to apply fertilizer as usual. And this is part of the agriculture logic in -- low in years, where prices are low, you build up your soil stocks. And this is part of our management strategies and something that enables us to maximize our results and use of inputs. Now, digital agriculture, what we are getting from it, is savings in crop protection. We're investing in localized application of pesticides. We firstly build the heat

FINAL

map, and then we apply pesticides in a very localized way. We also use the Whittaker to readout -- top get out of the plot of land. So these are technologies that we're investing heavily in.

We bought three machines in China last year, we bought 10 more this year, so we are training our team, so that they become experts at the localized application of property protection. We also have a product for cotton that is very expensive and we'll be using satellite imagery to measure the NDVI of the crop and like this we'll reduce the use of exfoliators and maturing agents in cotton.

This is what is helping us to lower crop protection expenses with savings of BRL20 million last year. Our average is, savings of BRL50 million and for the next year. This will be stepped up. In addition to acquiring equipment, we'll train the team because there is a need of knowledgeable professionals and otherwise, we won't be able to seize the benefits provided by technology. And like this, we have been producing our production costs with the drought in cotton land, there has been a decrease in the yield, but at the same time, a reduction, of costs, because we're not applying fungicide and other products.

I've remembered that there was one year in 2016, there was severe drought in bio. We have losses of 20% of our crop and we were able to save 5% of the costs. So in fact, the net loss is represented 15%. In this scenario, we will have some losses in cotton in our project. But at the same time, we'll have -- we'll get some cost savings.

(0:49:44.9) I think it's important when we can make the comparison between the realize, we're talking about actual versus budget right 2022. But when we consider actual '21 compared to the forecast '22, there is a balance. Why? Because soybean in 2021, I think that the production was 66.4 bags per hectare this year 66.7 bags per hectare, 0.2% more. Remember the drought last year in Parana and Mato Grosso do Sul. So last year it was 95 bags per hectare only that's why the actual this year even though slightly lower than budget for corn and our key area for corn this year is Maranhao. So in corn, we are increasing yield by 22% in the comparison with last year, even with the slight crop failure that we had in corn.

And cotton, well cotton productivity is 4.2% lower. So when you put everything in the same basket and make the comparison 2021 and '22 things will add-up and be equivalent. So what will change our margin in '22 won't be yield. What will have an impact is production cost versus commodity crisis. And I think that probably one will offset the other or commodity prices will win. And that's why in our forecast, we predict that margins will be maintained in '21-'22.

Q - Guilherme Palhares {BIO 21271598 <GO>}

Thank you very much, Pavinato for the questions.

A - Aurelio Pavinato {BIO 16456795 <GO>}

Thank you, Palhares.

Operator

We have another question from Thiago Duarte, BTG Pactual. You may ask your question, sir when you wish.

Q - Thiago Duarte {BIO 16541921 <GO>}

Thank you very much, Pavinato and Mr. Gelain. I have a question is more of a provocation in fact. When you talk about the '22 margins and we have talked a lot about margins because of the input situation. But when you say that we'll have very -- margins that will be very close to the ones we had in '21 and '22. Looking at the gross output of more than 3,000 per ton, 4,000 per ton in cotton and we try to consider what you still have to build in soybean this year and also the sale of the cotton you'll be harvesting, leaving corn aside. We think of the picture that margins could be much better than last year. We know that unit prices is not given in your guidance, but you have about one-fourth of unsold or unhedged volume both in soybean and corn. So, this is a provocation for you.

In relation to your -- are you being too conservative relative to the margins or the statements you're making about the margins. Is there something we're missing out.

A - Aurelio Pavinato {BIO 16456795 <GO>}

Thiago, there's a lot that's up in the air. The yield for corn and cotton for example, the cotton is at a fantastic price today, but we don't know whether this will keep in the future. So, many things, may change until the end of the year. So, I think that your interpretation is very coherent to the scenario and that's why our vision is to maintain the margins, but there's a lot going on. It could go up, it could go down this is my answer to your provocation.

When we're thinking about EBITDA margin, now, in relation to net margins, then it depends on the volume you ship. Last year we shipped less cotton, so this inflated our net margins, but the EBITDA margin in our case it's adjusted EBITDA margin is everything that's invoiced and shipped. So it's comparable we believe. And that's why it's tailwinds for us. Soybean is securing a fantastic margins there's a lot of soybeans to be had and as for corn and cotton, those variables that are still open. So our margins could be higher or lower at the end of the year.

Q - Thiago Duarte {BIO 16541921 <GO>}

Thank you for your answers. And Pavinato, which of those points, either prices that are open or any risks to the cotton and corn yields or costs. Where do you detect the highest risk. So that we don't get any surprises in relation to the margins.

A - Aurelio Pavinato {BIO 16456795 <GO>}

I think that the top risk is price. Let's imagine, the war ends and interest rates climb in the world creating an environment, a completely, the world scenario shifts and also climate. Climate, let's imagine that the climate in the United States is perfect. In fact, it's not the case. It's adverse right now, but let's imagine that they have a record-breaking crop. And the same for Brazil. And then, there is a reversal for example, cotton demand for some

macroeconomic reason, slows down and now the spot price which is 120 per pound for delivery early next year, goes back to \$0.90.

In corn there is lower risk in fact, because with a failure in Mato Grosso do Sul corn prices in Brazil, will continue to be high. So, I don't envisage this as the worst risk. Soybean reached BRL190 per bag and then it went down to BRL170. And so, we have the effect as well. For me prices is where the risk is because they also affect the next crop year. In terms of biological assets, you have to mark down your biological assets in relation to the next crop. So, for me among those variables, the top risk is price, especially with changes in the world stage.

Q - Thiago Duarte {BIO 16541921 <GO>}

Thank you very much Pavinato.

A - Aurelio Pavinato {BIO 16456795 <GO>}

Thank you Thiago.

Operator

(Operator Instructions)

A - Rodrigo Gelain

Since there are no more questions our earnings conference call on the 1Q '22 results is now closed. The IR department will be very happy to answer any questions you might have. Thank you very much.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.