

Q1 2021 Earnings Call

Company Participants

- Gustavo Marder da Rosa, Director, Investor Relations & Treasury
- Ricardo Lewin, Chief Financial & Investor Relations Officer

Other Participants

- Andre Hachem, Analyst
- Josh Milberg, Analyst
- Lucas Barbosa, Analyst
- Murilo Freiburger, Analyst
- Regis Carodoso, Analyst
- Rogerio Araujo, Analyst
- Stephen Trent, Analyst
- Victor Mizusaki, Analyst

Presentation

Operator

Good afternoon, everyone, and thank you for waiting. Welcome to Rumo Logistica Conference Call to discuss the first quarter of 2021 results.

Today, with us we have Mr. Ricardo Lewin, CFO and IRO; Mr. Gustavo Rosa, Investor Relations and Treasury Director. We would like to inform that during the company's presentation, all participants will only be able to listen to the call. We will then begin the Q&A session when further instructions will be given. (Operator Instructions) We also would like to inform that the conference call will be presented in English by the company's management and there will be simultaneous translation to Portuguese. The event is also being broadcast simultaneously on Internet via webcast.

Before proceeding, we would like to mention that forward statements are based on beliefs in assumptions of Rumo's management and on information currently available to the company. They involve risks and uncertainties because they relate to the future events and, therefore, depend on circumstances that may or may not occur. Investors and analysts should understand that conditions related to macroeconomic conditions, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

I will now turn the conference over to be Mr. Ricardo Lewin. Please, Mr. Lewin, you may proceed.

Ricardo Lewin {BIO 20342706 <GO>}

Good afternoon, everyone, and thank you all for joining us in this earning conference call for the first quarter of 2021.

I would like to start by providing some highlights on ESG initiatives. Once more, Rumo delivered a substantial reduction on fuel consumption. This is the main driver for the reducing fuel emissions. In our long-term goals, we are committed to reduce our emissions by 15% until 2023. Another important effort is related to diversity. Recently, we announced that our restructure of the board bringing two women as members. As of now, representing 20% of its composition. Besides that, we are strongly committed to increasing women presence in all organizational levels. Already in April, we issued our first Sustainability Linked Bond in the local market, reinforcing, again, our transparency and engagement with ESG agenda. Last, but not least, we expect to publish our Sustainability Report in June, highlighting several important improvements in our sustainable agenda.

On the next chart, we are going to go through the main highlights of this quarter. Rumo presented a good performance in all main KPIs this quarter. Despite the delay in the soybean crop, consolidated volumes grew almost 13%, a better market outlook and higher fuel prices helped enhance our competitiveness, which allowed a yield expansion of 5.9%. In March, we started to operate Sao Simao terminal in Central Network, allowing us to access the areas such as Tocantins states. EBITDA reached BRL832 million, 44% up year-over-year. During the first quarter, we prepaid 2024 senior notes that not only reduced average cost of debt, but also brought our non-recurring financial gain due to the unfold of the debt swap. Therefore, net income reached BRL175 million compared to a loss of BRL274 million in the same quarter last year.

On the next chart, we will present the operational results. North Operation delivered the highest contribution for the quarter volume, growing 16.4%. In the South Operation, the harvest historically starts later than Mato Grosso. This year, volumes arrived only March, which delivered its growth to 2%. Looking to the assortment of cargoes, besides a good performance in grains that grew 9%, we highlight a 44% growth in fertilizers, 26% in fuel and almost 20% in pulp.

On the next chart, we will see results by operation. Our consolidated EBITDA grew 44%, result of 42% growth in the North Operation and a 67% in the South Operation. The higher growth in the South has basically three reasons. First, higher use mainly due to concentration of volumes in March, when tariffs are typically higher. Second, a better assortment of cargoes with more sugar. And finally, better pricing in Rio Grande do Sul that had a crop disruption last year. Consequently, we posted significant gains in margins in both operations.

On the next chart, we will see the highlights of financial results and net income. Financial expenses improved due to last year concession fees prepayment and the non-recurring effect of BRL203 million due to the effect of the 2024 senior notes swap. A better operational performance coupled with better financial results generated a profit of BRL175 million compared to a loss of BRL274 million in the first quarter 2020.

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On the next chart, we will see the effect of the 2024 senior notes prepayment in the P&L and cash flow. The all-in cost of 2024 senior notes were approximately 144% of CDI, while company's recent issuance in the local market are around 110% of CDI. As a result, we anticipate an amortization of the 2024 senior notes improve the whole debt profile increasing its duration and reducing its average cost. Also the effect of the debt swap brought a net impact of approximately BRL204 million in the P&L.

On the next chart, we will see more details of that. The first quarter 2021 leverage reached 2 times net debt-EBITDA, with a reduction of gross debt. As already said in the previous slides, the prepayment of 2024 senior bonds has improved the debt amortization schedule, reinforcing the strength of the company for the execution of next year's investment plan.

On the next chart, we have the market outlook for soybean. Regarding the soybean market in 2021, according to Agroconsult's projections, Brazil should have a record harvest of 137 million tons, an increase of 11 million tons compared to 2020, of which 85 million tons should be exported. Also, according to the consultancy, Mato Grosso is expected to increase its exports by 2 million tones, extending their harvest until July. In Rio Grande do Sul, a strong expansion of production 8.3 million tons is also expected, recovering from the 2020 crop figure. In Goias state, a new market that started to be served by Rumo in March, production is estimated at 13.4 million tons. Commercialization and volumes under take-or-pay agreements are well advanced, bringing a good outlook for the second quarter 2021.

On the next chart, we will see corn outlook. AgRural projects a reduction of 8 million tons in the corn's production and a decrease of 6 million tons in the export volumes. In Mato Grosso, a reduction of 1 million ton in exports is expected. In Mato Grosso do Sul and Parana, production is estimated at 20 million tons and in Goias, production can reach 11 million tons, representing an additional volume opportunity within the recently consolidated geographic expansion. The volume of corn contracted for the second half of the year is substantially higher than that in the same period of 2020. However, volumes for the fourth quarter are still challenging. We should expect lower availability for exports.

On the next chart, we will take a look at the long-term drivers for grains. Farmers' profitability has skyrocketed in the last years, increasing approximately 12 times for corn and three times for soybean. Therefore, from a supply standpoint, we should continue to see crops improvements over the next years, once farmers could expand investments in productivity and area expansion. On the demand side, China is recovering fast from the African swine flu and the consumption of soybean is going up. At same time, China is becoming a relevant importer of crop, which increased significantly the global demand for grains. Of that points out that our investment thesis is stronger than ever, and we should contribute to pursue the development of Brazilian logistics infrastructure.

On the next chart, I would like to comment on the Port of Santos. In previous calls, we have been highlighting improvement in Santos Port infrastructure. This time, I'd like to share with you the deliveries that changed dramatically, the efficiency in the port, improvements of the export corridor, Macuco expansion and the third line of Paqueta will be operational by June this year. Also, by this time, terminal TXXXIX, in which Rumo has a

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stake, will be delivering the first phase of investments committed in the early renewal process that will bring another ship loader and access to TXXXVII. With that Port of Santos will be significantly better off.

On the next chart, I will comment on Central Network. As already disclosed, we have been operating Sao Simao terminal since March, and we are seeing volumes going up fast. At the same time, the construction of Rio Verde terminal is advancing well. And throughout the second half, we expect significant additional installed capacity in our terminals. And Rumo is getting ready to take full advantage on its competitive position in the grain market.

Before finishing, I would like to talk about our container operation. Klabin, which is already a very important customer for Rumo is partnering with Brado. Company's signed a long-term agreement that will create a demand for 30,000 containers per year, reinforcing the diversification of cargoes with high scalability always attractive to anyone. Also this partnership allows the replacement of trucks, which brings further contribution to CO2 emissions operators.

Here, I conclude my presentation, and we can go to Q&A session. Thank you.

Questions And Answers

Operator

Ladies and gentlemen, we'll start now the Q&A session. (Operator Instructions) Our first question comes from Andre Hachem with Itau. Please Mr. Hachem, you may go ahead.

Q - Andre Hachem {BIO 20209966 <GO>}

Hello, Rubens. Thank you for taking my questions and congratulation on the results. My first question is in regards to volumes. You had a big delay in this year unless we harvest and even though you mean you still reported strong volumes for the first quarter. So I'd like to understand a little bit better. How are you seeing the volumes developed for the second quarter this year, given the push back or delay within the harvest. Is -- still on this topic, I'd also like to see how you're seeing the corn harvest earlier this year like the winter harvest. Given that we're seeing a much less and much more expectation on production. So that's my first question on volumes.

My second question is on the central network, you provided numbers, which seem to be a lot higher than we were expecting and which are very strong ramp-up. Do you think, they should maybe level off and then only resumed by the end of the year or how should we think about the evolution of the dynamics within the central network? Thank you.

A - Gustavo Marder da Rosa {BIO 18811470 <GO>}

Hi Andre. I will take the first part of the question and then, Lewin will complement with regards to corn and central network. So when we think about finding this year, we're having an all time high crop, it got late, you're right. So we were able to grow more

volumes from March onwards. So we are seeing a good availability of sign-ins for the second quarter. And as we already disclosed, we are well advanced in terms of the agreements and the commercialization of grains is doing. So we believe, we're going to have pretty good volumes throughout the second quarter of this year.

With regards to corn, I will hand over to Ricardo.

A - Ricardo Lewin {BIO 20342706 <GO>}

So thank you, Gustavo. Hi, Andre. Now for corn, as you said, you have a considerable drop in the harvest according to (inaudible) result, is expected to drop 8 million tons in Brazil. Okay and consequently, 6 million tons in exports. In Mato Grosso it's expected to drop 1 million and this may be a bit CONSOL's conservative. So it's important to see that this year the window for exports going to be shorter for corn, due to the delayed harvest of soybean as you said. Also important to note that for this year, for the corn period and for the corn crop, we are two times more contracted that we were this at the same period in 2020. So we had two times more take of the contracts this year. So we expect to have a good third quarter. Okay.

The point here is that for the quarter, there is still a lot of uncertainty. Mainly and then the fourth uncertainty is due to not only the delayed soybean harvest, but also to the weather conditions. Okay. And to get it, weather conditions plus delayed crop, hope it completely the commercialization of corn. So there is still a lot of volumes we sold in the fourth quarter.

So this is the answer for corn, the second one is regarding the central network. Andre, I don't know, if you remember that on the third quarter, we provided you a table on all the terminals. So they were like, (inaudible) we said that would start first quarter this year in access to what we did. And I remember that the second one that we're talking about was Rio Verde. So Rio Verde we expect to have it ready version. Okay. So we will take advantage of the corn crop, we'll be able to start, to elevate from these terminal in the second half of the year.

Obviously, there is huge capacity just to have an idea. We have a static capacity in Rio Verde that's two times more than we had in Rondonopolis, before the improvement that we need in Rondonopolis. So however, we will not be start to use I think our capacity. But what I can say that, it's respectable ramp up and we will be using a good amount of capacity for the second half of the year already in Rio Verde.

A - Gustavo Marder da Rosa {BIO 18811470 <GO>}

Andre, just to complement on that, we're going to be releasing today after the market closed our volumes for April. And then you're going to have a better view on how fast volumes are growing in central network, we are still talking only about the Sao Simao terminal. So Ricardo made a fair point. Of course, the capacity will boost after we have the entrance of Rio verde. But you're going to see for sure some very significant growth from March to April in our Sao Simao terminal.

Q - Andre Hachem {BIO 20209966 <GO>}

Perfect. Thank you, very clear.

A - Ricardo Lewin {BIO 20342706 <GO>}

Thank you, Andre.

Operator

Our next question comes from Lucas Barbosa with Santander. Please Lucas, go ahead.

Q - Lucas Barbosa {BIO 20835372 <GO>}

Good afternoon, Lewin, Gustavo. Congratulations on the results and thanks for taking my question. So my question is regarding yields. Can you give some color on how you're seeing yields for the second quarter? What's the magnitude of year-over-year expansion you are seeing. And in addition, if you could comment on what are your expectations for the third quarter this year? That's my question, thanks very much.

A - Ricardo Lewin {BIO 20342706 <GO>}

I will take this, Lucas. Thank you for participating on the call also. Well, let's talk about prices for the second quarter. Total prices will depend a bit on the fuel prices. Okay. But as you said in the last call, for the first half of the year, we did the soybean transportation. We are very well positioned in terms of (inaudible). So we consider that ex-fuel prices, we will continue to be at a good level. Okay, so you said about the second quarter, what was the other question for the third quarter also?

Q - Lucas Barbosa {BIO 20835372 <GO>}

Next years as well.

A - Ricardo Lewin {BIO 20342706 <GO>}

Yes. As I said to Andre, the third quarter is -- we already have a very good amount of take-or-pay contracts. And as I said, for the second half of the year, we are two times -- we have two times more take or pay than we had at the same time of the year in 2020. But the point here that's we're concentrated in third quarter. So third quarter we have guarantees -- good guarantees of volume and prices, obviously depending on the whole you've fuel prices. The point here is that for the fourth quarter, it is still true toward it to say. As I said there is still a lot of uncertainty due to the weather conditions, late crop, commercialization that was completely halted. So we see a good scenario in the third quarter this year.

Q - Lucas Barbosa {BIO 20835372 <GO>}

Perfect, Lewin. Very clear. Thank you very much.

A - Ricardo Lewin {BIO 20342706 <GO>}

Thank you, Lucas.

Operator

Our next question comes from Rogerio Araujo with UBS. Please Rogerio, go ahead.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Hey Lewin, Gustavo, Thanks for the opportunity. Congratulations on the results. A couple here on my side. The first one is on take-or-pay revenue. Can you please go through the negotiations on take-or-pay for the first Q? How this played out with the delay in the crop? And by February, if you can say how much take-or-pay revenue there is recognized here in these results more or less? And also on my second question, it seems that Rumo gained share over the northern corridor in first Q. Can you go through the negotiations with the trading companies all this take-or-pay volume there was closed by the first half of the year? If you have a view on how cheaper is to use your railway network instead of going to northern corridor. When you are close to Sao Simao or look at your Rio Verde region, so how is a competitiveness South versus North at this moment? That's my questions. Thank you.

A - Ricardo Lewin {BIO 20342706 <GO>}

Rogerio, thank you. Thanks for the questions. You can see in our release that the take-or-pay for the first quarter is a bit more than BRL100 million. You'll see the revenues and you see also in the working capital because it used to be paid in the second quarter. So these are like usual negotiations with trading companies in the sense that we signed comfort on that and this is owned by them to us. So this is not our huge discussion with them. If we cannot transport, we also own them. But this is something a bit more than BRL100 million.

For the second part of the question, Gustavo would like to take this?

A - Gustavo Marder da Rosa {BIO 18811470 <GO>}

Sure, Ricardo, thanks. Rogerio, you're right. So we did well in terms of market share in the first quarter. I think we have a lot of effect here. You remember, we recently implemented a new commercial structure that's right now it's responsible for the whole company and it amplifies the focus on the commercial relationship with customers. So that allows us to negotiate take-or-pays in advance, which ultimately allows us, for instance, to have more volumes sold for January that generate the take-or-pay in first place, but it also reflects the improvement of the market conditions that we saw when we were negotiating with customers.

So everybody knew that steel prices were going up and that is very important to explain our competitiveness against trucks. We are also this year different from what happened last year, the trading companies were having a better visibility on volumes. So there was any kind of trouble with the offtakers abroad. So the commercialization evolved well and railway tends to be cheaper, especially after we have this rebalance in oil prices. That allows us to present better pricing. So what is going to happen in the upcoming quarters, it will depend pretty much on the markets, but we are well positioning, and we believe

that our commercial strategy is in place and depending on what's going to happen with steel prices, we might present a good performance throughout the year.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Thank you. And just a follow up, when you look at volumes that are published, does it also include the take or pay there was not transported, but it was paid, no or not?

A - Gustavo Marder da Rosa {BIO 18811470 <GO>}

No, not at all. We only recognize the take a pay in other revenues, but it does not affect not even yields, not even transported volumes because the volumes weren't transported at all.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Perfect. Thanks so much.

A - Ricardo Lewin {BIO 20342706 <GO>}

Thank you, Rogerio.

Operator

Our next question comes from Victor Mizusaki with Bradesco BBI. Please, Victor, go ahead.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Hi. Congrats for the strong results. I have two questions here. The first one is a follow-up on the Central Network. So you can think about this operation, right, I mean, you talk about like a one month of operation only Sao Simao terminal with a relatively small terminals like 1.5 million tons of capacity. And did you delivered there a high margin of 46%. So my question is with the open of our Rio Verde terminal in the third quarter was like 8 million tons of capacity and expect that to return of fixed costs. Can we say that may be that can achieve the same margin of the Northern Network. So the margin above 50%. And the second question is if you can give us an update on the environmental license of Lucas do Rio Verde project? Thank you.

A - Ricardo Lewin {BIO 20342706 <GO>}

Victor, thank you for the questions. I would tell you about the margins. I will not give you a number, but I can tell that the margins on Central Network can be equal more the North Network. And this is, remember that we always say that we have gains in scale -- scale gains here. So when we are full operating Rio Verde that has a distance that's higher than and then Sao Simao we can be equal or even a better margins than our network.

Regarding the environmental license, we are working on that as we said before, the license has been discussed locally, yes, by the local secretary, environment secretary. And we are improving on that. So what I can tell -- what I we can say at this point the studies are improving very well.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay, thank you.

A - Ricardo Lewin {BIO 20342706 <GO>}

Thank you, Victor.

Operator

Our next question comes from Stephen Trent with Citibank Group. Please, Stephen, go ahead.

Q - Stephen Trent {BIO 5581382 <GO>}

Good afternoon, gentlemen, and thanks very much for taking my question. Just two quick ones for you. When you think about longer-term incremental investments, do you have any high-level thoughts with respect to whether you would invest in a brand new project that the government presents? And I realize it's a little unfair to ask because we don't know all the projects that they could present. Or would you rather make incremental investments in the Southern Network for example? And then my second question relates to the hydrological conditions and some parts of the south of Brazil, if you are seeing any impact. Thank you.

A - Ricardo Lewin {BIO 20342706 <GO>}

Stephen, let me take the first one. The second one, I will -- Gustavo will take. But I don't know if I get well the question. If I didn't get, you just after I answer you tell me. But the point here is that obviously that's a project that's very important for the company with good, very good returns. That's the extension to look at Rio Verde and although our preference is always investing in high return projects. However, we do have other projects. What we are saying is that if I have lived this capital, which one are you doing there, obviously, I'll do that as an extension.

Regarding the South Network, it's an interesting project although as you see today, the margins of the South is much lower than in the North Network, but still you can see good returns on investments in the South. But in the South, the -- I didn't say that it will turn out lower than going to North. So being very direct, we would prefer that in the North, but we are discussing in the South the renewal to see if we reach to a situation in which is attracted for the company to invest.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay, that's super. Wanted to get your high level view. Very helpful.

A - Ricardo Lewin {BIO 20342706 <GO>}

Okay. And Gustavo would like to get the second?

A - Gustavo Marder da Rosa {BIO 18811470 <GO>}

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Yeah, please. So Stephen, nice to talk to with you again. With regards to the South, you're right. We have two things going on. First is the late crop of corn and that brings also some weather concerns. So we don't know yet for sure how this might differentiate the production, but right now, there is at least some risks on that. But on the other hand, and especially when it comes to Rio Grande do Sul state which does not have a corn crop, they only work with soybean crop, last year, we had a huge drop. So this year, there the ability of soybean is much higher and that could help us at least in Rio Grande do Sul state drops that any -- or to present any losses in corn that we are seeing or expecting to another states due to the bad weather. So we're going to have to see it in the coming months how this will take place, but there is at least reasons for concern with regards to the size of the corn production in the South states.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay, very helpful, Gustavo, and good to hear from you as well. Thanks a lot.

Operator

Our next question comes from Murilo Freiburger with Bank of America. Please, Murilo, go ahead.

Q - Murilo Freiburger {BIO 17385357 <GO>}

Hi guys, thank you for the opportunity of asking a couple of questions from our side related to the Central Network. The first one is, I know it's a bit too early to discuss that. But when we looked at yields there, there were substantially higher than what we see in the northern corridor, for example. So I wanted to -- I know you won't provide like a financial guidance, but you have a rough idea of where we could lend yields in the long run. Should it be closer to what we have in the north corridors is slightly higher? Or if you can give any kind of guidance on that sense?

And the second one, I know it's also a little bit too early to discuss, but if you could talk a little bit about the competitive environment moving forward as you ramp up operations, you will probably reach kind of the same influence area that you have on FCA network. If you guys anticipate any kind of sharper competition with the other railway system, so that would be the two questions from our side.

A - Gustavo Marder da Rosa {BIO 18811470 <GO>}

Thank you, Murilo. Thank you for your question. Let me start by talking about the Central Network. So it's a business that is the starting and our main priority is to get all the volumes we can in that concession. So I wouldn't like to meet on any guidance for pricing because pricing is not the objective. What we want there is to have the highest competitiveness we can in order to ramp up the volumes very fast. So right now, we are trying to get all the volumes and prices are likely coming strong, but that's not the final objective. When we ask about the competitiveness in the region, we believe that our network is the most competitive one. We are very close to the heart of the production in the Goias state. Therefore, we are much less exposed to trucks than FCA. So we believe that naturally the volumes tend to shift to our network as we become able to afford

additional capacity. So we are not concerned about competition, and we believe that we have the right tools to capture most part of the volumes.

Q - Murilo Freiberg {BIO 17385357 <GO>}

Fantastic. That was pretty clear. Thank you, guys.

Operator

Our next question comes from Josh Milberg with Morgan Stanley. Please, Mr. Milberg, go ahead.

Q - Josh Milberg {BIO 19336060 <GO>}

Hey everyone. Hey Lewin, hey Gustavo, thanks for the question. You guys had in the presentation, the slide on the different investments being carried out in Santos and I was just hoping you could elaborate on that topic. And I believe that to some degree, how much those projects will help you overcome any potential bottlenecks over the next few years? And if you could also just revisit the status of the project with DP World, that would be great?

A - Ricardo Lewin {BIO 20342706 <GO>}

Hi Josh, thank you. Well, let's start with DP World like we are still holding with them in the project. It's not like when we announced, it was the first MOU on the project. So we still have some time to close all the terms. Regarding Santos, as you saw here in the presentation, there are a lot of projects that change completely the scenarios of Santos. So we have the third line of Paqueta, you have the Ponta da Praia project, you have several projects that both increase efficiency in the port and also increase capacity as is consequently they've increased capacity.

Santos is not our bottleneck right now, but we have been working in the last five years to avoid that it becomes a bottleneck. So and the bottleneck is mainly about the selling in the terminals. But in the entrance of the Santos port and these are the ones that working on to improve efficiencies. I think just another year, but just to get straight what I then tell you like in the last year, we reduced going into the port by something around 50 million. So this is how you view the result of the great job that we are doing in Santos Port and this is only one example. So beside the project that I told you, there are other ones to increase capacity like the improvement in TXXXIX that we said in the presentation that we increase static capacity and increase, In addition, capacity in Santos Port. So thanks to this job that we are doing. We are changing completely the efficiency and capacity in Santos Port.

Q - Josh Milberg {BIO 19336060 <GO>}

Okay. And I mean is there, it's probably difficult to measure, but just talking about the cost benefit of and the commercial benefit of those of the investments being done there. Could you address that?

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A - Ricardo Lewin {BIO 20342706 <GO>}

In what sense, Josh, could you elaborate a bit more?

Q - Josh Milberg {BIO 19336060 <GO>}

Well, no, just I mean just thinking a little bit about the speed to market, so like the turnaround times and just you mentioned sort of those efficiency gains that presumably would bring some kind of cost benefits to be operation.

A - Ricardo Lewin {BIO 20342706 <GO>}

Like you know, yeah, I got it. I think all the calls, Josh, I always say that a very efficient, when we need a very efficient railway that are extreme that are very efficient. So we have on the one side, a home of openings that is very efficient, will have -- where it's very efficient, but not necessarily, you have all the efficiency that we would like to have in Santos. And this is the reason that we are working. What that means, right, once we gain efficiency as the example that I told you, reducing almost one-hour turning in the cycle inside the transport, that means that we are reducing our cost and getting more competitive. Once we get more competitive, we can fight for more volumes, for example, in Mato Grosso, for example, in Goias. So this you can fuel and for us like it's obvious that we can, once you see here that we reduce our cost to get more competitive, keep our margins. So did you have a direct relationship with competitiveness of the tire company, tired marks network.

Q - Josh Milberg {BIO 19336060 <GO>}

Okay. Can maybe and you would also talk about some potentially transformational projects in the Santos Port. I mean are there still some opportunity, some larger scale opportunities that you're pursuing?

A - Ricardo Lewin {BIO 20342706 <GO>}

What I can tell you, yes. There is still some room to grow in Santos, and we are pursuing that. Unfortunately, Josh, I cannot tell you more on that, but yes, we feel there is still room to increase both efficiency and capacity in Santos Port. And the one that we have a fusion here that we can tell you, Josh, are the ones that are always there. So we have TXXXIX. We have increasing capacity for fertilizers in Rio Grande do Sul. So they are the ones that are public, are the ones that we are already working. There are other ones to create additional capacity that we are working on and ones I have more details we bring here to the calls.

Q - Josh Milberg {BIO 19336060 <GO>}

Okay, that's great. Thank you so much.

A - Ricardo Lewin {BIO 20342706 <GO>}

Thank you, Josh.

Operator

Our next question comes from Regis Carodoso with Credit Suisse. Please, Mr. Regis, go ahead.

Q - Regis Carodoso

Thank you. Thank you, Lewin, Gustavo. Thanks for taking the questions. Congratulations on the results. A few topics I wanted to touch based on the first one is in relation to the guidance. So the low end of the guidance BRL4 billion, let's assume some BRL200 million in the Central Network in the existing operations, would have to do about BRL3.8 billion or in other words, BRL1 billion on average EBITDA for the next three quarters, doing a very rough calculations, right. My point really is that the low end of the guidance already implies very strong results for the two quarters ahead, already adjusting for the Central Network as you of course agreed the Central Network EBITDA would be up around BRL200 million and otherwise, it would be much bigger? Anyway, what I wanted to ask you is, do you see it as a very likely that you will reach that result or does it depend on fourth quarter corn harvest? That's one question.

And the other one is whether this is very seasonal, for example, whether you expect a very big concentration in the second quarter now whereas we are looking at is on a normalized basis spread out in the quarter, right. So this is the first question, a little bit of math to understand how to reach the guidance or there is any really clear?

The second topic or actually two quick ones. One is on capacity. Whether you have spare capacity right now or expanding volumes would require additional trains and so on? I'm trying to gauge whether the upside will come mostly from in the North Operation or any of the existing operations would come mostly from tariffs or volumes in the shorter term in 2021? And then one last quick one, working capital was quite negative this quarter. If there is any specific reasons for that maybe the new terminal starting up, but that led to debt increase. So how do you manage this? Thank you.

A - Ricardo Lewin {BIO 20342706 <GO>}

Thank you, Regis. Well, I'll take the first one, then I'll send to Gustavo. But regarding the guidance, there is no change that we would like to do right now. The point here is that we know that there is a huge reduction on corn crop. But as I said, we foresee good second and third quarters. It's just too early to see or to tell about the fourth quarter, it's very uncertain what will happen. But at this point, we don't have why to change the guidance. We believe we can reach in the range. So if you say like how likely, it's like, we believe that we can reach, but we will follow this if we have any change that we want to do will come to the market and provide you guidance, but this is not the case by now.

And Regis, one thing that's important to remember that we've Central Network and not only we've Central Network, but the diversity of cargoes that we have. We have some flexibility that we are working on that. So we have sugar that we can transport, you've got instant corn from the North can come right now from Central Network and it's the first year that we are operating with the Central Network. So this is also one reason we're not changing anything by now. But if we see that we need to do any change, we will come to the market and we will tell you.

Gustavo?

A - Gustavo Marder da Rosa {BIO 18811470 <GO>}

Sure. Let me start with the capacity hedges. Maybe the most important thing to understand here is that we did a real good volumes for the first quarter even though as we mentioned and highlighted the harvest arrived late. So that shows how strong the capacity of the company is right now. And we also operate in the first quarter with a very few contribution of Central Network. So we believe that from the second quarter onwards, we're going to have a higher contribution from Central Network that would take advantage on the capacity that is being built in that concession. We're going to be also running with longer trains that is already in place and that could provide a lot of capacity. And all of that will meet those investments that Ricardo just pointed out in the Port of Santos.

So we truly believe and we can add to that the expansion of Rondonopolis that you did last year. So we believe that we have all the right conditions to afford higher growth in the upcoming quarters. On top of that, you also ask about tariffs. I think we already covered a bit of that. It has to depend pretty much on the market and on the fuel prices. The good news is that we have more volumes protected than last year, but it still might be subject to any kind of volatility that could come from the market.

Your last question was about the working capital. So you're right, there was an outflow this year, lower than the outflow that we had last year and one of the reasons that contributed to generate a higher outflow in the working capital was the take or pay recognition. So as Ricardo mentioned earlier, we recognized roughly BRL100 million in take-or-pay fees that are expected to be come cash in the second quarter. So if you exclude that from that number, then you're going to have very probably what we call business as usual. So working capital was affected by suppliers, receivables bonus and taxes, but it was all ordinary nothing from different. But I think when it comes to working capital, my main remark would be that we definitely expect for the second quarter to cash in most part of the co-pay that was recognized in the first quarter and then it could offset a bit this effect of working capital that we showed in the first quarter.

Q - Regis Carodoso

Very clear. Thanks, Gustavo, Lewin. Have a good day.

Operator

Ladies and gentlemen, that concludes our question and answer session for today. Now I would like to turn the floor over to Mr. Ricardo Lewin for his final remarks. Please, Mr. Lewin, you may proceed.

A - Ricardo Lewin {BIO 20342706 <GO>}

I just like to thank you for the participation of everybody. We had a very good quarter. And as I said here in the call, we expect a good second, third quarter with certain uncertainties

in the fourth, but we are still very positive with the 2021 year. Thank you, everybody, for your participation. Talk to your next call. Bye-bye. Thank you.

Operator

That concludes Rumo's conference call for today. Thank you very much for your participation. You may now disconnect, and have a good day.

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