

Operator:

Good morning ladies and gentlemen. At this time we would like to welcome everyone to América Latina Logística (ALL)'s 2Q06 results conference call. Today with us we have Bernardo Hees – the CEO; and Sérgio Pedreiro, the CFO and Investor Relations Officer.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the Company's presentation. After ALL's remarks are completed, there will be a question and answer section. At that time further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator. There will be a replay facility for this call for one week.

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

Now, I'll turn the conference over to Mr. Bernardo Hees, who will start the presentation. Mr. Hees, you may begin the conference

Bernardo Hees:

Good morning ladies and gentlemen. Thanks for your interest in ALL, we are pleased in presenting the results of the 2Q06 and, as you can see on page 2 our EBITDAR increased over 25%, reaching R\$ 274 million in the 1S06, and our margin EBITDAR gained almost 5 points, going from 41% to 45.5%, and that's actually related to two main things.

First of all, we had an improvement in our challenge since in the 1Q we gained more than in the 2Q and second, our costs were really under control and we had a (...) that was very positive and you can see our volumes grew only 9%, which is a good result but nothing spectacular, it was under our initially trend that was very positive given that we had a main interruption in our lines and also in the roads of Mato Grosso do Sul State and Mato Grosso State, that delayed that part of the country for over 25 days and we had farmers protesting against government taking our lines for 20 days in the northern part of Paraná.

So we had a very weak month in May, and we did our best having more volumes in southern Brazil, having more volumes in the industrial side and that I think was a very good 2Q with our EBITDAR growing over 20% and our volumes increasing 8.1%. So, I think we faced very well this challenging month that was May, and we had a very good April and June and our EBITDAR and all was very positive growing over 25%. The same thing happened in net income, where we achieved R\$ 97.6 million growing 97% in the 1S, growing over 130% in the 2Q.

In the first part of the presentation I am going to the business unit of ALL, then I'm going to hand over to Sérgio to go to the financials and then I'll come back to explain how is going in Brasil Ferrovias, and how is going the integration process is doing so

far, we are pleased that we successfully concluded the first phase of the integration and our plan is to be fully integrated until the 1Q07.

Highlighting the agriculture commodities business unit, as you can see our volumes went up by 10%, reaching R\$ 5.1 billion RPK and almost 9% in the 2Q and I think we did a good job in handling other volumes in May, despite the protest that interrupted for 25 days the roads in Mato Grosso and Mato Grosso do Sul, and interrupted the northern part of our network in Paraná for 20 days, even with that our EBITDAR increased 27% in the 1H and almost 60% in the 2Q06, and overall that was really very related to the soybean volumes that increased 38.6% in the 1H and we recovered from the severe drought we had in Rio Grande do Sul and that was the state in the Port that really grew faster was Rio Grande Port, and the volumes in Rio Grande do Sul this year we're really handling a very good crop season.

In chart 4 we can see that our volumes grew by 17%, and the Ports almost 40% more, so our margin share went down by 65% in '05 to 55% in '06, it's a good market share to have, especially in the 2Q when the crop season peaks, that when you see the Rio Grande Port that is located in Rio Grande do Sul state, the volumes went up by more than 500% and our volumes went up by over 200%.

In the industrial side of the business we had a good 1S, we increased 25%, our EBITDAR reached R\$ 61.3 million, our EBITDAR margin gained almost 3 points, going from 38% to almost 41%, that's the first time we had over 40% in EBITDAR margin in the industrial side, and the volumes went up by almost 9% in the 1S reaching 2.6 billion RTKs and the main flows that we got for that was the intermodal flow especially steel, wood, pulp and paper containers, food products, that we gained YoY more than 15% in volumes, and interruptions in May with the protests of the farmers that affected us in the oil diesel transportation and in the oil diesel consumption in the southern part of Brazil, so the interruptions affected the industrial side on the diesel side but also in the intermodal side, we gained in market share and increased volumes by over 15%.

On page 6 we have highway service in Argentina, it started with the highway service, we continued to gain in rentability, in profitability of the business, as we did in the 1Q, as we mention here in April. Our EBITDA reached R\$ 3.2 million, that's almost 200% YoY growth and our margin EBITDA reached 5.6% in the 1S. The 2Q was very positive, in the new flows we are signing, especially AmBev, Unilever, and Bosch, that's a new client.

In the Argentina side of the business you remember that we came from a weak 1Q, we had a 2Q that was very positive, our volumes increased over 8% in the 2Q, that gave us a 6% increase in volumes in the 1S, and our yield increased over 4% and revenues increased over 10%, and the best part of this recovery in Argentina is that the main operating indicators had a very significant improvement from the 1S05 to the 1S06, especially locomotive profitability and diesel consumption, so I think that we had a good semester with two different stories: a weak 1Q in Argentina a good 2Q in Argentina.

These are the comments from the business units in ALL, and I'm going to hand over to Sergio to go to the financials, and I will come back to talk about Brasil Ferrovias.

Sérgio Pedreiro:

Thank you Bernardo, good morning everyone. Starting on page number 7 we see consolidated gross revenue for ALL, and see a comparison of 1H06 with 1H05 a 13%

increase in revenues, and clearly this increase reflects the negative impact we had with the interruptions in the road and railroad during May, but also the negative impact of discontinuing business with low margins in the highway services units and the negative impact of the Peso devaluation against the Real, which also contributed to a lower increase in revenues. The effect of Argentina and the highway services account for 5 points in revenue growth YoY for the 1H.

On page number 8 we see the EBITDAR growth in spite of the revenues growth being below expectation, we did achieve a 25% increase in EBITDAR and also a very important a 5-point margin expansion, when you compare 1H05 with 1H06, from 41% to 46%.

On page 9 we see the EBITDA for the period, and it's always good to remember that we are accounting for the rental expenses, since 2005 we are adding a thousand rail cars a year to our fleet, these rail cars are acquired by our clients and we pay a rental to use those cars in our lines, for a period of 10 years, after that the car is ours.

The rental expenses is a difference between the EBITDA, and the EBITDAR, you see an increase of 16% in EBITDA and only 1% of margin expansion, we should see this as we go forward an increase in the fleet of rail cars that is rented from the client, an increase for the rental expenses YoY and a much more margin expansion on EBITDA than that you will see on EBITDAR, and then the fleet of our rented cars growth actually you're going to see a decrease in EBITDA margin over the year.

On page number 10 you can see the net income almost doubling from, for example, 1H05 to 1H06, actually also benefited by the fact that we did not have a large Peso devaluation this year, not as large as we had last year, in addition to the EBITDAR growth this also helps in terms of the bottom line growth.

On page number 11 you see the net debt to EBITDA ratio overtime clearly when you look at the trend from '01 to '03, we deleveraged the Company, 2004 and 2005 we actually accumulated a lot of cash in preparation for the Brasil Ferrovias acquisition, with that acquisition we inherited a significant amount of debt from the Brasil Ferrovias, increasing the net debt to EBITDA ratio to 4.1 at the end of the 1H, we're looking here at the net debt at the end of June, and EBITDA for the 12 months before.

Going forward this ratio should decrease, we should see this between 3.5 and 4.0 by the end of 2006, in 2007 we'll continue to see an increase in net debt, with also an increase in EBITDA and a reduction in net debt to EBITDA ratio, starting in 2008 we should start to see a certain decrease in the ratio as net debt will not increase, it should decrease in fact in 2008, and EBITDAR should continue to grow. With that Bernardo will be commenting on Brasil Ferrovias.

Bernardo Hees:

Thanks, Sérgio, mentioning about Brasil Ferrovias on chart 12, we're pleased that we concluded the acquisition and all the government approval, and the financial approvals from the agencies in Brazil regarding June, from June 16 we already are taking over the Brasil Ferrovias operation, and we are very pleased with the first phase of the restructure process, remember that we moved 20 of our top managers to Brasil Ferrovias to handle the challenges that we are having in '06 and then our plan is to be fully integrated by the 1Q07, until then we are going to have two Companies, ALL and Brasil Ferrovias, with different financial targets, and different financial measures.

The first process to be done is one of the hardest, it is to reduce the workforce that is really over-dimensioned, and we took from 4.500 people to 2.000 employees today, with no impact on operations, we had transparency with the people, we talked to them directly, we showed them the Company's figures, so I think, (...), with the Union, with the Company and with the people who are staying there are very motivated by the next phase of Brasil Ferrovias.

We don't expect volumes and revenues to grow over '05, they will be much in line with '05, we should see a slight improvement in EBITDAR but that is reflecting already the reduction in costs and the measures we're taking in the 1H but that's not going to be significant. Brasil Ferrovias, restructuring cost, we continue to estimate a debt of R\$ 400 million and the CAPEX for '06 will be R\$250 million, they already had invested R\$ 150 million in the 1H, we are going to be investing R\$ 100 million in the 2S06.

As I said the Companies will continue to operate independently until they are fully integrated in the 1Q07, and the situation we are facing today is really very, very challenging, with a very high current level of accidents, very poor assets productivity, rail cars, locomotives, rail lines and so, to bring all them to an operational standard that we consider acceptable, it's going to take two or three years to turn around this process, it is just the beginning, there are huge challenges that we are going to be facing in the next couple of years.

We are confident and we think we have the right thing to handle the challenges but they're definitely very, very impressive challenges, and it's not going to be an easy process, it's going to take time, it's going to take a lot of work, a work processing in spending the right amount of money at the right places, to handle the bottleneck of the operation at this time in order to have the results that we want to achieve from these acquisitions. As I said, it's going to take two to three years to the turn around process. With that we'd like to turn over to questions.

Felipe Hirai (Merrill Lynch):

Hi Bernardo, hi Sérgio, could you please give us some guidance on volume growth on both ALL and Brasil Ferrovias for 2006 and 2007, and could you also please comment a little bit on the potential impact of reduction in soybean production in the southern region of Brazil, given the current low profitability of farmers and in terms of potential loss in volumes then in yields?

Sérgio Pedreiro:

Hi, Felipe. Starting with the guidance on the volume growth, starting with ALL, in 2006 we expect a 10% volume growth for the year, compared to 2005, reflecting the fact we saw in the 1H and the weaker market that should continue throughout the end of the year, when you think of Brasil Ferrovias for 2006 it should be very much in line with 2005.

I mean, we should not see any volume or revenue growth of anything we've got, as Bernardo said, we do expect a slight improvement in EBITDA reflecting a better cost base for the 2H of the year, nevertheless, we do have a lower EBITDA in the 1H of the year in Brasil Ferrovias when you compare 1H06 with 1H05, we should see a small improvement in EBITDA.

Going forward thinking of 2007, we don't see any change in our mid-term expectations and guidance of growth, in ALL in the range of 12 to 13%, Brasil Ferrovias 12% to 15%, so a little bit higher, again, thinking of a 3 to 5-year period.

Bernardo Hees:

The second part of your question, talking about how we can capture the synergies, I think we're going to have a much more flexible operation as I can take my railcars from the southern part of Brazil, from Rio Grande do Sul, and get them to the southern part of São Paulo, and going to Santos, so, all the options we have at ports, and that's very good, remember last year, we moved from Porto Rio Grande, to the Port of Paranaguá in São Francisco.

If you take the same situation again, which is not very likely given the severe drought that we had in '05, but even facing that, we would have a new options in the Port of Santos, that I think we need to plan very well, right now we're already starting that, to plan very well our operations, and where to have our rail cars in order to optimize cargos and prices, and that is something that is going to take two or three months and that's going to be our plan for '07, but that's until the Company gets much more flexibility.

Felipe Hirai:

OK, I have another question. If you could give us a guidance of how much in cost savings you could achieve in Brasil Ferrovias already in 2007, apart from the R\$ (...) million that you said you're going to achieve in the reduction in workforce. Do you have any guidance of what we can expect for 2007 apart from that?

Sérgio Pedreiro:

No, that's basically, it's about R\$ 80 million annualized, I mean, that's the base of the process so far.

Felipe Hirai:

OK, but that would be only for the savings from the workforce reduction, right?

Sérgio Pedreiro:

No, not really, I mean, there is the workforce reduction and other cost reductions that will be implemented.

Felipe Hirai:

OK, thank you.

Andrew West (Harding Loevner):

Hello, gentlemen, congratulations on your results. Can you give some guidance on where you see the total CAPEX coming in for the next two or three years?

Sérgio Pedreiro:

Andrew, when you think of the next two to three years you should consider CAPEX in the range of R\$ 550 million to R\$ 600 million for both Brasil Ferrovias and ALL, on a combined basis.

Andrew West:

Then where we can see that coming in after the operations are normalized on a sustainable basis?

Sérgio Pedreiro:

It shouldn't increase much, I mean, it should be a margin increasing from that base.

Andrew West:

OK, so that would be kind of a steady state going forward?

Sérgio Pedreiro:

Yes.

Andrew West:

Assuming the operations are normalized in two to three years, do you have some targets on margins coming in three years from now for the consolidated cases?

Sérgio Pedreiro:

We're not giving guidance in terms of margins, Andrew, so I suggest you work with the reports from the analysts, for that purpose.

Andrew West:

Do you have any view on what impact the (..) oil prices would have on your margins and revenues?

Bernardo Hees:

Andrew, it's important to remember that Petrobras worked like a bumper in that sense, right? The last raise in oil diesel was about 8 months ago in Brazil, so actually we don't know what Petrobras policy is going to be, but if they raising prices, that's going to be helpful for the negotiations of the contracts for '07.

And remember, also, that we passed through immediately to the client, to our tariff every time diesel prices go up, so I think we have a kind of natural hack on that sense, but that's all going to depend on how Petrobras is going to behave and we really don't see Petrobras raising prices before the elections.

Andrew West:

All right, thank you. Then one last question, why is the focus on EBITDAR margins as opposed to more industry standard measures like EBITDA margins or EBIT.

Sérgio Pedreiro:

Yes, Andrew, we look at EBITDAR for the purpose of comparison to previous years, and for the purpose of giving a trend in growth. We have started in '05 with a change in our practices to buy new rail cars, and these new rail cars are financed through an arrangement with our clients, in which the clients buy the rail cars and then turn around and include them in the commercial transportation agreement in which we transport using their cars and give them a discount in the freight rate.

So, basically, what we're doing is financing the condition of the car to our client, we could do that financing directly with any financial agent and, therefore, this would be financial expense, so that's why we take it out of the EBITDA and look at EBITDAR.

The reason why we do this and the reason we prefer is, number one, because in the commercial agreement with the client we (...) not only because the investment (...) but also because of the former take-or-pay basis for the commercial agreement. And the second, less important, we (...) normally with large clients like Bunge, Cargill, and clients of that size, we normally get a better financial expenses than if we financed it directly.

Andrew West:

Would you say that the rental costs are higher or lower than if you had bought yours directly the depreciations expenses on the rail cars?

Sérgio Pedreiro:

If we would finance it directly our cost of financing would be a little bit higher than the rental expenses, if you compare that with the depreciation of the cars it's higher because we are buying the cars back in ten years so we have the amortization of the principal in ten years plus interest, as opposed to depreciation in 20 years.

Andrew West:

OK, thanks very much, that's helpful, keep up the good work.

Sérgio Pedreiro:

Thank you.

Ivan Fadel (Credit Suisse):

Good afternoon, gentlemen. I was looking at the industrialized segment in Brasil Ferrovias, although it's a little bit small in the breakdown of the product, and also you're very much concentrated in the industrialized product, in fuel product, and iron ore, so what would be the products where you see the largest growth for the coming years, in terms of the product breakdown that you have.

Bernardo Hees:

Ivan, you're talking about Brasil Ferrovias, right?

Ivan Fadel:

Yes, Brasil Ferrovias industrialized product.

Bernardo Hees:

OK. You have a very good point, that's definitely right, they are very concentrated in the industrialized product, they actually, the industrial products portion of their revenue is very small, in comparison to the grain, which is a very similar story to what we handle in the forest, 1970, 1980 in ALL and in the industrial side I think there are several opportunities to replicate the same model here in the construction, wood and paper, containers.

Remember we are talking about São Paulo, that is the biggest industrialized state of Brazil so, definitely, all the segments that we serve here in southern Brazil we could be serving in São Paulo. And you are right, even in the mining, in the oil segment our market share in São Paulo is still very small, so I think the main challenges that we have here in Brasil Ferrovias is not really related to the market, it's related to the operational challenges that we are facing, like how to reduce the accidents, how to improve the productivity standards of our assets, how to handle all that, that is really, like I said before, huge challenges ahead of us, it's going to take time, and it's going to take for us a lot of work, and a lot of focusing from all the people.

Ivan Fadel:

And you mentioned the container market, I don't know if it's already included or if you have any volumes of that in the industrial product, but do you see that growing and what would be the driver for that growth?

Bernardo Hees:

Well, as I have the operational standards, Ivan, the problem is the container in industrial product, that you need to have a minimum operational standard in order to operate those segments. I remember the start of ALL, we used to do grain and diesel, and we could not come to the intermodal market like fuel, petrochemicals, construction, in order to have their logistics because they didn't have service.

The same thing applies to Brasil Ferrovias, with the level of service you have today I don't think it's reasonable to think that we're going to be growing in the container market in the first two to three years, I think that we will be growing in the market we're already serving, bringing the operations to the minimum level of standard and then coming to this type of segment.

Ivan Fadel:

Increasing reliability of this customer, creating track record and then you think you'll capture the...

Bernardo Hees:

Yes, but that's the challenge, to increase the reliability, to increase productivity of the asset, to reduce accidents, all these are the challenges that we are facing today and will face in the next couple of years.

Ivan Fadel:

OK, great. Thank you very much.

Bernardo Hees:

Thank you very much for the interest in ALL, Sérgio and I are available if further questions may come. Thank you very much, good morning.