

Conference Call Transcript — 1Q15 Results — May 12th, 2015

Operator:

Good afternoon, ladies and gentlemen. At this time, we would like to welcome everyone to Rumo Logística and America Latina Logística ALL 1Q15 Results Conference Call. Today with us, we have Mr. José Cezário, CFO and Investor Relations Officer; and Mr. Guilherme Machado, Investor Relations Manager.

We would like to inform you that this event is recorded and all participants will be in listen-only mode during the company's presentation. After Rumo Logística and America Latina Logística ALL's remarks, there will be a question-and-answer session for industry analysts. At that time further instructions will be given. Should any participant need assistance during this time, please press *0 to reach an operator. The audio and slide show of this presentation are available through live webcast at www.all-logistica.com.br/ir. These slides can also be downloaded from the webcast platform.

Before proceeding, let me mention that forward-looking statements will be made under the Safe Harbor of the Securities and Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Rumo Logística and America Latina Logística ALL's management, and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic condition, industry condition and other operating factors could also affect the future results of Rumo Logística and America Latina Logística ALL and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. José Cezário, you may now begin your conference.

José Cezário:

Good morning everyone and thank you for attending ALL's 1Q15 result conference call. In this call, we will present as well the result of Rumo Logística which were disclosed last Wednesday, May 6th. So in this presentation, we will be covering the results of Rumo Logística, the consolidated results of ALL as well as the segment Rail Operations in Brado.

Exceptionally this quarter, we will also present the combined results of Rumo and ALL in order to give you a better idea of how we see the business from now on. It is also worth remembering that this is the last earnings release that we will present Rumo and ALL's results individually, so let's go straight to the slide five.

Beginning with Rumo's results, the loaded volume fell by 8.8% in the 1Q15 versus last year. Usually the sugar shipments in the first quarter are lower due to the winter harvest period. And in the 1Q14, we had a considerable higher level of the sugar shipments which were affecting of the fire on Coopersucar terminal at the end of 2013, and by the price effect on that harvest, which caused a concentration of the volume loaded in the 1Q14.

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Despite that lower volumes, net revenues remain equally flat in the quarter, moving from R\$208 million to R\$206 million.

EBITDA fell by 33.7% equivalent to R\$31 million mainly impacted by the increase in transportation cost due to a higher mix of truck freight and by the hiring of new service provider for rail freight which higher tariffs than Rumo's negotiation with ALL, which caused reduction in the EBITDA margin from 45.5% to 30%.

Now let's move on to slide seven for ALL consolidated results. Here you can see here ALL consolidated results. Consolidated net revenue declined by 2.6% in the 1Q15, which reduced rail operation volume mainly as a result of the truck drivers' strike. However, it's important to mention the grain commercialization dynamic in harvest affected our operations in this quarter versus last quarter.

Pricing trade in transported volumes to the port were much more intense last year than in this first quarter of 2015 causing an increasing volumes loaded either in Santos and Paranaguá. At the EBITDA we had in the 1Q15, extraordinary expenses related to the merger of Rumo and ALL of approximately R\$33 million. Therefore, adjusting these non-recurring expenses, we would have a reduction of approximately 29% in adjusted EBITDA reaching R\$288 million instead of R\$255 million as reported.

The net result was a loss of R\$229 million impacted by the increase of approximately 70 million in financial expenses in addition to the factors I mentioned, such as the strike and non-recurring effect.

Now let us talk a little bit about the market overview. A soybean harvesting and sugarcane crushing usually begin in mid-February, March respectively. The first quarter seasonally recorded the lowest transported volume in the year. In addition, we had an usual scenario of same volumes in the 1Q14 due to events that will not repeat in the 1Q15. Including the anticipation of soybean import demand by China in the 1Q14.

The transportation postponement of part of the second crop of corn from 2013 to the 1Q14. And extraordinary volumes of sugar originated in 1Q14 due to the fire in Coopersucar terminal at the port of Santos which were shifted to Paranaguá. Also at the end of February in mid-March 2015, the truck drivers' strike substantially impact to the shipment of grain volume in Mato Grosso and Parana, preventing the arrival of the grains at our terminal. Consequently, we could only handle our stored volumes resulting in a reduction of around R\$430 million in total transported volume.

Brazilian exports of agricultural products fell by around 28% over 1Q14. Ministry of Development, Industry and Foreign Trade and Aliceweb. And highway freight prices on the sport market fell by approximately 16% on the Rondonopolis-Santos stretch, according to the Mato Grosso Agribusiness Institute. Industrial volume fell by 8.5% primarily impacted by 30 days stock of refinery and reduced demand from the construction and steel industries.

Now let's move to slide nine, talking specifically about rail operations now. The transported volume fell by 4.2% in the 1Q15 impacted by the truck drivers' strike already mentioned. In

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February 2015, which lasted along ten days. In the 1Q14 an usual scenario, which we have spoken about in the market review session, as well as reduction in industrial volume due to the economic slowdown.

For the same reason, net revenue recorded a 3.1% decline to approximately R\$790 million. As explained in the consolidated figures, we adjusted EBITDA for non-recurring expenses related to the conclusion of the Rumo ALL measure. As a result, adjusted EBITDA from rail operations fell by 29.5% and the adjusted EBITDA margin stood at 35.4%.

Moving on now to Brado Logística, slide 10. Brado's transported volume increased by 21.5% over the 1Q14, while the average tariff remains flat. As a result, net revenue grew by 11% quarter on quarter, Brado's EBITDA moved up by 16.2% to R\$17 million with a margin of around 22%.

In slide 11 we show the financial results and the cash flow movement for ALL in this quarter. The financial results presented our growth in expenses of approximately 28% mainly due to higher bank interest rates measured by CDI in this quarter, as well as the increasing the debt average balance.

Additionally, other expenses mainly related to monetary variation over lease in concession agreement. The cash flow movement show the cash consumption of around 788 million in this quarter. We had a growth in operational cash flow of approximately 40 million compared to the quarter of last year.

Investment cash flow increased 25% mainly due to a higher investments in marketable securities of approximately R\$190 million offset by a CAPEX reduction of 30% in the same period. Growth in financial cash flow was approximately 49% or R\$164 million due to amortization of debt principle, receivables and financial leases in a total amount of approximately R\$140 million.

So moving on to 13, here we present the combined results of Rumo and ALL. To give you a better understanding of the operations of the new company, as you can see net revenue fell by only 1.3% reaching 970 million in the first quarter of 2015. Adjusted EBITDA recorded a reduction of 26% to approximately 350 million, reflecting the impact of the drag and an usual first quarter of 2014, which was a particularly strong basis of comparison.

On slide 14, the combined net debt grew by 14.6% from R\$5.9 billion in the 4Q14 to R\$6.8 billion at the end of this quarter. This increase was basically due to the reduction in the cash position of approximately R\$690 million as we have explained prior in the cash flow movement explanation for ALL.

In addition as we disclosing our 4Q14 earnings release, the company obtain a ways for all these creditors, except for the BNDES for the net debt-EBITDA ratio up to 5.5x. As a result, expect this BNDES were reclassified to the long-term on March 31st, 2015.

As a result, the short-term debt in March 31st, 2015 represents 55% of the total net banking debt in the long-term debt is 45%, therefore. After the prepayment of the

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debentures which happened in April, 2015. The debt during the next 12 months, we represent around 37% even before the BNDES renegotiation from the short to the long-term debt that should happen next quarter, when we see this BNDES.

Now let's move to Rumo's consolidated guidance on slide 15. Here this guidance as we closed on April 23rd. There were no changes than what we confirm as the ranges for both EBITDA and CAPEX.

With this, I finish my presentation and we move to the question-and-answer session. I'll be at your together with Investor relation manager as well as team for financial department who will help with issues that may require more the detail approve. Thank you.

Alexandre Falcão, HSBC:

Good morning. I just wanted to have a little bit more clarity on the cash burn and the rate of the cash burn. I guess in the 1Q you burn more or less R\$500 million to R\$600 million, what do you expect in terms of cash burn going forward and this is the first question.

And second, in terms of the working capital that you're getting invested on this quarter, is this a seasonal thing or we should expect is going forward as well? Thank you.

José Cezário:

In terms of the working capital as you saw in this quarter, we had relative high number of working capital needs. We are still analyzing all the opportunities in all the things that have to be done in order to reduce this need of working capital and even if possible to take some advantage on that. We are still analyzing all the opportunities, but we are not expecting for the next quarters. There is still need that we saw in this quarter in terms of working capital.

So right now we're not forcing any additional as we saw in this quarter, but we are still analyzing and understanding all the opportunities in aspect related to that. When you ask for the next quarter's trend in terms of cash burn, let's remember; first of all let's remember our CAPEX guidance. As we have roughly 1 billion in terms of expansion CAPEX and the R\$800 million to R\$1 billion in terms of all recurring CAPEX.

So first of all, let us remember all these figures. As it will impact at lot in terms of cash needs. And in terms of the financing aspect of the cash flow, we have around R\$1.2 billion per year, R\$1.1 billion, 1.2 billion per year just related to financial expenses net. So, if you think that it is quite regular in terms of quarter's vision of this amount, we have roughly R\$300 million in financial expenses per quarter.

So what we are looking to the next quarters is the same trend in terms of financial expenses even though we are still looking at opportunities and even alternatives to reduce these needs and to optimize our financial structure and enhance all these cash position. But these are the most relevant figures, I think you have to bear in mind when you assess our cash flow position or cash flow trend. Hope it helps you.

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Alexandre Falcão:

Thank you. And then just one quick follow-up on, there is a big package from infrastructure practice from the government coming along. Apparently, one of the items is going to be terminals on the Port of Santos, specifically the one which is should be that's for grain and sugar whatever. So just wanted to know if you guys are looking at that and if you were and what vehicle this passbook decision would be made? Thank you.

José Cezário:

So we have been following up all the developments along with the agency and the government for opportunities in the new concessions specifically for the Port. We're following up all the developments on these aspects. There is nothing concrete at this moment that we could disclose to the market. But certainly we, it's a very strategic for us the Port of Santos. So any movement will be something that we are going to look very closely, but nothing from so far that we can anticipate to you, guys.

Alexandre Falcão:

But, if it's done, is it going to be done in the Rumo level or in the Cosan Logistica level, just to clarify? Thank you.

José Cezário:

Rumo level, Falcao.

Alexandre Falcão:

Thank you so much.

Marcio Prado, Goldman Sachs:

Good morning, everyone. Thanks again for the call. I would like to just confirm the EBITDA adjustments that you've mentioned in the Portuguese call in when you showed the combined financials for Rumo and ALL and last twelve months EBITDA of R\$1.388 billion if you could confirm to us the adjustments that you guys are making to these EBITDA? And I just understand if this number is clean of the adjustment, is clean of the one-offs or has the one-offs? Thank you.

Antonio:

Hi. This is Antonio speaking. The number is clear of the one-offs. Just keep in mind that the balancing of the payables and receivables of the Rumo contract was adjusted in the 4Q14. Therefore, when we add up the Company to make the combined P&L and combined EBITDA, we need to get to move back that adjustment from the numbers. So that will be the reconciling item by just adding the two EBITDA's together. And also we did not consider that you should take into account three adjustments that would add up to EBITDA.

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The first one is the related to the credits we have with the Federal Government that we made a provision in the 4Q of R\$56 million, also a tax credits related to IPI credit that we made a provision of R\$50 million in the 1Q14. And also the one-offs that we have in this quarter related to the DOCs of about 33 million.

Marcio Prado:

Antonio, thanks for the clarification. Let me just to understand a little bit better. So the accounting EBITDA which would have taken into account, the three items you just mentioned, would be lower than the R\$1.388 billion. This is correct interpretation, so you felt confident the IPI credit the merger related fees and accounting against the federal government, if I consider these, the EBITDA would be lower? That's the first question.

And second is with regards to the covenants. If like for covenant proposes if the EBITDA is the adjusted EBITDA or the accounting EBITDA? Thank you.

ALL:

Just to clarify that R\$1.388 billion is the EBITDA strength from the financial statements with the eliminations considering the balancing of the Rumo contract payables and receivables period. In order to get to an adjusted EBITDA, you need to add to the R\$1.388 million, the 56 and the 33 that I've mentioned. Okay.

Marcio Prado:

Okay. Very clear. Thank you.

ALL:

For covenant purposes you would consider the R\$1.388 billion.

Marcio Prado:

Okay, great. Thank you.

ALL:

When combining Rumo and ALL.

Rodrigo Mugaburu, Morgan Stanley:

Good morning. Thank you. On the Portuguese call Julio mentioned that EBITDA could have been R\$45 million to R\$50 million higher. I am not mistaken, but it was affected by the trucker strike. We also know that farmer sales during the first quarter was low farmers were waiting for their higher prices. Should we expect second quarter to be much stronger because those volumes are still there if are timing issues. So I just wanted to understand if we should expect those R\$40 million to R\$50 million to be in the 2Q? Thanks.

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José Cezário:

Rodrigo, look traditionally the first quarter, as we mentioned is a lower quarter compared to the second and especially to the second in to the 3Q of each year. So part of the volumes that we lost in this quarter due to the strike, we've mentioned, perhaps will be captured by next month April and May. But of course this is not completely clear as we intend to capture as much as we can in terms of volume, in terms of spread possibilities using our maximum capacity, but of course there is a maximum capacity. So in case the market needs additional capacity for a specific day, week or month that we do not have.

We'll not be able to provide such service. So there is a possibility that part of the volumes that we've lost in the first quarter will not be recovered in the coming months due to the results I mentioned.

ALL:

Rodrigo, just adding up to what Cezario mentioned, and for some strategies that we have some idle capacity we could eventually grow a little bit the cargo was being transported to the port mainly in the south operations that we have in the north is much more in line with Cezario mentioned now. But we are going to try to optimize all the flows in our view [ph] to see what this is possible to catch up. But again we are in line with the guidance that we get to the market, so the objective is to be in that range.

Rodrigo Mugaburu:

OK. Thank you very much.

Rogério, Brasil Plural:

Just a quick question in our local newspaper today, it was mentioned that the government is serving to include the renewal of concessions in infrastructure package to be announced in June. My question is, do we expect to have the final terms of concession renewals already in June? And, do you think that this term is should include concession fees instead of only additional investments, and it was announced by Rumo investment plan? Thank you.

ALL:

Eduardo, as we have been selling into the market, our expectations in terms of renewing continue to be up to the next years, to finalize all this process. Of course, we have seen in the newspapers recently many speculations and some information was that we have the government rule, we will anticipate some discussions in terms of new concessions and the renewals of the existing concessions. But we cannot confirm that these dates that you mentioned in June 2015 is feasible and will happen. Lots of things have been discussing, but we cannot confirm that it's coming so fast. So now understanding the term that we told you to the next year, the period of next year is reasonable period, perhaps we will be anticipating but it's just going to have these understanding, right now.

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Rogério:

Okay, great. And do you think that it's possible that a government includes concession fees?

ALL:

You mean increase the concession fees?

Rogério:

No. Actually charges for concession fees in the second phase of the concession instead of only required investments?

ALL:

Well, this is the point that certainly is in the full package that we're negotiating, in our particular case in our concessions. And all the negotiations, which includes the extension of the terms of the concession, potential discussions of return of some stretches to the government and also all the liabilities are being discussed in a combined aspects to that certainly we'll potentially include some of these negotiation. But we cannot anticipate so far what's going to be there overall end game of these or the final format for this. But as soon as we have more color on these we're going to update in the market.

Rogério:

OK. Thank you very much.

Operator:

Thank you. That concludes the question-and-answer session for investors and analyst. I would like to invite Mr. Jose Cezario to proceed with his closing statement.

José Cezário:

Thank you very much for your participation in our conference call and see you soon.

ALL:

Thank you.

Operator:

This concludes the Rumo and ALL conference for today. Thank you very much for your participation. Have a good day.

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