

**Operator:** Good afternoon, ladies and gentlemen, thank you for waiting. Welcome to São Martinho S/A conference call to discuss the results referring to the fourth quarter of the 22/23 crop year.

Today with us we have Mr. Felipe Vicchiato, CFO and Investor Relations Officer of São Martinho, and Alessandro Freitas Soares, New Businesses and Investor Relations Manager, as well as the investor relation team.

The audio and the slide of the call are being simultaneously broadcast via the internet at [saomartinho.com.br/ir](https://saomartinho.com.br/ir). We would like to inform you that participants will be in listen-only mode during the company presentation. Afterwards, we will start the Q&A session for investors and analysts only, when further retractions will be given. Should you need assistance during the call, please press \*0 to reach the operator.

Some information contained in this conference call may be projections or forward-looking statements about future expectations, and as such, they are subject to known and unknown risks and uncertainties that may lead such expectation not to materialize or be substantially different from what was expected.

Now I would like to turn the call over to Mr. Felipe Vicchiato, who will start the presentation. Thank you.

**Felipe Vicchiato:** Good afternoon, everybody, thank you for participating in São Martinho conference call about the fourth quarter of the 22/23 harvest.

And starting the presentation on page #3, we have the highlights that in our agenda. We will start with the financial highlight, the performance in the quarter and in the full year, what about our cash cost and the hedge position currently, our hedge for sugar, dollar, and corn, our indebtedness up to March, ethanol market after all the tax changes and the changes in the parity of Petrobras, and finally, the production guidance for this year.

Going to the financial highlights on page #4, we had a very strong quarter in terms of net revenue, 22% increase basically driven by the improvement in the sugar prices and also the higher volume both of sugar and ethanol, the volume sold 19% increase in the EBITDA and EBIT 14.4%, R\$432 million overall. Our cash income given this improvement 55% increase, and our net income 32% down, and the major difference between the net income and the cash income, , as you can see, on the slide and also in the earnings release, basically it was a mark to market of biological assets,

over 100 million in the quarter, beside the effect of the IFRS 16 because of the higher CONSECANA prices. Our cash flow analysis, we have to look at the cash info for the quarter and the half year.

In the year, we had a growth of 15%, EBITDA 6.8%, EBIT dropping 5% because of the increase in cost of many inputs, and also the operating leverage and that dropping 31% and cash income dropping 15%, R\$1,291 billion overall. For the year, we had a performance in the ethanol... [silence period]... because of the changes in the tax policy one year ago when the COFINS went to zero and then there was a ceiling for the ICMS and it hindered the ethanol market as well-known, but the company as much as possible was able to export a lot of ethanol, about 1/3 of the ethanol was exported, 1 million liters that we produced, and the exported ethanol with a better average price helped reduce a little bit the impact of the local prices, lower than the previous year.

For sugar, we had the average price that was higher when we compare the year-on-year 22% higher. However, the volume was lower by 9% because of the drop in the harvest, as we said in the previous quarters.

Now let's go to the next slide, when we talk about the cash cost. Over the years, as you can see, we closed the cash cost for sugar at R\$1.867 per ton, a 12M 23, 100% of the CapEx of the maintenance CapEx between the off season and planting and 18% higher than the previous year. Here 68% higher when we look at the two years horizon, from 21 to 23. In 21, 1.110 and 23, 1.867.

In terms of ethanol, there was the impact of CONSECANA going up 50% during the period, but the impact of CONSECANA has a direct impact on the revenue. Other inputs, such as fertilizers, for instance, went up over 100%, and this was the main reason why we saw the industry as a whole placing cost of ethanol and sugar as much higher than a few years ago, and this is one of the reasons why the long-term sugar prices went up, even producers both in Brazil and globally have a much higher marginal cost than they had a few years ago.

and in terms of the equipment, agricultural equipment going up steeply, over 150%, and this has a direct impact on the asset replacement cost, and for this year we expect a slowdown in costs. We should see called going down a little bit this year given the price of fertilizers going down 20%, diesel dropping a little bit, less than gasoline, and this is the difference because of the ethanol prices, but we expect the cash costs of sugar and ethanol going down between 5 and 10% during this year that we are just starting.

On the next slide, we have our hedge position closed in March. São Martinho had 2/3 of the sugar hedge already realized at an average price of R\$2.391 per ton, matching the sugar in dollar, and the dollar was outstanding because we have other obligations working as a natural hedge. Year-on-year, with the current sugar prices with our own cane at a market price and the dollar at a market price, 4,80

approximately, the price of sugar for our own sugar cane should be R\$2,400 per ton, R\$2,50 per ton higher than last year considering that I will have 1,100 million own sugar cane, we are talking about a difference in our operating results of almost R\$300 million because of improvement in the sugar price.

Additionally, the hedge position in March 23 we had 456,000 tons in corn, R\$74.6 per sack, and this corresponds to the whole production of corn from January to December. So, I don't believe we will have a big advantage coming from the lower prices of corn now because the purchases had already been made before as the corn harvest was much higher than expected and with a very important reduction for impact on the economy of Brazil, and this is the reason why the prices went down steeply.

So, for this year, we will not be feeling the impact of the drop in the corn prices, but for the next few years, we have not bought anything yet, so for the next harvest we should be tapping into this drop of the corn prices.

Now talking about the company indebtedness, R\$3.5 billion, 20% higher than the previous year, net debt EBITDA 1.05, and in spite of the cash generation and the announcements of our investments in the co-generation and the corn mill, besides the working capital that we had because of the corn inventory and other things, we expect this to go down for the next quarter, especially because of the tax situation, R\$3.1 billion in March 23 representing more or less 3 years of cash in order to pay for our debt in the period, so 5.5 years 16%, long-term 84%, 90% of our debt is in real in CDI, 10% in dollars, and we tried to match this to our commercial operation, that is to say the currency and the sugar together, and this is the reason why it is shown as such in the balance sheet.

And here on the next slide we talk about the ethanol market from January to June. We saw a drop in gasoline prices, 14-15%, and in spite of all the tax changes that occurred and the COFINS issue and the adoption of the ICMS that improve the competitiveness of the ethanol, in spite of all that, we see that the drop in prices of gasoline is impacting the prices of ethanol, and the prices of ethanol in the domestic market are at the lowest price in this current harvest year, crop year, hydrous ethanol because we have parity of about 70%.

These prices are for hydrous ethanol, not anhydrous ethanol, most of the São Martinho production is concentrated in the production of anhydrous and this is why the corn plant, for instance, the plant of São Paulo are making about 70% anhydrous and mostly for exports because we have a premium when we export, but the most important point is that the drop in the fuel price because of the gasoline drop hinders ultimately the competitiveness of ethanol.

On the next slide, we have our production guidance. Together with the result we published yesterday, the expectation is that the combination ethanol and corn will grow our TRS produced in 18.8% and processed sugar cane going up 7.4% with a

better TRS. In sugar cane, we see a growth of about 8.8%, the processed corn we will not be able to operate at full capacity this year, about 500,000 tons, and there was a slight delay in the beginning of the crushing because of authorizations and licensees that took a little bit longer than expected, and besides a slower ramp-up we were not able to reach this, not even 50% of capacity in the first week, and today it's already normal, we are operating between 80 and 90% of capacity, and the recovery of corn is worse when the sugar cane mill stops, when there is a lot of rain, for instance, because of the El Niño, which is the case this year, and when you stop, when you restart it, it is a little bit slower, but we expect to have about 420.

And when we have a guidance of volume for crushed sugar cane during the crop, this is a consequence of the production in the field, and this year more specifically we are placing a guidance of 21.5 million processed cane, but we expect or we understand that we will have more sugar cane being crushed than that, we could be 22 million, and the point here is the following: given the El Niño impact that has already started in June, with the rain that we had in the last few weeks and it's not typical at all, and we believe that the harvest will be a little bit longer, this is why we are saying that we might not be able to crush everything that we have to keep some sugar cane for the next one, around the end of March, with a longer crop next year. Should we be successful, and let's say El Niño is weaker and I have more days of harvest up to the end of the year, then the crushing volume could be better because I have availability of sugar cane.

And the summer was very good by the way, with a lot of rainfall and very good rain at the beginning of the harvest, so this is very helpful. The June rainfall was very high, it was very good, and it irrigates this beginning of harvest, and when we have the sugar cane in the fields, what we have to see is how strong El Niño will be. We believe that at least 21.5 million we will be able to crush and deliver this growth in the TRS produced 90%, but when we look at the TRS of sugar cane and the production itself, we are talking about 14% more sugar in the São Paulo mills, which are more focused on the production of sugar, 23% increase in the production of ethanol reaching 1.1 billion liters, and most of it is anhydrous, which are better margin.

and vice-president Alckmin announced today that they are starting the feasibility of placing 30% blend of ethanol in gasoline, and this is very good news and I believe that São Martinho and the other groups are ready to deliver this additional volume to the market. And when we look at the mix of ethanol and sugar because of the corn mill, we said that we are going to produce 43% sugar and 57% ethanol, and last year it was 45% sugar, 55% ethanol.

On the next slide, just to close and open for your questions, we have the CapEx guidance also published with the result of the company. Our guidance is to have R\$2.5 billion total CapEx for the 23/24 crop year, this guidance part of it has a carryover from one harvest to the other, 22/23. Our expectation was to have R\$2.8 billion in CapEx and there was a delay in planting because of the very heavy rainfall

and also because of other investment that were part of our schedule and had to do with the availability of equipment by our suppliers, and last year we had to reduce from 2.8 to 2.5 billion, but this amount was transferred to the 23/24 harvest, and this is why we have the normalized CapEx for this year net of the effects of last year, this carryover of last year, we would be talking about R\$2.1 billion more or less.

OK, now I would like to open for questions. Thank you very much.

### **Question and Answer Session**

**Operator:** Now we will start the Q&A session for analysts and investors. Please, press talk one if you have a question.

Our first question comes from Matheus Enfeldt, from UBS.

**Matheus Enfeldt:** Good afternoon, thank you very much for the question, congratulations. About your hedge strategy, what about you when hedge strategy in this scenario? Does it change vis-à-vis the previous crop year? You expected it to be a little bit higher although you have similarities with last year and for the 24/25 as well?

In capital allocation, you have already allocated most of it, but now for 23/24, 24/25, are you considering some buyback? Do you have any other projects that are being contemplated regarding the flexibility of the sugar cane production, the profitability of corn? Thank you very much.

**Felipe Vicchiato:** Thank you very much for the questions. In terms of our hedge, in March we already have a very relevant volume of sugar hedge, we're talking about 66% of the total volume of our own sugar cane is already hedged, so I still have 1/3 only. Considering the current market conditions and they are more difficult than they were a few years ago, especially because of the expectation of the El Niño from the centers down to the South and we will not be hedging a lot of the remainder and we will wait and see the behavior of the market. For the next year, we are still studying, but we don't have this kind of expectation, that it is to say of sugar prices going down next year because we do not see a very big volume production for next year, and we talk about the possibility of having a mix in São Martinho and there are no big bottlenecks, and it has to do with the sector because when the prices for sugar were very different from the ethanol prices and investments were made, it was more profitable, and removing, let's say, some bottlenecks, it seems that today these bottlenecks have already been removed and you still have a small investment here and there maybe, but this would not overly increase or hugely increase the production of sugar here, and as you can see, India is going towards 20% ethanol in gasoline, and this would remove sugar from India in two-years' time, and you can see that the scenario for the sugar market is as it is, as I described, and we believe that our current hedge position is quite comfortable already, and we're waiting for the second-half of the year to evaluate this.



Regarding capital allocation, the possibility of a raise in corn ethanol project and double production that is directly linked to the long-term oil prices and the price of gasoline, whether it's going to continue with an international parity or not in the long run. So, we are only going to make this decision of increasing or expanding the corn production next year, we have first to evaluate the operational possibility of the plant and 1.500 tons per day, for instance, another important point is to have a better premium for the product, and after we reach this level of stability and after we see ethanol prices at a more acceptable level, then we will be making our conclusions, then the remainder cash should go to dividend probably.

**Matheus Enfeldt:** Thank you.

**Operator:** Tiago Duarte, BTG Pactual.

**Tiago Duarte:** Good afternoon, Felipe, good afternoon, everybody. I would like to ask 2 questions and a follow-up question. The first one has to do with the premiums in the export ethanol. I think it's very clear mainly in this last harvest the average realized price really was much higher vis-à-vis the domestic prices, and could you give us a range or an order of magnitude of the size of this premium when you export vis-à-vis the anhydrous that you sell domestically? And do you believe that these premiums will continue to make sense from now on?

And the second question has to do with crushing, just to have it clarified. Your TCH seems to be growing more than the 7.5% of sugar availability, your TCH is growing by 10%, but you run the risk of having to have some stand over sugar cane for the next year. I just want to be sure that we have understood the maths, and this means that you would have more cane to be crushed for the 24/25 harvest.

And then, another follow-up. Just to understand the amount of corn crushed in the new mill. Today you are already crushing close to the nominal capacity, and if the answer is no, when will you be reaching the nominal capacity? It would make sense for us to work with 500, as you were crushing.

**Felipe Vicchiato:** Thank you for the questions, Tiago. The first question has to do with the breakdown of premium in ethanol. I can tell you about this year, in the year we had 332.000 cubic meters exported, of which 245 was anhydrous and 87 was hydrous, and in the case of anhydrous the export was already net of all commercial expenses at 3.8 and my average price for anhydrous was 3.583. In the case of hydrous, 87,000 export at 3.523, and the average price of hydrous last year was 3.014, so we are talking about the premium of about R\$600-700 in hydrous and anhydrous R\$400 on average.

And this premium was within a very important window of time and when we saw this window because of the war we tapped into this advantage, and we do not see this window happening this year so far. Our commercial area does not see this, or this possibility of having this window, and ethanol for industrial purposes, for instance,

have a premium, but the premium is about R\$100 and R\$150 per cubic meter, and last year it was really totally unexpected let's say because of the war.

And the second question about TCH, you are correct, we expect a higher TCH because of the growth in our crushing and the current number today, and of course this is not useful for the full year, but if you compare the areas that I harvested this year and the harvested areas last year, the same area, a production about 20% higher in TCH. Last year was very much affected by the drought and also by the frost, so this year is going to have a very good yield and we will have to have some stand over cane because we're not going to crush all of it.

In 2012, we crushed up to close to the Christmas, if it happens this year as well, so it's going to be higher. In terms of corn, today we have 80%, it has not reached 100%, in some days it doesn't 100%, but we have to have a window of about 10 to 15 days and in this window we have about 80%, but you may consider that next year we will have the nominal capacity because of the effectiveness of the plant and the ramp-up, there was also the problem of delaying all the licenses that we had to obtain, but once they are approved, so our estimate is to be close to 500,000 tons crushed.

**Tiago Duarte:** Very clear, thank you, Felipe.

**Operator:** Isabella Simonato, Bank of America.

**Isabella Simonato:** Good afternoon, everybody. About the corn ethanol, Felipe, you said you have already bought all the corn that you need for this year, maybe you could go back to your policy of corn storage for the next harvest. From the viewpoint of profitability and also of cash generation, are you going to make any adjustments?

And my question goes back to cash generation for the company as a whole. Beside the operational side, is there anything you expect to do this year in order to further accelerate your cash generation having to do with CapEx maybe, or do you have any other alternative to release more cash over this year?

**Felipe Vicchiato:** Thank you for the question. About the volume of corn that we bought, we have 2 answers: the first one that in January we closed January with a volume... I can have 250.000 tons of corn bought, and this is what we had in our storage, in our warehouses. We expected to start crushing in January, but as the authorization, licensees were delayed, this corn remained in our storage and we were not able to crush, let's say 45 days almost of corn inventory that I expected to crush and I didn't crush, and this is the reason why you have a higher volume in this inventory without crushing, and usually we buy corn in the second crop, in June, when we have a very large volume in the region, and what is our expectation 250 being crushed up to mid-June and then in the second crop we would be buying corn at a cheaper price. In mid-March it was 85-90 in the region because there was no expectation. For instance, the corn that we were looking at Quirinópolis it was 85-90, and we didn't expect any increase in the production, and we adopted a more

conservative policy to have a very good profitability and buy from a large producer later, and this is why when you look at the 450.000 tons you see 2 impacts: the first one is that we have all this corn there in the storage without being crushed waiting for authorization; and the second was that the prices went up and we bought beforehand in order to guarantee a margin.

Having said that, we believe that for the next year, we should be crushing all the corn that we have in our storage up to the end of February and not necessarily having a full working capital with 100% of our storage already bought, and this would release part of this working capital from corn, and we are studying the strategy of renting some storage space in the region, and if we have an excess corn we can buy this beforehand and we would be taking this when we started crushing, and this is one possibility, but in rough numbers, supposing the price of corn, it's only anhydrous at the corn plant and we believe that from the viewpoint of production we are going to have this ramp-up and still have R\$100 million [unintelligible], that would be reasonable if you consider all the difficulties and stumbling blocks that we had on our way.

And I think you asked something else. So, you asked about the release in cash and about our corn production...

**Isabella Simonato:** Thank you very much.

**Operator:** Régis Cardoso, Credit Suisse.

**Régis Cardoso:** Thank you very much for the questions. My topics are different, the first one is about dividends. We're talking about capital allocation in the short run very much focused on challenges, and it seemed to me that the year-to-date was lower with the distribution so far, was lower than 40% of the cash income. Is my calculation wrong or are you planning future dividend payouts? And do you believe they could exceed the 40% of your dividend policy given this dynamic of waiting to see whether you're going to expand or corn ethanol production or not?

And the second question has to do with the balance, about all the changes in pricing policies and the tax issues of gasoline, and what do you believe is the agenda of the sector with the government? What other changes would be necessary in order to further encourage production of sugar and ethanol?

**Felipe Vicchiato:** Well, first dividends. Our proposal is to pay 41% of our cash income, we will be paying 41%, R\$530 million, of which we have already distributed via interest on equity 250 last year, and the Board has already approved, and it will be studied at the shareholders' meeting the remainder 275. If you add the interest on equity to this amount, you have the 530, which is 41% over the cash income of the year, and we also announced that interest on equity.



Well, for this year, it has just started, it has nothing to do with the previous year, and this is a prepayment that we make and there should be another prepayment in December supposing there are no more tax changes.

Regarding the Petrobras' policy and the sector agenda with the government, what I can say is that from the viewpoint of tax changes, in March, or beginning of March and the end of February, there was a partial return of COFINS for gasoline and ethanol and the remainder to go back to where it was before, we believe it will be at the end of this month, and in February the minister of the treasury adjusted the COFINS partially, but in order to offset this, he levied the tax on the exports of oil for 4 months and they will come to an end at the end of June, and there will be a further evaluation whether it will be coming back in full.

And there has been a change also in taxes regarding gasoline and anhydrous where taxes will be calculated at a fixed value and adjusted every six months by the average of the prices, and this improves our competitiveness, that is to say ethanol vis-à-vis gasoline. So, I believe that the tax policy is going OK, it is going back to what it was before June last year, the ICMS and the PIS COFINS a little bit less, but going back anyway returning to where it was.

And the issue of parity, oil prices are very volatile this half, and some weeks ago the price of gasoline was beyond parity, it was higher than parity today, it is lower than parity, but that's life, the Petrobras' policy now is to adjust prices in a smoother manner, be it up or down, and not exactly following the prices of gasoline and oil every day.

And for the first half year, all-in-all, I think things are going well, and looking at the year, the price parity with gasoline should be in line with the global market in a 12-months window, this is what we are placing our bets on.

**Régis Cardoso:** Thank you, Felipe.

**Operator:** The next question comes from Joaquim:

"Do you believe that the recovery of the center-south will be worse than the 7.5% that is being estimated? What are your thoughts about that?"

**Felipe Vicchiato:** Joaquim, thank you for the question. I believe that the yield of the center-south should be close to the 7% we are estimating. We are talking about the recovery and the big question mark has to do with how much the center-south will be able to crush. Will the center-south be able to crush all the sugar cane vis-à-vis the weather condition that could have a very big impact? Last week we were not working for 3 days because of the rain and then we resumed production, but it is not homogeneous, that is to say it's not all the mills that can go back to production with the same level of efficiency, and I think this year we might have a problem regarding something or a challenge that has to be managed that is how fast we can resume

our crushing, and when we talk about 7%, we're talking about crushing, our yield should be better than that, but our estimate is for crushing and not for production.

**Operator:** Alexandre asks about studies about corn ethanol, whether they're going to be carried out at the São Martinho plant.

**Felipe Vicchiato:** Given the logistics and the availability of raw material in the São Paulo region, in corn ethanol 80% of the cost is the corn itself, and 1/3 of the revenue is the DDGS in Goiás and Mato Grosso, where consumption of protein is very high in soybean meal vis-à-vis replacing soybean meal. So, in São Paulo it is not the case. First, we have to double the Boa Vista production and in a second moment after a few years we evaluate it again to see if it's worth doing this in São Paulo.

**Operator:** Thank you very much. In order to ask a question, please press \*1. Please, stand by while we wait for more questions.

As there are no more questions, we would like to give the phone back to Mr. Felipe Vicchiato for his closing remarks.

**Felipe Vicchiato:** Thank you very much for your participation. In about 1 month or 45 days, we will be having our call with the results of the first quarter with a very good yield, as I said before, and the challenges to have a return to production for the whole industry. And if you have any additional doubts, please, do not hesitate to contact us.

**Operator:** São Martinho's conference call has come to an end. Thank you very much for participating and we wish you a very good afternoon.