

Operator:

Good afternoon, ladies and gentlemen, and thank you for waiting. Welcome to São Martinho S.A. conference call to discuss the results of the 1Q of the 2018/2019 harvest. Today with us we have Mr. Felipe Vicchiato, CFO and Investor Relations Officer, and Mrs. Aline Reigada, São Martinho's Investor Relations Manager.

The audio and the slides of this call are being simultaneously broadcast at the Company's website, www.saomartinho.com.br/ir.

We would like to inform you that the participants will be in listen-only mode during the Company's presentation. After the Company's remarks are over there will a question and answer session for investors and analysts, when further instructions will be given. Should you need assistance during the call, please press *0 to reach the operator.

We would like to inform you that some information in this call are forward-looking statements about future expectations, and as such they are subject to know and unknown risks and uncertainties, which could cause the Company's actual results to differ materially from those expressed in these forward-looking statements.

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

Felipe Vicchiato:

Good afternoon, everyone, and thank you for being present in our call about the earnings of the 1Q19 crop year.

Let us start on page number three, our operating highlights, crushing, TRS etc., financial highlights of the quarter, indebtedness, then the hedge position for USD and sugar, and a little bit about the ethanol market and what we saw up to the end of this crop.

On page four, the operational highlights. The crush volume of São Martinho grew by 8.8% in the 1Q vis-à-vis the previous quarter, 9.5 million tons, with a percentage of own sugarcane with 9.4% increase, and other 7.5%. And this 9.5 million tons represents 46% of the guidance that we forwarded in mid-June, and the target of the Company is to crush 25.5 million tons of sugar in this crop year.

In the quarter, we produced 406,000 tons of sugar, a drop of almost 20% vis-à-vis the 504,000 that we produced last year, basically because of a decision made by the Company, changing the mix, thus producing more ethanol.

In the 1Q, we had 486 m³, with an increase of 47.8% vis-à-vis the previous crop year, and energy going up 9% in the quarter, having 327,000 MWh of exported energy.

In terms of our guidance, we have already produced 41% of the production estimated for sugar and 43% of the estimated ethanol production. From June on, the positive surprise is the TRS, because it is 2 kg more than we had estimated in the guidance, or 5.5% more than it was in the 1Q18. The reason for this improvement is because of the dry season, the dry weather that we see since in the beginning of the crop year.

On the other hand, there was a productivity impact on tons per ha, in the 1Q19, 79.6, tons and in the 1Q18 it was 86 tons per hectare, a drop of 7.4%. And this drop of TCH was already in the guidance we sent to the market in mid-June.

If it were not for this very dry weather, we would have crushed something close to 23 million tons, which was our figure at the end of last year. But as we had this dry weather, when we sent you the guidance it was 22.5 million. This drop in yield is basically offset by the TRS, but not totally because we understand that the sector is suffering proportionally, and the crop year should be closed very early, in mid-October.

On the next page, number five, we see the financial highlights of the Company in the quarter, starting with our net revenue, dropping by 11.1%, going from R\$868 million to R\$770 million in 1Q19. This drop was basically due to the lower volumes sold of sugar in the quarter is 27.8% less, and a dropped of 22.9% in the average price of sugar quarter-on-quarter.

I would like to remind you that the 1Q of the last crop year was the best quarter from the viewpoint of effort prices for sugar. When you compare quarter-on-quarter, you have this problem, because you have the best and then you compare it to a very weak quarter because of the drop in sugar that we have not seen over the last 12 months.

On the other hand, ethanol average price almost 8% up, and we increased by almost 50% the volume sold of ethanol, 145 m³ to 216 m³. The increase in the volumes of ethanol comes from the higher production of ethanol in the crop. Of course, we adapt it, we sell it when demand is a little bit stronger, which is basically what happened in June, when we were able to distribute a lot of ethanol for the domestic market.

Cogeneration, an 8.8% increase in the average price year-on-year due to the improvement in the stock prices that happened in the last month of the quarter, and a volume 5% higher in cogeneration in the quarter, given our higher rate of crushing.

Adjusted EBITDA of the Company dropped 15%, to R\$401 million, and the EBITDA margin 52%; adjusted EBITDA R\$198 million with a margin of 25%.

Net income before taxes dropped 4%, from R\$161 million to R\$153 million. This results from a better financial expenditure, comparing 1Q19 to 1Q18.

We have the inventories here on the slide, and the estimate for the sale of sugar and ethanol for the next few quarters. We see that in the case of sugar, we have a remaining volume to be exported close to 741,000 tons of sugar, 75.6% of the total volume of the guidance. So we have about 25% to be sold. And, in the case of ethanol, we still have 87% of the volume produced to be sold in the next few quarter.

The reason why we have more ethanol than sugar, one of them is because we had higher carryover inventories from March to April, and also because historically the Company has between 60% and 65% of the total production of ethanol in the 2H of the crop, as of October of each calendar year.

On the next slide, number six, we talk about our indebtedness, and the gross debt of São Martinho was R\$4.2 billion, a cash of R\$1.6 billion, to a total net debt of R\$2.6

billion. Net debt/EBITDA at 1.5x, an increase of 12% vis-à-vis net debt/EBITDA in March 2018.

On the bar chart you have the debt evolution in the same period. The main reason for the increase were the working capital that was used in the quarter, basically because of the sugar and ethanol inventories, and the exchange rate variation non-cash effect in the short-term in Reais. Because of our percentage of debt in USD, we have 29%, US\$300 million approximately that suffered with the exchange rate variation from March to June. It went from R\$3.30 to R\$3.80, R\$3.85. This exchange variation is via shareholders' equity, and then has a direct impact on the Company's debt.

On the debt schedule, below, we see that we have R\$1.6 billion in cash, and in the next two years we have maturities, something close to R\$1.2 billion, R\$1.3 billion. That is to say the cash accounts for almost two years of its maturity, so it is a very comfortable situation, and we do not need to refinance debt now, neither in the next year.

The Company in the last quarter was able to make some adjustments regarding the rollover of debt in terms of costs, and the debt profile of the Company is one of the best in the last four years, with an average maturity that is longer, a more balanced debt in foreign currency, and, together with the commercial, matching sugar and USD.

When we look at the debt maturity, it is important to mention that in the next couple of years a small part of the debt maturing in the next 12 months, 8% of our debt is in USD, and in 12 to 24 only 16% in USD. So it is a very comfortable situation in order to cope with the volatility that we see in the exchange rate in the last few months.

On page number seven we have the hedge position for sugar and USD. For the 2018-2019, on June 30, it was 504,000 tons of sugar, at US\$14.49 per ton, and this is equivalent to 87% of own cane to be sold in the next three quarters. And in Reais, this figure is close to R\$1,126 per ton.

As you have seen in our release, we put the cash cost for sugar, and our cash cost closed at R\$825 per ton, approximately. So we still have a very relevant margin for sugar as well.

For the 2019-2020 crop year we have already started to hedge, on June 30 we had 110,000 tons hedged of sugar at US\$13.93, and this is equivalent to R\$1.187 per ton, and it means 16% of our own cane hedged.

The market dropped when we started to hedge for 2019-2020 and up to today, but because of the devaluation of the Real vis-à-vis the USD, this price of R\$1,187 is not much lower than the screen that we have today. And I would like to say that predominantly it is around US\$0.12, and not US\$0.10, as you see in the first screen of the future. In 2020 it is close to US\$0.12, with an exchange rate higher than R\$4, which gives us a price of around R\$1,050, R\$1,100, depending on the screen that we are hedging.

On the next slide we talk about the ethanol market, which is an important part of their Company's strategy for the next few quarters, given the volume of inventory and production that we have. We see the parity of hydrous vis-à-vis gasoline in the

Southeast, and it has been dropping in the last few months, 70% on February 18, and now 59%, lower than the parity, with the consumption of ethanol vis-à-vis gasoline.

What we see on the pie chart is the market share of hydrous going up, 11 p.p. growing from 26% from January to June 2017 to 37% from January to July 2018.

On the first chart you see the consumption of ethanol per month. We see that in June and July consumption changed, going to close to 2.5 billion liters per month, and the price of June 2018 to July 2018 dropped about 8%.

We understand that this drop comes from a few factors. The first one is the capacity of ethanol in the sector. We do not have a lot of tankage of ethanol, and most of the mills are producing more ethanol, as you know, with a very accelerated crop. And, at a point in time, you have to sell the ethanol, because you do not have where so store it. This is one the factors.

The second one is very well-know to all of you, some mills need cash in the short-term, so they need to sell ethanol in order to pay their payroll, suppliers, so they have to sell at any price.

And also, the third factor, despites the working capital, that is something that everybody looks, the banks have as guarantee the ethanol inventory, and they really force the mills to sell in order to settle their receivables with the banks.

Even with the price pressure that we saw from June 2018 to July 2018, you can see that the price of ethanol today is quite higher than the same period of the previous crop year. You can see that in July 2017 the price of ethanol average price was R\$1,371 per m³, and now it is R\$1,152 per m³. We expect this price to remain at this level for the next few months, so we do not expect a price hike in the next two or three months. The price should start to improve after the October crop, because the movement will be similar to the previous crop.

The most important thing here is that, when you look at the parity in 2017, when it was a very low price for the production of ethanol, it was 67%, and now, at the low price, it is lower than 60%, and this should incur in the consumption of ethanol further. With a lower inventory in the tanks, the price is improving.

It should end in mid-October, as I mentioned before, at the beginning of our call, given the very dry climate, as you can see in the region, and we might have a short fall, even higher than what we have in the initial figures estimated. São Martinho believes that the crop should be much higher than 550 million tons of sugar.

Even if we see a production of ethanol and a volume of sugarcane higher than last year, the big question is that the crop has to end, and there is no more sugar, no more cane to be crushed, and then we will see this at the end of the crop.

These are my initial remarks. I would like to receive your questions now. Thank you for your attention.

Thomas Budoya, Itaú BBA:

Thank you for the question. My question has to do with your inventories of ethanol. You said 60%, 65% to be sold in the 2H, and that is what you usually do. I would like to know if this is the maximum capacity that you have, and what you could carry over to the 2H.

And regarding the tankage of the sector, do you have any estimate about the tankage capacity of the sector? And how long could it take for the prices to go up in the intercrop period because of the high volumes of inventory now during the crop?

Felipe Vicchiato:

Thank you. About the tankage capacity, 70% of the total production for São Martinho for ethanol. This is the maximum that we can store. Mid-October or the last week of September São Martinho needs to start to sell ethanol, because then we will have no more storage room to store ethanol. And this is what we were saying here. Selling 60% to 65% in the 2H.

For the sector the figure is not very simple, because it really depends on the mix of each one of the mills. However, I can say that it is quite lower than São Martinho. It should be close to 14 million liters tops of tankage capacity.

Thomas Budoya:

Thank you.

Lucas Ferreira, JPMorgan:

Hi, Felipe. My question is about ethanol in the 2H. Even looking at the inventory figures that we have and trying to make an adjustment for demand, and also regarding parity, or because of the longer intercrop period, this is an year in which the production of ethanol went up. Do you believe the parity would continue to be low?

And how do you evaluate the risks? This year we have elections, and this is the first year of elections in which you have the Petrobras formula. Do you believe that there will be a further depreciation of the Real, and then an additional pressure on the prices of ethanol? Do you believe that there is this risk in terms of carrying this inventory over?

And another question, about your debt. Looking ahead, I believe that your indebtedness will drop quite speedily. Will you be able to pay a higher dividend, and when? And would you go back to discussing a more formal dividend payout policy?

Felipe Vicchiato:

Lucas, thank you for the questions. Starting with ethanol, as I said before, parity could be low, close to 58%, 60% for the next few months, in August, September and the first half of October.

After that, I understand that price should react. Maybe it will not go up proportionally as it did last crop year, but the average price vis-à-vis the previous year should be higher. I do not know whether it is going to be 15% higher or 20% higher, but higher.

In the case of São Martinho, in the 1Q we had an average price of ethanol, for instance in Goiás, and hydrous ethanol in São Paulo, on average we sold ethanol in the 1Q, that is historically weak, at R\$1.127 per m³, and we expect that for the year we will be able to have R\$1,800, R\$1,850 per m³. This is not very aggressive if you look at the price of the ethanol today, sold at the parity, the average price of R\$1.727. We are talking about 6%, 7% higher than what we had in the 1Q.

In summary, the price tends to go up, maybe not in the same magnitude that we did last year, but for São Martinho, given the characteristics of the ethanol we produce, more hydrous, and in Goiás with the tax benefit, then we will have a higher average price than the previous crop.

The last question, about our indebtedness, we should be generating cash in this crop, major cash. Even in sugar you can see that our average price should be higher than R\$1,100. You have the future numbers in the release. So ethanol and sugar should bring us an important cash generation.

In the pipeline we do not have any major investment in order to increase our crushing, neither organically, nor in M&A. We will probably do this by a dividend or shares buyback.

1.5x net debt/EBITDA is quite comfortable. We believe there would be no sense in having less than that.

I do not remember your other question. Could you repeat it?

Lucas Ferreira:

You have already discussed in the past the dividend payout policy.

Felipe Vicchiato:

In the recent past we have discussed that, and we have not yet published anything about it. We are still discussing this at the Board of Directors level. At the end of the crop year, if we do not have any big transactions, or any bigger use for cash, we should put in place a more aggressive dividend policy.

But, for the time being, for the last year it was R\$180 million, and we are going to pay it tomorrow, in fact. We bought almost R\$200 million in shares, and the total payment for shareholders was something closer to R\$370 million in the previous crop year. The idea is that, via shares buyback or dividend, we reach this kind of level to remunerate our shareholders.

Lucas Ferreira:

Thank you.

Thiago Duarte, BTG Pactual:

Good afternoon, everybody. I would like to ask two question, the first one has to do with the precatory, or the preorders of the credit notes. We are still in the dark regarding that. We understand the remarks that you published in the release and in the

income statement, and we know that there is not a lot that you can do about, because it depends on the publication in the official newspaper, and also on the position of Copersucar. But maybe you could give us an update.

I believe that the first tranche, which already has the preorders issued, you should be receiving the first installment this year. My question is whether you have already received, and I believe you have not. And the second tranche, do you have any update regarding the issuance of these preorders that we believe will start to be paid next year? Maybe you could give us some color. Of course, you did talk about that in your balance sheet and in the income statement.

Regarding the crop, last year you told us how much was your target of average prices, and you were taking a very aggressive position to sell ethanol at the end of the crop year. You had an average price for ethanol, I believe that it was R\$1,730. When you talk about the price increase, do you believe that the price will be higher this year? Objectively, 10%. We would be talking about R\$1,850, or R\$1,900.

Would you work with this kind of figure, this level of figure? If you were, in our shoes, for the next six to nine months, it would be very interesting to know your target in terms of your budget.

Felipe Vicchiato:

Thiago, good afternoon, and thank you for the questions. I would like to start by the last one, because it is easier. Our target is R\$1,850, hydrous São Paulo, Goiás. We had R\$1,727 in the 1Q, and for the average of the year, for all the ethanol we intend to have something close to R\$1.850 per m³. This is more or less what we are looking for.

Regarding the preorder, the precatory, the first one was already issued and it was something close to R\$700 million. This precatory is paid 15% this year, 2018, with five equal installments as of 2019.

The money was deposited judicially, but it was not raised by Copersucar yet. There is a legal question regarding making it cash, and then Copersucar will transfer this to the members of the corporate. We expect this to have happened by the end of September. Should it occur by the end of September, then we would be posting this instalment in the 2Q.

In relation to the preorder, the issuance has not been published yet, so there is a legal issue involved. We cannot give you any color about when this will be published. As soon as the preorders are published and they become public, they will get into the budget of the Union, then 15% in 2019 plus five installments in 2020. But this has not been published yet in the Diário Oficial, the official publication of the federal government. As soon as we have something about it, Copersucar will inform us and, and as soon as we are informed by Copersucar, of course, we are going to inform the market.

Our big difficult there is because the preorder are not ours, it is a Copersucar preorder, and then Copersucar conveys the information to us. If it was something of São Martinho, our communication would become much easier, but as there is a third part in the middle, Copersucar, unfortunately we have a limitation regarding what we know and what we can say.

So far, everything is OK. The first preorder, the money should come this year, and there is a major chance of the having the second preorder being received in 2019, and the process itself has already become final.

Of course, you have jurisdiction, everything that is very common in this kind of process, but looking at the six or seven coming years, of course the money will be totally received by us.

Márcio Montes, Banco do Brasil:

Good afternoon, everybody. About the TRS, 131,9, do you believe it is going to be lower vis-à-vis Unica? And do you believe it will be recovered over the next quarter, that will finish in October?

Felipe Vicchiato:

I am looking at the Unica TRS here. There is something you have to keep in mind: you have the TRS for the products and you have the TRS for sugar, or for the cane. You cannot compare them on the same base. This is one point.

You have to look at Unica base and our base, so that I can answer more effectively. But the TRS of Unica is a TRS that considers many different mills, in different regions and different environments.

There is one in Goiás that is quite representative, and maybe its creating a little bit of difference here at the hedge. But as we go into the TRS year -on-year, and the TRS that we put in the guidance today, based on the 40% production of the crushing that I have already done, my TRS is a little bit better than the guidance, 2 kg more what we put on the guidance, as the weather is dry.

It is a little bit better, and now, as for as Unica is concerned, I cannot say right, because I have to compare region by region to see if my mills are better or worse than Unica.

Could you repeat your other question?

Márcio Montes:

What is your expectation for the renewal CAPEX?

Felipe Vicchiato:

In the same proportion, this has not changed. R\$900 million, more or less, with planting of cane, treatment and the maintenance of the intercrop period.

Gustavo Allevato, Santander:

Hi, Felipe. I have two questions. Are you adopting any measures to mitigate price risks with a potential hedge for the sale of ethanol?

And my second question has to do with CAPEX. With the R\$27 million, what can we expect for the whole year?

Felipe Vicchiato:

Gustavo, thank you for the questions. R\$100 million for the full year, answering your second question. You have the question of COA, the project of agricultural automation.

The hedge that we are having for ethanol, unfortunately the market of hedging at BM&F does not have a lot of liquidity, so we are not taking any measures for that. It is different from sugar, which we can hedge. For ethanol, there is no liquidity so we are hedging.

Of course, we are studying in order to have a hedge with oil. However the variation of oil is different from the variation of ethanol for the producer. So, we have a team studying what we can do about it, but so far we have not decided anything.

Gustavo Allevato:

Thank you.

Lucas Ferreira, JPMorgan:

Thank you for the follow up, Felipe. What is your outlook for the cost of the next crop year? Minimum freight, do you have already quantified that? Do you have an estimative in million Reais? And how much additional expenditures could be brought to the Company as other additional cost.

Felipe Vicchiato:

When you talk about additional the next crop, are you talking about the 2018/2019?

Lucas Ferreira:

Yes, I believe so.

Felipe Vicchiato:

For the 2018/2019 crop year, the minimum freight issue has a very little impact on us. First, because all the transportation of cane, which we do today and which is the big volume of the utilization of trucks, they are our own. We have already insourced this many years ago. It is 100% ours. The trucks that we use to take the sugar from the mills to deliver to the port is very low, because most of our sugar goes by railways, because we do have the railway inside the mill.

There is a very short stretch in Itirapina that is not relevant. And for the next crop, likewise. But, of course, we are going to analyze and if we see that there is an opportunity to insource transportation instead of contracting freight, we are going to insource this for transportation of sugar from Santa Cruz to Itirapina, which is where we distribute the sugar.

In relation to the cost for this crop, there is no big cost pressure. Diesel is even lower than we budgeted because of the freezing of the diesel prices. The only thing bad

about this crop is the crushing that we have of only 20.5 million tons. Our cost should be much lower than the one I am having now, if I had 23 million tons.

For the next crop, supposing that rainfall is normal during summer at the beginning of the crop, if I can go back to a level of crushing close to 22 million, 23 million tons, then my cost will be further diluted, then I will have a great gain in terms of production cost for the next crop. So, we had a big impact of the very dry weather on this crop.

This means a non-realization of the cost improvement that we were expecting, due to all the investments that we have been making in planting, the sugarcane, and the improvement in the acquisitions of harvesters etc.

If you look at the CAPEX of São Martinho, and you look at the improvement at the mills, in a good year in terms of yield, our average is almost 90 per ha, and our cost would be even lower than the one we have today. And for this crop, we cannot have a lower cost, and this is what you have there for 1Q. For the next crop, supposing rainfall levels come to normal levels, then we will have a major improvement in our cost.

Lucas Ferreira:

Thank you.

Leandro Fontanesi, Bradesco BBI:

Good afternoon. I have a question about the direct sales of ethanol to gas stations. Could you give us an update about that? Would the Company be interested in that? You said that you used mainly railway transportation, how would this work for you, that is to say, the direct sale? Maybe, would you be buying trucks or something?

Felipe Vicchiato:

Leandro, this is being discussed at the Congress if I am not mistaken, to see whether they approve or not this law. For São Martinho, we understand that, at the first moment, this would not make a lot of sense to sell ethanol directly, because to do so you must have scale. And regardless of having the law or not, today I can set up a distribution company and I can do that. But in order to do that, we have already carried out in-house studies, and you have to have scale in order to be profitable.

If this law is approved, then we will go back to that and reanalyze, but we do not see this as a major upside for São Martinho.

Leandro Fontanesi:

But do you believe that this is going to pass?

Felipe Vicchiato:

We do not know, because this is in the hands of Congress, and Unica has already said that they are against this measure, they want to remain with the sale by means of distributors. This is it.

Leandro Fontanesi:

OK.

Operator:

Now we close the Q&A session, and we would like to give the floor back to Mr. Felipe Vicchiato for his closing remarks.

Felipe Vicchiato:

Thank you very much for participating in our call. If you have any questions, our team will be available to you.

Operator:

São Martinho's conference call is closed. We thank you for participating, and we wish you a good afternoon.

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