

Operator:

Good afternoon, ladies and gentlemen, and thank you for waiting. Welcome to São Martinho S.A. 4Q18 earnings call for 17/18 crop year. Today with us we have Mr. Felipe Vicchiato, Chief Financial and Investor Relations Officer; and Mrs. Aline Reigada, São Martinho's Investor Relations Manager.

The audio and the slides for this presentation are being simultaneously broadcast on the Company's website <http://www.saomartinho.com.br/ir>.

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

We also would like to inform you that data provide in this call represent forward-looking statements about future expectations. Therefore, subject to known and unknown risks and uncertainties that could cause the Company's actual results to differ materially from those expressed in these statements.

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

Felipe Vicchiato:

Good afternoon everyone. Thank you very much for participating in this conference call regarding the results of the 4Q of crop year 17/18.

Let us start the presentation on page number three with the main topic. So, we will talk about operating highlights of the crop year that has just ended, financial highlights for the Company for the quarter and the year. We will talk a little bit about São Martinho's costs, how costs have behaved over the quarter and throughout the crop year as well as indebtedness.

And, then, we will talk about production guidance for crop year 18/19 just published today, and the size of the short fall and why we have a crop short fall. We will talk about hedge, dollar and, then, the ethanol scenario ahead.

Turning to the next slide, on page number four, we have operating highlights for the crop year that we just closed 17/18. The Company has crushed 15% higher of sugarcane, 19.2 million to 22.2 million tons. A mix of 53% ethanol and 47% sugar, producing 1.4 million tons of sugar and 487,000 cubic meters of anhydrous and 466,000 thousand cubic meters of hydrous, an increase of 22% of anhydrous and 73% in hydrous.

The main reason why we have increased the production of ethanol anhydrous and hydrous was the total concentration of Boa Vista assets, in which the conclusion of the transaction with Petrobras happened in February last year. So, we fully consolidated the results in the current crop year.

Turning to slide number five, we have financial highlights that shows the result of the strong production volume in this crop year. In the 4Q, we have an increase in net

revenue of 25% because of the large volumes of the ethanol sold, which was 84% higher than the past quarter, with an average that was 4% higher than the past quarter.

For sugar, we increased the volume in 5.6%, from 374,000 tons to 394,000 tons. About the average price of sugar in the quarter had a drop of 17% approximately, reaching R\$1,100 for tons of sugar sold, once the prices of the commodities at the end of the quarter have dropped considerably, reaching R\$0.12.

Even with the bad prices for sugar, we are able to have a record margin of EBITDA in the quarter, 52.4%, *vis-à-vis* the margin in the prior year, a 44.8%. We have a growth of 7.5 p.p. We should remember that in the last quarter we had almost nothing in terms of selling energy cogeneration and this is the first time that São Martinho has a margin above 50% in this quarter without energy cogeneration.

In addition to a price improvement of ethanol and also improvement in volume, we have a better direction of fixed cost in the quarter when we compared that to the crop year of 16/17. And, obviously, the full integration of Boa Vista, which is a mill that has a cost lower than the average of São Martinho's Group.

So, the EBITDA increases 46%, adjusted EBIT grew 62%. We have a net income before taxes going from R\$248 million to R\$192 million, a drop of 22%. And that drop is mainly explained by a non-recurring item that we had in the past year, a gain of R\$140 million because of New Fronteira integration and the transaction with Petrobras.

And also, the mark-to-market of the biological asset in this quarter which we have posted a loss of R\$50 million, because in March 2018 the sugar prices on the screen were close to R\$0.12, and we have to adjust to mark-to-market of those biological assets based on when we close the balance sheets.

Not just these non-recurring events, we had a reconciliation of our income cash in table number two, when we see that the cash income has increased a 102%, from a R\$114.9 million in the past quarter to R\$233 million in this quarter.

Just an important comment now about the year. We have on the graph number two, the behavior of the average price of ethanol and the volume of sales throughout the year. We had a drop with we compared year on year, crop year 16/17 and 17/18, a drop in average price of ethanol from R\$1,773 per cubic meters to R\$1,728 per cubic meters, so that is a drop of 2.5%.

But if you compared the average price realized by São Martinho to ESALQ equivalent, we have a gain of almost 9%, that is higher than ESALQ. And we have that premium because of the carryover strategy of the Company. And we will try to implement that strategy once again in this crop year, so that we can have a premium equal or better than ESALQ's.

In the sugar, in spite of the strong price increase and the variation throughout the crop year, when we compared the average price of sugar realized year on year crop year 16/17 and 17/18, the average price for sugar has increased only 3% and volume of sugar sold only 5%. So, even then with the average price going up a little bit, we are able to have a margin throughout the year that was still relevant.

Now, turning to costs of the Company throughout the year and in the quarter, this is on page six. Here, we have a chart in our financial statement that shows the cash cost of the Company, both for sugar, ethanol and energy. I think that all of you that read the release were able to understand that cost.

Basically, we ended the fiscal year of crop year 17/18 with an average cost price for sugar close to R\$926.00 per ton. That cost, today, is close to R\$0.11 for sugar, if we turn that in cents per pound. We have sold sugar at R\$1,290 per ton and we have an operating margin of 28% that would be a cash margin before financial expenses and sugar.

And for ethanol, we follow the same rationale. We had a cost of R\$1,400 per cubic meter. We have sold, on average, 1,700, and we had a margin on ethanol close to 19% and, in energy, a margin close to 82%.

Both in the quarter as well as in the year, the improvement in the Company's operating leverage, the greater production of ethanol and better TRS brought our unit cash costs down both in the quarter as well as in the year. You can see that for the year, the unit cash cost for ethanol comes down, for ethanol 13.9% and for sugar 13.6%, and in the quarter is even greater because the quarter when compared to 16/17 was a little bit worst because there was an impact of the frost in the 4Q crop year of 16/17.

So, this is a summary of the costs of the Company, so we expect to be in the same trend for the next crop year trying to bring down as much as possible the operating costs of the Company.

Now, turning to the next slide, we have the indebtedness of the Company. We ended with a total growth debt of R\$3.9 billion, cash of a R\$1.5 billion and net debt of R\$2.4 billion. When we analyze the indicator net debt/EBITDA, it was at 1.26, a very low level, I think this is the lowest all-time average since we went public. Year on year it, is a drop of 18.7% if we compared that to 1.55 net debt/EBITDA closed in March 2017.

Of the gross debt, 74% of debt is in reais, and 26% is in foreign currency. And for net debt, 37% of the net debt is in dollar and 63% of the net debt is in reais. On graph number two, we have the movement of the net debt and what have contributed to the increase or the decrease of the debt.

The debt schedule is healthy, we have a cash of R\$1.5 billion for a debt that we have of R\$700 million only, and the debt has a maturity of two to three years. So, the cash really covers almost two years of maturities and financial debt.

Yesterday, we published that we are now taking more US\$50 million to be paid in 50 years to extend a little bit more the Company's debt. And, probably, now in June when we disclose the results, you will see an indebtedness that is still more extended and a lower cost of financing.

Now, turning to next page, page number eight, we have our estimates for production for crop year 18/19, the guidance we have published this morning. São Martinho expects to crush 20.5 million tons of sugarcane, that represents a 7.4% drop *vis-à-vis* the crop year 17/18.

The initial estimative of the Company that started to be built in September last year estimated a figure that was closer to 23 million tons. And the reason we are crushing 20.5 million is that there was a significant drought in the past months, even throughout summer, the rainfall volume was hurt. And this is the main reason why we are just crushing 20.5 million tons.

In addition to the drought, we took that strategy of increasing the planting area, decreasing the harvest area, that is to expedite our growth project to crush close to 24 million tons. Therefore, we did have an impact in this guidance as well, but the main impact was the drought that is happening in São Paulo in even in other regions. As all of you can see, I do not think we have had any rainfall since April.

Despite of that, we are providing a guidance with 65% of that sugarcane for ethanol production and 35% of that sugarcane for sugar production. Therefore, the volume of produced sugar will come down year on year 30.4% and the volume of ethanol produced when we add anhydrous and hydrous will increase close to 20%, and hydrous should increase over 42%.

So, this will be an ethanol based crop year, and most of that sugar production. And we will talk about that in the next slide that is already hedged at a very interesting price level. And the idea is that within two or three at the most, the Company will have a crushing volume close to 24 million tons, which is effectively the industrial capacity of the four plants we have.

On page number nine, as I have said, we have our hedge position for sugar. On March 31, we had hedged 535,000 thousand tons of the product at 15.51. That price is equivalent in reais for that parcel already hedged in reais represents R\$1,444 per tons and, that represents 78% and 54% of our own sugarcane when we analyze the volume of sugarcane in reais already locked in.

The reason why so far we do not have 100% of the dollar of the volume of sugar already locked in was because at the time we understood that it was going to be positive to have that indebtedness margin at the average. We are locked in at 3.35, today, the dollar is closed to 3.80. If we analyze that position we probably will have sugar at R\$1,180 per ton throughout the whole crop year, which is very good for a year and the prices in which we have seen sugar reaching to R\$0.12 very recently.

Now, turning to the last slide, we will disclose a little bit about the ethanol scenario. This is the main bet of the Company this year, once we will be producing 65% of saccharose, it will be destined to ethanol.

Today, UNICA published a report, and we see that there is an important production volume for ethanol in Center South. So, São Martinho is migrating into ethanol production, and I think in the year to date, that production has increased 50% vis-à-vis last year.

On the other hand, the sugar production, the kilos per sugar processed, the sugarcane has dropped, so we should have a sugar production in Brazil much lower than what we have seen in the past year.

It is difficult to define a figure, but we are close to 28 million tons of sugar. And there are some other producers at 30 million, our figures are close to 28 million.

In the ethanol scenario, we see a positive outlook. Today, the parity in the main markets, which are São Paulo, Goiás and Minas Gerais is between 60% and 64%, so is good for consumers to use ethanol instead of gasoline, and that maintains the demand for those products very high.

And the year to date of the crop year, we have a demand for ethanol increasing 12.6% and São Martinho's strategy is to sell ethanol, is to have the carryover, as I mentioned, to sell 35% of the volume in the 1H of the year, and 65% of the volume in the 2H of the year, to try and capture a premium higher than ESALQ, as we have been doing, historically, in the past years.

These were my initial remarks about the quarter and the year. And now I would like to open the floor for Q&A.

Isabela Simonato, Bank of America:

Good afternoon, everyone. I have two questions. The first, Felipe, about the Copersucar deal, the government and IAA. I read the release and it is clear that the first 5.6 billion, you have already been able to issue the precatory, and you might be able to issue the next one soon. So, you will have an annual cash income of something close to R\$400 million, in the next coming years.

Is that correct? And where are you going to direct this money to, in case you get all this money? That is my first question.

Felipe Vicchiato:

Hello, Isabela. Good afternoon. One of the precatories has already been issued and the first installment has already been deposited, that is a judicial deposit. And Copersucar is trying to turn that judicial deposit into cash. But the second precatory has not been issued yet. Copersucar has already requested that and it should be issued. The federal government says that the amount is a little bit lower.

So, in order to know exactly what is the amount that will have come into the Company's cash, we need to know when the second precatory will be issued. We do not have that control here, but as we have shown in the release, basically, this is a copy of the same explanation note that Copersucar added. And that is also one of the reasons why we brought that to our results.

The situation is very close to happening. In terms of using that money, we do not have major projects to grow the Company; we do not have brownfield projects, because the brownfield projects are not financially feasible. That would be to double Boa Vista mill.

So, as soon as we have that cash, we will distribute dividends or to increase the share buyback program, but we first have to wait for that cash to come in. We have to check

all fiscal aspects because on top of that cash coming in, we have to pay taxes on that and, so, the net of it. We probably will be paying our shareholders.

Isabela Simonato:

Very clear, thank you. Second question: about the guidance for this crop year, and also the margin. You mentioned in the release that you were looking at results that are very similar to 2017-2018. What about the unit cost for this year, having this volume that is 10% lower? What can you internally do to offset that, in terms of the unit cost, I mean?

Felipe Vicchiato:

The volume is not 10% lower, it is only 5% lower. If you look at the last line, in the TRL equivalent, we are losing 7% in crushing, and we are getting 2% in the TRS. So, there is a gap of 5%. In addition to that, we turned the quarter with an ethanol and sugar inventory that is relevant, considering our history of turning the crop year. We were close to 78,000-80,000 m³ of ethanol, and 30,000 tons per sugar.

And that ethanol has already been sold in April, and it was already priced in March, so it was just a matter of going from one month to another, that we were not able to invoice it. And the sugar was also priced, so when you combine the produced volume – 5% less – and that inventory that was transferred from one month to another, we understand that the volume will not be hurt.

If you look at the Company's sold volume, when you compare it to the prior year and the cost impact of 5% less production, is not that relevant. With our own internal initiative, we can improve the yield of the combining machines, the diesel consumption and we can really work on that lower production of ethanol and sugar. Thank you.

Victor Saragiotto, Credit Suisse:

Good afternoon, everyone. Thank you for taking my question and congratulations on the results. Felipe, I want to ask about the direct sales ethanol from the mills to distributors. What is the Company's position? How do you think that could hurt or improve the market, and, also, are related to RenovaBio; what do you think about that?

Felipe Vicchiato:

Hello, Victor. Thank you very much for your question. São Martinho is in line to UNICA's position, and UNICA is talking about the approval, or not of that loss. So, we are working in line with UNICA, but, if this law is approved – it was an urgent law, but now it is no more–, but if this is approved, we will have to adjust ourselves and be able to get some benefits from that.

Within the Company's assets, the three mills in São Paulo are in strategic areas closed to a high consuming market; Goiás plant has a large volume of ethanol production, with a carryover that is very efficient. And, if the law is approved, São Martinho will work and study the possibilities and understand if it is worthwhile or not to sell part of the production directly to gas stations.

And it is good to comment that this will be a possibility, this is not an obligation. At the end of our understanding, if we believe that we should not sell straight to gas stations, we will keep our model of selling to distributors. São Martinho, in the past, had some studies to try and understand if it would be worthwhile to go forward in the chain and have a distributing company, and we saw that it was not worthwhile because, then, we would need scale and other types of expertise that São Martinho does not have.

That was the idea: not building and not buying a distributing company, so if the law is approved, we will analyze it and we should always remember that this is an option, not an obligation. About RenovaBio, I do not think it is going to change too much. The volume of ethanol that we sell for the distributors and the law of RenovaBio was still there.

And the volume of ethanol that, by any chance, I sell straight to the gas stations, I understand that those would not have the RenovaBio, so that would be a tradeoff. Each company has to analyze it and see if it is worthwhile selling straight to gas stations or not.

Victor Saragiotto, Credit Suisse:

Great. Then, the second question, now going back to Simonato's question. A potential reduction in your crushing, so how do you see that breakdown of your own sugarcane and third-party sugarcane, because I do not know if you have an idea of how that is going to be in the future.

Felipe Vicchiato:

For our own sugarcane and third-party, in sugarcane, mix will not change. It will be close to 70-30, but the cost pressure would be will be that, in practice, I have less amount of saccharose per ton of sugarcane, because I have less TCH, so the fixed cost dilution is a little bit worse, but that is not very relevant.

If you get the total cost, cash cost of the Company, that we disclosed in the release, and divided that by the produced volume, in the crop years 2017-2018 and 2018-2019, you will see that the difference is not that great. I will probably have a cost 19.26 to 19.50 per ton of sugar. That is not as relevant.

And for ethanol, because I am producing more ethanol, probably, I will have savings if I add more saccharose to ethanol I will have fixed cost diluted and, maybe, ethanol will have the same cash cost for production than I am reporting now. So, especially the cash cost for ethanol should not change for the next crop year.

Victor Saragiotto, Credit Suisse:

Great, Felipe. Thank you so much.

Thiago Duarte, BTG Pactual:

Good afternoon, everyone. I have two questions. The first one: you are talking about the next crop year and I would like to understand the CAPEX figure that would make sense to work with for this next year, considering that breakdown that will have of maintenance, improvement and expansion, I would like to understand that.

And in the same context, the news that came out last year of sugarcane acquisition by Furlan Group, something above our mill, if I am not mistaken. If that is already considered in that sugarcane acquisition context.

And, second question, going back to credit notes, the precatory, just to understand it, Felipe, in that cash that is already in the judicial deposit, I would imagine that, in some moment, this will be in São Martinho's cash.

And, also, the next credit note will be in your cash flow. How can you think about non resources? I do not know if you already know what will be the taxation of that money, I would appreciate if you could give us an idea. Thank you.

Felipe Vicchiato:

Good afternoon, Thiago. Thank you for your questions. About CAPEX, we estimate that, in the next crop year, we will have a maintenance CAPEX of R\$930 million. Basically, we should have a crop year that is a little bit shorter. And we have increased a little bit the planting area, so we will have a planting CAPEX that is a little bit higher. So, this is R\$930 million.

If you analyze operating improvement and other projects – the COA project, MPB with meiosis and smaller projects, we will have R\$100 million to R\$120 million of CAPEX for the crop year 2018-2019. And, in that CAPEX, we are not including any sugarcane acquisition and no mills acquisitions. If there is an acquisition, that CAPEX figure is not contemplated it.

But, obviously, the CAPEX will be involved and sugarcane will be involved, so that we can process that sugarcane. And, then, we would have the return on the investments as well. So, that is the breakdown.

Now, about taxes of the IAA taxation, we follow what Copersucar understands is right. Copersucar will probably will collect taxes and deposit the taxes judicially as well. And, then, discuss in court if those taxes are really due or not.

If they are not due, maybe is because of an indemnity matter. Because, once those Funds II have been paid to mills in the 80s, and now this is being paid, so Copersucar lawyers understand that the taxes should be deposited judicially as well, and, then, that should be discussed. Considering this is a compensation, then, if that really is a compensation, and if that is the understanding, taxes are not due.

But, to make a long story short, the funds will go into São Martinho's cash net of taxes, and after Copersucar and lawyers, if they are successful in that cause, then, those

funds that would be in the judicial deposit would be transferred to the Company's accounts. Thank you very much.

Thomas Budoia, Itau BBA:

Good afternoon, Felipe. Thank you very much for this opportunity. I have a question about the drought in the beginning of this year. Do you already have a contracted impact for the rest of the year? Is it too early to know anything about that? And, also, if the drought has delayed planting in the beginning of the crop year. And if you are concentrating that later on.

Second question is about the distillery. In the past, when sugar prices were very high with a premium for ethanol at Santa Cruz, they were able to do an adjustment; there was a marginal CAPEX to increase the sugar production. Do you have anything regarding ethanol now? The industry is talking about acquiring brownfield that is not working. Does São Martinho have any analyses about that? Thank you.

Felipe Vicchiato:

Hello, Thomas. Thank you very much for your questions. About the drought, the next crop year 2018-2019, we do not have any impact so far. And sugarcane growth happens from October to February and March, that is 85% of it, and we believe that, so far, we do not have an impact for the next year, just this year. And the impact for this year was already considered in our guidance disclosed to the market.

São Martinho usually takes a little bit longer to release the crop year estimate, so that we can better understand the sugarcane growth. In June, we have a sound basis so that we can know more about that figure. About planting, there was no impact on our situation. We planted with that technique of MPB with meiosis, that is done between January and March.

So, between January and March, it has rained not in the all-time average, but it did rain, so we had no impact in the planted area. On the contrary, we planted even more. And that is what I said in the beginning of the call, that is why I am harvesting fewer areas than what I have harvested last year.

I do not know if I missed another question. Those two questions only, right?

Thomas Budoia:

Yes, just the last one, about distillery, if you have a marginal CAPEX.

Felipe Vicchiato:

For distillery, we are just analyzing that possibility to see if there is a bottom neck there that we could remove and produce more ethanol. That is not the case, and we are at our maximum, so any additional position would require a huge CAPEX, considering the marginal positions. So far, we are at 65% and we are happy about this mix.

Thomas Budoia:

Thank you. And the final question, if you allow me, going back to Thiago's question, buying sugarcane from Furlan. Can you comment more on that, please?

Felipe Vicchiato:

Yes, I have seen this piece of news. Anything that is about acquisition or buying, we usually issue a Material Fact, but we have no comments on that. We are analyzing the M&A and the segment just as everyone, but in the case of Furlan, I have no comments so far. Thank you.

Marcelo Inoue, Citi:

Good afternoon, Felipe. Thank you for answering my question. My question is for hedge on sugar prices. You just commented that the prices for the crop year are close to R\$180 per ton, and I want to understand if the recent depreciation has already allowed you an opportunity to close a hedge for 2019-2020, and at which level?

And, also, I would like to know if it is possible that, for crop year 2019-2020, you will do differently from what you have done now. That is, the close of FX to wait for the sugar to recover cent per pound.

Felipe Vicchiato:

Hello, Marcelo. Thank you for your question. We are assessing, we are analyzing if we should lock in the prices for 2019-2020. The price for 2019-2020, today, is at a very similar level for 2017-2018, close to R\$1,180, sometimes even R\$1,200, considering the combination of sugar price and dollar.

I hardly believe that we will have a mismatch position, in which I sell dollar first and commercial area will sell sugar after that. We understand this is a risk movement, because Brazil is a marginal sugar producer and the FX depreciates quickly and the prices could come down even more.

So, if we are to do that, the commercial area will probably do it first, and, then, we will follow that up with the FX, or we will do a match transaction, as we have been doing in the past years.

So we are analyzing the possibilities. And this price is interesting because we see that surplus of sugar in this crop year, and, then, the next one, because of a super production of India and Thailand. Thank you very much.

Operator:

Now, we end the Q&A session. I would like to turn the floor back to Mr. Felipe Vicchiato for his final remarks.

Felipe Vicchiato:

Thank you all very much for participating in this conference call. I think this crop year was challenging, with a huge volatility in sugar, and São Martinho was able to use it as a commercial strategy, both for sugar and ethanol. And it has a record result, in terms of profit and operational results as well. So, we had record cash in the year of R\$150 million.

Also, shareholders' compensation was record in this crop year, if you combine dividends and shares buyback, adding both of them, we are talking about something close to R\$350 million to shareholders. And the idea is to have the same type of payoff to shareholders in the next crop year.

And the next crop year will not be different. As I said before, and we will take advantage of this positive scenario and the ethanol prices. Thank you all very much. Our next call should be in the middle of August, so that we can talk about our first quarter. And if you have any questions, my IR team and I are available to address your question. Thank you.

Operator:

The conference call of São Martinho has ended. Thank you all for your participation and have a nice afternoon.

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