Operator:

Good afternoon, ladies and gentlemen and thank you for waiting. Welcome to São Martinho S.A. earnings conference call to discuss the results of the 3Q of the 17/18 harvest season. Today with us are Mr. Felipe Vicchiato, Chief Financial and Investor Relations Officer and Mrs. Aline Reigada, São Martinho's Investor Relations Manager.
The audio and the presentation of this conference call can be accessed at the website www.saomartinho.com.br/ir.

We inform you that the participants will be in listen-only mode during the Company's presentation. After the company's remarks, we will be available to take questions, when further information will be given. Should any participant need assistance during this conference call, please press *0 for the operator.

We would like to inform you that any statements made during this conference call may constitute forward-looking statements. Such statements are subject to known and unknown risks and uncertainties that could cause the company's actual results to differ materially from those set forward in the forward-looking statements.

I will now turn the floor to Mr. Felipe Vicchiato, who will start today's conference call. Thank you.

Felipe Vicchiato:

Good afternoon, everyone and thank you for participating in our 3Q earnings conference call, related to the 17/19 crop year. I would like to begin this presentation moving straight to slide four, where I will go over the main highlights for the Company and I will start by talking about the end of the 17/18 crop year, as we have announced to the market in December.

We have crushed 22.2 million tons – an increase of 15% over the previous crop year – accounting for a growth of 13% in own cane and 19% third-party cane. This increase came from the full consolidation of the Boa Vista mill, which we acquired by the end of 2015 and closed results in 2016, 100% consolidated in crop year 17/18.

Together with the increase in crushing, the company was able to have a better TRS in the 17/18 crop year, arriving at 139.8 kg – 17% above the previous crop year and that lead us to increase the production of sugar and ethanol. Sugar was up by 8% and anhydrous ethanol by 22% in this combination of higher TRS. The TRS produced was up by 23% and that is the main item that boosted results of the Company in this 3Q, according to my further comments.

Moving to the next slide, on page five, we have the financial highlights for the 3Q. Net revenue was up 21%, going from R$ 739 million to R$ 899 million. This was basically due to an increase in the volume of ethanol and sugar sales, as indicated in charts 1 and 2.15.8% accounted for sugar volume and 40% ethanol volume.

This sugar and ethanol volume occurred due to increase in crushing, as I mentioned before. The average sugar price was stable when compared to the previous crop year, going up by only 2% and the average ethanol price was down by 12% on the quarter-on-quarter comparison. In the case of cogeneration, volume was up by 33% and the average price was up 40%, going to R$ 230 per MWh.

This increase in co-generation results from the full consolidation of Boa Vista and the increase in average prices results from a PLD close to R$ 250 MWh in this quarter. Adjusted EBITDA was up by 45%, going from R$ 341 million to R$ 497 million, with an increase in margin of 9.1 p.p. Adjusted EBITDA was up by 48%, going from R$ 151 million to R$ 277 million. Net income was up by 200% and cash income, according to Table 2, had an increase of 150%, reaching R$ 215 million.

The difference between net income and cash net income appears on Table 2, because here we have the reversal of the biological assets, which is non-cash-effect expenses, and the variation of paid tax.

Going to page six, here we have a simulation of our cash cogs. This is one of the best indicators for margin improvement in the quarter. Cash COGs for sugar and ethanol had important figures. Part of the reduction was due to the reduction of sugar and ethanol of Consecana prices, which was down in the period and also there was an improvement in operating leverage.

If we exclude Consecana price increases demonstrated on Chart III, we notice that the unit cash cost of TRS sold was down by 22.7% in the quarter. YTD, looking at the same indicator, net of Consecana – excluding Consecana from the base, because the price was down in the period – we see a drop of 2.9% when we look at COG's unit cost – per unit sold.

Looking at the total cost, including Consecana, there was a drop of 12% and a drop sugar cash cost of 12.8% and the cash cost for ethanol. Looking at the quarter, we basically had worse ethanol cost when compared to the previous quarter. An increase in operating leverage and a reduction in the cash cost lead the Company's margins – both EBITDA and EBIT – to improve due to a tighter price control.

Now moving to the next slide, on page seven, we briefly talk about the Company's debt position. Comparing March through December, debt was up by 14%. Net debt was going from R$ 2.7 billion to R$ 2.9 billion. On Chart 3 we have a summary of the main indicators that were responsible for an increase in net debt. Our working capital comes up to R$ 693 million. CAPEX for operating improvements and then we arrive at R$ 1.2 billion of net debt.

This net debt should come down considerably in the next quarter vis-à-vis the sugar and ethanol inventories that we still have to sell, which is equivalent to 25% of the production volume and the TRS equivalent, which I have already referred to further on. This will be sold, maybe in full until the next quarter, putting our net debt at much lower levels, close to 1.3 or 1.2 net-debt-to-EBITDA ratio.

The gross debt of the Company was R$ 4.1 billion in December, 25% of it was denominated in USD and 65% denominated in BRLs. The Company was able to BRL-denominated debt at a very competitive price and this allowed us to reduce our USD-denominated debt, allowing us to keep book value and at the same time have a good or better average price for sugar in BRL.

Now moving to the next slide on page eight, here we have the Company's inventories, as of the 3Q18, which ended in December 2017. The volume of sugar went to 430.000

tons and this increase stems from the results of our production. The totality of this sugar should be sold in the next quarter, between January and March.

Hydrous inventory was up by 244%, going from 50,000 to 172,000 m³ and this inventory of hydrous stems from the full consolidation of Boa Vista, which only contemplates Ethanol in the Company's portfolio. Also, if we look back to the last crop season, there was an important crop loss and that was mainly ethanol, this is why we have less Ethanol than anticipated in the 16/17 crop year.

When we run a year-on-year comparison we see a significant increase in the volume of the inventory. Anhydrous goes from 144 to 235. In this current quarter, an increase of 63%. This inventory should be sold in full in this next quarter, just as it will happen to the sugar inventory.

If we also look on Chart 1 and the chart down below on the same page, we see that after July and August the average Ethanol consumption grew significantly in São Paulo, going from 1.2 billion liters to 1.8 billion liters. We also understand that this consumption increase of around 20% when you run an average comparison between January 2017, June 2018 and so on, also stems from Petrobrás' policy of placing gasoline prices in keeping with the Ethanol prices.

Also, tax changes conducted by the government also brought about changes both for ethanol and gasoline in order to improve competitiveness between gasoline and ethanol. Hydrous and anhydrous had changes and this is why all this inventory had this different behavior.

And we expect to have a very strong 4Q, given the fact that my inventory volume accounts for 35% of production and prices, as you can tell, are quite high. Therefore, at the company we realize inventory even before the crop year begin.

To conclude the presentation and then move to the Q&A session, when you talk about hedge, the hedge for sugar and ethanol for the 17/18 crop year was almost finalized and the remaining sugar was about to be shipped. We had something close to 88% of our sugarcane sold at a price of R$ 1,273 per ton and this is what we will post in the 2H of the year and for the 18/19 crop year we changed the hedge and the average price is close to R$ 1,163 per ton, with an exchange rate of R$ 3.35 (BRL to USD).

This hedge volume accounts for approximately 50% of my sugar exposure for the next crop year, considering a minimum and maximum for sugar and ethanol. Ethanol is much better than sugar currently and given the consumption of ethanol, as demonstrated in the previous slide, we should expect prices not to fall as much as they have fallen in the previous crop year and this is why ethanol prices will pay off better.

The ethanol storage capacity is quite relevant. We get close to 70% of total production, considering the maximum ethanol production in storage, so I think that we will pursue our strategy: we will buy and preserve the product so as to sell it whenever margins are better, considering the season and off-season period, just as we did in this fiscal year.

Currently, we do not have any guidance in terms of production. We are now collecting all the information and assessing sugarcane fields. Rainfall was according to our expectations and by the end of April and May we should be concluding de assessment of sugarcane fields, so in early January we will probably give a guide to the market about TRS and how much we expect to crush.

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

Danniela Eiger, Bank of America:

Good afternoon, Felipe and Aline. Thank you for taking my questions. In fact, I have two questions. My first question is: I would like to know how you see the mix of sugar and ethanol in Brazil. We noticed a migration toward ethanol, especially because of the fact that it is more interesting financially, but there might be a removal of import taxes for ethanol, so I just want to understand whether you already see any impact or whether you can anticipate a migration back to sugar.

Maybe the news will be postponed. I just want to understand your view in that regard. And my second question is: I want to get a better understanding about this dropping in cost. We also noticed this increase in efficiency on your part. How could that offset the impact of lower sugar price in your overall result? Thank you.

Company:

Thank you for your question. The crop is a mix. The decision whether we will have more ethanol or sugar will be made when the crop year begins, in the middle of April. Once we consider and spring sugar prices and ethanol prices the way they are right now, most mills will probably migrate their production to ethanol and less sugar because the ethanol is paying more than sugar.

Now, in the middle of January there were some news related to the removal of import taxes that were levied a few months back and that comment stirred up a lot of noise on the market, but right after that the government issued a notice saying that it said that as part of a context and it did not mean that it would necessarily be a measure to be taken immediately.

This has happened about a month or a month-and-a-half ago and we believe that the government will maintain the import tariff as it has been posted about a month ago. We understand that this will be maintained, so we do not see that as posting a risk to next crop year.

Certainly, if that happens and if the import tariff is removed, maybe the mix will change from ethanol into sugar, but from now we understand that the tariff will be maintained. Now, in relation to better costs or cost improvements, what happened until now, if we compare year-on-year figures, is that there was an improvement basically due to the operating improvements.

For São Martinho 16/17 was better in terms of cost, because of a crop loss due to a frost; and we lost 10% of our production and, with that, our unit cost increase significantly. But when we compare it to another normal crop year, like this one, we see a significant cost reduction.

And why am I saying that? The main projects of the Company in terms of cost reduction, which is the core project, are still in the process of investment and we have not yet seen the benefits coming from these projects. And the benefits from both projects could be felt in the beginning of the 19/20 crop year and from then on. In the next crop year we will not see the benefits from the project.

In the summer crop, between January and March, the company is planting a lot. We planted MPB in the middle of the year. We are doing meiosis. There is 18 months until the sugarcane grows and this will be harvested in the 19/20 crop year. The big jump in terms of cost reduction and better productivity and improvements in our operating costs will be felt, more particularly in the 19/20 crop year.

And this will certainly be the crop year in which COA will be deployed in our largest mill, which is the São Martinho Mill, and this is when we will begin to reap part of the benefits coming from these projects. All of these cost improvements we were able to have so far is just a result of what happened, considering the results from the 16/17 crop.

Lucas Ferreira, JP Morgan:

Felipe, good afternoon. I have two questions, very much in keeping with what we have just talked about. About ethanol, you see that there will be import risks even with this tax rate of 20%, given the fact that the price is relatively high when compared to prices abroad?

I also have a more theoretical question: whether you believe there is any other risk and; how do you evaluate the corn-based ethanol? Is this coming back? Today maybe this may not seem like a big problem, but maybe the number of imports could increase when it comes into the market into the next two-to-three years. And about costs and also thinking about other lines, like Diesel, fertilizers – how do you see this crop year? Do you think there may be some pressure?

Company:

Hi, Lucas. Good afternoon and thank you for your questions. Let me begin by the end. In terms of cost pressure, we do not anticipate any cost pressure for the next crop year, except for Diesel, because there was a price increase year-on-year, so there should put an impact of around R$ 10-15 million, in addition to the current prices. And this is a reasonable impact, but when you look at the total cost volume for São Martinho, it is not very relevant – when you look at the unit cost. In terms of fertilizers, we do not anticipate any relevant increase.

Now, speaking about corn-based ethanol production, we have run an internal assessment at São Martinho to find out whether it would make sense for the Company to invest in corn-based ethanol at the Boa Vista Mill, which would be the most obvious location, given the geographic location of the mill, but we came to the conclusion that it would not be feasible because the CAPEX of the industry is quite relevant.

And you have to assume that the price of corn should be a certain number of BRL per bag and I do not think this will be sustainable for a certain number of years that will be enough to pay for the product.

Some companies are investing in corn-based ethanol production and I think that production in Brazil reached 400,000 m³. I think that was it. It may increase a little bit in the next crop year, but I do not anticipate any major waive or corn-based ethanol in

Brazil. I do not think that there will be any major wave so as to jeopardize prices of ethanol or impact them.

Now, as for import of ethanol, despite the terror that is happening today, there are some anhydrous ethanol ships coming from the US to supply the local market, but financially speaking it makes sense, especially to supply the Northeast region – not the Southeast. So I understand that there may be some volume coming now, but that would not hurt the price, because prices will not drop as much, particularly because of where the demand for ethanol is located.

In the early crop year prices should go down, as it is natural in this business and this should not motivate further imports of ethanol, which is quite different from the scenario seen a year ago. When we did not have the tariff, the price was down substantially – R$ 1.4 or R$ 1.5 for hydrous ethanol, because of the fact that the product was coming without the tariff. Now things are different and I understand that importing ethanol in the middle of the crop year causes a bigger risk.

I do not know whether I was able to answer all your questions, but if I have not, please repeat them.

Lucas Ferreira:

I just want to learn more about your corn-based ethanol production, but we can speak about it later.

Gustavo Allevato, Banco Santander:

Good afternoon, Felipe. I would like to find out about the climate conditions in your mills off season, if you can share that information with me. The second question is: what do you anticipate in terms of sugar prices throughout 2018? I think you should have 5 million.

Do you think that the current price already reflects a reduction of production in Brazil to 31 million tons of sugar coming from this Center South or do you think that this expectation is not yet materialized? And I would also like to see whether you are looking at a potential hedge for Ethanol or whether that does not make sense to you.

Company:

Hi, Gustavo. In relation to climate conditions off season in the sugar fields where we have a mill: climate conditions were OK; nothing particular. This is why we should expect a production volume very much in keeping with the levels we had a few years back in terms of tons per hectare; it is within the average.

Now, to answer your question about hedge, if I understood it correctly, we are still analyzing it. We still have to run some calculations, but we still have not hedged ethanol through oil. When we look at the price of ethanol per producer, it depends on the consumption volume at the gas station.

When we run a calculation based on the price of oil to the gas station, there is a whole chain involved: distributors, taxes; and it is a very difficult calculation and it is difficult to calculate hedge close to the price of oil abroad. We are looking at it, but we are not doing it yet – we are not hedging ethanol.

Gustavo Allevato:

What about prices of sugar for this crop year?

Company:

In terms of sugar prices for this crop year, these 5 thousand tons of supply that is in the release, which is the consensus, is not yet considering a production in the Center South of 31 million per ton. If everyone migrates to ethanol and then deliver a lower sugar production, that sugar should probably see a recovery. But if we look at the spring price today and convert it to BRL, it is about R$ 1,100 per ton, which is still very competitive.

But we will certainly continue with the hedge, because this is part of the Company's policy, so in the next quarter I will have advanced about 11,000 tons in hedging. It is just a matter of policy. 11,000 gives me a reasonable margin and I still have the exposure of ethanol, which is a major exposure in my revenue line. Thank you.

Tiago Duarte, BTG Pactual:

Good afternoon, Felipe and Aline. I have a question on the price of ethanol and sugar, but I will post it differently. It is very clear through the release that you reported that you believe that sugar prices should see a recovery considering the spring prices now and ethanol prices are, naturally, expected to come down when we look at the crop year and the intercrop.

What will be the relative prices? I mean, ethanol prices should go down and sugar prices should go up, so how is the behavior of that balanced and what would lead you to maximize ethanol production vis-à-vis sugar production? How much should sugar increase vis-à-vis ethanol and how do you expect to maximize ethanol production over the next crop year vis-à-vis sugar? This is my first question.

And the second question has to do with your presentation related to the landscape of the 4Q, considering your strategy to carry over ethanol inventories; and this would be a successful strategy if prices continue to go up, so everything indicates that your net-debt-to-EBITDA ratio will be very low, very close to 1x.

And that is when we get to the point that, eventually, we think that you will have to make a more assertive decision about how this cash will flow from the Company to shareholders, assuming that there will not be any relevant CAPEX along the way and according to our conversations with you this seems to be the case.

How do you think that this cash will flow to shareholders? You have always said that buyback was a possibility that seemed to make more sense. I just want to understand how this discussion is evolving. Thank you.

Company:

Tiago, good afternoon and thank you for your question. In terms of the prices for sugar and ethanol, if you look at the sugar screen vis-à-vis ESALQ Ethanol prices, there is a gap between 20-25%. In order for São Martinho do decide to make more sugar or at least to balance our sugar production vis-à-vis ethanol, sugar prices would have to go up by at least 20%, approximately.

What is not true is that ethanol prices would have to go down 20% in the beginning of the crop year in order for São Martinho to produce more sugar, because if there is a drop of 20% in Ethanol prices – and this is just a hypothesis – there will certainly be more domestic demand and this demand will be able absorb that surplus ethanol and as São Martinho has a good capacity to storage ethanol, we will pursue a strategy to carry over the ethanol and sell it in the 3Q and 4Q and so we will have a better margin for the product.

In order for us to change the strategy and then increase our sugar production, sugar will have to go up, rather than ethanol coming down, because I can carry over ethanol for longer periods of time when compared to sugar, given my storage capacity. And certainly the ethanol market is much more known, because we are talking about Brazilian consumption, whereas with sugar there are other growers in the world.

We also have crop seasons in Europe and in India and sometimes if they have a certain amount of sugar, they may decide to increase export or import and so the market can change substantially. In the case of ethanol, as we are dealing with the domestic market, it is easier for us to have a more assertive assessment of that market.

Now, in terms of how São Martinho will use this CAPEX, I think that the main use of our cash will be to buy back dividends. We have an open buyback for 8 million shares and I think you have seen that on our report, because we have already acquired 1.3 million shares approximately in the last quarter.

At this level of stock price we understand that the buyback should be concluded very shortly and I think that at the time when we will decide the dividend payback, which will take place in the middle of June, assuming that my buyback is already concluded, I will have about R$ 180 million of stock buyback already realized – assuming that I will buy 8 million of shares.

And the difference to payout shareholders will be… I mean, this dividend volume plus buyback, I do not have that disclosure yet. We are running an evaluation in the Company. It is something that we will suggest to the board, but we are not looking at accounting net income. We are looking more at the operating cash and, as you said it yourself, the company does not have any relevant project in the pipeline for next year.

There are important projects from the cost point-of-view, but they are not that relevant when it comes to CAPEX, because the bulk of the investment has been already done years ago when we started the project, so now investments are not so relevant. I may increase my acreage to expedite the NPB project, but that will not impact CAPEX substantially. This will not compromise cash returns to shareholders.

Tiago Duarte:

I just have a follow-up. I know that the next crop year budget is not concluded, but could you give us an indication of your CAPEX level including maintenance of CAPEX and small improvements for the next crop year?

Company:

We do not have anything to that end yet. What I can tell you is that at least R$ 900 million will be maintenance CAPEX, because this is my recurring CAPEX. This is for planting and increasing acreage or even crop treatment. In the case of sugar there are opportunity costs, but planting is better, because once you plant more, you reduce your harvesting area.

Therefore we are now evaluating whether it would be worth increasing the NPB project. I have cane at 19/20, but on the other hand, I would sacrifice the production of this crop year because I will be planting more sugarcane and reducing my harvesting area. Therefore we are still running an analysis to see what would be best. I am not saying I will be crushing less. Maybe just 1% less than my initial expectation and this is a lot of planting area that I could be doing. Therefore we are attentively evaluating the budget.

The opportunity cost is good. It is better to do that in a time when prices are bad, because you reduce your harvesting area when your opportunity cost is better and you will have more cane when the cycle turns, after the crop year 19/20. The additional CAPEX would be about R$ 35 million – not more than that.

Tiago Duarte:

This is very clear. Thank you very much.

Rafael Sommer, Bradesco:

Good afternoon, Felipe. Good afternoon, Aline. Thank you for taking my question. I would just like to understand whether you have any updates related to the legal suit by Copersucar against União and whether you have any update related to RenovaBio. It was approved at the end of last year. I just want to know whether you can give me an update on metrics or the impact that this will have on the 19/20 crop year.

Company:

We do not have any updates related to the Copersucar lawsuit, because it belongs to them and their lawyers are taking care of it. In terms of the RenovaBio, I think we have until June, if I am not mistaken, until we have concluded an important phase of the project. That involves stabilization goals of the location year-on-year. Once the goals are set up, we will be able to understand how much ethanol the project will demand and over the years.

I do not have an update about the prices, but I know that until June we will have concluded an important phase. After the conclusion of this phase it will be much easier for us to give you an idea about ethanol demand year-on-year in the RenovaBio project. Thank you.

Marcelo Inoue, Citi:

Good afternoon, Felipe and Aline. My question is related to the issue of the mix. How do you intend to adjust for this mix change? Because you have 16/17 crop year for sugar and the mixture of ethanol for the next crop year and whether you have any specific CAPEX to increase that flexibility, be it on the industrial side or in terms of storage capacity. Thank you.

Company:

Thank you for your question. We do not have any CAPEX to change the mix. In fact, the company, in the last four years, has had a more sugar-based mix in the São Paulo plant. We have a very low use of our ethanol plant. My ethanol mill is sitting idle. It is simply a matter of changing the mix and placing more crops to produce more ethanol rather than sugar. This is a very simple process. It does not involve any additional CAPEX. Thank you

Marcio Montes, Banco do Brasil:

Good afternoon, Felipe and Aline. Thank you for this opportunity. Felipe, you crush 22.2 million tons. What is the outlook we could anticipate for the crop year 18/19? When in the year do you think that the rest of the world would start giving any sign in relation to this change in mix that is taking place in Brazil and does not seem to have been captured abroad?

Company:

We do not have that information about how much we will crush in the next crop year. We will have better figures in the month of June. Maybe I could give you guidance that there would be an increase of more or less 10%, which is the guidance of nothing. We would rather give you a more assertive figure when we get a better update and we will have certain figures about the behavior of the crop.

I believe that your second question was: ‘when do you think the sugar market will react given the fact that most growers will produce ethanol?’ This is a difficult question to answer, but I believe that – considering that the crop year begins in April – so far we have just heard producers saying that they will produce more ethanol. Biosev says that they will produce more ethanol and São Martinho is now saying that it will produce more ethanol, considering the current prices of sugar and ethanol.

So far we do not have any firm action in terms of increasing ethanol production, except for what growers are saying. Only in March or June will we have a better outlook. But right now this is a very unique situation, because in the last crop year, Brazil produced a lot of sugar and we still have a lot of sugar to ship, so sugar prices are under pressure.

Now you have the northern hemisphere producing a lot of sugar – India, the EU, Thailand – and they are putting a lot of sugar on the market, and this hampers the prices. The price is coming down. It is even breaking the barrier of US$ 0.13. It went down from US$ 0.16 to US$ 0.13 from December to now and we understand that once Brazilian production begins and then we know for sure that we will produce more ethanol, there should be a quick recovery.

This is a very volatile market and so recovery should be quick, but we do not anticipate the price at US$ 0.18 as it was during crop year 16/17. This is why we should expect a price range between US$ 0.15 to US$ 0.16 as an average for the entire crop year.

Antônio Barreto, Itaú BBA:

Hi, Felipe. Good afternoon and thank you for taking my question. I only have one question. With the meiosis project, can you give us an idea of the level of TRS per ton per hectare that you could reach in crop year 19/20?

Company:

In the 19/20 crop year, crushing could be close to 24 million tons. This is the figure I have. Now, as for TRS, it is difficult to anticipate anything. There should be an improvement in TRS, but I would rather not give you an estimate. And I think that crushing should be very close to 24 million tons. As for the Core Project, it will bring savings per ton of sugar crushed.

Speaking about one mill, in the first year we would have savings or around R$ 20 million. Nothing more than that in crop year 19/20. But now looking at our learning curve in the project, we understand that it should be between R$ 2 to R$ 3 per ton of sugar – the combined result of the group.

Antônio Barreto:

Just one confirmation: during Lucas' question you talked about R$ 10-15 million in addition for the cost of Diesel, and I think this is your cost including maintenance CAPEX + operating costs, right? Including both effects?

Company:

Yes. The R$ 10-15 million cash cost is the spending on all processes – harvesting, etc.

Roberto Browne, Morgan Stanley:

Good afternoon and thank you for taking my question. I just want to learn about your cash flow expectation. I know it is still soon to talk about guidance, but a few months ago you showed some cash generation scenarios and with sugar prices at the levels they were, the Company was able to generate an amount surpassing R$ 500 million.

So I just want to know whether this increase in inventory levels of sugar prices had an impact of maybe some one-off investments could change the scenario could be anticipated.

Company:

Let me see if I understood your question. What was said is that in the 15/16 crop year the average sugar price realized by the Company was something close to R$ 1,000 per ton. From then on – from crop year 15/16 to crop year 17/18 – the Company improved its operating leverage substantially. I increased my sugarcane crushing and I had improvements in GRS, as the figures reported to the market show.

Coupled to that – and even more importantly – the Company deleveraged from the 15/16 crop year to the 17/18 crop year and the cost of that decreased because of drops in the SELIC rate and also the credit perception of the Company. In view of this landscape what we tried to convey to the market is that we give tools to the market so that the market can calculate, looking at the figures we reported from crop year 15/16, what will be the cash generation figures for the Company in the following crop year.

As we are not yet giving you any estimate for crushing or production TRS, I cannot give you a number. But as an exercise, I think you should look at the crop year 15/16 and look at inflation rates during that crop year, then 17/18 crop year inflation and how the Company made improvements back then. It was a different Company, with different processes.

You have to do your homework. We do not give any guidance on cash generation or crushing. Somehow we try to help you do the math so that you can have a prediction of cash generation in light of the pricing landscape for 18/19, as we did with the 15/16 crop year.

But the price landscape for the 15/16 crop year for ethanol prices were even worse when we look at the 18/19 crop year, given the demand volume for ethanol that I mentioned. This could make slight improvements to my cash generations. But you have to do the math.

Now speaking about CAPEX, like you said, the maintenance CAPEX for the company is not R$ 100 million. Maybe we will intensify planting because of meiosis, so we will be able to crush 24 million tons in the 19/20 crop year, but it is not this CAPEX that will impact the cash generation of the company. This is not the bottom line.

Roberto Browne:

This is very clear. This is exactly what I wanted. Thank you.

Lucas Ferreira, JP Morgan:

Felipe, my question has been partially answered, but if you think about a year in which you would maximize sugar production and then in the next crop year you maximize ethanol production, what is the difference in terms of your working capital? I just want to have an idea.

Company:

One thing is: if I maximize ethanol and if I carry ethanol over to the end of the crop year, which will have an important impact on my working capital during the crop year. There would be an impact of R$ 200 million. If I maximize ethanol and, in addition to that, if I carry over ethanol to sell in the 3Q and 4Q… Now, it is not just because I changed the mix that I will increase my working capital.

If I maintain a linear sale and if I keep the same 1/12 sale of sugar, once ethanol is produced and sold, the cash conversion for ethanol generates more cash than sugar. I mean, we should have a strategy to sell the product when margins are better. If this leads to increase in working capital during that crop year, that increase should be R$ 200 million at the most.

If you consider my cost of debt in BRL, which is about 96% for CDI, which is the last one I had, in financial terms, this is not very much, because we are talking about an average carryover of six months.

Lucas Ferreira:

If you look at the end of the crop year as a whole, if you carry ethanol during the whole crop year, the conversion cycle of ethanol is much lower and therefore you should have a reduction in your working capital requirement.

Company:

Yes, there will be a reduction in working capital requirement if I sell it linearly, as I would do with sugar. Another important thing that I forgot to say related to our production strategy – producing more ethanol than sugar – is that ethanol is a product on which other taxes are levied, like PIS, COFINS and ICMS.

São Martinho pays several taxes – PIS, COFIS, ICMS. If I change my mix to produce more ethanol my working capital is likely to change because of the use of the use of these credits in my assets line, so my P&L will cause the net…

Tax prices, net of PIS and COFINS, but when we look at the cash flow and considering the fact that I have a significant number of assets in taxes to collect, I should assess these taxes and convert these collectable taxes into cash. So my working capital applied in the business should improve year-on-year, if the mix would be more toward Ethanol

Antônio Barreto, Itaú BBA:

Sorry to ask you again. I just have a very quick question: when you said that you will buy meiosis and you estimate to crush 24 million ton, I assume that the amount of third-party sugarcane should be slashed. Should be consider that, as you can no longer buy sugarcane from third-parties? Would your margin increase come from increased productivity or yield?

Company:

Yes, you are right.

Operator:

We now conclude the Q&A session. I would like to give the floor to Mr. Felipe Vicchiato for his final remarks.

Company:

Thank you all very much for participating in our earnings release. The Company performed quite well in terms of our results and probably the next results, given our inventory volumes of sugar and ethanol. We should also post significant and strong figures. If you have any additional question, our IR team will be available to answer them. Thank you.

Operator:

São Martinho's earnings release is now concluded. We would like to thank you for participating and I wish you a very good afternoon.