

International Conference Call
Jalles Machado (JALL03)
2Q Earnings Results and Crop Year 22/23
November 11th, 2022

Operator: Good afternoon, everybody and welcome to Jalles Machado's conference call where we will discuss the results of the second quarter of the crop year 2022-2023.

This conference is being recorded and is translated simultaneously. The replay will be available at the company's website at ri.jallesmachado.com. All participants will be in a listen-only mode. After the presentation we will have a Q&A session when further instructions will be given. The earnings release and the presentation of the second quarter of crop year 22/23 can be accessed on the company's IR website.

Before proceeding I would like to mention that any statements that may be made during the conference related to the company's business prospects, forecasts, operating and financial targets related to its growth potential are based on the company's management expectations about the future of Jalles Machado. Such expectations are highly dependent on domestic and foreign market conditions and national and international economic scenarios and therefore are subject to change.

Today with those are Mr. Rodrigo Penna, CFO, and IRO, and I would like to turn it over to you now Mr. Penna. You may proceed.

Rodrigo Penna: Thank you very much Doris, good afternoon, everybody. It is a great pleasure to have you once again with us in our earnings conference call.

We just arrived from the new unit Santa Vitória and we had our first Board meeting there, we had our Board meeting yesterday to approve the results, some Board members had never been there. So, we took advantage of that occasion to celebrate the closing of this crop year at the Santa Vitória unit and everybody in the Board was very excited and I was very excited too about the potential and the prospects for our new unit. We just arrived and came straight to talk to you about our results.

I will try to be very brief in my presentation. We disclosed a material fact yesterday also about the closing of the crop year and I'm going to talk about the operating results, but actually, the numbers that you see in the material facts are more updated than the ones that you will see here in the presentation. So, actually, I'm going to skip through the slide 5 about operating data and slide 6 as well, so I'll jump straight to the commercial highlights.

Since our sector is very seasonal, I'm always going to talk about the year-to-date numbers here in our call, and I believe that you all have received the materials, so I'll try to be brief so that we can have more time for Q&A.

Our sugar cane price... actually, the sugar price was 11% higher and as you saw in our release we were able to increase the amount of organic sugar and increase its impact on our numbers if you look at the first half of this year in comparison with last year and that happened due to some improvements in the logistics, we struggled a lot in the first half of 2022, but now things improved, we saw some decreases in maritime freight costs, and in the first test that we ran everything was alright with exports of big beds in the hold of the ships and not in containers, we are not at the same levels as before, but containers used to cost US\$10,000 or 9.000, but now the number is closer to 5.000 or 6000, it used to be 1.500, but things are better than last year at least.

For ethanol, our average price was 3.57 against 3.59 and this is the gross price, but there's an important factor here, you can see that last year we didn't have any anhydrous ethanol, this year we sold a lot of anhydrous ethanol and there is a different tax system for anhydrous in comparison with hydrous ethanol, and the price for anhydrous is always lower than hydrous ethanol. So, we can see that the average is a little bit above the previous year. And in this quarter, let's take a look at the quarterly results just for anhydrous ethanol, and you can see that we sold almost 54 million liters of anhydrous ethanol. So, you can see that we knew how to take advantage of anhydrous ethanol in the beginning of the year when there was a change in the fuel tax system. We had a higher demand for gasoline, and we took advantage of that moment to sell almost 70% of this volume was sold actually in the month of July for a good price.

So, you can see that we have already sold 133 million liters, you can see we sold much more than last year. And as for sanitizers, we had a decrease because that's more critical moment of the pandemic is now behind us and we are now more strict about margins, there was an oversupply in the market when the pandemic came to an end so the volume decreased, but we preserved our margins, but the amount sold was lower because of the situation now about the pandemic.

Now CBIOS, we sold about 7,000 CBIOS due to a drop in prices after that change we decided to hold back a little bit and in the first quarter we had taken advantage of that situation as we mentioned in our previous call, and now the average price is 145 and the volume is pretty much the same, and now CBIOS are exceeding R\$100 in the market, so we should go back to selling CBIOS in the current quarter.

Now the total TRS sold – and this is a very important point for us – you can see that our sales improved against last year, so 65% of our total TRS this crop year has already been sold. Last year the number was 57% and that happened because we wanted to take advantage of prices of ethanol in the first quarter and in the second quarter, we also sold a lot of anhydrous ethanol in July and August.

Now let's talk about the financial highlights. Our net revenues increased by 30% and our cogs, as you can see, grow faster than revenue, we had an increase in costs exceeding the growth in revenue in the first half of the year. So, our adjusted EBIT decreased by 4 percentage points in comparison with last year, but the volume is much larger. So, we have 20% more in our adjusted EBIT. So, the margin decreased by four percentage points, but adjusted EBIT increased by 20%.

Our margin increased also in comparison with last year for the adjusted EBITDA and the net income was 297 against 105. And here we have some non-cash variations and MTM. So, our cash results increased by 70% year-on-year.

Now let's take a look at the costs. The costs increased significantly, our sugar equivalent produced increased in costs by 26% and the highlights are agricultural partnerships with 32%, and industrial cost with 34%, and this is less representative than the cost of sugar cane as a whole, but it had a significant impact on the costs of inputs and also maintenance of the crop.

So, in the first half of the year, with 1 tone per hectare less in TRS than last year, we had an increase of 26% in costs, but that crop failure had an impact and caused this number to increase even further and we had a 4% impact in our TRS, but as of September, it was closer to 6%. So, this number should be closer to 20% if it weren't for the crop failure. And we have here the impacts in dollars, which increased by 30%.

And now Capex. We are still investing and increasing the Jalles Machado capacity and the Otávio Lage unit, we are investing in the industrial capacity and agricultural capacity and our investments are being made according to plan, we're sticking to the physical and financial plans, we are not changing our guidance at all, and just so you remember, we invested part of the amount this year and part this year, and this year we're going to invest more than last year and then next year we are going to invest the third part of the whole amount, but as you know, we want to increase our production by 1 million tons in both units and you can see here that we had 46 million in expanding against 19 million, and here we have the Capex for expansion of the planted area going from 5.7 to 10.3 million.

Here we have the fixed assets, which is part of the expansion and improvement Capex line, and this line, the fixed asset line, refers to the improvements made by the company to gain performance, EBITDA and also to replace equipment, to change the machineries as we do every year. So, you should consider those two components in this line. This number is invested in operational improvements and other investments as well.

Now recurring Capex. We had a renewal planting and offseason maintenance amounting to 105 million and our total Capex was 74% higher year-on-year, which is natural when it comes to fixed assets and also when it comes to planting and crop management, we had an increase in costs because of the more expensive inputs and fertilizers. So, that of course, has caused an impact on our investments since the costs of these inputs are going up, but good news is that the prices for inputs are now going down, fertilizer prices have been decreasing, diesel not so much, but we can see a downward trend for the next crop year.

We had raised funds as we disclosed to the market with debentures, we did that in September, we had already raised funds late last year in December and now this year we did it again to increase our cash since we had the acquisition of Santa Vitória. So, as disclosed, we were to disperse about 540 million for the Santa Vitória unit, we took that loan and we decided to repay 90 million of that debt. So, our total disbursement was 630. So, even though we have the

acquisition of Santa Vitória, we still have a very comfortable cash position in excess of R\$1 billion even right after the closing of the Santa Vitória deal.

Now net debt. We had an increase year-on-year of 72 million, and one thing that I would like to highlight on this slide is that the new debenture issued by us in the amount of 350 million this is our repayment schedule, our average term went up to 4.8 years, 15.6% short term and 84.4% long term. We are at a moment at the company in which we have longer term debts, and our liquidity position is very positive, and this has always been a policy of the company to keep a good liquidity position due to the seasonality of the business and the need of working capital in the sector.

Here you can see our debts broken down by currency, only 12% in U.S. dollars and 88% in Brazilian reais. Now about hedging, you can see that all sugar, the conventional sugar has had the price fixed in the level of 1.7 and considering our track record premium we are selling sugar in the domestic market for 1.9. We also have fixed the prices for all the sugar produced in 23-24 and 92% of the sugar in 24 and 25 has been fixed at 2.3. Our exposure to foreign currency has decreased, we have brought that down to almost zero and in the short term we have an exposure and we decided to do that because of the volatility, and now of course, considering the political scenario in Brazil, the political turmoil now after the presidential elections, we decided to not have any exposure in U.S. dollars.

Now let's take a look at the consolidation between the acquired companies, but this is a pro forma result, this is what Jalles Machado would look like had we consolidated all the numbers. And you can see that our gross revenue would be 34% higher, reaching 1,405 billion, the net revenue would be 38% higher EBITDA, 36% higher and adjusted EBIT 31% higher. Even when we do consolidate the results of Santa Vitória unit, we should keep the pro forma numbers because we're going to consolidate the numbers from April onwards, we are going to use the numbers in a pro forma basis from April to September and then we are going to start consolidating the numbers.

And when it comes to Santa Vitória, we have the same strategy of producing only ethanol because of the higher prices in the beginning of the crop year, so we decided to produce as much ethanol as possible in the beginning of the crop year and we sold plenty of ethanol during that part of the year, and Santa Vitória had 50 million liters of ethanol with fixed prices with the distributor. So, 50 million liters had already been fixed with a gross price of 3.5 and almost R\$3,00 was the net price to be delivered until the end of the cycle.

So, that's what caused us to take advantage of the higher ethanol prices, both Jalles Machado and Santa Vitória in the first half of the year sold a higher percentage of the total TRS produced. Now in the second half of the year, we are going to have lower revenue over the next six months your margins. So, the performance and margins won't be at the same level as the first half of the year because we are going to see lower ethanol prices and also because we sold most of what we produced. As I said it was 65% this year in comparison with a 50% less sugar.

Now I wanted to give you more details about why we had a crop failure this year, and it was actually below our guidance, our guidance issued in accordance with what our agricultural team believed was going to happen, but in the second-half of the crop year there was a higher failure and I wanted to explain to you exactly why that happened. The blue bars show rainfall at the Jalles Machado unit from September through April, which is when we start building our crop. In September and October that's when drought ends and rain starts to pour, and the grey line is the historical rainfall, and the same applies to the Otávio Lages unit, but I'm going to focus on the Jalles Machado because it's the same logic.

What happened this year is that we started with good rainfall, October it rained more than expected and November as well, but in December and January, we had excess rainfall and that caused us to have a cloudiness, excessive cloudiness, and that's why we had a stall in the growth of our sugar cane, the weather was too cloudy, we had lower photosynthesis, and the sugar cane did not grow as would be appropriate. And then in February we had good rainfall and then when March came, in the second half of March, there was a drastic decrease in rainfall, and in April when we have about 80 to 90 millimeters, which is very important for the sugar cane to grow for a longer period, we had little rainfall. That's why in the second half of the crop year we had higher failure.

So, that that's what happened, excessive cloudiness and then the rains stopping before expected; that's what caused the failure although the total rainfall was very good, almost 1.600 millimeters in comparison with an average of 1.300 millimeters as is our historical data, but it was not so well distributed.

Another very important point is related to irrigation, and this is all about conventional sugar cane, we excluded organic sugar cane so that we could exclude some variables that are not so common for the entire field. So, this applies only to conventional sugar cane. We wanted to assess the behavior of the sugar cane in comparison with our expectations when we have supplementary irrigation, when we apply salvage irrigation, and in no irrigation fields. We didn't have any failure in the areas that receive supplementary irrigation, we had a failure of 3.7% in the selvage area, and we had 8.6% of failure in the trial ends with no irrigation. Our neighbors who don't have irrigation had a failure of about 13 to 15%, and Jalles Machado had a crop failure of 7% in TCH (in the tons of sugar cane per hectare) while our neighbors had 14 to 15% failures in terms of tons of sugar cane or hectare. Since our TRS was higher, then the failure was of 4% when it comes to TRS.

So, you can see that our irrigation was able to mitigate the failure, the failure should have been even more impactful if we didn't have such a good irrigation structure at the company.

Now let's talk about the closing of the crop year on slide 17. As I said we had a 7% decrease in productivity, in yields, in comparison with last year and our total TRS was 4% lower. So, you can see that our total TRS was lower year-on-year.

In Santa Vitória, our expectation was to reach 1,900 tons of sugar cane and the Geribá Group and the unit itself expected to reach about 2 and it was actually 1,800 million. As we mentioned before, if it exceeded 1.9, we would have an

earnout, so we would share the result, and if it was below 1.9, we would also adjust prices and share the lower results. So, the lower production will be split between the parties, the buyer, and the seller. And what effect did Santa Vitória the most causing the numbers to be lower than expected was a very harsh drought last year and they were not able to recover as they thought they would.

TRS was 154, so you can see that the sugar content was very high, and the ethanol produced, hydrous ethanol, was 165.

So, that's it on our side, we tried to focus on the presentation a little bit more on the information about the closing of the crop year and also failure and the pro forma non audited Santa Vitória results.

So, now we can search the Q&A sessions and we are here to take any questions you might have. Thank you.

Question and Answer Session

Coordinator: OK, so we will now begin the Q&A session. To ask a question please use the Q&A button at the bottom of your screen, and if you want to open your microphone, please type in the Q&A fields that you would like to ask a question and your microphone will be activated when your name is called. You can also type in your question in the Q&A field, which can be found at the bottom of your screen, and if you are going to over the phone you can also ask questions, in this case, please type start 9 on your phone and after your name is called you will hear instructions to press star 6, which will allow you to activate your microphone. Please press star 6 only once.

The first question comes from Pedro Fonseca, with XP.

Pedro Fonseca: Hello, good afternoon, Rodrigo and the Jalles Machado team, thank you very much for taking my question. First of all, I would like to know more details about the current status of organic sugar and if the new exports modality affects in any way the contracts and if there's any room to adjust prices. If you could give us more color on that it would be great.

And the second question is about sanitizers. What can we expect for the size of this line in your revenues looking forward? And you said in the beginning of the presentation, Rodrigo, that you were more selective now in terms of margins. So, if you could give us more qualitative details about the decrease of margins and if there is room to decrease the margins even more and what is your perspective about that issue. That would be great, thank you.

Rodrigo Penna: Thank you very much, Pedro, these are great questions and thank you very much for being here, for your interest in Jalles Machado. Well, about organic sugar, well, we decided to adopt this new modality to reduce the impact of the container prices, which reached US\$9,000 or US\$10,000 in a container of 20 tons. So, we're talking about US\$500.00 per ton and that number used to be lower than 100. So, from US\$100 to US\$500 in a product like sugar, conventional sugar, for example, is about US\$300, so you can see how make the impact of freight costs were on our clients, and clients needed to renegotiate the

conditions that they had with the other parties and they had to absorb part of those costs, at least in the beginning, and that's why the impacts um took a little while to show in our results. And of course, we needed to take care of many things so that we could decrease the costs.

And now Pedro, now that the costs are indeed decreasing, I think that's the new modality is similar to the container prices.

Now when it comes to prices, prices have been stable, they are the same levels of last year, a little bit below 5% in difference because the prices increased so much, the prices for the end consumers increased so much because of freight, but for us freight costs, we believe freight costs will now show a downward trend, I think that the prices will improve over time, and as the prices the freight prices go down I believe that we will be able to improve our prices, but we are working with the same levels as last year, just a little bit above.

And the second question, Pedro, was about sanitizers, right? OK, well, the prices of sanitizers depend on the opportunity costs of ethanol, and of course, talking about consumer products and our work is more focused on B-2-B not, so much on B-2-C, but even on the B-2-B side the prices don't fluctuate so a fast as a wholesale ethanol that we sell only to distributors, but we try to be conservative of course. Overtime, we want to catch prices that will add value to the ethanol that we produce. The volume increased so much because of the pandemic, as you know, the consumption of sanitizers increased so much, it skyrocketed, but now the consumption has gone down, it is now at a much lower level than the peak of the pandemic, and the sanitizers were actually sold in supermarkets and end consumers and the type of alcohol that were sold at the supermarkets during the pandemic was usually sold only to hospitals, it could not be sold to end consumers and supermarkets, for example, and that is the type of product that we sell the most, the 70% alcohol.

But the size of the market is now back to the pre-pandemic levels, and everybody was producing such high volume which caused an oversupply in comparison with demand and prices had to go down, but we decided to hold back a little bit because it wouldn't be sustainable to be below the market price.

Pedro Fonseca: OK, thank you very much. And just to confirm that I got it correctly, so potentially, with the return to containers potentially you could catch up with organic sugar prices.

Rodrigo Penna: Well, it depends on many factors actually. Theoretically, if the final price is the same as it is now, if there is a reduction in the freight costs, then we would have some room to increase prices, but there are many other variables involved in relation to supply and demand. So, we don't want to give you the impression that we are going to increase prices. So, I would say that our expectation is to keep prices flat and not to increase them.

Pedro Fonseca: OK, thank you very much.

Rodrigo Penna: Just a very important point, Pedro, just to compliment my answer, that price, the price that we had last year and the price that we have this

year, will give us a higher premium because conventional sugar is retreating and organic sugar has not, has become stable or flat, and there was actually a small margin increase, lower than 5%.

Coordinator: The next question comes from Henrique Brustolin, with BTG Pactual.

Henrique Brustolin: Good afternoon, Rodrigo. I have two questions. The first one is about crop year 22/23. I would like to know more about your process of reviewing your expectations throughout the crop year. After you announced the guidance, when did you realize that the productivity was lower than expected and if the only reason behind that was rainfall, as you said in the presentation, or if there was any other factor?

And also, about TCH, which was a little bit lower than expected, how is that going to carry over to crop year 23/24? Do you think you can recover and increase your yields in the next crop year?

And about Santa Vitória, I would like to know the next steps and your expectations to reach the full crushing capacity of the unit, which is 2.7 million tons. And also, about margins, looking at the past six months, the margins are very similar to Jalles Machado's although the yields are much lower. So, what can we expect from margins going forward and also what are your expectations about it, about what's going to happen as you increase yields in that asset, in Santa Vitória?

Rodrigo Penna: Well, thank you very much for your questions. I'll start with the first one. As we saw the failure happening and we already thought that there would be a failure when we disclosed our guidance in November December, our expectation was to have a positive surprise or a failure of 5,400, but then in April the rain stopped and in April there was very little rainfall and in June we disclosed our guidance and we expected the failure to be about 5,200 or 5,350, expecting of course to be closer to 5,200. But as we said, in the second half of the crop year the sugar cane suffered a little bit more and that caused failures to be more impactful than we expected, especially in the beginning of the crop year.

Now about recovering our yield in the next crop year, since our sugar cane has I would say 40% of our field is irrigated in the salvage modality and in 20% of the fields we use supplementary irrigation, I believe that we are not going to need to make any changes in our fields, the quality is very good, but we didn't have sufficient rainfall for sugar cane to grow. So, it is all going to depend on the rainfall period starting in September. We had some rainfall in September, which is not usual in the region, in October rainfall was below average, so we don't know, we need to wait a little bit more, but the field is in a wonderful condition, it is fertilized, and the population of sugar cane looks very good as well.

So, everything's in place for our yield to recover, but it is all going to depend on the rainy period starting in September through April. Usually, it goes from October through April, but we had about 40 millimeters of rainfall in September, 40 or 50 millimeters in the Otávio Lage unit.

In the Santa Vitória unit, we had good rainfall in September and October as well, so rainfall looks good there this year. But again, we are still in the beginning, we have too little to tell you about what the crop year will be like, the two agricultural teams have been working together sharing management practices, the practices that we had at Jalles Machado are already being implemented there in Santa Vitória, actually, we started doing that much before during the signing period and also after the guidance was disclosed we started to implement our practices in Santa Vitória because we see the results of what we do this year only next year, and you renew the sugar cane fields for five years, so the earlier you start, the faster you will get to the 2.7 million tons capacity.

Now your third question, when do you expect to reach the 2.7 million tons. We expect to reach that in crop year 2026. We believe that we are going to reach that capacity of 2.7 million tons in four crop years from now. And how is that going to be done? We are going to increase our yield and also increase the expansion areas. There is a very important point that I would like to mention here: since the signing phase, from that period to now, we actually increased our area in 4,500 hectares and we are going to plant 2,200 hectares in 2023 so that we can see the results in 2024.

So, by doing that and also putting new practices in place and renewing the sugar cane fields, we are going to reach the 2.7 billion tons and we're going to use more productive varieties as well with the agricultural practices that we know that work here at Jalles, we are going to implement them at Santa Vitória to help us reach our goal. One of the goals that we set for Santa Vitória and one of the things that we took into consideration when we decided to acquire Santa Vitória was that there was a very good area surrounding it without so much competition against other farms and other units, and also, we are surrounded by water in that region. The average radius of the unit is about 23 to 25 kilometers, and the areas, the lands that we are signing contracts for in agricultural partnerships have an average radius that is lower, that is shorter, but with a very good soil quality.

So, we are very happy about this, and I think that we have everything in place to reach our goal. We are going to plant 2,200 hectares this year and another 2,200 in the next year, we already have contracts for those areas, and I think that's the three questions that you asked, right? Have I answered all of your questions?

Henrique Brustolin: Yes, you have, thank you.

Coordinator: We now have a question from Gabriel Barra. Gabriel is asking 2 questions, he said:

“Hello, Rodrigo, thank you very much for taking my questions. The first one is about capital allocation. One of the IPO promises and one of the company's focuses was the acquisition of a new plant, Santa Vitória. From now on, what should we expect in terms of M&A deals and inorganic growth? Do you think you still have opportunities for potential M&A transactions? And what about other projects, biogas and ESG, for example?”

The second question is – and if you want, I can repeat the question for you, Rodrigo – the second question is about taxes. Looking forward in the next year,

there is still a lot of uncertainty about the impact of ethanol taxes in the domestic market. So, my question is: what is your perspective about mix and investments in this scenario and how to mitigate that impact on your results? If you could give us more color about this topic, it would be very helpful. Thank you.

Rodrigo Penna: Thank you very much, Gabriel, for participating. Well, first of all, about capital allocation, you are correct, our plan during the IPO included two growth avenues: in organic and we are now with everything in place to reach that goal; and also, we closed the first M&A deal in the history of the company. So, over the next four years we're going to focus very much on that. We acquired a new company, but there is a lot to be done. As I was saying part of that job is to reach 2.7 million tons in capacity in Santa Vitória and the investments have already been made, the industry is ready to take on that capacity including the thermal energy plant. So, we want to reach that goal as fast as possible and as sustainably as possible with higher yield, and also an appropriate cost level for the region and for the company.

And at Jalles and Otávio Lages we are also pursuing the 1-million-ton target, we are going to add 1 million this year and another million next year. So, we are going to focus on optimizing those investments, the investments made in the M&A deal and the existing assets. So, right now, we are not considering another M&A transaction for inorganic growth, we want to execute our investment properly. We invested actually more than we thought we would during the IPO due to the strong cash generation in the company over the past years, so we are actually going beyond what we promised during the IPO, and that's our focus; we want to execute things properly and deliver on our promises so that we have a good performance at Santa Vitória as we have in the other two units, and the performance is actually above the average in the sugar and ethanol industry.

Now about other projects, bio gas, for example, we are very interested in it, it is in our radar, we are paying attention to this possibility, and this year in our partnership with Albioma we are producing biogas at Otávio Lage and the construction is going well, and that is a biogas project, but it has lower value-added, we're going to produce vinasse, biogas to inject in the boilers and increase energy production. But we are going to learn a lot from that process together with Albioma at the Otávio Lage unit, and we want to take that lesson to the Jalles Machado unit, we want to build an even larger project with higher value-added and that is in our radar for sure. We are paying close attention to that, but we decided to delay it, postpone it a little bit because we're focusing so much on the M&A deal and the investments that we decided to postpone it a little bit, but we are going to take a closer look to it again next year for potential investments in 2024 or 25 if we decide to make that investment.

About taxes, indeed, there is a lot of uncertainties and as you saw on the press, probably there's a lot of uncertainty about the federal taxes. The government will probably need to exceed the cap next year and with the public debt the government will probably have to wave R\$32 billion if they kept the lower taxes. So, we believe that PIS and COFINS taxes will come back next year, we don't know if it's going to happen in total or in part, but we believe that it would be the responsible thing to do on the part of the government. And also the ICMS tax

caused a lot of impact on the states' tax revenue, but this year it was not such a big problem because the tax revenue in some states was very high in the first half, so that offsets the impacts on the second-half, but not next year, some changes were made to taxes in other sectors as well, for example, electricity, and the states are... there is some in constitutionality in some of the measures that were taken and now there is a whole conversation between the federal government, the state governments and the judicial branch to find a common ground.

And what was on the press recently is that they were considering keeping the reduction of taxes on the energy bill and diesel and ethanol, but since gasoline is a fossil fuel there wouldn't have that limit of 17% or 18% according to each state ICMS model. So, that is a possibility, which would be positive for us, it would be positive for the ethanol industry. Now considering the current ethanol prices, those changes would be interesting because they would give us a better price and a better margin.

And there's another piece of good news for next year, we can see a downward trend in the price of fertilizers and other inputs, but indeed, nothing is certain, there is no way for us to tell for sure which way we're going to go, especially now that the government, the administration is changing, but I think that the federal taxes will come back, I'm not so sure about the ICMS taxes, I think that we just have to wait and see what happens.

Gabriel Barra: Thank you. About the first question, you were talking about ethanol, and I was thinking about the exposure that you have now with the Santa Vitória unit, maybe you could invest more to invest in greater flexibility in the company so that you can choose to pivot in case the scenario changes.

Rodrigo Penna: Well, that's a very good question. We are constantly assessing all alternatives and at the Santa Vitória unit we can produce anhydrous ethanol as well, we only produce hydrous now, but we can produce anhydrous and also sugar, even considering the first two years with the premium that is above the market history feasible, it would be feasible only to improve mix, but not really to increase crushing or volumes. So, we are now analyzing or considering the possibility of producing anhydrous ethanol there too, we are still in the early stages of our analysis, but we believe that it could be a good investment with a good return.

And considering what we did at Jalles Machado last year, we spent about 25 million, it would be more expensive to do that now for sure, we believe it would be about 35 to 40 million, but we have not made any decision yet, we are still considering the possibilities, OK? And when we produce sugar, there are some things that we need to take into account, for example, you reduce the production of energy and you have to make greater investments in the plant, so there are many variables that we need to account for and see if the investments would be feasible or not.

But indeed, our mix will lean more towards ethanol since Santa Vitória only produces ethanol. So, we believe that sugar is going to decrease in the share in the mix by about 10 points.

Thank you very much Gabriel for your question.

Coordinator: Well, we are now going to take our last question, from Christian Audi, with Santander. Christian, you may proceed.

Christian Audi: Hello, Rodrigo.

Rodrigo Penna: Good afternoon, Christian. Thank you very much for participating.

Christian Audi: No, thank you for taking my question. About capital allocation and considering everything that you said about the M&A deals and other projects, what is your perspective about dividends considering the outlook for next year? And the second question, going back to your explanation about the potential impact of the PIS, COFINS taxes if they come back, so what is going to be your budget like next year? As you said, we don't have a crystal ball, we don't know what's going to happen, but I'm curious to know how you are going to prepare for the changes that might happen in the tax system.

Rodrigo Penna: OK, the first question is about dividends. The minimum dividend policy in the company is 25% of the profit and it can reach up to 20 to 40 actually, 40% if our debt over EBIT is lower than 2. So, having said that, we should reach 25% in our dividends because even with the acquisition of Santa Vitória our debt will be below that level, but we are still going to be able to distribute dividends in the amount of 25%.

And we should remember that our net debt position does not include the acquisition of Santa Vitória because we are considering 705 million plus the price adjustment and earnout. Price adjustment and the earnout will happen over the coming months and that disbursement has not been made yet, but in the next quarter we are going to see that impact. But still, the leverage level will be very comfortable.

And the second question, Christian, what was it again? Oh, OK, it was about ethanol. Well, the law says that that exemption should end in December. So, there's nothing established in the law for January onwards. So, in January the PIS and COFINS taxes should come back, but as we said earlier, anything can happen, we are working with the possibility of seeing those taxes coming back, but with the current ethanol levels, we have decided to continue selling ethanol, we have been doing that since it reached the current levels of 3 because if you think about what's going to happen from January through March, even if the taxes come back, the ethanol gasoline parity will still be good.

So, it's all about risk management, and as I said, it is more likely that the PIS and COFINS taxes will come back and there is a discussion about the gasoline ICMS tax increasing again. So, those two points could favor the ethanol market, but we don't know, we have to wait and see.

And just to finish, when it comes to inflation, we know that we have been through a very high inflation period. What do you think is going to happen? Are the costs going to remain high or do you think that it's going to stabilize in some sectors?

What do you think? Well, I believe that higher costs next year will be a reflex of what happened this year, but this year when it comes to costs, I believe that it was the peak. For example, NPK was over 600 per ton and it reached US\$1,200 per ton, but in general, the price is back to 600 and some are about 500, so you can see that it is half of what it used to be and that's brought the cost to US\$3,500 per ton, and also the chemicals that we use for the production of conventional sugar and ethanol, those prices have decreased also, they reached the peak, but now there is a downward trend.

Now diesel, diesel has not come back to the prior levels, and even in the international markets the prices are very high and it is a significant input, it is very important in our supply chain since we use 100% own sugar cane, but I think, Christian, that 2022 was the peak year for costs, and next year we believe that things are going to go back to normal level. We are working on our budget right now and we believe that we are not going to see the prices increasing again as it happened over the past two years.

Christian Audi: OK, thank you, thank you Rodrigo.

Coordinator: With that we conclude the conference call. Rodrigo, if you have any closing remarks, please go ahead.

Rodrigo Penna: Well, I just wanted to thank you very much once again for participating and for your interest in Jalles Machado. I believe that the results were very solid even in the second quarter with market conditions that were not so positive, but still we were able to post very solid results. This half of the year was a record-breaking period for us, we had the best results that we have ever had in the company and the Santa Vitória pro forma results were very good as well. So, we are very happy and excited about the challenges ahead of us and see you in the next conference call where you were going to see the Santa Vitória consolidated numbers.

Thank you very much, have a great day.

Coordinator: This concludes Jalles Machado second quarter 2022-2023 conference call for today. Thank you very much.