Conference Call Transcript
Raízen
Q4 22 Results

Good morning, everyone, and thank you for attending the Raízen results conference call for the closing of the 2022'23 crop year.

Here with me today are Ricardo Mussa, our CEO and Carlos Moura, our CFO and IRO.
I'll go briefly over the highlights of the results, released last Friday, and then I'll invite Carlos to present the important advances we've made over this crop year in our business plan, and in our expansion plans.

Let's begin the results presentation on slide 3.

We closed the last quarter of the 2022'23 harvest with all lines of business being expanded, despite the overall complexity and volatility in the business environment. Our Net Revenue was record breaking and we delivered a Consolidated EBITDA above the projections in our Guidance. Return on capital, measured by ROACE, made significant progress versus last crop year, while we remain firm in delivering our expansion plans, with more than R$ 11 billion invested in the year. Primary cash generation measured by EBITDA minus recurring Capex was R$7.9 billion.

Let's move now to slide 4 with a more detailed discussion on each of the business segments, starting with Renewables and Sugar, on slide 4.

After crushing has been completed last quarter, we present a picture of the closing of the crop year, and compare it with last year, as well as with our expectations for the year. With a drier climate, we had reduced sugarcane availability, productivity and equivalent sugar production.

This was also the main component of stress on costs, since it generated less dilution of the fixed portion, as you can see in the graph on the right. In addition, the effects of inflation also impacted raw material and labor costs during this crop year. We managed to mitigate part of the effects of inflation by implementing various internal actions and working with suppliers to improve cost vs. effectiveness.

In terms of agricultural productivity, we are moving forward on our journey towards recovery, closing the crop year with an encouraging performance that will allow us to continue on the path of gradually reaching the average productivity of the market, at this first stage.

We can move on to the next slide, number 5, with the financial highlights of the Renewables and Sugar Segment.

The segment's combined Adjusted EBITDA grew both in the quarter and in the year. We have been rapidly expanding the volumes traded for ethanol, electricity, and sugar, taking advantage of market opportunities to maximize our share in the chain, and expanding the return on our operations as a consequence. In addition, we captured better prices for ethanol and sugar, which is in line with our strategy of differentiation for these products. In Power, we reached an EBITDA of R$ 1 billion reais, a result that reflects our integrated performance in generation, commercialization, and trading. As you may have noticed, we have been increasingly mentioning the power segment, and we have news to announce over the coming days on our initiatives in this sector, where we're creating a dedicated brand to explore this determinant strategy to our progress.

Moving on to the next slide, let's give you an update on ethanol prices.

We continue to expand the value of the ethanol chain this year with improved prices. In the annual comparison, the growth was 8% year on year, which is equivalent to a premium of 30% compared to the average hydrous product in the local market. As shown in the last quarters, we explore the value of the ethanol chain in a unique way, with an integrated positioning, selling ethanol for different markets and applications, at scale and with product certification. This placed us in a privileged position to capture superior returns, especially in scenarios of depressed local prices.

Moving on to the next slide (Slide 7), let's talk about the results in Marketing & Services.

Beginning with the Brazil operation. The business environment during the Fourth quarter of the crop year was marked by challenges and volatility. We reinforced our supply strategy, to mitigate potential negative effects on our operations, while at the same time intensified our commercial and marketing initiatives, enhancing the value of Shell's Integrated Offer. We closed the crop year and the quarter with more than 1 billion liters added in the last 12 months, maintaining the pace of renewal and branding of new stations. With the launch of the new Shell V-Power, which is proven to be the most used and recognized premium fuel in Brazil, we carried out a commercial repositioning pursuing more value for Raízen and for our resellers.

I should also mention the progress made in Shell Box with growing numbers of users and transactions, in addition to the accelerated expansion in the number of Shell Select stores and mainly, Oxxo markets. Only in this last quarter of the crop year, 85 Oxxo markets were opened, and we will continue to accelerate expansion, in line with our growth plan.

Our focus is on expanding the value proposition for the reseller, increasing the economic value of the market in a sustainable way

There is a seasonal concentration of selling, general and administrative expenses during the last quarter of the crop, which, this year, were more than offset by a tax gain, related to the Complementary Law 192. As a result, we had an important increase in margins this year, even when normalized.

Volumes sold were in line with the comparative periods, both in the quarter and in the year, but with an important improvement in Otto cycle and aviation sales. We have highlighted the focus on serving our Shell network, to the detriment of supplying market segments that operate at large volumes with lower profitability, notably in Diesel. In aviation, volumes increased, anchored by increased volumes in commercial aviation both to Brazilian and foreign airlines, known as visiting.

Moving now to the next slide with the operations in Argentina and Paraguay.

In LATAM Marketing and Services, the highlight was the complete resumption of operations at the refinery, after the stop in the last quarter, for improvements. We had a quarter and a year of strong expansion in volumes sold and margins, despite all the challenges imposed by the economic scenario in Argentina.

We completed another cycle of investments in the refinery in Argentina, to maximize energy efficiency, to refine products with lower sulfur content and reduce the carbon footprint.

Another important initiative in Argentina is to balance the capital structure in the country's operations, due to the current capital restrictions and controls. We optimized the operation with funding from the local market, running the operation at a higher leverage than usual, which at this time serves to increase the efficiency of Raízen's structure.

Well, with that I am closing the presentation of the operating and financial results. Now I would like to bring Carlos on to talk a bit more about our capital structure and the strategic advances in our business. Carlos, please.

Thank you, Phillipe.

Good morning, everyone. Initially, I'd like to point out that in this crop year we made several improvements that demonstrate how this group has worked to create business, with resilience under the scenarios. We have been working tirelessly to achieve a sustainable capital structure, by closely monitoring the economic challenges in the geographies in which we operate.

There was strong cash generation during the last quarter of the crop year, which has historically been the case here at Raízen. We have been using the Company's balance sheet to support the business increase, pursuing to maintain prudent levels of liquidity balanced with a coherent capital structure that can support our expansion cycle.

On operating cash flow, the main effects on working capital in the quarter are related to the following:

(i) First, inventories, which followed the typical seasonality of this harvest period, with an increase in sales and normalization of inventory levels in marketing and service business;

(ii) Second, in suppliers and accounts payable, we maintained the consolidated financial cycle in a healthy alignment, taking advantage of occasional optionality in our balance sheet;

(iii) And, at last, in accounts receivables, which is consistent with the higher volumes commercialized and payment terms given in direct sales to final customers of sugar & ethanol, offering higher implied profitability and low credit risk.

In cash flow from investments, the main expenditures were in recovering agricultural productivity together with investments in building the E2G plants, in expanding the Power segment, in the Biogas plant located in the Costa Pinto Bioenergy Park, and in increasing operating efficiency of the Argentinian refinery.

Financing cash flow incorporates a higher level of amortizations in the period, which is in accordance with our guideline of extending the average debt term in our balance sheet.

These effects also help to explain the movement in net debt, as shown in the graph below. Despite the increase in debt in the period, we maintained healthy levels of leverage, flat year over year.

Moving on to the next slide, I'd like to connect these numbers with our Capital Allocation priorities.

We have 3 major commandments within our group, which guide our decision-making process, ensuring financial discipline and our Company's ability to be adaptative in any scenarios.

1. our first priority, which is to preserve our investment grade during the current investment cycle, we are in a leverage level below our projections, in parallel with the continuous extension of our debt. An important source of funds will come from the compensation of recoverable taxes, in which we have already made considerable improvements. This line is an important vector for the coming years, as detailed in the new Note 8 of the Financial Statements.
2. The second priority is managing and prioritizing the capital allocation, supporting our business strategies. We are strictly following these priorities, and continuously assess the returns on each of these groups of investments.
3. And the third priority translate into exercising our optionality, by continuously evaluating our portfolio and partnerships, notably in biogas, power and new businesses, seeking to maximize the value of the portfolio we are currently managing. This may also represent divestments to the support of our growth plan. Always consistent with the first two points presented.

Next slide, please.

Of the 18 items we listed, among the 6 main pillars, I would like to highlight the topic 5, related to operational optimization, especially in renewables and sugar, resulting from lower crushing volumes that entailed lower agro-industrial efficiency and dilution of costs;
However, we have improved in the other items, in which I highlight the expansion of business, generation of margins, integration of acquired businesses and the growth of the Power business. I would like to point out the progress of the initiatives of our Strategic Plan, according to the next slide;.

1. Starting with E2G: we have proven the operational capacity and we made great improvements in our journey of market expansion. The credibility gained with our partners and with customers reflects the intellectual property over the technology and our execution capacity. We broke the production record at the plant, probing that this technology is ready and can be fully scaled. Currently we have 5 new plants being built simultaneously, to meet a global demand that does not stop growing. Our contract portfolio already has 4.3 billion liters to be distributed over the next few years, sustaining a consistent projection of the E2G program.

2. In POWER, we are capturing market opportunities, intensifying partnerships and gaining scale. Our performance in generation, commercialization, trading and offering solutions for the electric energy sector is based on a pillar: we are customer centric.
3. In Sugar, we accelerated our strategy of advancing in direct sales to the destination with almost 100% of our production already being sold without intermediaries, also advancing in the portion sold to and originated from third parties. Another important achievement was the creation of the world's first 100% traceable sugar chain (Non-GMO), ensuring additional demand for our products, with superior returns. All of that in a constructive pricing cycle.

Next slide please.

We know the opportunities and challenges that we have ahead. However, we are confident and ready to navigate in this environment and deliver solid results, considering the following assumptions:

1. We anticipate crushing will be 9% higher than this year, reaching 80 million tons, due to the appropriate weather and improvement of our Agricultural Productivity. The increase in crushing will dilute fixed costs, with higher volumes of commercialization in an environment of better prices than the last harvest, mainly in sugar where we already have a good portion of sugar already fixed.

2. We are substantially accelerating our Power platform, with an increasingly significant contribution to results, after increases in capacity and volumes sold, mainly in the Free Market Environment (denominated in Brazil as ACL);

3. In Marketing and Services, we have increases in sales volumes in our Shell network, besides the opportunities to optimize and capture gains within our integrated supply and sales platform. Our focus is on maximizing the profitability of operations in Brazil, even considering the risks of a still volatile business environment.
Regarding investments, this will be the year with the highest Capex in our expansion cycle. Our priorities are the following:
(i) Capex linked to the agricultural yields recovery journey;
(ii) Projects to expand Renewables in our Bioenergy Parks, mainly with the construction of the 5 E2G plants planned for the year and 1 Biogas Plant, already under construction.
(iii) Distributed Power Generation Projects, focused on increasing the generation of renewable electricity to meet the growth of our customer base.
(iv) And finally, expenditure on Marketing & Services to expand our network, grow and optimize our logistics infrastructure, and to complete the investments made to adjust the quality of products and reduce sulfur emissions at the Argentinean Refinery.
Two points to highlight:
(i) Matrix management of expenses, expanding our perimeter and scope of action. Our ambition is to achieve a reference model capable of making us even more resilient in any scenario we may face ahead.

(ii) Attention, rigor and prudence in cash flow, given the scenario of higher interest rates and less availability of credit in the market, which imposes on us a vision of recycling the asset portfolio, monetizing tax credits and developing solutions for the capital structure that we have already mapped, with the objective to sustain the investment plan and maintain the leverage and liquidity principles that I mentioned previously.
I would like to reiterate our motivation and confidence to deliver results expected for this crop year. Following slide, please.

On the opportunities side, the highlight is agro-industrial production, benefiting our sugar business; in marketing and services to persevere in integrated value offering; enhance even more in the lubricants business; expand the Power Business, attracting more customers and optimizing our portfolio management; monetize tax credits and continuously review the assets of the Company.

In the challenges side, we are attentive to the unfolding of potential El Niño, which can affect our crushing volumes due to the rainfall regime at the end of the harvest. In this sense, we are accelerating our production; looking closely into volatility and externalities in the oil products market – where we reiterate our fight against illegality and tax evasion, as well as our attention to diverse sources of supply; macroeconomic and political scenario, in which the adaptation of the brazilian government in its first year, as well as elections in Argentina, will impose a lot of attention on us; higher interest rates, which demands diversification and creativity in the sources of capital – especially in a cycle of investment and business expansion; tax reform and recent court decisions, which make the business environment less predictable and, naturally, demand our attention and concentration on this matter.

Important: Please note that we have made a few more slides, available in the appendix, relating to Raízen's Sustainability journey, as well as to updates on E2G.

Thank you for your attention, and we can move on to the Q&A session.

Gabriel Barra, Citibank:

Ricardo, Carlos and Felipe, thank you for taking my questions. I have two questions from my side.

The first one, in terms of cash flow generation, working capital and leverage, as you mentioned, we saw a significant release of working capital at the end of this year, as it was already expected. However, the amount in the market is a surprise, as being something close to R$4 billion.

Could you talk a little bit about this dynamic? Additionally, could you provide us with more details about the cash flow generation for this year, in this crop season, and the Company's net debt target for the end of this crop year? This could help us here to understand this dynamic. That is important, taking into account the huge investment that you have for this year.

The second point is about the tax credit. One point that I want to understand is the monetization of those tax credits in the timeline. Additionally, the Company has a very large line of credits in the balance sheet. If I am not mistaken, you mentioned something about ten years to monetize all of these credits, but my question is if it is the full amount or just the R$3.3 billion.

In addition to that, there is any kind of risk here that you need to monitor in the following quarters or you think that this is conservative, in terms of monetizing this credit, and there is no risk here with Brazilian justice or something like that.

So, those two points will help us to understand more about the 4Q22. Thank you.

Carlos Alberto Moura:

Good morning, Barra. It is a pleasure to talk with you. I will start on your first question about the cash flow generation and then I will pass to Mussa to talk about the tax credits and the other points.

Regarding the cash flow generation for this year's crop, we had a very positive momentum due to the management of working capital. If you remember the two quarters before, we talked about putting our balance sheet at the service of the strategy related to sugar and ethanol, putting the accounting receivables with more intensity.

We have optimized our supply chain in fuels, adjusting our inventory levels for the end of the year in all of our business lines, and that is the reason why we had a very strong cash generation and gained more extension in our debt maturity.

Regarding the vision for 2023 to 2024, we expect to maintain our net debt stable, which means something like R$20-21 billion in net debt, with around the same 1.3 times adjusted EBITDA.

But, why? First, with the primary cash generation, even considering the increase of the CAPEX for this year to sustain our expansion, but continuing to manage the working capital, taking more advantage of the positions that we have already taken, and monetizing tax credits with more and more intensity.

Just for reference, in this year, we compensate monetizing something about R$3.7 billion, even with a higher level of taxes in Argentina and some tax payments in Brazil that we we will not have this effect again for this year, the expectation of the companies to compensate and monetize 100% of the tax charge of the Company and recycling our portfolio.

That means to take advantage of some assets, for example, E2G contracts, which we can have the opportunity to monetize them, developing advances and other solutions in order to match our demand for capital in the E2G plants. That is the major part of our expansion program.

Mussa.

Ricardo Mussa:

Thank you, Barra. Just to conclude, I think Carlos already talked a little bit about our tax monetization. If you look into this year, the quality of this tax price is really phenomenal compared to what we have in our balance sheet. So, it is something that, in our recovery in five years, it is something that we can do, even faster than that.

Therefore, at the end of the day, when you look into how we achieve those numbers, especially compared to other types of credits, this is pretty much a very good one. We can even ask for that in cash if we wanted to, but we understood that we could compensate with other taxes that we have inside the Company. It would be faster to do that.

It was a long debate internally how we would monetize that faster. That is why we are so confident and we put that in our business plan moving ahead.

Phillipe Casale:

I would like to add one complement about the tax credit and how we are going to be able to show you this.

We have a new note on the financial statement, which is note eight, and it is well disclosed at each line and each type of credit, and also how we are going to use this going forward. So, this is just a reference for you to follow up every quarter about this usage of the tax.

Gabriel Barra:

It is very clear. Thank you.

Luiz Carvalho, UBS:

Hello Mussa, Carlos and Phillipe. Thank you for taking my question. I have, basically, two questions here as well.

The first one is if you may help us to try to reconcile the cash flow advice. You provided a guidance of between 13.5 and 14.5 of EBITDA and a CAPEX of 13-14. So, I am trying to understand how the dividend policy would play, given that you already paid a certain amount this year. That is the first one.

The second one is about the breakdown of the guidance. What is implied, in terms of margin, on the fuel distribution side? In other words, when we look, regarding the potential guidance, to reach that, we would get something between 110 and 120, but the recent margin has been lower than that. So, I am just trying to get a sense here in terms of what you think about the margin looking forward.

And if I may have a third one, if you would like to proceed to distribute more dividends, what is the reason behind that? In other words, given the stock is pretty much down compared to the IPO level, why would not a buyback make much more sense here? Thank you.

Carlos Alberto Moura:

Luiz, thank you for your question.

Firstly, I would like to highlight your last point in which we put a slide in our presentation in order to reinforce our discipline and coherence in the balance sheet management, maintaining a prudent level of leverage, and I will go deeper in this point later, extending the maturity and intensifying the level of tax credits monetization, maintaining the pace of capital expenditures in our main projects and, if necessary, exercising our options including buybacks or dividends, and recycling our portfolio.

However, the first commandment, which means the preservation of our investment rate even in this investment cycle, is the principle, the discipline that we are running the Company, and the reason why to keep the expectations for this year, 2023 and 2024, to reach a net EBITDA of 1.3 times.

Why? Given the better performance of working capital, we have done a very positive 4Q22, but if you remember, in the other quarters, we were very intense in working capital consumption.

Secondly, reducing the level of the payment of taxes, as I mentioned to Barra, previously, and considering a lower level of interest payment. Some people in the market are considering the competence regime as the driver of the interest payments, but that is not the case.

Due to the extension of the debt, we have a lower pressure in this line. Another important point is portfolio recycling, and again, we will work to develop partnerships or get some advances in our E2G contracts with more intensity in order to sustain our expansion.

Once again, it is important to match the demand of capital of E2G with alternative sources of capital to maintain our balance sheet safe and in a prudential way.

Ricardo Mussa:

About your point here on the guidance part, Luiz, of course, we are seeing the improvement of operational margins, so I disagree with you when you say that we are seeing lower margins. I know that it has been difficult for the market to understand where the margin is for the fuel segment.

If you look and compare apples to apples of 2021 and 2022 compared to 2022 and 2023, of course, these one-offs of having lower inventory hits in reduction on prices and huge effects on the tax cut of last year.

If you take that off, you can see that operational margins for the entire sector are not only rising, but also improving. If you look at the next year, just for us to achieve our numbers, we need to reach R$120, but that is pretty much feasible, of course, and my ambition is much higher than that, but it is moving ahead and we are seeing the improvement of the operational margins.

A very good example is, in my opinion, when you look into the PL 192, which is an example of how high the margins of the sector can be. So, when you had that opportunity, it was not best through the prices and you saw the value creation for the Company when that happened, that tells you that the margin target on the medium term can be much, much higher.

That is why we are still very optimistic on delivering the results of the next year, although I believe this will not be as challenging as it was back then.

Luiz Carvalho:

Ok. Thank you very much. It was very clear.

Thiago Duarte:

Hello. Thank you for the opportunity.

I would like to focus on the guidance and a little bit of the assumptions that drove both the EBITDA and the CAPEX guidance that you are providing. I think Mussa just made reference to R$120 per cubic meter in the marketing and services business in Brazil. In my opinion, that is a good color.

With regards to renewables and sugar, a couple of things that I would like to hear more color on are:

Number one. What is the price of sugar and ethanol or, at least, a range for pricing that the Company is assuming in order to get to the guidance.

Number two. Regarding costs, with 9% increasing crushing and the expected cost dilution, what kind of unitary cost do you guys expect to be able to achieve in this new crop? And, with regards to the CAPEX, can you also quantify, in terms of the growth and expansion CAPEX, how much of that is expected to go exclusively into the E2G plants that are being built? That will be helpful as well. Thank you.

Ricardo Mussa:

Thank you for the question. Let me give you a light overview here while Carlos gets all the details on the numbers. I just want to give you some highlights of the guidance.

We are improving our productivity for next year, so the numbers, so far, are really good. The first initial signs coming from the crop are really good. The challenge for me is much less the ten per hectare and much more being able to harvest everything because of the potential *El Niño*.

So, it is a different challenge. If you look at what we achieved on the first second of the third cut, more than two thirds of our entire base is already fixed, so we are heading with a very high confidence level on the volume side. Therefore, we are getting almost 10% more, maybe a little bit more than that, on the volume side.

If you take pricewise, you see that the sugar already hedged around 20% higher than last year. That is 85% of our total production. If you look into the 15% spare, it can be even higher than that. The market today is trading above 120, 125, so we can have even higher numbers on the sugar side.

Ethanol price is pretty much the same as the average that we had last year, but it also has an increase in volume.

Costwise, Thiago, I do not have the number here, but, maybe, Carlos can get you the unitary cost and we can show you later. We are seeing, of course, dilution of cost and less inflationary pressure than we saw last year. So, with that, you see more volume, better prices and lower cost.

Then, from my perspective, the higher risk that I have right now is being able to harvest the crop. In fact, that would be the highest risk because we have more spare capacity than the average. We, on average, should be better than the market because we have more spare capacity to harvest the entire crop that we have ahead of us.

Therefore, in my opinion, that is the main point for the confidence that we have on the guidance this year.

Carlos Alberto Moura:

Hello, Thiago. Good morning.

In relation to the cost, just to go into detail, we put in our release a new vision of cost related to the cost of agricultural production. That is almost the cash cost that is forming the inventory level, which will have, as Mussa said, strong dilution due to the volumes, but we are already seeing the relief in the diesel prices, fertilizers and labor, and this will be positive for our cost. We expect to stabilize the level of cost in nominal terms with the dilution in sugar equivalent cash cost.

For your question regarding the E2G forecasted investment for this year, a disbursement of about R$3.5 billion in E2G.

Ricardo Mussa:

And the rest is coming, of course. We have biogas, which we are concluding two plants, and also power. We have a lot of dismissal generation, which we have already sold. So, all the growth investments here, we have, of course, a very low risk on the commercial side. That is why when we see our Costa Pinto plant performing so well, we get more and more confident on the level that we are going to achieve E2G.

The Bonfim plant is pretty much almost done, so we are on the final stage to start the plant. We have five plants under construction right now. You can see on the slides what we have right now, on the screen, Bonfim, Univalem, Barra, Vale do Rosário and Gasa, all under construction at the same time. And it is important, of course, to recover the productivity to be able to supply all the biomass into those plants.

Therefore, that is why we are getting much more confident this year with that, the development and the expenses. We also see some relief on the CAPEX side of steel and everything that is related to the E2G plants and, of course, getting more confident once those plants are finalizing the construction.

Now, I am really excited about starting up the Bonfim plant, and that would be another milestone. I think the milestone of reaching the productivity that we reached on Costa Pinto was phenomenal. So, we beat the record of production. Now it is ready to prove that the plant we built is operational, and that would be another milestone by August or September this year. We will be back here to talk about it.

Thiago Duarte:

It was very helpful. Thank you.

Isabella Simonato, Bank of America:

Thank you. Good morning, Mussa, Carlos and Phillipe. Thank you for taking my questions.

I have two questions. First of all, still on the sugar national scenario, I wonder if you could give us a little bit more clarity on if you are being able to hedge the next crop season at the current price level in the next couple of weeks or months.

In addition to that, what is your view on the sugar prices for the next 12 months? It would help if you could also address a little bit the dynamics for ethanol, considering that fuel consumption probably will not move much this year. You do have a decent supply, so what is your view especially on the parity with gasoline?

Regarding my second question, Mussa mentioned investments on biogas. I wonder what your view on that is and if you continue to pursue the plans as initially thought? Thank you.

Ricardo Mussa:

Thank you. Great questions, Isabella. First, on the hedge of sugar, you saw I just explained that we have already hedged almost 85% of the 2023-2024 season, and, if you are looking at 2024-2025, we have already hedged around 30%. However, if you look into prices right now, we are still even higher and much better.

We are constructed. As I have always said since the IPO, I think that sugar should structurally find a new level to stabilize and attract new production. We have not seen any new production of sugar for the past, I would say, nine or ten years, and demand keeps growing.

Therefore, of course, right now, it is exacerbated by the problems that were in the Indian crop, even in Brazil it was below what everyone expected last year. So, we had a deficit on the global sugar market for the past three years.

However, having said that, Isabella, I am still constructed on sugar. I do not know if those prices of 26, 27, will sustain, but, from my perspective, structurally, sugar should be above 20 or 21 cents to be able to attract new production and that is why we see prices moving forward.

Because of that, even though we are constructive on prices, we are not taking much risk. Our Company needs the cash, consequently, we took the risk approach of fixing hedging prices, and we are moving on 2024-2025 getting advantage of those very good prices and very good return.

Therefore, in my opinion, in 2024-2025, we are going to have even more production. Now, we are also fixing the third cut, which is really phenomenal. Fourth cut is coming, so we expect 2025-2026 to have 100% of our sugar cane in full potential, to have much more volume, and if we can guarantee those prices that we are seeing today, then we are going to have a very good cash flow coming from that.

More than that, Isabella, that is when, in 2024-2025 and 2025-2026, the cash flow from E2G will come. So, the Company will move into a different animal, a different shape of cash flow generation much less volatile on the cash flow. That is why we are, I would say, very cautious on managing the risk for this season and the next crop season.

That is the peak of CAPEX that we have. We will end all the CAPEX in Argentina this year, then the E2G will finance itself. It is going to be a strong cash flow generation coming from E2G in 2025-2026 onwards. So, in my opinion, we are not taking much risk and that is the way to get an even better price of sugar. If we have very good results, we are hedging and fixing that.

On the ethanol side, what we see is that prices, of course, will depend on gasoline prices. What we can notice is very stable prices compared to last year. We are seeing our premium and, again, Isabella, remember that we are exporting a lot.

We are getting better and better on the export side industrial segment, so the premiums that we are getting on the ethanol side should compensate for any price reduction that might see on hydrate. However, this year, we have the return on PIS/COFINS tax starting in June.

We are seeing the discussion to increase from 27% to 30% on the ethanol side, but we are not seeing any upside. We are putting pretty much the same prices that we had on the previous year.

On the biogas side, of course, biogas is a great molecule. We are concluding the two plants that we have already sold at very good prices to Scania, Volkswagen and all that. The discussion right now is: what is the best use of biogas? We have new products coming in. We are even talking about bioethanol and other fuels.

So, we are more cautious on just setting up new contracts because we are seeing, even internally, other potential uses of the biogas. That is why we are taking some time to not speed up the construction of new plants, because the horizon shows very good potential for other products or other uses for the biogas.

However, we are still constructed in the same way we were before, Isabella. And this is for a good reason, in order to have more alternatives than we had before. On Raízen Day, we are going to share more about these new products and everything that we are developing, starting from biogas, from fertilizer, from green ammonia and other things that we are going to talk more about on that event.

Isabella Simonato:

Thank you.

Bruno Montanari, Morgan Stanley:

Good morning, everyone. Thank you for taking my questions.

First, a follow up on the guidance. When we look at the E2G investments, are you actually accelerating versus the prior budget/plan or are you just sticking to the original schedule? I would like to see if we can have some positive surprises in terms of how fast you can bring the new plans online.

A second question on ethanol export prices. It seems that your premium has contracted a bit in the 4Q22, but, of course, you are at a very healthy level. So, should we expect the current level of premium to be the normal one or can you return to probably a higher spread in the export market?

And then, finally, if you could comment on Raízen's position regarding the Russian diesel imports, whether you would be willing to do that and if it is getting in the way of your few distribution margins, that would be helpful. Thank you very much.

Ricardo Mussa:

Thank you, Bruno, for the three questions.

First, on E2G, no, we are pretty much on what we had on the E2G plant. Of course, we have a lot in our hands right now. Five plants at the same time. It is a lot. Once we have the Bonfim plant being operational, then we will discuss if we are going to accelerate it or not, but, right now, we are keeping pretty much the same pace that we had designed a few years ago.

On the premium on exports, it is difficult to analyze it. You have to look into the full year, not only on a quarter basis, because, quarterly, you have a lot of different things happening from different clients and inventory. So, it is difficult to look at it properly.

You should expect similar premiums. We have not changed anything in that sense. I think this year will be different from the last one. We are seeing more difficulties. If *El Niño* happens, as we are seeing here, it will be more difficult to produce ethanol by the end of the crop season.

That might slightly change the scenario that we had this year. We had no cash and carry this year. There might be opportunities for that, so we are still looking, but it is very early to say. Then, clearly, this year will be different from last year.

We did not have any opportunity last year to do cash and carry. That might happen this year, we are not sure, but, on the premium side, the agenda has not changed. We are moving our ethanol into the premium markets in Europe, Japan and the US. It will keep the same thing happening this year.

Reasonably, on Russian imports, of course, we always look into all things that are moving right now. Petrobras is clearly showing some changes on their price mechanism in Brazil. Of course, we look into all the opportunities to import from different sources.

We can always guarantee to our dealers the best price and the best supply. We are very good at that. We have a very good trading team and we are right now looking at all the opportunities. I will not share our strategy here, but what I can tell is that we are going to be competitive. We are going to comply with all the rules in the market. If there is an opportunity to do that, we will do that in a very, I would say, disciplined way.

However, we also have to keep in mind to check what Petrobras will do and I do not think it will take too long for them to share what their new strategy is. So, with all that in our hands, then we are going to make a decision.

Therefore, I think what I can share with you is that we are having a great trading desk, great logistics, great support from the shareholders and we are able to get it from very different sources and, right now, we are looking at all the opportunities to decide what we are going to do.

I know that is a very evasive answer, Bruno, but I believe that this is as much as I can share with you on the strategic side.

Bruno Montanari:

That is quite clear. Thank you very much.

Lucas Ferreira, JP Morgan:

Hello. Good morning, everybody. Thank you for the opportunity. I have a couple of follow ups.

The first one, on credit monetization, I just wanted to understand, maybe from Carlos, if you see any chance of any risk of these credits to not get monetized or maybe not in the time that you foresee. So, my question is what are the risks of this fall behind your schedule?

And, the other question is, in the same line. How much more credits should you be generating, not only consuming the credits you already have, but how much more credits you should be generating through the year?

And then, the other question is a follow up to Mussa. I know he touched on this subject a few times, but, looking at this year on the marketing services market in Brazil and Argentina, given the uncertainties, you just mentioned Petrobras and the volatility on oil prices, on currency and in the policy, and so forth.

So, how confident are you that this year will be less volatile than last year? In other words, are you going to get closer to that to normalize the margin? When I look at the outlook and, considering Argentina's election, I have a hard time understanding how this year could be less volatile than last year. So, that is, basically, my question and I appreciate any comments around that. Thank you.

Carlos Alberto Moura:

Good morning, Lucas. It is good to talk with you.

First, regarding credit monetization, the risk of non compensation or refund of those credits is very low, especially when we talk about the state credits with the new regime of monophasic. This will be very positive in terms of the turnover of this kind of asset.

In terms of the federal credit, as we have a strong tax generation for this year in Brazil, due to the better performance of our results, we expect to use the DTA to compensate 30% of the load of taxation over profit and the other 70% remaining will be compensated with this PIS/COFINS that we are using.

We have a study of monetization or realization of those credits that is subject to a verification from our auditors. Naturally, we have some conservatives in this approach, but we are working hard and developing solutions to accelerate this monetization.

It is also important to remember the effect in Argentina, which is due to the importance of oil derivatives over there. We had a tax retention that we will compensate for and this will also create a relief in our tax bunch.

This is very positive for us going forward and we are creating a value reserve that has taken advantage of the integration of our view in terms of margin. And this has integrated in an interdependent view in the margin that provides us the formation of this asset.

Again, this market position of not considering the tax credit on a recurring basis is, in our opinion, not correct due to the fact that we have this integrated approach and, naturally, we explore all the options in our footprint.

And, as an example, due to the distortions in the markets during the last year, we took the decision to recognize those credits in accordance with our governance and, again, build this value reserve of cash to fund our initiatives going forward.

Now, I pass the floor to Mussa to talk about it a little more.

Ricardo Mussa:

Just to conclude Carlos' point, we have a huge asset here on the tax side, so we should expect our Company to be more assertive. If you look into the history of our Company on how much EBITDA and cash, you notice that we have created a huge asset and this asset can be monetized, so we should expect more and more cash coming from that.

Our ratio between EBITDA and cash will change because they have a huge asset here. When I say huge, I mean you can have more details on the note that Phillipe told you. Then, hopefully, over time, you can understand the value that has been created and how we are going to do that.

Related to your question on the volatility of fuels business, I think this is different. I agree with you. Argentina has a high risk of having high volatility because of the elections and what is happening in Argentina right now. It is self contained if our debt in Argentina is contained in *pesos*.

So, with any big devaluation there, there is also a positive impact on our debt here, because they have a lot of debt in Argentina. Therefore, in this matter, I agree with you. This year, I think Argentina is, in my view, at a higher risk because of the political scenario.

Paraguay and Brazil are completely different. Paraguay elections have already been held and I do not see very high prices of fuels this year compared to what we had last year, this made all the governments to reflect that on different policies.

And that even more in Brazil, because of the elections. So, this will not happen in Brazil this year. There are no elections. We are not seeing the volatility that we had last year with the Ukraine Russian War. We are even seeing the prices slow down, so, I think the prices will be adjusted to lower than that and this will benefit the government not to make any different things in the market this year .

Therefore, I see less volatility in the Brazilian and Paraguayan market and more volatility on the Argentinian market. However, again, that is Brazil and the world. We do not know what is going to happen in Europe with the war, but, right now, our scenario is much more stable and we could be able to see better how are the operational margins of the business without that much impact.

I just told you last week, we had a price decrease when we saw our inventory losses , but, compared to last year, I do not see anything the same. We have just had some price cuts for PIS/COFINS and the ICMS. We have more than R$1,300 per cubic meter in a market that has R$140 per cubic meter margin.

So, this is ten times the margin just on price change and price fluctuation on taxes. This has never been seen before and that is why I understand it was difficult for the market to understand where the margin is.

Consequently, we are optimistic. We see the operational margin improving. In our numbers, if you compare 2021-2022 compared to 2022-2023 margins, we are up, not only us but the entire market as well. And we are seeing the same for next year.

Lucas Ferreira:

Excellent. Thank you both.

Regis Cardoso, Credit Suisse:

Hello, Mussa, Carlos and Felipe. Thank you for the presentation.

I have a couple of quick follow ups. If you can comment on the guidance, in other words, looking at even the prices that you have had, some 20% above, thinking about the increased productivity, which we expect some 10% or so, I would maybe expect more of an increase year on year than R$500 million, what we have seen from last year's guidance to this year.

So, my question is whether you think the guidance, you have taken a more conservative approach to it or if there is anything else I am not considering in that reasoning. That would be under the guidance.

And maybe something related, if you could also discuss the difference between ESALQ prices in Brazil and the New York #11 prices in the US. Are there any constraints in the exports of sugar? How has that impacted you?

Then, maybe just a lastly follow up on the topic of margins. Could you comment on where you see your recovery margins for the year? Have you seen margins improving sequentially in the months, particularly now in the second quarter? How has been the competitive environment in April, May and so far? We are particularly concerned given the increasing share of Russian imports in the domestic market. Thank you.

Ricardo Mussa:

Thank you. I think we are very, let us say, held to the ground on the guidance for this year. We do have risks in Argentina that we embedded here. Of course, we have risks from El *Niño,* which I have already said before. However, as we move forward, we are more and more confident, especially on the productivity side.

I think that this has really been our weak spot and this year, for us, shows that we are really recovering on productivity and we have more than 65-66% already done in our job. Power, as I mentioned, is something that, last year, was really good. We are going to give you more about that.

We are focusing a lot on power, on electricity, in our business right now. We are creating a lot of value with customers. That was a very positive surprise and it might be something to surprise by the end of the year.

I think I understood your question on New York #11 and our ethanol side. They are very different clients. We have a very, I would say, good client base with different formats. With some clients, we have fixed prices, with some other clients, we have prices related to ESALQ, from all over the places, I think.

I strongly believe we have the best globally trading desk for ethanol and we are doing a great job on the supply side. Just to give some examples, we have ships that can combine coming in with diesel and moving backwards with sugar. Something that was unbelievable in the past. So, I am very confident on the premiums that we are getting on ethanol, moving ahead.

On the fuel margins, there is no constraint right now in terms of imports. Of course, we are looking at the Russian diesel very closely. As I told you before, we also have to look into what Petrobras is going to do on the pricing policy. We are one of the largest, if not the largest, clients of Petrobras in Brazil and we are very close to them on the discussion.

Therefore, for us to take a very strong position, we are also waiting to check what their behavior is in that matter. What I can share with you is that we are doing everything we can here to be competent and we will be, so there is no constraint on my side to do anything. We are, obviously, depending on Petrobras position, then we are going to position ourselves very quickly.

On the margins, as I said, I think the 120, 140, that we see from the improvement from last year and the same thing from 2021-2022 to 2022-2023 and, right now, 2023-2024, they are still, from my view, very low margins, even between 120 and 140 in potential upside moving ahead.

I see the trend and we follow it. Of course, we have much more information than you on what is happening in the market, but we had the highest investment last year on marketing, being the highest investment on the Shell V-Power and Shell Box that we have ever had.

So, the integrated value offer that we have right now is unbeatable. That is why we are so confident also on the increase on the margin. Then, I think the market is improving and we are investing a lot. You can look into our numbers how much money we are putting on marketing, on Shell Box and on V-Power.

Consequently, we had a record market share in our branded dealers, record volumes on the branded dealers and record conversions into branded sites. So, that is, for me, the best you can get on that. The market is the market. We are going to adjust. We are good and fast. And we are going to improve, but this frame will continue in the right direction.

Regis Cardoso:

Thank you Mussa.

If I may, just to follow up the question on export restrictions and difference between domestic price in Brazil and internationally, as New York is on sugar. We have seen some discussion about logistics constraints on Brazil exporting sugar and, therefore, historical spread or premium between domestic markets in Brazil and markets abroad has collapsed, meaning maybe the 25¢ plus per pound would not not be available to producers in Brazil.

It would be helpful, if you could comment on that.

Ricardo Mussa:

Good point, Regis.

On the logistics constraints, we saw a very good crop for soybean and for the grains, so we expect to have logistics constraints in Brazil to export. Of course, we see that as an advantage for Raízen to get very good contracts and we know how to handle that.

However, you are right, that is why you saw prices spiking much more in the short term and in the long run. Nevertheless, we are more concerned about reducing the volatility and guaranteeing the cash flow generation of the Company for the next two crop seasons. This is very important to us.

Right now, prices are phenomenal, generating great returns. So, as I said, I do not think we should be aiming here to get 25, 26. Of course, if we can, we will, as much as we can. We still have 15% to hedge and we are going to hedge at much better prices than what we have already had.

However, I do not regret it. If you look into the next crop season, you notice that we are moving forward with even better prices than this year and we are going to have an even better production for next year.

So, again, we are at a risk, but the mindset of risk approach is the right mindset. I see the market is struggling. I do not see any big production coming from India right now. Even in Europe, they have reduced the beet area, looking to Thailand with a limitation on that. I do not see any reason for Brazil to put any cap on anything. No issue at all on the cap to export or price export cap.

Because of that, Brazil is benefiting from those good prices right now and we will benefit even more next crop season. I think that the question right now is much more how long should the price be to be able to attract new production, because the market needs additional production and the price should be sustained at a higher level for a longer period of time for any company to make investments, including us.

So, that is why, as I said, we are still constructive on price and I have been saying that for a long time. If you look at the sugar stock usage ratio right now, you notice that it is still very low, but, as I said, even during the IPO, we are very constructed on sugar prices and the market is going where we think it should be.

However, we do not need to be 26, 25, to be very profitable. Even with everything above 20, 21¢, it is already a great return for us. That is why we keep hedging and we keep doing that for next crops and the next one, in order to keep collecting very good returns.

Regis Cardoso:

Thank you, Mussa.

Phillipe Casale:

First, just to clarify, I have been directly receiving some questions here. The number that Mussa mentioned about the margins of 120 to 140 is related to the Brazilian operation. We have been running LATAM with a higher level, historically speaking, and that is already also embedded in the guidance. In short, a higher level of margins for the LATAM operation.

One question we have got here on the chat is regarding the expansion of the OXXO market network. What is the intention of the Company for the long run? Are you looking into selling part of the operation at some point in the future? This question is from Francisco Cantão.

Ricardo Mussa:

I think the expansion remains the same. We are very glad with the results that we had so far with OXXO. The partnership has been great with our personnel from Mexico. We did our expansion in Sao Paulo, starting in the Campinas region. The expansion was also really good. Remember that we operate 100% of the stores and we keep the same pace of growth that we have had in the past.

Of course, we are looking into the area and geographies that make sense to us. One thing that I think the market has not seen yet is the benefit for Shell Select, because, once we start having the scale of OXXO, this will help Shell Select to negotiate better prices.

And we are now seeing our dealers benefiting from that, especially in the regions where OXXO is in. That is why we had a record year also of putting Shell Select in place and our dealers will be very happy this year with the results that we are going to get from them, especially on getting lower cost by managing the operation ourselves.

Therefore, I think what they should expect is that OXXO is still growing. You have not seen big numbers in our results yet because it is a growth period. We are still investing a lot on OXXO, but it is a self-financing company. It is not reflecting upon us here on Raízen, but they are doing a great job so far.

Operator:

The Q&A session is now closed. We would like to tell you that all questions that have not been answered will be replied to by the IR team of Raízen SA. We would now like to turn the floor over to the Company's closing remarks.

Please, Mr Musa, you have the floor.

Ricardo Mussa:

Thank you everyone for the questions. It was a great year. I know we had a very volatile year, but I just want to congratulate the entire Raízen for that. We were able to create a lot of value and take advantage and, again, even the tax credit, I know that the analysts are looking into that with some skepticism, but, for me, it was unbelievable how well we manage not to press through prices and create the values of the Company that will be monetized in a short period of time.

So, that is very creational. Nobody is taking that from us and it will help us to finance the Company. We saw the progress on the productivity side. From my perspective, my number one priority is productivity and we should deliver on that.

And, in my opinion, the commitment to the market is that we are going to be in much better shape this year. We are doing the right thing. You can look into our numbers of the first, the second, and now the third cut, being more than 64%, 65%, the entire crop is already fixed and moving very fast to to conclude everything.

We still see great momentum for E2G, sustained by aviation fuel demand. It is still spiking and there is more demand that we can cope with. We have concluded the second plant and we are very excited to launch it in August or September. I hope you can join us during the launch, and then we are going to talk more about how to speed the E2G expansion, once we get even more confident after this launch.

There is a lot of tail wind helping us right now to move in the right direction. So, the first priority is productivity, the second priority is to deliver E2G, and the third one is the profitability of the fuel businesses in Brazil, Argentina and Paraguay.

As I told you, we increased our marketing expenses. We are investing more and more in the Shell Box and in the dealers and the branded sites, so we expect to have more profitability coming this year and even better business on the cash conversion side, compared to the previous years.

Therefore, I am excited about this new crop season and we are going to deliver it as we always did in the past.

Thank you.

Carlos Alberto Moura:

Just a recap here for those who cannot join us on Raízen Day, the event will be webcasted live on May 24th. This is going to be a good chance for exchange. My entire team and I are going to be there to talk more about details of what we are doing, share views and discuss the future of the Company.

Thank you very much.

Operator:

The video conference of results referring to the 4Q22 and 2022-2023 crop year from Raízen SA is now officially closed. The investor relations department is available to answer other questions and concerns.

Thank you so much to all participants and have a good afternoon, everyone.