International Conference Call

Hidrovias do Brasil

2nd Quarter 2023 Earnings Results

August 15, 2023

Operator

Good morning everyone and thank you for waiting. Welcome to Hidrovias do Brasil Q223 Earnings Call. Today, we have the presence of Mr. Fabio Schettino, CEO, Ricardo Pereira, CFO and IRO and Ana Carolina Bastos, IR Manager. This event is being recorded and all attendees will only be listening to the conference call during the Company's presentation. Following comments from Hidrovias Management, there will be a Q&A session. On that occasion further instructions will be provided. If any participants need help during this conference call please press *0 to talk to the operator.

The event is also being broadcast live via webcast and can be accessed through the website link made available to investors and analysts. Participants can view the slides in order they want. Those who follow the presentation through the webcast can post their questions on your website and they will be answered by the IR team after the conference is over.

Before moving on, I would like to mention that future statements are based on belief and assumptions of Hidrovias Management and on information currently available to the Company. They involve risks and uncertainties and assumptions, as they refer to future events and therefore depend on circumstances that may or not occur. Investors and analysts should understand that conditions related to macroeconomic industry conditions and other factors may lead to results that differ materially from those expressed in such future considerations.

Having said that I would like to give the floor to Mr. Fabio Schettino to start his presentation.

Fabio Schettino - CEO

Good morning everyone and thank you for participating in other Hidrovias do Brasil results conference call. I would like to start by thanking everyone who trusted and supported our work during the challenging times we experienced in 21 and 22, due to external and unmanageable scenarios that you all already know. I understand that the strong result we will comment on now proves the Company's solid fundamentals and puts us closer to the scenario of using our fully installed capacity with even greater potential in 24 due to the scenarios we will now mention.

I kindly ask you to share Slide 4, where we have a historical consolidated volume chart and the columns in the darkest blue shade show the evolution between the 2Qs of each period reaching 5.1 million loads transported now in 24, an absolute record in the Company's history; and the columns in the lightest blue shade show the evolution between 1HTY with a record volume also in the total amount of 9.5 million tons transported in 23. The significant volume we presented showed growth in all logistics corridors with emphasis on the resumption of the South Corridor, where we started to navigate without restrictions since mid-February of this year and the North Corridor, which showed a growth on record basis and even higher than the estimated capacity for this operation.

On the next Slide, #5, you can see the evolution of net operating revenue in the adjusted EBITDA, including JVs also in the darkest blue faded, demonstrating 2Q and in lightest blue 1H. Looking at the revenue on the left side of the graph you can see that we reached the 567 million BRL in 2QTY, an increase of almost 13% compared to the same period of the previous year and a Cagr of more than 24% since 2019. In 1HTY, revenue excluding the effect of hedge accounting, which is through the accounting (it's not cash) added up to the strong mark of 1 billion BRL, a growth of almost 20.5% compared to the same period of the previous year and a Cagr of more than 24%, again if analyzed since 2019, Both the quarters and the half yearly results demonstrate the strong volume, which I already mentioned in the previous Slide, and also higher average rates in practically all logistics corridors.

This scenario of higher average tariffs is even more positive for the year 24, as grain production protections in Brazil remain very strong and we continue to have significant gaps in logistics capacity, benefiting players in the country.

Adjusted EBITDA including JVs, as you can see on the right side of the Slide, was the highest ever shown in a single quarter by Hidrovias do Brasil and totaled almost 300 million BRL (299 to be more accurate), an increase of almost 12% compared to 22, which had already been a record as well. Here the Cagr growth since 2019 is even higher, standing at 22%. In the first six months of the year, adjusted EBITDA, including JVs was over 500 million BRL, which is very important, reaching almost half, or even over half a million, reaching more precisely 510.3 million BRL, 20% higher than the same period last year. And if we analyze since 2019, we see a Cagr of almost 24%. We are extremely happy with this quarter’s figures because although record and with growth on strong basis, they demonstrate their potential within the operational fullness of all of our businesses is even greater since the South operated with a lot of restrictions in January, only back to normal in February; and Santos is still in a period of growth of its volume curve.

We kind of will comment a little bit on the operating results by business unit in details in addition to the consolidated financial results, which by the way have very positive views… news, I'm sorry, since we had the highest net income since the beginning of our operations and significant cash generation. After these explanations, I'll come back with final messages and open for Q&A. OK Ricardo, I turn it over to you.

Duck

Thank you Fabio for the introduction. I also take this opportunity to thank everyone who trusted and supported our business during this period, but also in special the entire London team, which has worked tirelessly to make these results presented today possible. Thank you very much to our champion team. Talking a little bit about the result by business use unit, as Fabio mentioned earlier we will mention records over records, a reason for a lot of joy and enthusiasm here for us in the Brazil team.

Starting on Slide 7, you can observe the operational data of the South Corridor, which will not yet present its full potential in 23. We have already mentioned that because it started the year with a lot of restrictions, but the results were resumed with greater dilution of costs and consequently EBITDA much closer to its capacity in 2Q. So in 1Q it was a little bit below, but went back to normal. Looking at the table on the left side of the slide, we can see the volume handled in the quarter, which was more than 1.7 million tons of cargoes if we consider our participation in the JVs, a growth of 3% compared to the same period in 22. And also the highlight to the resumption of grains to historical levels due to the improvement in the production of Paraguay and the strong volume of iron ore, and then we're talking about the long-term contracts that you are already familiar with, and some contracts also in the spot format that we were able to operate

In the half-of-the-year, 3 million tons were transported by the Parana - Paraguay waterway, an increase of 9% when compared to the same period in 22. We have already released the monthly market notice on navigation conditions in the South, but I think it is important to mention here that the most current projections point to the influence of the El Niño phenomenon from October of this year. And as you know, it tends to potentiate the rains and contribute to the average drafts in 24, being higher than what we observed in 23. Then a very positive scenario for this operation, not only on the volume side, but also in, as you know, in terms of cost dilution and gains with scale that generates here for the business and therefore the volumetric impact is not at the same rate when the levels are low, and so for next year our expectation is to have a very positive effect.

And still looking at the left side of the slide, we have the net operating revenue table excluding the account effects of hedge accounting, which was 5% higher in 2Q totaling 257 million BRL, reflecting both the higher volume that I commented above, as well as higher average rates. In 1HTY it totaled 429.5 million BRL, an increase of more than 15% (to be more precise 16.1%), a very significant growth.

In the graph presented on the right side of the slide, we have the adjusted EBITDA including the EBITDA of the JVs. Looking at the graft in blue, a little darker, you can see the adjusted EBITDA of 2QTY, which was 150.8 million BRL, almost 20% higher than 2Q22. THE EBITDA margin was 59% (58.7% to be exact), demonstrating a strong dilution of fixed cost, savings in insurance lines, with positive renegotiations carried out by our team; and a reduction in some variable costs due to better navigation conditions.

In 1HTY you can see in lighter blue on the right side of slide a total of 208.5 million BRL, an increase of more than 29% when compared to 1HLY, and the EBITDA margin was almost 49%, a result more consistent with the operational normality of this corridor, as we have commented with you.

We get on to the next Slide, Slide #8. We're now going to talk about the North Corridor data as well, and we can see strong results and we're beating record after record every week. We had a growth on a basis that was already record and with volume movement higher than the estimated capacity for the corridor. I only say that Gleize and her team always surprise us with their excellence, and this result makes it very clear. It is worth remembering that our current structure is already being 100% used and that seeking new opportunities within this positive external scenario that Fabio mentioned, a lack of logistics capacity in the short term, we will increase our capacity by 700,000 tons already in 24, through marginal investment in modular structure, the buoy that we will operate in the water mirror of the public port of Barcarena. So we are operating miracles in terms of volumes, beating records and even beating our nominal capacity.

Looking at the figures for 2Q23, on the table on the left side of the slide we have almost 2.2 million volumes, with emphasis on the strong volume of grains handled within the integrated system, where we have transshipment, navigation and port elevation, which grew by more than 15% compared to 2Q22. I believe that many of you are looking at the numbers presented in the volume line of the direct row and wondering why we had a 45% drop in the quarter, and the answer is very simple; and even though it is a drop it is still very positive for the Company.

Because we have this capacity and we had a very strong demand for the volume of the integrated system, which was higher revenue because it has more added services, we chose to further monetize the system and prioritize this volume than doing it directly, so we did have a drop in the direct volume, and we talked a lot about this during the road show. So not because of the drop in demand, because the demand has grown, but because of the lack of capacity, which is a problem which is a good problem to have. So in 1HTY more than 4 million tons were handled, also reflecting the same effects in the quarter.

This strong volume together also with higher average rates, contributed for us having a net operating revenue of 228 million BRL in the quarter, an increase of almost 14% (in fact, 13.8% to be more precise) and 441.7 million BRL in 1HTY, an increase of 17.4% compared to the same period last year.

OK, so now looking at the graphs on the right side of the slide, again in darker blue reflecting the quarter and in lighter blue reflecting 1HTY, we can see that adjusted EBITDA totaled 146 million BRL now in 2Q23, almost a 10% growth compared to 2Q22, even with occasional effects of higher costs and expenses related to the commissioning process of the new assets, which will be used for the super trains in the North. Keep in mind that when these assets arrived we start working with the expenses and we have revenue generation related to it; and even so we have had an increase when compared to last year.

In 2Q the EBITDA margin had a growth of 64%, and then for 1HTY the adjusted EBITDA totaled 282 million BRL, an increase of almost 17% when compared to the same period last year, a margin of also 64%. We're very positive with the scenario for the North in 24 as the grain projections remain strong and in the North corridors remains very competitive, actually so much so that it is operating for the second consecutive year at full capacity, even amid the collection of all BR 163 tolls and with increasing tariffs. So please keep that in mind. We have been evolving and evolving strongly, and with that for 24 we believe that we will have an even better scenario with the capacity higher than what we have now, which gives us the possibility of reaching new operating records for next year, OK?

So let's move on to the Slide 9 now, where we see the coastal navigation results, which came in line with what we expected, although below last year because we are in a docking year, I'd like to remind you, and with some non-recurring impacts related to the discussion of a non-material portion of the contractual tariff, due to operational cycles which we already mentioned in the last quarter and which is widely known to all. We mentioned it in the past quarter.

And moving on, in the table on the left side we have the volume handled in the quarter and in the year with 837,000 tons of bauxite in the quarter and 1.6 million tons of bauxite in the half, volumes that are consistent with the history of this operation and that at the end of the day do not impact the results as much, because it is a dedicated contract for Alunorte and 100% in the take-or-pay format. In other words, not necessarily higher or lower volume will result in a higher or lower result in the consolidated results at the end of the year, it is not a direct relationship in the case of this operation specifically.

Net operating revenue for the quarter was 56 million BRL, very similar to the 58.1 million we had last year. In 1HTY it totaled 115.8 million, also in line with what we had in the first six months of 22, which had been 117.4 million BRL.

On the right side of the slide then we have the graph of the evolution of adjusted EBITDA, which again in darker blue represents the quarter with 19.2 million BRL now in 23, and in lighter blue in 1HTY with 48.8 million BRL accruing the year. The EBITDA margin in the quarter was 34.2% and in 1HTY it was 42.1%. This EBITDA drop that can be observed in the semester and mainly in the quarter is due to the greater concentration of the docking effect of one of the assets which ended up taking a little longer than usual this year, and the value was higher than the last docking carried out by the Company due to the new external reality, since the shipyards cannot take the strong demand, given that the number of assets operating in the world has grown significantly in recent years.

Furthermore, we have an effect on EBITDA - this more recurring -, which is the lower account. It corresponds to 10% of the revenue linked to the volume handled and which has become 8% since the approval of BR do Mar. So the expected result for this year is therefore lower compared to the normalizing historical basis, which was already expected by the Company, and I believe by you who follow our business closely. So nothing new so far, right?

Moving on to the next slide, Slide 10, we have the result of the operation in the port of Santos, where we are only moving fertilizers now. Keeping in mind that the idea is also to have salt by the end of the year and start having a railway expedition from 24 on, with volume still on a growth curve. We are leveraging this volume and this has shown an impact month by month on our growth curve. On the left side the same table shows the others. We have a volume of 317,000 tons of fertilizers, no comparison with last year because we were out of operation due to the renovations we made in the warehouses.

But in 1HTY the total volume handled was 630,000 tons. Net operating revenue reached… 26 million BRL in the quarter and 53.6 million BRL in 1HTY, and as a result adjusted EBITDA observed on the right was 12.5 million BRL in the quarter and 26.6 million in the year with EBITDA margins of 48 and 49.7% respectively. With that I think we've gone through all of the Company's operations and we talked a little bit about the consolidated financial result, which was also very strong this quarter.

I ask you to please show Slide 12, where we have information related to CapEx. As I have mentioned, we are very diligent regarding the Company's CapEx and focused on concluding the first major investment cycle since seeking to release cash from 24, which will be directed both to our continuous deleveraging process and to investments in increasing modular capacity, seeking to take advantage of the short-term opportunities we see in the Brazilian market, and more than that, with a rapid (inaudible 25:15).

In the quarter, consolidated CapEx totaled 59.5 million BRL with payment of installments related to the constructions of the pushers that will be used in the North, and mainly with the effects related to docking of our cabotage asset. And note that because of the need we had to fulfill our obligations with our client they also have an impact on our CapEx, and we will work with it in this field.

So you can see that this maintenance represented almost 71% of the total CapEx, so in 2Q our CapEx fell when compared to the same period last year because we moved some investments planned for this year to 2H and there was no impact on the total expected value for the year. So even though the accumulated CapEx is lower, let's put it this way, we still have an important amount of investments to be mainly in 2H and it's very important to make this clear so that you do not calculate 1Q and multiply by 2 to consider the Company’s yearly CapEx. Everything is done according to plan.

We also had the railway, implementation of the buoys in the North and completion of investments that were already underway, and they play an important role in 2HTY. So in 1H we invested 142 million BRL, including recurring maintenance, docking expansion, and payment of the Santos grant, which, by the way, ends in 25, and after that is staying in the cash generation line.

So let's please move on to Slide 13 where we included a reconciliation, the net income that was presented by the Company. By the way, the highest income in our history, which occurred mainly as a result of the excellent operating performance in the period. And please look on the right side of the table that EBITDA grew almost 91% in the quarter and almost 30% in 1HTY. It's not little.

And so this robust operating result is more consistent with our full installed capacity and demonstrates how solid the businesses is and the fundamentals that Fabio mentioned at the beginning, these fundamentals that have been untouched from the very beginning of the thesis that we have been developing, and the figures only show that.

We are capable of offsetting the higher financial expense due to the contracting of byproducts last year to reduce the volatility of our results and the new debt structure after the issuance of debentures. So we're trying to better balance the company’s class flows.

So as you can see on the slide we had 117.9 million BRL as a net income in 2Q and the accumulated for 1H23 was 137.9 million BRL. It is also worth noting that the same strong operating result that led us to significant cash generation in the quarter, totaling 183.3 million BRL as you can see on this next slide, please moving on to Slide #14.

There is also a significant improvement in the working capital line, which started to show behavior close to historical seasonality, and please remember that I mentioned it last quarter that we had a worse working capital line due to the delay in receiving almost 70 million or a little bit over 70 million BRL which had already been carried out in April, even though it was not in the consolidated results for 1Q. So we can now see it in our closing of 2Q and it is some more normalized.

So in summary, everything has contributed for us to closing this quarter with the 744.6 million BRL in cash, more than enough to meet our short-term needs as you all know. And so I would like to make a disclaimer: in 2Q, which is seasonally stronger due to the best conditions in the South and the peak harvest in the North, so we still have important investments in 2HTY and the weaker seasonality in 4Q, for 3Q and 4Q, and this is usual for our business, but for this reason we should not yet end the year generating all the Company’s cash potential, which is very strong, as we had in 2Q.

But even so we have very positive perspectives. The achievement of full capacity in operations added to a very positive scenario for logistics in South America and with the control and focus on investments, should definitely contribute to a greater cash generation as early as 24. And as we mentioned, we will direct it to two main pockets: the first, continuous deleveraging of the Company; and the second, work with modular growth so that we can guarantee adequate strategic positioning in the logistic corridors where we operate, and also take advantage of course of the short-term opportunities.

And formally closing my presentation, I invite you to show Slide 15 where we demonstrate the Company's continuous deleveraging, and we ended 2Q with 4.04x with this ratio of net debt/adjusted EBITDA ex-JVs, in other words, a reduction of 1.7x, amazing compared to the same period last year. And Even so, within the quarter it was a 0.54x compared to 1QTY.

The average maturity of our debt was 5.7 year and the USD weighted average cost is approximately 5%. In other words, a long and cheap debt, and as you saw in the previous slide we ended 2Q with almost 750 million BRL in cash, which gives us a comfort that we do not need any pressure for funding in the short term.

So I now turn over back to Fabio so he can talk a little bit about our advances in ESG and then I will come back to you to clarify any questions you may have, OK?. OK, back to you, Fabio.

Fabio Schettino - CEO

Well, thank you very much, Ricardo. The result was indeed very good with very good perspectives for the next growth cycle of the Company, and so I would like to go to Slide #17, where I would also like to announce that we have now released in early August our first integrated report on sustainability, in line with our short-term goals for the sustainable commitment of the Company and increasing to, increasingly seeking to increase the level of transparency information for all our stakeholders.

This was the 2nd Sustainability Report released by the Company and already an important advance in the integrated reporting format, therefore following the guidelines of the International Integrated Reporting Council, which is a reference for the dissemination data on global reports and the high standards of the Global Reporting Initiative. This is a landmark in the sustainability history of the Company. And in addition this document had the external verification of EY, and I'm sure that it places us in a select group of companies that are already positioned themselves and care about the sustainability management of their business and the generation of shared value for all stakeholders.

The report is available on the Company's website. I recommend you reading it so that you're more familiar with all of our initiatives and the differentials of our business in terms of sustainability. We've been dealing with this as a priority in the Company.

With that I close my presentation and reinforce again on Slide 19 the fundamentals of the Company, which was always able to create sustainable and innovating logistics solutions, bringing competitiveness to South-American producers through a structure of customized, modern and flexible assets to meet our clients' demand.

The perspectives from now on, once the main investment cycle of the Company is over are very favorable. The Company is now capturing the full potential to generate cash on the installed basis with investments with very low recurring maintenance, therefore a capacity to address that.

I will wrap up here and I'm available to answer eventual Q&A's.

Q&A Session

Operator

Thank you very much. So we are now going to start the Q&A session. If you have any questions press *1 on your phone at any time. Any time your question is answered, you can leave by pressing *2.

Questions will be answered in the order that we receive. When you ask your question, we ask that you use the headset to provide the best sound quality. Please wait while we arrange the questions.

Our first question comes from Filipe Nielsen, Citi. Please move on.

Filipe Nielsen - Citibank

Good morning everyone, congratulations for the results. I have two questions. You commented a little about modular projects and capacity in the port, which has already been discussed. But I would like you to comment a little bit about your perspectives for the mid and long term with investments perhaps in different projects and the volume capacity that will grow beyond these whole modular projects that you have planned.

The second question is about the super convoys in the North. How do you see the implementation timing? You have some leverages that are still being implemented and I wanted to know whether we can already see these convoys operating in the South in 3Q or whether we should wait for 4Q to have that in fact really operating. Thank you very much.

Fabio Schettino - CEO

Filipe, thank you for the questions. I will start talking about the Company's growth and moving one step behind according to what Ricardo mentioned, we have concluded a growth cycle or payback has generated free cash. We have a very inexpensive long debt. Our recurring CapEx for maintenance is also very low. So of course this will allow us to generate more free cash to support these investments.

So you asked about the North, and actually we are already moving in that direction. Since the capacity in the North is fully taken this year and I usually say, Filipe, that we have the strategic obligation to provide to. We have a very strong demand in the North. It is very surprising and are always making mistakes, because the demands are really overwhelming and we must take advantage of the operational robustness that we developed.

So what we're going to do based on the fact that we have to look at growing right now, and we have an adequate tool because we can fit this in the Company's balance with our own cash generation and still deleveraging, which is an important opportunity and Ricardo mentioned that we will continue being very diligent in terms of capital. This means continuing growing without having the need of additional leverage.

And so the growth in the North, we're discussing how to do it as efficiently as possible. We started doing it. You mentioned that we will have a 600 tons additional, and the second step for this investment has to do with increasing the capacity to 1.5 million BRL of ton with more modular and fluctuating structures.

In Vila do Conde we will start with self-loadable ships, and then the next step will be to use a floating device equipment so that we can have more structured operations, which means tabling our shipping capacity in Barcarena. We do not necessarily double the capacity of the integrated system, but we want to reach 8.5 million tons with these floating structures.

In Barcarena when the pier is doubled in size, and we're talking about 2026, we'll have about a 13 million tons which will be complemented by direct trucks, which is a market that's growing a lot. So Barcarena has grown a lot and it's very competitive with trucks that arrive there directly in the East and Southeast of the State of Pará. So this is what we're going to do in the North. We will then try to define the best engineering strategy in 2H. We'll probably go back to the market and to be more specific regarding the solutions, where they are and the schedule. But I would say that this is what we're going to in the North using a very competitive structure with a very robust system. It's very difficult to compete with somebody who has such a robust system, and navigation as well.

And then I will answer your second question, which is the super convoy. We have some targets. We are focusing on the fertilizer project. It is more structured, we've worked with companies that have a return load just so that we can meet our vacant capacity, but when we are no longer having that I can create an independent structure, and we will create an independent fertilizer structure. The market has grown a lot in this area.

And then we have another project. We have an area in the middle of our Santos Terminal where we have container storage, but we want this area to be added and we will have a warehouse of about 30 meters so that we can add 2.2 million tons to the Santos terminal. This is our plan for the next two or three years.

In summary, we're going to start expanding in the North next year with the buoy and then after the third year we will prepare to double our peer. We will continue investing in an independent fertilizer line and all of that without the need to capture anything to have or having a capital call. The Company's cash generation can do that.

We had a very detailed discussion with the Board. We had to make some choices that fit in our capital structure so that we can use this free and stronger cash generation of the Company, which remains an absolute priority of the manager, and Ricardo to talked about that. And so this is what I had to say about growth.

The convoy we are already working with two super convoys. They're pushing, pushing 35 ships with about 35,000 tons and nobody comes close to that. And that is a huge advantage in terms of cost per ton because the same pusher would push 16 and we are now pushing 35 in Tapajós and the operational performance is amazing.

We already work with two super convoys and we're going to have two other next year. They have arrived from Turkey; we are now on the approval phase. We have testing, but as of next year, we will probably be operating with four super convoys. Thank you, Filipe.

Filipe Nielsen - Citibank

Perfect, thank you.

Operator

Next question comes from Rogerio Araujo, Bank of America. Please move on.

Rogerio Araujo - Bank of America

Good morning everyone and thank you for the opportunity. You've answered two questions, I would like to have some more details. First of all, I wanted to talk about the price negotiations in the North Corridor and how this discussion is done in terms of the volume for the upcoming year. You mentioned a very positive scenario for all players. Could you let us know a little bit more about the timing and magnitude so that we can have an idea of the impact of this negotiation for next year?

The second question regarding the South Corridor. We mentioned that they went back to normal as of February. I want you to understand if we can have operational improvement and margins for this quarter. I want to understand whether we can still expect some more operational improvement, thank you.

Fabio Schettino - CEO

Thank you, Rogerio. Last time I talked to you, you were maternity and I hope that everything is fine. So let's talk about prices in the North and the perspectives are very positive, Rogerio. This is an offer and demand market. I think that we have some scarcity in the short and midterm for the next two or three years, and of course all players should make good use of that.

How does this work? And before answering about the dynamics for next year, I'd like to remind you that Hidrovias has a little bit over 50% of its capacity already sold and the prices are all market prices, which is an advantage. So we start with a little bit more than 50% every year because that is supported by long-term contracts. The remainder, a good part of the remainder is being negotiated or have been negotiated. There is a clear concern of clients, a position because we have a capacity restriction and we're trying to balance it out to the best way possible.

In addition to the 50% we've already sold for next year, for the other half (incomprehensible 50:23) is already being negotiated and we believe that we will be able to negotiate… the total volume as we did from last year to this year, and then I will answer about timing. By November, if we do not hire everything, that means we are trying to (incomprehensible 50:45) to try to precify, but we're not necessarily going to do that and we will try once again, trying to solve that by the beginning of the year.

First of all, I would like to say that we've always had tariff increases over the year, even in more restrictive years we've always been very careful with tariffs in the Company and now even more so with this environment. I can tell you that these tariffs are being negotiated with an actual gain, in other words gains above the inflation expectation for next year. This is a very positive scenario and we expect it to start next year with tariffs with real gains.

Regarding the South, what happened? January was below our expectations. But from February to June, so that we conclude 1HTY, the river behaved better than what we had expected. We made good use of that and that's why we saw such good results. The rio is seasonable and will remain seasonable. The expectation is to have a 2H within the normal range, but not above it.

This is good news for us because we made good use of it in 1H, but then if you ask me if the second is going to be the same, I will say that no, because it will be more normal in 1H. 1H was positively abnormal. This is not bad news, quite the way around; we made good use of the difference in level for 1H and then for the half, 2H it will recover, the river will be more within the normal range.

There is a very narrow and clear correlation of these climate effects, be it El Niño and La Niña. They both take about three years and it's very clear that we're going to start an El Niño phenomenon, and when that happens our expectation is to have a more normal regimen over the next three or four years, and so I would not expect to have any improvements in productivity because we made good use of a better situation and we're now going back to a more normal situation in terms of future budgeting.

Rogerio Araujo - Bank of America

That was very clear, Fabio, thank you very much and congratulations for your results.

Operator

Next question from Henrique Simões, Credit Suisse. Please, you can move on. Henrique Simões, please proceed.

Henrique Simões - Credit Suisse

Well, I'm sorry. I was speaking on mute. Good morning Fabio, Ricardo, Ana. I have two questions. First of all, I was thinking about the operations in the South and the problems that we had with Argentina and the tariffs they wanted to charge. And there's a more relevant phenomenon, the 3% over the active in the South and then about 4 in the consolidated. I wanted to know from you whether it was an isolated case.

And I have a hypothetical question ignoring the merit of the church or not. If this past really exists with that being passed on to the contracts. And the other one is the conditions of 163, where the tolls are already active and I wanted to know whether there will be any relevant impact on the short term or whether it is in adequate conditions.

Fabio Schettino - CEO

Well, thank you and thank you for your questions. So let's talk about the situation in Argentina, just to contextualize, and the Paraguay - Parana Road is ruled by a very old multinational agreement, the oldest one in the Americas, which defines two basic principles: equity of treatment of the signing parties and full navigation, clean navigation as we usually call it.

So what happened was that the Argentine Government without any offers in exchange because they can, they can try it for that, but what they did was simply to charge a toll. This was announced to us in January this year. We formally rejected these charges; we did not pay for it and we claimed against it until they stopped one of our shipments. For them to release that we ended up paying that toll. It was very low just for one ship, and the losses of having one shipment waiting was higher.

But we talked to our Foreign Relations Ministry, we talked to our Federal Government, the Senate; we also have a new group that addresses themes that have to do with navigation and then the Brazilian Government said that the merit is going to be discussed, but the retention of shipments is not acceptable and therefore this was an isolated case, we understand it that way. We have not heard of any retentions after that. We're going to discuss that in the Court. To make it even worse, the Argentine Government started charging their shipments. So this initiative shows that they were trying to collect money.

Our contracts, be they for iron ore or grains, are based on net tariff, and if the decision is really that, if it is really confirmed, the contract should pass that cost on to client. This is true for taxes, increase taxes or fees that we eventually have to pay. But we do not believe that this will prevail because it has, it makes no sense. So regarding 163 the road is, well, CAT has good signage, and I'd like to remind you that we're not only talking about 163. There's another road which used to be bottleneck and they have all been maintained by the concession, and the improvement effect for truck drivers compensates the tolls that are charged.

I always said that the main risk for us was not having a toll, but it was having a road with poor maintenance conditions. And the freight was 100 BRL more expensive per ton. But now the road is doing well, the concessionary has kept its obligations, and all of this only makes it better for us in terms of competitiveness.

In the North region I have a lot of interest there, but the market does not. So there's no question that if the conditions were not good, the market would not have had an increase in market share, for the grain that is produced and exported in Mato Grosso uses the North region for its logistics and so we have to be very competitive, remain very competitive. Thank you for your question, Henrique.

Operator

Well, with this we conclude today's Q&A session. I would like to invite Mr. Fabio Schettino to proceed with the final considerations. Please go ahead.

Fabio Schettino - CEO

Well, thank you all for the interest. I'd like to reinforce that we're starting a very special moment at the Company in terms of an intense, or capital intensive Company with maturation for the mid-and-long term. The cycle, installed capacity can generate 1 million in extra. We're going to talk about those, but we will increase our volume as of next year. We have very strong competitiveness, be it in the South or in the North in operating terms.

We are obsessed with the technological advancement. We started using the first electric motor, our OpEx is very low and this is where the structural advantage of our businesses is, because it's very difficult to compete with a 70 ton convoy. It's very difficult to compete with a 40 (incomprehensible 1:01:23).

And we had two years of very challenging times, which only showed how resilient we are and we will now have more robust results and we will continue using it to deleveraging the Company.

I thank you very much. We are going to have some good quarters ahead of us and I will talk to you in the next call. Thank you very much.

Operator

With this we conclude Hidrovias teleconference. So thank you very much for your participation and have a good day.