

International Conference Call
Hidrovias do Brasil
3rd Quarter 2023 Earnings Results
November 14, 2023

Operator

Good morning and thank you for waiting. Welcome to Hidrovias do Brasil 3rd Quarter 2023 results conference call. We have here today:

- Mr. Fabio Schettino – CEO
- Mr. Ricardo Pereira - CFO and CIRO
- Ms. Ana Carolina Bastos – Head of IR

This event is being recorded and all participants will be in a listen-only mode during the company's presentation. After Hidrovias' remark, there will be a Q&A session. At that time, further instructions will be given. Should any participant need assistance during the call, please press *0 to reach the operator. This event is all being broadcast live via webcast and may be accessed through the website link made available to investors and analysts. Participants may view the slides in any order they wish. Those following the presentation via webcast may post their questions on our website. The questions will be answered by the IR team after the conference is finished.

Before proceeding, let me mention that forward statements are based on the beliefs and assumptions of Hidrovias' management and also on information currently available to the company. They involve risks and uncertainties because they relate to future events and therefore depend on circumstances that may or may not occur. Investors and analysts should understand that conditions related to macroeconomic conditions, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

I will now turn the floor to Mr. Fabio Schettino, the company CEO. You may begin, Mr. Schettino.

Fabio Schettino - CEO

Good morning everyone and thank you very much for participating in the call related to 3Q and also 9M23. As you may have seen last night, we published a company's record results for the quarter and we released a material fact about the atypical situation of water shortage in the North and the worsening situation of the drought in the South, quantifying the impact of this on the 4Q23 results and as a consequence of the expectation for the consolidated year. You probably have many questions about the material fact, I will be back in a minute to talk about it and to talk about the impacts of this document. But I will start the call by dealing

with the main topic: this quarter's results. They deserve your attention because they highlight our capacity when we have regular operation situation. We've had nine months of perfect execution with significant volumes, increasing average tariffs, a strong level of cost dilution and as a consequence record EBITDA, strong cash generation and we continue leveraging the company. All of this with virtually the same nominal capacity as in last year.

The only new thing regarding last year is the Santos Terminal, which is still on a growth curve. We only started operating it from August 2020 to onwards. So I can say that our team ensures growth on record basis, huge capacity and showing growth, which should be celebrated internally and understood by our stakeholders. We moved 5.3 million tons in 3Q and almost 15,000,000 tons, that's 14.8 million tons, to be precise in 9M; we achieved net operating revenue of 539.7 million in the quarter and almost 1.6 billion BRL in 9M; most importantly, adjusted EBITDA (including record JV's EBITDAs) totals are record: once again 262 million BRL in the quarter and 772 million BRL in 9M.

This is the operation of soundness of our business in regular operating scenarios. So the platform is there, and we can extract excellent results from it. In 9MTY we have proved our capacity to deliver on results in regular situations. Again, we've had a quarter with record results YTD, and the last 9M is already higher than the results we've seen throughout the whole of 2022. So this shows our capacity to deliver results in regular situations. These results show the discipline of our team, their management skills, and I would like to thank everyone and acknowledge them for their work. We are firm in being referenced in the bulk cargo transportation, although we face some atypical moments and I will talk about this about our material fact. This is still the most competitive and sustainable modal with countless opportunities for growth.

I'll let Ricardo now comment a little bit more on the results of the different corridors, then I'll come back in a minute to talk more about the material fact and about our perspectives for 4Q23 and for the year as a whole. Ricardo, please, you have the floor and I'll be back in a minute to talk about the material fact.

Ricardo Pereira - CRO and IRO

Thank you, Fabio. Good morning, everyone. Thank you for participating in our call. As Fabio mentioned, our 3Q and the 9M23 were extremely strong for Hidrovias. We reached a new record of results and once again we are at a level of prominence and relevance in the transportation of bulk cargo in Brazil and Latam. Let's start with the South Corridor, a little bit more detail if you can please join me on slide #7. We've had high waters for most of the year. We ended this corridor moving 1.7 million tons for this quarter, this is a growth of 19% when compared to the same period of last year. There's an emphasis on grains, with the improvement of the harvest in Paraguay and also for iron ore with normalized draft levels; for these 9M 4.7 million tons transported, 12% more than in the same period of last year.

We had a net operating revenue before the hedge or removing the hedge, net operating revenue of 224 million in this quarter. It reflects higher volumes and higher tariff revenues, and on the other hand it reflects the adjustment due to the reduction of the price of fuel, and also the negative exchange rate impact, since as you all know, this is a dollarized corridor; looking at 9M, net operating revenue also excluding the hedge effect reaches almost 654 million (653.7 million, to be precise), as you can see in the table on the bottom left corner of the slide. We operated with a river level of almost 4 meters in Ladário this quarter, which guarantees good loading conditions and therefore it contributes to a greater cost dilution.

As for Adjusted EBITDA, including the EBITDA of the JVs, it totaled almost 114 million BRL, the highest result ever obtained in a 3Q ever since we began our South operations, with an EBITDA margin of 50.8%, which is a level consistent with the full potential of this operation. We talked about this recovery, and then when we did recover, we would reach high volumes and we can see this right now in this quarter.

About the last 9M, Adjusted EBITDA, including the EBITDA from the JVs, totaled 322 million BRL within EBITDA margin of 49.3%.

Moving on to the next slide now #8, here we see details about the results of the North Corridor. There, Hidrovias had a volume at similar levels to the records of 2022. The results from 3Q and 4Q were extremely strong and it's difficult to replicate them, as we have mentioned before, because at the time we had extremely positive external conditions, both in terms of harvest and climate. So we operated above nominal capacity estimated by the company.

So talking about this quarter 2.3 million tons with a strong volume in grains coming from the integrated system and 6.5 million tons in the 9M. This is a growth of 5% over a record base, with a volume very close to the estimated capacity by the company, which has you know is of 7.2 million tons/year. Therefore, we ended the quarter with 233 million BRL in net operating revenue. This reflects the strong volume, the mix of services and higher average tariffs in this period. When we look at the 9MTY, YTD result of 675 million in revenue. This is a growth of almost 14% when compared to the same period of last year.

We've had some extra costs in this quarter, mostly connected to the accreditation of new assets and the transfer of two new assets from the North to the South, and this is aligned with our program to optimize the fleet, but still we've finished this period... in spite of these extra costs we finished this period with an adjusted EBITDA of 144.3 million BRL and EBITDA margin of 61.9%. In the 9M, adjusted EBITDA is of 427 million BRL and an EBITDA margin still stronger: 63.3%.

Moving on to the next slide now, here we see the results of coastal navigation, a little bit below what we had foreseen due to a delay in the docks process of this asset. You are aware of that, we have been talking about the docks and this delay postponed the freight in the ship, leading to higher costs than expected. The volume of bauxite moved was of 960,000 tons in this quarter and 2.6 million tons

in YTD figures; net operational revenue excluding hedge accounting was of 52,000,000 BRL. This reflects exchange impacts. currency exchange. We know that this corridor is also dollarized like the North Corridor, but this is also due to lower fuel prices and the non-accounting of the controversial tariff, which is still being debated with a client. In the last 9M, net operating revenue excluding hedge accounting totaled 167,000,000 BRL. Taking into account all these effects which we believe to be specific and ad hoc at Hidrovias, the Adjusted EBITDA was of 18.9 million with a margin of 36.3% this quarter and almost 68,000,000 BRL and 9M YTD, with a margin of 40.3%, as you can see in the graph on the left side of the slide.

In this corridor, it is worth remembering that next year we will not have docking, so the results of the operation should go back to levels that are more consistent with our history.

In slide #10, please, we have the Santos result, which continues to do very well on its growth path. We have already reached the level that was the regular level of the previous tenant, and we still have great potential to take advantage of. As you know, we are making investments so that starting in 24, we will also have shipping via rail, because cargo has been through roads now and we want to remove fertilizers from that. That will increase the addressable volume of fertilizers. We have an agreement, I remember, I would like to remind you of an agreement with Rumo for a take-or-pay of 500,000 tons of fertilizers starting next year.

As you can see in the slide on the left-hand side 358 tons moved in 3Q and 990,000 tons in 9M with a net revenue of 30.3 million in the quarter and almost 84,000,000 BRL in the first 9MTY. Adjusted EBITDA, which you can see on the right-hand side for this quarter was 15.4 million BRL and in the last 9M 42,000,000 BRL, with a margin between 50 and 51% in these periods. So if Santos keeps on well aligned with what has been planned, this is a very positive operation for the company.

Well, we've covered operations in our corridors, let's now move to figures, to finance. In slide 12, we have our CapEx a little bit over 59 million BRL (59.1 million BRL) in the quarter and 201.6 million in 9MTY. These amounts include the payment of assets in the North, the docking of coastal navigation, the investors... investments in Santos and a very important study we carried out on bathymetry in the South. We will talk a little bit more about this when we mention the material fact.

As you see in our figures, we remain extremely diligent with our investments. We still have some CapEx concentration in 4Q, but it's important to mention that we are looking at ways of optimizing as to partially offset the impact of 4Q in the company's leveraging. We will finish the year with CapEx slightly below what we had initially forecasted. This means that we will end 2023 with leveraging levels consistent with what we had foreseen for this year, regardless of the atypical effects which were made public last night and the material effect.

Moving on to slide 13 now, we see that the strong operating results are again a record. They contributed to a cash generation of 68,000,000 BRL in 3Q. So we ended this accounting period with 813 million in cash, a position that is higher than our short-term needs. This ensures we will not need to raise any funds in the coming months.

In slide 14 now please, here we see that 3Q results were so strong that they contributed, together with exchange rate effects, to the 6th consecutive reduction in the company's leveraging. This is very important to this period. We had been mentioning that we were working on deleveraging the company and we have been doing that for the 6th consecutive period. As a direct impact, we finished 3Q23 with 3.83x net debt/EBITDA ratio, a level that is low or even lower than what was the expected for the period.

On the right-hand side of the slide we have our debt schedule, our timeline, which you all know. As you see it is extremely long. The latest maturity will only take place in 2031. Our debt has an average term of 5.6 years and weighted average cost in USD of around 5%, a long, cheap debt without any type of pressure in the short term. So that's how I finish my part of the presentation regarding 3Q results and also YTD results, and I highlight Fabio's initial message: regardless of the atypical effects we've seen, or we will see in 4Q, we had 9M of impeccable execution. It just shows the huge potential of our business, and this should not be ignored at all. I now give the floor back to Fabio, who will comment on the material fact we have published.

Fabio Schettino - CEO

Thank you, Ricardo. Well, we were very brief in our presentation of 3Q results and YTD results. We want to have time to answer your questions about quarter results, 9M results and also about the material fact. We have included some slides which we'll see right now. They show you more visually what we are going to discuss regarding the material fact.

So please moving on to slide 16. We see a history of the drought of the Tapajos River and the Itaituba levels, which is our main point of operation of cargo. I don't like to look at one single spot of the river; if you're not that familiar, we operate in extremely large wide rivers in the Amazon. This means that the ruler for measurements or even some photos you might see, do not necessarily reflect the reality of the region. In many moments this ruler may be showing low levels in that specific spot, but there might be strips with enough draft to go with a convoy with the vessels. So one single spot of measurement do not represent the whole river. Again, these are wide, very wide rivers and very long rivers.

Well, having said that I wanted to clarify the situation. On the left-hand side of the slide we have the Itaituba ruler, the measurement. It helps you understand the seasonable behavior of the region. Historically, as you see the draft of this region has decreased in 4Q, so much so that we do not operate with the super convoys or the super vessels all the year round, and we cannot move the same volumes

in 4Q in this region. This is normal even when the harvests are very strong, because the climate and hydro conditions in Tapajós are not the same in the 4Qs of the year. There are seasonable changes and 4Q is regularly worse than the rest of the year, so this is regular in this region. It is expected.

When we look at historical data available, then we see that even in El Nino years, we've never seen an atypical impact such as this year. Usually there is a dry season, of course, but not in the same levels we are seeing right now. Our operation in the North was following a very positive trend, as you could see in 9MTY with record volumes, and even in September and early October, when several news emerged about hydrological restrictions in the North and in the Amazon, most of all in the Madeira River as we've seen in the press, but we were operating within the region's normal seasonal effect, and at that time there were no signs that something so atypical would happen.

If you look at volume of data moved in Barcarena in October for instance, you will see very strong volumes, in fact, even with greater restrictions than usual, and with, you know, some occasional loss of volumes when compared to the expected, the North Corridor was doing well and the North Arch or the Arco Norte continued at a very competitive pace to transport the Brazilian harvest; so, so far everything was regular.

What is the object of our material fact is that we've observed a worsening of the situation, a very quick worsening of the situation. It was very unexpected at the end of October and beginning of November. This is the period when, in fact, we should have the recovery of the rivers. This allowed us to understand that we would have restrictions for navigation in November. This led us to publish a note, a notice to the market on November 1st. We wanted to be transparent with everyone about what was going on, and therefore we will continue to do that. We always want to be transparent in our relationship with the market.

The natural expectation following the historical trend is that river levels would go back to regular conditions in the first 10 days of November, but this did not happen. So besides going through a worse dry season, it is lasting longer than expected for this period for a 4Q. As you know, when we have reduced draft, we lose operational efficiency. This is a scale business, right? If we dilute costs, we have these super convoys and we have to move to smaller vessels. So we now have longer cycles of navigation and we have to face some operational inefficiencies. Although we kept on sailing, we had an impact of the lower volumes per vessel. We have to fraction the vessels so that we go through these critical points in the river and the navigation cycles are longer.

Our understanding to date and current climate forecasts that we have available point towards a slow recovery scenario. It is important to mention that we have no doubt the river will recover. We're talking about an operation in the Amazon, one of, the largest navigable basins in the world. So what's important here is to understand when recovery will happen, in which week.

So faced with this greater uncertainty, we decided to change our usual recurring maintenance schedule. We decided to move it forward, closer for this week right now. We will resume operations at the end of December, when the usual thing would be to start the maintenance midway through December and continue with them until January, that's what we usually do. We took into account that 4Q is seasonably weaker and that's when we stop for maintenance. So what we've decided is to follow the logic of benefiting this period of low waters to do maintenance and to have the assets ready for navigation when the river's level resumes. That's how we optimize the use of our fleet.

This will bring greater impact now in the very short term. We will have even less cargo movement in 4Q, but it's a responsible and coherent decision. We want to have our assets ready and in good maintenance state when the Tapajós goes back, and in early January, late December and early January, we will be back. We try to avoid not navigating, being capable of navigating now and having to stop for maintenance once again on December 20 until January 10, which will be negative for us. That's why we made this decision.

So what we saw right now is atypical indeed, it is not a usual or recurrent phenomenon. The recovery of the rivers in the Amazon Basin will happen, and all consultancies and all experts show this. But what we're going through as you can see in the news, is a point outside of the curve, but there will be recovery in December. So that's the scenario we're working on.

Moving now to slide 17, the Northern Corridor is very competitive. On the left-hand side you see the graph of the total logistical costs weighted by destination for the full flow of grains based in Sorriso, Mato Grosso. This is public information from the USDA. If we compare the weighted cost of Sorriso to Barcarena and Sorriso to Santos, we see that the Northern Arch has a total cost of 124 USD when compared to 125 USD leaving through Santos. This already takes into account the cost of the toll. You were concerned about the competitiveness of our corridor. Well, the toll came in, the new road has improved conditions and we are still very much competitive in the Northern Arch.

Grain harvest remains very positive both for soybeans and corn, and logistics due to that has been anticipated. We are at a time of lack of logistical idleness. Our capacity is full in all quarters, and that leads us to three paths that are obvious with our team. The first is a positive scenario in the short term, with the tariff increase above inflation, we are looking at something between 15 and 20% of nominal increase in the average tariff for next year 2024. Also, the advanced sale of logistics capacity, and as a consequence we have practically 100% of our capacity already hired for next year.

And a very important point is the need for new investments and increasing the capacity to meet future demand. This is being faced with modular solution and this expansion, as we've mentioned. These solutions fit into our project to our projected cash flow and that takes us to the additional capacity in 2024 and in 2025. We will expand our capacity in 2024 to around 8 million tons through the buoys used in the public port. We won this bidding process and about 9 million

tons in 2025 by using Vila Conde's E-crane. Instead of the vessel and the buoy, we have an equipment with higher productivity to charge straight from the barges into the vessel, into the ship.

We still believe that the Northern Arch is not a structural scenario; it does not change the pillars of our business. We continue to invest in increasing capacity while also deleveraging, as Ricardo mentioned previously in his part of the presentation.

Moving on to slide #18 now, we see the same scenario applied to the reality of the Southern Corridor. Here you see in depth and closely the seasonable aspect of this river. We've had an excellent year in the South. The draft level is much higher than in 2022 and that has helped us achieve record results in YTD matters. It was already moving very close to the completion of the corridor. There was a sudden drop in the Ladário draft in recent days, higher than expected, and this led to the need of applying what we call the low-water plan starting this week.

It is similar to what we've already done in 2020, 21 and 22. That's when we use shallow-draft assets or vessels to give us more flexibility in moving cargoes in the North part of this river in Ladário, where we have greater restriction when it's below 7 1/2 feet. This scenario puts us in a prominent position in this quarter. As we've seen before, we are one of the few players - maybe the only player - capable of operating under such draft conditions. The plan allows us to operate with restrictions, so we have higher costs and longer cycles as we have in the North.

Therefore, there will be some impacts and results in 4Q23 in the Southern Corridor, but nothing similar to what we've seen in the 2020 and 21 crises. It is an ad hoc situation with greater volatility, very different from the crisis that we had in 2020 and 21. The average of the ruler, of the measurement ruler in 2020 during the Ladário crisis, it was negative at 0.4m; in 2021 it was negative in 0.7 meters; now we are positive at 1.7m. That's a very different level from what we've seen before. So although we are operating under restrictions, if you think when the river is below 7 feet (that's 2.3 meters), that's when we start losing on productivity, so the gap for recovery in the rainy season is smaller. That's why we will begin the river with regular conditions in this quarter. So it was a sudden, a sudden drop. We have the low-water plan as I mentioned, but we are ready to start operating next year under better conditions.

Well, regardless of external conditions, which are better when compared to the past, we continue to look for alternatives to improve navigation conditions and to ensure climate resilience. We've done that ever since the 2020 crisis.

Moving on to the next slide, please, we know that hydrological risk is inherent to our business. We are a hydro operator; however, we can mitigate these risks, and we are doing that. As I have already mentioned, the Paraguayan Government has tendered an even greater volume for the region due to what happened in the 2021 crisis. They are also interested in mitigating the impacts because the economy of their country relies on that, Paraguay doesn't have a see exit.

So the difficulty to execute these plans, for a dredging, is that there was no knowledge of the plan, and that's why dredging was less efficient so far. In the face of this scenario, we want to be a technical reference to promote structural transformation in order to mitigate the impacts of these restriction periods.

So we hired a bathymetry study and a development study of hydrodynamic models. They are ready for the northern part of this hydro way, and we've seen some results that were very encouraging. Let me give you an example of what we can do with these studies to take benefit of them and to minimize risks.

Please look at the map in this slide right now. The study allowed us to identify restriction points in the river, 25 points which you see in the map, and which were prioritized according to the table. These points were then mapped and we've ranked them in terms of importance, from the greatest importance to the lowest. This really changes and if we prioritize it is much more efficient. So for the first time, we have in-depth knowledge of these points and the respective draft situation for each one of them - and with that we can dredge more efficiently, and we can reach better results in the short term.

The good news here, as I said, is that the Paraguay Government has already opened a bidding process for dredging purposes. This volume to move the lands in the triennial plan according to our study, it is enough to solve the problem in all these points in the north part of the river. Using this knowledge now will make it possible for dredging to be carried out at the correct time and also at the correct places in the correct priority, looking at the importance of each spot.

As you can see here in the right-hand side to the graph, when we have a more intelligent dredging program in Paraguay, there's room left for additional dredging. You know, this is the value of having knowledge. The previous plan did not count on that intelligence, so our objective as usual is to add intel, knowledge, technical reference. When there is sudden dry, sudden dry season of drought, the impacts for our operations will be lower and lower. This is just one of our projects, folks.

Ever since the 2021 crisis, we've learned many, many lessons. This is one of the projects, we have countless others. There is a study to reduce the draught of the company's pushers. This project can be applied both in the South and in the North. We have vessels that are very powerful, large vessels that can navigate at lower draft in normal water levels - but we can alleviate the situation.

We have a project to integrate the database that we are generating with the bathymetry that we are doing. We can integrate this data more precisely to our forecast systems, and this brings us more assertiveness and foreseeability.

As you can see, we are not standing still, we are not waiting for the climate to improve. Not at all. We don't control precipitation levels, but we control what we can do with the draft level with the pushers, with our vessels, and we will keep on adding knowledge and mitigating the impacts of external factors.

So I guess this is the main message for today. We have been developing complex studies, the bathymetry in a very large area of the river. We had no knowledge of

that before, and now we are reaping the benefits of this study; from a practical perspective we have to be in contact with the Paraguayan Government. We have a seat in the organization that represents shipyards, Cagin is their name, and the Brazilian Government is also thinking of a bidding process for the Brazilian stretch of the river. We want this to be done in the most efficient possible way to ensure ongoing navigation conditions, even in difficult situations such as the one we faced in 2021.

So these were my messages regarding the current scenario. I wanted to highlight what's going on in the Northern Corridor. You've seen news in the press. This is an atypical situation, but everyone states the river will recover in late November and throughout December, so that's what we're working on. For the Southern Corridor stronger decrease in Ladário, but we will begin the year with a situation of recovery. I'm going to give the floor to Ricardo, he's going to talk about the assumptions we have and then we will open for a Q&A session. Thank you very much.

Ricardo Pereira - CRO and IRO

Thank you, Fabio. Well, folks, as Fabio mentioned in detail we've seen this situation in the last few days regarding the North and South rivers and what we have been doing in that regard. We are always very transparent with you as we have always been, updating you on the different scenarios and the impacts as we gain more clarity internally about the facts.

That's what we did in the first announcement. We said that our operations were not being impacted because they were not at the time, and that our forecast was in line with what had been budgeted; and we said that we were on track to deliver the expected results. We expected that and you expected the same when we released the second statement showing that we had some restrictions - but still operating, so it was we had greater restrictions, we were losing some volume in the North in October and we realized we could not recover this in November and December because we didn't see improvements in river levels.

And that's what we do right now, when we are announcing this guidance for you, because we want to align expectations regarding 4Q, because the changes were quick and much larger than expected - and again, folks, this includes ourselves. We are very transparent, and we want to be very much aligned with you. We want to give you all the information that we have internally.

As you can see now on slide #21, we are expecting an Adjusted EBITDA including the EBITDA of the JVs between 740 and 770 million BRL for 2023, for the year. On average, we will have a result that is equal to last year's, and at the highest end of the results, we would still have growth compared to the previous year. The Cagr is of 9.5% in the last three years if we take into account the average of this window.

So we go on with the Santos operation, the cabotage operations and the results of the holding are aligned with budgeted, so with no external... if we don't have external impact, we will deliver the foreseen results. We have, we will deliver considering to what's under our control. The South operations will face an impact in 4Q due to the abrupt situation of the draft. So there is an assumption of the use of the low-water plan between November and December.

With the North operations, we will have the impact caused by October, so there's a new decrease, very sharp decrease and now the maintenance and the state of restriction for November. That's why we decided to bring forward the maintenance that should be carried out between late December and early January. We are doing it right now because we believe it is the most logical thing to do to optimize this idle time.

October had a loss of 200 tons and November and December no operations at all, because we will stop for maintenance in the fleet to ensure that in the beginning of the year we will have our fleet back available to the business. That's when we expect to have positive draft, more deep drafts and recovering our operations to regular levels.

This result is clearly below the company's potential. We had a very positive outlook for 9MTY and this also leads to frustration internally for us, but we still believe that scenarios like this are not normal. They are not structural and they should not be seen as a business case basis, so much so that Hidrovias is still growing in the face of external challenges. As Fabio mentioned, we are looking for alternatives so that these external risks are increasingly mitigated, and so that they interfere less and less in our normal timeline for the year, so that we ensure full results even in years when these events take place. So that's how I conclude the presentation and we are available to solve any questions you might have. So you're moving to the Q&A session, thank you very much.

Q&A Session

Operator

Thank you. We will now open for questions. If you have a question, please press *1 on your touch phone. If your question has been answered, you may remove your question by pressing *2. The questions will be answered in order. Please hold while we wait for questions.

First question comes from Lucas from BTG Pactual.

Lucas Marchiori – BTG Pactual

Hello. Good morning and thank you for the updates. This is really important to be updated on this information. Fabio, you mentioned that even under these

conditions you've mentioned that doesn't change the pricing of the logistic windows for next year. The worsening as you mentioned, this sharp decrease, does this create pressure for pricing conditions? What is your level of comfort regarding the harvest itself for next year, corn most of all? Because we know there are some delays. Can you comment on that please, trade levels for next year? And what is the hedging that you have regarding these risks? Thank you very much.

Fabio Schettino - CEO

Thank you very much for the question. Regarding 2024 and these movements the answer is no, we don't see an impact. But again, I can say that we continue with optimized logistic capacity. This is the move. In a more evident manner to your question, Lucas, we are 100% sold at previously defined fees or prices, 100% of capacity for that specific interval, 15 to 20% regarding the average rates for this year.

We foresee some volatility. As a commercial strategy, players want to ensure an environment in which capacity is taken, not just in the Northern Arch, but also for logistic matters. We don't have a migration from one corridor to the other. Capacities fulfilled in their strong demand. Looking at the scenario, our commercial strategy as of September, that's when we started looking at the following year. 100% of our capacity is sold at pre-established prices, 15, 20% above the average tariff.

Regarding harvest, what we see is still strong. This is a record harvest. The same level for last, next year for soybeans, 70% more or less of planted soy in Brazil and a good time window or ideal window. We will have room for a second corn harvest. There is a delay in planting, there can be postponement of these movements, but nothing structural. But this is all in volumes that are already taken in a take-or-pay regimen.

We've suffered very little in 2021 with the corn harvest, because we had the commercial option of already selling with our take-or-pay system, same thing for next year and I can tell you 100% of the capacities sold. We don't expect price changes and we don't expect changes in the use of capacity. This is what we found to mitigate the risks for next year.

Lucas Marchiori – BTG Pactual

Thank you very much, Fabio.

Operator

Next question comes from Rogerio, Bank of America.

Rogério Araujo - Bank of America

Good morning, everyone. A follow up regarding 2024. Is there any relevant risk due to the dry, the drought situation? Is there a risk of starting the year with lower draft levels, lower volumes and what would be the impact of the, of that in the take-or-pay contracts that are already signed if you cannot deliver on the agreed volumes?

Climate change has caused more volatility to the draft of the river. The studies you've conducted, do they include the volatility, the recent volatility? Can this be more frequent than what we've seen in recent years? And if yes, what can Hidrovias do to mitigate on these impacts?

Fabio Schettino - CEO

Thank you, Rogério. The operational risk for 2024, when we set up our operational program, we have an integrated system. It takes a lot of regularity. When we sell 100% of our capacity, we have a defined operational program, which takes into account the seasonable movement in the basins where we operate. I don't sell our capacity linearly. This is important when we talk to the client. Everyone would like to have the vessels in the same time, that's not how it works, we have to manage our capacity.

So the pace has been defined; when we sell 100% of our capacity, we allocate it based on the draft curves expected for the bases South and North. In the North, we expect a recovery. Even where there has been this type of event, there was a recovery in the draft of the rivers in the following years, with high foreseeability.

In the Amazon, we deal with these events as an outlier, we don't believe these restrictions will continue; in the South, there is a seasonable effect, higher or lower, but it happens in the river. We plan ahead for that, Rogério. In November and December we already budget and we already plan for the fleet - the low-water plan as we mentioned, because November and December we will have low waters. It's not at all similar to what we've seen in 2020 and 21 and also in 1H22. If you have 7 feet in Ladário this is within historical average, it is expected. This is the normal it's the lower level of the window.

We have assets that are used for this type of navigation. How do we address that? Well, in the South we have the low-water plan and in the North, we expect that in December there will be a recovery. These are huge rivers, as you know, with huge navigation capacity.

Regarding the studies we've conducted, they do contemplate the volatility of the climate. Aligned to the bathymetry studies we did, we have defined the specific spots and we can be more precise. There's an interesting conclusion for us, this is really important. We presented the study, with the studies we presented last week, 6,000,000 cubic meters, the volume that was approved by the Paraguayan government. Three companies won the bidding process. If we do this intelligently, in a programmed manner, this will solve most restrictions we found in this map.

The next step which we have to conduct is to use the Cadin, which is the organization that brings together shipyards that work in the river. We have to take this Intel for the Ministry of Public Waters so that they do the dredging process efficiently. There's a lot of change now because dredging was done reactively, with no intelligence whatsoever regarding the hydrodynamic; where do you move the earth? Where do we, where do you place the earth that has been dredged from the bottom of the river? Now we have clarity and intelligence, which we'll share with the Paraguayan government so that this is much more foreseeable in the South.

Aligned to that, we've hired a long-term study. We ran a global sourcing, and we found the best company to help us. The result of this study is that hydro ways will continue these paths. We will have intense precipitation in shorter periods, and also intenser dry seasons - but they will keep on existing and being navigable. Hidrovias do Brasil did not operate in Tietê Paraná, in São Francisco and Mamoré. These are smaller rivers, but we are talking about the Amazon Basin. The long-term studies show us that Hidrovias will keep on operating and these rivers will keep on being navigable.

We have to eliminate restriction points. Even in the simulation of a huge crisis such as the one we faced, these rivers are navigable 7 or 8 feet. So we will bring together the bathymetry and the long-term studies. Starting next year, we will start mitigating these risks. So yeah, the answer is yes. We take into consideration the long-term studies also when we foresee our plans.

Rogério Araujo - Bank of America

Thank you very much.

Operator

Next question is from Felipe, Citi.

Felipe Nielsen – Citibank

Good morning and thank you for your question and thank you for your explanations actually. Thank you for taking my question as well. My question is regarding the 2023 guidance. The EBITDA level you've mentioned considers a reduction in volumes and a reduction in operational efficiency. Are there other costs that you are looking at? Are you attempting to renegotiate contracts or extra maintenance? Something else, something beyond that could be causing an impact in the 2023 EBITDA?

Can you talk also about the Santos Port CapEx? You've mentioned some acceleration. Will the CapEx accelerate? How much and until when? Thank you very much.

Ricardo Pereira - CRO and IRO

Hello Felipe, this is Ricardo, thank you. Let me try to address your points. This is very well known, a very high contribution margin, high levels of efficiency with high operational margins and volumes. When we reduce volumes, this has an impact in our cost structure. So that's what causes an impact and the loss of EBITDA in the North - this is operational, though, no extra costs, no reverse take-or-pay forecast. We are above 90% of the contract, maintenance costs they are CapEx.

When we look at our assets for next year, they are anticipated and there are, there's no other cost impacting this. This is operational. We don't have the objective of demobilizing in an attempt to lead to some gains, because 20 days from now you would mobilize it all again. So it's just the carryon effect created in the structure and in the company's fixed costs.

As to the Santos CapEx, the terminals, the storage, the warehouses, the fixed structure, it's concluded, it's ready. It is operating very well, as you've seen in the results. We are trying to attach the railroad access; we have contract signed for 500,000 tons/year for iron ore and we will start operating next year. So there's remaining CapEx for that, but for terminals, warehouses and unloading of cargo, everything is ready and running.

Felipe Nielsen – Citibank

Thank you, that's very clear.

Operator

Please hold while we wait for more questions. Next question comes from the webcast platform, and it will be asked in English from Carolina, BCI Asset Management.

Fabio Schettino - CEO

Hello Carolina, this is Fabio. Well, this is a matter of operational optimization. If we assume that we will continue with some restrictions in the next 15 or 20 days, which is what forecasts show, and considering that we must do maintenance in the assets - we do it every year, we stop the operations for 20 days, we do this regularly every year -, but usually this is in the second part of December and in the first part of January; however, looking at the restrictions we have right now we don't want to run the risk of being idle now due to navigation restrictions and then having to stop once again in late December and early January for maintenance.

There is very high probability that the river will recover in late December and there will be demand. There is corn from the previous harvest left for next year and this is higher than average: 9 million tons of corn. So when we take all of that into account, we will wait for the river to recover. We have available cargo and based on that it seemed us, to us reasonable and responsible to take advantage of this unavoidable stop right now to do maintenance, because the system is very stressed in terms of capacity.

But it requires an availability of almost 100% of assets, 8 million tons in the integrated system, assets have to be well maintained and available. Operational stoppages cost us a lot, that's why we made this decision. We anticipated maintenance so that we can start December already at a higher speed when we go back into operation so that we continue in our system and also taking advantage of the corn that we have to transport, hence our decision.

Operator

Next question also from the webcast platform comes from **Alexandre from Samauma Capital**: Good morning. Annual maintenance implies a capacity to transport additional volumes in 1Q24. Until then the fleet will be prepared to navigate regularly?

Fabio Schettino - CEO

That's a good point, Alexandre. When we anticipate the maintenance from late December to now, any cargo within this period would be, will be additional to the planned cargo, hence our decision. When we look at January, there are more or less 10 days of additional capacity. So that's exactly the strategy, we will not have to stop later on. We want to remove all the cargo from the system in December. Silos are taken, we need to go back to the river so that we can transport this cargo into the port, 130,000 tons in stock. This is the capacity of the terminal, it is full. That will give us an opportunity of beginning January, Day One, with full cargo when we look at the demand. So yes, we want to gain 10 days of operations in January and about 10 days of operations in December, in which we will flow the existing cargo.

Worst thing would be to stop now because of the river, which we have to do; and then the river recovers, and we would have to stop again for maintenance. So yes, we expect additional cargo for this period, in which we would regularly stop for maintenance.

Operator

Next question comes from Marcos: If this year's CapEx is a little bit lower, does that mean it will be higher next year? Can you give us more specific guidance for this year's CapEx and 2024's?

Ricardo Pereira - CRO and IRO

Hello, Marcos, thank you for your question. We're looking at our CapEx, which is lower this year. There's a lot of work from the internal team in assessing and reducing invested values, using or optimizing investments. What do I mean by that? Is that part of this reduction represents an increase in efficiency: we are making more money in the same asset due to better negotiations or to a different use of engineering projects or efficiency we are gaining.

So that does not mean that we will invest more next year; 1 BRL loss this year means an investment next year, it's not a direct correlation. What we have been commenting in our previous calls is that we have some investment for next year in transitory capacity. That will take our investment range for 400 or 500 million. We are still working on these projects. A spread of 100 million BRL we are still finishing the approval of projects for next year - but this is in line with what we've been doing, 150 to 200 million BRL in recurring CapEx.

The difference is the capacity of our corridors. So results will not boost suddenly, it's not that the CapEx of this year will be transferred into next year. We are very consistent and diligent in our assessment of each BRL we invest in the company. We want to be very efficient with our equity and that's why we've reduced CapEx this year.

Operator

With that we conclude today's question and answer session. I would like to invite Mr. Fabio Schettino to make his final remarks. You have the floor.

Fabio Schettino - CEO

Thank you all very much. We've gone over time, and I would like to leave some messages. The soundness of nine months of results shows the capacity of our company in regular situation, and regular situation is the rule and not the exception. We generate results and cash; this is a given. I say internally that crises come, but we still break records. So this clearly shows the resilience of our business model, even in the face of crises and even in the face of the volatility that is inherent to our business. We just need the ability to deal with them, and that's what we do. Nine sound months of results with a favorable outlook for next year.

When looking at 4Q, this is a very atypical event in the North. This is a result of what's going on in the North, but not in the South; in the South we see regular situations for low waters. This plan exists precisely to face with this period of the year. The return that will come back, come back, the regular level of the river, it will come and it will give us gains.

So it's just about doing the math: we're going to have a gain of 15 to 20% of the tariff, this is a strong impact.

Silence (1:16:08 – 1:16:36)

Interpreter

We are facing some audio problems.

I'm sorry, says Mr. Fabio.

Fabio Schettino - CEO

We've had some audio problems. So the impact of the material fact is atypical just for the North. But we are looking at a recovery, and Ana allowed me to give a range: the gain will be of 15 to 20% of yield, you just have to do the math. This is quite powerful, the impact in the increased tariffs, so this is margin for us. We will begin the year with these gains.

Finally, we will continue with our modular investments, being very careful and not generating idle capacity so that we better manage our prices, and we will continue with an increased capacity starting next year, 6.5 million in integrated capacity, reaching close to 8 million in expedition capacity. So for next year Vila do Conde buoy from 7.2 to 7.9 in capacity; we increase the navigation capacity from 5.9 to 6.5; we will place new assets there; for 2025 we will have a floating station integrating our system with 8 million tons, 8 million tons for navigation and expedition as well, shipping. That's what we intend to do, continuing to manage pricing levels.

So we send a message of stability of growth, and after we finish this bumpy period we will enter 2024 in a good situation.

My apologies for the technical audio problems. Thank you all very much for your interest. This was a long call, Ricardo and myself are available for any further questions you might have. Thank you very much.

Operator

Thank you. With that we conclude our results conference of Hidrovias do Brasil. Thank you very much for joining, have a nice day.
