

## Y 2019 Earnings Call

### Company Participants

- Phillipe Casale, Investor Relations Executive Manager

### Other Participants

- Alex Falcao, Analyst
- Fernanda Cunha, Analyst
- Isabella Simonato, Analyst
- Luiz Carvalho, Analyst
- Regis Cardoso, Analyst
- Roberto Browne, Analyst
- Rodrigo Almeida, Analyst
- Thiago Duarte, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time, we'd like to welcome everyone to Cosan S.A.'s Fourth Quarter and Fiscal Year of 2019 Results Conference Call. Today with us, we have Mr. Phillipe Casale, Investor Relations Executive Manager and Mr. Joao Arthur Souza, Head of Finance.

We would like to inform you that this event is recorded and all participants will be in a listen-only mode during the Company's presentation. After Cosan's remarks, there will be a question-and-answer session for industry analysts.

(Operator Instructions)

The audio and the slide show of this presentation are available through live webcast at [ir.cosan.com.br](http://ir.cosan.com.br). These slides can also be downloaded from the webcast platform.

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

Now I'll turn the conference over to Mr. Phillipe Casale. Mr. Casale, you may begin the call.

## **Phillipe Casale** {BIO 20025617 <GO>}

Good morning and welcome to Cosan S.A.'s fourth quarter 2019 and full year 2019 earnings conference call. There was an important one for Brazil. Pension Reform was approved by Congress, inflation remained under control, partially due to still with low economic growth, allowing real interest rates to reach record lows in recent history.

Our businesses proved that they have strength against volatility, and we delivered solid results, with 12% increase in pro forma adjusted EBITDA to BRL5.6 billion. Comgas and Moove were the highlights, both slightly above the top end of our guidance range due to better performance, especially in the 4Q '19. Guidance for Raizen Energia remains the same and follows the crop year, which will end in March 2020.

Let's move to Slide 4 to discuss the results of each business unit, starting with Raizen Combustiveis. As discussed in our last conference call, demand for fuels posted a gradual recovery in second half of '19. Brazil's total volume grew by 4% last year, considering the ANP figures. Again Raizen grew above the industry average.

The total volume sold rose 5% both in the quarter and in the year. Sales measured in gasoline equivalent increased 6% in the Otto cycle and the gasoline sales were the highlight given the contraction in previous quarters. Ethanol sales also remained strong, yet the fuel was above 70% paired in most states, implying demand resilience.

Regarding diesel sales, Raizen remained focused on increasing its customer base, always targeting the adequate profitability. Aviation sales dropped due to the winding up of one of our commercial clients. Raizen Combustiveis adjusted EBITDA rose 16% to BRL951 million in the quarter, maintaining the usual seasonality with fourth quarter being the strongest one. In addition to the higher volume sold this year, or actually this quarter, we captured opportunities through Raizen's efficient supply strategy. This includes not only the inventory management, but imports, a structural component of that strategy. Adjusted EBITDA grew 3.5% to BRL2.9 billion in 2019, in line with revised guidance. It's worth noting that we adjusted the positive effect of BRL1.1 billion from the formation of Raizen Conveniencias joint venture.

This November 19, this segment results are no longer consolidated by Raizen Combustiveis, being now recognized as equity pick up. Quick reminder here, Raizen Conveniencias will focus on accelerating the implementation of the C-store services on services station under the traditional select brand franchisee model, while also developing the proximity store model with the OXXO brand.

During the first three years, we expect to add around 500 new stores in total and these will require higher investments and expenses. Raizen Combustiveis CapEx this quarter totaled BRL250 million in maintenance, conversion, renewal of contracts with clients as well as infrastructure.

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Moving to Slide 5 to discuss Raizen Argentina's results. Note that we report this results in US dollars, which is the functional currency of the downstream operation in Argentina. Our first year of operations was challenging amid worsening political and economic scenario in few and oil prices freezing. The refinery processed 79,000 barrels per day, resuming operations under scheduled maintenance in previous quarters.

Despite the complex scenario, these diesel and gasoline sales rose 10% year-over-year, reflecting the commercial efforts and expansion of the services stations network. The aviation sales performance reflects lower demand for flights in that period.

Adjusted EBITDA totaled \$80 million in 4Q '19 besides higher volume of gasoline and diesel sold. A gradual unwinding of price freeze contributed to a non-recurring gain of \$13 million in the quarter. In 2019, adjusted EBITDA reached \$195 million. Investments totaled \$15 million in the quarter and \$84 million in the year end, most of which to maintaining and improving the refining operation.

In the next slide, we present Raizen Energia's results. Since this is the third quarter of 2019/'20 crop year, I'll focus on quarterly results. Crushing season ended around November and reached 16 million tons, in line with the previous crop, but below expectations. Here it's worth noting that despite improving the agricultural productivity, Raizen faced lower sugarcane availability, mainly on those mills acquired over the last three years. Raizen's focus is to enhance the efficiency in agricultural yield through investments, which should increase sugarcane availability starting next crop year '20/'21. Raizen prioritized ethanol production this -- in the mix this year, ending the crushing season at 51% of the total.

Speaking of sales, let's start with sugar. We accelerated sales in the quarter, in line with sugar commercialization strategy, aiming at maximizing profitability. Shipments were relatively lower during the first two quarters of the crop year. Volumes will be even stronger in fourth quarter of the crop year as shown in the sugar graph. Average sales prices in reais were 20% higher in the quarter on the back of good hedging in reais terms.

Moving to ethanol, sales volume came in 20% lower this quarter, also in line with the crop commercialization strategy. A relevant amount of the biofuel sales was lapped to the inter-crop season, seeking higher profitability as demand remains strong. Average price came in 11% higher than previous crop, explained by favorable prices in the domestic market as well as higher export volume in the period. Hedging of part of the ethanol sales also contributed to higher average prices this quarter.

Now moving to electricity. Note that results are impacted by WX, which is Raizen's electricity trading company. Our own volumes sold came in 7% higher in the quarter. Average sales prices were positively affected by a favorable prices in the spot market. Before discussing the EBITDA, I would like to highlight that the unit cash cost already normalized by the CONSECANA effect, increased 2% reflecting the product mix with higher production of white sugar and inflation specifically this quarter.

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Adjusted EBITDA came in at BRL628 million in the 4Q '19, 25% lower than 4Q '18 due to lower volume of ethanol sold. Higher average prices partially offset these effects. As far as sugar hedging, export volumes are fixed at BRL0.55 per pound and for the '20/'21 crop season, we already hedged around 55% with an average price of BRL0.61 per pound, almost 10% higher, if you compared to this year.

Recent improvement in sugar prices combined with the Brazilian real depreciation generated good opportunities to increase hedging. There is an increasing consensus that leading producing countries faced favorable or actually unfavorable climate affecting their production, especially in India and Thailand. In Brazil, the demand for ethanol remains a strong, sustaining and good remuneration still.

The outlook for '20/'21 crop year is that the mix will be slightly more balanced between sugar versus ethanol compared to the last two crop years. Raizen keeps close track of market dynamics, always capturing opportunities to improve sugar and ethanol profitability, optimizing its strategy and commercialization mix throughout the year.

Lastly, CapEx totaled BRL656 million in the quarter, with higher inter-crop maintenance figures are as good as crushing period ending earlier this crop year compared to the previous one, but it's in line with the guidance.

Now let's discuss Comgas on Slide 7. Natural gas sales volume fell 3% in the 4Q '19 and 1% in the year on account of lower demand from specific industrial sectors served by Comgas. On the other hand, commercial sales grew 2% in the quarter and 3% in 2019. In the residential segment, sales came in line with the 4Q '18 and rose by 1% in the year, driven by the addition of 103,000 new clients.

Normalized adjusted EBITDA totaled BRL507 million in the quarter and BRL2.2 billion in the 2019, driven by a more favorable sales mix, with greater share of residential and commercial segments, as well as margins adjusted by inflation. Regulatory current account recovered, ending the year with BRL5 million position in favor of Comgas's clients. Comgas invested BRL299 million in the quarter and BRL899 million in the year. In line with the CapEx plan, accelerated investing -- investments after the conclusion of the tariff review process.

Now let's move to Slide 8. Improved finished product sales performance in Brazil and abroad bolstered Moove's adjusted EBITDA totaling BRL83 million in the 4Q '19 and BRL321 million in 2019. Total sales volume grew 13% in the quarter and 15% in the year as a result of the Company's consistent sales strategy and growth across all countries.

Let's move to the right side of this slide and Cosan's corporate segment reported G&A expense of BRL64 million in the 4Q '19 and BRL227 million in 2019. In line with additional communication and marketing expenses expected for the year and general expenses concentrated in the period. In addition, as highlighted in the 3Q '19, the migration of the share-based compensation plan to the stock grant plan resulted in an additional and non-recurring expense of BRL36 million in the 3Q '19. While the revenues and expenses composed mainly by legal expenses and contingencies (inaudible) million in revenue due

to the sale of credit rights and the recognition of a gain related to the exclusion of ISMS [ph] from the calculation basis of the PIS/COFINS taxes. This is a state taxes in the federal taxes basis.

Now let's move to Slide 9. Cosan S.A.'s pro forma adjusted EBITDA reached BRL1.4 billion in the 4Q '19, and BRL5.6 billion in the year, reflecting growth across all lines of business. And the net income totaled BRL793 million in the 4Q '19 and BRL2.4 billion in 2019, including a non-recurring gain from Raizen Conveniencias joint venture. But even excluding this effect, adjusted net income rose 24% to BRL1.6 billion.

Free cash flow to equity, totaled BRL2.4 billion in the quarter. Main effects were in operating cash flow, the cash generation increased at Comgas and there was a cash inflow of BRL410 million in Cosan Corporate, reflecting the sale of credit rights during the third and the fourth quarters. So the cash effect of the credit right sale of the third quarter was actually recognized this quarter.

Cash flow from investments expenditures increased at Comgas. And Cosan Corporate received BRL1.5 billion related to the Comgas's capital reduction. Raizen Combustiveis also paid the last installment related to the acquisition of the asset in Argentina, totaling BRL675 billion [ph] that's considering the Cosan's 50% stake in Raizen.

In cash flow from financing, funds were raised by Raizen and Comgas. The free cash flow to shareholders totaled BRL4.5 billion in 2019.

Pro forma gross debt rose 14% in the 4Q from previous quarters due to the fund raising of BRL2.9 billion by Raizen and BRL2 billion by Comgas. The cost of debt stood at 111% of the CDI on pro forma basis or 119% of the CDI, if we exclude Raizen. The pro forma leverage ratio after the usual current account adjustments at Comgas and leasing liabilities ended 2019 in line at 2 times net debt to EBITDA.

Now let's move to the next slide to discuss our expectations for 2020. Better performance of Brazil's economy supported by unprecedented levels of cost of capital, combined with our consistent strategy should contribute to another year of EBITDA growth in all business lines. For Raizen Combustiveis Brazil, we estimate an EBITDA between BRL2.8 billion to BRL3 billion. This year's scenario should be similar to what we saw in 2019, meaning challenge and opportunities due to volatility. Demand should be in line with GDP, somewhat around 3% growth. As already mentioned, the convenience store result will no longer be consolidated in EBITDA being now recognized under equity pickup in proportion to the 50% stake that Raizen Combustiveis has in the JV.

CapEx should also come in line with last year. We focused on expansion and renewal of the services stations network as well as infrastructure investment. At Raizen Argentina, we expect an EBITDA between \$160 million to \$200 million, reflecting the economic instability of the country.

At Comgas, EBITDA -- normalized EBITDA is estimated to range between BRL2.250 billion to BRL2.400 billion in line with the regulatory plan approved by ARSESP, the regulatory

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agency.

At Moove, improved performance in Brazil and international operations should boost EBITDA in 2020, with BRL330 million to BRL350 million range. At Raizen Energia, before discussing our projections for the next crop, we reiterate -- we are reiterating the guidance for 2019/'20 crop, which ends in March, targeting the lower end of the guidance range. Regarding the '20/'21 crop year, we are disclosing preliminary guidance since budget process is still underway, crushing should improve compared to the last two years, EBITDA should also post another year of growth since prices are pointing to better levels and CapEx should remain between BRL2.85 billion to BRL3.05 billion. That leads to Cosan's pro forma EBITDA between BRL5.8 billion and BRL6.4 billion.

To conclude the presentation, a quick update on ESG efforts and disclosure. In 2019, we increased our engagement with several agencies, answering the CDP questionnaires while applying to both B3 and Dow Jones Sustainability Indexes. We published our Sustainability Report in accordance with GRI guidelines, while processing each material topic of our businesses with United Nations' Sustainability Development Guidelines. Regarding governance, we updated our code of conduct grounded on respect, ethics and transparency principles.

This concludes our presentation. We'll now take any questions you may have. Thank you.

## Questions And Answers

### Operator

Thank you. We will now begin the question-and-answer session for investors and analysts. (Operator Instructions) Our first question comes from Isabella Simonato, Bank of America.

### Q - Isabella Simonato {BIO 16693071 <GO>}

Thank you. Good morning, everyone. Good morning, Phillipe. And my questions are related to the guidance for 2020 because as you said, I mean, I think despite the volatility, the environment seems to be better for most of the divisions, but especially for Raizen, right. And when we look at the implied growth of EBITDA, especially for the fuel distribution part, in our view, it seems a little bit conservative. As you said, growth could be -- volume growth could be in line with GDP and we are seeing solid demand and fuel prices. So can you go over a little bit the promises -- the assumptions you used in the guidance since the implied growth seems a little bit too low in our view? Thank you.

### A - Phillipe Casale {BIO 20025617 <GO>}

Isabella, thank you for your question. I will start here just pointing one thing that are -- we need the market to bear in mind. This year in the EBITDA guidance, we do not consider the BRL70 million EBITDA coming from the convenience stores, that's the EBITDA of 2019 that impacted the results and it's not going to be consolidated anymore in the Raizen Combustiveis as it was. So from now on, we are actually -- since the closing of the JV in November, the results of the convenience store segment is now coming through equity

pickup and the net income besides all the OpEx and the CapEx, that this entity, this segment will do. So we are not considering around BRL70 million that impacted the EBITDA last year. So let me start with that.

And talking about the guidance as a whole, we have consistently been building this guidance with the best assumptions we have at the moment, and that's not different now. So comparison base for 2019 growth was also weaker, if we bear in mind that the volume growth in Brazil, and this is using ANP figures was 4%. But if we exclude just the base of 2018 with the truckers' strike, we're talking about 1% volume growth.

So this is one thing. In fact, the second half of '19 showed some organic growth, which helps volumes in the business environment. In 2020, we can expect a little better in terms of demand. So we are estimating what is embedded on our guidance, it's somewhere around GDP growth for volumes. And this is what basically we are looking for the volumes here. And, again, consistent delivery another quite good year for Raizen Combustiveis.

**Q - Isabella Simonato** {BIO 16693071 <GO>}

And when we think about margins for fuel distribution, because when we look at EBITDA growth, even excluding the BRL70 million, the margin expansion implied is not -- it's not significant, how you're thinking about margins for this year?

**A - Phillipe Casale** {BIO 20025617 <GO>}

As we always say, the driver for margin growth is essentially the volumes growth and our ability to have a scale leverage that the volume growth brings to the table. So this is what we are focusing in terms of margin, right? We have to remember that inflation is at a different level than what we see in the past as well. And we have a commitment here to pass-through inflation on the margins. So this is what in terms of the EBITDA.

And one thing, just to do a quick analysis here. If we look at the midpoint of the guidance, considering these adjustments of the convenience stores EBITDA, we're talking about a 3.5% growth at the midpoint of the guidance and a 7% growth at the top range of the guidance, which is a scenario that we look, but this is just to bear in mind here, these adjustments are this impact of the convenience stores.

**Q - Isabella Simonato** {BIO 16693071 <GO>}

Thank you.

**Operator**

Our next question comes from Luiz Carvalho, UBS.

**Q - Luiz Carvalho** {BIO 18040760 <GO>}

Hi. Phillipe. Thanks for the time. And I have basically two questions here. The first one, if you can comment about the new potential investments and more specifically about the refining strategy, how you're preparing Cosan S.A. to participate in this deal and the color

you could provide? And the second one, also on the pipeline as you just required -- actually filed the requirements for a potential environmental license for one of the pipelines. So I would like to have a bit more visibility on the future investments.

The second one, it's about Comgas. If you can comment about the receivables that were confirmed late last year. In terms of the timing and also the potential way of these receivables are going to be confirmed to the Company. I understand that it's not going to be cash, but potentially extension of the concession. So what are the latest on this front? Thank you.

#### **A - Phillipe Casale** {BIO 20025617 <GO>}

Hi. Luiz. Thank you. Thanks for your question. Regarding the refinery, there's no news since our last conference call, and Marcos Lutz, CEO of CZZ disclosed a little bit what is our view. So the binding process, just an update here. The binding process has been postponed to May 2020 due to the complexity, the amount of information that needs to be analyzed. So really nothing really changed in terms of our view to this deal. We are reviewing and understanding here the processing, if we can have an angle to monetize and use our short and trading capacity and actively looking for good investments with the adequate return.

So there's no big news on the refinery side. In terms of the pipes, specifically on (inaudible) the project license is being licensed for almost four years now since we first started. And we are moving to have an approval project and the environmental license at some point in time, but there's no news regarding this project as of now as well.

In terms of Comgas, what we know from now is the same information we stated here the last conference call. So we know there is not going to be -- it's a non-tariff adjustment, but the agency needs to be state by May this year, how that's going to be deal. So there is no news on that front as well.

#### **Q - Luiz Carvalho** {BIO 18040760 <GO>}

Okay. No news. Thank you.

#### **Operator**

Our next question comes from Regis Cardoso, Credit Suisse.

#### **Q - Regis Cardoso** {BIO 20098524 <GO>}

Hi, everyone. Good morning, Phillipe. Few questions on my side. Still on the Combustiveis and looking forward, you commented you expect volume growth in line with GDP, but you've gained some market share throughout 2019, which means that if you were to maintain the same market share and the market growing line of the GDP, call it, 3%, I would expect Raizen to grow faster or to grow more than just GDP. So if you could just comment on that, if you meant market growing GDP or just your volume growing GDP?



And then in that guidance you've provided for the Combustiveis, do you, by any means, expect any sort of difficulty in the competitive environment with lower margins and so on or do you say it's mostly an effect of JV deconsolidation, maybe inventory loss in the first quarter now?

So those two questions in regards to the guidance. And then on a different topic, I mean, if we look into what's been the dynamics in the market so far, it appears that the first quarter 2020 might be a quarter of inventory loss, right? So I mean, we've seen these very volatile results, fourth quarter very strong, maybe the other way around in 2020. Do you agree with that?

Likewise, it appears there is still some arbitrage opportunity for imports in the first quarter 2020? Do you see it the same way? And the dynamics for the replacement margin. So the competitive environment now in the first quarter, is it any better or any worse than fourth quarter? So just to summarize on the first topic guidance, do you expect any market share loss? Do you expect any future competition? And then on the first quarter so far, inventory losses, gains on imports, and if you've seen any changes in the replacement margins dynamics? Thank you.

#### **A - Phillipe Casale** {BIO 20025617 <GO>}

Hi, Regis. I'll try to get all of your questions here, and thank you -- thank you for them. So first, in terms of market share, and this is something we have been saying consistently that market share is a consequence of the performance, and we have been pretty consistent on that. If you think about Cosan's or Raizen's results or volume growth in the past few years, we have been outperforming the average volume growth of the industry.

So our base of comparison is also different than the average of the industry again. So there is no target of market share here. And again, this is a consequence of the performance. In terms of the market environment, the competitiveness is still -- is strongly non-conventional players, right? And talking here about the division, quality of products and so on. So the ethanol demand being higher at some point in time helps on these dynamics.

And after three years of rejection, the fuel market reacted in the second half of '19, which, as I mentioned before, helps to improve market environment. So this is the scenario that we saw in the second half and probably, including GDP is slightly better than last year. We're going to see some volume growth as well in 2020.

And in terms of inventory, volatility will keep bringing challenge and opportunities to our strategy, and we are ready to navigate in any scenario with infrastructure and the efficiency that we have in our business. So this is what I can tell you, as you know, imports, inventory gains and losses are part of the game. And we have built investments to be efficient on that front.

#### **Q - Regis Cardoso** {BIO 20098524 <GO>}

Phillipe, if I may, just a follow-up. So you mean 3% volume growth in Raizen, right, not the market as a whole?

**A - Phillipe Casale** {BIO 20025617 <GO>}

Yes, that's what's implied in our guidance here.

**Q - Regis Cardoso** {BIO 20098524 <GO>}

Thanks. And if I may, just one last one on Energia. Can you comment on why is CapEx growing faster than EBITDA, particularly if you've hedged at such a high price in the next harvest?

**A - Phillipe Casale** {BIO 20025617 <GO>}

Regis, we are doing some catch-up in terms of productivity in some of the areas. As we mentioned in the conference call, specifically, those assets that we recently or -- those areas that we recently acquired, they suffered with lower productivity. So implied the guidance, we have an increase in the biological asset investments, so meaning renewal and planting of sugarcane in order to capture better productivity in the following years. That can be seen already for the next year where we have implied a growth on the total sugarcane crush.

**Q - Regis Cardoso** {BIO 20098524 <GO>}

Okay. All right. Very clear. Thank you.

**Operator**

Our next question comes from Thiago Duarte, BTG.

**Q - Thiago Duarte** {BIO 16541921 <GO>}

Thank you. Good morning, everybody. Good morning, Phillipe. Actually, I have two follow-ups on the guidance for each of the operating units. The first one is regarding the CapEx for the Raizen Energia segment. You just commented on that, Phillipe, a little bit, but if you could just provide this color on two things. Number one, can you break down the expansion CapEx in Raizen Energia in terms of sugarcane renewal? Because my understanding is that Raizen Energia's maintenance CapEx should be in the rounds of BRL1.9 billion to BRL2 billion per year. So there's a pretty big expansion and renewal CapEx embedded in the guidance that you guys provided. So if you just could give us a little bit more color on how much of that is really going into the renewing of the sugarcane fields.

And aligned with that, is there a number -- you guys used to provide in the past, the average age of the sugarcane field. So if you could just help us with that number. It would help us understanding a little bit more the pace of the renewing and whether this higher CapEx could also be the case for the following years and the following crops as well. So that would be the first question.

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The second question on the guidance for Raizen Combustiveis. Can you -- you mentioned your volume growth assumption. Can you talk a little bit of your pricing assumptions and whether you guys are using the spot price in terms of brand and ethanol? Or how you see prices per cubic meter evolving on average for this business unit will be helpful as well. Thank you.

**A - Phillippe Casale** {BIO 20025617 <GO>}

Thiago. Thank you for your question. Starting with the last one. Pricing and the price area at Raizen has been consolidated for a while, right? And it's not -- I'm not going to give you what is the main assumptions because we look at this as an integrated supply and commercialization strategy. So this is part of Raizen, let's say, full strategy for the fuels.

In terms of your first question, you're right, the average investment of maintenance, which is including renewal, planting and inter-crop maintenance is around BRL1.9 billion to BRL2 billion a year. So that's what you can consider for 2019/'20 crop and also for the next one. That's what's embedded for the guidance. And the target here is to bring the average age of the sugarcane fields from 2.9 years to somewhere around 3.5 [ph] years, which means that we're probably going to have one or two more years of a higher level of investment, which should gradually reduce well time.

**Q - Thiago Duarte** {BIO 16541921 <GO>}

Can you just, Phillippe, can you just clarify because since we are seeing in 2019, and now in 2020, the pickup in the CapEx in Raizen Energia. Can you just clarify whether we should still see a higher CapEx in the coming years as well? Because my understanding is that if you're speeding up the renewing the sugarcane renewing topic over this year and last year only, this higher number should also prevail in the coming years as well. So just for us to understand how fast we should be seeing the CapEx converging to maintenance?

**A - Phillippe Casale** {BIO 20025617 <GO>}

Thiago, yes, I think it's not a one-year thing. Of course, that's not how we work in this industry. So I'll say a couple of years of this level of renewal and planting being more focused on improving the productivity of our fields.

**Q - Thiago Duarte** {BIO 16541921 <GO>}

Thank you.

**Operator**

Our next question comes from Roberto Browne, Morgan Stanley.

**Q - Roberto Browne** {BIO 20545565 <GO>}

Hi, Phillippe. Good morning. Thanks for the question. I just have a quick one on Argentina. Just trying to better understand what happened in the quarter? I know that there was a \$13 million gain that was non-recurring due to the change in the prices in Argentina. But still, even if we take out that, the results are quite good around 70 -- close to \$70 million in

one quarter. And then considering this, it looks like the guidance for the next year is very conservative. So just maybe trying to better understand the assumptions you have on that guidance? And maybe how recurring the results we saw this quarter, how recurring it can be? Thank you.

**A - Phillippe Casale** {BIO 20025617 <GO>}

Roberto, thank you for your question. Argentina is still a tough economic environment. GDP points to a recession and inflation is still high. So 2019 confirmed that the quality of the assets and some resilience on the diesel and gasoline demand. But I mean, our guidance is using the best assumption we have nowadays, right? And this \$160 million to \$200 million EBITDA implies this assumption of more tough economic environment. So at this point in time, this is the best assumption that we have for the Argentina downstream business.

**Q - Roberto Browne** {BIO 20545565 <GO>}

And Phillippe, were there any other positive surprises in the results of the fourth quarter besides the inventory gains?

**A - Phillippe Casale** {BIO 20025617 <GO>}

No. So this was basically the, let's say, the one-off. So there was two -- there were two price adjustments between November and December, which helps us to recover part of the \$55 million loss of the 3Q, right? So this \$13 million gain that we have, it's just part of -- it's just a recovery of part of what we lost in the third Q. There was no other, let's say, one-off impact in Argentina. Also one thing that we can consider is that we have a slightly growth on our network here with new stations, which also helped on the growth of the volumes.

**Q - Roberto Browne** {BIO 20545565 <GO>}

Very clear. Thank you. Phillippe.

**Operator**

Our next question comes from Alex Falcao, HSBC.

**Q - Alex Falcao**

Hey, guys. Good morning. Thanks for the question. I have actually two. One is, when you design the guidance and the budget, can you walk us through a little bit what's the vision for sugar? And specifically, for ethanol, this recent drop because of coronavirus in oil prices, how much is that a factor there in your guidance or not? And what do you think the mix is going to be for this year if this dynamics continue. So that's question number one.

And second -- question number two is, with the lower cost of debt in Brazil, do you guys plan to shift a little bit the debt structure more into local debt and a little bit away from US dollar-denominated debt. Thank you.

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## A - Phillipe Casale {BIO 20025617 <GO>}

Falcao, thank you for the questions. So the first, in terms of the sugar prices and the dynamics and what is implied in the guidance, I'll say what I said in the call. So there's an increasing consensus that India and Thailand, one of the leading producing countries, are facing unfavorable climate conditions affecting their production. And that's probably part of what is impacting this better sugar prices lately. Brazil, when you see the demand for ethanol, it remains strong, sustaining a good remuneration still, including this inter-crop season, where we're going to have more sales of ethanol including. And the outlook for '20/'21 is that the mix will probably be slightly more balanced due to the sugar price recover. Even if -- especially if you compare with the past two crops, right? We will keep at Raizen the growth track of these market dynamics. We are probably going to decide a little bit better in terms of the mix throughout the crop, right? We already hedged about 50% to 60% of the sugar to be exported for next year at a pretty good level of prices, which is somewhat 10% higher than the price of this 2019/'20 crop year. So we're probably going to be talking about some shift on the production, not only for Raizen but probably at Brazil as well. But we're going to keep, again, a close track of these market dynamics, seeking always to improve the sugar and ethanol profitability and, of course, optimizing always our strategy of commercialization and mix throughout the crop year.

In terms of your second question, it's about the lower cost of debt in Brazil. Indeed, if you look at the opcos, we have already done a lot to reduce and to access local markets, and we are constantly looking at our liability management within the group. So there is nothing we can share as of now. But we are looking very closely into the opportunities in the -- not only at holdco, but at the opcos as well.

## Q - Alex Falcao

Okay. Perfect. Thank you.

## Operator

Our next question comes from Fernanda Cunha, Citibank.

## Q - Fernanda Cunha {BIO 20784520 <GO>}

Hi, good morning everyone. Phillipe, I just have two follow-ups on the energy business. The first one is, given that some of your competitors have already received the amount of (inaudible) that they will be able to sell for next crop year, can you give us any preliminary guidance of how many (inaudible) are you estimating that you'll receive with your mills?

And the second question is, when we get to midpoint of your sugarcane crushing side for next crop here, you're more or less growing 5%. Can you break down how much of this growth is related to better climate conditions? And how much is related to improvement in productivity, given the investments you have made in the past? Thank you.

## A - Phillipe Casale {BIO 20025617 <GO>}

Fernanda, first, in terms of the -- an overview in the (inaudible) we actually are in the process of getting all mills with a registration, right, or registered. The process is being

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conducted by ANP. And it should be concluded in the next following months or probably by May. So we don't have any mills yet registered. But again, we're in the process for all of them. So it's not -- we're not ready to share or give any update -- guidance or anything related to the (inaudible) issues and trading. So this is one thing.

And in terms of the growth of our sugarcane crushing, it's actually a mix of both things, right? Whether it's too early to say how it's going to impact the inter-crop, we're just in the half of the inter-crop season here. And in terms of the investment, what we have been doing last year in terms of improving the investments on agricultural yields is part also of this crushing growth for next year. So this is basically what is embedded based on the guidance.

**Q - Fernanda Cunha** {BIO 20784520 <GO>}

Okay. And then on the second question, just a follow-up. Given that you're investing more in planting and treatment, will you reduce the area of harvesting this year? Or you're just going to concentrate around 15% of the area.

**A - Phillipe Casale** {BIO 20025617 <GO>}

We're probably going to maintain, it's too early to say, but we're probably going to maintain it.

**Q - Fernanda Cunha** {BIO 20784520 <GO>}

Okay. Thanks a lot.

**Operator**

Our next question comes from Rodrigo Almeida, Santander.

**Q - Rodrigo Almeida** {BIO 20698362 <GO>}

Hi, Phillipe, hi everyone. Good morning. So I have one quick question on Combustiveis. My question is pretty much related to the inventory gains, the commercialization strategy that you had this quarter. It seems like you had a strong inventory gain. So could you just please help us quantify these inventory gains, and just so we can get a better feeling together with the guidance of what a normalized EBITDA margin for the business. Thank you.

**A - Phillipe Casale** {BIO 20025617 <GO>}

Rodrigo, we do not disclose this type of information. This is part of the supply, the sourcing and the commercialization strategy. So this is -- as we always mentioned, it's part of the game. And we cannot disclose these effects as of now.

**Q - Rodrigo Almeida** {BIO 20698362 <GO>}

Okay. Sure. Thanks.

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## Operator

Thank you. With no further questions, I would like to turn the floor back over to Mr. Phillipe Casale for final remarks. Mr. Casale, you may proceed.

## A - Phillipe Casale {BIO 20025617 <GO>}

Thank you, all. We hope to see you in our Investors Day, our Cosan Day, which will be held in Sao Paulo on March 9 and in New York on March 13. So hope to see you all there, and thank you, everyone, for the call.

## Operator

Thank you. That concludes the question -- that concludes Cosan's audio conference for today.

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