

## Q1 2020 Earnings Call

### Company Participants

- Luis Henrique Cals de Beauclair Guimaraes, Chief Executive Officer
- Marcelo Eduardo Martins, Chief Financial Officer & Investor Relations Officer
- Phillipe Casale, Investor Relations Executive Manager

### Other Participants

- Andre Hachem
- Christian Audi
- Isabella Simonato
- Lucas Ferreira
- Luiz Carvalho
- Pedro Medeiros
- Regis Cardoso
- Thiago Duarte

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Cosan S.A.'s First Quarter of 2020 Results Conference Call.

Today with us we have Mr.Luis Henrique Guimaraes, CEO; Mr.Joao Arthur Souza, Head of Finance; and Phillipe Casale, Investor Relations, Executive Manager.

We would like to inform you that this event is being 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. At that time, further instructions will be given. (Operator Instructions) The audio and the slideshow of this presentation are available through the 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 an 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 should 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 first quarter 2020 earnings conference call.

Is it possible to begin this presentation without talking about the current situation? No one could have imagined the challenges such as we have been facing since March. We started 2020 with a positive outlook, we pointed to global growth and improved local indicators. Our results indicated the quarter would be in line with expectations, but then everything changed. To recap, in one week, there was a sudden drop in oil prices, more than 30% in one single day. While at the same time, demand for the commodity fell, already a reflection of increasing social distancing around the globe.

On March 11, Cosan suffered a criminal cyber attack that led to the temporary suspension of some of our operations. On the same day, the World Health Organization declared the new coronavirus a pandemic. And since then, we have been focusing all of our efforts on making sure that we keep our operations, most of which are considered essential, up and running, while ensuring the safety of our people and the teams that needed to be in the streets.

During the conference call in late April, we had the opportunity to talk a little more about the impacts of the pandemic on our business and the measures we are adopting in line with our social responsibility efforts.

Our earnings release also included a summary of the group's main initiatives to fight the pandemic, but I think it's important to highlight a few of them here. As a group, we announced the donation of BRL17 million to various initiatives fighting the pandemic. We were pioneers in not laying off employees at this difficult time and have donated more than 1 million liters of 70% sanitizer alcohol mainly to hospitals, healthcare teams, and local communities in the areas where we operate. We are using our management, implementation and mobilization capability to establish partnerships and put our assets and infrastructure at the service of society.

During this presentation, we will discuss the impacts of the pandemic in the quarter in each of our businesses, starting with Slide 4 on Raizen Combustiveis. It is important to point out that we see our operations in Brazil and Argentina increasingly as an integrated one, a single and synergistic platform of value on the downstream. Our proper comparison and given their current volatility, we have separated their results and I will start with the operations in Brazil. Raizen Combustiveis was the business most affected by the crisis in the period.

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Before we discuss the figures, let me remind you that Raizen has been strengthening its client and supplier relations since the beginning of the crisis. To support our resellers, we have launched the package that includes initiatives targeting our network liquidity and financial health at this time, which will strengthen our partnership even more in the long run.

As for suppliers, Raizen has discussed and renegotiated almost all of its supply contracts, having updated terms and conditions to feed the current scenario. Regarding the figures for the quarter, demand plummeted in the last weeks of March as a result of social distancing measures, which had a direct impact on the Otto cycle and aviation sales. Diesel volume sales increased by 2%, helped by demand in the agriculture and transportation sectors.

Total volume sold by Raizen this quarter was 3% lower year-on-year. The criminal hacker attack wasn't material vis-a-vis overall volume sold in the quarter, but did cause additional sales loss in March, especially in the spot volumes, which largely explains the market share variation. In other words, we needed to be more selective between segments privileging our network.

To put things into context, the market faced unprecedented March and April price drops. The beginning of the ethanol crop season increases volatility even more leading to opportunities and challenges in our supply and commercialization strategy. Keeping the consistency, we navigated this period, keeping our usual balance between risks and returns in short and mid-term. We have already seen a gradual price and the many improvements in May, which will add to new business and contracts renewal agenda and Raizen's consistence performance.

Raizen Combustiveis' adjusted EBITDA totaled BRL568 million in the quarter, a 20% reduction compared to the first Q '19, reflecting lower sales volumes and price reductions affecting all products and leading to significant negative effect on inventories. These effects were partially offset by product import gains in line with the supplies strategy. In addition to the usual EBITDA adjustment, this quarter also included an accounting provision of BRL45 million for the typical and non-recurring ethanol inventory devaluation.

We also continue adjusting for IFRS 16 accounting standards for comparison purposes with previous periods, but also to make it easier for the market to understand the comparison with other business models used in this industry.

CapEx in the quarter totaled of a BRL193 million, 30% less than the first Q '19, resulting from some delay investments towards the end of March due to the pandemic in addition of increase on rebate contracts. We do not expect major investments decrease compared to last year as the pace of renewal and gas station conversion look pretty solid for the rest of the year.

Now, let's move to Raizen Argentina on the right-hand side of the slide. A quick reminder that results are in U.S. dollar, which is the functional currency used in the downstream operations in Argentina. Like in Brazil, the operation in Argentina was highly affected by

the drop in oil prices and stricter lockdown measures adopted by the country. Let me remind you that inventory levels in Argentina are higher than what we are used to seeing in Brazil operation, as include they crude oil and refined product volumes. Sales volumes fell by 13% in the quarter and the adjusted EBITDA dropped to \$33 million, posting a 47% reduction in the period. Investments added up to \$21 million in the quarter, most of which on maintenance of the refinery complex.

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Let's return to the slide -- to the next few slides with Raizen Energia's result for the quarter and also for the crop season. The quarter ending 2019-'20 crop was marked by a record BRL1.5 billion EBITDA posted by Raizen Energia. Seasoned crop season's crushing had already ended the last quarter, I will go straight to the volumes sold, starting with sugar. Sugar volumes sold in the first Q '20 rose by 29% in line with the commercialization strategy for the crop year while the average sales price reached BRL1,200 per ton, 7% increase compared to the same period last year. Sugar volumes sold in the crop year was 4% higher than last year and the average price rose by 14%.

Now, moving to ethanol, different from sugar; ethanol sales volume dropped 12% in the quarter, especially during the last weeks in March, reflecting the decrease in Otto cycle demand. Even with the significant oil drop in March, average sales price went up by 15% compared to the first Q '19, which is explained by higher export volumes and the economic hedging strategy or the proxy hedge for ethanol sales.

Turning over to electricity; own volume sold ended the crop year at 9% below compared to the same crop or to the crop of 2018-'19, having been offset by better average sales price. A brief comment on the dynamics of the unit cash cost, which has been normalized by the consequent effect; there was a 2% reduction in the quarter, while the increase in the crop year was only 4% as a result of the production mix which included more white sugar and the effects of inflation. The increase in sugar and ethanol sales added to improved average product prices led to a BRL3.4 billion of EBITDA for the year, an increase of 19% compared to the previous crop.

Regarding sugar hedges, Raizen has made progress on hedging the current crop, having covered approximately 80% of the sugar for export at an average price of BRL0.61 per pound, nearly 10% more than in the previous crop year. For the '20-'21 crop, we have hedged close to 40% of the sugar -- I'm sorry, for the '21-'22 crop, we have hedged close to 40% of the sugar at an average price of BRL0.64 per pound. Despite the abrupt drop in sugar prices in U.S. dollar terms, values in BRL have presented good opportunities and we have continued to hedge, obtaining higher returns than in the previous crop, since the devaluation of the BRL has been increasing the competitiveness of the Brazilian sugar. The drop in ethanol prices has led to dramatic changes in the production scenario in Brazil.

There's already a consensus that the current crop season will be of a significant increase in sugar production, which might keep the pressure on the U.S. dollar sugar prices in short and mid-term. On the other hand, several consulting firms are -- already indicated that other producing countries have reduced sugar output. Considering the main producing countries, India's climate has had a negative impact on agricultural yields, but there's a risk that demand might be threatened by the global crisis. Thailand and the European

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Union have also reduced sugar output, especially due to cultural changes in those countries added to a worsening of the climate conditions.

To conclude on Raizen Energia, investments added up to BRL1 billion in the quarter and BRL2.8 billion in the crop season, reflecting higher expenditures on crop management due to a larger crop areas and adjustments made to the level of sugarcane crop renewal in certain areas as well as mandatory investments associated to environmental, safety, and sustaining.

On the next slide, we'll discuss the Natural Gas. As announced during our Cosan Day, Cosan's new gas company Compass Gas and Energia was set up this quarter and now controls Comgas. This quarter, we also concluded the acquisition of Compass Trading, which is now part of the Compass Holding portfolio.

Now, let's discuss Comgas results specifically. Total volume of distributed natural gas fell by 4% in the quarter due to lower demand in the period and the early impacts of the pandemic. Commercial volume dropped 2% as demand of sectors such as food and beverage. There was a 4% reduction in industrial volume, owing to less activity in the period as well as a stronger comparative basis in the first Q '19. In the residential segment, volumes increased by 16% due to lower average temperatures in the period, in addition to the 99,000 new clients connected in the past 12 months. Normalized adjusted EBITDA totaled BRL578 million in the first Q '20 impacted by inflation, adjustments and the mix effect on the margin. BRL98 million from the regulatory current account balance was returned to clients in the period ended with a BRL103 million in favor of them. CapEx totaled BRL222 million in the quarter, in line with the investment plan.

Now, moving to Slide 9, we'll discuss Moove, which is our lubricant business. So, Moove's adjusted EBITDA increased by 35% in the quarter, reaching a BRL110 million, despite the 3% drop in volume sold. Sales reduction reflects the initial pandemic effects on demand in all countries, where Moove operates. The enhanced performance by the lubricant segment reflects the improvement results seen in international operations, in addition to an accounting gain related to one of the international acquisitions.

Now, let's turn to the corporate segment on the right-hand side of this slide; general and administrative expenses added up to BRL40 million in the first Q, increase of 8%. The increase reflects a higher concentration of expenses in the period and incremental costs associated to the migration of this stock option compensation plan to the stock grant plan. Other expenses comprise general and legal expenses and continues and added up to a non-recurring effect of BRL68 million this quarter related to a contractual obligation regarding the assignment of credit rights that took place in December 2017.

Now, let's turn to Slide 10. Cosan's pro forma adjusted EBITDA rose to BRL1.8 billion in the first Q '20 as a result of Raizen Energia, Comgas, and Moove's improved results. Net income reached a BRL102 million in the quarter, especially due to the impact of Cosan's higher financial expenses. These higher financial expense are mainly related to the devaluation of the Brazilian real, which affects the unhedged portion of the perpetual

bond. I'd like to remind you that all other debt instruments are hedged against FX fluctuations, including both their interest flow up to maturity and the principal.

Speaking of cash flow, BRL566 million was consumed on a pro forma base at this quarter. Despite Raizen Energia's robust generation of operating cash, this quarter was affected by early withdrawal of (inaudible) adding up to BRL1.7 billion and BRL284 million on Cosan's share buyback through the program we launched in March.

Still, we concluded the first Q '20 with a strong cash position of BRL3.2 billion at Cosan and BRL9.5 billion on the pro forma basis. Pro forma gross debt fell 4% in the first Q '20 versus 4Q '19, as less funds were raised in the period related to the amortization of the principal.

The cost of debt stood at a 107% of the CDI on a pro forma basis or a 112% of the CDI if we exclude Raizen. Pro forma leverage decreased to 1.9 times net debt to EBITDA after lease liabilities and Comgas current account adjustments.

Before we conclude the presentation, allow me to remind you that the guidance for the year has been suspended due to the uncertainties of the current scenario. We may resume projection disclosures as soon as the impacts on our result become clear. We will continue to monitor and assess the impacts of the pandemic on the local and global economy and prepare for the recovery, identifying risks and opportunities in a wide range of scenarios.

This concludes the presentation, and we can move on the Q&A session. Just one reminder, especially this quarter, Luis Henrique, our CEO, will also be available to take some of our questions. Thank you.

**Luis Henrique Cals de Beauclair Guimaraes** {BIO 17984872 <GO>}

Just more one more thing here; before we entering in the Q&A session, I'd like to invite Marcelo Martins, our CFO, for a brief statement about the notice to the market that was released today. So please Marcelo, you can move on.

**Marcelo Eduardo Martins** {BIO 16440115 <GO>}

Thanks Henrique. Good morning, everyone.

We released this morning a notice to the market in continuation to the transition process that we started in January of this year with the announcement of Marcos Lutz' retirement of the Board of Directors of Cosan S.A. and Cosan Limited, as well as Cosan Logistica. We have just now concluded that transition process between Marcos Lutz and Luis Henrique Guimaraes, and from now on as originally planned, Marcos will be focusing on his role as Chairman of the Board of Rumo Logistica and in that role, he is going to be fully dedicated within the Cosan Group to the activities of logistics company.

With that, as I said before, we just concluded the transition process and Luis will from now on as he originally started in the 1st -- on the 1st of April of this year just going to keep on - in his role of CEO of Cosan S.A. So again, we'd like to thank Marcos Lutz for his great contribution to the Group during his tenure as CEO and board member of the companies and we'll be 100% focused along with Marcos on the activities of Rumo Logistica from now on.

Thank you very much.

**Luis Henrique Cals de Beauclair Guimaraes** {BIO 17984872 <GO>}

So, now we can start the Q&A session, please.

## Questions And Answers

### Operator

(Question And Answer)

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>}

Good morning, everyone. Thank you, Luis, Philippe, Marcelo. I have two questions. First, if I'm not mistaken, in mid-April you provided a great update how we're seeing this situation right post after social distancing started, now, that we are more than a month after that. Can you elaborate how you're seeing the trends during Q2, in terms of -- especially for fuel distribution in Comgas, if there was an important change versus the trends you were seeing before?

And my second question is, we saw Petrobras raising prices of gasoline right in the past month. And how can we think about your inventories and margins given this recent increase for the short-term? Thank you.

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

Isabella, thank you. I'll take the second question here, in regards to Petrobras. So, one thing that is important to remember that this type of movements in the prices is kind of recurring, of course, we are coming from a big drop in oil prices in March, and we are now seeing a gradual recovery on the prices and also in volumes, right. So this is important to mention.

And I mean as we have a big drop on oil prices and gasoline prices in March and that impacted the inventories at that moment. Whenever prices goes up, we probably can revert part of that loss, right. So, let's see how that will behave. What I can tell you is that we are really seeing the second quarter of the year, a gradual improvement not only on

volumes, but also in prices following the market prices, right. I'll turn the first question about social distancing and how we are seeing the business going forward to Luis.

**A - Luis Henrique Cals de Beauclair Guimaraes** {BIO 17984872 <GO>}

Sorry, I was on mute. So, good morning everyone. Thanks Philippe, and thanks everyone to be here with us to review the performance of the first quarter of Cosan. And I will go to the first question. So let me start with fuels. So we clearly see that April, it seems to be the lower point of the curve, in terms of the impact on people, movements and volumes in Brazil, and the same in Argentina, especially given the big social distance on the main cities, the main capitals of the main states of the country.

With the release of people either promoted by the government or by themselves we see the volumes in May trending up, especially on the Otto cycle, the diesel has always been very resilient in terms of the trends starting to increase as well. But the Otto is probably the biggest difference we've seen between May and April, and we believe that this trend will continue as we have seen more and more announcements of cities and states about the recovery plans or opening up commerce.

Of course, aviation continue to be very grounded, in terms of the one, so very low volumes in April and May, and we also expect that in June we'll start some opening but we believe that aviation will take a longer course of recovery when compared to Otto cycle and diesel.

In regards to Comgas, we've seen some also increases of volumes in May. So, especially on the industrial side and some on the commerce -- commercial side, we think the commercial side will start to increase again in June with the opening up and start of the authorization or cities to open on the interior as well as on the capital starting this week and picking up the next weeks.

Very strong, continue on the residential side, and of course, with the low temperatures we've been observing in May, it also should fuel the increase on the residential side. So this is basically April seems to us clearly was the bottom of the cycle, in terms of the impact of social distance and all the measures and all the volumes start to recover, the same is happening also when we compare May on the lubricant side or move with April.

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

That's super helpful. Thank you.

**Operator**

Our next question comes from Lucas Ferreira, JP Morgan.

**Q - Lucas Ferreira** {BIO 16552031 <GO>}

Hi, gentleman, good morning. I have two questions as well. The first one is a follow-up to this discussion, we've been -- and also follow-up to the previous calls, you guys made on



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to the clear impact of COVID. So my question is, if you can give us more information on how your relationship with your resellers have been in the fuel distribution in Brazil. What sort of a support you guys giving and sort of a feedback you are getting and how do you see the situation of these guys now in this crisis and what are the measures they are taking? So that's my first question.

The second question is more of a technical one, maybe to Phillipe, about these adjustments in the ethanol inventories that you guys made this quarter. I don't understand quite exactly why this was such a different scenario when from previous fluctuations that we saw in fuel prices in the past. So obviously the magnitude of the ethanol price decline was unprecedented. I don't understand that, there was something else that drove you guys, do the adjustment on ethanol, and what to expect in terms of also these sort of accounting adjustments for the second quarter? Thank you.

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

Hi, Lucas, thank you for the question. I'll get the second one and again pass the first one to Luis here. So, as you all know, we don't adjust inventory effects in our EBITDA, right. Specifically this quarter due to the significant ethanol price drop that you guys saw on the beginning of April, the International Accounting Standards instructs that the company must book the loss anticipated to the sale of the product through a provision, right. So that's why this is specifically happened at the ethanol, right, and not to the other products. It is the first time that ever happened, so that's why we are adjusting that on the results. So it's a provision of ethanol that will be sale -- sold, that was already sold actually in April, okay.

**Q - Lucas Ferreira** {BIO 16552031 <GO>}

If you could also see the --

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

Yes. Go ahead

**Q - Lucas Ferreira** {BIO 16552031 <GO>}

If you could see an upward revision right, Phillipe, is ethanol pricings there rebounding, could we see also (Multiple Speakers) these provision?

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

Actually it does when you sell the product, right. And as you know the inventories of the fields runs on an average of 8, 10 days, right, so it was already done in April, right.

**Q - Lucas Ferreira** {BIO 16552031 <GO>}

Perfect. Thank you.

**A - Luis Henrique Cals de Beauclair Guimaraes** {BIO 17984872 <GO>}

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Okay, let me take the first question, Phillipe. I think there's a couple of important things here to address, Lucas. First as you know, it's -- we really praise our relationship with our retailers, over 6,500 sites, we have in Brazil with the Shell brand and over a 1,000 select stores. So we've been always very close to them and during this time's being not no different. We have released some assistant package and it will be, of course, very close to individual retailers that have had impacts, because the impacts in different regions in different cities were very different and we were very close to them.

What we can see is that given that the prices and volumes have reduced it together, the impacts on working capital was not as big as we anticipated. So therefore some of the lines of reclaiming back some of the credit cards, receivables were not used it as much as we anticipated given that our network, given our selection over time, and our quality of the resellers were well capitalized I think they could good handle well this process.

We have also working with them very closing when using the package released by the government, in terms of employee salaries and renegotiation of these terms and conditions and again achieving some savings in terms of operational and fixed cost. So, the quality of the network is good. We had a record year last year in terms of new contracts and renewals of our network. So, we just finished March with the number of contracts and the number of -- and the volume contract either new or renewal was a record on the last 10 years of Raizen.

And of course now on the return to normality, we already close to our dealers to support them and scale up the volume and regaining the throughput to the sites. I think, we all acknowledge that the big, the big difference on these crisis was the big reduction of demand everywhere. So we gaining that demand and we are able to make sure that they are fit and well for this return is very important and we are very, very -- we are working very close with them. So nothing has changed in our consistent strategy, best dealers on the best locations with the best offer, with very strong logistic and supply infrastructure to be able to be a very competitive player on this market, especially now that starting to return.

**Q - Lucas Ferreira** {BIO 16552031 <GO>}

Thank you very much, gentlemen.

**Operator**

Our next question comes from Andre Hachem, Itau.

**Q - Andre Hachem** {BIO 20209966 <GO>}

Thank you for taking my questions. Luis, if I could take advantage of you being on this call, I'd like to ask you two specific questions. Firstly in regards to the big M&A and potential acquisitions that you guys had inside looking forward. Is your appetite at all change when we look into the natural gas and all the opportunities at Compass, and when we look into the downstream? Or do you believe that all these opportunities are still there and you still have a lot of appetite going forward?

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Second question, I'd like to ask is a big question we're seeing is, how is the competitive environment evolving? We had been seeing the white flag players being very competitive during the past months, during the crisis, I would imagine that they would have lost a little bit of competition without having a bigger distribution company behind them. So if you could comment a little bit on how the white flag competition has been evolving and what's been going on in that front?

And if I could ask a final question in regards to Comgas, we've been seeing other concessions or other players seeking to get a, let's say, exponential or, let's say, a tariff provisions or some kind of rebalancing because of the coronavirus. Do you see this being -- do you this any kind of sort of space for negotiations with the regulator in regards to Comgas or is that not possible? Thank you.

### **A - Luis Henrique Cals de Beauclair Guimaraes {BIO 17984872 <GO>}**

So let me take the first question, first and second question and Philippe will return on the third question. So, on the M&A, so let's start with the original thinking about creating Compass. So, Compass was created a long-term view of the group that we would have a major player on this market based on what we have created in terms of Comgas and the natural growth of the supply and opportunities with the supply of products of products and the offer of products in Brazil.

Therefore, we have created that company and the company have that different arms that we showed to you on the Cosan Day, and we will continue to pursue that, some will be delayed like the issues on power generation, because there will be no auction this year, but it doesn't mean that we're not going to be looking at opportunities and preparing for it.

On the opportunities that could arise, on the distribution side, we will of course continue to look at, we will depend on how they will play and what are the time lines relating to that. And also on our infrastructure projects, we will also continue to pursue them, in terms of the license and work and making sure that we continue to progress them.

So, not necessarily are all M&A, there are also some organic investments that we will be doing partnership in terms of the infrastructure and all these movements are the Compass team is work diligently to put in place, of course, depending on the final profitability and the market environment in terms of the approvals et cetera. But we continue to believe that Brazil will have a great space and it will be a great market for gas, and this will continue to evolve and will be part of that play.

In terms of the competitive environment, yes, this is a -- I would say Andre, it's a very different time and in terms of the end of March and during the month of April, where we have a big shock in terms of reduction of demand, and at the same time of big decrease in prices. And as you know, we always very responsible in doing two things, managing our portfolio, and of course during these times, also during the time we have the cyber attack, we need to focus and privilege our contracted network, and our partners in terms of the size we have also on the B2B side.

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So we have to forego some of the volumes that we didn't either have the capacity to deliver given the impacts on the short impact on coronavirus or profitability play. So it'd be very conservative as you have seen in all our financial movements regarding to cash balance as well as management of inventory, as well as the management of our relationship with our network.

So, we see that the market as soon as the volumes and the demand recover, we don't foresee bigger change. I think, the dynamics of the market will be of players looking to fulfill customers that are looking for good service, especially now in terms of the way we are behaving on our networks with the dealers in terms of cleanliness of the network, safety of the employees, and all the procedures that have been implemented on our network, regarding masks and ethanol and cleaning of the machines, and of course things like Shell Box will be very important. So, we are accelerating all the touchless opportunity, because consumers would like to have less interactions as they go. The same happening with our delivery offer and the growth of a delivery offer on the select side.

So we are very comfortable that the model that we have will continue to work with our dealers and we will continue to support and enhance our offers in terms of products, services and overall relationship.

One thing that it's important also is that the connection between the strength of the network and the quality of the dealers I think will be more than ever playing and playing on this market, because we're going to see for some time, volumes slightly or in some cities with a big decrease in relation to before the crisis, and of course, the dealers that have a better capitalization and have stronger sites will benefit from that. So this is our view on how we see the market going forward.

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

Andre, regarding -- thanks for the question, regarding tariff review or rebalancing of the contract on Comgas, there's no discussion about this team at this moment. So, the company, the Comgas is analyzing on a daily basis, on a daily basis seeking with your committees to align all the financial -- financials of the company in the current scenario. But as of now, there is no discussion with the agents regarding that subject. So, we're seeking the alignment with the agency in all other matters, but no extraordinary discussion right now.

#### **Q - Andre Hachem** {BIO 20209966 <GO>}

Perfect guys. Very clear. Thank you.

#### **Operator**

(Operator Instructions) Our next question comes from Thiago Duarte, BTG Pactual.

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

Thank you, guys. Good morning, everybody. Two questions on my side. First, on clarifications on some lines within the results. Philippe already clarified the BRL45 million

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provision in the ethanol inventory in raising fuels. So, just wanted to two more things there. Number one, you guys booked a BRL270 million other operating gain in the raising energy segment. It's not clear so much where that's coming from or even the recurrence in nature of that line, since you guys didn't adjust the EBITDA for that, so if you just could clarify towards a little bit more on the recurrence and where that comes from, that would be helpful.

And secondly on the BRL68 million expense related to contractual obligations at the holding level. I understand that it's a non-cash expense, but I was just wondering why you guys had to book that at this quarter and whether we should expect more adjustments for that obligation related to the sale of the receivables from the original agreement with the government, so that would be helpful as well?

And the second question also following up on that discussion related to raising fuels and the relationship with the dealers, I think that discussion is very important. So just Luis if you could elaborate a little bit more on whether you think this situation with the dealer is not so much from raising as you said the dealers are in not good shape at least they seem to be. But whether you think that could represent an opportunity to speed up the conversion of white flags and even some of your competitors, dealers into Shell brand going forward.

I mean if we look -- if you look over the past years, you guys continue to grow the dealers' base, but that pace has been decreasing consistently. Few years ago, we would be seeing 200, 300 conversions per year, this is down to close to 100 now. So, just wondering whether you see the conversion is speeding up again or not as a result of the COVID and even without the COVID, how you see that playing out going forward? Thank you.

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

Thiago, thank you for the questions. I will get the first two ones and then see if Luis wants to elaborate on the third one. So, the first one regarding the BRL270 million of other revenues in the sugar and ethanol, this quarter's gain is related to among other effects to a bargain purchase accounting gain related to acquisitions made in the past, right. The disclosure of those effects will usually comes on the Raizen Energia financial statement, which will be released on Friday, so we will get more of the disclosure about that, right.

Those types of effects are -- happens all the time gains and losses on Raizen Energia so not necessarily it's a non-recurring and we -- that's one of the reasons why we haven't adjusted, but out of that BRL270 million, around BRL200 million is related to this bargain purchase accounting gain, right. This is the first one.

On the second one, the BRL68 million contract of obligation is related to the sale of the credit rights that occurred in December 17, is not against the government, it's against the contracts that we had with those credit rights, which is the (inaudible), if you remember, right. And this is a non-recurring one. There is no expectations that we're going to get another types of charge like that one or contract obligations like that one. So, that's why we adjust that one on the results.

## **A - Luis Henrique Cals de Beauclair Guimaraes** {BIO 17984872 <GO>}

Thiago, thanks for your question. Let me take the one. I think the first thing that I want to reinforce Thiago that, I don't think the best indicator is the number of sites converted per year. I think the best indicator is the amount of either new volume that we bring to the table. So as you know we have been concentrating over the last few years in increasing the site throughput as we -- as you as always have listened from me, from Mussa and from Mello [ph] that we believe Brazil is over pumped in terms of the number of sites and somewhere, someway and somehow we're going to have some rationalization in terms of the sites going forward, and therefore the best located, best operated and the biggest sites are the ones that we believe are the long-term winners.

So therefore we've been concentrated in getting better sites in locations that are expanding or in locations that we are complementing the network plus also we have a lower cannibalization effect, as we do that. So as I said in the beginning I think, I'm sure that in 2019-'20 fiscal year, we have the best year in terms of the putting more volume, more new volume during the year which reflected on a average throughput of our new contracts, that we have converted from the market ahead or above our average throughput, which should support our continuous improvement on our network.

So it will be normal to see every year with us. We releasing some of the tail, some of the smaller sites or the ones we deliver less effective in terms of the future and putting new sites with a better throughput. So answering your question, I think during the -- this part of the COVID, of course, the physical interaction and the ability for the teams to be completely on the field reduces, so of course April and May will not be good months in terms of these negotiations, but we expect that through the rest of the year, our team in the field and our approach will give us some good results going forward.

So, we really believe that the ability to convert sites related to the quality of the offer, the supply and infrastructure position that we have built over the last few years and the ability to be consistent over time. So I think, during the good times and difficult times that we need to be there in supporting and working with our network to make sure that they continue to be healthy with a good value proposition to the customers and continue to win in the marketplace.

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

Thank you very much.

## **Operator**

Our next question comes from Regis Cardoso, Credit Suisse.

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

Hi, guys. Good morning. Thanks for taking the questions. I'll probably take the opportunity, since, Luis is here, and ask a question about the company's portfolio. And I know we've already discussed Compass, so I'd maybe like to focus a little bit more on how would you see the fuel distribution business within the -- within Cosan's portfolio? I

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mean results have clearly become more volatile. Is it for you just an accounting matter, because it all sets with a working capital? Do you see it as a lower margin business than it used to be? Is it a more mature business with still long-term growth or now not as much long-term growth as you saw before? And then just if you may add a comment in regards to how the refining assets potentially fit into that portfolio view? So that's the first question.

A general view how do you see Raizen Combustiveis given all the changes in that specific market. And then after that one, I might have a few follow-up questions on specifics of the first quarter results.

### **A - Luis Henrique Cals de Beauclair Guimaraes** {BIO 17984872 <GO>}

Okay. Thank you, Regis. I think first, you talk about volatility and I think what we have seen over the last few quarters, a lot of volatility in terms of international prices, right. So I think, the oil industry have experimented that, and of course Brazil in this market being exposed, it has reflected and I think this is a consequence of the maturity of this market moving from a market where you had only one supplier to have the opening of the imports over the last few years which we have been very strong and playing in this markets since the beginning and creating strong positions not only in terms of the relationship with international players and the ability to source products from different sources, and using this input opportunities and arbitrage that having. But also leverage the infrastructure that we have created with the less addition in some lease [ph], a big terminal that just started to have the authorization to operate in May, which you add even more flexibility strength to our portfolio in the north and on the (Technical Difficulty)--

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

I think probably Luis has some issues with the connection, we'll try to reconnect him one second.

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

Phillipe, so while Luis reconnects, I'll maybe ask some of the specific questions one is in regard to inventory losses. So one of your peers mentioned they had an inventory loss of about BRL100 million. I wanted to know just if your sort of order of magnitude was about the same. And also in our view at least a lot of the inventory losses from the first quarter will have a carryover effect to the second quarter. So, whether you agree with that view? So that's the first one.

And just the second one if I may. If there is any accounting impact of the derivatives be it either FX or commodities in particular in your financial results that we would normally expect to be in the operating results?

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

Regis, regarding the second one, actually the main impact we have due to the effect is on the loan hedged portion of the perpetual bond for an obvious reason. So that's what led to the impact on the corporate segment in regards to the corporate results, right. So this is where we see the impact on the effects on the non-hedged portion of the perpetual

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bond only or the other -- that's or the other bonds that we have within the group are hedged not only the interest up to the maturity but also the principle of those dated bonds, right.

In regards to the first question, as usual we don't disclose the amount of the inventories impact on our results. Of course, this was an extraordinary type of movement in the prices, right, on the oil price drop that we saw in March, also April has a lot of volatility. So April, we're probably going to see also some impact, which will gradually improve throughout May, and throughout the second quarter at least that's what we have been seeing so far, right. So this is the two points there that on your question. Let me see if Luis has connected, otherwise, if you can redo your question, I'll be more than glad and take it. Let me just one second.

**A - Luis Henrique Cals de Beauclair Guimaraes** {BIO 17984872 <GO>}

No. I am back, Phillipe. Hello, can you hear me?

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

All right. Go ahead. Yes. We can hear you. Go ahead, please. Thank you.

**A - Luis Henrique Cals de Beauclair Guimaraes** {BIO 17984872 <GO>}

I was talking -- I think my last phrase was about the inauguration of our terminal in Sao Luis, which create to us even more capacity to import as well as source that big area where connected by railroads and hydro as well. So what we believe that the role of these portfolios is very important, because the large business is a business that in our view will continue to evolve in terms of services, in terms of technology applied to it. It's connected to our -- one of our best as you know the growth of the retail conveniency and (inaudible) with our JV with OXXO. And we believe also this pandemic has open new possibility in terms of delivery models as well as people buying close to their homes.

So we will continue to use this and leverage this business for the strength that we have been created, some volatility can occur, especially with prices depending on how they will move and how big will be the movements, and I think the really issue that you have -- we have seen in March and April was the magnitude of the move. So when you have things that come down in a slower pace, but still coming down and go up in a slower pace is very different from this very radical moves that we have seen in the prices of oil globally starting with WTI and going to refinery prices coupled with a very strong reduction of demand.

So I think, what we have seen, we never seen that before in any of the business that we have here in terms of the fuels is the magnitude of the decline of the demand, and of course, impact -- of course, impacts on reduction of certain segments.

So, we believe that this business is a business that everyone has to use, so mobility will come back. We need to see if it will come back like we have seen in China in certain areas, where big traffic days higher than pre-COVID which indicate the change and sales of individual cars starting to grow. We don't know if this will be the same effect in Brazil,

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but we know that we are essential business, essential business in terms of mobility for both the B2B and the B2C side and people will continue to connect with us in different ways but we'll be believe in that essential service.

So it's a very important part of the portfolio and we continue to have a very strong people and very strong relations with our dealers and our customers and all the time trying to integrate both in terms of our offer and retail and technology are two very important levers that we will continue to improve.

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

Luis, if you can comment on the refineries as well, I would appreciate?

**A - Luis Henrique Cals de Beauclair Guimaraes** {BIO 17984872 <GO>}

Yes. Sorry. Sorry. On the refinery that -- as you know the project has been delayed by Petrobras, in terms of the offers and as we have stated all along since the beginning, we will continue to look at this as part of our -- as being part of this business or this industry, but we haven't yet made our final decision, because it depends a lot on the analysis and the timing of these process.

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

All right. Very clear. Thanks so much. Have a nice day.

**A - Luis Henrique Cals de Beauclair Guimaraes** {BIO 17984872 <GO>}

Thank you.

**Operator**

Our next question comes from Christian Audi, Santander.

**Q - Christian Audi** {BIO 1825501 <GO>}

Thank you. Hello, Luis, Phillipe and Marcelo. I had a further a clarifying question, Philippe, on the BRL45 million and the BRL269 million item that you mentioned, it just wasn't clear to me. Can you talk a little bit about the recurring nature of those where these more one-offs or could we see them again going forward?

My two questions were Phillipe, if you could -- if we could go back for a second -- sorry, at least if we could go back for a second to your comments about white flags. We're seeing this challenging moment from an economic point of view in Brazil, which would tend to maybe benefit those low cost, low price business models as the white flag have and therefore argue that they could maybe gain some market share. But, on the other hand these branded types of operations could come under financial pressure. So, just wanted to get your thoughts on that dynamic of market share gains or losses, do you see the white flags will have been on the margin gaining some markets are continuing to do so or you think that could revert itself as the year progresses?

And then I don't know in case we have Marcelo on the line. I was just wondering from a financial point of view. If you could comment on, obviously you've kept very leverage, very under controlled it is 1.9, 2 times level net debt to EBITDA. I was just wondering given the stressful moment in the market, what does that do to the company's dividend payment outlook as well as repurchase of the shares be it CZZ buying Cosan Energia shares or Cosan Energia continuing to repurchase shares for their programs? Thank you.

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

All right. Christian, thank you for the question. Let me try to organize. I'll get the first one here just to clarify the two one-off impacts on the results. So, the first one, the BRL45 million in the ethanol inventory, its regards to the significant price drop of the beginning of April and the accounting standards requires a company to book this loss anticipated because the sale happened in the future or happened in April, right.

So, we do a provision in March of the loss that we're going to have in April, so that's basically what happened in the \$45 million -- BRL45 million, I'm sorry. And in regards to the BRL270 million, it's in other revenues on Raizen Energia. This is basically related to the bargain purchase accounting gain from acquisitions made in the past, right, so a good chunk of those BRL270 million is related to that right.

Let me send to Marcelo your third question here regarding the leverage, dividends and buybacks.

#### **A - Marcelo Eduardo Martins** {BIO 16440115 <GO>}

Thanks, Phillipe. Christian, first, the leverage is absolutely under control as part of our strategy to face the challenges at this moment. We decided to increase the leverage of the group overall all across the board in every single business. It is a strategy that has proven to be so far very effective, because the cost of new debt has come down pretty substantially since the beginning of the crisis back in early March.

And what we are seeing now is that we're reaching a point when it doesn't make much more sense with raising debt by the companies, except for one of them Raizen maybe in a market soon for an additional debt rate. We're not sure which instrument yet but it should happen. But in any case, I think that the idea was to reinforce the cash position of all companies and this is what we have done. We have as you know well also raised money from DNBF [ph]. So, we're pretty much done in terms of the new money from DNBF as well.

In terms of the share buyback as you know well and we continue disclose a buyback to a total return swap instrument. It's going to keep going on as part of the idea that the best possible investment for the cash of the company at this point in time, which is a still -- which there's still enough money to be used and that's going to keep -- we're going to keep doing it to through share buyback plan. So, we don't foresee any immediate conclusion for the buyback of the shares. And just to clarify as you know well the total return swap is being done through CZZ which is -- who's buying shares of Cosan S.A.

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## A - Luis Henrique Cals de Beauclair Guimaraes {BIO 17984872 <GO>}

Let me take the second question, Phillipe. Let me -- I think there's a couple of important points here to look at. There is always in this market it's not only in Brazil, but everywhere in the world, a role of spot market would mean that customers that can buy from anyone in any given day and it is a part of the market. When these big variation of prices happen like it happened also the total demand reduces, different behaviors will emerge from people that need to realize cash to continue to operate and people then can select better their portfolio and be more prudent in terms of margin et cetera.

So therefore my suggestion in your analysis, don't look at 1 month, 2-month variations in market share when you have this big swings that is happened and we never had before being big demand variation or big price variation because different players will take different actions in terms of the way they will handle their inventories, their supply and their portfolio.

So, we believe that, yes, you're right, the market for some time and this recover will probably become more price sensitive in certain products, in certain areas. And as said before you have seen we will be there competitive and we will be there playing on our strength and our scale and in our work with all our dealers and support. And so this is something that we know how it goes and we have at these times before.

And again Brazil is, it's a very heterogeneous market and certain areas will be more competitive set of product in other areas will be less competitive products, I think the beauty of this is the price system and the intelligence that we have put in place over the last years in terms of understanding the market and play, doing the two things, market share and profitability is very easy to chase one instead of the other, right.

So we can chase market share, we can gain several points in 2 or 3 or 4 months, but of course profitability will be impacted and also is very simple to chase profitability and increase a few reais per cubic meter or overall on the short-term, but then sacrificing market share.

So, we will continue to look at these both variables, we will continue to drive costs down and again never spare a good crisis to get more efficient and Mussa and the team at Raizen is working diligent on that, accelerating some of the programs that were already in the pipeline, putting new things in the savings and we will continue to digitalize, bring more efficient with our transportation companies and our efforts and ensuring that we'll be competitive, less and intensity if we need to be because this is a long-term play and we will continue to preserve the quality of our network and the relationship with our dealers.

## Q - Christian Audi {BIO 1825501 <GO>}

Okay. Thanks, Luis, Marcelo, Phillipe.

## A - Marcelo Eduardo Martins {BIO 16440115 <GO>}

Chris, I think there was one question that you asked that I didn't reply. Actually there was dividend, we announced a distribution of dividends from Cosan S.A. in the amount of BRL576 million, it was recently announced.

**Q - Christian Audi** {BIO 1825501 <GO>}

Great. Thanks, Marcelo.

**Operator**

Our next question comes from Pedro Medeiros, Citigroup.

**Q - Pedro Medeiros** {BIO 16187063 <GO>}

Thank you, guys. Thank you so much for taking the questions. I think most of my questions were already answered. I have two follow-ups a bit important. So first one is quite a open question, but would you mind commenting on the recent regulatory changes in Argentina? And how could they impact your business in the country, if they were positively or negatively?

And my second question is if you don't mind to provide more details on the recent contracts sign for natural gas supply with Bolivia. And so what were the conditions and what was the rationale to do 3-year contract? Is there any tangible benefit we can estimate to your results in the coming 12 months, coming from this new contract? Thank you.

**A - Luis Henrique Cals de Beauclair Guimaraes** {BIO 17984872 <GO>}

Thanks, Pedro. Let me take the first one, and Phillipe will answer the second one. So, the regulatory change I believe you're talking about the Criollo crude price.

**Q - Pedro Medeiros** {BIO 16187063 <GO>}

Yes.

**A - Luis Henrique Cals de Beauclair Guimaraes** {BIO 17984872 <GO>}

So let me comment on that. So first, as you have seen, there is no regulation about prices at the pump. So, the price at the pump continued to be market driven or at least there is no freezing as it has happening on the smelters.

What is important to understand about Argentina on where we are today in April and May, a tremendous drop in the demand, right. So Argentina was much more peaceful [ph] in terms of the lockdown, and of course, the impact on the disease so that if you look at the number of cases and number of deaths is one -- by far one of the lowest in the region and in the world. So they have decided to go for a much more stringent and strengthened lockdown which they started to release a few weeks ago outside Buenos Aires, but continue to be Buenos Aires until next week. So, a major drop in demand, which means that we have a crude in storage that have been brought over the last few months to be use until, let's say depends on the pace of the return of the demand mid-June, -- mid-July, end of July. So, this is the first picture is important for you to understand.

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The second picture is that the price fixed for Argentina is well above the international prices and well above the imported prices that the Argentina suppliers can obtain if they export, right. So, this is the second element that I think is important for you to understand. And the third one is that both from the supply side of crude and both on the supply side of finished products, Argentina has a little bit of excess supply of crude, if the market is on the normal volumes and has a shortage of finished capacity of refined products.

Therefore, we believe that the market will need to find an equilibrium, and this is where the industry discussing with the goal (inaudible) between passing prices into the pump to be able to adapt to \$45 barrel or have some taxes releases in terms of the pump prices or have a different type of arrangement between the suppliers and the refinery.

So at the moment, we are discussing and working through the official change with both suppliers and government in order to find this balance, given that there is no short-term pressure for the purchase of these products at these new prices given that we have enough inventory from finished products and crudes that we have been buying over the last few months in order to fulfill demand for June and most part of July.

But as always and we have seen that several times in Argentina, they will find a balance in order for the market to compete, it's continue to be supplied, the producers to continue to be able to produce and the market to continue. I think there is -- if there is one good thing on these things because we don't think the intervention is the best measure, but I think there's one thing that I think the government Argentina is clearly saying that Vaca Muerta in the production of crude oil is an important feature of their future plans in the recovery of the country.

But on the other hand, the balance of prices at the pump, we need to be compatible to the prices of crude whenever they are done, either international price or the Criollo crude prices. So, at the moment is working together as I mentioned and ensuring that we're going to find this balance with changes that has been fine on the last few years in Argentina.

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

Pedro, thanks for the question. Regarding Bolivia and the gas supply, we actually what we got is an authorization for imports, right, so different from the market of fuels where we get the authorization and we can or not import. On the gas we have the pipes, right, and there is no contract signed yet on that front for the transportation of the gas, right. So understand that as an optionality within the portfolio of Compass gas and energy, right, so there is no contract signed yet in terms of volumes, okay.

**Q - Pedro Medeiros** {BIO 16187063 <GO>}

Yes. Okay. Fine.

**A - Luis Henrique Cals de Beauclair Guimaraes** {BIO 17984872 <GO>}

Yeah. If I could add on that, Phillipe. Just one comment, I think it is important that as you know Compass has been built to the portfolio, Compass trading for commercialization,

and therefore what they have very strong is about electricity trading, very successful company, very competent and now to get in the group with even more opportunities. But we want to be prepared for the future gas commercialization market and this is part of this preparation in terms of people skilled system process and contracts and this is where we believe in the future Compass will be a gas and energy trading company within the company -- the big Compass portfolio.

**Q - Pedro Medeiros** {BIO 16187063 <GO>}

Okay. Well, thank you so much guys. Very clear.

## Operator

Our next question comes from Luiz Carvalho, UBS.

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

Hi, Phillipe, hi, Luis, hi, Marcelo. It's Luiz Carvalho here from UBS. Thanks for taking the question. I have two questions here. The first one maybe to Marcelo taking the opportunity here. Marcelo, now after recent buybacks CZZ has close to 67% of season 3. So, I'm just wondering if you can share a bit of color on how the potential, I don't know simplification of the corporate structure could be expedited on top of this or is there any changes in some of these plans?

And second to Luis, I mean we discussed it a lot during this call about the competitiveness from the -- on the fuel distribution segment. And your comment about the refining, I don't know the structure or a strategy from the company, I just wondering how you see the regional players' movement right now, right. I mean we have Total coming back to the market, the same for Glencore with Alexa and lots of competition more from a regional perspective, rather than a use it to be the white flag? So just would like to have a bit more comments on this. Thank you.

**A - Marcelo Eduardo Martins** {BIO 16440115 <GO>}

Hi. Luiz. Well, there's actually no news from the Investors Day, so what we are doing is, we're executing the plan that we disclosed two years ago, actually it's not even recent. We've been in the middle of this total return swap again that is the only news, I mean that the instrument that we are using basically to increase the safe in Cosan S.A. And we're just moving towards that objective. So no news just executing the plan, nothing changed. We did that at some point in time. It will naturally happen once we reach a certain stake in Cosan S.A., we're not there yet, but moving steady towards that objective.

**A - Luis Henrique Cals de Beauclair Guimaraes** {BIO 17984872 <GO>}

Okay. So in terms of the regional players, they will continue my view to especially the large ones to have some opportunities for consolidation within the other players. You mentioned some in your call -- in your question sorry. So I think this will continue to evolve as this players look at some other assets from other independent players that have opportunities as well as continue conversion of sites to the network.

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So I think, it's pretty much the same story that we have been talking, Luiz. I think the refinery gain will really depend on who will be the acquirers of this new infrastructure. But, at the end of the day as I think we also talk about, I think this will be really independent business more profitability and market point of view, because there will be investments that are quite significant, and any player that will acquire this or take these assets will look at the returns that they have established on their business plans.

So, it will be, as we said an opportunity for some of these regional players to consolidate some of the other smaller or less efficient players and gaining more, more strength in their local areas.

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

Sure. Thank you.

**Operator**

Thank you. There's no further questions. I would like to turn the floor back over to Mr.Philippe Casale for final remarks. Mr.Casale, you may proceed.

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

Thank you everyone for joining our first-Q '20 call. I hope to see you all in a short-term. And we have would be able to take any further questions here through the IR team. Bye-bye.

**A - Luis Henrique Cals de Beauclair Guimaraes** {BIO 17984872 <GO>}

Thank you.

**Operator**

Thank you. That concludes Cosan's conference. Please you may disconnect your lines. Thank you.

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