

## Q3 2015 Earnings Call

### Company Participants

- Nelson Gomes, Chief Executive Officer & Investor Relations Officer

### Other Participants

- Alexandre Falcao, Analyst
- Rodrigo Mugaburu, Analyst

### Presentation

#### Operator

Good afternoon, ladies and gentlemen. At this time, I would like to welcome everyone to Cosan SA Third Quarter of 2015 Results Conference Call.

Today with us we have Mr. Nelson Gomes, CEO and Investors Relations Officer; Mr. Joao Arthur Souza, CFO; and Mr. Phillipe Casale, Investor Relations Manager of Cosan SA. We would like to inform you that this event is recorded. And all participants will be on 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 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 will be made under the Safe Harbor of the Securities Litigation Reform Act of 1996. 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 and could cause results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference over to Mr. Nelson. Mr. Nelson, you may begin the presentation.

**Nelson Gomes** {BIO 7487048 <GO>}

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Good afternoon everyone, welcome to the Cosan SA third quarter 2015 earnings conference call. We'll start on page number 3. Today as we (Technical Difficulty) for this quarter we will discuss each one of the business performance of our company. Starting with Raizen Combustiveis, our fuel distribution business; then go into Raizen Energia, the sugar-ethanol and co-generation; then natural gas, COMGAS; lubricants and land management company, Radar. We also discussed few other business, which basically reflects our corporate structure.

Now I'll turn the page to page 4, starting with Raizen Combustiveis, and just as a reminder starting last quarter, the second quarter 2015 we started to report the fuels volumes sold based on the Sindicom methodology, which excludes the volumes sold for other associated (inaudible) within Sindicom. The objective of this change as we mentioned back then is really to make it easier to compare the results that we are reporting versus the results that the market is reporting.

Now we go into the numbers. The volume on this quarter of our fuel distribution business continued to be impacted by the slowdown in the economic and industrial production, but despite of this macroeconomic scenario once again Raizen Combustiveis managed to grow above the market. If we compare with the ANP, the National Petroleum Agency, their volumes were up 3% while Raizen total volume grew 1%, mostly due to the 5% growth in the Otto cycle supported by a strong demand on the ethanol.

On the diesel sales, we suffer a 1% drop reflecting the weaker demand as I just mentioned. As an information, the volume sold on -- the aviation segment went down slightly 1% impacted basically by the slight activity reduction in Cosan.

The adjusted EBITDA excluding the asset sales effect was 572 million, 70% above same quarter last year. This growth was supported mainly by higher ethanol unit margin and 59% of volume growth on the ethanol sales.

Important to remind once again that our contract model with the retail network is based on the rebate, instead of anticipating the whole CapEx when signing the contract, this model assumes volume goals to be reached along the way. So when the dealer reach these goals he gets a benefit of a discount, which is accounted internally as a revenue deduction. In this quarter, the rebate reached 47 million according to the number that you can see in the graph that's highlighted in grey.

Just as a reference, the chart on the right hand corner shows the behavior of our unit margins in reals per cubic meter, quarter on quarter, we have an improvement when compared to the previous years.

Now turning the page to page 5, Raizen Energia. As I mentioned last quarter we had increased the volume of retail on both sugar and ethanol as well as the off-shore trading of ethanol. So we are reporting the breakdown between our own volumes produced and sold, and third party volumes resale and trading. Those operations which is basically origination of sugar and ethanol from the market has the object to generate scale and dilute our fixed cost, and of course leveraging our operational and logistics capability. On

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the other hand, when we look specifically at this resale operations rating the EBITDA related to this is not relevant or marginal.

Now going to the numbers, starting with crushing, in this quarter which is the second quarter of the harvest season 2015-16, we increased crushing volumes despite the unexpected rain in this period. Our 23 mills in activity, remembering that one of the mills, Bom Retiro is still temporarily hibernating, we crushed 24.2 million tons, 1% less the same period of last year.

Productivity remained at a higher level compared to the last crop year with 20% increase from 10.3 tons to 12.3 tons of total recordable sugar per hectare. On average, Raizen has been able to achieve high daily crushing volumes which lead us to believe that by the end of December the total production volume would be very close to the high end of our guidance.

Now talking about volume and prices, starting with sugar, the volumes sold in this quarter was 18% higher than the third Q last year, and the average price was 15% higher and reached R\$1,065 per ton. For your information that the average price is impacted by the headcounting effect on the net revenue of 256 million this quarter compared with 1.8 million in the same quarter of last year.

The ethanol volume sold including trading and resale were 11% higher than the average price increase 7% when compared with the same quarter last year, basically supported by a higher demand in domestic market as well as some higher exports volume.

On energy cogeneration, the volume increased by 16%, but on the other hand the average price fell 24% when compared to the third quarter last year, specifically due to the sharp drop in the spot price.

The adjusted EBITDA which excludes the biological assets variation and the hedge accounting impact had an increase of 20% reaching 837 million this quarter, impacted by the higher own sugar volume sold and better average unit prices on both sugar and ethanol. The reported EBITDA was 606 million, a 4% drop when compared with the same period last year.

CapEx reached 230 million in the quarter, a 41% reduction when compared to the same quarter of last year. Part of it is seasonal due to the delay in the crushing volumes, but also is related with an optimization of investments in replanting the sugarcane fields.

The last graph in the lower right hand corner shows our hedge position. For this quarter, the third quarter of 2015, we have seen an increase on the volumes hedge as well as the prices we had. So by the end of September, over 93% of the sugar to be exported in 2015-16 with hedge, with an average price of R\$0.44 per pound. The values in cents per pound reflect: one, the devaluation of the reals in this period and also the improvement of the commodity price. For the next harvest season in 2016-17 by the end of September we had approximately 25% of the total export volume adds at an average price of R\$0.53

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per pound. We would like to remind that our hedging policy include the curve, so the prices are hedged to reals without any exposure to US dollar.

Now turning the page to page 6, on Comgas. Comgas held its earnings conference call last Monday. The reason why I will briefly comment on the numbers. We are starting with volume, the positive highlight is on the commercial segment, which has increased 5% its volume sold. On the residential segment we decreased 4% compared with the same quarter of last year. We added in the last 12 months a 110,000 new customers to the network, but this growth was offset by the reduction of the residential unit consumption which was down 8% due to the water crisis in the state of Sao Paulo.

The Industrial segment remains impacted by the economic slowdown and went down 5.7% compared with the same quarter last year. As presented in the previous quarters, the chart on the right shows each segments relevance on total volume sold and their contribution margin. The expansion focus are obviously both on commercial and residential segment, the ones where we have higher unit margins.

Now talking about normalized EBITDA, a combination of facts drove 6% growth. The first one is better sales mix on this quarter as shown in the previous chart. Second, the better expenses control. And finally, third, our favorite review rated by the regulator both in May this year and December of last year.

On the regulatory current account, this quarter there was basically no recover due to the real depreciation, which also impacted the IFRS EBITDA.

Now turning the page to page 7, lubricants business was impacted by the lower economic activity in Brazil, but the company managed to show higher EBITDA basically because of: one, better results for international operations; and two, a better sales mix both on finished lubes versus base oil and synthetic lubricants versus mineral.

On Radar, we had a higher revenue from our own land sale in the quarter, but the relevant effect on EBITDA was due to the zero effect on the variation on the fair market value of our own portfolio in this quarter as you can see in the green area on the graph.

Now talking about the other business, there was no significant variation on the total expenses. Just remind that the main components of this costs are consulting services and fees as well as payroll expenses of the corporate structure.

Now turning the page to page 8, we will now pass over to the pro forma Cosan SA consolidated results, which includes 50% of our easing and a 100% of the controller business.

Net revenue on the quarter increased 14% reaching R\$11.4 billion. On a year-to-date basis in 2015 the net revenue was up 9% reaching R\$31.5 billion.

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The pro forma adjusted EBITDA was 1.1 billion, including all the adjustments we've seen on the previous slides, and it is 11% higher than the same quarter last year. The reported EBITDA was 992 million, 2% higher than last year. And if you look at the year-to-date adjusted EBITDA in 2015, there is a 6% increase versus a flat reported EBITDA year-on-year.

The CapEx on the quarter was nearly 380 million, a reduction of 25% compared with the same quarter last year. If you look at the year-to-date there is a 21% drop mostly due to the lower CapEx in Raizen Energia as I mentioned before, and also at Comgas.

Now talking to the free cash flow to the equity. On this quarter we started to show the cash flow reconciliation on our performance basis which also includes 50% of high yields. So despite of the CapEx reduction this quarter, we incurred some higher financial activities resulting in our cash burn of 136 million. This reflects basically a higher working capital in Raizen Energia, but it's also worth to mention that the consolidated Cosan figure also is impacted by the seasonality of the sugar and ethanol business that is facing a delay this half.

Looking at the year-to-date in 2015, the cash generation was R\$1.2 billion, 76% higher than the same period of last year. And the main reason is the strong cash generation of Raizen Energia in first quarter of 2015.

Turning the page to page 9, debt and leverage. Cosan's gross debt ended the quarter 3% higher than the previous quarter, the second quarter of 2015, mainly because of Raizen's temporary working capital increase as I just mentioned.

The consolidated debt profile is mostly concentrated in mid and long-term and the cost equivalent remains at 94% of the CDI, and debts that are in dollars and are hedged the cost of those debt are already included in this 94% of the CDI.

The pro-forma cash and cash equivalents was 3.9 billion by the end of the quarter, and the pro-forma net debt was 11.5 billion[ph] so the leverage on the quarter reached 3 times EBITDA. Even with that number we maintain our goal by the end of the year 2015 to reach roughly 2.5 or 2.6 times net debt to EBITDA basically as a result of better operational results on each one of the business.

Now turning the page to Page 10, there is no change in the guidance this quarter, as we mentioned before the only thing that we included is the normalized EBITDA on the Comgas section.

Now, once we are nine months through 2015, I wanted to share how we are seeing the performance of each one of our businesses towards the year-end. So first starting with Raizen Combustiveis, of course the economic slowdown that we faced since the beginning year reflected in our volume, but was partially compensated by better unit mark. So we expect that behavior to remain in the last quarter, so we are expecting an EBITDA close to the midpoint of the guidance. So volume partially compensated by better unit margins.

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On Comgas, even with the lower volumes in most of the segments also impacted by worse macroeconomics scenario we will manage to deliver somewhere in the center of the guidance. The IFRS EBITDA is pointing towards the low end of the guidance due to the reals depreciation. Lubricants and Radar are both pointing to the center of the guidance. And finally on Raizen Energia, basically all the metric here crushing volumes, ethanol and sugar production, energy cogeneration sales, and EBITDA, they are all pointing from the mid to high end of the guidance. Given the higher productivity we're having on this crop season are higher sales volumes and better price. So overall, even in a much worse than expected environment the results of Cosan SA consolidated for this year remains pointing to the center of the guidance at R\$4.1 billion to R\$4.2 billion EBITDA, were 10% up when compared with the previous year.

So with that I conclude the presentation, and we are here available to start the Q&A session. Thank you.

## Questions And Answers

### Operator

We'll now begin the Q&A session for investors and analyst. (Operator Instructions). Our first question comes from Alexandre Falcao with HSBC.

#### Q - Alexandre Falcao {BIO 5515455 <GO>}

Thanks and good morning. Just wanted to follow up and just pick, first one is just wanted an update on the spinoff of the gas distribution company, I know you guys are quite serious because of the debenture -- I just wanted to know this idea is not going to go on right now, why is this something that eventually when we have the right conditions kind of go through, there is still an idea within the company.

And the other question is regarding Raizen Energia, specifically on the impact for better rain for next year, and then probably better productivity going forward. So do you plan to change the mix towards sugar at this point or more into ethanol because we're probably going to have more sugarcane to crush.

And second one is, can we expect cana bisada for next year? Thank you.

#### A - Nelson Gomes {BIO 7487048 <GO>}

Well. Let's start with the last one. I think it's too early to say how the next crop season will look like. We are in the middle of the crop season now. So depending on the rain that we're going to have this quarter we will know if we're going to have the cana bisada for the next year or not. If it does not rain potentially this volume that we will leave on the fields for next year will be very small, but again it depends on the climate for this quarter. So at this point it's hard to predict what's going to be the volume or the crushing volume for the next crop season.

The other point that you asked is about the mix, as I said on the Portuguese conference call, we should not expect any changes on the mix. We -- by definition we have a higher mix of sugar, and we should remain that way for the next crop season.

On your first questions on the spinoff of Comgas, it's still on the radar, we don't want to do at any cost, but for now as you well mentioned we are on the quite period, so we cannot comment on any future changes on Comgas business.

**Q - Alexandre Falcao** {BIO 5515455 <GO>}

Okay, perfect. Thank you.

## Operator

(Operator Instructions) Our next question comes from Rodrigo Mugaburu with Morgan Stanley.

**Q - Rodrigo Mugaburu** {BIO 20980025 <GO>}

Hi, thank you. Hi, Nelson. So I had a question on Raizen Energia, as of the end of the quarter you have roughly R\$2 billion in inventory, 1 billion in sugar and 1 billion in ethanol. I wanted to know if we should expect those ethanol -- those inventory to basically be sold during this fiscal year fourth quarter or especially in case of ethanol you will try to carry a little bit into the inter-harvest?

**A - Nelson Gomes** {BIO 7487048 <GO>}

Rodrigo, it's a little bit of both, we will have some of the volume being sold this quarter, but some will be sold in the next quarter, in the following quarter which is the first quarter 2016, the last quarter for the crop season in the inter-crop season. So that's the plan. So I would assume that we're going to have a little bit of both.

**Q - Rodrigo Mugaburu** {BIO 20980025 <GO>}

Okay. Thank you.

## Operator

(Operator Instructions) This concludes the Q&A session. I'd like to invite Mr. Nelson to proceed with his closing statements. Please go ahead, sir.

**A - Nelson Gomes** {BIO 7487048 <GO>}

Well, thank you very much for attending the call and we'll talk again on the next one. Thank you.

## Operator

That does conclude Cosan conference call for today. Thank you very much for your participation.

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