

## Y 2014 Earnings Call

### Company Participants

- Marcelo Eduardo Martins, Chief Financial Officer
- Marcos Marinho Lutz, Chief Executive Officer

### Other Participants

- Gustavo Allevato, Analyst
- Unidentified Participant

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Cosan's 2014 Results Conference Call. Today with us, we have Mr. Marcos Lutz, CEO; Mr. Marcelo Martins, CFO and Investor Relations Officer; and Mr. Guilherme Machado, Investor Relations Manager.

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. At that time, further instructions will be given. (Operator Instructions) The audio and slideshow of this presentation are available through live webcast at [ir.cosan.com.br](http://ir.cosan.com.br). The 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 cause results to differ materially and from those expressed in such forward-looking statement.

Now, I'll turn the conference over to Mr. Martins. Sir, you may now begin your conference.

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

Good morning. I like to start the call today just explaining how we're going to structure the presentation. As a function of the spin-off of the logistics business that took place in

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October of 2014, we will now -- from now on present the results of Cosan SA and Cosan Logistica separately. For future calls, we're going to keep doing that and we should also add a short presentation for Cosan Limited as well. Comgas will continue to have its conference call done separately, which was the case this time again as we had it yesterday.

I would like to start the presentation with a comparison between the guidance and the actual 2014 numbers for the different business lines. We were very much in line with the guidance we provided to the market with only one exception which was the EBITDA for Cosan Lubricants which was BRL103 million in comparison with a range of 110% and 140% in the guidance.

We have also decided not to present at this point in time the results for Raizen Energia for the sugar and ethanol business. For one simple reason, we have here the guidance for the crop year which will end in this month of March. So as soon as we have the results for the crop year for Raizen, we will present the performance of the business and compare it with the guidance provided to the market previously.

Other than that, I guess [ph], I would highlight the EBITDA for Cosan consolidated which was BRL4,047 million. The EBITDA for Rumo, despite the challenges we had this year in connection with the lack of transportation provided by ALL, ended up having an EBITDA of BRL304 million; and Raizen Combustiveis BRL2.1 billion of EBITDA; and Comgas BRL1.435 billion of EBITDA.

And now moving to the presentation of the different businesses starting with Cosan Logistica. We had a 21% increase in the elevation volume in comparison with 2013. We have made substantial investment in Santos and that volume increase was expected as part of the growth plan or the ramp-up of the business. And they had also new contract signed in 2014, as we had also projected. The net revenues were very much in line with last year, as the function mainly of the decrease in the transportation -- the revenues coming from the transportation business as I just explained, which also had a negative impact on the EBITDA which ended the year at BRL322 million in comparison with BRL358 million in 2013.

In terms of the net debt of the company, we closed 2014 with a net debt position of roughly BRL700 million. We raised BRL110.3 million of new debt from BNDES to finance the expansion of the business, and we had at the end of the fiscal year, a cash position of BRL86.5 million, that resulted in the leverage of 2.2 times net debt to EBITDA of Cosan Logistica.

We announced the approval of the transaction of the merger between Rumo and ALL by the Brazilian Antitrust Authority, CADE on February 11. Since then, we have been working with the last agency that would have to approve the transaction which is impact and we're expecting that approval to take place in the next couple of weeks.

We have also announced the appointment of the new management of the company once it's approved by the Board of Directors of ALL, which should happen soon, I would say

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probably in the next couple of weeks, once this is the time frame for the merger to be implemented as well. Just to highlight, Julio Fontana was appointed as the CEO; Jose Cezario as the CFO; Jose Alberto as the Chief Legal Officer; Daniel Rockenbach as the VP Operations for the Northern Network and the Sao Paulo network; Darlan de David of the VP Operations for the other network, which is the Southern and Western Network.

Now moving to Cosan SA. Cosan SA encompasses Raizen Combustiveis, Energia, Comgas, Lubrificantes and Radar, and other businesses which is basically the corporate structure within Cosan. This business on a proforma consolidated basis had an 11% increase in the net revenue, and a 4% increase in EBITDA. The EBITDA resulted in BRL3.763 billion, and the net income 16% higher than that of 2013. We are basically adjusted the net income for -- in 2014 to reflect the last quarter of Rumo which was not included in the Cosan SA number, because they had already been spun-off, but it is included in the net income for the year of 2013. So when we make that adjustment, we get to BRL304 million of net income, which represents the 16% increase compared to 2013. When we take into consideration the additional devaluation impact or the currency devaluation impact we had during the year of 2014, which was of roughly BRL64 million, BRL65 million, we're going to get to a proforma net income of fuel [ph] of BRL370 million which would represent 41% increase in comparison with 2013.

Now moving to the different businesses under Cosan SA starting with Raizen Combustiveis. It was another very good year for Raizen Combustiveis. We had an 8% increase in the volumes sold reaching 25.028 billion liters for the year of 2014. The net revenue, increase of 15% reaching almost BRL56 billion and an EBITDA increase of 12% getting to BRL2.15 billion for the year of 2014. That improvement in the performance of the company was a result of not only a better mix of products sold, which includes V-Power reaching 27% of the total volumes sold in the stations, but also higher volumes and a better average price in comparison with the year of 2013 which had a positive impact on the margin in comparison with last year.

For Raizen Energia, we had a reduction in the sugarcane crushed for climate reason as we explained before, finishing the year at 57 million tons, a reduction in the sugar production. A slight increase in the ethanol production and 4% increase in the volume of energy or power sold through the cogeneration of the mills. But the biggest impact from on the cogen business was the much better price we attained during the year of 2014 in comparison with 2013. The ATR also increased and we ended the year at 134, so did the TRS [ph] in comparison with 131 for 2013.

In terms of the performance of the business for this last quarter, we're not including the year end results here because we're going to do it at the end of the -- that the crop year, which is going to be March. We had a 24% increase in net revenues and a 53% increase in the EBITDA during this quarter. We had higher sales of sugar and ethanol, and a better result in the cogeneration business. I think it's also important to highlight that at the end of this third quarter for the Energia business or fourth quarter for Cosan, we had unusually higher levels of inventories of both sugar and ethanol. You should expect that level of inventories to go down over the last quarter of the fiscal year, which is this quarter now, and that had an impact in the cost of -- I'm sorry in the leverage of the company as a result of the -- this very high levels of inventory.

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So talking little bit about the hedge. We were at the end of the year at 2.7 million tons hedged sugar -- volume of sugar hedged, and roughly 1 million tons for the next crop year at an average price of 17.83 tons per pound for this crop season that starts now in April. And 17.2 for the -- I'm sorry, 17.83 for the last crops season which is the one that ends now, and 17.2 for the next one. At an exchange rate of 2.4 for last year and 2.71.

We look at this as the price of sugar in reais, so what we're seeing is an adjustment in the price in relation to what's happening with the exchange rate, but overall, we're seeing an increase in the price in reais in comparison with what we had last year and we have advanced our hedge since we disclosed this numbers in -- in December of 2014. So we should expect at this point in time a much higher hedge for the sugar exports.

In Comgas, we had a volume flat very much in line with last year. An increase in net revenues of 1% as a function of the adjustment in the tariffs provided by other regulator. 7% increase in EBITDA reaching BRL1.435 billion with a margin of 22.5%. In terms of the contribution margin, the most relevant business continues to be the industrial segment with 62%, followed by the residential segment with 25%.

Now moving to Lubricants business. Even though we had an increase of 1% in the volumes sold and the positive growth or 4% growth in the net revenues reaching BRL1.6 billion. We had a negative impact on EBITDA as a function of the increase in the cost of the company and the fact that we were not able to pass that cost increase on to the prices in the market. We should -- you should expect better performance for this business in the year of 2015, but as I explained before the seasonality [ph] business line that missed the guidance for the year of 2014.

For Radar, we had a higher number of properties sold in 2014, which costs the positive impact in EBITDA and in the net revenues of the company that reached BRL158 million, and the negative impact in the EBITDA mainly as a function of the increase in the costs and expenses related to the sale of those properties that I just mentioned.

The net debt position of Cosan SA reached the BRL11.3 billion, 80% of this debt is long term. We have decided to hedge the perp, we've been hedging, we hedged the perp and we keep renewing the hedge on a quarterly or semi-annual basis as we continue to plan to refinance that debt, but we saw that it would be appropriate to hedge the perp and we did it at the end of last year. Same thing for the debt of Raizen that matures after two years. We believe that the debt that matures in the first three years is automatically hedged by the sale of sugar in the export market.

So overall, we had a leverage of 2.5 times EBITDA, this is what we call that the financial debt leverage and we have also roughly BRL2 billion, a lot of financial obligations that are not included in this leverage ratio.

We had for this specific quarter, the big impact in terms of the devaluation of the real on the performance of mainly of the Raizen, but again as we hedged the debt maturing after two years at a very good level we should expect an impact to be reduced from now on.

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I'd like to end my presentation just going through the guidance for the 2015 fiscal year. We have for Cosan SA a projected net revenue between BRL42 billion and BRL45 billion, the pro forma EBITDA between BRL4 billion and BRL4.3 billion. For Raizen Combustiveis, an EBITDA between BRL2.3 billion and BRL2.5 billion which is substantially higher than this year, which was a very good year, was a record year for this business. And for Comgas, we already projected the EBITDA between BRL1.5 billion and BRL1.7 billion, which is also substantially higher than this year.

When we look at the CapEx line, we're projecting for Raizen Combustiveis a CapEx pretty much in line with last year. I just want to explain that for 2014 we have not included the acquisition of network in Brazil, which accounted for roughly BRL200 million. So when you take that into consideration, you see that there was an actual projected reduction in CapEx of roughly BRL200 million.

For Comgas, we're projecting the CapEx to be between BRL5 million and BRL560 million for the year of 2015. For the Lubricants business, we project an EBITDA recovery and the EBITDA should reach BRL120 [ph] million to BRL160 million; and for Radar, an EBITDA between BRL130 million and BRL140 million.

Moving to Raizen Energia, as to the preliminary guidance for the crop years starting in April of 2015, we project the volume of sugarcane crushed between 57 million and 60 million tons. The volume of sugar produced between 4.2 and 4.4, and ethanol sold between 1.9 billion and 2.1 billion liters with the volume of energy sold between 2.1 million and 2.3 million megawatt hours; and an EBITDA of between BRL2.6 billion and BRL2.8 billion with the CapEx around 1.6 between I'm sorry, between BRL1.6 billion and BRL1.8 billion.

So when you look at the guidance, you see that the numbers projected for 2015 are substantially better than 2014, and it's going to be a challenging year for Brazil overall, and most companies in this country. We are very confident based on what we're seeing in the market up to now during this first quarter of the year that we're going to reach those numbers and it should be another good year for all the businesses. We are also expecting a higher cash flow generation, especially in Raizen for the year of 2015, and we've also think it's attainable considering the overall market conditions and the reduction in the CapEx and the other improvements we're playing for the operation of mainly Raizen Energia, but Raizen Combustiveis as well.

With that, I'd like to turn it back to you for your questions, and Marcos and I will be here to answer them. Thank you.

## Questions And Answers

### Operator

We will now begin the question-and-answer session for investors and analysts. (Operator Instructions) Our first question comes from Gustavo Allevato, Banco Santander.

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**Q - Gustavo Allevato** {BIO 18933135 <GO>}

Good morning, guys. Thanks for the question. I have one question regarding the spin-off of the gas distribution business, if you guys could provide an update of this spin-off (inaudible). Thank you.

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

Gustavo, we will start operating, I mean in April as we announced to the market as if that business was already separated. But we're not going to do it up until we are able to refinance the perp because we have already promised to the market that that debt should be contributed to the gas distribution business. So whenever we think that conditions are adequate for us to refinance that debt, we will basically move that part of the debt of the company to the gas distribution business and implement a spin-off.

I can't tell you when it's going to happen, we believe that if market conditions improve, we should do it in the second half of 2015, but we'll have to see how market conditions will keep evolving over time to see if we're going to get there.

**Q - Gustavo Allevato** {BIO 18933135 <GO>}

Okay, thank you. Pretty clear.

**Operator**

Our next question comes from Joselyn Finizio [ph] with Hartford Investment.

**Q - Unidentified Participant**

Good morning. Could you perhaps give a little bit more color around hedging. Do I understand it correctly that on an annual basis you hedge the interest, and maybe also principal of whatever debt is maturing?

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

Sorry it's both principal and interest for the perp, and also for the debt in Raizen that mature is after two years.

**Q - Unidentified Participant**

And also all US dollar coupon payment of the total (inaudible) okay. And could you potentially give a little color around what the foreign exchange that Raizen decline had on your financials, maybe like how much capital expenditure is actually US dollar, maybe cost of goods sold revenues, there are multiple transmission mechanisms of the reais, could you give some color where is upside and where is the potential downside? Thanks.

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

Joselyn, the upside is substantially higher than the downside. On the cost side, fertilizer is the main item for Raizen Energia and honestly, I mean, in comparison with the overall cost of the company it's fairly small. And let us see what else, I think that's base oil which is the

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raw material for the production of lubricants, which should have a negative impact as it had for the business. What you saw this year in 2014 is a very good reflection of what sort of impact the effects, devaluation could have on the business. I mean, the lubricants business I think it's the business that is most exposed. And overall, in terms of cost, we shouldn't be very concerned because there is no relevant impact coming from that devaluation.

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### **Q - Unidentified Participant**

And then the last question, potential electricity, rationing and or water rationing, is there any impact should we be concerned or how will you deal with that going forward?

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

Water rationing has some impact on Comgas, and the revenues of the company because we use gas in Brazil for water heating mainly and for cooking. So whenever there is water rationing, people are going to use glass [ph] water, reduce the usage of water and that should have an impact. If you look at what happened last year and the peak of the rationing basically took place in the last quarter and some in the beginning of 2015 as well. But you will notice that the impact was not very relevant. So, but it is basically where the bulk of the impact will be basically felt in Comgas, and my team is telling me here that it was roughly 6% the impact on the residential revenues. So we had a 6% reduction in terms of volume in the residential market segment.

### **Q - Unidentified Participant**

Great. Thank you.

### **Operator**

Our next question comes from (inaudible).

### **Q - Unidentified Participant**

Hello, good morning, thanks for the questions. I have two questions concerning ALL and Rumo merger. First of all, I'd like to know if there is any specific date for the companies to report a consolidated balance sheet, and if you could anticipate us about an idea which is going to be the recurring maintenance (inaudible) about additional provisions or change that could be relevant for us and that will be great. That is the first question. And the second question concern is ALL or (inaudible) construction [ph] renewals. If they take too long to be approved it, during time to anticipate some investments of the expansions planned before their renew is granted, and if this is the case, do you think that these investments could be included in the investment amount that will be required in exchange for the construction renewals? That's it. Thank you.

### **A - Marcos Marinho Lutz {BIO 6779636 <GO>}**

Well, on the investment in the construction, let me just give you a flavor on that. We do have an 18 months plan that is actually starting now, that is to be done no matter what happens on the regulator side. So this is basically putting together a management

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system, putting together the different approach in terms of procedures in many areas, revising basically all the operating manuals of the various systems on the real operation. Besides that correcting some maintenance backlog that is critical at this point, things like that will be done on the next -- on the 18 months that comes, no matter what.

This in our view will bring good results anyhow, and they are -- they're not, I mean, they're not in the book of the investment for sure, this is a number that fits into current budget, and I think that's fine. We do expect to have in those 18 months the renewal granted somehow, and that discussion will be based on level of service, size, growth in capacity and things like that.

So if I could do this with less money, this will be granted anyway. So the number in terms of reais is not what the regulator wants. The regulator wants to really have the service provided at the right level of the reliability with this -- the proper growth of capacity with the systems in place to avoid a minimum level of accidents and things like that. So every operational KPIs that will be base in the discussion of renewing the construction.

Remembering that the current construction already provide on the current contract that we do have the right ones renew the contract for another 30 years. We also remember in you, that the (inaudible) is already 90 year construction, so we are talking about the rest, okay. So having said that, going to your first question, yes there is a recurring CapEx on a real operation of this size. And our view is on the range of BRL4 billion a year, a little less, probably like 800, and so this is probably what we will see on the long run on this operation, okay.

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

And I'm sorry, I just answered your first question. You should expect us to start basically releasing earnings for the combined entity in the second quarter of 2016, which basically means next quarter.

#### **Q - Unidentified Participant**

That's right. Thank you very much.

#### **Operator**

(Operator Instructions) This concludes the question-and-answer session for investors and analysts. Sir, you may now proceed.

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

Okay, thank you very much, and we'll be in touch with you again as soon as we have news from ALL or in the next conference call. Thank you.

#### **Operator**

This concludes Cosan audio conference for today. Thank you for your participation.



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