

## Q2 2012 Earnings Call

### Company Participants

- Marcelo Martins, CFO, IR Officer
- Marcos Lutz, CEO

### Other Participants

- Giovana Araujo, Analyst
- Juan Tavaréz, Analyst
- Luis Campos, Analyst
- Pedro Herrera, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome you to the Cosan Limited and Cosan SA's Second Quarter of 2012 results conference call. Today with us we have Mr. Marcos Lutz, Cosan CEO, Mr. Marcelo Martins, Cosan's CFO and Investor Relations Officer, and Guilherme Machado, Head of IR.

(Operator Instructions)

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 Limited and Cosan SA'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 Limited and Cosan SA and could cause results to differ materially from those expressed in such forward-looking statements. Now I'll turn the conference over to the CFO and Investor Relations Officer, Marcelo Martins. Mr. Martins, you may begin your conference.

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

Thank you. Good morning, everyone. Welcome to our call; to our quarterly call. I would like to start my presentation talking about the difference in the business lines of our Company in this quarter when compared to the same quarter of last year.

FINAL

First, starting with the comparison between this quarter and the last quarter of this year, which is actually the incorporation of Cosan Alimentos, our sugar retail business into Cosan SA. As you probably recall it, Cosan Alimentos was, up until last quarter, part of Raizen Energia in which is the upstream business of joint venture with Shell.

Now in this quarter, we're consolidating 100% of Cosan Alimentos under Cosan SA. When we compare this quarter with the same quarter of last year, we're actually comparing last quarter when we had 100% of Cosan's upstream business, which was CAA and 100% of Cosan's downstream business, which was CCL. And in this quarter, we have 50% of Raizen Energia, which is Raizen upstream business and 50% of Raizen Fuels, which is Raizen's downstream business.

In addition to those two businesses, we are consolidating 100% of Rumo, of Cosan Alimentos, and other businesses which comprises of the lubricants business and some other revenues we have in Cosan. These other revenues are not relevant and they are comprised mainly by some specific revenues we make from our land portfolio which, as you know, remained with Cosan outside of the joint venture.

In terms of our net revenue, we saw a positive variation compared to last quarter. But again, we don't want to compare those two numbers because the businesses are different today. In this quarter we had net revenues of BRL6.8 billion in Cosan and we actually saw an increase in revenues in all business lines.

In terms of our net income, we saw a reduction of 75% coming from BRL250 million to BRL63 million, which is basically a result of the interest; I'm sorry; of the foreign exchange rate devaluation in Brazil, which basically means that, at the end of this quarter, the FX rate was 1.85, representing a devaluation when compared to the exchange rate in the beginning of the quarter of almost 20%.

That actually caused an impact; a negative impact on our financial expenses of BRL312 million. And this is actually where it comes from. So when you look at the operating performance of the Company, you will notice that it was an outstanding quarter for all business lines within Cosan and I will talk about each one of them as we move along.

In terms of our EBITDA, even though it was pretty much in line with last year's, again, the business portfolio composition is different this time around. We had an EBITDA margin of 10% and comparing with 14.4% last year. What is important to notice is that we have, in this specific quarter, sugar and ethanol representing roughly 50% of Cosan's consolidated EBITDA. And when we look at the last two quarters, the last six months, you will notice that that percentage is even lower.

In terms of the specific businesses, I would like to start with Raizen Energia. We had an increase in the sugarcane crushed of 14% from 23 to 26.3 million tons. And we will see an overall crushing in this quarter of something between 53 and 54 million tons as a function of a big disruption in the southeast crop; central southeast crop season in Brazil. You will notice that, if we crush 53 to 54 million tons this year comparing to this region's total

crushing of roughly 490 million tons, we will have a share of more than 10%, actually equivalent to around 11% of the overall crushing in the region.

In terms of our sugar production in this quarter, we saw a jump of 15.6% from 1.8 to 2.1 million tons and the ethanol production declined 2%, even though there was an increase in the production of anhydrous ethanol, from 316 to 386 million liters. The TSR, the sugar content in the sugarcane has also declined by 4%, coming from 150 to 142 kilos per ton.

The volumes sold of energy in; to the Brazilian (grid) base on our existing contracts increased 28.2%, which was a function of the ramping up of the business as we keep investing in the expansion of the; our production capacity once we have already sold this energy based on the contracts or the auctions we have participated in the past. What you will see is an increase in the average price from BRL144 per megawatt to BRL167 per megawatt hour.

In terms of the net revenues of Raizen Energia; and these two numbers are comparable because they relate to the same business, which was the business we had before in Cosan last year. We saw an increase of 52% from BRL1.7 billion to BRL2.7 billion, roughly. The biggest variation took place in the ethanol business, which increased its revenues from BRL530 million to BRL982 million. In terms of the sugar business, we saw an increase of BRL380 million coming from BRL1.1 billion to BRL1.4 billion.

The EBITDA of the upstream business jumped 56% from BRL528 million to BRL533 million. We saw a margin; an EBITDA margin in this business of 31.3% compared to 30% in the same quarter of last year. So we have already made some adjustments in this number to reflect the disruption of the crop; I'm sorry, the sugar cane production, in the Company. So what we did was pay them our expectation at this point in time. We adjusted the costs to reflect a lower crop season, so we should not expect any major adjustment in the following quarter. So this BRL833 million already reflects the potential or the bulk of the impact in the reduction of sugar cane production in Brazil.

In terms of our hedging, we are roughly 83% hedged for this crop season, which means 666,000 tons for the remainder of this crop season, at an average price of BRL26.38 per pound. In terms of the next crop season, we are hedged at 427,000; 428,000 tons, which represents around 14% of the overall production for next season or what we expect to be the production for next season. We are talking about over three million tons of sugar production not hedged yet.

The reason why we decided to do this is because we have good expectations in terms of the performance of the price of the commodity during the next crop year. We have actually, as we mentioned, the under hedged compared to last year when we were at, probably, something between 26% and 30% hedged for this current crop season at that time.

In terms of our downstream business, we saw an overall volumes sold in; through our stations of 5.3 billion liters, which is very much in line with the sales of last year. We saw a negative impact on the ethanol business. As you know, the price of ethanol spiked in

FINAL

Brazil, which caused consumers to buy more gasoline as opposed to ethanol. So we saw a jump in the sales of gasoline and a reduction in the sale of ethanol. And we saw a small increase in the sales of diesel as well.

That actually ended up having a very positive impact in terms of our revenues because we saw better prices overall in this business during this quarter. So we increased by 11% the net revenues of the Company compared to the same quarter of last year. In terms of our EBITDA, with a margin of 3%, we're coming from BRL173 million to BRL297 million in this quarter, represented by an increase of 72%. Our EBITDA per cubic meter jumped from BRL32 to BRL56. There is a comment that I would like to make here, which is related to the trading business; the ethanol trading business.

As I have already mentioned to you in previous calls, we don't; we do not incorporate, under the results of the downstream business, the performance or the revenues or the EBITDA coming from the trading activities or the activities of actually telling; buying and selling ethanol within our portfolio. We're a big producer, we're a big distributor, and we actually make money sourcing and selling ethanol, not even; not only through our network, but to other buyers as well. And that had, in this specific quarter, a positive impact on our EBITDA in the upstream business, in Raizen Energia, of roughly BRL35 million.

I would like to talk a little bit about the other businesses under Cosan's control. So starting with Rumo. In Rumo, as expected, we had an increase in the volume of sugar loaded at the port. So a 9% increase and an increase in the average revenue per ton of sugar loaded coming from BRL57 to BRL77.8 during this quarter. That had an impact on our net revenues of 48% when we got to BRL214 million during this quarter compared to BRL145 million in the same quarter of the previous year, representing an EBITDA margin of 36% or BRL77.1 million compared to BRL44 million last year.

We should expect some impact from the reduction of the production and the consequence; transportation of sugar over the next two quarters. We have also anticipated some; part of the sales of the following two quarters in the upstream business, which means that we took advantage of the positive price environment in the sugar business as this point in time as opposed to the projected prices when you look at the curve; the inverted curve.

When we saw prices prospectively going down, what we did was we anticipated some sales, even though we are at the same level of inventories we were at this time last year. We should eventually start crushing a little earlier than last year and therefore it represented some anticipation in terms of revenues. But if you look at our projections, you will see that we forecast; we still forecast a very good performance and we haven't changed substantially the projected EBITDA for the Raizen Energia business.

In terms of Cosan Alimentos, as I mentioned before, this is the First Quarter we report this business on a segregated basis. We had a good quarter in terms of the performance of the price. As I just wanted to recall that we have the Chilean brands in Brazil and we capture a good premium based on the; on these two products, on these two brands. And

even though we saw a reduction in the volumes sold of 9%, equivalent to 176,000 tons during the quarter, we saw a big jump in the price of roughly BRL400 coming from (BRL1,100 to BRL1,500) per ton.

That represented an increase in net revenues of 25% equivalent to BRL267 million in this quarter and an increase in EBITDA of 100%, which was equivalent to BRL31.7 million EBITDA in the Second Quarter of 2012 and an EBITDA margin of 12%.

Our other business line is actually a sum of the results of the lubricants business. So when you see the EBITDA and the net revenues for this same business last year, you will see 100% of the revenues coming from the lubricants business. When we look at the revenues and the EBITDA for this year, it's a combination of the lubricants business in terms of revenues. Some revenues are not relevant coming from other businesses.

And the bulk of the impact on the EBITDA side comes from the corporate structure that was observed by Cosan under this other business line as a function of the corporate structure that was observed by Cosan under this other business line as a function of the contribution of the upstream and the downstream assets of Cosan to Raizen. Therefore, we saw a reduction of 90%; 92% in EBTIDA of this business combination and we had an EBITDA of BRL3.4 million. When we look at the lubricants EBITDA only, it's fair to say that it was very much in line with the EBITDA of last year in the same quarter.

Now moving to our net debt position, we had a major impact on our net debt coming from the exchange rate variation. So that resulted on; in a negative impact of BRL654 million in this quarter. But even so, we are at a very reasonable, not to say, low net debt to EBITDA ratio level. So we're coming from BRL2.7 billion of net debt last quarter to BRL3.38 billion in this quarter. When we deduct from the net debt position of the Company, the future capital contribution to be made by Shell, which is already a receivable at Raizen, you will see that the ratio, the net debt to EBITDA ratio, goes down from 2.1 to 1.3 times during this quarter.

Now talking a little bit about the prospects of the business or at least to give you some guidance in terms of the performance of the business during this fiscal year, we have already made some adjustments to reflect a lower production of sugar and ethanol and its consequent impact on the overall performance of Cosan. You will see that we have reduced our expected crushing volume even though we have not reduced the EBITDA, the projected EBITDA on a consolidated basis for Cosan.

So you will see that for Raizen Energia, we're considering a volume of sugar cane crushed for this year in the range to 53 to 54 million tons, a consequent production of sugar between 3.9 and 4.1 million, and a production of ethanol between 1.9 and two billion liters. We haven't changed the guidance on the volume of energy, though, and we have adjusted very slightly the; just slightly the EBITDA, the projected EBITDA in Raizen Energia to BRL1.85 billion to BRL2.05 billion during this fiscal year. In terms of Raizen Combustiveis, we have adjusted the volumes or the projected volumes sold to 21 to 22 billion liters during this fiscal year with a consequent EBITDA of BRL1 billion or BRL1.2 billion.

We have also adjusted Rumo's forecast of volume loaded to 7.5 to 9.5 million tons and the transported volume to five to seven million tons during this fiscal year. For Cosan Alimentos, we're providing some guidance in terms of volume of 550,000 to 650,000 tons sold in the domestic market with an EBITDA between BRL65 million and BRL85 million and we haven't changed our projected volumes or the per volume sold for the lubricants businesses.

Well that's what we had to say for the time being. I would like to turn it back to you for questions. Marcos and myself will be happy to answer your questions. Back to you now.

## Questions And Answers

### Operator

(Operator Instructions) Our first question comes from Juan Tavaréz of Citi. Please go ahead.

#### Q - Juan Tavaréz {BIO 15083199 <GO>}

Great. Thank you. Good morning, everyone. My first question is on the fuel distribution business. When I look at your guidance, essentially, the top end of the range is close to what you reported so far First Quarter and Second Quarter of this year. Just to get a sense from you, what are the risks; assuming that sales mix remains the same; what's the risk of you not reaching the top end of your guidance in terms of margins?

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

Juan, I think the risk is very low at this point in time, so we're very optimistic about reaching the top end of the guidance so far.

#### Q - Juan Tavaréz {BIO 15083199 <GO>}

Okay. Then what does that mean for the year two assumptions that we got earlier this year for this joint venture? Because if recall, I think those margins were close to BRL51. Have you considered revising those upwards or what are the risks there that you're still trying to manage before you revise it upwards?

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

No. We're considering revising the numbers. What we would like to do is; we would like to see another quarter of performance of this business before we do that. But what I can tell you up front is that we are; we believe that could capture another 10% increase in margins for next year even though we're still; we still have not closed this number with board of Raizen nor with the management the Company. We're very keen that we're going to get to probably something around BRL60 per cubic meter for next year.

#### Q - Juan Tavaréz {BIO 15083199 <GO>}

FINAL

Bloomberg Transcript

Okay. Great. And for the sugar and ethanol side of the business, I know you're investing CapEx to expand your area and for the replantation. How much growth do you see for the next harvest coming from Cosan and are you seeing your peers doing the same type of activity? In other words, what will you expect for Brazil as a whole for the crop for next year in terms of growth?

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

Jan, this is Marcos. Again, everybody is actually starting a process of kind of renewing their cane fields. So we see a lot of activity. I think we started quite early compared to the average of the (Sentosol). So we will be probably seeing some recent changes for the next year already. And so we probably; we will see something on the range of 10% increase on our available cane for crush, which is actually today the; let's say, the bottleneck. Maybe a little less than 10%, but that range is what we kind of foresee.

We probably foresee this as a top number for the Sentosol. Probably we will see less than that. But as you, at this point, know very well, weather actually changes those things very sharply and we are still; even before our summer in Brazil, which will define a lot of next crop production per hectare. So what we've done is really we are actually doing for one year and a half already, a big work on renewing the cane fields. And this is also the trend for next year.

We have a 65 million ton capacity and, obviously, crushing on the range of 53 or 54 million this year. We have a big, let's say, a big upside on actually fulfilling that capacity with our; with cane contracts and our cane. So that's kind of the focus there for the upstream guidance.

**Q - Juan Tavaréz** {BIO 15083199 <GO>}

Great. Thank you. Very helpful.

**Operator**

The next question comes from Giovana Araujo of ItauBBA. Please go ahead.

**Q - Giovana Araujo** {BIO 16356713 <GO>}

Hi. Good morning, everyone. My first question is on; about Raizen Energia. Again, on the sugar cane, if you can give us a sense of the potential increase in agricultural yields on the back of sugar cane renewals for next year. So that will be my first question. And my second question is about Rumo. We see that you made a downward revision on your guidance for loading volumes this year. And I would like to know if you still consider the possibility of loading grains instead of sugar to optimize the utilization of capacity. Thank you.

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

Giovana, we will be loading other grains, especially on the last three months of the year. We have already contracted volumes for that. But obviously, the profitability is very

FINAL

different than sugar compared; using all, let's say, the things around the contracts that we have with (ALL). So actually, sugar is a product that would really make our margins in Rumo. And because the exports of sugar in Brazil, as a whole, as revised down is really; I mean, this adjusted is pretty much what we have to do at this point to guide the investors.

As I just mentioned on the last question, it's too early to see what will be the yields for next year and exactly the production (reactor) in Cosan or in the Sentesol fields because we don't know exactly the; how the rainy season will be and how early to start, how late to end, and vice versa. So it's really, I would say, a wild; kind of a wild guess at this point. But also, what we can actually have is a good sense on the trend.

Given that we've done a lot of investment in the last year for renewing the cane fields, we are sort of expecting an increase of our crushing on the range of 10%, maybe a little less than 10%. But we'll be going up in terms of crushing of the utilizing our current assets that are, I mean, idle at this point with our 65 million ton capacity versus pretty much the 54 million or 53 million that would be crushed here.

Then Giovana, (renewal); an average of 22% of our sugar cane field this year compared to an average in the industry lower than 18%, as you know.

**Q - Giovana Araujo** {BIO 16356713 <GO>}

Okay. Okay. Great. Thank you.

**Operator**

The next question comes from Pedro Herrera of HSBC. Please go ahead.

**Q - Pedro Herrera** {BIO 15159561 <GO>}

Hi, gentlemen. Good morning. A quick question. Regarding ethanol imports, can you please tell us what you've done his year? How do you expect to; or will you be importing in the ethanol for the remaining of this fiscal year and/or next year?

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

Pedro, we've done a lot of imports in the beginning of this year. We've done also some other ships. And we have contracted ships throughout the year. We've actually cancelled those contracts because, as this point, we feel that they average price would not be positive. And we see also kind of a balance to a surplus of anhydrous ethanol during the intercrop. But again, we are pretty much selling our production in one twelfth per month, not to really take a position on the marketing of ethanol on the upstream side.

**Q - Pedro Herrera** {BIO 15159561 <GO>}

Okay. Thank you.

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



You're welcome.

## Operator

(Operator Instructions) Our next question comes from Luis Campos of Credit Suisse. Please go ahead.

### Q - Luis Campos {BIO 1750845 <GO>}

Hi. Just one question on Cosan Alimentos. We saw in this quarter already you had about BRL30 million in EBITDA. And you are giving as guidance BRL65 million to BRL85 million. Just wanted to understand if there is a deceleration, really, in the EBITDA for the other two quarters. And if this EBITDA guidance you are providing is related just to this nine months or if it does include a result related to the First Quarter or not.

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

At the end, we have to kind of, basically, expect a Fourth Quarter of the year that you might have a compressed margin. So the budget is, I would say, conservative, given that it's kind of the first year of the operation the way it is. I mean, as an independent company. Independent balance, let's say, balance sheet and everything.

So yes, there's some conservativeness on the process. And again, on the First Quarter, we had still kind of carve-out issues and the number was; I mean, was embedded in the transaction. Because, at the end, we had, if you recall, what we call the soft closing that was actually a non; a closing that was, in terms of, let's say, accounting purposes, but not in terms of, let's say corporate structure change.

And this accounting results, actually, were incorporated on the price that we actually paid for the business when we actually made it happen. We actually carved it out from Raizen. So summing all those parts, I mean, I see this number being on the year kind of; if it's really surprisingly positive; close to BRL100 million. But it's not that we'll see a BRL200 million business in the first year. We have really still to build the blocks to get there.

We have strategy on the long run to develop better margins using the very broad, let's say, logistics system that actually bring this product to the market. And also the very strong brand that we are not there yet. The number in the first year will be close to this, let's say, this guidance. Maybe a little up, but this will adjust on the next quarter, if necessary.

### Q - Luis Campos {BIO 1750845 <GO>}

Okay. Thanks a lot.

## Operator

(Operator Instructions) This concludes the question-and-answer session. I would like to turn the conference back over to Mr. Marcelo for closing remarks.

FINAL

Bloomberg Transcript

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

Thanks again for your participation. I just wanted to give you a heads up again about our Cosan Day, our investors day, which will take place in New York on the 18th of November at New York Stock Exchange venue. So again, we're counting on you. We're going to have the top management of the Company of Raizen and other business lines controlled by Cosan. And we're expecting to see you there on the 18th of November. Thank you very much and we'll see you soon.

## Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*

FINAL

Bloomberg Transcript