

## Q2 2020 Earnings Call

### Company Participants

- Phillipe Casale, Investor Relations Executive Manager

### Other Participants

- Alexandre Falcao
- Isabella Simonato
- Lucas Ferreira
- Regis Cardoso
- Thiago Duarte

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Cosan S.A. Second Quarter 2020 Results Conference Call. Today with us, we have Mr.Joao Arthur Souza, Head of Finance; and Phillipe Casale, Investor Relations Executive Manager.

We'd like to inform you that this event is recorded and all participants will be in a listen-only mode during the conference 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 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 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 will turn the conference over to Mr.Phillipe Casale. Mr.Casale, you may begin the call.

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

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Good morning and welcome to Cosan S.A.'s second quarter 2020 earnings conference call. This quarter will definitely go down as one of the most difficult period in the history of Brazil and the world. The impact of the pandemic on global economy and mainly on people's lives especially those who have lost friends and family has been very substantial.

As stated over the past few months in every event we participated, all of our efforts have been directed towards making sure that our teams and operation most of which are essential ones continue to run completely safely. We have geared up the company to navigate this scenario. We have fine-tuned the risk and liquidity management. We have worked closely with our clients and suppliers managing our exposure while at the same time preparing for an upturn. We have done our homework. Everything suggests that the worst is behind us and we are ready to capture the opportunities that the recovery of the economy will bring during the rest of this year.

Today's presentation will be slightly different. And I would like to start with Slide 3, which shows macroeconomic and specific sector's indicators for the past few months that are directly related to our business, such as fuel consumption and industrial production.

The crisis definitely peaked in April as you can see on the charts. Since then, the gradual flexibility of social distancing restrictions has led to a steady improvement on all of those indexes. We can see that clearly in our business, results in April were very poor, May was still affected but with initial signs of improvement to finally improve in June when our performance was much closer to the pre-crisis levels. And the trend has continued in the past few weeks.

Moving to slide 4. As you can see the impacts of social distancing were strongly felt by our business, especially in terms of volumes leading to a 57% drop in pro forma adjusted EBITDA and a net loss in the quarter. As for the year-to-date results, the bottom chart shows an EBITDA of BRL2.3 billion for the first half of 2020, a 14% decrease versus the same period last year.

With the exception of Raizen Energia, overall business performance since the beginning of the pandemic had a direct effect on the results for the first half of 2020.

Let's drill down into the facts on each business line. Starting on the left hand side of the next slide, Slide number 5, we have Raizen Combustiveis Brazil. The tough combination of unprecedented and abrupt contraction in demand plus the drop in fuel prices resulted in an extremely challenging quarter for the sector. We went into April with higher inventory levels than usually owing to this lower turnover due to the downturn in sales in March following the declaration of the pandemic and the criminal cyberattack we suffered.

The plunge in international oil prices coupled with the start of the sugarcane crop season in Brazil, which historically put pressures on natural price had a significant negative effect on Raizen's inventory levels and, consequently, on margins. As you know this effect is treated as a recurring part of the business and our figures are not adjusted for it. However, for better understanding, it is worth pointing out that the loss was around BRL300 million in the quarter more than doubling last quarter.

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Another crucial factor to understanding this quarter results is the loss of economies of scale due to the sharp reduction on sales. Our optimized logistics structure has always contributed to a very efficient performance and led to superior results at Raizen. For instance, demobilizing the entire logistic structure both the contracted and our own after all the long-term work done focusing on capacity building and safety of the operation didn't make any sense due to a one-off event. But considering April and May, when the drop in sales reached roughly 50%, margins were inevitably impacted.

Still on scale, the aviation segment has been even more affected due to the physical structure of the operation were predominantly fixed costs with the exception of the purchase of products. Therefore, the flight reduction of nearly 90% in the period had a negative effect on the quarter. It should be stressed that we have been working very closely with our main clients, seeking efficient contract management and reducing our credit exposure.

Let's take a look at some figures starting with the total volumes sold by Raizen that was 24% lower year-on-year. These are proven to be more resilient owing to the demand in agribusiness and trade transportation. The adjusted EBITDA totaled BRL65 million in the quarter reflecting the impacts mentioned before. We don't usually make month-on-month comparisons, but it's essential to understanding market dynamics this quarter.

As the chart in the bottom left hand corner shows, demand picked up coupled with the recovery of average fuel prices have already led to results that are much closer to normalized level in June.

In summary, all evidence suggest that the crisis peaked in April and we can expect a second half of 2020 with trends like those seen last year. In other words, a gradual recovery of profitability and improved business environment up to the end of the year. Raizen strengthened even more its relationship with resellers through very closely managing -- management keeping exposure with clients and suppliers under control.

Lastly, CapEx this quarter totaled BRL225 million, 2% lower. Although some investments were postponed during the peak of the crisis, the pace of renewal and gas station conversion remains solid for the remainder of the year.

Now let's move to Raizen Argentina on the right hand side of the slide, bearing in mind that the results are in U.S. dollars, which is the functional currency of the operation. Much like Brazil, the business in Argentina was severely affected this quarter. However, the effects of the crisis were stronger due to the stricter lockdown and the shutdown of the refinery operations for nearly a month in view of the drop in the demand.

The volatility in oil prices and the exchange rates impacted inventory both for crude oil and refined products, also contributed to a negative margins seen in the period. The abrupt sales reduction of 42% seen in the quarter caused the adjusted EBITDA to drop to negative \$51 million. As social distancing restrictions continues to be lifted, demand should pick up gradually over the next few months. The recent international price recovery should also make a positive contribution but the profit improvement will depend

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substantially on whether higher costs can be passed on. Investments in the quarter totaled \$10 million, reductions is in line with the rationalization of investments for the period.

On the next slide, we'll talk about Raizen Energia's result. Raizen Energia results were less affected by the pandemic. The weather was quite dry, driving the first quarter of the 2020, '21 crop year, allowing for speedier crushing and higher agricultural yields. The production mix was geared towards sugar which should provide better returns than ethanol during the crop season. EBITDA was BRL329 million, an 18% reduction that can be explained by the commercialization strategy, which will concentrate higher on product sales volumes in the last quarters of the crop year.

Let's take a quick look at sales per product starting with sugar. On sugar volumes sold was lower this quarter offset by an increase in the resale operation. Selling price was 27% higher in line with the hedging contracts for the year and the increase of white sugar sales in the mix.

Moving to ethanol. Own volumes sold was in line to the same period last year. This strategy here is similar to sugar seeking higher profitability throughout the year. The sharp decline in oil prices and demand led to plunging ethanol prices at the start of the quarter. But by the end of May prices begun to recover in the domestic market, reaching similar levels to the same period last year.

Still the average selling price went up by 9% compared to the first Q '19, due to higher export volumes and the economic hedging strategy for ethanol sales. Own -- we're going to electricity now. The own volumes sold was in line year-on-year and the average prices were 3% higher than the second Q '19, bringing a positive contribution to results.

As for sugar hedges, Raizen have hedged practically all sugar exports for the current crop at an average price of BRL0.60 per pound weight, nearly 10% higher than last year's crop. The increased competitiveness of Brazilian sugar owing to the recent BRL devaluation has presented good opportunities, providing higher returns than those seen in the last years. For the 2022 crop, we have hedged roughly 60% of the sugar at an average price of BRL0.66 per pound weight.

We have started to hedge even this '22, '23 crop with an even better level of return. There is a consensus that the current crop in Brazil should lead to a significant increase in sugar production which might keep the pressure on sugar prices in the short, mid-term even if production declines in countries like Thailand and, I mean, in sugar prices in U.S. dollar terms. To conclude in Raizen Energia results, investments added up to BRL588 million in the quarter in line with the expectation for the year.

On the next slide, we will discuss the natural gas. And just before I start, I would like to let you know that on July 31, Compass Gas e Energia filed for registration of an initial public offering of its common shares. For that reason, Compass is currently in quiet period and therefore we will not be able to discuss any projections or the process itself at this time.

Let's take a look at the figures for the quarter. Compass' adjusted EBITDA reached BRL473 million, a 19% reduction on a pro forma basis. We'll go straight into Comgas' figures, which is currently Compass' main operating asset. Just one more disclaimer before we continue. You may have noticed that we do not disclose the normalized EBITDA for the second Q '20. That's because as of June, according to our assessed resolution or assessed with the regulating agents of Comgas, Comgas begun to recognize the effects of the regulatory current account in its corporate books and therefore no longer needs to normalize the EBITDA.

However, the balance accrued was fully accounted for in the quarter, so an adjustment was needed in the period for comparison purposes. Total natural gas volume distributed fell 27% in the quarter reflecting the drop in the demand, especially in the industrial and commercial segments, owing to the spread of the pandemic and resulting decline in economic activity.

In the industrial segment, the ceramics, chemical and automotive industries have been the most badly hit. In the commercial segment, there was a 54% reduction concentrated mainly in the food and hotel segments. The residential segment on the other hand posted a 15% increase as a result of social distancing restriction and lower temperatures in the period as well as 96,000 new clients added in the past 12 months, which ended up improving the sales mix and partially offsetting the volume losses in the quarter.

Comgas adjusted EBITDA was 18% lower and totaled BRL481 million, an effect of the decrease in sales. Moreover -- and also it reflects of the current scenario. There was a specific BRL51 million increase in the provision or the allowance for doubtful accounts. Excluding that provision, Comgas delivered a 7% reduction in overall expenses. It should be pointed out that Comgas has sought to work even more closely with its clients, thereby also minimizing an increase in credit exposure. Despite the pandemic Comgas kept its investment plan reaching BRL231 million in the quarter.

Continuing with the presentation, let's move to Slide 8. Demand for lubricants has been affected in every country we operate. The reduction of volumes at Moove was 35% in the quarter, and the EBITDA totaled BRL44 million, 43% lower than the same quarter last year. Nevertheless, some positive effects in the quarter have been helped to naturalize part of the worst volume: first, the consolidation of results on foreign exchange contributing positively to the results; second, an improved lubricant sales mix during the crisis, which reflects the implementation of the business marketing strategy; and lastly, we have noticed a positive sales recovery trend over the quarter, especially in Europe where the resumption of activities is making a headway.

Let's turn to the right hand side of the slide and discuss corporate expenses. Thanks for the company's focus while navigating this new period, we have posted a 10% savings in expenses. The other expenses added up to BRL22 million.

Now turning into Slide 9 to discuss the consolidated financial highlights. Pro forma gross debt grew by 16% in the quarter due to Comgas and Raizen issues as cash strengthening measure to navigate the current scenario. The funds raised also explain the cash

generated for shareholders on the pro forma basis. The effects mentioned before also led to operating cash consumption in the quarter, especially at Raizen Combustveis, which has historically generated cash. As a consequence, pro forma leveraging went up to 2.4 times net debt to EBITDA reflecting a smaller contribution by operating results, especially this quarter.

Before concluding the presentation, I would like to briefly touch on the progress we've made in the -- in our ESG journey. On July 1, we issued our annual sustainability report and disclosed our 10 sustainable development commitments, which are in line with the United Nations' agenda for the first time. These goals follows our economic, social and environmental principles and we will pursue them through the implementation of well-structured and concrete actions in all of our companies by 2030. By doing that, we are reaffirming our commitment with the present and the future in keeping with our long-term vision. Comgas, Raizen and also Rumo, which is one of the company's economic group -- is also on the company's economic group has also issued their own complete sustainable -- sustainability reports.

Furthermore, we have also launched a sustainability portal, where we concentrate our initiatives, reports, videos and other contents that are related to the topic. We are actively engaging in advanced the ESG agenda and committed to becoming increasingly more transparent. To that end, we have answered the Dow Jones sustainability questionnaire for the second consecutive year. Other similar initiatives are also being implemented. We are leaders in the business we operate and therefore responsible for leading this agenda.

More specifically on the G for governance, in July, we announced the group's long-awaited corporate restructuring process. This is a major step towards the simplification of the structure, which unifies and consolidates the three listed holdings companies into one.

On August 4, we announced the creation of the committees, whose members are highly experienced and independent professionals and will be responsible for assessing Cosan S.A. and Cosan Log assets. Also as announced, we have filed for the registration of an initial public offering of Compass Gas e Energia, a Group Company that provides gas and energy solutions for the country.

With that, I conclude the presentation and we can start the Q&A session. Thank you.

## 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 from Bank of America.

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

Thank you. Good morning, everyone. Good morning, Phillipe. I have two questions. First of all in Raizen Energia, if you could elaborate a little bit more on the sugar commercialization strategy. I mean, we saw a big jump in the trading volume of sugar, right, and I understand you guys prefer to hold a little bit more inventories. But can you elaborate on that decision? And how can we think about that go in the next couple of quarters, I mean if you are accelerating now the sale of your own volumes? And how the balance between trading and on volume should be?

And also the second question is on Raizen Combustiveis. I understand that you guys have now sequential improvement right in volumes. And I understand that that goes already in July as well. But the March impression was quite high in the quarter. How can we think about that recovery and how the fixed part of your cost structure has been diluted back now that volumes are more -- are better? Thank you.

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

Isabella, thank you for the question. Starting with the question in Raizen Energia. Actually the volumes in sugar is more linked to resale and not trading itself, right? So this is part of the strategy of Raizen to maximize the value of the entire operation, right? So reselling has been part of our operation -- reselling of sugar has been part of our operation, but we increased a little bit this year, this quarter specifically. And this is another part of our strategy here is to keep capturing better returns on the operation itself.

And in regards to own sugar volumes, as we're going to maximize the sugar production this year, we are also analyzing the best scenarios and the best moments to sell our sugar. So looking at the cost of carrying that product nowadays and compared even to the last year, again on this crop year, we will probably concentrate more of the sales on the third and the fourth quarter of the harvest year, right? So it's the fourth and the first quarter of the calendar year. So that's quite linked to seeking on -- seeking to capture the best return within the commercialization strategy.

In terms of the Combustiveis, I think it's a good opportunity here to explain a little bit more. I'll try to make it more clear in the call. And here I will try to explain a little bit more the dynamics. And we even show some macroeconomic indicators which are quite linked to our business and specifically on fuels. We saw that April and May and also a little bit of March was the peak of the crisis, right? So just explaining a little bit the dynamic here for ourselves right for Raizen Combustiveis.

So we entered April with a high level of inventory due to the criminal hacker attack that we mentioned on the call on the first quarter results and also due to the COVID impacts, right? So the turnover on the inventory was lower leading to a higher level of inventory by the end of March. So we entered the quarter with more volumes than we would like, right? So as you all know we do have more ethanol on our mix as well, right? And that is considered not only on the sales but also on the inventory levels. And ethanol suffered even more in the quarter owing to the price drop following the gasoline and also because of the beginning of the crop season. As you know historically speaking, it puts pressures on ethanol prices in every beginning of the crop season.

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So just to wrap up here. The inventory impact, right, which was mainly concentrated again in April and May this is very important to highlight. It was around BRL300 million as I mentioned on the call, right? So as you know, once international prices started to show some recovery and we have been seeing since then a recovery also on the demand, this should bring a positive effect going forward, right? So part of this negative effect here on April and May will be recovered partly in June and partly in the rest of the year, right?

So another relevant impact here on our results that is quite important to mention which by the way contributes to superior results in a more normalized scenario, is economies of scale, right? As I mentioned on the presentation, there's a good part of our well-trained safety-focused logistics structure that was preserved during the peak of the crisis, right? It didn't make sense to demobilize that because of one or two months of drop in the volumes distributed, right? So that proved actually to be the right decision, right? If we take into consideration the level of volumes that we are currently distributing, right, which is much more close to the pre-crisis one, right? If you take June and July which is out there already those volumes are much linked or much close to the pre-crisis levels that we were distributing, right?

So in summary here, right, just making sure that everyone gets the message here; April was very, very weak. May also was weak but already showing some signs of improvement, while June was much closer to the normalized balance. And I can add July to that, right? So when I mean normalized levels, I'm talking about business environment. I'm talking about volumes. And I'm talking about the return, right, the overall performance.

So that's the trend that we should expect for the rest of the year. As I mentioned, the second half of 2020 should be quite similar to 2019 where June was the weakest month, right? And overall, the third and the fourth quarter will post gradual recovery at least that's what is -- the signs are showing to us, talking about macroeconomic indicators and actually our June and July results here on the fuel distribution.

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

Great. Thank you.

**Operator**

Our next question comes from Regis Cardoso with Credit Suisse.

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

Hi, guys, good morning. Thanks for taking my questions. Phillipe, a few follow-ups on your comments now on Raizen Combustiveis if I may please. The BRL300 million inventory loss you commented earlier, is it just the effect of the inventory? Or does it also include anything related to the parachuting in margins or to the gains in the hedges? So just we know how to interpret that BRL300 million.

Also, when you mentioned normalized levels in June, I mean, the volume side of the equation is pretty clear. We can see it. But from a margin perspective, when you speak it's

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more normalized, does that margin include the inventory gains because prices started to pick up in June, right? So just also we can understand that better. And then, just finally if you have an estimate of the total effect of these economies of scale because the loss in volumes was of course so abrupt, if you have an estimate of how much that could have impacted your results.

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

Regis, thank you for your questions. So the BRL300 million or around BRL300 million that I mentioned, it's pure effect of the inventory, basically on the turnover of the products right, on the sale of the fuels. There's no relation on way of hedges or anything like that. We do have financial instruments to protect those imports but that's not related to the impact that we saw -- that we faced on selling the fuels itself, right? So this is pure -- the effect on the quarter, which again as I mentioned, was highly concentrated in April and May, okay?

In terms of the normalized levels in June, that I mentioned to you this is close to, as I mentioned, in terms of the overall performance, right? So meaning that we're talking about volumes and I'm talking about margins or returns if you will, right? And this of course includes the dynamics of prices which impacted inventories, and that's why we are facing also a better environment here. So this is also part of the equation on the fuels in June. And also I can mention July here which is out there already.

And the total effect of the economy of scale, it's -- I mean, we're not going to disclose it. Of course, this is a strategic part. What I can tell you again and I want to reinforce here is that this has benefited us or has brought a benefit to our results in the past, in a more normalized scenario, let's put it this way. We have invested a lot in the past few years on having this well-structured logistics and also not only of our own, but also the third-party ones that we contracted, right?

But also, there's an important point here that I didn't mention on the answer before in economies of scale which is the aviation business, right, which has penalized quite a bit our results. As I mentioned on the call, there was a slight reduction of nearly 90%. Our volumes dropped roughly 80%, specifically on the fuels this quarter and by the nature of this operation, this is where we have more of the physical structure, right? With predominantly fixed costs. So here we get more -- we are more penalized in a quarter where the demand is not there, right? So -- and here, it's also quite a more difficult to predict when we're going to see a more structural recovery on the demand, right?

But I mean we are analyzing on a daily basis here how the market will evolve in the aviation segment, right? And just one more thing here, just to put in perspective here what is our expectations for the rest of the year. And as I mentioned in the second half, in our view here looking at the numbers, it's probably going to be pretty close to the original plan of the pre-crisis, right, the pre-crisis original plan that we have for the second half. There's a minimum downside here but we are pretty pre-aligned with the pre-crisis normal, let's put it this way.

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

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Thanks, Phillipe, if I may, just a follow up on a few more specifics of the results. I think you recognize now in the second quarter the BRL45 million that you had reversed in the first quarter 2020. So I mean if it weren't for that adjustment you'd have also slightly higher EBITDA in Combustiveis. Is this correct? And the other thing is for the other party, it seems you had gains in fiscal credits recoveries. Is this BRL22 million? So just wanted to know if you think this is related to the fiscal themes that you're typically adjusting the results in most quarters.

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

Regis, in terms of the first one, you are right, right? It's -- the 44 -- BRL45 million that we adjusted in the first quarter, we are adjusting back again in the second quarter. So we are netting the effect, right? So your assumption is right. In terms of the credit, the fiscal credit recoveries, whatever is -- whenever we have a new recurring gain, historically speaking, we always adjust it, right? So everything that is adjusted is the non-recurring part of it, right?

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

Very clear, thanks.

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

Thank you.

**Operator**

Our next question comes from Lucas Ferreira with JPMorgan.

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

Hi, Phillipe, my first question is also a follow up on Combustiveis. Just to make sure, were there any other sort of a one-off impacts in the aviation given the lower volumes? Or is there any break up in contracts or something like this? Any particular one-off thing impacting in the quarter in the aviation business apart from the volumes apart from the mix that we should be aware of?

And the second question is more broadly when you comment about the recovery of the business and the second half should be close to normalized in terms of also profitability. Have you guys adjusted the cost? And that's also selling an expensive structure in order to cope with this outlook of a probably lower volumes going forward not only because the economy is not recovered, but also because people are still kind of changing habits. So assuming that the volumes do not recover to the normalized or to the, let's say, last year levels, would you -- could you see your margins also coming back to what it was last year? So my question is regarding the costs and selling structure. I'm not sure if -- I could be wrong, but you said you wouldn't comment on Compass. But also wanted to pick your brains on the volume trends there if you could say something. I'm not sure if you can. Thank you.

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

Lucas, thank you for your questions. Yes, the third one, I can't do any projections here. So I'm not going to be able to answer it. In terms of the first one, in Raizen Combustiveis, the answer is no. There is no one-off effect here. We have worked very closely to our clients, of course analyzing our exposure and controlling all the exposure we had in that business. So there was no one-off event other than the extremely big drop on the demand, right, on the volumes. So there's nothing non-recurring besides COVID impact that I can highlight here on the aviation segment.

And second, in terms of the cost structures, again economies of scale is quite important in this business, right? April as I mentioned, that volume dropped about 50%, right? And then on May it was a little better but also we faced a strong drop on the demand. As I mentioned also on the call it's important to highlight here that we have built throughout the years a quite strong structure, logistic structure, training the drivers in terms of safety, in terms of quality of products and so on, right?

So what we did here is that -- or the analysis we did is that demobilizing all these logistics structure again both contracted and of our own, after all this long-term work that we have done didn't make any sense because of a month or two. Of course, we always look at the minimum adjustments that we can make. And whatever was in our hands here that will not jeopardize the recovery of the operations as we have been seeing, or a good part of the recovery as we have been seeing in June. I think that was the right decision, right? So we did whatever we could, right, in terms of not putting in risk the quality and the efficiency of our operations going forward once we have a more normalized market.

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

Thank you, Phillipe.

## **Operator**

Our next question comes from Thiago Duarte with BTG Pactual.

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

Thank you. Good morning, everybody. I have a couple of questions on Combustiveis and then to Energia. The first one is, if you could Phillipe please elaborate a little bit on the competitive environment. I mean if we look at the market share for Raizen Combustiveis throughout the quarter and the last few months, we saw a steep drop in March and April and in almost a full recovery in May and June.

And of course this all happened in the middle of the price downturn, pricing volumes downturn. And as the volumes and prices start to recover, you saw a significant market share recovery. It seemed to be especially in diesel, a little bit outside the resale more into the wholesale. So if you could elaborate a little bit of how you see the competitive environment in the middle of this big swing in prices and volumes and how that changes or affects the profitability of the business, in your view, that would be interesting.

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The second question on Combustiveis would be related to rebates. I mean, this is something that happened last quarter, it happened this quarter again I mean if you look at rebates on a per cubic meter or even a per gas station basis it's much higher than last year than in the last few years. So just wondering, how that -- if that's related to this progress into giving more incentive to resellers and so on and so forth or something else that we might be missing would be interesting to hear as well.

And the last question on Raizen Energia. Just interesting or interested in understanding how you see the drought, as you've mentioned the crushing base has been very strong for Raizen for the rest of the industry. The drought clearly played an important role there. So just wondering, if you have any preliminary sense on how that affects the length of the crop, if you could like to an early termination of the crop. And how that affects agricultural yields going forward if so right? So these are my three questions. Thank you.

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

Thiago, thanks for your questions. And it's a good opportunity here to talk about market share as well, because I do recall that some of the investors here throughout the quarter has been asking us about the market share performance. Remember, in the that March and April and May were very erratic right in terms of the demand behavior in terms of price volatility, leading to a quite challenging and different business environment, right? So we were -- I think we were in a very safe position here to not change dramatically our strategy, because we knew that when the fundamentals were back gradually profitability and volumes also would come back, right? And that's exactly what happened. And our market share and profitability in June, as I mentioned is being much closer to the pre-crisis one, right?

So it was again three months actually right? Because of the market share we have in March, with the impact of the hacker attack in our business and also because of the COVID, and then April and May being the peak of the COVID with very erratic and very challenging scenario, right? So I think when you look at the numbers as you mentioned, we are back at the same levels of the pre-crisis. And there is no reason for us to think that, that's going to change dramatically going forward, right? So we should keep the consistency here and keep the pace of performance of Raizen, right?

When we talk about rebates, I just want a disclaimer here. The rebate is not actually fully linked or related to the volumes of the quarter itself. It might have some delays between when the rebate is passed through between months here, right? So the progress of this is very clear in terms of our strategy of renewing contracts and bringing new stations to our pipeline, right, to our network. So what happen is that every time we go for a renewal of contracts, we try to offer the rebate model, which it clearly -- which for us, has clearly a better return in terms of the alignment with the resellers and on the long-term relationship with our network.

And in terms of Raizen Energia, the dry weather is actually helping to accelerate the crop right, the harvest of the sugarcane. We're probably going to be crushing a little bit more than what we did last year close to the original plan as well. There is of course, if the dry weather persists, there is a risk that we should accelerate a little bit more the harvest. Or

we can even postpone some of the crushing now to end the crushing more close to the end of the year -- of the calendar year.

But what we are looking in terms of the yields is an improvement linked to not only the investments that we have been growing, right? And that's a clear commitment we have here in terms of improving our agricultural yields, right? So you have seen in this first quarter an acceleration, a growth of the TRS, right, in total agricultural yields. And that should be the case if this climate persist. Of course, we do need rain at the right moment, right of the year. So having this very dry weather is not the best scenario, right? So we need the rains again at the right time. But I think this is going to be a better crop than next year which again leads to a higher crushing which will lead to a more cost dilution for Raizen, improving returns here.

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

Thank you very much, Phillipe.

## Operator

Our next question comes from Alex Falcao with HSBC.

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

Thanks for the question, good morning. A quick question on -- when you look at the new normal for consumption and in distribution, do you see any additional room for other impairments? And here specifically for Argentina, is that something that we can expect there? And can you tell us a little bit about your expectation for margins? I know you don't like to talk about margins per cubic meter, but without aviation, your margins are probably going to be lower here. Can you give us or shed a little bit of light here on where it's probably going to fit? Thank you.

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

Falcao, thanks for your questions, right. In terms of new the so-called new normal there and specifically in Argentina, right, I think the main challenge there, it is less on demand because, of course, Argentina is facing a lockdown. And I think with the phase of flexibility, this lockdown will have to pause the recovery on the demand, which should be more gradual than what we have been seeing in Brazil, right? But, we think that eventually the demand will recover to anything -- anywhere close to the pre-COVID levels also in Argentina. The question here is just timing right?

But, I think the main challenge in Argentina, it is good that you asked, we had a 30-day shutdown of the refinery that coupled with the strong volatility of the pesos, the oil prices, the intermediary products and refined product prices affected the inventory loss in this quarter specifically right? So this is important to talk about the impact in the quarter. And I think here the main challenge in Argentina looking forward will be the capacity or actually the signing, right, of passing through the devaluation of the currency and the increased cost of the crude oil, right. So this is the main challenge for Argentina going forward and less on the demand in our view here because again the lockdown has its phase of being

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more flexible, right? And eventually, the demand will come back. Of course we don't know what will be the new normal, right. But eventually volumes have shown throughout the world that the level is pretty close to the pre-crisis one in terms of fuels.

And in terms of margins per cubic meter, talking bottom of profitability here. What I can tell you is that and I have mentioned this before here, we are expecting the second half of the year having volumes behaving better, having the prices coming back, macroeconomic indicators showing some signs of recovery. We should have a profitability here or a level of return much close to what we were expecting before the crisis right? As I mentioned, the second half of the year will probably post results close to the -- our original plan of the pre-crisis one, right? So this is, of course, in a -- if we don't have any big or major hit in the macroeconomic indicators that should be the scenario for the remainder of the year on how you're seeing Combustiveis Brazil.

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

Okay, thank you.

**Operator**

(Operator Instructions) Thank you. With no further questions, I would like to turn the floor back over to Mr. Phillippe Casale for his final remarks. Mr. Casale, you may proceed.

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

Thank you very much. I hope to see you here on the following quarters, and stay well. Thank you.

**Operator**

Thank you. That does conclude the question-and-answer session for investors and analysts. Thank you for your participation today and have a nice day.

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