

Q4 2017 Earnings Call

Company Participants

- Guilherme Lelis Bernardo Machado, Investor Relations Officer
- João Arthur Souza, Cosan Ltd.

Other Participants

- Alexandre Falcão, Analyst
- Fernanda Perez da Cunha, Analyst
- Petr Grishchenko, Analyst
- Vito Ferreira, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Cosan S/A's Fourth Quarter and Fiscal Year 2017 Results Conference Call. Today with us, we have Mr. Guilherme Machado, IRO; Mr. João Arthur Souza, CFO; and Mr. Phillippe Casale, Investor Relations Manager of Cosan S/A.

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. The audio and slide show of this presentation are available through a live webcast at ir.cosan.com.br. The slides can be also 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. Machado. Mr. Machado, you may begin the call.

Guilherme Lelis Bernardo Machado {BIO 17920567 <GO>}

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Good morning, everyone, and welcome to Cosan S/A's fourth quarter and full year 2017 earnings conference call. As usual, I'll start this presentation talking about each of Cosan S/A's business lines and then address the consolidated results.

Starting with the highlights in chart number 3. Cosan increased its interest stake in Comgás to 80% after exercising the option held by Shell against Cosan Limited. Cosan Limited in its turn sold the interest stake to Cosan S/A under the same terms and conditions.

So now let's move on to chart number 4, where we'll discuss the results of Raízen Combustíveis. Despite the scenario of changes in the market, Raízen Combustíveis presented positive results in 2017. We remained focused on product supply and sales optimization along with the expansion and renewal of our service station network, reflecting solid results in sales performance above the market average.

Talking about the fourth quarter 2017, volume sold was 4% higher than the fourth quarter of 2016, an increase driven by ethanol and diesel, which grew by 34% and 9%, respectively. It's worth mentioning that ethanol gained its competitiveness due to price adjustments of gasoline in the domestic market, which increased the demand for ethanol.

In diesel, the agribusiness upturn and new B2B contract signed by Raízen resulted in a higher volume sold. Sales volume in the aviation segment was also noteworthy with growth of 3% year-over-year.

In 2017, total volumes sold by Raízen grew by 3% year-over-year, while volumes sold in the country based on ANP figures grew by 1%. Looking at the Plural basis, formerly Sindicom, which concentrates the industry's three largest players, total volume sold shrank 1% in 2017. This growth reflects Cosan's consistent expansion strategy and sustainable relationship with Shell branded service station network despite our exposure to relevant industrial and agribusiness segment.

Now let's discuss our adjusted EBITDA and EBIT, which reached BRL 806 million and BRL 653 million high in fourth quarter 2017, respectively, down by approximately 10% year-over-year. This decrease is due to lower gains from Raízen's supply strategy in the period. I would like to remind you that the comparison basis were positively impacted by significant import gains in the fourth quarter of 2016 and inventory gains in the third quarter of 2017, both considered recurring parts of our operations.

In 2017, adjusted EBITDA was again in line with the guidance, reaching BRL 2.9 billion, up 5% year-over-year. Improved results in 2017 reflect higher volume sold and greater efficiency of our supply and sales strategy.

Looking to the first Q of 2018, we still see price fluctuations from diesel and gasoline nearly every day, in addition to the fluctuation in ethanol prices, bringing higher volatility which may bring opportunities in the quarter.

Now referring to Raízen Combustíveis CapEx BRL 781 million was invested in 2017. We have 6,272 Shell-branded service stations in our network and net additions of 245 stations in the year. We continue capturing good and selective opportunities for network expansion through the conversion of new stations and, as importantly, the renewal of the existing contracts, which have ensured the sustainable growth of our volumes sold (00:06:21).

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Now let's move into Raízen Energia on chart number 5. And I would like to remind you that this is the third quarter of 2017-2018 crop season. So we will not refer to the full year results of Raízen Energia. So the cane crushing volume grew 17% reaching 13 million tons in the fourth quarter of 2017, on the back of the extended crushing period in December, which was due to greater sugarcane availability and dry weather. Sugarcane productivity was 8.4 tons of TSR (sic) [TRS] (00:07:02) per hectare, a 4% drop due to a lower concentration of rainfall in the period, which negatively affected the TCH, and it was partially offset by an improvement in TRS.

With the conclusion of the main crushing period of current crop, Raízen Energia crushed approximately 61 million tons of sugarcane, up 2% compared to the same previous crop period. Raízen production mix totaling 55% of sugar in the nine months period of the 2017/2018 crop year compared to 57% of the previous crop. As we mentioned in the last conference call, this mix is an effect of continued profitability analysis by product, which means that at current price levels, the anhydrous and hydrous ethanol offer a better return than sugar, thus resulting in a mix optimization opportunity. Increased production coupled with the company's business strategy enable higher volumes sold in the fourth 2017.

So looking to the products, let's start with sugar. Sugar sales were up 2% in the quarter. Average sugar sales prices in reais adjusted by the hedge accounting effect and currency hedge on sugar exports decreased 18%, already reflecting the drop in the commodity prices.

Looking to the ethanol, sales volume was in line with the fourth quarter of 2016. With higher volumes produces this quarter, we ended up stocking more products targeting to take advantage of better prices in the crops last quarter. Although ethanol gained its competitiveness against gasoline in the period, ethanol's average price was 11% lower than the fourth quarter of 2016.

And lastly, the cogeneration of energy, we had a higher bagasse availability enabling higher electricity production, which added to higher trading volumes, resulted in exports of 49% higher than the fourth quarter of 2016. Average energy price sold was BRL 280 per megawatt hour, 59% higher than the fourth quarter of 2016.

Before discussing the EBITDA, I would like to point out the results obtained with Raízen cost saving efforts. In the fourth quarter of 2017, unitary cash cost of products in sugar equivalent went down 16% to BRL 601 per ton. This reduction is due to a continued focus on capturing of efficiencies in agricultural and industrial operation, as well as higher dilution of fixed costs and lower CONSECANA average price in the fourth quarter of 2017.

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When we excluded the CONSECANA price effects, even so, unitary cash costs were 7% lower than the fourth quarter of 2016.

Raízen's adjusted EBITDA went down 11% to BRL 891 in the fourth quarter of 2017, mainly due to lower sugar and ethanol average prices in reais. This quarter, the average export foreign exchange rate was BRL 3.61 per dollar versus BRL 3.24 per dollar of average shipments foreign exchange. Thus we had the positive effect of BRL 94 million record in our financial results referring to currency hedge instruments contracted to calculate revenue in Brazilian reais. I also want to remind you that the basic target of hedging policy of Raízen is to protect the exchange rate and the commodity, always looking to the pricing in reais.

Now let's look to the sugar hedge graph. Nearly all this 2017/2018 crop sugar is hedged with an average price of BRL 0.65 per pound. Looking at the next crop, we still see short-term price pressured by an expect surplus in global inventories and a higher potential supply from other producing countries. Therefore at the end of December, we had approximately 20% of the total sugar to be exported in 2018/2019 crop hedged at an average price of BRL 0.52 per ton. This price is at the level lower than previous crop, but within our hedging policy.

We believe that the crop with less available (00:12:07) sugarcane in the Center South region and the more favorable ethanol mix could bring a positive effect in global sugar prices this year (00:12:16). We remain focus on having a more efficient operation, with improved good management on invested and working capital as well as continuously seeking to maximize business return regardless what the price levels are.

Let's see our last graph to discuss the CapEx. Raízen Energia's CapEx total BRL 520 million in line with the crop year's guidance. The 14% increase reflects higher expenses relating to sugarcane fields renovation and maintenance due to the increase of harvest, mandatory investment in health, safety and environment, and investment in the renovation (00:13:02) of agricultural equipment.

Now moving on to presentation, let's go to chart number 6 talking about Comgás. Since Comgás already reported its result yesterday, we will only touch on the main points of this business. Following the upturn seen over the last quarter, in the 4Q 2017 and in the 2017 year, Comgás record 4% growth in total sales volume, excluding thermal generation. A gradual improvement in economic activity in Brazil enabled the industrial segment growth in 2017.

In residential segment, the addition of 105,000 clients over the last 12 months drove a 5% higher volume sold in 2017. In the commercial segment, a combination of improvement indicators and 900 new customers resulted in 6% volume growth in 2017.

Comgás EBITDA normalized by the regulatory current account effect was for BRL 416 million in the fourth quarter of 2017 and BRL 1.7 billion in 2017, an increase of 16% and 19% respectively. The EBITDA result ahead of 2017 guidance is the result of higher volume

distributed, margin adjustment due to inflation in May 2017, and an operating expenses efficiency.

In 2017, Comgás record a net return of BRL 193 million of the regulatory currency (sic) [current] (00:14:44) account funds to clients. As a result, IFRS EBITDA went down 23% to BRL 1.5 billion. Although normalized EBITDA is the best metric to monitor our business operational performance, the return of regulatory account funds in 2017 impacted operating cash generation as well [ph] the sales they had (00:15:04). Comgás investments totaled BRL 152 million in the quarter and BRL 460 million in 2017 full year, in line with an announced guidance and reflecting Comgás efforts towards network saturation.

Now moving to chart number 7, let's start with Moove, our lubricants business unit. Despite the recovery seen in the past quarter, the Brazilian lubricants market is still challenging and record a 1% decrease in the fourth quarter of 2017. At Moove, total sales volume was in line with the same period of last year, and finishing lubricant sales in Brazil and international markets increased in the fourth quarter of 2017. In the full year 2017, total volume sold by Moove grew by 6% year-over-year, reflecting our consistent business strategy. Moove's EBITDA was BRL 34 million in the quarter and BRL 175 million in 2017, up approximately 30% year-over-year. These results reflect higher sales volume in all the markets in which the company operate and a better product mix.

Now let's turn to Cosan Corporate on the right hand side of the chart. General and administrative expenses reached BRL 44 million in the quarter, slightly above the fourth quarter of 2016 and a BRL 159 million in the full year 2017, down 4% year-over-year, reflecting the company's continued efforts to control costs and expenses.

On the other hand, other operating revenue was positively impacted with BRL 973 million in the fourth quarter of 2017, with the non-recurring effect of BRL 1 billion referring to the sale of credit rights as announced to the market. It's worth to mention that the impact of this sale on net income for the year was BRL 788 million.

Moving on to chart number 8, we will present the consolidated results for Cosan S/A in a pro forma basis, which considers 50% Raízen results.

First, the consolidated EBITDA. Despite a 7% drop of adjusted EBITDA this quarter, 2017 was marked by record results as we achieved 10% growth, reaching BRL 5.1 billion in EBITDA. Again, our business portfolio was resilient and all operations record an increasing EBITDA. Net income, also adjusted by non-recurring effects mentioned above, grew by 12%, reaching BRL 693 million (sic) [BRL 953 million] (00:18:00). Improved operational performance and lower financial expenses in the year contributed to net income's growth.

Moving on to chart number 9, starting with the indebtedness - pro forma gross indebtedness, including 50% of Raízen results, was up 10% in the fourth quarter of 2017. Highlighting the BRL 700 million raised in Agribusiness Receivables Certificate and BRL 1 billion in Exports Prepayment, both at Raízen, as well as the issuance of BRL 400 million in debentures at Comgás.

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Pro forma net debt, which include obligations with preferred shareholders, was BRL 11 billion at end of the fourth quarter of 2017, up 12% quarter-over-quarter. This was impacted by Cosan's cash disbursement of BRL 833 million for the acquisition of the equity interest stake in Comgás previously held by Shell, as we have mentioned before.

The company's pro forma leverage dropped from 2.1 times to 2 times net debt to pro forma EBITDA, as a result of improved EBITDA and the company's effort to maintaining a healthy working balance in its capital structure. The pro form average cost of debt was 107% of CDI and if we consider the account's figure, excluding Raízen, the average cost increased to 112% of CDI. It's worth mention that we have pre-fixed (00:19:47) debt mainly in Comgás, which are now compared to an even smaller CDI.

Free cash flow to equity totaled BRL 643 million in 2017. It's worth noting that we had a few relevant impacts to 2016 and 2017 cash flow. I'll detail this. In 2016, first, the divestments of Radar, which impacted fourth quarter of 2016 with a cash inflow of BRL 1 billion, and the interest and - the sale of the interest held by Raízen Combustíveis in STP of around BRL 200 million. And the dynamics of the Comgás regulatory current accounts, which favored cash integration 2016.

2017 was impacted in its turn (00:20:46) first by the cash disbursement due to the acquisition of Tonon mills, approximately BRL 400 million, and the acquisition of Comgás shares, as already mentioned, totaling BRL 833 million. I would like to note that the BRL 1.3 billion cash referring to the sale of credit rights was record only at the end of January 2018 and did not impact the fourth quarter of 2017 cash flow.

Moving on to chart number 10. Before presenting our guidance for 2018, we'll make the account for the following. 2017 reveals (00:21:32) several signs of economic recovery in the country after two consecutive years of decline, but was still marked by relative volatility. And despite of this, our business portfolio and this is again, not only its resilience, but also its capacity to grow despite in the worst environment.

For the eighth consecutive year, we achieved our targets and we delivered Cosan's performing the EBITDA guidance, a continuous focus on management, rationality, and efficiency, resulted in EBITDA growth and investments in line with budgets in all businesses. I would like to quick remind that Raízen Energia we ran this current (00:22:18) 2017/2018 crop year at the end of the first Q 2018, but we expect to be in line with the guidance.

Now let's turn to the next and last slide of our presentation, chart number 11, to discuss our guidance for 2018. First, I'll talk about the projection by business line and then the consolidated forecast. Giving Raízen's budget process continues during the crop year, Raízen Energia and Raízen Combustíveis figures are preliminary. But I'll start with Raízen Combustíveis.

For 2018, depending on the economic scenario and industrial and agricultural activity, during the crop year, we may expect certain fuel consumption growth, talking about low to mid-single digits. And we can split the dynamics into the main sectors.

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At the auto cycle (00:23:15), we have been monitoring sales increasing light vehicles, and the recovery (00:23:22) of the economic indicators relevant for consumption upturn. In these, we are well positioned to capture the resumption of industrial activity. Our exposure to agribusiness also should positively impact sales. And in the aviation segment we have seen some improvement in the sector which may result in increased sales volume.

Referring to EBITDA, we foresee a repetition of the market volatility that marked the past two years. The new fuel and importing price policy already considered recurring part of our business will be present anyway.

For 2018, we estimate an adjusted EBITDA range from BRL 2.85 billion to BRL 3.15 billion. And here we don't have any change in our strategy. We will remain focused on business profitability through optimization of our supply and sales strategy, which are higher or lower depending on the market dynamic; expansion of the offering of service stations; and continued efforts to reduce cost and expenses.

Talking about investments and the CapEx, we still see good conversion opportunity in the market. Here we are targeting net additions of approximately 300 service stations in the year. The CapEx range includes the possibility of speeding up conversions, renewing contracts with current service station network dealers and investment in infrastructure.

Now referring to the Raízen Energia in the table highlighted on the bottom of the chart. I would like to first talk about the current crop year ending March 2018. We ended the main crushing period of the year with 61 million tons of sugarcane crushed. Sugar production volume should be closer to the range's lower level, due to prioritization of ethanol production at the end of the crop, which means a change in product mix prioritizing the relative profitability of products.

Electricity sales expectations should be above guidance, due to the production optimization and the greater trading opportunities we see in the crop (00:25:43). We remain confident we will deliver EBITDA within the midpoint of the guidance for the 2017/2018 crop year.

Now looking to the estimates for the 2018/2019 crop year that starts in April. Although, it's still early to have a precise estimating of crushing as we are in the mid of the interharvest period, we have seen regular good rainfall volumes in the main producing (00:26:12) regions. Our base scenario is crushing in line with the current crop results, only adding crushing expected from mills acquired from Tonon of approximately 3.5 million tons. Therefore the 2018/2019 crop year, crushing should stand between 63 million to 67 million tons. We expect next crops' productivity to be similar to the 2017/2018 crop year. We remain performing our daily analysis of product (00:26:45) profitability. And as a result, we should have a mix mainly composed of ethanol when compared to previous crops.

Referring to prices, let's start with the sugar dynamics. India and Thailand crops should improve and Europe should sell production surplus volumes in line with the market's

expectations. On the other hand, a few consulting firms predict a decreased outlook for the Brazil's crop and we may have a third year in crop disruption in Brazil, still a low range, but possible there is a disruption, which reduces (00:27:30) TRS and the relevant ethanol mix. Funds (00:27:36) are still active in the sugar trading, bringing more volatility to price. And in line with the hedging policy, we're seeking the sugar hedge properly timed to fixed (00:27:48) our sales.

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Referring to ethanol, the domestic equation of supply and demand has been impacted by Petrobras' pricing policy. Ethanol gained its competitiveness and we saw higher demand. Price has been rising since the mid of 2017, following gasoline price increases. We believe that when the crop starts in April, a price adjustment may occur due to the preliminary signs of a more ethanol mix in the crop in Brazil, but we still see a very healthy market scenario.

Referring to Raízen Energia EBITDA, we estimate a range between BRL 3.4 billion and BRL 3.8 billion. The forecasted result below the previous crop EBITDA, already takes into account lower sugar prices than those of the previous crop, partially offset by better estimates to ethanol prices, sales, activity, energy sales and trade, and continuous efforts to reduce cost and expenses through the process and technology we have been implementing in our operations.

CapEx ranges between BRL 2.4 billion and BRL 2.7 billion, mainly impacted by higher level of recurring investments, mainly connected with operations recently acquired from Tonon; projects resulting in greater cane availability and adequate renewal of sugarcane fields; new logistics infrastructure projects for sugar and ethanol and the impact of inflation.

Moving on, at Comgás we estimate the volume, excluding thermal generation, between 4.4 million and 4.6 million cubic meters supported by the addition of new residential and commercial clients, assuming some recovery of economic activity. The normalized EBITDA range is between BRL 1.77 billion and BRL 1.87 billion, reflecting volume growth and the lower expectation of inflation 2018, which is the basis for the annual tariff adjustment - adjustment to our margins. Finally, we maintained a CapEx guidance for Comgás the same over the last two years in line with the expansion strategy, network saturation (00:30:12) and continued discipline in cost management.

Moving on to Moove guidance. The EBITDA range for 2018 should stand between BRL 200 million and BRL 230 million. And taking into account higher volume in Brazil, we're talking about low single-digit growth in line with improvement already seen in 2017. The expansion in performance of our international operations will keep contributing to EBITDA growth as well.

So summing up and as we have discussed the business outlooks, when we look to the consolidated results of the (00:30:57) Cosan pro forma EBITDA, the range is between BRL 5 billion to BRL 5.4 billion, representing an increase compared to 2017.

With this, I conclude my presentation regarding the fourth quarter 2017 and 2017 results. I would like to thank you all to joining us. And now let's move to the Q&A section. Thank you.

In fact, before going to the Q&A section, I would like to make a correction. Instead of considering BRL 693 million as the net income adjusted for 2017, the correct number is BRL 953 million, an increase of 53%, already considering the credit sales that we made as of the end of the 2017.

So now I conclude the presentation and I would like to move to the Q&A section. So thank you again for joining us.

Q&A

Operator

We will now begin the question-and-answer session. Our first question comes from Vito Ferreira with BTG Pactual.

Q - Vito Ferreira {BIO 19176275 <GO>}

Hi, guys, good morning. First of all, regarding the guidance provided for 2018, we could see a large (00:32:41) increase in this (00:32:42) EBITDA for the fuel distribution business, why (00:32:45) your CapEx increased approximately 15% based in the mid of the guidance range. I would like to understand where do you intend to employ such a higher CapEx for this year.

And my second is regarding the sugar and ethanol business. I'd like to have a higher sense of your sugar price expectations for the coming crop year. In summary, what do you expect for prices mainly taking into account the strong shift of Brazilian producers towards ethanol and their potential decrease of sugar supply in a global context? Do you believe that such production shift in Brazil was able to significantly reduce the global sugar supply/demand? Thanks a lot.

A - Guilherme Lelis Bernardo Machado {BIO 17920567 <GO>}

Vito thanks for your questions. First, talking about the guidance for the CapEx for fuel distribution. So this is almost like the same CapEx guidance that we have provided to the market over the last - at least, last year, it's the same. The top of the range of the guidance considers for us to speed up the conversion of white flag stations to our network.

So we have targets of volume in this business and the number of deals that we're going to effectively achieve, it depends on the pipelines of transactions that we're going to have. So we have guided the market for approximately 300 new conversions over the year. But it's important to remember that this not only includes the conversions, but also the maintenance of the current network, it includes supply and the logistics, and at the end of the day, it's the full package of Raízen in order to supply and to source our short (00:34:45), as we have made over the last years.

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Talking about the mix of production. Our view in terms of prices for the sugar and ethanol business, I think this is a very tough question. At the end of the day, what we can guide the markets, that markets are much more connected than ever, now that Petrobras is following international parity and moving up the price of gasoline, increasing the attractiveness of the price of ethanol domestically.

What we can say is that we have been hedging less than we have hedged at the same period of last year, this is almost a view that prices have a potential upside with a changing mix in Brazil, offsetting good productions in the other producing countries. So at the end of the day, we're going to monitor this marketing very closely. And within our policy, we're going to hedge at the most attractive levels we can have over time.

Q - Vito Ferreira {BIO 19176275 <GO>}

Perfect. Thanks a lot, guys.

Operator

The next question comes from Alexandre Falcão, HSBC.

Q - Alexandre Falcão

Good morning, guys. Quick question on the cash flow generation now, with the BRL 1 billion that is - or (00:36:24) going to come in the first quarter end (00:36:27), of course, the offloading of inventory, you're going to go to a very comfortable leverage position. Can you tell us what (00:36:38) the natural cash flow for the year, what you'd do with that cash? Can you give us - it's more deleveraging, more dividends, can you talk a little bit about that?

A - Guilherme Lelis Bernardo Machado {BIO 17920567 <GO>}

Hi, Falcão. Thank you for the question. Well, regarding the usage of the cash, certainly, the company will keep the track record of dividend payments in line with the previous years. And on top of that, we have to serve our G&A, the corporate expenses, but there is an opportunity here for liability management. If you remember, we have the 2018 bonds that mature this year and we have potentially another opportunity on this sense (00:37:28). And also it's important to mention that we have a share buyback program that is open. We haven't been active in this program, but certainly, it's a very accretive use of this cash over the year. So these are the main buckets that we can address the usage of this cash.

Q - Alexandre Falcão

Okay. But you can - what is the ideal leverage that you guys want to have?

A - Guilherme Lelis Bernardo Machado {BIO 17920567 <GO>}

Yeah. So as we have guided the market for the past quarters, the ideal range is between 2 to 2.5 times EBITDA. Currently, we are at 2 times. We don't see that changing that much. We're going to be around these levels, which we consider to be a very comfortable leverage position.

Bloomberg Transcript

Q - Alexandre Falcão

Okay. Anything below 2 times probably is going to be buyback or dividends, right?

A - Guilherme Lelis Bernardo Machado {BIO 17920567 <GO>}

Yeah. We don't foresee this is the target that we have, so we're going to optimize the structure to be within this range.

Q - Alexandre Falcão

Okay. Just one more follow-up question on the hedging policy. When do you throw the towel in and just hedge your 50% exposure according to your hedging policy at least for your own cane. I know that you guys have a positive view on the price of sugar going forward, but when you will be - you're going to have to hedge at least your own cane for the hedging purposes?

A - Guilherme Lelis Bernardo Machado {BIO 17920567 <GO>}

Well, Falcão, as you mentioned, so we have the policy, minimum 20% and maximum 80% of the next 12 months.

A - Operator

Export.

A - Guilherme Lelis Bernardo Machado {BIO 17920567 <GO>}

It's to open the strategy when we're going to access the market and we're going to have to be within the policy. It's almost like open our full strategy. So I rather prefer to keep that on internal information. But at the end of the day, we're going to look to the curve and we believe that prices have more upsides than downsides in looking to the fundamentals. So we're going to monitor that. So at the end of the year, when the prices went up to \$0.155 per pound, we increased our position, so these are the type of opportunities that we're going to pursue over the year.

Q - Alexandre Falcão

Okay. Perfect. Fair enough. Thank you.

Operator

Our next question comes from Fernanda Cunha with Citibank (sic) [Citigroup] (00:40:29).

Q - Fernanda Perez da Cunha {BIO 20784520 <GO>}

Hi. Good morning, everyone. I have two follow-up questions. The first one is regarding the CapEx for Raízen Combustíveis. Would you be able to break down exactly how much is maintenance CapEx and how much is expansion CapEx? I just wanted to understand, if you are at the high point of the range, how many net - I mean, how many plus (00:40:55)

fuel stations are you aiming to add to your portfolio? I guess the 300 of net fuel stations is at midpoint CapEx, I just wanted to understand what would be the maximum goal.

And the second one is regarding production cost in Raízen Energia, when we exclude the CONSECANA prices, the fourth quarter results were 7% below year-over-year. I wanted to get a feeling of how much exactly - what were your initiatives (00:41:27) to bring down this cost and how much - can we see this on a recurring basis? Thank you.

A - Guilherme Lelis Bernardo Machado {BIO 17920567 <GO>}

Hi, Fernanda, thank you for your questions. Talking first about the CapEx for the fuels distribution business. I would say that in general terms, 80% of the CapEx is towards renewing the current contracts with our dealers, and also the conversion of white flag stations to our network. And the remaining 20% is related to infrastructure, so investments in our depots, terminals, logistics and so on. So basically this is what we have, in broader terms, the usage of the CapEx of the fuel distribution business.

Relating to the initiatives that the sugar and ethanol business, Raízen Energia, yes, we are frequently and, I would say, obsessively looking for cost cutting or optimizations in the business. We have implemented several strategies and initiatives that have been, I would say, already yielding (00:42:54) results. And I would say efficiencies - the journey of efficiencies includes centralizing the logistics, monitoring the cost loading and transportation initiatives. We have been optimizing the clusters, we have been implementing CapEx for the maximization of the availability of sugarcane and several initiatives.

And I haven't mentioned the technology initiatives that we have been developing in order to monitor the shape of our sugarcane field. So at the end of the day, these are initiatives that together compounds all the efficiencies that you see in the figures, you see in the numbers. And we'll keep doing that over time and in the best way possible.

Q - Fernanda Perez da Cunha {BIO 20784520 <GO>}

Okay. Thank you. But if I may just follow up, so should we be looking next quarter is the same production cost, excluding the CONSECANA effect, for your 2018/2019 crop?

A - Guilherme Lelis Bernardo Machado {BIO 17920567 <GO>}

That's our challenge. And we keep pursuing that. So we have the integration of the Tonon mills, that was very well accomplished and this potentially is going to reflect in results. So the targets here and the main objective here is to improve the return regardless its the (00:44:32) prices and this also links to the efficient way that we manage our costs.

Q - Fernanda Perez da Cunha {BIO 20784520 <GO>}

Okay. Perfect. And thank you very much.

Operator

Our next question comes from Petr Grishchenko with Barclays.

Q - Petr Grishchenko {BIO 19084897 <GO>}

Good morning, gentlemen. Thanks a lot for taking my questions. I got few, so first, can you please provide an update on the strategic alternatives regarding Comgás? You announced that you might hire financial legal advisors. Basically, has there been any progress since you made that announcement?

A - Guilherme Lelis Bernardo Machado {BIO 17920567 <GO>}

Sure, Petr. Regarding Comgás, there's nothing much to say at this point. So the company has been evaluating potential scenarios for the structure, but nothing that we can disclose so far. For the time that we reach a structure, if we reach some, we're going to communicate the market properly.

Q - Petr Grishchenko {BIO 19084897 <GO>}

Okay. Then just to elaborate, you said there are a couple of scenarios, can you give us at least an indication of what are the possibilities that you're thinking of?

A - Guilherme Lelis Bernardo Machado {BIO 17920567 <GO>}

Unfortunately not, it's internal materials that we're going to disclose to the market when we're prepared. Sorry about that.

Q - Petr Grishchenko {BIO 19084897 <GO>}

Okay. My next question was on this financing for Shell Argentina purchase. Can you elaborate like how Raízen is going to fund the acquisition?

A - Guilherme Lelis Bernardo Machado {BIO 17920567 <GO>}

Well, we are participating in a process. We have made our binding offer and we have communicated the market. And just to remember, this is Raízen Combustíveis, which is the fuel distribution arm of Raízen that is participating on the business, not Cosan, just to be clear. So at the end of the day, this is a process that now is in the hands of Shell. And we are – as we are in a competitive process, we are waiting to hear what are the conclusion of this process whenever Shell is ready. So in other words, there is no definition as of now.

Q - Petr Grishchenko {BIO 19084897 <GO>}

Okay. And can you tell us what's the – sort of based on the purchase price that was announced, what's the implied EBITDA multiple on all the (00:47:21) assets?

A - Guilherme Lelis Bernardo Machado {BIO 17920567 <GO>}

We haven't any official information on this and we haven't officially communicated anything of these figures to the market so far. So there's nothing – or there's nothing much to share at this point.

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Q - Petr Grishchenko {BIO 19084897 <GO>}

Okay. I guess, what I'm trying to say is directionally, you would expect leverage at Raízen to increase on the acquisition, right, because I don't think there was any announcement that companies might use equity, right?

A - Guilherme Lelis Bernardo Machado {BIO 17920567 <GO>}

Yeah. What we can say at this point is that, as a policy, Raízen will not compromise its investment grade rating through any deals or any acquisitions including this one. So at the end of the day, financing strategy or other figures of any potential deal at Raízen takes into consideration this criteria.

Q - Petr Grishchenko {BIO 19084897 <GO>}

Understood. And then my next question is on the perps, I think there's a footnote that says the company hedged interest on the perp notes for 18 months. Is there a specific reason for this and is it wrong to maybe imply that you might call the bonds in 18 months?

A - Guilherme Lelis Bernardo Machado {BIO 17920567 <GO>}

So for the hedging of the interest payments of the perp, the proper statement is that we hedge the payments between 24 to 36 months. And I'll hand over to João Arthur, who is the Head of Finance of Cosan for additional comments.

A - João Arthur Souza

In reality we hedged for 36 months, and we re-hedge to maintain (00:49:28) 36 months when we get close to 24 months. So it's basically between 24 and 36 months.

Q - Petr Grishchenko {BIO 19084897 <GO>}

Okay. And - okay, 24 to 36 months, I mean, it's still a question, but why did the footnote in the presentation says 18 months or it's just like a shorter lag (00:49:54), there are several hedges, I guess?

A - Guilherme Lelis Bernardo Machado {BIO 17920567 <GO>}

Well, Petr, I ask you to just understand what is the proper (00:50:12), but I assume that the current to (00:50:15) hedge is up to 18 months, but I'll check later.

Q - Petr Grishchenko {BIO 19084897 <GO>}

Okay. And my last question, if I may. Have you spoken to the rating agencies recently, and do you have a sense of you know where the metrics need to be to get upgraded or potentially get to IG similar to Raízen?

A - Guilherme Lelis Bernardo Machado {BIO 17920567 <GO>}

Well, this is a broader discussion. It includes the sovereign rate of Brazil that caps the ratings of some corporate names, including ourselves. But we have been discussing with them in a frequently basis in order to give what are the forecasts and projections of the

company. So it's a - we have, I would say, an agenda with them, but this is the scenario that we're living today.

A - João Arthur Souza

We discuss with them frequently, this situation. The reading of our credit position is that we are in a good situation, but as Guilherme mentioned, we are capped by the sovereign rate.

Q - Petr Grishchenko {BIO 19084897 <GO>}

Understood. Thanks a lot for your answers and best of luck to you.

A - Guilherme Lelis Bernardo Machado {BIO 17920567 <GO>}

You're welcome.

Operator

Our next question comes from Alexandre Falcão with HSBC.

Q - Alexandre Falcão

Thanks for the follow-up. I just wanted to know, since you guys were so successful on integrating the Tonon assets and just wanted to know, if there would be any chance of you looking for opportunities in the marketplace, specifically on the ADM-Bunge deal. If that goes through, ADM clearly states that it doesn't want to (00:52:13) have anything to do, first, on the trading side, second on the sugar production side. Would any of those assets interest you in any way shape or form? Thank you.

A - Guilherme Lelis Bernardo Machado {BIO 17920567 <GO>}

Falcão, what can I say that, Tonon was a very unique opportunity for Raízen. And if you remember, this was the first deal after the merge between Cosan and Shell assets for the formation of Raízen. So it met several criteria. I would say it was a very tough firewall to go ahead with this transaction. And I would say that we are not in the mood of consolidation in the sector.

So as we are one of the largest - I would say largest player in this sector, it comes to us, every single deal, but we have been very selective as we made the acquisition of Tonon mill. So the straightforward answer is that there's almost very low interest just to go ahead with consolidation in this business. As we saw in Tonon a very good opportunity, we made it. Any other deals, we don't have in our radar so far.

Q - Alexandre Falcão

Yeah. Thank you. The same applies with the trading business that they have or that would interest you a little bit more?

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A - Guilherme Lelis Bernardo Machado {BIO 17920567 <GO>}

Can you repeat that again, sorry?

Q - Alexandre Falcão

No, would you be – the same applies on the sugar trading business that they have and are putting for just sale (00:54:12) or same rationale applies?

A - Guilherme Lelis Bernardo Machado {BIO 17920567 <GO>}

I think same rationale applies. So we have a very strong, I would say, trade intelligence in our operations. So I would say that would make little sense to go ahead in this transaction with this motivation I would say.

Q - Alexandre Falcão

Okay. Perfect. Thank you.

Operator

That does conclude our question-and-answer session for today. For investors and analysts, I'd like to pass the floor to Mr. Guilherme for his final remarks.

A - Guilherme Lelis Bernardo Machado {BIO 17920567 <GO>}

So I'd like to thank you again for joining us for the earnings call for the year of 2017. I'd like to highlight that we have our Cosan Day, our Investor Day, on the next month. It will be in New York, it will be in the 16th of March and in São Paulo in 19th of March. So we are going to be very pleased to meet you all and discuss the strategy of the company for the future, so join us. Thank you very much for the presence in the call and we'll talk in the next earnings. Bye bye.

Operator

This concludes Cosan's audio conference for today. Thank you very much for your participation. Have a good day.

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