

## Y 2013 Earnings Call

### Company Participants

- Marcelo Eduardo Martins, Vice President of Finance and Investor Relations
- Marcos Marinho Lutz, Chief Executive Officer

### Other Participants

- Fernando Ferreira, Analyst
- Juan Tavaréz, Analyst
- Salim Morsy, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Cosan's Fourth Quarter and Fiscal Year of 2013 Results Conference Call.

Today with us, we have Mr. Marcos Lutz, Cosan's, CEO; Mr. Marcelo Martins, CFO, Investor Relations Officer; and Mr. Guilherme Machado, Investor Relations Manager. We would like to inform you that this event is recorded and all participants will be in a listen-only mode during the company's presentation. After Cosan's remarks, there will be a question-and-answer session for industry analysts. At that time, further instructions will be given. (Operator Instructions) The audio and the slide show of the presentation are available through a live webcast at [www.cosan.com.br/ir](http://www.cosan.com.br/ir). The slides can also be downloaded from the webcast platform.

Before proceeding, let me mention that forward-looking statements will be made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Cosan's management and on information currently available to the company. They involve risks, uncertainties and assumptions, because they relate to future events, and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Cosan's and could cause results to differ materially from those expressed in such forward-looking statements.

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

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

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Thanks. First I wanted to thank you for participating in our annual results -- annual earnings call, which concise with the announcement of the performance of the company over the last quarter of our fiscal year. We're just going to make some remarks before we start the presentation. We have this year for the first time, the consolidation of Comgas and we had only five months of Comgas being reflected in the results that we'll present now.

We have run some pro forma numbers, so that you can basically compare a full year of Comgas with the results of last year and then we'll also use this as a base for the comparison with the forthcoming years when we're going to Comgas fully consolidated in Cosan.

We have also provided some guidance for the next 12 months, even though we are expecting to have only a 9-month year this year, because we're going to be going back to the fiscal year coinciding with the calendar year. We have nevertheless indicated that the next 12 months numbers as the guidance for the performance of the businesses.

I wanted to start my presentation with the consolidated figures for Cosan. We had a positive variation of 28% in the net revenues of the company, which was represented by roughly R\$6.7 billion of additional revenues coming from R\$23.4 billion to R\$30 billion in the year of 2013. The EBITDA of the company also moved 48% from R\$2.1 billion to R\$3.14 billion, represented by an EBITDA margin of 10.5% compared to 9.1% last year. When we normalized EBIDA taking into consideration the full year for Comgas, we're going to get to R\$3.7 billion of EBITDA in the fiscal year of 2013.

In terms of the net income of the company, we saw a jump of 51% from R\$422 million to R\$638 million in the year of 2013. And for the year 2013 -- I'm sorry, for the year of 2012, we have basically normalized EBITDA reducing the impact of the Raizen's formation in the year of 2012. We had a non-recurring impact as we formed Raizen last year and then had therefore an impact for the formation of the company.

And when we compare those numbers, we see that the actual -- for the year of 2012 foreclose on a consolidated basis that was R\$422 million compared to R\$638 million to end the year of 2013.

Excuse me, when we take into consideration, the variances of the -- and only Raizen's formation by the exchange variation, the fair value of the biological assets, and when we take into consideration total months of Comgas, we're going to a normalized net income for the year of 2013 of R\$132 million compared to R\$553 million last year. Even if we disregard the net income coming from Comgas, we're going to get a net income for the year 2013 roughly 30% higher than the year of 2012.

Now, 2.00 business lines, starting with the Raizen Combustiveis. We had an improvement of 5% in the volumes, an increase of roughly R\$1 billion for the year of 2013 compared to the previous year. The net revenue of R\$43.5 billion compared to R\$39.7 billion last year represented by an increase of 10% and an EBITDA increase of 25.5% coming from R\$1.3 billion to R\$1.66 billion in 2013.

The EBITDA margin also improved from 3.3% to 3.8% in this fiscal year. We had an EBITDA margin in reis per cubic meter of R\$80 in the last quarter of the year of 2013, at an average of R\$76 for the fiscal year 2013. There is just one clarification I'd like to make here on this specific item, as you know our previous call was in Portuguese, there were several questions about it. We are considering for the guidance that we're providing to the market for this fiscal year and average EBITDA per cubic meter in line with last year.

We don't consider as it's hard to predict any variance along the year as a function seasonality of the business, which basically means that, we're actually considering an EBITDA margin per cubic meter for the first quarter of this new fiscal year, substantially higher than the EBITDA margin for relative quarter in the year of 2013.

So that basically means that, we're projecting a growth of this business of Raizen Combustiveis in terms of volume in this next year, which will have a negative impact in the margin as we're talking about new stations with a lower throughput than the existing stations we had in our portfolio today. So we should assume that we'll have a reduction in the average margin -- in the average EBITDA margin for the new stations we're going to be adding to our portfolio.

As we're growing more this year in terms of new stations than we actually grew last year, we're basically projecting that by keeping the same average EBITDA per cubic meter that we had last year, the compensation from other business segments to basically offset the reduction we're going to have in the incremental volume coming from the acquisition of new stations. So therefore, we don't foresee any substantial difference in terms of the average margin for this year compared to last year, and this is what we hope you understand is reflected in the guidance we're providing to the market for the next 12 months.

In terms of the biggest impact that we had in the EBITDA of the company during this year, we had a positive impact coming from the rebranding process, an increase in the premium products' penetration through V-Power, a higher gasoline volume compared to the overall mix of the company. This year, we project a slightly higher volume of ethanol than we had last year, which also should have a negative impact on the margin, but we also predict a higher volume, which basically should compensate the lower volume -- the lower margin having indicating a higher EBITDA for this fiscal year. The improvement in B2B customer portfolio was also a positive impact last year and as a negative impact we had a reduction in aviation volumes, not only meaning that we lost market share, but basically implying that the slowdown in the economic growth in Brazil had a substantial impact on the aviation business, which was noticed by a reduction in the sale of jet fuels.

If we assume that this scenario should be maintained in the next fiscal year, in this current fiscal year, it will also be a source of reduction in the average EBITDA per cubic meter of the business which again, we're expecting to offset with other potential revenues or an additional margin coming from other businesses, which we'll also compensate a reduced aviation margin for Raizen Combustiveis.

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Now moving Raizen Energia, we had in the year of 2013 an increase of 6.2% in the crushed volume, jumping from 53 million tons to 56.2 million tons. We had an increase of 5% in sugar production from 3.96 to 4.16 and a reduction in ethanol production, from 1.92 to 1.903. We also had an increase in the anhydrous volume, which was one of the targets along the year was basically seek to produce more anhydrous because, anhydrous has a higher margins than -- the hydrous ethanol has a higher margin than the anhydrous. Therefore, we ended up accomplishing a better mix in the ethanol production.

The TSR also was reduced by 2.4% from 136.5 to 133.5. We had a volume of sold of power of three -- basically three million megawatt hours, which is an increase of over 100% compared to last year. It is a function of an increase in the volumes sold due to capacity added in the year of 2013, according to the investments we have made or for new -- in new mills and also an increase in the volumes sold in the spot market, considering that we had better prices for the year of 30,000 in '13 compared to the year of 2012.

In terms of the net revenues, we saw a jump of 17% from R\$7.2 billion to R\$8.5 billion. A reduction in the EBITDA margin as a function of the revaluation of the biological assets of Cosan Energia at the very last quarter of the year. Nonetheless, we had an increase of 14% in EBITDA of the company from R\$2.1 billion to R\$2.408 billion. If we -- it was not for the revaluation or the reassessment of the biological assets, we will have an EBITDA margins very much in line with EBITDA margin of the year of 2012.

In terms of our hedging position at the end of the fiscal year of 2013, looking forward for the next -- at the next fiscal year, we had a volume fixed of 1.2 million tonnes of sugar at an average price of 20.7 cents per pound and an average exchange rate of 2.1259 and volume of \$575 million.

Now moving to Comgas, we had an increase in the volumes sold by the company of 9% from 4.8 billion to 5.2 billion meters -- sorry, 5.2 million cubic meters. We had a gross revenue jump of 28% from R\$5.1 billion to R\$6.5 billion. An increase in EBITDA of 34% from R\$716 million to R\$962 million and an EBITDA margin increased from 17.5% to 18.2%.

The only comment I would like to make here is that this EBITDA is in IFRS and it is not taking into consideration the regulatory account balance that in this specific case ended up having a positive impact meaning the actual EBITDA of Comgas through over R\$1.1 billion for the year of 2012. We also saw a jump of 9% in connected meters according to the planned increase approved with the regulator for this specific year of 2012.

Now talking about Rumo, we had an increasing 10% -- of 10% in the volume loaded and I'm talking about the loaded volume only in our transported volumes. So we reached 8.656 million tonnes of sugar loaded at the Port of Santos. The net revenues represented R\$713 million increasing 25% from the year of 2012. We also had a jump in EBITDA of 39% from R\$213 to R\$297 million represented by an EBITDA margin 41.6%.

Overall, it ended up me a very good year for Rumo and middle of last fiscal year we ended up updating the guidance, reducing the projected EBITDA for Rumo, but at the end of the fiscal year, the volume of sugar loaded and transported exceeded our initial

projection and then we ended up delivering a better EBITDA than when we ended up projecting in the third quarter of 2013.

Radar, which is the most recently -- company that had been consolidated under Cosan, we had an EBITDA increase of 28% and -- I'm sorry, a net revenue increase of 28% and an EBITDA reduction of 34%.

The reduction in the EBITDA is non-operating and it's not a function of the performance of the business, but just a function of the revaluation of the land portfolio as we had to market [ph]. We had in the previous year, in 2012, we've had -- we did for the first time, the revaluation of the land portfolio. So the impact was much higher than this year when the revaluations that are resulting in a positive number, but substantially lower than the initial revaluation that took place in 2012.

For the other businesses, we had an increase in the net revenue of 34% from R\$1.1 billion to R\$1.42 billion. We had an EBITDA increase from R\$49 million to R\$93 million represented by the 90% growth. The adjusted EBITDA of 92.7 million is a function mainly of the equity pickup that has been performed by the company and also affecting Raizen's formation back in 2012.

The net debt position at the end of the fourth quarter was of R\$8.5 billion compared to R\$8.8 billion in the previous quarter. When we consider the pro forma EBITDA for the last 12 months, considering 100% of Comgas EBITDA, we have to do that because we are consolidating 100% of the Comgas' debt when we get to R\$8.5 billion, we're going get to the EBITDA -- the net debt EBITDA multiple of 2.3 times, which is substantially lower than the multiple we thought we would be at when we incurred in the R\$3.2 billion that for the acquisition of Comgas.

So we've been generating cash in the business lines overall to reduce our leverage and it's been the case, mainly at the Raizen as you probably noticed and therefore, we're approaching the two times leverage that we originally predicted as being the target leverage for the company moving forward.

I would like now to finish my presentation a little bit about this guidance for this next fiscal year or the current fiscal year. We will have -- we are projecting a consolidated net revenue for Cosan between R\$35 billion and R\$38 billion, an EBITDA between 3.95 and 4.35 and CapEx between R\$3.1 billion and R\$3.35 billion, which taken into consideration of growth and CapEx for Raizen Energia as a function of investments that will be made mainly in sugarcane during this fiscal year.

This is the last year of when we project the growing CapEx for Raizen, starting next year we should see this number stabilizing and starting to go down. And it's not necessarily the case for Raizen Combustiveis as we're projecting a substantial growth and the volume as a function of a better market or higher market volume, but also a growth in the conversion of stations mainly from White Pumps [ph].

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Going back to the issue that I have raised before, that's one of the reasons why we're projected with a reduction in the average EBITDA per cubic meter, not because we project a worst performing business for the next fiscal year, because we're projecting a growth through the acquisition of White Pumps. Therefore we're getting to a projected EBITDA for Raizen Combustiveis between R\$1.6 billion and R\$1.8 billion for this next fiscal year.

For Rumo, we're projecting EBITDA between R\$330 million and R\$370 million in line with the projected growth of the business as a function of the investments that we're finalizing in the year of 2013. For Radar, we're projecting an EBITDA between R\$140 million and R\$160 million. Therefore the other businesses, which are maybe comprised by the lubricants business onshore and offshore as we have Comma in the UK as part of our portfolio. Now, we're projecting 270 to 310 million liters of lubricants sold during this fiscal year.

Where Comgas, we're projecting EBITDA in IFRS between R\$1.4 billion and R\$1.6 billion, it's a big jump from 2013 or from the fiscal year of 2012 in the case of Comgas and its again as a function of the impact of the regulatory account, which defended [p] from last year, it should have a positive impact in the EBITDA of the company.

With that, I would like to now turn back to you for questions, Marcos and I will be here to answer your queries. Thank you.

## Questions And Answers

### Operator

Thank you. We will now begin the question-and-answer session for investors and analysts. (Operator Instructions) And now our first question comes from Salim Morsy with Bloomberg.

#### Q - Salim Morsy {BIO 17318378 <GO>}

Hi, good morning. This is Salim Morsy from Bloomberg New Energy Finance. I have a question with regards to your exports to the United States of anhydrous ethanol as well as hydrous. Have you been sending any hydrous to the Caribbean for dehydration? And can you discuss your volumes you export to the US and if you've been seeing premiums from the rents to your own -- for your own benefit. Thank you.

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

No, Salim, there was no actual export through the Caribbean. What happened last year was that, we had a record export year for the Company where we basically exported roughly 50% of the overall exports from Brazil, represented by roughly 900 million liters of ethanol being exported mainly to the US.

#### Q - Salim Morsy {BIO 17318378 <GO>}

Okay. Thank you.

## Operator

Our next question comes from Juan Tavaréz with Citi.

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

Hi, thank you. Good morning, everyone. My first question is, if we can get some sort of update on the transaction with ALL on the bid for the stake in ALL and regarding whether there's been any update in terms of the terms of the shareholders' agreement or the potential timing for the conclusion.

And my second question is regarding the -- your sugar cane crop. I'm specifically focused on, given the percentage that you have hedged and also the favorability clearly on pricing for ethanol versus sugar. What's the minimum in your mix that you could allocate towards sugar, as have been [ph] there's your initial target, I've been looking for 50% target for the mix.

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

Juan, we're projecting a mix of roughly 50% for the production of sugar and ethanol this year, which is pretty much where we would normally consider our minimum to be between 48% and 50% sugar. This year, we're projecting 50% sugar, 50% ethanol. So what was your other question, if you could just recap it, please?

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

Sure, on ALL just if we can get an update in terms of the timing for the transaction or the bid for the stake.

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

Sure. Well, ALL at this point in time, we're discussing the shareholders' agreement and we have made progress in terms of discussing the potential sellers. This is an agreement that has already been reached. We're now discussing the terms of the shareholders' agreement, where we stand now. It's hard to predict how long it's going to take because in the first phase, it took us more than we had originally thought it would. It took us over a year to get the negotiation of the shareholders' agreement. So I don't want to predict the timing for that, but it's probably the last stage of our negotiation.

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

Okay and just a follow-up from the previous call regarding your other charges, financial charges, if you have any visibility -- the explanation for the increase there year-over-year?

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

Yeah, well, it was mainly the exchange rate barriers that, that had any impact on our results. And I just want to take advantage of your question, just to make a clarification

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because we're basically reading on the press now, some mixed interpretations of the performance of the company. The main impact on the net income of Cosan on a consolidated basis for this quarter comes from basically an increase in our leverage as a function of the acquisition of Comgas. And in this specific quarter, we have a substantial payment we made referring to fees paid to the banks, the commitment fees paid by -- paid to the banks for the utilization of the R\$3.3 billion credit line, which was disbursed and for the acquisition of Comgas.

So, we had a substantial increase in our financial expenses, which was predicted as a function of the acquisition of Comgas, which had a huge impact on this specific quarter. But again, as I explained before, overall, during the year, we had an increase in our net income, even if we disregard the consolidation of Comgas. So we consider it to be, this should be a very positive result, a very positive here, but I understand that there is some misunderstanding in terms of the actual impact that we had in this specific quarter of -- on the net income of the company.

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

So, just be clear on that because I'm looking here on page 31 of your press release in English. It kind of references that the impact of the Comgas debt is within the gross debt charges like. But I guess my question is more towards the other charges and monetary variation line which -- in my view it wouldn't clearly be FX translation made right in line. So is this where those on transaction costs are for the debt are they embedded here or they embedded in the gross debt charges?

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

Juan, it's again, you're talking about the R\$116 million, right?

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

Yes, yes.

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

It's again -- it's the (inaudible) because what we did differently from we have done before, we've ended up debiting this amount in R\$116 million and crediting (inaudible) line in the same amount. So, what we basically saw was a move from authorizing (inaudible) but that's basically the impact, it's the monetary, it's the exchange rate variance during the period.

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

Just a little bit more information, this was a reclassification we did in this table just to specify [ph] some FX that we had from their account receivables we had against Shell, Raizen [ph] had. We were treating these FX on the other charts line and we realized that the correct line would be the FX. So we had an impact of almost R\$110 million on these lines other charts and benefited the FX line. So what we would see in these lines, FX line would be roughly R\$20 million if had not moved this reclassification.



Okay, so just to be clear that, that is a non-cash impact, it's not a cash impact.

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

Just a reclassification accounting reclassification.

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

Got it.

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

We did in the --

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

Okay. Perfect. Alright. Thank you very much.

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

Sure.

**Operator**

Our next question comes from Isabella Simonato with Merrill Lynch.

**Q - Fernando Ferreira** {BIO 2389113 <GO>}

Hi, it's actually Fernando Ferreira here. And I just wanted to have an update on the simplification of the dual share class structure if this you can provide itself.

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

Fernando, there are no news, sorry. We continue to work, but we don't have any specific news that should be disclosed at this point in time.

**Q - Fernando Ferreira** {BIO 2389113 <GO>}

But the plan is still to give some indications in the market until the end of this year.

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

Yes.

**Q - Fernando Ferreira** {BIO 2389113 <GO>}

Okay. Thank you.

**Operator**

That concludes the question-and-answer session for investors and analysts. I would like to invite Mr. Marcelo Martins to proceed with his closing statements. Please go ahead.

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

Now, I just wanted to emphasize that we see this as a very positive result of the business. All businesses had a very good performance in the year of 2013 compared to the year of 2012. And we foresee an additional good year for the next year, which will be achieved not only through an improvement in macroeconomic conditions, because it is probably the question that lingers at this point in time. But basically, because we've been focusing tremendously on improving our operational performance, and in that regard, I just wanted to highlight the work that is being done at the Raizen Energia.

I mean in the year, that was a very challenging year for us, for the industry overall, for the sugar and ethanol industry overall, Raizen being the -- probably the only player or one of the very few players that had a very good performance, it was a record year for Raizen Energia, was a record year on a consolidated basis. We're very pleased with the results of the company. There was no other than what we discuss here, non-recurring items that should be highlighted to the market now. And again, and we foresee a positive year moving forward for all business lines, including the fuels business, fuels distribution business as well. I wanted to thank your participation and we will talk to you next month. Thank you.

## **Operator**

That does conclude the Cosan's audio conference for today. Thank you very much for your participation and have a good day.

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