

Q2 2021 Earnings Call

Company Participants

- Ana Luisa Perina, Head of Investor Relations and EESG
- Luis Henrique Cals de Beauclair Guimaraes, Chief Executive Officer

Other Participants

- Andre Hachem, Analyst
- Luis Carvalho, Analyst
- Regis Cardoso, Analyst
- Thiago Duarte, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Cosan's Second Quarter of 2021 Results Conference Call. Today with us we have Mr. Luis Henrique Guimaraes, Cosan's CEO; Mrs. Paula Kovarsky, Head of IR and ESG; Mr. Joao Arthur Souza, Head of Finance and Ms. Ana Luisa Perina, IR Manager. We would like to inform you that this event is being recorded. Similarly participants will be in listen-only mode during the company's presentation. After that, there will be a question and answer session for industry analysts. (Operator Instructions). Today, we have a simultaneous webcast that may be accessed through the company's website www.cosan.com and the slide presentation may be downloaded from there as well. There will be also an audio replay for this call available on their website.

Before proceeding, let me mention the forward-looking statements are based on the beliefs and assumptions of Cosan 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 Mrs. Ana Luisa Perina, who will start the presentation. Mrs. Ana Luisa, you may begin.

Ana Luisa Perina

Good morning, everyone and thank you for joining Cosan's Second Quarter of 2021 Earnings Conference Call. Today with me, I have Luis Henrique Guimaraes, our CEO; Paula Kovarsky Head of IR and ESG, and Joao Arthur Souza, Finance Director. Before

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going to the results, I just want to highlight some important milestones that we achieved this past month. On Slide 3, we always said that we wanted not only to have one single holding company listed, which we accomplished in the beginning of this year, but also that it makes sense for Cosan to have its subsidiaries listed as well at the right moment. So successfully pricing Raizen was yet another very important step towards the ideal capital structure for the Group. This will ensure the required levels -- level of independence that will allow the company to accelerate its long-term investment plan to increase the offering of renewable energy.

Another important achievement was signing an BRL810 million private placement at Compass at the end of May, bringing new investors who share our long-term view into the company and preparing it to capture opportunities that may arise while maintaining adequate levels of leverage. Let's go now over the financial and operating highlights per business starting with Raizen which also implemented its own corporate restructuring officially becoming an integrated company from this quarter on. Raizen hosted its own conference call with the market last Friday. I will briefly go over the main topics of the quarter. Starting with renewables on Slide 4. We presented excellent performance and adjusted EBITDA more than doubled year-on-year ethanol being the highlight. Despite the lower production due to the drier weather and to sugarcane harvest being a couple of weeks late, higher biofuel prices led to an increase in our own sales volume, allowing us to capture a significant improvement in returns. Moving on to sugar, on the next slide. This quarter, we saw similar dynamics to that of renewables focusing on maximizing profitability of the portfolio. Raizen posted greater sales of own sugar supported by the commodity up cycle and by our strategy to increase our presence across this sugar value chain.

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The higher prices recorded this quarter are proof of the efficacy of our pricing and hedging strategy. Therefore, adjusted EBITDA came in more than twice as high. At the bottom of Slide 5, we present the consolidated CapEx of Raizen Agroindustrial Operation in line with the plan. Quick disclaimer here. The crop setback effect on Raizen was lower than the market average since we keep advancing on our journey to capture efficiencies and to recover agricultural yields. This also offset inflation and lower dilution impacts on unit costs of the period. On top of boosting profitability, higher sugarcane availability and therefore biomass will allow us to maximize Raizen's long-term strategy of reshaping the future of energy. Aligned with that, we achieved important goals recently with the successful closing of the Biosev acquisition not yet reflected in our financial statements and the announcement of our second E2G plant. And the return of this project is guaranteed since we already sold around 1 billion liters of second-generation ethanol to be delivered over the next nine years through long-term contracts with fixed prices and considerable premium.

Now, let's go into marketing and services, on Slide 6. From now on, we will present consolidated results for the segment to better translate the value of our integrated platform in line with the way we manage it. The resumption of economic activity coupled with the advance of vaccination boosted the demands for fuels despite the challenges related to the pandemic still present in the quarter. We keep expanding our network and customer base increasing our market share in both Brazil and Argentina with that of [ph] great returns.

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Total adjusted EBITDA recorded robust growth getting closer to pre-COVID levels. The reduction quarter-over-quarter however is explained by lower gains from supply and commercialization strategy. Some additional highlights on our marketing and services platform. We keep the pace of our proximity network expansion of both Select and OXXO stores motivated by the above expectations performance of the business so far. In Shell Box, the number of transactions keeps skyrocketing. On M&A, we announced the acquisition of the Shell Lubricants operation in Brazil to complement our portfolio and value proposition to clients. Also, we recently signed the acquisition of a leading fuels network in Paraguay, consolidating our presence in the Latin Southern corn [ph] and further capturing synergies.

Now Compass on Slide 7. Adjusted EBITDA was positively impacted by the boost in the demand for Comgas natural gas driven by the economic resumption. For the third quarter in a row, Comgas has posted growth in distributed volumes, this time with positive contributions from all segments. The main highlight comes from industrial consumption leveraging on higher demand from several segments such as ceramics, steel and chemical petrochemical industries. The recovery in volumes sold to the Commercial segment is due to the gradual reopening of establishments in the period, despite restrictions still being places. The Residential segment also presented quite a good performance over an already strong comparison base leveraged by continues customer base expansion.

On top of volume growth, efficient management of expenses and CapEx at Comgas supported growth in adjusted EBITDA. In commercialization, however, Compass was negatively affected by the ramp up of power prices due to the drier weather recording a loss in the quarter. We adjusted our strategy towards this segment and therefore decided to substantially reduce our exposure to directional power trading further focusing on gas and power sale to end customers.

Thus, we neutralized our positions in this quarter, reason why this effect was adjusted on recurring EBIT. Compass investments in the period reflect Comgas regulatory business plan bolstering network expansion with the gross addition of more than 150,000 new clients in the last 12 month. Quick note here. As announced last Friday, we received the CapEx guidance for the year adjusting for the timing work when the construction of the Regas Terminal actually started compared to the initial plan.

Before turning to Moove, I'd like to highlight our significant progress towards further developing Compass business plan. First, at the beginning of July, our (inaudible) started the public consultation regarding the 20-year extension of Comgas concession as provided for by the concession contract. Second, we announced the agreement with Petrobras for the acquisition of 51% of Gaspetro subject to meeting preceding conditions, and finally, we started constructing the Regas Terminal in Santos.

Moving on to Slide 8, presenting Moove's results. We had yet another great quarter at our lubricants business with relevant EBITDA expansion supported by a significant increase in sales volumes across all geographies. The business continues to benefit from its successful commercial strategy and its focus on supply management, allowing the company to overcome challenges imposed by the strong pressure on raw material costs

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in the global market. It is worth noting that the better than expected performance on the first half of 2021 led the company to review its guidance increasing EBITDA expectations for the year.

Moving on to Slide 9. Let's talk about Rumo. Rumo has already had their call with the market as well. I'll summarize the main topics here. Rumo presented a good performance in all main KPIs in the second quarter. The higher adjusted EBITDA was supported by two main factors. First, an increase in transported volumes, especially in the North Operation driven by the performance of industrial products and in the agricultural sector, also capturing additional volumes from Central Network.

And second, a better market outlook and higher fuel prices allowing for year [ph] extension. Moreover, Rumo has also recorded continued efficiency gains but those effects were partially offset by the pressure on cost and expenses mainly related to higher fuel costs and inflation. This explains the reduction in adjusted EBITDA margins year-on-year. Investments were in line with the plan, according to which around 30% of total CapEx was allocated to the Central Network. As announced last Friday, Rumo decided to discontinue its guidance for 2021 due to expectations of reduced corn production for the harvest year. Long-term projections however remained unaltered.

Let's turn to Slide 10, where I will present the consolidated figures for Cosan on a pro forma basis. Combining the consistent performance posted by each business line leveraged by the resumption of demand in the sectors in which we operate in a better pricing scenario for renewables and sugar, pro forma EBITDA and net income posted quite strong growth overcoming the challenges seen in the second quarter of 2020.

On top of that, Cosan Corporate recorded a positive impact related to the exclusion of the ICMS from the PIS/COFINS import calculation base for lubricants activities held in previous periods. Moving on to Slide 11, to point out the financial highlights of the second quarter. The higher EBITDA led to a leverage reduction to 2.8 times net debt to EBITDA closer to ideal levels for the Group, which is between 2 to 2.5 times. And it's worth noting as well that the capital injections in Raizen and Compass were not yet accounted in the period. The better performance of the business also boosted operating cash flows, even considering that working capital in the second quarter is seasonally affected by the sugarcane harvest dynamics on investing cash flows. The higher spending compared to previous year is in line with subsidiaries' investment plan. And finally, on financing cash flows, we had lower debt issuance compared to second quarter 2020 when cash positions were strengthened due to the beginning of the pandemic, therefore Cosan pro forma ended the quarter with a free cash flow to the equity of almost BRL800 million. A quick note here. We just concluded the issuance of BRL2 billion in long term debentures at Cosan, as part of our ongoing liability management process.

Before concluding my presentation, I just want to point out the main highlights of our EESG agenda, which keeps improving on a daily basis. Please go to Slide number 12. Raizen, Compass and Rumo recently released their 2020 Annual Sustainability Report prioritizing the material aspects and reiterating the commitments established by each one of them. Also Cosan was recognized for its good EESG practices and once again, we were selected to be part of the FTSE4Good portfolio.

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On diversity, the Group made considerable progress electing experienced women for Rumo and Raizen's boards. These allowed for those companies to receive their Women on Board Association stamp. And finally, as mentioned in the beginning, Raizen becoming a publicly traded company is also consistent with our EESG strategy. Its investment thesis is based on paving the way to a greener future and in that sense, we have already made significant advances fostering the renewables market by developing a guaranteed supply of second-generation ethanol and biomethane.

At Cosan, we will remain focused and continue to do our homework to do the -- to overcome the crisis and be prepared to capture the opportunities that will arise with the resumption of economic activity.

With that, I conclude my presentation and we may move to the Q&A session. Thank you.

Operator

Excuse me. Now I would like to turn the conference over to Mr. Luis Henrique Guimaraes to his opening remarks.

Luis Henrique Cals de Beauclair Guimaraes {BIO 17984872 <GO>}

Good morning, everyone and thanks for being with us on this second quarter call. I just want to reinforce a couple of messages that came from the presentation. First, a big pride to believe in this team here that delivered a lot on the second quarter and the subsequent months of July, where we have done very important structural actions that we will perform in the future and will continue to deliver strong performance from the group.

So first start with Compass. So the start-up of the terminal of LNG here in Santos. The progress on the acquisition of Gaspetro, the discussion of the extension of the concession Sao Paulo that is on the concession contract and a lot of activities about the forming the team and ensuring that we are well prepared for this next phase of geographical expansion. So a lot of things happening on the group with Raizen, we already talked about the IPO, but also lately the acquisition of Paraguay and the new contracts that will allow us to build new ethanol second generation plants. The expansion of Oxxo very sharply into Campinas and now entering Sao Paulo in the last few months.

The same with Rumo. A lot of new performance done in Santos with the conclusion of some important construction that will reduce our lead time within the port. The implementation of the Regas Terminal [ph] ahead of the schedule, which was very important for the Central Network as well with Moove, where we continue to search for new areas of expansion around the globe and we expect to have some news in the future as we performed very strong results.

Also when you look at our funding, a lot of activities as well. We have done some funding related to sustainability performance in Rumo, some refinancial in the whole. These are all preparing the company to continue to have strong liability management. As well as on the people side, where we have increased the division [ph] in our Boards. In Cosan, in

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Compass, in Raizen, et cetera. So what I want to convey here is for you investors that we haven't stopped with the COVID, in reality we have accelerate and we continue to build strong foundations for the future.

We have some setbacks like you know on the electricity trading, directional electricity trading. We took deceive action as always to control the damage as well as to reposition ourselves to the future. So it's a lot of learnings on that, but as well as action in terms of our way to perform in the future. So all in all, in our view a very strong quarter from a financial result. But more important, I believe is the energy of the team and the ability of the team to deliver even on adverse conditions in the market as well as on the COVID. We're very excited about the vaccination process in Brazil and the opening of the markets, which are translating in higher volumes in all of our business, and expect that to continue of course. The Delta variant is of course also of concern, but we are optimistic given that Brazil has definitely turned the corner in term of acceleration of the vaccination.

So with that, I will turn back for the question-and-answer.

Questions And Answers

Operator

Ladies and gentlemen, we will now initiate the question-and-answer session. (Operator Instructions).

Our first question comes from Mr. Thiago Duarte with BTG Pactual.

Q - Thiago Duarte {BIO 16541921 <GO>}

Well, hello, everybody. Hello Luis, Paula, Ana. I have two questions, the first one is a broader one related to what we should think of the Group in terms of growth and capital allocation going forward. I think more towards Luis that question. I mean as you mentioned, you guys reached a pretty important milestone this year with the simplification, raising IPO. So just a -- if you could comment, Luis, a little bit on what you expect or how should we expect especially in terms of timing, the next moves right either with regards to the IPO of Compass or the IPO of Moove or even in terms of further investments for Cosan and the possibility of entering new segments and generating new investment ideas. So if you could, if you could comment a little bit on those. I think it would be helpful.

And the second question, it's more related to Compass and especially the acquisition of Gaspetro. My understanding is that there is still some variables that are not in your control, right, especially in terms with the right of first refusal for Gaspetro minorities, as well as state governments from what I read in the press, some of them are willing to exercise their right of first refusal there. So if you could comment on which developments you expect to happen for the acquisition to make sense or which of these variables that you don't control would be deal-breakers for Compass and Cosan for the acquisition, I hope that was clear. Thank you so much.

A - Luis Henrique Cals de Beauclair Guimaraes {BIO 17984872 <GO>}

No, very clear, Thiago. Thanks for the questions. So regarding the first one, I think when you look at the plans of each of the companies or each of the four verticals we have, they are very solid right from a inorganic and organic point of view. So I think each one of the CEOs and the management teams are really busy around delivering what they have projected and what they have approved with the Boards and specifically the ones we mentioned there, so strong growth on Raizen, strong growth on Compass, strong growth on Rumo and a lot of opportunities for further geographical expansions for Moove, which of course we need to find the targets and execute on them.

But. So I'm very easy around that, because I think we have a solid teams and very solid plans, well financed and well funded for that, of course, you always have the execution risk and you always need to deliver. But I think over the last couple of years we have concentrated a lot in building efficiency as well as ways to develop that. Regarding your broader question around where could we go from there. I think you have seen us expanding a lot of time both internally on the organizations but also on the Group as a whole in three big areas, one is finding synergies between the companies, meaning things that we could do better together, one example, I think I gave to you guys on the last teleconference was around information safety, information security, a big topic for corporations, a big topic for business and boards and we have worked well together as a team to develop our -- increase our walls and increase our protection and this only was possible because it was an effort combined with of the [ph] companies. Another one was joint procurement of items that we buy everywhere in the companies like services, car rentals, or truck rentals, equipments et cetera.

We also -- you see a deliver of savings and more efficiency on that front.

The second one is on the journey of helping our customers and partners of decarbonization. So all our companies have a lot of opportunities to help customers and suppliers in the value chain to reduce their carbon impact that we believe is a big value going forward in terms of generating more value from the products and service we provide, so all the companies are with a strong agenda on that area. And the third one is digitalization. So there is a lot of efforts specifically each company like the number of transactions that Comgas is doing with their companies that have moved from telephone or personal to online and to the application of the Shell Box growth, exponential growth every month in terms of volume and number of transactions, 3Z [ph] which is a small investment we have with a partner [ph] on the trucker side, again every month getting records of transactions and so on. So we will continue to look at opportunity to maximize the value we see on our ecosystem as we have a lot of connections within Brazil, meaning we have probably one of the more dispersed groups in terms of points advanced around the country, a strong customer base and a lot of recurrences. All our business the customers use some several times a month, some, several times a week.

So in like Comgas and in future Gaspetro every day. So we believe there is a lot of value on being closer to customers, a lot of knowledge, what they do and how they are served and we will look at about how can we increase that. So Thiago, this is how we are playing, of course, we are always looking for opportunities to deploy what we believe, we do better which is capital allocation, execution bringing efficiencies to business and

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deploying strong management teams, and supporting the management teams that have been incorporated in our journey via acquisition or other means. So this -- we will continue to do and if there is a good opportunity, we will of course communicate the market and give the full transparency on what we are aiming for.

In term of Compass and Gaspetro, your question is completely correct. So we have 30 days. First, a right of first refusal for the states, and the other shareholders on each of the individual concessions that are part of the Gaspetro portfolio and we have 90 days for Mitsui which is the partner at Gaspetro level and of course we already have done the first file with Kaji [ph], which will of course be adapted depending if any of the, this right of first refusal exercised. Our view on that is, of course, we cannot predict which orders we'll do, but if you look at what I believe is the agenda of most of the states in Brazil in general, which is to go to a more liberal privatized sector. We expect that will be good news that a company like us to together [ph] for solid investor and a solid partner like Mitsui will be able to do with the concessions on that.

But again, it's too early to give a forecast. There is nothing there that's -- it's at the moment a show stopper. We will continue to be very enthusiastic about these investments. We've always said that would be a long journey. Right. There is a lot of work to be done to get to the final right structure and to be able to replicate completely the model that was very successful at Comgas in terms of sales, execution, marketing and all of the other elements that have made Comgas grow so much much since 2012 and have accelerated over the last few years, but we continue to be enthusiastic and we think that the state governments will be good partners and we will work for the benefit of generating more value for the society and for the concessions itself.

At the end, they will continue to be the owners anyhow given the concession model, which the state is the ultimate beneficiary of all the progress done on the concession.

Q - Thiago Duarte {BIO 16541921 <GO>}

Great, thank you, Luis.

Operator

Our next question comes from Mr. Luis Carvalho with UBS.

Q - Luis Carvalho {BIO 15116702 <GO>}

Hello Luis, Joao, Paula, Ana thank you for taking the questions. Luis, if I may also -- make a kind of a broad question. Last week, you had I think, last Friday, you had a meeting with Mining and Energy Minister, Bento in Rio and lots of the let's say -- the company businesses are facing somehow significant regulatory discussions in May front. Right. There is the discussion about the natural gas and, of course, as the last question about Gaspetro and also the discussion between the ANP or cess fee regarding the distributions/transport pipelines for example in Sao Paulo.

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Recently we had this provisional measure signed by the federal government talking about the -- for the fuel distribution business. So if you can basically share a bit of a light in terms of what are the main discussions and what are the main concerns, the Group has in terms of each of the businesses from a regulatory perspective and where you working order to try to make that not for the company, specifically but basically for the sector, less impactful. If I may.

The second question, you recently signed an agreement in -- to buy a company, fuel distribution company in Paraguay, you already have assets in Argentina. So just trying to get a bit more sense in terms of the potential path in terms of internationalization of the company if you see other renowned geographies that might be of the interest of the company as Moove, you already have assets outside of, I would say, Latin America. And if I may, a last one here, despite the leverage of the company that you just announced, close to 2.8 times, when we assess the recent IPOs both Compass and Raizen, the initial numbers that you presented publicly are way above where the market is priced in. So, would that make sense to try to look to buybacks at some point and as the reference that we see in Cosan listed is way below, what you guys thought in terms of value for both IPOs? Thank you.

A - Luis Henrique Cals de Beauclair Guimaraes {BIO 17984872 <GO>}

Thank you, Luis, thank you for the questions. Let's take in the order you mentioned. So, of course, we work in markets, both in the energy and logistics that have strong regulatory frameworks and this is not a privilege of Brazil. I think, it's a global phenomenon, markets that are so important for the day to day of the population, and strategic in terms of the impact on the society and on the ability to the country to have lower cost and interest as well the consumer. You guys know my opinion about this two measures from last conversations we have. So it's not new for you. We believe that these measures are not very relevant in the terms of the objectives they have, in term of cost reduction or reduction in terms of the level of competition on the industries because leasing [ph] is already very competitive. If you look at the number of retail side, if you look at the number of distribution companies, or you look at the number of production gas companies, where you look at the number of mills. The challenge of this creating [ph] infrastructure of high volume in all the business, we are talking about fuels, we're talking about gas, we are talking about. So we need to create pipelines, we need to create more rail tracks, we need to create more harbor access, we need to create higher volumes in terms of everything, but this is what is going to drive cost down.

And the only way to do that is to have regulatory certainty and judicial guarantees. Right. So nobody going to invest billions of reals in a pipeline being fuels, being gas so that if you don't know that you're going to be able to exploit it and have sufficient returns or the legislation will be stable sufficient for you to understand. So our whole advocacy is on that level. We have no issues with competition. We are very respectful to good competitors and competitors that push us forward in terms of ability for us to be better with customers, lower cost, et cetera.

What we don't accept and we fight all the time is about two things, one is opportunistics that we're trying to get a free ride on investments that companies that are putting money on the ground, are doing. And second is about tax evasion, right. So as long as all these

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measures are connected to strong measures to reduce taxes evasion and to avoid free ride, we will be very supportive. And the discussions we are having with the Ministry and all the governments around these two topics is around making sure that whatever is done is looking from my angle that the people that will not fulfill them. And this is where we are concerned on both on the direct sales of ethanol and the other measures. In terms of the brand side of the measures or on the ability for sites to have other brands, in our view, and it's very splitted on the -- and be very splitted [ph] with the announcement the the government -- MME did on Friday night that almost midnight, Friday clarifying that contracts are to be followed, contracts have to be agreed between private parties and this is just another model that could be used by company that want you to use, right.

So you have two models in Brazil today, a model where retailer have a contract with a brand and he use that brand on the canopy and for that he has exclusivity contract to use their products that is very traditional on any licensed business or franchise business. So if you go to McDonald's, you're going to have McDonald sandwich, if you go to a VW workshop, you're going to have a VW car, a new VW car being sold, you're not going to have a Fiat, you're not going to have a Renault, you're not have a Mortadella sandwich on a McDonald's outlet.

And this is the same that happened today. You have a second model, which the retailer brand, so you can have your own retail site, you have your own brand and you buy from whoever you want and you just want to identify the product that we are reselling on that site and you can change that more often, as you wish. So what the ANP has created is a third model in case the license company will allow the licensee to sell a different product than theirs. He could do it, which today is not allowed, ANP would fine a retail outlet that would have a brand from a third party and would not sell a 100% third party.

So there is no obligation. There is no mandate. It's a private relationship, so if someone wants to do that. It's okay. Just to be very straightforward and I think Mussa has made it very clear on the Raizen call under the Shell Canopy, and the Shell brand license, we only have Shell products, because this is the way we believe is the value for the consumer, we differentiate with better fuels with digital solutions and other service requirements that attract more customers that have improved by the way, Raizen has been gaining market share since inception 10 years ago.

The same is happening in Argentina and the same will happen in Paraguay. So it's not a matter of when, it's a matter that we will stick to our model that we believe is the most success, and by the way, is the one used in a 100% of the markets in the world. Right. So our only plea there, Luis is about equality of competition, is not only of competition. Brazil and the regulators and the government needs to understand that the legislative need to understand that without that certainty investment will not come and we desperate need investments in all the areas of infrastructure, energy, et cetera.

So if we will continue to fight against that, we will continue to be very vocal about that. We'll continue to take the Institute Commercial Legal [ph] more equipped because it is around BRL24 billion that the government is losing and we are doing a lot of reforms, reducing cost of the states and other measures that some of them don't get close to BRL24 billion per month -- per year, sorry. So we need to take serious and this is what we

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believe. So no free ride and no tax of evasion is the only things we had. The rest, we love competition, we will continue to compete, we will continue to be -- trying to be ahead. We love good guys that will push our teams further because this is what makes market better.

Moving to your second question regarding Paraguay in the portfolio. I think we have said in a couple of years now that we are looking for good opportunities outside Brazil and Paraguay is a good market. It's a small market, but profitable with good structure, where the Shell brand has been out for several years now and have a very strong recognition and we believe that by the the JV we did with the best retailer in Paraguay and a very solid family business with people that are very competent that we have been discussing for a long time, we will be able to do good inroads on that market benefiting from the infrastructure of Argentina because the trading and all the market comes from the same logistic route.

And as you asked for the future. We will continue to look for opportunities in other markets, not necessarily on Institute only, but as, you know, Moove is our most international markets -- multinational company, sorry. And we will continue to look for opportunities there. I think it's good for us to have a balanced portfolio, of course, Brazil always going to be our lead market but having other market is important to differentiate from other competitors that we have and be being able to have different cycles of results and ability to invest.

Regarding your third question. We were always going to look for when we believe that the market is discounting our share. We will look for that as one of the ways to invest our money. We have done that a lot over the last few years, but we will continue on our journey to have the companies underneath Cosan open, each one or each time and Thiago has asked the timings for Moove and Compass. When the time comes, Thiago, sorry to not be precise. It will come, but we are very happy with the partners we have. As you know CVC is our partner in Moove and we have moving have Atmos [ph] as our partner in Compass and already treat and manage this company as open companies and listed company anyhow from the point of view of governance, board, et cetera. So they will be prepared to do that when the timing is correct.

A - Ana Luisa Perina

So, if I may just add a couple of points here in the leverage question, we, as you all know, as you all know, our target is to be between 2 to 2.8 times net debt to EBITDA as a group, so we will always seek for our investing our cash positions you know balance between opportunities on gross debt amortization doing our liability management process. This is a recurring process for us at Cosan. As we said in the presentation, we just issued debentures BRL2 billion worth of local debentures to do liability management.

So these opportunities will be always analyzed for our teams and we will always seek for the best capital allocation within this range that we believe its comfortable for the company.

Q - Luis Carvalho {BIO 15116702 <GO>}

All right. No. Thank you very much and very clear. Thanks Luis and Ana.

A - Luis Henrique Cals de Beauclair Guimaraes {BIO 17984872 <GO>}

Thank you.

Operator

(Operator Instructions). Please each participant can ask up to two questions. Our next question comes from Mr Andre with Itau.

Q - Andre Hachem {BIO 20209966 <GO>}

Hello, thank you for taking my questions. So I have two questions, the first one more specific to this quarter's results on Compass. You registered on the trading business a loss of 380 million, if I'm not mistaken. Could you comment on this, these transaction, which led to this loss, have already been closed down on each of the cost, the close of these positions or you still have active disclosure [ph] on this trade.

So that's my first question. My second question is relating to synergies between Compass and Raizen. As we think about the future of renewables and we think about transition energy [ph], gas could also play an important role, like especially when we think about the heavy vehicle fleet. How do you expect or how do you possibly contract synergies between Raizen and Compass, going forward, as they move with say with different shareholder base and then we have Cosan as the controlling shareholder. Thank you.

A - Luis Henrique Cals de Beauclair Guimaraes {BIO 17984872 <GO>}

Okay. Andres, it was not totally clear, your voice. And -- but I think I got it. If I did, if I don't respond what you have asked, please intervene. But regarding the commercialization process or the trading -- directional trading business in Compass and if you -- your question was if you -- if we will have more numbers on the next quarter or the following quarters, the answer is no. So what you have seen is basically the positions for the future are neutralize, doesn't mean that there is no position, but they are balanced between short and long. So there is no effect in terms of price valuation going forward. Okay.

In terms of synergies between Compass and Raizen, yes there is a lot of I'll call markets that could have been accessed by both companies and as you know, as you look at these companies, you look at them, what's best for each individual company. So you could see some business eventually. The two companies competing in a certain in market or in a the certain offer and we will not intervene on that, just to be absolutely clear, it will be what's best for the companies, but also there are opportunities for them of course to do things together if the opportunity arise.

As you said, there is a lot of bio methane that will be able to go through the natural gas network, there will be a lot of distributed energy combination of renewals and natural gas restabilization, but they will do the business as it makes sense for each of the companies not looking at Cosan as a shareholder in both of companies but as you rightly said, we

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have different shareholders in different companies, and it will not benefit one of shareholders in relation to the other.

But we believe, as you know is our DNA in our companies under holding to do partnerships, to work together. We never believe that it is best to do it ourselves if there is opportunity to do if someone that has complementary skills, complementary customer base and complementary people that will be able to do it faster, better and do it bigger. So could happen some joint projects or joint activities between the two companies. But again, always looking for the interest of each individual companies and at the end, the customer.

Q - Andre Hachem {BIO 20209966 <GO>}

Perfect, very clear, Luis, thank you.

Operator

Our next question comes from Regis Cardoso with Credit Suisse.

Q - Regis Cardoso {BIO 20098524 <GO>}

Good morning, Luis, Paula, Ana, thanks for taking my questions. A quick follow-up on the previous question regarding Compass and then a second one on capital allocation. So first one on Compass. I mean there was quite a significant loss in this quarter nearly BRL380 million and I wanted to understand, first if that led -- that was the trigger to your decision of neutralizing those directional exposure and also related to that, how and whether that changes the business plan you had previously set for Compass because I believe you were very ambitious about expanding in the natural gas business, but you were still a player in the electricity sector. Right. So how does that change? So this is the follow-up on Compass.

Then the second question, and I think that's more for you, Luis, how do you see Cosan's role going forward, now that the companies are let's say, you are good on their standalone basis and most importantly, they recently raised capital, right. That's true for Rumo, that's true for Raizen, Compass might be on the road to raise capital for themselves as well. So what will be Cosan's role? I mean it is a role of paying down debt to increase efficiency from a physical perspective at the holding level. Is it a play of, let's say, buying back stocks to further increase the stake of the existing shareholders? Is it a play of distributing dividends or is it allocating that capital to something else, something new? Thanks.

A - Luis Henrique Cals de Beauclair Guimaraes {BIO 17984872 <GO>}

Thank you, Regis. Regarding the trade, directional trading, yes we saw tremendous volatility in the market, given the weather patterns and a very different behavior if you look at the history of this market over the last 30 years. Of course, this has triggered us to take decisive action, and the team led by now and the Compass management team took decisive actions to neutralize the position and also to think forward, how we would deal with that -- what seems to be potentially a different pattern of this market going forward.

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So we always been on this market for the expansion of the trading of natural gas, as you have seen by the pre-agreements with Roja [ph] and Yara announcement over the last few weeks there with going to move customers from the captive market to the free market, which we are very supportive and is already very well regulated on the Comgas areas -- area.

But we believe that it will evolve to the Brazilian market in the other concessions and as we move with Gaspetro, we will work hard on that with the local regulators to achieve that because that we believe it's good for the development of the markets. Good for the growth of the volume, which is the big challenge of this market. So we have done that to create that knowledge, ability, et cetera. And also because we believe that on the buying and selling of energy on a common market base, a common customer base with electricity and gas has value. Right. So we created. But of course the directional business over the last couple of months and quarters was very, very volatile and implied on the loss that we already discussed. So we are concentrating now going forward, the team on the long and short business, not on the directional business, which we still believe that there is good opportunities on the electricity side but of course, our main focus has always been and continue to be on the natural gas and on the biogas opportunities for for this market and trading and commercialization is an important part of the Compass model.

This has not changed. What has changed is our risk and focus of the tide on the directional commercialization directional trading. Regarding the role of Cosan, I think, I don't think that changed much of what have been doing over the last few years, Regis because I think, of course, you have seen the progress that we said that we're going to do the collapse. We did the collapse. We said that we are going to open the companies underneath. So we are in the progress of that. So, I'd say, you say what's next. Right. So what's which -- so we will continue to have a small team at the holding level to work together with the companies, so in terms of the culture, in terms of the support, in terms of the challenging management, looking at people, looking at capital allocation that we always have been doing over the last 20 years or 15 years. We will continue to look at opportunities around the business. There is other opportunities that are not natural for the business to do it themselves that we could contribute doing ourselves and supporting the business going forward. We will continue to advocate the three pillars that we talk early, the ESG, EESG on our side and pushing the company to be even more aggressive in term of decarbonization and how they together can leverage relationships with other big groups in Brazil that we can deliver logistic and energies at lower carbon intensity.

We will continue to push the people agenda and the digital agenda around that. So, and in the meantime, of course, we are going to look for buybacks if it makes sense. We're going to look at liability management, but it's a role of trusting a lot on the management teams of each companies, empowering them a lot to do what they need to do on the day to day and on the movements they are doing but ensuring that they have the support to do the big moves, the big dreams they have in all the companies that -- like they have very recently, as we talked before, so on the Raizen path on both distribution, marketing and services and renewables. On the path on Compass on increasing their geographical footprint, but also entering new business on LNG and potential power generation, Moove to its international business and Rumo with its expansion and reduction of lead times. So it is what we're going to continue to do.

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Q - Regis Cardoso {BIO 20098524 <GO>}

Clear Luis. If I may a third question here about Compass, just wanted to make sure, when you revised downward the CapEx for Compass that it did not affect the investments for the regulated business for Comgas, it was a 100% related to the LNG terminal. And if I may just a second one there. What do you reckon will be the competitive advantages of Compass over other suppliers of natural gas? I think intake being fully integrated with the Comgas network, looks like it's going to be one of them to have a lower cost of transportation for the gas and if you believe that let's say have been the route for connect directly in Sao Paulo, if that two could get in the city gate of Comgas without necessarily going through the transportation network and if that happens, if that gas would be constrained to the state of Sao Paulo. Thank you.

A - Luis Henrique Cals de Beauclair Guimaraes {BIO 17984872 <GO>}

Regis on the first question, the CapEx numbers of Comgas are not changed for these years, so we will continue to follow all regulatory commitment with the state and the agency. What has happened that the start-up of the terminal here in Santos is a little bit delayed, so this is why you seen an adjustment on our expectation of CapEx. But we will continue to build our network in Sao Paulo, continue to connect over 100,000 customer a year and continue to grow our base of commercial and residential and of course, industrial customers on the Sao Paulo concession, which has proven very successful, as you've seen from the numbers on the last few quarters and going forward, right.

So we created a lot of resiliency on this business to have a lot of less dependence on the I'll call it more seasonal business that can be the industrial business and very much more reliable on the commercial that will have a -- we believe a good recovery on the next quarters going forward. But more important on the residential segments, what we could observe during the COVID and the lockdowns, how important is this business from a point of view of profitability of the company and reducing our exposure risk. So this is what we will continue to do, and again as reply myself. But what we expect to do on the concessions, under the Gaspetro that we will be doing. Regarding the competitive advantage of Compass, I think there is several. One is the ability to source gas from different sources. So, and the terminal in Sao Paulo is one that's important because they will be an alternative of competition of the local gas supply.

So we're going to have going a -- kind of a marker to the local suppliers to be competitive and of course we are going to buy from the local suppliers, we are going to buy from Bolivia -- Compass will buy from the terminal but will depend on who will be more competitive at the time. And in term of the routes, we are looking for routes that we expect that several companies, which we would love them to do more route. So the reason we are involved in route for, we always said is to be a kind of a leading agent that are doing the work for this to happen. How long things takes in Brazil. Right. So from projects from

(Technical Difficulty)

Operator

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Please. One moment. Please. One moment. The speaker will be back soon. Please hold.
One moment. Excuse me. Mr Luis, you may proceed.

A - Luis Henrique Cals de Beauclair Guimaraes {BIO 17984872 <GO>}

So Regis, I hope you are back here. So talking about the gas and the projects and the ability for us to have more gas in a market that we believe Brazil has you know a tier 2 [ph], a size of tier 2 in terms of rejection. So we would love these gas to come to the market to be able to develop the market, get Brazil more compared to an industrial basis and of course it will benefit Compass but will benefit the whole society in our other business that are related to GDP. So the route for -- we are the kind of the leading player to motivate all those to join. We have no intention to be the biggest check on this.

We have no intention to have control over these investment. We are really doing that because we believe that in Brazil things takes a long time and if there is no one that's pushing that, spending a little of the initial money and especially having the right people develop that it never happens. So it will be connected to the infrastructure that exists in the country, transport and all other infrastructure. So our competitive advantage will come from our ability to source better, our ability to serve customer better, our ability to do the different, how you call the different verticals we have, so the distribution vertical, the infrastructure vertical, the commercialization vertical and the power generation vertical in a way that's better than our competitors on that.

So we believe that this portfolio that we have created and is creating is differential from the other markets. But as you know, the gas market is huge. If it goes right, right in terms of the increase of demand, it's not a problem of supply, there is enough gas in Brazil, in Bolivia and in the world. What we need to do is to develop demand and we believe that Compass has been the leading company in developing demand.

So we are the company that's spending more time on the demand side, where most of the other players are spending more time on the supply side, and this is what we are trying to create a important capacity with partners, channels and our own sales force and marketing force to develop the applications, solutions and ability to create this market that in certain states don't exist, certain segments doesn't exist and we will continue to convert customers from different energies like from diesel, from biomass, from other source of energy to gas, where it makes sense. So this is our great differential. We are focused on developing the gas market and we will do that based on our strong experience that we have developed over the last few years.

Q - Regis Cardoso {BIO 20098524 <GO>}

Very clear, Luis. Thank you so much for the very complete answers.

Operator

(Operator Instructions). This concludes the question and answers section. At this time, I would like to turn the floor over to Mr. Luis for his closing remarks.

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A - Luis Henrique Cals de Beauclair Guimaraes {BIO 17984872 <GO>}

So I just want to thank you all for being with us today and thanks for all the support you have been giving the company as investors. So very important movements we did over the last six months, as I said, starting the collapse, going through the private placement at -- with -- at Moove and in Compass going through the IPO of Raizen also on the debt market, a lot of action. So we'll continue to value your support and be very responsible to the way we allocate capital, looking for synergies, looking for efficiency within our portfolio and be able to deliver strong results over the course of the next months. We are, as I said at the beginning, enthusiastic about the recovery of the Brazil with the vaccination progress, of course, there is some -- a challenge on the environment.

But we are very confident that our teams and our company is well-positioned to continue to deliver it and be able to achieve the guidance we have given to the market for this year and the years going forward. So thanks for your time and have a great week. Bye-bye.

Operator

Thank you. This does conclude today's presentation. You may disconnect your lines at this time and have a nice day.

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