



Local Conference Call

Q3 2016 Earnings

November 10, 2016

Operator: Good morning, ladies and gentlemen. At this time we would like to welcome everyone to Cosan's SA third quarter of 2016 results conference call. Today with us we have Mr. Mario da Silva, CEO; Ms. Paula Kovarsky, IRO; Mr. Joao Arthur Souza, CFO; and Mr. Phillippe Casale, Investor Relations Manager of Cosan SA.

We would like to inform you that this event is recorded, and all participants will listen the conference call as the company presents. Next we will begin the Q&A session for industry's analysts. In case you might need an assistance during the conference, please, request assistance from the operator dialing "*" + "0". The audio and slideshow of this presentation are available through live webcast, at ir.cosan.com.br. 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 and could cause results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference over to Ms. Paula. Ms. Paula, you may begin the call.



Paula Kovarsky: Good morning, everyone. Welcome to Cosan SA's third quarter 2016 results conference call. As usual, we will present each business line of Cosan SA first and then the consolidated results.

But first let's have a look at Slide 3 which shows our business portfolio. Once we had an important change this quarter. As announced last Friday, November 4th, we concluded the sale of a stake in Radar to Mansilla Participacoes Limited, a vehicle of TIAA upon the payment of BRL1.041 billion to Cosan net of dividends deliberated by Radar. This is an important step towards increasing further our focus on the core businesses, Raizen Combustiveis, Raizen Energia, Comgas and Lubricants, targeting the optimization of our portfolio and in pursuit of higher returns to our shareholders.

Cosan caped 3% stake in Radar given its expertise in frontline management in Brazil. Radar net income was therefore reported under discontinued operations this quarter and as of fourth quarter 2016 Radar results in proportion to their remaining stake will be reported as equity pickup. The net result of the sale will also be recognized the next quarter.

Let's go now to Slide 4, with the results of Raizen Combustiveis. Following the trend observed in recent quarters we confirm the effectiveness of our growth strategy grounded on the expansion of our distribution network through conversion of independence especially white flagged stations. Otto cycle volumes were stable compared to third quarter of last year versus a 1.4% drop in market volumes, the source is the ANP.

The same compares and in terms of gasoline equivalent i.e., adjusting for the energy efficiency, which we believe to be the more accurate way to understand the market dynamics; points to an increase of 2% for Raizen. The outperformance of the market reflects the net addition of 344 stations to our network over the past 12 months and our continuous focus in strengthening our long-term relationship with our retailers. About the diesel sales, our volumes behaved in line with the market considering ANP data again with the decrease of approximately 4%. When compared to Sindicom data, which is the association of the large fuel distributors we outperform our peers because Sindicom's volumes dropped 9%.



Adjusted EBITDA reached BRL736 million in the third quarter of 2016, 29% higher over the same period of last year. The main drivers here were better sales mix with more gasoline and gains related to the optimization of the supply and commercialization strategies including imports. Note that this year we had a different dynamics for ethanol prices. Last year, ethanol prices started to go up more strongly in the fourth quarter, but this year the usual price hike that happens as we move towards the inter-crop period actually ended up happening earlier explaining the gains related to the inventory management this quarter. Moreover, we had a concentration of import cargos arriving this quarter both yearly and sequentially.

We remain focused in the optimization of our capital investments including the management of working capital. We therefore reiterate our view that the EBIT evolution is a more accurate way of measuring our business performance. And once again, EBIT growth overcame EBITDA growth. About investments, Raizen Combustiveis invested BRL192 million this quarter, aligned with the budget and we keep on looking for good opportunities of conversion in the markets in order to keep expanding our network of service stations.

Let's talk about Raizen Energia on Slide 5. Just to remind you that this is the second quarter of the 2016-2017 crop year. The crushing this quarter reached 25.7 million tons growing 6% compared to last year as the weather was drier. In fact, the drier weather benefits the crushing but it reduces the sugarcane field density by affecting growth. The TCH therefore was 13% lower compared to third quarter of 2015 reaching 78.4 tons of sugarcane per hectare.

The average TRS was over 135.5 kilos per ton in the third quarter of 2016 against 136.4 kilos per ton in the same quarter of last year.

Combining both indicators, which is the way we like to measure productivity, the TRS per hectare was 14% lower this quarter reaching 10.6 TRS per hectare versus 12.3 TRS per hectare last year. The production mix remains focused on maximizing sugar production, we did 59% sugar this quarter, in line with the commercial strategy for the year. Crushing year-to-date is 11% higher compared to the same periods of last crop reaching 48.1 million tons.



About each product sales. The sugar sales volume dropped 14% offsetting last quarter's acceleration. The prices remain higher in BRL terms. And note that the successful early start of the crushing season in March led Raizen to start the first quarter close to full capacity, full crushing capacity in some of the mills; opening room for much higher sales of own products, which were a bit compensated this quarter.

Ethanol sales volumes were 12% higher with better prices. The anticipated price hike at least compared to the previous crop reflects sugar price peak, which led producers to shift their production to sugar as much as possible at the expense of ethanol, squeezing the supply and demand equation. In cogeneration, we had higher availability of biomass offsetting lower average prices due to a reduction in spot energy prices.

Unit cash costs in sugar equivalent, excluding the effects from the higher cost of third party sugarcane, CONSECANA grew only 3% compared to the third quarter of 2015 below inflation in the period and reflecting efficiency gains in own production. The EBITDA adjusted for biological assets in hedge accounting dropped 6% compared to the second quarter from last crop mainly due to smaller sugar sales volumes reaching BRL71 million.

Back to sugar prices. As we stated in previous quarters, part of the gains related to the exchange rate when setting sugar prices this year will end up falling below the EBITDA line. The average exchange rate of currency hedges was of BRL378 to \$1 while the average exchange rate of shipments was BRL324 this quarter. The negative effects on Raizen was of about BRL140 million. And if we were to add back the BRL140 million for comparison purposes the EBITDA would have grown 11%.

The EBIT per TRS decreased 3% compared to last year reflecting the dynamics of the EBIT with lower sugar sales as already explained. But when we compare the first six months of this crop year, the EBIT per TRS reached BRL110 versus BRL105 in the previous crop implying a 5% increase.

Our hedging strategy. At the end of the quarter, we had 3 million tons of the 2016-2017 crop year hedged at an average price of BRL0.59 per pound. This volume is equivalent to almost all sugar to be exported throughout this season, over 90%. For the next crop, the 2017-2018, we have 1.4 million



tons of sugar hedged at an average price of BRL0.70 per pound and this is approximately 40%, 45%.

As you may see it, we accelerated our hedging this quarter, benefiting from a favorable combination of commodity prices and exchange rate. We invested BRL354 million, 54% more compared to last year, reflecting higher expenditures with planting and other projects and the CapEx added up to BRL1.5 billion year-to-date in line with the last season. So there's a bit of seasonality between first and second quarters of the crop year.

Turning now to Comgas on Slide 6, just as a reminder, Comgas reported on October 28th. So I'll go through the highlights only. This was another quarter of growth in residential volume, 19% as a result of the connection of 114,000 new houses over the last 12 months, the end of the hydro crisis and slightly lower temperatures compared to the same period of last year.

The commercial segment grew 6% in the period due to the connection of about 1,000 customers. Industrial volumes however keep on suffering with the weaker industrial activity, dropping 4%. The worst performing segments were construction chemical, petrochemical and ceramic and steel. We note however that this drop was less severe than what has been observed in the past few quarters, so we had 11% year-on-year drop in the first quarter of 2016 and 8% in the second quarter.

Excluding thermal power generation sales volumes contracted about 2%. Normalized EBITDA grew 18% compared to the third quarter of 2015 reflecting richer sales mix residential and commercial and the tariff adjustment of last May. As a reminder, although both gas costs and tariffs to the consumers were reduced back in May the regulator granted the annual pass-through of inflation to margins as provided for by the concession contract.

IFRS EBITDA grew 28% this quarter due to the sharper reduction in the cost of gas and the consequent backlog in the regulatory current accounts regarding in favor of the consumers contributing to higher cash generation. Comgas invested BRL102 million this quarter mainly in the expansion of the gas distribution network and addition of new customers, in a slower pace



compared to last year but consistent to the past few quarters and reflecting the review of the Company's strategic performance in a few segments.

We can go to Slide 7. Note that this slide used to show results from Radar but as previously mentioned from this quarter onwards the result of this operation will not be part of the consolidated EBITDA. It will be reported as discontinued operations.

Starting with Lubricants, which include our operations in Brazil as well as Paraguay, Uruguay, Bolivia, besides England and now Spain. Regarding Brazil, the market keeps on shrinking about 6% this quarter compared to the same period last year. Cosan Lubricants had a similar performance. Let's not forget that our focus here is on industrial and automotive segments, which remain heavily affected by the weaker economic activity.

International operations instead grew in volumes about 27% in March on average, but still total EBITDA fell 14% in comparison with the third quarter of 2015 due to decrease in Brazil's sales volume and higher selling expenses. On the corporate, general and administrative expenses amounted to BRL39 million in the quarter in line with the third quarter of 2015, whereas the line, other expenses, rose to BRL25 million on legal expenses related to contingents among other things.

Moving to Slide 8, where we present the consolidated results of Cosan SA on a pro forma basis, i.e. considering 50% of Raizen's results. Adjusted EBITDA grew 11% year on year and reached BRL1.2 billion in the third quarter of 2016, mainly driven by Raizen Combustiveis' and Comgas' better results.

Net income reached BRL328 million, reverting BRL70 million loss on last year's third quarter. And this is a reflection of better business performance especially Raizen and the recovery of Comgas' current account. The adjusted number was BRL189 million versus BRL35 million adjusted loss last year. The pro forma CapEx was similar to the same period of 2015, reaching BRL393 million, in line with the strategy of streamlining investments and focusing on returns.



The pro forma free cash flow to the equity reached BRL908 million compared to a cash burn of BRL135 million in the third quarter of 2015. And I'll dig into that number in the next slide.

So, let's move to Slide 9. As stated last quarter and as part of the capital structure management process targeting the lengthening of the debt profile, Cosan SA issued \$500 million bond maturing in 2027 and repurchased about 80% of the 2018 and 2023 outstanding bonds. As the bondholders' adherence to the tender ended up being higher than expected, we decided to do a re-tap of an additional \$150 million and that explains the slight increase in the gross debt this quarter. The average cost of debt on a pro forma basis, i.e., including Raizen was 98% of the CDI, and 101% if we exclude Raizen, and the average maturity of the pro forma debt is four years, eight years if we look at the holding level only.

We're now ready to talk about the free cash flow to the equity and the main drivers for the increase over the same period of last year were improvements in operational results due to higher EBITDA and working capital management in Raizen and Comgas' higher EBITDA considering the regulatory current account. We had a small flow of investments with the reduction of CapEx in Comgas and the incoming cash from the sale of STP more than offsetting Raizen Energia's higher CapEx.

And we have a financial cash increase of \$150 million from the issuance of Cosan's 2027 bond re-tap minus BRL230 million from the perpetual derivatives.

So a quick heads up regarding debt hedge here. The total amount of our gross debt remains hedged except for the principal of the perpetual bonds of \$500 million. The perpetual principal was hedged back in 2014 when tendering was a possibility. Now that the debt profile is equated with the recent issuances and the repurchase of the 2018 and 2023 bonds we decided to keep the hedge only for interest payments for a certain period, and for now the period is three years.

Last but definitely not least we had again a leverage reduction this quarter. The net debt to EBITDA fell from 2.1 times at the close of the second quarter of 2016 to 1.9 times now, due to the increase of the last 12 months EBITDA



and higher cash generation. And this is a very important achievement for us. That being said, I would like to call your attention to the 2.2 times net debt to EBITDA figure. The main difference to the 1.9 times is the impact of the regulatory current account on Comgas and the reason why we are excluding it from the calculation is that it is essentially a cash anticipation that will be reverted to customers in the coming quarters and the regulator already announced some adjustment in the beginning of October.

As you can see, our expectation is that net debt to EBITDA would go up due to the Raizen Energia's working capital cycle ended up not happening again. We expect leverage to remain around current levels looking at number adjusted for the Comgas current account, so the 2.2. And the long-term view hasn't changed as we think that 2 times is a comfortable level of leverage for the Company on a recurring basis, is very adequate to our portfolio of assets.

Let's shift to the last slide, Slide 10, where we restate our guidance with a few relevant updates. Raizen Combustiveis, we expect next quarter's adjusted EBITDA to be similar of the fourth quarter of 2015. Just to clarify again the dynamics here this year we have a shift of ethanol price curve or an anticipation of the hike that usually happens closer to the inter-crop period. Last year, the strongest price increase happened in the fourth quarter whose results were bolstered by the inventory gains. We therefore narrowed Raizen Combustiveis' guidance to BRL2.55 billion to BRL2.7 billion and this is the adjusted number. If we add the nonrecurring events of the last three quarters the number is definitely higher.

The CapEx range was also narrowed to the high end of the original guidance as we keep on capturing the good conversion opportunities offered by the market. About Raizen Energia, we narrowed the guidance range for crushing, the drier weather this year caused the TCA to drop faster than expected affecting the sugarcane availability. And this is why we reduced our crushing range for the 2016/2017 crop year to 59 million tons to 61 million tons. Our goal is to crush all of the available sugarcane until mid November, early December, maximizing our production as well as the mix of mills.

I would like to remind you that this crushing does not include the nearly 3 million tons crushed in March that was computed in the last quarter of the



past crop year. Regarding EBITDA, we are lowering the guidance range to BRL3 billion to BRL3.3 billion due to the exchange rate dynamics we explained earlier. The original guidance for the 2016/2017 crop year assumed an exchange rate of BRL4 to \$1 hedged through financial insurance.

In other words, this continues to be the reference for Raizen Energia's cash generation. The EBITDA however reflects the exchange rate at the time of the sugar shipments. In the first two quarters of 2016 the positive effect of the exchange rate that impacted Raizen Energia's financial results was almost BRL300 million. I'm repeating myself here, but just to be very clear, the guidance reduction has no impact whatsoever on the Company's expected cash generation.

For Comgas we review the IFRS guidance to BRL1.9 billion to BRL2 billion to reflect the increase in the regulatory current account, and there has been no change to the normalized EBITDA or CapEx. For the normalized EBITDA we are looking at the high end of the guidance and for CapEx to the low end. There are no changes to the Lubricants' guidance, but please note that we excluded Radar's guidance from the table as well as from the pro forma consolidated EBITDA.

Well, that's all I have today. Thank you all and let's move to the Q&A session.

Question-and-Answer Session

Operator: The first question comes from Isabella Simonato of Merrill Lynch.

Ms. Isabella Simonato: I have two questions on fuel distribution. First, if you could comment on how you view the new pricing policy from Petrobras and how does that change or increase the visibility that you have on both fuel distribution and sugar and ethanol business? And second on fuel distribution, how do you see the competitive dynamics going forward and if it's reasonable to assume that the continuous market share gain that you've been having should continue throughout 2017 as well?

Paula Kovarsky: Okay. About the pricing policy, I mean, the first and most important thing that I would like to say here is the higher the transparency the better. This is something that the market has been longing for forever to have a clear policy for prices. And if Petrobras continues to increase and



decrease prices following what happened to oil in effect I think this is definitely good news for the market. And then in terms of the impact for Raizen Energia what happened is that so far what we saw, to start with, we are not responsible for prices at the pump and this needs to be very clear. The second thing is ethanol prices went up so the change in gasoline prices at the pump was not so visible. And third, because some of the states are actually increasing taxes and this is why the reflecting the pump again is not so clear.

Again, one could think about the very short term and say that gasoline prices went down and this is arguably negative to ethanol, but once again, I think that the space, the sugar and ethanol business has suffered so much from lack of transparency in gasoline prices for the last 10 years that we need to look at this as a positive thing and that will increase predictability as well as volatility to prices and this is not necessarily negative. Okay.

Regarding the competitive dynamics, as you said, again when we, when Petrobras reduces 10% diesel prices, like they did last week, you can argue that the room for imports is a little lower and this is true. But again, the idea here is that the prices will vary in line with the oil prices and in line with FX. We think imports are the structural part of the country's supply for the next few years.

And we will continue to optimize our supply strategy looking at the opportunities. I think the only message now is that we will have to look at it even more carefully, because there is going to be volatility and this can be good especially for a player like our self who invest in infrastructure over the last few years and is prepared towards, better equipped to play in this new environment.

And on your last question, I would like to rephrase it if I may, there is no market share gain targets for Raizen Combustiveis. What we are doing, and I've been insisting in this in the last call, Raizen Combustiveis' growth strategy was established back in 2013 when we had the combination of Shell and Cosan assets completed in the fuels division.

The idea is that we will continue to target the good opportunities to convert independent especially white flags, and as long as those opportunities are



available we will continue to do. We do believe the good opportunities are there. We expect to continue converting 300, 350 stations on a net basis over the next two, three years. And market share will only be a consequence depending on the strategy of our competitors.

Isabella Simonato: Perfect. Thank you, Paula, thank you very much.

Operator: Thank you. This concludes the question-and-answer session for investors and analysts.

Paula Kovarsky: Well, thank you all for joining the call and see you in the fourth quarter of 2016.

Operator: The Cosan audio conference is closed. Thank you and good afternoon.