

Conference Call

COSAN

2Q17 Earnings Results

August 10, 2017

Earnings Presentation

Good morning everyone, and welcome to Cosan S/A's 2nd quarter 2017 results conference call.

As usual, I will start the presentation by talking about each business line and then the consolidated results. Exceptionally in this quarter, let's go straight to slide 4 and start with Raízen Energia, as the explanation on this crop's dynamics and impact on ethanol prices will help us understand Raízen Combustíveis' results.

2Q17 sets Raízen's 2017/18 crop year. We crushed 19.2 million tons of sugar cane, down 14% year-on-year. It is worth mentioning that the harvest was anticipated to March in the 2016/2017 crop year, due to the availability of cane left in field during intercrop. So, when we started the crop year back in April 2016, production was already at full steam, which is atypical.

This year, instead, higher rainfall volumes delayed crushing, especially if we compare to last year's strong basis of comparison. This delay will not compromise our targets of reaching the top range of guidance in terms of crushing, nearly 63 million tons, even if we have to crush again until Christmas and shorten the intercrop a bit.

TCH was 81 tons of cane/hectare in 2Q17, versus 92 tons of cane/hectare in 2Q16, when cane was available but not processed, as I already mentioned. Average TRS in the quarter stood at 124 kg/tons, up 2% year-on-year, supported by investments in cane treatment. Raízen remains focused in maximizing sugar and the mix in early crop reached 57% for sugar versus 55% in 2Q16. Raízen analyzes profitability of each product on a daily basis. That being said, current anhydrous ethanol price is more profitable than sugar in every producing state, as well as hydrous ethanol in some states, meaning there might be opportunities to optimize production mix.

Before talking about the performance by product, I would like to get in more detail with you on the crop dynamics. Historically, sales of own products are more concentrated in the second half of the crop, when prices are usually more attractive. The previous crop (16/17) was atypical, not only because the anticipated crushing increased availability of own products for sale, but also

because sugar prices were very favorable in early crop and ethanol prices had an atypical appreciation. Prices dropped in March with anticipated crushing but quickly reversed the usual downward trend and went up during the crop's first quarter last year. If you recall our last conference calls, we mentioned that the previous crop had lower seasonality between two half periods of the year.

We saw crushing delay in this crop, resulting in lower availability of own products this quarter, and an expectation of a more stable price dynamics. In other words we are back to more normal crop pattern of prioritizing origination and resale of third parties' products in the early crop.

Now sales performance by product... let's start with sugar:

Sugar: Sugar sales were up 7% this quarter, with sales of own products and higher share resale. Average sugar sales prices in Reais, adjusted by hedge accounting effects and currency hedge on sugar exports (which I will explain in more detail later on), increased 13% year-on-year.

Ethanol: Ethanol sales grew 26% in 2Q17, with concentration of resale and trading even higher than sugar. Ethanol average sales price came in line with the same period last year and with market prices (ESALQ base), but in a reverse direction during the quarter

Cogen: Production and sales of energy grew 10% in the quarter, although crushing has decreased in the period, as there were higher resale and trading volumes of energy in the period as well. Average energy price sold was BRL 220MW/h, 19% higher than 2Q16.

Before discussing EBITDA, I would like to call your attention again to evolution of unit cash cost of own products in sugar equivalent. This index grew 4% reaching BRL 620/ton in 2Q17, impacted by higher CONSECANA reference price (+5%), which directly affects land lease agreements and the acquisition of third-party sugarcane. When we exclude the higher CONSECANA price, unit cash cost came in line with 2Q16, thus absorbing inflation, reflecting continued focus on efficiency in agricultural and industrial operations.

Now referring to adjusted EBITDA. Let me start by highlighting an important change we have made as from this quarter. In order to facilitate understanding and the comparison of results, we incorporated the currency effect of hedging sugar exports on the adjusted EBITDA of Raízen Energia (and accordingly in the pro forma consolidated adjusted EBITDA of Cosan). The adjusted EBITDA now removes the effect of foreign exchange contracted to hedge sugar exports against effective foreign exchange on the shipment date. It is important to mention that as of this quarter, which is Raízen's first of the crop year, all new derivative instruments designated to hedge sugar exports will be recorded in hedge accounting, so that in the future, all instruments hedging exports will be

reflected in EBITDA. To be very clear: average foreign exchange rate was BRL 3.88/USD in 2Q17 while shipment average foreign exchange rate was BRL 3.20/USD. The financial consideration of currency hedge gain was, therefore, of approximately BRL 179 million this quarter. We used to highlight this information for you in our earnings release, but now it is effectively included in our adjusted EBITDA. (we did the same for the figures of previous crop year in order to have a correct basis of comparison). I also want to remind you that the basic assumption of the hedge policy of Raízen is to protect foreign exchange and commodity, looking at the prices in Brazilian Reais.

Besides the adjustment I have just mentioned, we excluded as usual the biological asset variation and the debt hedge accounting. Adjusted EBITDA was down 4% to R\$804 million in 2Q17.

Adjusted EBIT /TRS sold dropped 14% in the quarter, due to higher resale and trading volumes.

Referring to sugar hedge, the graph in lower-center part of the slide: since our last earnings release, not much was advanced in terms of sugar hedge. We have 2.1 million tons of hedged sugar at an average price of BRL 70 cents of Reais/pounds for the current crop year (17/18). Market continues pricing a surplus in current crop, but we still see it as more of short term pressure on prices . We will continue evolving in our cash flow hedge policy. It is always good to remember that we are talking about hedge and not speculation. And much more important: we remain focused on increasing our operational efficiency and reducing costs, managing invested capital and in working capital, while seeking to improve the profitability of our business, regardless prices.

Raízen Energia's CAPEX totaled BRL 421 million in 2Q17, up 18% year-on-year, chiefly due to higher maintenance expenses impacted by longer off-season in the year-on-year comparison, (ii) acceleration of mandatory investments in health, safety and environment (HSE) and Sustaining projects and (iii) higher mechanization expenses, due to anticipated renewal of agricultural equipment.

Before jumping to Raízen Combustíveis, I would like to comment the acquisition of two mills from Tonon, announced in June.

As already announced through Notice to the Market, Raízen offered BRL 823 million to buy two mills from Tonon, both under bankruptcy. These mills, strategically located in the State of São Paulo, have annual potential crushing capacity of approximately 5 million tons.

On August 8, we received CADE's approval with no restrictions, but all the figures and projections we are presenting today about Raízen Energia do not

include any Tonon investment or results. The acquisition process will now follow the legal procedures under Tonon's court-supervised reorganization.

Anyhow, I would like to take this opportunity to reinforce the reasoning behind this acquisition.

When we reach 5 million tons, we will be increasing our portfolio' crushing capacity from current 68 million to 73 million of cane.

As you can see on the map, these two mills are strategically located because they are close to other Raízen's mills, enabling logistics synergies and cost-savings, for example by incorporating these mills to the "Pentagon Project – our operations center", relatively quickly.

Now, let's talk about Raízen Combustíveis, on slide 6.

Let's start with the market. Even though few fundamentals of the Brazilian economy have improved slightly, demand for fuels fell 0.5% in 2Q17 year-on-year, and that quarter was a weak basis of comparison (ANP data). Also, according to ANP data, diesel sales are still under pressure and dropped 2% in 2Q17. Otto-cycle sales (gasoline + ethanol) grew 1% in 2Q17 (3% in gasoline-equivalent), as a result of higher production and new licensing of light vehicles. The aviation segment was again affected by a 2% reduction in the number of departures in 2Q17, according to ANAC data.

Specifically referring to Raízen, this was another quarter where the growth strategy ensured outperformance over the industry average. We continue investing in the expansion and renewal of the distribution network, focused on long-term relationship with our service stations network, and in improving the infrastructure and logistics, in order to efficiently supply our network.

Let's talk about volumes sold:

- Otto-cycle sales grew 4% and 5% in gasoline-equivalent in 2Q17 compared to 2Q16;
- Raízen's diesel sales were up 1%, following the trend seen over the last quarters.
- In the Aviation segment, we were again impacted by lower demand for air transportation and reduction in flight supply. In the quarter, Raízen's aviation volume dropped by 6%.

Financially speaking, our adjusted EBITDA came to BRL 557 million, down 7% year-on-year and adjusted EBIT totaled BRL 394 million, down 12% year-on-year. We had two relevant factors which influenced Raízen Combustíveis' performance: basis of comparison and fuel price reductions.

As you can see on the graph, on the upper-right corner, Raízen Combustíveis' higher exposure to ethanol in its sales mix makes second quarters to be seasonally weaker compared to other quarters of the year. Last year, however, ethanol price curve was atypical, as I mentioned on Raízen Energia slide. In 2017, not only the price curve returned to its usual downward trend in the second quarter, but the drop was worsened by gasoline price reductions, which since last October are correlated to international prices. In addition, according to Petrobras' new Price Policy, we also saw a drop in diesel prices. These three products' price reductions led to higher inventory losses this quarter, which explains such variation. This effect was partially offset by the growth of volume sold and continued gains deriving from our supply and trading strategy.

Looking ahead to the next quarter, the expectation so far is of a slight increase in EBITDA (low-single-digit) compared to the same quarter last year. But, it is important to stress that since July we have been seeing adjustments to diesel and gasoline prices almost every day, which means higher volatility. As a reminder, this expectation is within Guidance range provided for the year.

Raízen Combustíveis' Capex totaled BRL 202 million, including investments in infrastructure, expansion of services stations network/conversion of new stations and renewal of current agreements. Raízen ended the quarter with 6,068 Shell branded services stations, a net addition of 236 stations in the last 12 months and 25 in the quarter. The pace of conversion was slower this quarter and in the first half, but there is no change to our full year guidance in terms of CAPEX or the number of services stations to be converted.

Turning now to Comgás on slide 7.

Since Comgás already reported its results last Tuesday, let's go straight to their 2Q highlights.

Comgás recorded sales volume growth across all segments, totaling 5% ex-thermogenesis. In the industrial segment, higher demand in industry's specific segments, such as ceramics, chemicals and automotive, and the gradual economy upturn sustained a 4% growth of volume sold in 2Q17 compared to the same period last year, which is still a weak basis of comparison. The commercial volume grew 9% and reflects the addition of new clients over the last 12 months, in line with the strategy of client network expansion and new uses of gas in the segment. The residential segment was 17% higher, sustained by customer base expansion (106,000 new clients added over the last 12 months) and higher unit consumption due to lower average temperature in the period, compared to 2Q16.

Comgás' normalized EBITDA grew 38% to BRL 460 million in 2Q17, reflecting higher sales volume and correction of margins by inflation, as authorized by the regulator in May 2016 and 2017. It is important to highlight here that these

adjustments include a decrease or an increase in the cost of gas (pass-through) and incorporation of annual inflation to unit margins, as provided for in the concession contract.

Following the trend of reducing the regulatory current account in favor of clients due to the movement of gas cost, which was BRL 86 million in the quarter, IFRS EBITDA dropped 43% to BRL 366 million. At the end of 2Q17, the balance of regulatory current account was BRL 268 million, slightly above the estimate due to the foreign exchange behavior in the period. From now on, the pace of reduction will depend on the foreign exchange rate and actual cost of gas molecule, as well as to other parameters agreed with regulator for amortization.

Comgás' Capex remains focused on initiatives connected with expansion of the distribution network and increase in the customer base, which totaled BRL 107 million in 2Q17, down 2% year-on-year.

Moving on now to slide 8.

Let's now address Moove, our lubricants business.

In 2Q17, Moove recorded sales volume growth across all the performance markets. Such performance is a result of the company's business strategy, focused on increasing both customer base and share in Brazil's automakers market, besides the launch of new products. In terms of volumes, the highlight was sale of finished lubsin Brazil and in other South American countries (Bolivia, Uruguay and Paraguay), boosting a 6% growth in total volume sold.

Higher share in the automakers market in Brazil, higher volume of international operations and better sales mix contributed to a relevant EBITDA growth in the quarter, totaling BRL 53 million.

Let's now turn to Cosan Corporate. General and administrative expenses reached BRL 35 million, down 15% year-on-year, reflecting lower advisory services and personnel expenses, as well as the effects arising from the contingencies. Other operating expenses, composed of legal and consulting expenses totaled BRL 36 million in the quarter due to a higher concentration of expenses.

Moving on to slide 9, we present the consolidated results of Cosan S/A on a pro forma basis, i.e., considering 50% of Raízen's results.

Cosan's adjusted EBITDA grew 11% to BRL 1.1 billion. Improved operating performance of Comgás and Moove was partially offset by lower EBITDAs of Raízen Combustíveis, impacted by the negative inventory effects previously mentioned and by Raízen Energia, affected by lower concentration of own product sales in the quarter. IFRS EBITDA, excluding any adjustments, totaled BRL 804 million.

Cosan reported a net loss of BRL 76 million versus a net income of BRL 280 million in 2Q16, mainly affected by the biological asset variation at Raízen Energia, related to the lower projection of the CONSECANA reference price and to Comgás' IFRS result which includes reduction of regulatory current account. When adjusted by these non-recurring effects, net income would have reached BRL 25 million in 2Q17, compared to BRL 163 million in 2Q16, in comparable bases.

Pro forma CAPEX came to BRL 425 million, up 3% year-on-year, affected by higher expenses at Raízen Energia, partially offset by reduction in Raízen Combustíveis.

Finally, free cash flow to equity (FCFE) totaled BRL 613 million, I'll dig into that number in the next slide.

In 2Q17, Cosan's pro forma consolidated gross debt went up 3% year-on-year, mainly due to the issue of BRL 970 million in CRA by Raízen Energia.

Pro forma net debt recorded similar trend totaling BRL 9.6 billion, also impacted by the payment of Cosan S/A's dividends. The Company's leverage came in line at 2.1x pro forma net debt/EBITDA – considering both the figure reported and normalized by the current account effect of Comgás. It is worth mentioning that there is seasonality in the pro forma leverage, since the working capital cycle of Raízen Energia fluctuates during crop year.

The pro forma indebtedness average cost (including Raízen) rose to 102% of CDI (108% excluding Raízen). It is worth mentioning that CDI dropped from ~12% in 1Q17 to ~10% in 2Q17, making the cost of debt as a percentage of the CDI to increase due to prefixed debts, which now are compared to a lower CDI.

Now talking about free cash flow to equity (FCFE) – the main impacts in the quarter were:

- i. The operating cash flow increased 17% and came to BRL 1 billion, highlighting Raízen, partially offset by the R\$86 million reduction in Comgás' current account.
- ii. In cash flow from investing activities, main variation between periods is due to the impact of BRL 186 million payment for Rumo's shares previously owned by Gávea in 2Q16, due to exercise of a put option owned by the fund since their investment in the logistics business back in 2009.
- iii. In cash flow from financing activities, the 2Q16 was impacted by a negative net effect of BRL 300 million referring to Cosan's debt restructuring process, which included the issue of the 2027 Bond and the 018 and 2023

buybacks, since the process was only concluded in July 2016 with additional funding of USD 150 mln, therefore, after the closing of the 2Q16, then including all hedge effects.

These combined effects resulted in higher FCFE generation, totaling BRL 613 million in 2Q17.

Let's now move to the last slide, and discuss our guidance.

To wrap up this 2Q17 earnings presentation, once again we show our guidance for the full year. There has been no change whatsoever to the numbers presented last quarter.

As usual, it is worth a comment on each business's performance trend.

At Raízen Combustíveis, we remain confident to end the year within the Guidance range, and variation will depend on price volatility in the second quarter.

At Raízen Energia, we should recover the pace of harvest over the coming quarters and the crop year crushing is pointing towards the top range of the guidance. However, with downward scenario for sugar prices in the foreign markets and the ethanol prices still under pressure, adjusted EBITDA points toward the bottom of the guidance range – already considering the effect of sugar currency hedge built up into adjustments.

For Comgás, results up to date point more to the top of the guidance range for normalized EBITDA. The same for Moove, even taking into consideration that the first half was very strong.

Thank you all, and let's move to the Q&A session.
