

Local Conference Call

COSAN

1Q19 Results

May 17, 2019

Good morning, all. Welcome to Cosan S.A.'s First Quarter 2019 Earnings Conference Call.

Before we present the results of each business unit, I would like to discuss the impacts that IFRS 16 accounting standard had on the company, effective January 1, 2019.

IFRS 16 requires that lease agreements previously not recognized in the balance sheet, be reported by the lessees.

Specifically,

- in the **balance sheet**, we now recognize lease agreements as right-of-use—which means they are accounted for under assets, as well as lease liabilities representing the obligation to make contractual payments;
- in the **income statement**, we no longer recognize lease expenses by the installments incurred in the period but. From now it will be recognized in the results as depreciation expenses for the right-of-use, impacting costs and expenses. In Financial Results, we also recognize financial charges related to the interest on lease liabilities.
- With regard to **Cash Flow**, note that the adoption of the new accounting standard will have no impact on cash transactions.

As explained in the earnings release, the impact on the EBITDA and Net Income of Raízen Combustíveis, Comgás, Moove and Cosan Corporate is limited. However, the impact will be more significant on Raízen Energia during the year, due to the volume of land and machinery lease agreements impacting the business.

For comparison purposes, all analysis of EBITDA presented here are adjusted for the IFRS 16 effect, among other adjustments, once the effect will not be retroactively to 2018 figures.

Now let's discuss the results, starting with Raízen Combustíveis Brazil on slide 4.

The first quarter of 2019 was marked by a slower economic recovery, affecting fuel demand in Brazil, in line with the revision of market estimates for economic growth. With the end of the diesel subsidy program, prices also faced volatility again, bringing challenges and opportunities to our business.

Total sales volume grew 3% in the quarter. The highlights, once again, were diesel and aviation fuel, following market trends with greater economic activity as well as recovery in aviation demand.

Otto-cycle, measured in gasoline equivalent, saw stable sales in the quarterly comparison, with strong growth in ethanol consumption versus gasoline.

Raízen Combustíveis' adjusted EBITDA totaled R\$714 million, in line with 1Q18 due to the higher volume sold, offset by lower gains from the supply and commercialization strategy in the period. We remain focused on investing in our long-term relationships with clients, efficiently managing expenses and working capital to deliver an adequate level of return in the business.

In terms of investments, total capex in the quarter amounted to R\$277 million, including maintenance, conversion of new stations, and contract renewals.

Slide 5 shows Raízen's results in Argentina.

Let me point out that we report these results in U.S. dollars, which is the functional currency of the downstream operation in Argentina.

This first quarter of 19 was relatively stable from a macro standpoint, compared to the volatility in prices seen in 2018.

Total volume processed by Raízen's refinery was 88 thousand barrels/ a day, at an 81% utilization rate, reflecting a more regular level after the scheduled shutdown maintenance that impacted 4Q18.

Speaking of volume, diesel and gasoline sales in the quarter were approximately 6% lower than in 1Q18, in line with 4Q18, despite contraction on demand in the country. Aviation fuel volume continues to increase supported by the expansion of the client base and higher market share.

The quarter's EBITDA stood at USD 61 million due to the normalization of refining operations and an adequate commercialization pricing strategy. This result is in line with our expectations for the year.

Investments in the quarter totaled USD 30 million and were mainly allocated to maintenance of the refining operation.

Now let's move to the next slide, where we present Raízen Energia's results.

This quarter ends the 2018/19 crop year and it was marked by the strong sales of own ethanol and sugar. Since crushing was largely concluded in the last quarter and the impacts of dry weather on agricultural yield have already been discussed in the last conference call, we will move straight into the sales highlights for each of the products.

Sugar:

- Starting with sugar: In accordance with our strategy, we accelerated sales in the last quarter of the crop year, seeking higher profitability in the period. We brought sugar inventory levels to virtually zero.
- The average sale price in reais was 4% lower in the quarter, but 20% lower in the crop year on average, in line with the sharp decline in global sugar prices.

Ethanol:

- The volume of own ethanol sold in the quarter was 11% higher than in the same quarter last year. In the year, this volume grew 12% due to the increase in production volume caused by strong demand for the biofuel.
- The average price in the quarter and in the crop year was 9% higher—yet higher than market average due the proxy hedges against gasoline . As with our sugar strategy, this proxy hedges aims to protect the profitability and cash flow of our business, mitigating risks imposed by price volatility.

Electricity:

- Remember that cogeneration results are impacted by the operations of WX, our electricity trading company. For this reason, we are highlighting own volumes since the operation increases revenue, though with a substantially lower margin than the sale of energy generated by Raízen.

- That said, own volume sold was 1% lower in the quarter, reflecting the reduced availability of bagasse, in line with the lower crushing volumes. The average price of own energy sold was 5% lower, affected by spot market prices that impact non-contracted volumes.

As for the **cost** dynamic, important highlight that this crop year was strongly impacted by the lower dilution of fixed costs due to the lower volume of sugarcane crushed as agricultural productivity, in addition to higher diesel costs. The unit cash cost of products sold in sugar equivalent was R\$678 per ton in the crop year, up 7%. In addition to these impacts, the cost inflation and the longer period of crushing in the crop year also pressured costs this year.

Now let's move to adjusted EBITDA, which stood at R\$927 million in the quarter, down 7% year over year. In 18/19 crop, adjusted EBITDA decreased by 29%, amounting to R\$2.9 billion, mainly reflecting the lower price and volume of sugar sold in addition to the higher costs incurred in the year.

As for sugar hedge, in the last few months we accelerated hedges for this crop year. At the end of the quarter, we had approximately 70% to 75% of exports hedged at an average price of R\$56 cents of reais/pound weight, 13% higher than the average price of the last crop year. For the upcoming crop year of 20/21, we also advanced hedging, and reached approximately 25% to 30% of the volume with an average price of R\$62 cents of reais/pound weight. In our view, sugar prices are pressured in light of another strong crop year in India. In Brazil, the mix is pointing to a higher share of ethanol once again. Raízen closely monitors price changes, always seeking to seize opportunities and improve sugar profitability by optimizing its sales strategy throughout the year.

To conclude the results presentation of Raízen Energia, investments in the quarter amounted to R\$1.1 billion, ending the crop year with total expenditure of R\$2.6 billion, in line with the guidance for the crop year. These increases reflect the higher expenses of sugarcane planting and crop renewal as well as investments in new projects, especially those linked to electricity production and asset integrity.

On slide 6 we present the results of Comgás. Since the company announced its results last week, we will go straight to the quarter's highlights.

Natural gas volume sold in 1Q19 grew by 3%, and the highlights were the industrial and commercial segments, which grew, respectively, by 2% and 8%. The increase in sales is a combination of the greater demand of some industrial clients and the commercial efforts to expand the current customer base. In the residential segment, the 4% decrease in volume sold was due to the higher average temperature in the period.

Normalized adjusted EBITDA totaled R\$499 million in the quarter, 14% increase over 1Q18, mainly due to the higher volume sold, efficient management of operating expenses, and the adjustment of margins to inflation.

The regulatory current account of Comgás, ended the quarter with a balance of R\$313 million in favor of Comgás, due to the change in gas prices in the period.

Lastly, Comgás' invested R\$181 million in the quarter, keeping its commitment to the investment plan.

Next slide.

The improved performance of lubricant sales in Brazil and other countries where we operate caused an increase in EBITDA, which stood at R\$81 million in the quarter. Lubricant volume sales grew by 9% since 1Q18 in all countries where we operate.

Before discussing corporate results, as disclosed to the market last February, I would like to reiterate that the capitalization of CVC funds into Moove has been concluded, and CVC now owns 30% stake in the business.

Now we will discuss the corporate segment: The corporate structure's general and administrative expenses totaled R\$37 million due to the higher concentration of expenses in the period. Other operating revenue reached R\$12 million in the quarter, impacted by the gain on the back of the incorporation of Usina Santa Luiza spun off portion, as announced in December 2018. .

On slide 8 we have the consolidated results of Cosan S/A, proforma, considering 50% of Raízen.

Cosan's adjusted proforma EBITDA grew by 11% in the quarter, reaching R\$1.5 billion, while adjusted net income amounted to R\$384 million in the quarter. Those increases are mainly due to the improved operational performance of Comgás and Moove as well as the consolidation of Raízen Combustíveis Argentina results.

On the next slide we highlight the main impacts on cash flow.

Starting with operating cash flow:

- i. Before going to the 1Q19 figures, it is important to bear in mind that the first quarter of last year was strongly affected by the cash inflow of R\$1.3 billion at Cosan, originating from the sale of credit rights. Adjusting this impact, Cosan's operating cash generation on a proforma basis would be higher than in the year-ago period. The highlight was Raízen Combustíveis, mainly due to the supply dynamics in the period, which resulted in longer payment terms and higher OCF in the quarter.
- ii. **In cash flow from financing activities**, the highlight was the R\$1.7 billion raised by Cosan through the issue of debentures to finance the tender offer of Comgás preferred shares as well as its cash disbursements in the period. At Moove, as previously mentioned, there was a R\$434 million injection from the CVC fund for the acquisition of a 30% stake in the business.

This led to a cash generation of R\$595 million in the quarter.

Proforma gross debt, which reflects 50% of Raízen, grew by 7% in the quarter, at an average cost of 104% of CDI (110% CDI excluding Raízen).

Lastly, I would like to point out that the leverage normalized by the Comgás current account effect ended 1Q19 at 2.0x the proforma net debt/EBITDA proforma.

Before concluding the presentation, let me say that we published our guidance in March. The results of this quarter are in line with our projections and once again point to strong, growing results across all business units.

This concludes our presentation. We will now take any questions you may have. Thank you.

Questions And Answers Session

Operator: Thank you. We will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Isabella Simonato, Bank of America:

Isabella Simonato, Analyst: Thank you. Good morning, Phillippe and everyone. Two questions on my side. First of all, in Argentina, we understand that this quarter results were pretty solid. But can you update on what sort of challenges are you seeing in the business considering the tough macro situation? And if you see any risk to the guidance in terms of EBITDA or margins for this year? And the second one, on fuel distribution in Brazil, we have been seeing probably the economy hasn't been as strong as expected, neither has mix started to improve, so any risk on that side as well in terms of what you're looking for 2019 regarding volumes and margins? Thank you.

Phillippe Casale, Investor Relations Executive Manager: Isabella, thank you for the question, and I'll start with the first one. So we saw in Argentina a quarter that was much more aligned to what we were expecting, actually. So if you take a look at our previous quarter, the 4Q'18, we had an impact not only in the inventories due to the sharp drop of oil prices, but also the maintenance stoppage that we had in that period. So obligated us to originate more products and pressuring margins in the fourth quarter of '18. So we're much more normalized now on the operational side. So the refinery utilization reached the higher rate, as you can see on the results, which is close to 80% to 85% of utilization. And it's much more aligned to what we will really expect. So we will still see volatility in the commodity prices and effects throughout the year. This is an election year in Argentina, so volatility will be present. But we have provided a range in the guidance which is between \$210 million to \$260 million that is ready to absorb any impact of volatility. So this is for Argentina. And now for Brazil, we have seen in the beginning of the year, some preliminary signs of recovery. So it was important to see some better performance on Otto cycle at some point in time in the quarter. On the other hand, we also saw pressure on demand over the course of the quarter that had directly impacted by the volumes of the -- affecting the volumes of the industry. It is explained by not only the reduction of the level of consumer confidence, increase of the level of unemployment rate and some revision of the GDP growth for the year, as we have been seeing in the market. So there was volatility this quarter in the prices of diesel,

right, after the end of the subsidy program, and that's on gasoline and ethanol, which obviously challenges an opportunities for our supply and the commercialization strategy. So we are pre-aligned as of now with the guidance we provided. We kept the same -- we're keeping the same kind of growth for the year, which is basically adding 1 billion liters of volumes throughout 2019 and keeping with consistency of our strategy. So this is at least the name of the game for Raizen Combustiveis as we have been speaking to the market more recently.

Operator: Next question comes from Gustavo Allevato, Banco Santander.

Gustavo Allevato, Analyst: Hi, Phillipe. Good morning. So I have two questions. Just a follow-up regarding the Raizen Argentina. So you mentioned in the press release that the results are not updated. So I'd like to know when the Company will release the updated results. And based on the previous question, you said that you are reaching a more normalizing situation with increasing the refinery utilization rate. Like what we're saying here (inaudible) right now, are dropping the fuel consumption, how does the Company expect to have like utilization of the refineries there for the rest of the year? And the second question is regarding the sugar and ethanol business, so if you could provide an update, how are the weather conditions in Company's key locations so far year-to-date? Thank you.

Phillipe Casale, Investor Relations Executive Manager: Gustavo, thanks for the question. So actually, the previous results of the Raizen Combustiveis in Argentina, we actually do not have it because it wasn't -- we didn't have the carve out of the business for the previous year, right? So this is of the Shell results. So what we can provide, and we're providing, is the volume sold because this is a number that is out in the market. So the result itself, we will keep providing and creating a track record from now on. In regards to the utilization rate of the refinery, we think that the regular levels in between 80% to 85%. So probably in the beginning of January, we were still coming back from the stoppage we had in the fourth quarter. And throughout the year, we should reach in average, again, somewhere in between 80% to 85% of utilization rate. And your last question was about the crop so far. So we have been seeing a slightly better weather compared to last year. So we're probably going to see slight increase in crushing when

compared to previous years. We're talking about roughly 5% increase, which is the average point of the crushing guidance that we provided. In regards to the mix, we're probably going to see a mix very similar to what we saw in 2018, so somewhere around 50-50 or with a little bit more or less of one or the other product depending on what we see as opportunities and profitability for each product. And this is a recurring theme indeed throughout the crop, taking all the things we have to mitigate the volatility of the commodity price. So focusing on profitability, focusing on cost reduction and this is what we should expect from RaizenEnergia in 2019-'20 crop.

Gustavo Allevato, Analyst: Thank you.

Operator: Next question comes from Luiz Carvalho, UBS.

Luiz Carvalho, Analyst: Hi, Phillipe. Basically I have two questions here. The first one is, just if you can share what are the next steps regarding the Comgas movements on the (inaudible) announcement after the deal that you just announced? And the second one is related to the fuel distribution business in Brazil, right? I mean, we are seeing a good higher competition from the exit of smaller players. I mean, Raizen just lost one relevant contract with 62 gas stations to BR Distribuidora. I just would like to try to understand what's your take in terms of the recent news in terms of competition and in terms of the strategy of the Company? How to, I'd say, fight against (inaudible) these new players who are coming also, like Vitol, like Glencore, and so on, that will be helpful? Thank you.

Phillipe Casale, Investor Relations Executive Manager: So Luiz, thanks for the question. If I'm not wrong your first question was in regards to the tender offering -- voluntary tender offer for the Comgas common shares. So we actually wanted to give the same opportunity we gave to the preferred shareholders of agreeing to this tender offer. We see a lot of value in Comgas, and this is, of course, one of the reasons that is (inaudible) to increase our stake in that company. So the idea to do the common share tender offer is the same as the preferred one, so just giving the same right for the common shareholders. Your second question in regards to the fuel distribution strategy, well, let me take you through just what we had in sales. So since the formation of Raizen, we put a lot of effort and focus on managing in the most efficient way the business, which is the backbone to the consistency in this performance you've been seeing in

Raizen throughout the years, right? So it's a matter of connecting and seeking the best co-owners with an adequate profitability, and this is quite important for us in terms of measuring the performance of the business. So if you look at market share, for example, we actually have increased our market share. So this consistency of this strategy is actually yielding the results not only in terms of the volumes, right, of the performance, but also in terms of having another great profitability. So consistency here is what we are implementing in the early days of the business in order to capture the results.

Luiz Carvalho, Analyst: Okay. So if I just may make one third question, sorry about this. Regarding Argentina, we recently saw that the government announced some price freeze and gasoline and diesel were not included. But at the end of day, when the companies are basically passing through the price to the final consumer, we've seen a kind of a setback in terms of volumes, right? Volumes are dropping significantly over the past couple of months when you compare year-over-year. Just would like to try to -- I don't know, understand what are the recent trends that you're seeing in the local market in terms of the specific price dynamics versus the volume behavior? Thank you.

Phillipe Casale, Investor Relations Executive Manager: Luiz, so as I mentioned in the previous question, so this is an election year in Argentina. We have seen this early economic volatility that is affecting the business. The fuels were not included on the package of price freeze. So there will be no direct impact on that. But, of course, we should take a very close look and work very hard to deliver the results and -- because this is going to be a year of volatility, but again, the first quarter results are pre-aligning the guidance, which again has a range that can absorb a lot of this volatility.

Luiz Carvalho, Analyst: Okay. Thank you.

Operator: Next question comes from Roberto Browne, Morgan Stanley.

Roberto Browne, Analyst: Hi. Thank you for the question. Another one on Raizen Combustiveis. I was wondering if you could provide more details on your EBITDA per cubic meter, especially because it's hard to compare to the margin of peers because of mix. So I was just wondering, how you -- what you usually do to compare your margins to competition. And also, I was wondering if you could help us understand the impact of the higher oil prices in your inventories and how that could have helped margins in this

quarter? And another one, on the lubricants business, I was just wondering, if you could -- actually, if the guidance looks conservative considering what happened in the first quarter, the results were pretty strong in terms of volumes and now that you have the business more capitalized, if we could see even more upside to that? Thank you.

Phillipe Casale, Investor Relations Executive Manager: Roberto, thanks for the question. So starting with the last one, in terms of the lubricants business, so we have been expanding our business in other geographies, based on the same model, which is using our contract with (inaudible) model to be distributing lubricants in other countries, so not only finished lubes, but other products as well. But this has been growing in the previous -- or in the last 12 months, actually. So not only the new business but also the maturation of the business impacting the volume. As of now, the guidance -- the number that we provided in the first quarter is pre-aligned with the guidance, right? So you should expect the same range. I think that's it for the lubricants question. So in terms of the margins, what I can explain you is lower margins, right? So what is embedded there is all the supply and the commercialization strategy gains, which is basically using imports as part of the supplier -- of our network on the commercialization side being ready, as I said, to get the adequate returns that the business should have. And connected to your second question, inventory gain and losses is part of the game, right? With the price policies of Petrobras, which is the main supplier in the country, following the national parity, we always see an opportunities in terms of imports, in terms of managing inventories in the right way to get again the adequate return. So we do not disclose what is the breakdown between imports and inventories because again pricing is part of the -- is a recurring part of the business.

Roberto Browne, Analyst: Thank you.

Operator: Next question from Petr Grishchenko, Barclays.

Petr Grishchenko, Analyst: Hi. Good morning and thanks for taking my questions. I wanted to ask maybe a strategic question. Considering Petrobras announcement of selling, I think something like eight out of 13 refineries by the 2021, actually this is according to the latest plan. I'm wondering how you guys are thinking of landscape for

distribution business. And whether you intend to participate in acquisition of some refineries such and so forth. How would you intend to finance those transactions?

Phillipe Casale, Investor Relations Executive Manager: Hi, Peter. Thanks for the question. I'll actually not answer your second question in terms of the finance because there is no numbers, no evaluation or anything in that front. But what I can tell you, as an important player in this industry, we have the obligations to look at all the change, right, so all the opportunities that are out there. What I can tell you is that we are not looking at anything as of now, but if there is a divestment plan with certain assets, for sure we must look at it. It's part of our business, but that's it. There is no development as of now.

Operator: Next question from Regis Cardoso, Credit Suisse.

Regis Cardoso, Analyst: Hi. Good morning, philippe, good morning, everyone. Phillipe, first question regarding Raizen Combustiveis, very simple question. Why were margins down quarter-on-quarter despite the increase in prices? I mean, shouldn't we expect inventory gains in the first quarter '19? Is there any specific downward pressure to margins in this quarter in comparison to the past one? So that's the first question. Then moving on to Raizen Energia, also in terms of results, so EBITDA was up 11% quarter-on-quarter, again, so quarter-on-quarter comparison. That is despite sales volume for sugar up 140% and over 20% for ethanol, also with higher prices, 17% above for sugar and 4% above for ethanol. So my question is, shouldn't Raizen Energia EBITDA have increased more on a quarter-on-quarter comparison? Is there any specific cost pressures in the first quarter or any specific gains that were previously in the fourth quarter results that make this comparison, I mean, not work very well? And then finally, if I may, just one final question on imports of gasoline and diesel in Raizen Energia. It called our attention the size of the imports relative to the total revenues and COGS. So if you could just explain why is diesel and gasoline imported through Energia -- for Energia. I believe it's related to some trading company incorporated by Energia. And how do you choose the transfer price between Energia and Combustiveis? So what I wanted to know is, what if most part of the gains and losses on gasoline and diesel imports are part of Combustiveis' results or part of Energia's results? Thanks.

Phillipe Casale, Investor Relations Executive Manager: Hi, Regis. Thanks for your questions. So I'll try to address all of them here. So the first one, in terms of the margins in the fuels, basically what we had explained already, so the supply and the commercialization strategy which involves a lot of things on that is part of the game. We do not disclose what is the import gains or what is the inventory gains or losses, but -- this, of course, has impacted the results as well as the part of the commercialization strategy. So this is one thing that I want to clarify here for the fuels. But again, we keep the consistency of delivering the best results focusing a lot when we're in long-term relationship with our network which will lead us to deliver superior results. So this is an important feature for the fuels. On the sugar and ethanol, in terms of the lower EBITDA, and I'd like to just -- I talked about -- a little bit about that on the call, but I want to take you through a couple of things here that have also impacted the costs in addition to the sugar prices, right, which was one of the main impacts on the sugar and ethanol business. So we had a lower dilution of the fixed costs due to the impacts on yields -- agricultural yields in addition to an extension of the crushing period this year. So this is something that we actually show in our consolidated that impacted roughly BRL1 in the CCP account or the CLT account, which is the cutting, loading and the transportation cost. So this has added almost BRL1 -- BRL1 per ton more than what we used to have. The other thing is the higher diesel costs, which by our calculation, here also had almost BRL1 per ton on the cutting, loading and transportation cost. So those two or actually those three things pressured quite a bit the cost this year. And also, we have to include the inflation cost. And specifically this quarter, we have higher sale of sugar and ethanol of our own products, right, our own sugar and own ethanol, which impacts the selling expenses as well. So with these prices and those costs and expense effects that impacted the Raizen Energia results. And third question, this is something we have been answering in the previous calls, there is one entity within the group that imports oil derivatives, the gasoline -- we're talking about gasoline and diesel. And this company is consolidated by Raizen Energia. And this company imports and sells transfer cost and is total arms length market price cost to Raizen Fuels. So for Raizen Fuels, we should expect this as part of the supply, right, and for Energia, due to this operation with a company that is consolidated by Raizen Energia. So this is basically what impacted.

Regis Cardoso, Analyst: Phillippe, if I may just a follow-up on the last answer. So can we know for sure, I mean, is it by some way in construction that most part of the gains and losses on the derivatives trading, so -- and the imports of gasoline and diesel will be part of Combustiveis or will be part of Energia or depending on when you do the transfer from one entity to the other, we could see the results of that operation on either company?

Phillipe Casale, Investor Relations Executive Manager: Regis, so you should see Raizen Fuels using its supply strategy, buying products not only from Petrobras, but using the trading opportunities within the markets. So this is part of the supply strategy of Raizen Fuels.

Regis Cardoso, Analyst: Okay. All right. Thanks.

Operator: (Operator Instructions) Our next question comes Lucas Ferreira, JP Morgan.

Lucas Ferreira, Analyst: Hey, Philippe. Just a very simple clarification. I just wanted to understand why this quarter there was such a big difference between the moves in the EBITDA per cubic meter in the Raizen Brazil, Combustiveis Brazil compared to the EBIT? So EBIT declined 13%, EBITDA 5%. So just wondering why there was such a big difference, especially quarter-on-quarter the difference was even larger when I compared the changes between EBITDA per cubic meter and EBIT per cubic meter? Thanks.

Phillipe Casale, Investor Relations Executive Manager: Lucas, we have to dig in the differences here. I don't have the breakdown in front of us here. We can follow up on that. We have to dig in the numbers here and discuss what -- assessing the impacts between the lines.

Lucas Ferreira, Analyst: All right. No problem. Thank you.

Operator: (Operator Instructions) Thank you. That concludes the question-and-answer session for investors and analysts. I would like to pass the floor to Mr. Phillippe Casale.

Phillipe Casale, Investor Relations Executive Manager: Well, thank you all for attending the first quarter conference call, and I hope to see you in the next opportunity. Thank you.

Operator: Thank you. This concludes the conference call for today. You may disconnect your lines.