

Local Conference Call

COSAN

3Q17 Earnings Results

November 13, 2017

Results Presentation

Good morning, everyone. And welcome to Cosan S/A third quarter of 2017 results conference call. While starting the presentation, I'll talk about each business line and consolidated results. So I would like to remember shareholder movement that happened at Cosan S/A level.

As already announced through the material fact last month, Shell decided to exercise its put option it had against Cosan Limited, CZZ, dated from 2012, converting into stake in Comgás of approximately 17% into shares of Cosan S/A, CSAN3 shares. This transaction, as you know, is subjected to benefits risk commission here in Brazil, CADE. And when completed, CZZ will receive 21.8 million shares of Comgás and deliver to Shell 20.3 million shares of Cosan S/A, CSAN3 shares, plus two cash installments.

Also worth to remember that on October 10th, CZZ offered to Cosan S/A the possibility to acquire these stakes in Comgás at the same conditions agreed between Shell and CZZ. This operation was analyzed and approved by the independent Board members of Cosan on October 16th. And when proved by CADE, transactions will happen simultaneously.

As a consequence, the stake of 63% that Cosan S/A holds in Comgás today will increase to almost 80%. And finally on this topic, last Tuesday, November 7th, Comgás declared dividends in total amount of R\$700 million. And if the transaction and when a transaction is approved, the mentioning amount will be adjusted for the payment for Shell of this dividend.

So now let's move forward to chart number four, talking about Raízen Combustíveis' results. In this quarter, the fuel market was impacted by

important events such as the tax adjustments on the main products, and we saw more often price adjustments practiced by Petrobras. Additionally, we see some signs of recovery in some segment of the economy with improved industrial production, increasing in sales in light and heavy vehicles, and also the reduction of interest rates.

According to ANP, diesel sales in the country increased 2% in the quarter. In Otto-cycle, there was a drop of 1% in sales. However, when managing equivalent gasoline sales were stable compared to the same period in 2016. Looking specifically to our results, Raízen Combustíveis' once again performed above the market average, and grew 4% in the total volume sold compared to the same period last year, while the Brazilian market only grew 1% in total volumes sold, looking for the sales in the ANP base.

In the Otto-cycle, our total volume sold grew 2% compared to the third quarter '16. The same comparison in gasoline equivalent showed an increase of 3% as a result of higher gasoline sales, which grew 5%. Again, 8% drop in the ethanol sales. The diesel sales grew by 8%, driven by the increase in the demand for B2B customers, mainly related to agroindustry. Aviation dropped at 3% in the volume compared to the same period of last year, reflecting the reduction in number of departures of main customers. However, compared to the second Q of '17, there was an increase of 7%.

Moving to results, adjusted EBITDA reached R\$894 million in the quarter, an important 21% increase compared to the same period last year. This growth continues reflecting the effectiveness for supply strategy and products in marketing, as well as an increase in sales volumes. In this quarter specifically, we also saw an important gain in inventories obtained by price dynamics in the period. It's worth to mention that we treat these inventory gains and losses when happen as a recurring part of the business since they're part of the supply and marketing strategy. The adjusted EBIT increased 22% in the quarter, R\$724 million.

Looking now to the last part of this year, the expectation is that we are going to have an adjusted EBITDA similar to the fourth quarter of 2016, and in line with

what we have for the guidance of the year, close to the top of the range. And yes, remember that since July, we have seen almost daily adjustments in diesel and gasoline prices corrected by Petrobras as I have already mentioned. And at the end of the year, the ethanol dynamics of price volatility can impact the results and are going to monitor these effects throughout the final quarter of the year.

Moving to the CAPEX. Investments totaled R\$185 million, a decrease of 2% compared to the third Q of '16. We closed the third quarter of '17 with 6,138 Shell services stations and net additions of 70 stations in the quarter in line with the strategy of expansion focusing on finding best location and assets we've -- the average throughput in line with the current profile of our network.

Now, moving to the chart number five, let's talk about Raízen Energia. The weather that was dryer in the third quarter of '17, which is a second in the crop year, made it possible to improve the harvesting and the crushing, which reached at 28.3 million tons of sugarcane in the third Q '17, a 10% growth compared to the third Q '16. The sugarcane productivity reached at 10.3 tons of TSR per hectare, reflecting the lower concentration of rainfalls in the period, which negatively affected the tons of cane per hectare, which was partially offset by the improvement in the TSR.

Raízen production mix in the period was 57% dedicated to sugar compared to 59% in the third Q '16. It's important to remember that this mix is a reflection of the frequently analysis of the profitability by product that is in the current price levels the anhydrous and hydrous ethanol are already generating more profitable results compared to sugar, which creates opportunities for the optimization of this mix. The increase in production, coupled with the Company's commercialization strategy, enable a higher sales volume in the third Q.

Looking for each product specifically, sugar sales in the third Q '17 grew 17%, refinances in 40 markets and higher commercialization of own products. The average sales prices in Reais already adjusted by the hedge account effect and currency hedge on sugar prices were 5% higher than in the third Q '16.

Looking for ethanol, sales volumes were 27% higher than the third Q '17 with more relevance in the domestic market where the volume was 7% higher than the same period of last year. As in sugar, there was an increase in sales of owned products. The average ethanol price was slightly lower than price expecting the same period of last year, but in line with the market looking for days out daily.

And talking about the energy, the higher availability of the gas provided, as a function of higher crushing in the period, had a greater production of electricity, which together with an increasing product trading activity generated 28% increase in the 3Q '16. Average electricity prices grew 28% and reached to 161 megawatt hour in the period, Reais per megawatt hour in the period. Before talking about the EBITDA, I would like to highlight once again the results from Raízen upwards in terms of cost and operation efficiencies.

The evolution of the unit carried cost of own products is in equivalent sugar what 8% lower, reaching R\$182 per ton in the third Q '16 due to the continuous efforts on efficiency, both agriculture and industrial operations. In addition to these reductions, is also explained by the lower cost of CONSECANA index, on average 8% lower, an indicator that as you know, affected the cost of land leasing and sugarcane from suppliers and also the greater dilution of fixed cost given the higher volumes sold. Even excluding the effect of CONSECANA, the unitary cost was 3% lower compared to the first Q of '16.

Moving to the adjusted EBITDA graph in order to facilitate the understanding of and comparability of Raízen Energia results, since last quarter, we have incorporated the effects of the foreign currency hedge designated for sugar exports into the EBITDA. In addition to the usual adjustments that you have been following, i. e. the adjusted EBITDA came to reflect the more accurate operation of cash generation proxy. Another important point in this is that since the previous quarter, the second quarter of '17 all new derivative instruments designated for the protection of sugar exports has been accounted into hedging accounting. So that in the future, all instruments products and sugar exports will be normalized in EBITDA.

Talking about the numbers, adjusted EBITDA reached R\$1.4 billion in the 3Q '17. 50% higher than the same quarter of the previous crop due to higher sales of home products and better sugar and electricity prices in BRL, as well as the lower unitary cost of sale. In this quarter, the average foreign exchange rates for sugar exports was R\$3.86 per dollar versus 3.14 of average foreign exchange in shipment. As a result, we have the positive effect of R\$296 million, which was recognized in the financial results until the closing of this quarter related to the foreign exchange hedging instruments used to establish the revenues in Reais.

It's worth to mention that the basic assumption of Raízen hedging policies to protect the commodity and currency exchange rate always looking at the prices in Reais. The adjusted EBIT per TSR increased by 52% in the quarter for the same reasons that I have already mentioned. Now, let's move to the sugar hedge graph. We reached almost 90% of the total volume to be exported in the '17 and '18 crop product at an average price of R\$0.66 per pound, higher than we have seen in the spot market.

In compliance for hedging policies, we have a lower volume when compared with the previous quarter for the upcoming '18 and '19 crop. As you know, our strategy is to protect cash flow. We're talking about hedging and seeking to attenuate price volatility to the business. We're focused on increasing efficiency in our operations and manage invested and working capital continuously seeking better returns.

Moving on to the last graph, CAPEX. Investments for the period totaled R\$423 million here this regarding the disbursements for the acquisition of the two Tonon mills of the acquisitions that Raízen made of the two Tonon mills, totaling R\$823 million. So this increase of 12% is mainly due to higher investment in biological assets, giving the increasing harvest and as a consequence, a higher expenses in land treatment and the renew of sugarcane fields and an acceleration of monetary investments in projects related to health, safety and the environment, as well as sustaining.

Completing the Raízen sections, I'd like to move to chart number six, talking about Comgás. As you know, since Comgás already present its third quarter '17

results last Wednesday, let's go straight to the highlights. This was another part of expansion in sales volumes. And I highlight here, sales volume growth in all segments. We've gradually recovered our activity in the main sectors. In addition to the new customers, there was growth of 5% in the industrial volume.

Also, residential and commercial segments presented 5% volume growth, reflecting the connection of more than 101,000 new homes and maybe 110 new business in the last 12 months. As a consequence, the normalized EBITDA increased by 6% compared to the same period last year due to higher natural gas sales and the correction of the adjustments of margins for inflation in May this year. The IRFS EBITDA dropped at 6%, reflects the return of the regulatory current accounting approximately R\$9 million in the third Q '17, which closed the quarter with the total balance of R\$259 million in favor of the clients. Comgás's invested R\$126 million in this quarter, 20% higher than the same period last year, and in line with the guidance for the year.

Moving to chart number seven, let's talk now about Moove, our lubricants business. As we saw in both Raízen Combustíveis and Comgás's results, the best indicators of the country's economic activity also boosted Moove's figures in the third Q '17. We grew 11% in volumes sold in Brazil. Once again, above the market average, reflecting the Company's commercialization strategy, focus on increasing the customer base and participation in automakers marketing in the country.

We also have good sales performance in other countries that we operate, also driving 11% growth in total volumes. EBITDA in the third Q reached R\$44 million, 22% higher than the same period last year due to the higher volumes and a better sales mix.

Looking to the right side of the chart, let's talk about the Cosan corporate expenses. General and administrative expenses totaled R\$40 million, is likely above the third Q of '16 and in line with the expectations for the year. Other operating expenses composed of legal expenses and consulting services, totaling R\$13 million in the third Q '17 as there was low concentration of expenses in the period.

Moving now to chart number eight, let's talk about the consolidated results of Cosan S/A on a pro forma basis. The improvement of operating performance in all business as we have discussed, boosted the pro forma adjusted EBITDA growth to 30% in the third Q '17, which reached R\$1.6 billion. Cosan presented a net income of R\$500 million in the quarter, 53% above the third Q '16. When applied the same adjustments to the EBITDA, the adjusted net income more than doubled in the current period compared to the same period of previous year, reaching R\$540 million compared to R\$188 million in third Q '16. The lower financial expenses in the quarter contributed to the strong growth of the net income in the period.

Pro forma CapEx reached R\$450 million, 2% higher than the same period of previous year, in line with the investments expected for the year. And lastly, the pro forma free cash flow to equity showed cash consumption of approximately R\$520 million in the period, which we will explain moving forward.

Moving to chart number nine, let's talk about the consolidated net debt and leverage of Cosan. The pro forma growth debt that is including 50% of Raízen debt dropped 3% in the third Q '17 compared to the previous quarter. This is slightly reduction is mainly explained by the principal amortization of debt in both Raízen Energia and Comgás. Pro forma net debt, which includes bonds with preferred shareholders, ended the quarter at R\$9.8 billion, up 2% compared to second Q '17.

This effect reflects the reduction of 9% in the Company's cash and cash equivalent balance, which were basically impacted by the cash disbursement in the acquisition of the two Tonon mills by Raízen Energia. But even after the conclusion of these acquisitions, the Company pro forma leverage remained stable at 2.1 times pro forma net debt to adjusted EBITDA, both taking to account the numbers on reported basis when normalized by the current account affecting Comgás.

It's important to remember that there is seasonality in pro forma leverage since the working capital cycle in Raízen Energia tends to isolate throughout the crop year. The pro forma average cost of debt increased in the quarter to 105% of

CDI. If we consider the accounting number that is excluding Raízen, the average cost goes to 110% of CDI. It's worth to mention that we have fixed cost debt, which is now compared to a lower CDI.

Looking for the free cash flow to equity, let's highlight the main effects. First, a 35% drop in operational cash flow, finishing the 3Q '16 comparison basis considers a positive one-time impact related to the working capital dynamics in the few distribution business. Second, a high consumption in the cash flow for investments, mainly affected by disbursement of R\$378 million in the 3Q due to the acquisition of Tonon by Raizen Energia and a strong comparison basis since the 3Q '16 included, as you remember, the gains from the sale of STP business in Raízen Combustíveis.

And lastly, in finance in terms of quarterly comparison, there was higher cash consumption explained by the positive net effect in the 3Q '16 regarding Cosan debt restructuring process, which includes the issuance of the 2027 bond with an additional fund to offer \$150 million in the period. This combined effect result in the free cash flow to actually cash consumption of R\$520 million in the period.

Now, let's move to the last chart of the presentation and talk about the guidance. As we showed in our earnings release report, we are updating the guidance for 2017 year with specific adjustments that we are going to highlight here. First, talking about the business lines and then talking about the consolidated figure. At Raízen Combustíveis, we had not changed anything. After the first nine months of the year, we expect to deliver the EBITDA within the guidance range, targeting the top of the range. But once again, price volatility in the quarter is something that we're going to monitor and this is the best estimate that we have now, targeting to reach top of the guidance.

Speaking in the Raízen Energia and always remember that the guidance here follows the crop year. We remain confident in delivering the EBITDA we've seen in the guidance range for the crop year, despite the challenges related to this scenario of sugar prices in the international market. With the acceleration of production in the 3Q '17, the production for the crop year is pointing to the high

range of the production. And also, the expectation of electricity commercialization will also be higher during the optimization of production in the greater trading opportunities in this crop year.

Lastly, we revised the CapEx projection for Raízen Energia, specifically due to the inclusion of the maintenance investments in two mills of Tonon Group. It's worth to mention that this guidance do not include the amounts disbursed for the acquisition of these two mills.

For Comgás, as this was already presented by the company in last week, the volume projection, excluding thermal and normalized EBITDA, were updated. The increasing economic activity has enabled Comgás to distribute a large volume of natural gas, which combined with the efficiencies in the business, have made the expectations of normalized EBITDA also increase to the range of R\$1.67 billion to R\$1.73 billion. The same applies to movie. After three quarters of solid results, we revised the EBITDA guidance upwards to the range of R\$160 million to R\$180 million.

Finally, we are adjusting the range for the consolidated pro forma of Cosan as a consequence of the adjustments in the business, which now range in the EBITDA figures from R\$4.9 billion to R\$5.3 billion for 2017, reflecting the better performance for the business as I have already mentioned, which really conclude the presentation. Once again, thank you for joining us for the conference call.

And I turn over to you guys for the Q&A session. Thank you.

Question-And-Answer Session

Operator: Thank you. We will now begin the question-and-answer session [Operator Instructions]. Our first question comes from Luiz Carvalho, UBS.

Mr. Luiz Carvalho: Just a quick one following up the Portuguese call, there we have been seeing Comgás delivering quite good results over the past, let's say,

couple of quarters and even more than that. And I am wondering in lieu of the tariff acquisition, I mean on other regulated companies in the electricity sector and more recently with the same regulator than Comgás assessed hearing in São Paulo, suggests you had a quite flat, I would say, acquisition during the last -- their review. Is there any update that you can provide to us in terms of what you expect in terms of the acquisition and for the -- now that we have a new director appointed to be in charge of the tariff revision? And second question, give me some quick calculation here on Raízen Combustíveis. When we analyze for the potential gain -- stock gain, gain that you had in the quarter we've come something close to R\$120 million, which will lead your EBITDA margin per cubic liter to close to R\$117 per cubic liter. Is that something that we can look forward in terms of sustainable margins or is there any other thing that you can flag to us? Thank you.

Mr. Guilherme Machado: So first talking about Comgás, and I am not trying to be creative in this answer here. What happened is that as Comgás has already stated in their earnings call, they're waiting for the process with the agency and their official statements regarding the process of the cycle revision and which is something that we do not have any visibility when is going to happen. So the Company is prepared for additional discussions whenever the agency is prepared for that. So it's important to highlight in the sense that although we have the process being conducted by the same regulator, we understand that the totally separate discussion and business and industries are different. And I think that when we're solicited to join the process, we're prepared and nothing more creative in this sense.

Talking about the Raízen Combustíveis. As we have been discussing with the market, supply -- the import process by Raízen Combustíveis is part of the supply strategy now. So inventory gains and losses when it happens we consider to be normal course of the business, which is something to be honest that we cannot create a rule of thumb or create something as an average that we can guide the market. It's going to happen when we have opportunities. And again this is going to be part of our supply strategy. So it's something that is happening in order to supply the short that we have in our network as part of the business.

Just one related to the tax increase during the quarter, and that in our calculation led to R\$1 million gain, but that's okay.

Operator: [Operator Instructions] That concludes the question-and-answer session for investors and analysts. I'll turn the conference over to Mr. Machado to proceed with his closing statements.

Mr. Guilherme Machado: Okay. I would like to thank you now for joining the call. And we talk to you guys in the next earnings conference call. Thank you.

Operator: That does conclude Cosan's third quarter of 2017 results conference call. Thank you. Have a nice day.