

Local Conference Call

COSAN

3Q18 Earnings

November 8, 2018

Good afternoon everyone, and welcome to Cosan S.A.'s third quarter 2018 earnings conference call.

I would like to open this call by discussing our recent announcements.

As you know, we are constantly analyzing ways to simplify our corporate structure, aiming to create value for shareholders. With this in mind, on October 24, we released a Material Fact informing the market that we had initiated studies to assess the feasibility of incorporating Cosan Logística into Cosan S.A.

Immediately after this announcement, we were asked to address the lack of details regarding the extension and potential efficacy of this proposal. We acknowledge that the lack of additional information hindered the market's understanding as to how this transaction would assist in the simplification process. Out of respect for the interests and concerns of shareholders and investors, we ended up canceling the transaction. I would like to emphasize here our commitment to the best governance and transparency practices to any corporate action we take going forward.

Let's now move to Slide 4 to discuss the businesses results, starting with Raízen Combustíveis.

Before discussing Raízen's figures, I would like to remind you that we concluded the acquisition of Shell's downstream assets in Argentina on October 1, 2018. Therefore, this operation had no impact of on our 3Q18 result.

This quarter also saw our fuel distribution segment face some challenges. Remaining effects from the truckers' strike forced a temporary reconfiguration of our supply dynamics given the lower diesel imports attractiveness. Besides, we also had the World Cup affecting consumption in July.

These challenges demanded additional efforts from our team to again deliver above-industry average results.

Let's look at the numbers: Total sales volume was up 1.5% compared to the same period last year. The highlighting of the period was the diesel, which continues to enjoy above GDP and above-industry-average growth due to higher demand from agribusiness clients, coupled with new contracts signed over last year.

Demand in Otto cycle remains below expectations, driven by factors such as (i) a high level of unemployment affecting families' income and (ii) high prices at the pump, especially for gasoline, in line with international oil prices and currency increases. In this environment, we saw again strong growth in ethanol consumption.

Sales volume in the aviation segment grew 9%, in line with the sector's resumption.

Adjusted EBITDA came to BRL 683 million in 3Q18, 26% higher than 2Q18, but lower than the same period last year. We remind you that the 3Q17 comparison basis is strong, since it was positively impacted by inventory gains and also by prices being adjusted more frequently by Petrobras. Similar to what we did last quarter, we highlight that in 3Q18 we had a negative impact of BRL 20 million specifically related to the truckers' strike, which includes the impact of average diesel inventory and one-off logistics costs. As I mentioned before, despite several challenges faced in the quarter, we once again delivered consistent results, sustained by our strong relationship with our customer base.

Investments in the quarter came to BRL 188 million including maintenance, conversion of new stations and renewal of existing contracts. We ended the quarter with 6,444 Shell-branded service stations, a net addition of 306 stations in the last 12 months and 84 in the quarter. Our expansion plan keeps in line with the expectations for the year.

Now, let's move to Raízen Energia on Slide 5.

The second quarter of 2018/19 crop year was marked by rainfall volume higher than expected, reducing crushing by 14% year-over-year. This drier weather

during the off-season impacted the sugarcane productivity index, which reached 9.6 kg TRS/hectare. We continue to prioritize ethanol production over sugar, due to higher biofuel profitability and demand this year. Therefore, the ethanol mix reached 51% in 3Q18, versus 43% in the same period last crop year.

Let's review sales for each product:

Sugar:

- Let's start with sugar. As you can see in the chart on the right, sales volume came in 28% lower than 3Q17. We concluded a few storage projects in our mills, which provides us with higher flexibility and enables us to maximize the carry strategy of sugar.
- Average sales prices in Brazilian Reais came in 30% lower compared to the same period last year, following a sharp drop in commodity prices.

Ethanol:

- Ethanol sales came in 8% higher compared to 3Q17, driven by higher demand and increased production in the period.
- Average price improved 10% versus the same previous-crop period, but was in line with the previous quarter.

Cogeneration:

- I would like to point out that starting this quarter, Raízen is consolidating the results of WX, our energy trading company. This operation adds even more value to our portfolio by increasing our offering of integrated energy solutions.
- For this reason, we are now breaking down volumes between own volumes and resale/trading, likewise in sugar and ethanol, as this operation results in revenue increase, but with margins substantially lower than the sale of energy generated by Raízen.
- That being said, own volume sold was 8% lower, reflecting lower biomass availability due to reduced crushing in the period.

Before discussing EBITDA, I'd like to comment on the quarter's cost dynamics. Sugar equivalent unit cash cost, excluding Consecana effect, was up 9%, affected by higher diesel costs, lower agricultural performance and inflation in the period.

Raízen's adjusted EBITDA reached BRL 641 million, a drop compared to the same previous-crop period, mainly due to lower volumes and prices of sugar sold. As we mentioned in our last conference call, our sugar and ethanol sales strategy this year is focused on a higher concentration of sales volume in the last two quarters of the crop-year.

Concerning sugar hedging, we advanced our protections, leveraged by improved prices in Brazilian Reais throughout the quarter. For the current crop (18/19) we have nearly 100% hedged at an average price of BRL 50 centavos per pound. For the next crop, 19/20, we hedged approximately 30% to 35% with an average price of 53 centavos of Reais per pound.

Finally, CAPEX totaled BRL 465 million in the quarter, reflecting higher investments in planting and renovation of sugarcane fields, in line with our schedule for the year.

Let's move to Slide 6. Comgás released its results on Tuesday; so let's go straight to highlights.

Total sales volume, excluding thermal power, grew 9%, with expansion seen in all segments. In residential and commercial, we maintained our focus on customer-base growth. In the industrial segment, good sales performance was a result of negotiations to increase volumes in the current customer base.

EBITDA, normalized by the regulatory current account, grew 14% this quarter to BRL 546 million, mainly driven by higher volume sold.

We ended the quarter with a BRL 161 million balance in the regulatory current account recoverable from clients. Thus, EBITDA IFRS came in 16% lower due to gas cost fluctuations.

Comgás investments totaled BRL 139 million in 3Q18, in line with the year's guidance.

Let's move to Slide 7.

Now let's talk about Moove.

Recent initiatives of our international expansion plan and improved sales performance in Brazil reflected a 4% growth of finished lubricants sales volume. Base oil sales volume, the raw material for lubricant manufacturing, dropped in the quarter. An improved sales mix and international operations' results in BRL drove 34% EBITDA growth, which came to BRL 60 million in 3Q18.

Now, let's turn to the right side of the slide. General and administrative expenses came in 19% and 16% lower than the same period last year, both in the quarter and in the year. Other expenses increased, but in line with expectations for the year. This item is composed of legal expenses and various legal claims.

Moving on to Slide 8, to present the consolidated results of Cosan S/A on a proforma basis, considering 50% of Raízen's results.

Cosan's pro forma EBITDA came in 25% lower versus 3Q17 reflecting Raízen's results in the period. Year-to-date, pro forma adjusted EBITDA totaled BRL 3.6 billion.

Net income in 3Q18 reached BRL 44 million. Besides the effects that impacted the operating result, Cosan's financial expenses were negatively impacted by the Brazilian real depreciation against the US dollar, specifically the unhedged portion of the perpetual bond. It is worth mentioning that this effect does not impact the cash generation in the period. Year-to-date, net income totaled BRL 325 million.

Now, let's move to Slide 9, where I will highlight the cash flow in the quarter.

- i. Lower **operating cash flow** reflects the impacts we already mentioned at Raízen Energia, in line with our strategy of building sugar and ethanol inventories. In addition, it should be noted that at Raízen Combustíveis we had an impact of approximately R\$ 100 million referring to the diesel subsidy program, which was approved by the Federal Government after the truck drivers' strike. Out of the total to be received, only 10% was paid and the remainder is to be disbursed by ANP in the coming weeks, since all the necessary information has already been sent and processed. The

effects on the operating cash flow in Raízen were partially offset by the improvement in Comgás.

- ii. **In Cash flow from investments**, there was a higher expenditure at Comgás. Please note here that the basis of comparison is impacted by the acquisition of the mills from Grupo Tonon by Raízen Energia.
- iii. **In Cash flow from financing**, the highlight was the funding operations at Raízen to pay the USD 370 million related to the acquisition of Shell's assets in Argentina. The settlement of this acquisition was held on October 1, not impacting cash this quarter.

Pro forma gross indebtedness was up 8% in 3Q18 to BRL 16.9 billion, as a result of the funding operation at Raízen. The average cost of indebtedness on a proforma basis (including Raízen) stood at 121% of CDI.

Cash balance remained strong, but the increase in gross debt led the leverage from 1.8x to 2.0x proforma net debt/EBITDA, normalized by Comgás' current account effect.

Now, let's move to the last slide of our presentation.

To conclude today's presentation, we are following up again on our guidance for the year, without changing the consolidated figures.

Comgás adjusted the Normalized EBITDA range to between BRL 1 billion 900 hundred million and BRL 1 billion 950 million, due to higher volumes sold so far in the year and efforts to control expenses.

In Raízen Energia we are maintaining the initial EBITDA projections, but we have adjusted the sugar volume produced, in line with the reduction in sugarcane crushing and higher ethanol mix. In cogeneration, we are now showing the volume produced and no longer the volume sold, once the volumes of WX, our energy trading company, is now consolidated in our results.

Due to shifting macro factors and in the spirit of sharing our best performance estimate, we are updating our EBITDA guidance for Raízen Combustíveis. This has been an unusual and challenging year, in which we saw a nation-wide strike

that virtually paralyzed Brazil's economy and pre-election uncertainty that also weakened it.

In the second half of the year we have seen a gradual improvement in numbers, as the economy has adjusted following the strike. However, there are still challenges for the remainder of the year: First, the behavior of demand in the otto cycle, and second, swings in diesel and gasoline prices coupled with problems related to the diesel subsidy program.

With these factors in mind, we are narrowing the range of our EBITDA guidance, moving the low end of our original projection - R\$ 2,850 billion - to the midpoint of our new estimate, which continues to be our goal. It is important to note that we did not take into account the negative effects of the truckers' strike. If we had done this, we would be in line with the previous guidance range. As a reminder, the projections of Raízen Combustíveis do not include Shell's operations in Argentina.

This concludes my remarks, thank you all, and let's move to the Q&A.