

Q1 2011 Earnings Call

Company Participants

- Colin Butterfield, COO
- Felipe Jansen, Head
- Marcos Lutz, CEO

Other Participants

- Dave Hemp, Analyst
- Debbie Bobovnikova, Analyst
- Eric Ollom, Analyst
- Giovana Araujo, Analyst
- Isabella Simonato, Merrill Lynch
- Luiz Campos, Analyst
- Matt Farwell, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to the Cosan Limited and Cosan SA First Quarter of 2011 Results Conference Call. Today with us we have Mr. Marcos Lutz, CEO, Felipe Jansen, Head of IR. And Colin Butterfield, COO of Cosan Food.

We would like to inform you that this event is being recorded and all participants will be in a listen-only mode during the Company's presentation. After Cosan Ltd and Cosan SA's remarks, there will be a question and answer session for industry analysts. At that time, further instructions will be given. (Operator Instructions) The audio and slide show of this presentation are available through live webcast at www.cosan.com.br/ri. 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 Ltd and Cosan SA 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 Ltd and Cosan SA and

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could cause results to differ materially from those expressed in such forward-looking statements. Now I'll turn the conference over to the CEO, Marcos Lutz. Mr. Lutz, you may begin your conference.

Marcos Lutz {BIO 6779636 <GO>}

Thank you very much, everybody, to participate in our conference call for announcing the results of First Quarter 2011 crop. I'd like to just start explaining why Mr. Marcelo Martins, our CFO, who normally actually conduct this call is not present. He is abroad in the negotiations with Shell. I am the person that came here to do this event.

But we have a large group there and -- but here with me I have Mr. Felipe Jansen, our Investor Relations Manager, who will actually do the presentation. And for the questions and answers, I'm here with also Colin Butterfield, who is the Chief Operating Officer of the food division. Therefore all the sugar sales and commercial aspects can be also answered by him. Thank you very much. I will turn now to Felipe.

Felipe Jansen {BIO 16471255 <GO>}

Thank you, Marcos. Good morning, everybody. And thank you all, thank you everyone for joining us and following our call. I would like to start this presentation that you also have on -- available as -- on our webcast so you can follow it. And with some initial remarks, especially those who impact our results when you compare to the same quarter of last year and some events that happened, especially last year, which was the sale of the aviation business, which last year impacted two months in our results and we sold this business to Shell on the last month of that quarter, which didn't impact this quarter.

Also we acquired -- we did the incorporation with NovAmerica last year that we had just one month of NovAmerica in our results when you compare to the full quarter of all the mills crushed capacity to the sugar and ethanol production of the -- in the three months of this quarter.

Also in this quarter, we started to adopt the hedge accounting policy in order to bring more transparency into our results and to make sure that the price that we hedge our sugar exports could be -- now follow from all investors and analysts because those are the ones that you're going to see in our P&L as we sell and invoice this sugar.

Going now to the production figures, we ended up this First Quarter increasing in 13% of our total sugarcane crushed, mainly because of the incorporation of Cosan Alimentos, which also brought greenfield that started operating last year and is ramping up this year. Also the start up of our greenfield, Jatai in the state of Goias, is ramping up this year and is already contributing with the product of ethanol there. And we have also some better climate conditions throughout this First Quarter, which ended up delivering a better TSR in terms of total sugar recovery per ton of cane.

We manage to produce approximately 1.3 million tons of sugar. We continue to focus and to stress more the sugar production. The mix in this quarter was 51% sugars, while 49%

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towards ethanol. And ethanol, we produced approximately 755,000 cubic meters. Going to net revenue, in our top line we managed to increase by 12% our net revenues to BRL4 billion. And this is -- here is -- I would like now to stress that all the business units that we have today grew its net revenue. So contributed positively to these impressive results that we have.

CAA, which is Cosan sugar and ethanol, invoiced at BRL1.3 billion with an increase of approximately 6% with the increase of crushing capacity and also with the increase of production capacity with a start of those new greenfields that I previously mentioned as well as higher sugar prices that we benefit throughout this quarter.

Cogeneration is following its plan, investment plan. And we have this year and already reflected in this First Quarter ten mills out of the 12 mills that already celebrated or had won contracts, either participating in energy auctions or bilateral contracts. So ten out of the 12 already performing and selling energy.

Also Rumo, which is our logistics company totaled BRL105 million with the beginning of transportation operations through the partnership agreement that we signed with ALL last year. And finally, CCL, which is lubes and downstream business that we have invoiced at BRL2.8 billion, 14% higher than the 1Q of '10.

In terms of EBITDA, we had an increase of 15%. Again, all of the business units contributing positively in terms of growth in order to reach this result. Sugar and ethanol contributed with BRL237 million, 15% higher. With just the sugar and ethanol products, BRL187 million and Cogeneration, approximately BRL50 million in EBITDA. Rumo with an EBITDA of BRL36 million and CCL with BRL84 million.

If we also look in terms of how these new business units are contributing in terms of the total EBITDA of the Group, you will figure out that 47% is already coming from these orders units that we have been invested for the past years in order to make sure that we have a stability in terms of cash flow for the Company. So sugar and ethanol, which is a volatile business, contributed just with 53% of these total EBITDA.

Entering just in the sugar and ethanol business and focus first trying to the sales a little bit more in the sugar business, we had an increase of approximately 6% in net revenue, reaching almost BRL1.3 billion in terms of net revenue, benefited from higher prices of sugar. But with a lower volume that we had, especially in the external market, due to lower inventories that we had in the beginning of the year. There was -- of the commercial strategy to take advantage of better sugar prices by the end of last crop which we sold a lot of sugar and we passed with inventories at lower level.

And also, if we look at the commercial plan that we had, we ended up having 150,000 tons of sugars more in our inventories than we were expecting in the beginning of this quarter. This sugar is already with prices hedged and waiting for the ships to be loaded in the Santos Port Terminal. So if we take in consideration this contribution of this total amount of sugar that we were expecting to export and it's still in our inventory, that will

contribute with an additional BRL40 million in terms of EBITDA just for the sugar and ethanol business.

In the local market, we had, as we expect, a higher growth in terms of volume and also in terms of prices, mainly because of the activity of Cosan Alimentos which is focused more in selling sugar in the domestic market. In terms of COGS, we are introducing here the cash COGS, which is the COGS without depreciation and amortization. So we are deducting from the total COGS, amortization of planting, depreciation of agriculture, mainly the machines and equipment and those with depreciation as well as inter-harvest maintenance from our COGS to make sure that this is reflecting correct the cash COGS of the Company.

We had an increase in our cash COGS mainly because of higher ATR when you compare to the previous quarter -- at the same quarter of the previous year. We also did, due to this new activity of once we incorporated North America, we increased a lot our sale in the local market with -- now with a higher market share. And we are originating sugar. So we are buying sugar in the market and distributing.

This activity has a lower margin. But it's contributing positively for our nominal results. And it's impacted our COGS with BRL90 million as we already released that to the market in our preview. And also this activity is important for all of you guys need to know that we are -- we have now a higher value-added product.

And in order to take advantage of those higher prices, we have higher costs of refining and packaging that is increasing our cost and this is costing BRL120 per ton of sugar approximately. At the end of the day, we had an increase of our gross cash -- our unit cash gross margin from 42% to an impressive 44.2%. So sugar continues to be a very profitable product for us and is -- we are taking advantage of that. Also we increased last year our sugar capacity, investing in some of the mills and expanding the flexibility towards sugars in order to take advantage to those margins and better price.

Moving to the ethanol and trying to detail this -- the contribution of this product, net revenue decreased by 25%, mainly because of lower volumes that we decided to sell less ethanol throughout this quarter. This was mainly because of the decision of taking advantage of very high ethanol prices in the previous quarter by the end of last year where we have an opportunity to sell, especially in the domestic market, all the products that we have as inventories.

So in our inventories. We took advantage of that opportunity and we started the crop with a very low level of inventories. And because of that, we sell less in the beginning of this year. We decided (not) to increase back the inventories, looking to the behavior of the ethanol prices throughout this harvest and into harvest (appear).

Well we believe that we're going to have better pricing and it ended up being a successful strategy because today ethanol prices is higher than the average of ethanol prices in the First Quarter. So the unit average price that we had increased to BRL785 per cubic meter and with a volume of 454,000 cubic meters, with mainly no opportunity to

arbitrage between prices of ethanol in Brazil and prices of ethanol offshore, which reflects the decrease of volumes in our -- in the external market.

Also in terms of unitary cash COGS, we saw, as in the sugar market and the sugar products, we -- it reflected no increase in the cash COGS, mainly because of the origination that we also have in the ethanol. But at this one was -- we sold all the ethanol that we could in the previous quarters, in the end of the -- in the last year -- in the end of the last harvest. And because of that we had to buy and to originate ethanol. So mainly we sold at a higher price on the 4Q and we bought at a lower price in this 1Q.

Also we had higher ATR price, which also affected our COGS. And one thing in terms of ethanol, which is important to highlight is the beginning of operation of Jatai, which our greenfield, which is ramping up. And as you guys know, in the beginning of the crop in the beginning of a new project, you have a high crop, a higher cost allocated to these particular -- to this view, which is focused just in the ethanol production.

At the end of the day, we had unit cash gross margin of 1.8% for ethanol in this quarter. In terms of Cogeneration, we had an increase of almost 100% to 88% increase of net revenues reaching BRL55.4 million in this quarter, which is reflecting this performance of the sale of energy for all this ten units -- ten Cogeneration plants that are already selling energy and performing their contracts. In terms of quantity of energy that we sold and that we export, was 300,000 megawatts at an average price of BRL177 per megawatt hour.

All in all, we had an EBITDA for this CAA of BRL237.7 million, an increase of 15%. And with this regard, the non-recurring effect that we had on the first 1Q of '10, which impacted our EBITDA in BRL66 million, we would have a higher percentage of increase. In terms of EBITDA margin, we managed to reach almost 19% of EBITDA margin.

So also as already mentioned, we still hold approximately, in terms of our inventories for sugar, we ended up with 552,000 tons of sugar. Out of it, as I pointed out, 150,000 tons we were expecting to have sold throughout this 1Q, which sugar already had it and waiting to be loaded in the ships in Santos Port Terminal that would have now contributed of an additional BRL40 million to this figure that we released to the markets.

Moving forward to our logistics business, Rumo presented a net revenue of BRL105 million, which is 170% higher than the 1Q of '10, with volume loaded and -- at the port of 2.2 million tons of sugar loaded this quarter at a price of BRL46.50 in terms of average unit net revenue. Already accounting with revenues that came from the transportation of sugar throughout this partnership agreement that we have with ALL. In terms of cost of goods sold, we had an increase from BRL26.4 million to BRL72.4 million.

This is reflecting this new business and new activities of Rumo Logistica, which is mainly mode of transshipment the of the storage and high-end rail and roads freight, which has, of course, impacted also the COGS. But benefiting our margins in the total non-cash generation of -- for Rumo that ended up being BRL36.2 million in the EBITDA with a margin of 34.4% comparing to BRL19 million in EBITDA and a margin of 48.4%. The

decrease in margin was mainly to the weaker dollar. So the effects impact mainly on the loading service, which is in dollars.

The CCL business of the lubes and fuels business also managed to increase its net revenues almost 14%, reaching BRL2.8 billion, which we managed to increase not only fuels. But also in terms of volume -- the lubes business. In terms of net revenue segment, (byproducts), what we saw in the comparison with the 1Q of '10 is an increase of the gasoline and diesel and getting more important over the other products, especially when we do not have, in this quarter, the jet fuel that was sold, as I mentioned in the beginning of the presentation in the 1Q of '10.

The cost of good sold reflected a higher ethanol prices and also the different mix in terms of higher sales for gasoline and diesel, which is more expensive than the other products. The unit gross margin remained almost the same at 7.4% with 139 cubic meters. If we look at the total EBITDA, the CCL managed to deliver. It was BRL84.1 million with 3% margin. Comparing to the 1Q of '10, which we had a non-recurring event of the sale of the aviation business, which impacted in BRL6.5 million. We managed to increase the total EBITDA. And in terms of margins, we stayed pretty much the same with 3% and with BRL57 per cubic meters.

Looking at the picture of our hedge that we had, at the end of this First Quarter, we have advanced our hedging from the end of the last fiscal year. We managed to have had 1.8 million tons of sugar at an average price of US\$17.6 per pound. And this is, I would say, approximately 70% of our total crop already had.

If we look at the FX that we have hedged, which is approximately BRL1.96 per dollar, if we convert this US\$17.6 per pound to the current FX, which is in the range of BRL1.77 today, this would reflect a price of US\$19.5 per pound, considering the FX that we have today. And for the next crop 2011 and '12, we already hedged 840,000 tons of sugar at an average price of US\$17.2 per pound, which is pretty much 25% of our total exports for the next crop.

I would like to -- just to comment in terms of the impact of the hedge accounting that we decided to introduce this year, which was not represented this year. The impact of the hedge accounting was just BRL1 million, negative effect the top line. But what we presented in this table here is we didn't have adopt the hedge accounting criteria, you would have seen BRL30 million of gains in the financial results as we were reporting last year.

And this amount of money was deferred and was allocated in an account of the shareholders equity, which is going to impact this crop with just BRL12.4 million and the remaining BRL17.7 million would be allocated once we sell the sugar product in the harvest of 2011 and '12.

In terms of our indebtedness, the net debt stayed at -- in terms of gross debt, BLR5.5 billion, with the cash that we have at our Company of BRL1 billion, making the net debt to

be BRL4.5 billion. And if we look at the percentage of this, which is, in the short term, is just 15%, translating that, that we have a very solid and a healthy financial position.

We -- as you can figure out, we are replacing short-term debt with especially money coming from BNDES, which increases BRL420 million this quarter and this is already BRL1.6 billion in our total debt. So the increase that we had in our net debt also is reflecting the increase of our inventory that came from BRL416 million to BRL864 million, impacting BRL450 million our working capital.

If we take in consideration the last 12 months EBITDA that we delivered, the leverage of the Company stayed at a 2.5 times, in line with what we reported last quarter. Also it's important to emphasize that the guidance that we released to the market by the end of last -- of the last crop, is still in place and we firmly believe that throughout this crop we will continue to deliver very good results in all of the business units that we have, with the increase of a performance, not just in the sugar and ethanol business as well as the logistics Cogeneration and the lubes business, which we expect to have a total EBITDA in the range of BRL2 billion to BRL2.4 billion.

So now I will end this presentation and I will turn to you guys to answer the questions that you might have. So we have Marcos Lutz and Colin Butterfield that will answer the questions here. Thank you.

Questions And Answers

Operator

(Operator Instructions) Your first question comes from the line of Luiz Campos.

Q - Luiz Campos {BIO 17409443 <GO>}

Hi. Good morning, everyone. The first question I have is what -- if you could provide any information on the status of the conclusion of the JV with Shell. And the second one would be related to the problems at the port. I know that you usually sell FOB. So any demurrage costs would be incurred by the traders. But I just wanted to understand, given the size of the problems, if you're suffering any pressures from the traders to, let's say, pay for part of the demerage costs. Thank you.

A - Marcos Lutz {BIO 6779636 <GO>}

Well this is Marcos. First, in terms of the Shell deal, I have to say that this is a quite complex operation. I would say, from my experience is that by far more complex deal I ever participated. So it's more than 50 contracts. I can anticipate that there's no major issue, I would say, let's say commercial issue pending. But we are talking about putting together more than 50 contracts.

So we are really committed to execute this. But there is no -- there's no binding document signed yet. But we are -- we are close to achieving something. So unfortunately, I cannot tell you more than this. There are some small issues that are still pending. But there is

nothing that will make me tell you a negative, let's say, thing. All that they evolve to positive stages at this point.

In regards to the demurrage, this is something caused by a good thing. This is caused by the fact that there is a large demand for Brazilian sugar this year. So the -- this -- formerly projected, let's say, world reduction of demand because of the India's reduction, et cetera, is not being -- is not happening as much. So Santos is at a very stressed moment.

We had a large operation there, as you know, with Rumo operations. So we can actually be very well positioned and be an insider in all those place. Yes. There are some contracts that make people ask for demurrage costs. But again, I would say those cannot -- should not be larger or would not be larger, for instance, than the premium that it can collect at this time for fulfilling contracts that are sometimes paying quite large premiums for, let's say, a short notice delivery.

So what we are doing is a big coordination between the commercial operation of Cosan and the Rumo logistics operations to kind of maximize the advantage there. On the Rumo perspective, given this is our first year of, let's say, the transportation ramp up, this is great. Because given the shortage of this service, Rumo is really navigating an environment of, let's say, large demand and very little competition. So this is good thing for Rumo as a business.

And Cosan, at the end, what is, I would say, negative but is not as negative is the fact that sometimes you postpone -- we have sold, priced. And actually nominated ships for more than 100,000 tons of sugar -- 130 something -- and this will be executed throughout the year. So this -- that will come. But this is not, for instance, in this year -- this quarter. So we are missing probably more than BRL40 million of EBITDA this quarter given that we postpone somehow because of this coordination to next quarter. So this is, I would say, a very small negative impact in our perspective and kind of a choice that ended up making.

Q - Luiz Campos {BIO 17409443 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) Your next question comes from the line of Eric Ollom.

Q - Eric Ollom {BIO 4374335 <GO>}

Yes. Hi. Good morning, everybody. Basically, two questions. One is I noticed you're longer reporting EBITDA adjusted by hedge. Is that something that will not be reported going forward and is that due to the change in the hedge accounting? Then secondly, just has to do with the debt policy. Could you just affirm what your leverage goals are and what is your disposition regarding your perpetual debt, which will become callable, I believe, early next year, given the relatively high coupon of 8.25% on that debt versus where your current trading levels are, does it make sense for you to call that bond? Thank you.

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A - Marcos Lutz {BIO 6779636 <GO>}

Well all right. So in terms of the callable bonds, I have to say -- we have to watch the market. Again, those decisions are not tough decisions. They are very, let's say, mathematic. So we will chose to do what we believe would be the best of the Company at the time. So -- and this will be strictly, let's say, option analysis. At that time, we will see the options we have to finance and we will get the cheapest financial option to this portion of our balance sheet.

The first question you made was regarding to the new accounting. So this EBITDA you are looking at now already has the hedging proportional to the loaded volume. So when we do the -- let's say, this new hedge accounting, the EBITDA goes -- the hedging that was related, improvement to the auditors that this was related to that specific volume loaded in that month or that quarter. This actually go through the EBITDA already.

So the EBITDA you're looking at now is not the EBITDA (hedge) that we had where the stock of the variation of our, let's say, of our futures would be on that volume. So the volatility will be high. But at the end, you don't -- it will be tough for the analysts to understand what would be the real pricing of that product.

So now you have the pricing of the product that you look at with the hedging of the effects and the New York 11 or London contracts that are related to this product loaded. So the -- and we actually have a slide about it. And it is very clear that if you, after the call you cannot read slowly, the direct, I would say, very well explained.

The balance of that -- the balance of the stock of your futures, if you actually go directly in equity accounts on the balance sheet. And this will migrate to the -- go through the EBITDA as much as you load those volumes. So it will be a lot clear for you guys to understand what will be the real economics of the business in the quarter because the EBITDA they are looking at already contemplates the adjustments for pricing done on -- with brokers with the futures. Okay?

Q - Eric Ollom {BIO 4374335 <GO>}

Okay. Thank you.

Operator

Your next question comes from the line of Matt Farwell.

Q - Matt Farwell {BIO 16404848 <GO>}

Hi. Good morning. Could you elaborate on your plans for listing or delisting the Cosan Ltd Holding Company after the conclusion of the JV with Shell? And also, regarding the Shell JV, has there been any change to the fundamental outline that was articulated to the market last February?

A - Marcos Lutz {BIO 6779636 <GO>}

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So going -- we're starting from the last question, there's no significant change. We pretty much, as I mentioned, is a complex deal so there's more execution adjustments. But everything was, very in line with what we communicated and predicted. So valuation and all those things are more, I think, major issues for what concerns to analysts. We have pretty much stick to it.

So the first one about the (CJV) versus Cosan SA, collapse or not, again, we think this structure might be, in the future, enhanced. But our current plan is to close the Shell deal, see how the things -- how valuation moves, how things actually present ourselves. And then we will plan and execute what will be reasonable, what will make sense to the shareholders in a very transparent way. So at the end, there's no, let's say, detailed plan to do any collapse at this point. There's obviously a perception of the market and of the Company that this can be an opportunity. And if that's the case, we'll pursue it. Okay?

Q - Matt Farwell {BIO 16404848 <GO>}

Okay. Thank you very much.

Operator

Your next question comes from the line of Giovana Araujo.

Q - Giovana Araujo {BIO 16356713 <GO>}

Good morning, everyone. First question on Cosan Alimentos. You mentioned on your release the strategically, repositioning of Cosan Alimentos. Could you give us some color about that and the potential implications in terms of operational performance for (CAA)? This is the first question.

A - Marcos Lutz {BIO 6779636 <GO>}

Giovana is Marcos here. Colin is here with me. But it really was hard to hear you. If you could repeat. Sorry, for that. But if you could repeat a little louder.

Q - Giovana Araujo {BIO 16356713 <GO>}

I'm sorry. I'm sorry. My question is about Cosan Alimentos. You mentioned on your release the strategic repositioning of Cosan Alimentos. I would like to know some additional information about that and the potential implications of this repositioning in terms of operational performance of CAA.

A - Marcos Lutz {BIO 6779636 <GO>}

Okay. I understood now. I will start, then I'll pass to Colin. But the one we were mentioning there is that we -- we had, before having the Uniao brand, we were, let's say, a low tier and we were focused in, let's say, low income consumers with a very broad portfolio of Barra branded products that would be very targeted to low income and very -- almost private labels that will be dealing with large retail chains and basically doing almost ad hoc to retail chains.

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And this is changing dramatically now because now we -- with the Uniao brand, which is one of the most recognized brands. What we are looking at is to have, let's say, main stream, sometimes kind of category leaders in the future that can actually leverage the brand, the network, the sales force. And the logistics. But I'll pass to Colin who might be able to add a little flavor on that.

A - Colin Butterfield {BIO 17954106 <GO>}

Yes, Giovana, hi. Just to give you a little bit more flavor is we are in the big strategy of trying to bring into the market a more complete sweetening solution, let's put it that way. So we are bringing in new products, trying to leverage the existing brands. And have a clear strategy for the first year brand, which is on the O&M to use up the other brands as a more second tier strategy and trying to extract as much margin as possible. But that's about it. Very short put of what we're doing in those brands.

Q - Giovana Araujo {BIO 16356713 <GO>}

Okay. Thank you. And my second question is about the ethanol supplier in the main balance. How do you see this evolving this harvest and if you see some opportunity in terms of carryover of ethanol stocks this year? Thank you.

A - Marcos Lutz {BIO 6779636 <GO>}

Well this will be -- people are now understanding and probably more acquainted to a lower crop in Brazilian sense of (south). I would say that because that was one of the first companies that started to basically calling for that. People were really enthusiastic about the dry weather and the crop without forgetting -- just forgetting that they actually -- the productivity per hectare could reduce even efficiencies and prices in a better level and cost in a better level.

I would say, Giovana, for now that we have to watch a little more. At this point, what we are doing is we are pretty much marketing, let's say one-twelfth of the year per month. So in a linear basis. We had a lower marketing balance at the end because we actually shortened a little bit during the inter-crop when prices went up. So we actually had a smaller balance given that we actually had to buy more or actually find other sources to fulfill our contracts. But this, at this point, we're neutral at this point. I think the price that we are now should go up. But we also have the cost of carrying the inventory.

And I would not be super positive or super negative now. But I would tend to say that given the new -- our new views for the crop, we might see a big -- a very significant price increase in the inter-crop again. And I would say also, that we have also noted that the demand is pretty strong. The prices had actually reacted a little bit. We were expecting to see the demand at the station or the distribution level to reduce and this did not happen. So the demand is pretty strong, reoccurring levels, allowing, in our view, a little higher price, even during the crop.

Q - Giovana Araujo {BIO 16356713 <GO>}

Okay. Thanks. Perfect. Thank you.

Operator

Your next question comes from the line of Isabella Simonato.

Q - Isabella Simonato {BIO 16693071 <GO>}

Good morning, everyone. I have two questions. First one, looking at this quarter's numbers, we already saw crushing of sugarcane at 19 million tons, which is almost 30% of your guidance for the year. I'd like to know, is it possible that we see an upward revision of the guidance of 62 million tons? And my second question is regarding to hedging of sugar prices. Have you accelerated hedging in the last month as sugar prices rallied and reached almost US\$0.20 per pound? That's it for me. Thanks.

A - Marcos Lutz {BIO 6779636 <GO>}

Well given the -- talking about the guidance of crushing, as Felipe mentioned, we have not changed the guidance. I would say we still can see the full range. But I would, if you asked me, my guess would be probably in the middle of the range at this point. So I don't see any trend at this point internally in the range we offer in the guidance. Yes. We accelerate a little bit after -- we closed this month, given the rally. And Colin can tell a little bit more about it and what happened.

A - Colin Butterfield {BIO 17954106 <GO>}

Yes, Giovana, we did that -- sorry, Isabella, we did that. We did hedge more -- we accelerated and we are very well hedged at the moment at the good prices. So we'll be continue watching this -- the (inaudible) of the world very well and I think we're being in the right size for the past few months.

Q - Isabella Simonato {BIO 16693071 <GO>}

Okay. Thank you.

Operator

Your next question comes from the line of Debbie Bobovnikova.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

(inaudible) I just wanted to get a sense from you how much of that was because of the shortfall in sales and how much of that should be recurring into the following quarters. Can you just give us an outlook for costs?

A - Marcos Lutz {BIO 6779636 <GO>}

Sorry, it was really cut at the beginning. If you could repeat the beginning of your question.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

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I just wanted to get a better sense of how you see costs going forward. Obviously, they've increased a lot this quarter. So I just wanted to see if that -- if any of that was due to the shortfall in sales because you had the deferment of sales and how much of it is because you're seeing more pressure or change in mix effects. How should we look at costs in the following quarters?

A - Marcos Lutz {BIO 6779636 <GO>}

Okay. I would say the costs should go down. The beginning of the crop is always a moment where costs are a little more pressed and pushed. If you see, for instance, last year this beginning was very good in terms of weather and we actually started earlier. So comparison base to this -- this is not as good as last year's in terms of comparison.

But the operational numbers are better. So we have now more mechanized crop and we also evolved in all KPIs, I would say. There is a big change, though, that is recurrent and we have to, at some point, go with our investor relations people here to get more detail on it, which is the Company now is selling more value-added products. So -- and this is all sides.

In terms of ethanol, we are trying to actually sell ethanol delivered at the client. So we try to see at the depots of the distributor that buys from us. And we, in terms of sugar, we also are selling a lot -- almost a million tons internally in the market. And out of that, 70% of this is bagged sugar. So you're talking about high quality sugar, refined sugar, bagged sugar, even into kilo bags, even into sachets.

So we're talking about a different price. But with the different costs and I think people will have to understand very clearly the dynamics for that. Because partially, this has to be seen as kind of a food business that actually buys raw sugar and sell refined sugar and kind of try to model this in a separate way. So did that answer your question?

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Yes. Maybe just to conclude in general, should we look at it as being an equal margin business then as we move into higher value added goods or is it a lower margin business, maybe higher per unit, the lower the percentage of sales?

A - Marcos Lutz {BIO 6779636 <GO>}

Yes. I would say it will be more reais for ton of sugar, clearly. And in a percentage basis, you probably will see less percentage of your revenues being EBITDA.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Got it. Then maybe on a similar topic, just to talk a little bit about the origination. I understand that some of the origination this quarter was opportunistic. You were trying to -- you sold all your volumes last quarter, as you explained. And you had to make some of it up for commercial contracts this quarter.

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But how should we think about that business in general for Cosan on a normalized basis? Do you expect to, every quarter, be doing some of that origination? If so, how much, in terms of volumes and revenues, can we expect? And also, if you could just quantify -- because you quantified the costs for us in the quarter. Can you just quantify maybe, there is the impact on revenues that it had?

A - Felipe Jansen {BIO 16471255 <GO>}

Hi, Debbie. This is Felipe. So what we are trying to do is we are trying to quantify in each quarter. Yes. You are starting to see now, from now on, on every quarter, especially on the sugar business we are originating -- I can pass them to Colin that will give you a clear color on how much we are going to be originating throughout the year for you guys to have an idea. But the impact that we had in this quarter just for sugar, in terms of origination, was BRL19 million. In terms of ethanol, then you shouldn't expect that we will originate a lot of ethanol.

There was mainly, I would say, an opportunistic view that we had because ethanol prices spiked on the last quarter which was in the end of last year, as you know. Then we sold all the ethanol that we could and we have some commercial contracts in the beginning of this year so we were short in ethanol. And we had to buy ethanol at a lower price in the market to fulfill those conflicts.

There was an opportunistic, I would say, view that we had. But this is not, I would say, a normal business. But the sugar business, yes, especially after the incorporation NovAmerica, it changes complete. I will pass you to Colin and he will give you more information about that.

A - Colin Butterfield {BIO 17954106 <GO>}

Yes, Debbie, just complementing what Felipe just said, what we do is, sugar -- originating sugar, it's all about (parodies). So what we do is, yes, we originate, originate based on what the market is paying for each type of sugar. So I will give you -- if I produce a lot of EHP. But the -- I'm paying -- I'm getting a huge premium for crystals, I'm not producing as much crystals. What I do is I originate crystals and I can get a nice premium out of that.

And it can flip in any way, every moment. So there are moments in quarters that we are going to be originating more sugars and there are quarters that we're going to really slow down the origination. It's all about what the market is paying for -- all the different parodies.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Then what kind of margins can we expect for this business because I know the cost of the origination you've disclosed in your press release. But we don't have a sense of the impact on revenues or margins. Is it similar to other trading companies which get low to mid single digits?

A - Felipe Jansen {BIO 16471255 <GO>}

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It's very difficult to give you a literal figure of how much margin can improve. Based on the past, we've done a good job in adding value to the -- every ton of sugar coming out of Cosan. But I must say that we can also have moments that we could go in a different -- in the opposite direction. But all in all, we're always going to extract as much as possible. Right now, for example, market is paying huge premiums for sugar -- for white sugar in Brazil.

But obviously, there is a big bottleneck at the Port. So unfortunately, we can not elevate as much sugar as we wanted because -- but at the same time, having said that, having Rumo next to us, we are in a much better position, we are very much better positions to take advantage of this situation right now. Right now the wide premium has been as high as ever and the VPH, for example, I'm getting as much as US\$45 per ton if I would be able to. Everything -- every extra ton that I can move today. But obviously, there's a limit to that.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Great. Thank you for that.

Operator

Your next question comes from the line of (Dave Hemp).

Q - Dave Hemp {BIO 17721328 <GO>}

Hi. I was just wondering, do we have a sense of when the deal with Shell will ultimately be closed? An updated timeline, perhaps? Thank you.

A - Marcos Lutz {BIO 6779636 <GO>}

This is the sensitive question. I would say -- you asked about the sense. We should be signing something binding very soon. Very soon means in one month timeframe can be very well expected. As I mentioned, we still have pending issues so there is still -- there is still things that have to be somehow all settled. My perspective is that we don't have a major issue. So given that both parties wants to do this, if both are committed to it, this will be very soon sold because the thing that actually took -- all the due diligence is done.

All the valuation, all the negotiation, all the governance, everything is settled. So we're talking about producing documentation and sometimes lawyers discussing with other lawyers in terms of wording and things like that and, again, we are very close to have the documentation ready. So this is what I have to say to you. But once you sign the binding agreement, you will still have to -- until closing -- at least another six months. This is my perspective, okay?

Q - Dave Hemp {BIO 17721328 <GO>}

Thank you.

Operator

(Operator Instructions) And at this time there are no further questions. Mr. Lutz, are there any closing remarks?

A - Marcos Lutz {BIO 6779636 <GO>}

Okay. So thank you very much for participating in our First Quarter 2011 results call and again, this was a very -- in our perspective, a very good operational quarter. We have all businesses of Cosan performing well, growing and winning with its operational challenges of the beginning of the crop, we have already kind of passed through the time where the -- well, let's say, operational challenges are larger.

So we are very confident that this will be a very positive result crop, both with the price and the costs going to where we expected or even better than we expected. So thank you very much for participating here. I hope to hear from you next quarter. Thank you.

Operator

This concludes today's conference. You may now disconnect. Thank you for your participation.

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