

## Q3 2010 Earnings Call

### Company Participants

- Marcelo Martins, CFO and IR Officer
- Marcos Lutz, CEO

### Other Participants

- Debbie Bobovnikova, Analyst
- Eduardo Vieira, Analyst
- Giovana Araujo, Analyst
- Juan Raffetto, Analyst
- Matt Farwell, Analyst
- Natalia Lukova, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to Cosan and Cosan SA's Third Quarter of 2010 results conference call. Today with us, we have Mr. Marcos Lutz, CEO; Mr. Marcelo Martins, CFO and Investor Relations Officer; and Felipe Jansen, Investor Relations Manager.

We would like to inform you that this event is recorded and all participants will be in a listen-only mode during the Company's presentation. After Cosan Limited 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 slideshow of this presentation are available through live webcast at [www.cosan.com.br/ri](http://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 Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Cosan Limited and Cosan SA's management. And on information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to the 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 Limited and Cosan SA and could cause results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference call over to the CFO and Investor Relations Officer, Marcelo Martins. Mr. Martins, you may now begin your conference.

**Marcelo Martins** {BIO 16440115 <GO>}

Good morning, everybody. I wanted to start our call today by giving you some basic information about the results we'll be disclosing. As you know, this quarter is actually composed by different months than the same quarter last year. Last year, the Third Quarter was composed by the months of November, December and January of 2009, as opposed to October through December this year.

I wanted to also remind you that CCL last year during the Third Quarter had only two months of results being consolidated with Cosan, as opposed to three months in the Third Quarter of 2010.

Now moving to the highlights for Cosan overall, we had consolidated net revenues of BRL3.8b, being BRL2.7 billion from the Sugar and Ethanol business and BRL1.2 billion coming from the Fuels and the Lubes business. We had BRL100 million of elimination, which make actually -- which are a result of the sale of ethanol from Cosan interest in CCL and the acquisition of diesel from Cosan -- by Cosan from CCL.

In terms of the net revenue breakdown, 65% of the total of the net revenues of the Company were composed by fuels revenues, 4% lubes, 19% sugar, 9% ethanol.

In terms of sales per market, local sales represented 86% and exports 14%.

Consolidated EBITDA for the business in this quarter was BRL490m, compared to BRL340 million in the Third Quarter of 2009, representing a 44% increase. The main impact in the increase of the EBITDA in this quarter comes from actually positive results from the refinancing of certain tax liabilities under the program called Refis.

In terms of the EBITDA breakdown by segment, CAA represented 86% and CCL 14%.

Net income of BRL167 million in this quarter, compared to BRL5.2 million in the Third Quarter of 2009. Again, the results were strongly impacted by the appropriation of the gains deriving from the Refis, in the amount of BRL211m.

Now I would like to talk a little bit about the business lines, starting with the sugar market overview. The excess rain that impacted the state of Sao Paulo and the southeast region of Brazil overall, ended up resulting in total crushed sugarcane in this quarter of 527 million tonnes, compared to an original estimate of 550 million tonnes for this year, or for this crop, which represented a reduction of 4.2%. The total sugar produced was 28.4 million tonnes, compared to an original estimate or forecast of 31.2m, represented -- representing a decline of 9%.

FINAL

Bloomberg Transcript

And in terms of the total ethanol produced, it's 22.9b, compared to 26.3 billion estimate, represented by a reduction of 13%.

When you look at the chart at the right-hand side of this slide, you will see that, different from other years, from the period of 2001 to 2009, the TSR was substantially lower, especially considering the impact of the amount of rain we had during the crop season.

Overall, the international markets have also suffered a negative impact from other reasons, not only rain, as in the case of Brazil, which ended up resulting in a lower sugar production in India than originally expected. This lower production was represented by a total production of 15 million tonnes, compared to original estimates of 15.5 million tonnes. That, of course, ended up putting a lot of pressure on the country's inventories, which are at an extremely low level.

Thailand and the European Union were actually net exporters of sugar. But the exports -- the sugar exports were not enough to make up for lower exports coming from countries like India and, of course, Brazil as well.

In terms of the price of sugar in the domestic market, compared to the international market, what we saw in this quarter in Brazil was a premium of the ESALQ price over the international price.

Okay. A little bit about the ethanol market. Again, low inventories ended up putting pressure on the price of ethanol in Brazil. And the government, as a consequence, decided to change the blending, reducing it from 25% -- reducing utilization of ethanol in the blending from 25% to 20%. Today, the price of the anhydrous ethanol is BRL1,300 per cubic meter. And the price of the hydrous ethanol is BRL1,200 per cubic meter in the domestic market.

Now moving to the financial highlights on the sugar business. Net revenues presented a positive change, equivalent to 39.4% as a result of an increase in the volume of 9.7%, an increase in the price of sugar of 27%. And a premium of the domestic price against the international price of roughly 55%.

In terms of the sugar volume and the average unit price, again, as a function of the increase in the price and the difference of the price between the domestic and international markets, it ended up having a positive impact on the price -- on the overall price -- on the average price of both markets.

In terms of the volume, what we see is an increase of the volume produced for sale in the domestic market, as we have started to operate with NovAmerica, which was not the case in this equivalent quarter last year.

The cost of goods sold and average unit cost, the price of the HR going up from BRL0.2653 to BRL0.3267 in this quarter, had a negative impact on the cost of goods sold.

FINAL

Bloomberg Transcript

And also a worse TSR, as we mentioned before, coming down to 130 kilos per tonne from 139 kilos per tonne at the same quarter last year, also had a negative impact.

In addition to those two factors, the third most relevant factor that had a negative impact on the COGS in this quarter, is the fact that because of the increase of sales of sugar in the domestic market, NovAmerica had to buy sugar in the market at a higher price than, of course, our production cost.

In terms of the financial highlights for the ethanol business, net revenues went down, from BRL364 million to BRL338 million in this quarter. The cost of goods sold had pretty much the same impact as the cost of goods sold for sugar, except of course for the impact in the acquisition of sugar in the domestic market.

In terms of volumes, volumes were 30% lower in this quarter, compared to last quarter. And we also had an average unit price that ended up being higher because of a premium of the price in the domestic market, compared to the export price. That premium was equivalent to roughly 45% in this quarter. This is actually the last quarter where the exports should have a negative impact on the average unit price for ethanol within our Company. Also, the volume of ethanol exported in the last quarter should be substantially lower than the previous quarter -- than the Third Quarter.

Overall, we had an EBITDA of BRL421.7 million at Cosan Sugar and Ethanol, which represented a variation from 32.5% to 35.2%. And the EBITDAH hedge in this quarter was BRL440m, compared to BRL439 million in this quarter last year. If we could just correct the number, we had a positive variation of 0.2%.

I'd like to talk a little bit about the Lubes and then the Fuels business. The net revenues for those businesses went up by 11.5%. And we're now comparing the third and the Second Quarter because the Third Quarter of last year -- in the Third Quarter of last year, we had only two months of results being consolidated at Cosan.

So the volume of gasoline went up by 15%. And the price of ethanol went up 24%. And those were the two main factors on the increase of the net revenues for the Lubes and the Fuels business.

On the other hand, the lubes had a decline of 16% in revenues, arising from 11% lower volumes and a 6% lower price.

The net revenue by product, the breakdown, is actually -- has actually narrowed compared to last year -- to last quarter where diesel represented 45% against 38% of gasoline. This quarter we had 43% being represented by diesel, 41% gasoline, 5% lubes and 9% ethanol.

Cost of goods sold. Ethanol had an increase of 21% and lubes had a decline of 5%. Overall, there was an increase in the cost of goods sold, quarter versus quarter, of 12.5%.

FINAL

The EBITDA margin in this quarter was up 2.5%, compared to 3.6% in the previous quarter. That is a result of two major items. First, an increase in the selling expenses of 14.5%, which was part of a advertising program we have put in place. And the refurbishment of certain stations, which was done with the purpose of creating obviously a very positive impact on the brand.

Also, in terms of the SG&A, we had an increase of BRL13m, which derives from two factors, extraordinary consulting services that were hired by CCL and the provision of bonus payments at that company as well.

If we are to exclude any extraordinary items in this quarter, to compare it with the previous quarter, the EBITDA margin would be very much in line with the margin in the previous quarter.

In terms of our hedging, we have -- we were, at actually the end of last quarter, with a total volume of 1.249 million tonnes of sugar hedged, with an average price of \$0.205. The hedging went up since then. We're at 40% hedged for this crop at this point in time, with an average price of \$0.22 per pound.

In terms of the FX hedging, we had \$624 million hedged at an average price of BRL1.88 at the end of last quarter. And this position hasn't changed dramatically since then.

In terms of our net debt, the net debt remained stable compared to the Second Quarter. And the short-term portion of that debt was composed by the export prepayment amortization over this quarter, which was obviously predicted. And also, for the IFC provision for the payment that took place in the month of January.

The reason why we decided to pay the IFC loan is because there was a provision in that loan that if the EBITDA of the Company would go up, the interest rate under those loans would go up as well. And because of the very positive variation in EBITDA of the Company, it ended up having a very big impact on the increase of the interest rate and we decided to prepay it. We are in conversations with the IFC to set up a new loan with more realistic terms, taking into consideration the actual size of the Company today.

If we annualize EBITDA, considering the months where either NovAmerica or CCL were not part of our business, we would come up with a net debt-to-EBITDA ratio of 3%, stable with the last -- when compared to the last quarter.

Okay. A little bit about the investments. We actually had a total CapEx of BRL401 million and total investments of BRL414 million over the last quarter. This was planned. And we should have an increase in the CapEx during this quarter because this is the intercrop period and this is when we make the bulk of our maintenance in our mills. But it would be, again, in line with the guidance we have provided to the market.

In terms of the greenfields projects, we have concluded most of the investment in the two greenfields projects, which are Jatai and Carapo which have already started to operate

Bloomberg Transcript

FINAL

and will increase substantially the crushing capacity over this next crop.

In terms of the co-gen, we still will continue to make investments and should have two new mills coming on stream during this crop, which are Bahia and (Bolquin).

In terms of the notices to the market over the quarter, we have announced that the conclusion of the first greenfield project, which began operations in the month of December and which has a total crushing capacity of 4 million tonnes.

We have also announced the acquisition of 26.7% stake in TEAS, which is an ethanol port terminal in Santos, for the amount of BRL20m. With that, we would have 66.7% of this company.

Rumo, as always, announced that it was prepared to enter into -- to start executing the agreement with ALL with -- which was signed back in March 2009.

Cosan and Amyris also announced a partnership to implement Amyris' technology in one of our Group's mills to produce high added-value biofuels.

With that, I would like to turn to questions to you. And Marcos and I will be here to answer questions as they come up. Thank you.

## Questions And Answers

### Operator

(Operator Instructions) Your first question is from Debbie Bobovnikova of JP Morgan. Debbie, your line is open to speak. There was no response from the line. The next question is from Eduardo Vieira of Credit Suisse.

### Q - Eduardo Vieira {BIO 3087009 <GO>}

Hi. Congrats and thanks for the call. Is it possible to provide a pro forma guidance of leverage after the JV with Shell? I know they are contributing assets and cash. And apparently there is no debt being included. And also -- if you can also include the guidance for CapEx. Basically, what is your three or five-year outlook for investments and the resulting pro forma leverage? That would be appreciated. Thank you.

### Operator

The next question is from Matt Farwell of Imperial Capital.

### Q - Matt Farwell {BIO 16404848 <GO>}

Hi. I guess the previous question wasn't answered. I guess I'll submit my question. On the Shell JV, I'm wondering what you -- what the thinking was behind Cosan contributing only

Bloomberg Transcript

FINAL

\$2.5 billion in net assets versus Shell contributing about \$5 billion in net assets. Was it that the sugar and ethanol profits could grow more quickly and would carry a higher multiple?

My second question regards the -- is regarding the RFS2, which was finalized yesterday. My reading is that it could mandate up to 16 billion gallons of sugar-based ethanol by 2015 in the US, versus what I would have previously estimated to be about 2.5 billion of imports. Was that a major impetus for the Shell transaction? And what is your export capacity today? And what would be added by Shell and therefore -- and in addition, what additional CapEx would be required or could you foresee building out new export capacity? Thanks.

## Operator

Ladies and gentlemen. I do apologize for the inconvenience. However, there has been a technical delay in today's conference. Please hold and the conference will -- please hold. Again, ladies and gentlemen. the conference will resume momentarily. You may now resume, sir. Mr. Martins, you may now resume.

**A - Marcelo Martins** {BIO 16440115 <GO>}

Yes. Can you hear me?

## Operator

Yes sir. Now we can hear you.

**A - Marcelo Martins** {BIO 16440115 <GO>}

Okay, I'm sorry. We got disconnected. So what I would like to ask is that Debbie asks her question again. And then Eduardo and then Matt. So that we follow the same sequence as we had before.

## Operator

(Operator Instructions) The first question is from Debbie.

**Q - Debbie Bobovnikova** {BIO 4684018 <GO>}

Hi, sorry about that. I got disconnected. Can you hear me now?

**A - Marcelo Martins** {BIO 16440115 <GO>}

Yes. We can hear you.

**Q - Debbie Bobovnikova** {BIO 4684018 <GO>}

Okay. Great. Thank you. I just wanted to start off by asking about the bid you put in, in December, on the gas distribution business from Eni. If you could just give us a little bit of

Bloomberg Transcript

color on the strategy there. And what are the possible synergies with your existing business?

**A - Marcelo Martins** {BIO 16440115 <GO>}

Well this was actually meant to eventually be used to fire the co-gen within the intercrop period when we would not have access to biogas, of course. And we would not be in a position to burn biogas during that time of the year. So we have performed some -- a due diligence process. We have actually done some internal analysis. And we don't have yet a final position in terms of our interest in acquiring those assets.

So there isn't much we can say at this point in time. What I can tell you is that we have looked at it. We have -- and we're still in the process of participating. And we're trying to better understand the gas market, which we believe would be important for our co-gen business and eventually could also be a way to create more value for the co-gen business. So we don't have a final position in terms of our participation in that auction. But we continue to look at it.

**Q - Debbie Bobovnikova** {BIO 4684018 <GO>}

Great. And what is the bid that was put in? What's the size of the possible acquisition?

**A - Marcelo Martins** {BIO 16440115 <GO>}

Well this is actually information that I can't tell you, because if I disclose this information, my competitive position would be much weaker. But what I can tell you is that compared to the size of the investment in a co-gen, it would not be relevant.

**Q - Debbie Bobovnikova** {BIO 4684018 <GO>}

Okay. Thank you. Then on another announcement in December, basically the agreement that you signed with Amyris, can you just talk a little bit about what you hope to gain out of that agreement, what new technologies are coming and any value you attribute to that?

**A - Marcos Lutz** {BIO 6779636 <GO>}

Debbie, this is Marcos speaking here. Obviously we have our core business here in the Company of producing ethanol and sugar and distributing and then do the co-gen and logistics and all that. I mean, basically very mainstream. But we recognize that around our businesses, there are many, many technologies being developed that can somehow change the way we do the business. So we actually want to be very, let's say, close to the leaders in development of technologies.

And obviously when we announced this JV recently, you probably noticed that we have -- Shell would contribute two of their initiatives, two companies of, one, biomass ethanol and the other one for enzymes and other yeast products. So we will be looking very close to this. It's not the core business of the Company. It won't be the core business of the Company. But it's certainly something that will affect the core business of the Company.

FINAL

Bloomberg Transcript



So the magnitude of the Amyris joint development is very small. But can represent an important change in the future strategy. It goes towards a healthy business that actually can leverage on our size to scale up quickly. So that's the idea of those initiatives. And you pointed out one. But we obviously are looking in many of those because we have to monitor what is happening around those markets of biotechnology development.

**Q - Debbie Bobovnikova** {BIO 4684018 <GO>}

It seems like you're not really -- you don't really have anything specific in mind. You're just keeping your options open. So unlike let's say San Martinho, which stated they wanted to produce a specific chemical now --

**A - Marcos Lutz** {BIO 6779636 <GO>}

We do have a specific product in mind when we talk to them, which is base oil. Then this is, let's say, base oil to be (one spec) for normal lubricant produced out of sucrose. So we do have a target in this effort with them. But again, what I'm saying is we're not having one -- that only. We have to really look around and be very close to the leader development -- the leading developments on those biotechnology areas because we are a large platform that can actually leverage a lot on a good technology that appears somehow.

**Q - Debbie Bobovnikova** {BIO 4684018 <GO>}

Okay. And if I can just ask two really quick questions. One is just a quick follow-up on your statement on the hedges. That 40% of sugar that you have hedged for 2011, is that on your exports or on your total production?

**A - Marcos Lutz** {BIO 6779636 <GO>}

On our exports.

**Q - Debbie Bobovnikova** {BIO 4684018 <GO>}

Exports, okay. And the second question is just on your outlook for ethanol prices in Brazil for the year, for 2010. Where do you see them going?

**A - Marcos Lutz** {BIO 6779636 <GO>}

I see them going down from where they are, in terms of prices. But for sure a better average than this past year.

**Q - Debbie Bobovnikova** {BIO 4684018 <GO>}

Right, very helpful. Thank you.

**A - Marcos Lutz** {BIO 6779636 <GO>}

Thank you.

**Operator**

Your next question is from Eduardo Vieira of Credit Suisse.

**Q - Eduardo Vieira** {BIO 3087009 <GO>}

Hi. Well the question is regarding leverage. What is the pro forma leverage with the JV with Shell? And what is the outlook for this leverage going forward, with all the -- I don't if the JV company is already having an idea of what's their CapEx budget, or if you could give us a guidance of that? And also, if there is a change on your financial policy towards leverage. In the past, you have provided a very consistent guidance that the Company would grow and with leverage ranging from about 2 times to 3 times. And if you could comment on what's the policy going forward. Thank you.

**A - Marcelo Martins** {BIO 16440115 <GO>}

Eduardo, there are some things I can tell you. There are others I cannot tell you. I'll tell you what I can tell you and then you'll have to figure out the rest.

The debt that is going to be contributed to the JV is the \$2.5 billion as we have disclosed already. It's not agreed that Shell would contribute any debt to the JV. And we don't think it's going to change. So the starting debt of the JV would be the \$2.5b.

We believe that by bringing the two businesses together, we would have an increase in the EBITDA that I cannot tell you at this point in time, first because Shell's EBITDA is not a public number. And second, because we're still working on the projection. And actually refining some original information we had.

In terms of the cash that is being injected, which is in the amount of \$1.625b, in two years, once we enter the agreement with them this cash is probably going to be used for acquisition of other companies. The reason why they're putting in this cash is to actually match the valuation of our businesses because they would be contributing assets that would have a lower valuation than the valuation of both the businesses because none would be contributing to the company -- or the equity value of Cosan's contribution to the JV. So we actually -- we will certainly continue to have a reduction of debt over time.

What I can tell you at this point in time is that we would probably tend to be more conservative, in terms of the debt ratios of the company, even though we have not agreed a target ratio with them yet. But this company will grow. And we want to use the capital injection or the funds that will be injected into the JV for the continuing consolidation of this business in Brazil.

**Q - Eduardo Vieira** {BIO 3087009 <GO>}

Okay, that's great. Just a quick follow-up to that. Do you have an idea of when the Company would be coming to provide a more objective guidance on the investment budget and stuff like organic and acquisitions? I guess at some after the deal was closed or just to make sure if there is -- when should we expect more direct guidance on that? Thanks.

FINAL

Bloomberg Transcript

FINAL

**A - Marcelo Martins** {BIO 16440115 <GO>}

We will certainly talk about it once we close the deal. Until then, I think it would be very difficult for us to disclose any of that information because we would have to assume that we would do the deal. And we can always discuss it once we have already agreed that we have a deal.

**Q - Eduardo Vieira** {BIO 3087009 <GO>}

Right. Okay. Great. Thanks a lot.

**A - Marcelo Martins** {BIO 16440115 <GO>}

Sure.

**Operator**

Your next question comes from Matt Farwell of Imperial Capital.

**Q - Matt Farwell** {BIO 16404848 <GO>}

Hi. First question is regarding the Shell JV. Cosan contributing \$2.5 billion in net assets versus Shell contributing \$5 billion in net assets would imply that Cosan is getting a pretty good deal. Shell may be looking to -- or looking at Cosan's business as being a higher-multiple business. And can you provide some more color on how those measures both make sense?

**A - Marcelo Martins** {BIO 16440115 <GO>}

Matt, we would be contributing \$5 billion of net assets, plus \$2.5 billion debt to the JV. The \$5 billion is actually the equity value of our contribution to the JV, which is our sugar and ethanol and our fuel distribution business. On the other hand, Shell would be contributing assets which should amount roughly \$3.4 billion plus \$1.6 billion in cash. With that, we get -- that's how we come up with the \$12 billion number, which is the addition of the \$2.5 billion including the \$1.6 billion cash plus a total debt of \$2.5b, therefore an enterprise value of \$12.3b, roughly.

**Q - Matt Farwell** {BIO 16404848 <GO>}

Okay. Then also regarding the renewable fuel standard that was finalized yesterday in the US. I'm reading that there is significant allocation for advanced biofuels, under which the sugar-based ethanol would fall under, 16 billion gallons to be required to be blended over the next five years. I would have expected around 2.5 billion in imports of ethanol. So I guess the first question, was that a major impetus for the Shell transaction? And could you describe the export capacity of the JV and do you plan to expand that capacity?

**A - Marcos Lutz** {BIO 6779636 <GO>}

Matt, it's Marcos Lutz speaking here. Obviously we envision -- and we've been saying this pretty much all the time that we had this type of questioning.

Bloomberg Transcript

FINAL

Clearly, we see the trends worldwide moving towards what we do. So we see, in US, in Europe, in Asia, pretty much every single market, bringing up mandates of biofuels. And more recently, starting to differentiate biofuels that are really carbon effective from biofuels that are not that carbon effective. And we, being the most carbon effective biofuel, we obviously are looking closely to these opportunities.

So when we do investments in co-gen, obviously the co-gen project pays itself by selling, in a good condition, electricity to the grid. But on top of that, when we do this, we increase the energy efficiency of our operation. We actually increase the carbon removal, the CO2 capturing capability of our ethanol.

So when we do investments in hauling by train or by pipeline ethanol, it's also improving the energy efficiency of it. It's not only economical, because it is economical. But it is also improving the efficiency of what we do. This is obviously part of the sustainable effort that we have in the Company that actually attracts Shell, because we've found that both companies have a very close, very similar vision of what will happen in the future.

So we do have a very good alignment in our strategies. And obviously the confirmation of the RFS2 is another point that strengthens the view of the two companies that this is the direction to go. It is a quite sizeable mandate. But we have exported, already in the past, 3 billion liters to add to more than 5 billion liters out of Brazil with a smaller capacity of production here.

Brazil, as everybody knows, has a very flexible demand because the demand in Brazil is from cars that can choose from ethanol to gasoline. And the gas stations also have both products to offer. And the distribution system also has both products to offer. So if prices justify, if for instance there is a premium to Brazilian ethanol to US, we actually can export a lot more product than we are doing now. And when doing that, we have actually to increase prices in Brazil to reduce demand here, to make people shift a little bit more to gasoline. So we actually do these exports. Then Brazil will be investing more in production here because prices will be higher. Production will come up. Then, again, Brazil will start consuming more ethanol because prices here will reduce slowly and people will start shifting back to ethanol in the pump. So that's kind of a long story but that's the way to answer your question.

**Q - Matt Farwell** {BIO 16404848 <GO>}

Okay. Thanks. Last quick question on the tax recovery program. How should we model that going forward? There was a pretty sizeable impact on EBITDA this quarter.

**A - Marcelo Martins** {BIO 16440115 <GO>}

I'm sorry. Can you repeat your question please, Matt?

**Q - Matt Farwell** {BIO 16404848 <GO>}

The Refis tax recovery program was a sizeable impact on EBITDA this quarter. How should we go about modeling that? Or how should that impact EBITDA in future quarters?

FINAL

**A - Marcelo Martins** {BIO 16440115 <GO>}

It's a one-event only. This was actually the result of the adherence of our Company to refinancing program that was put together by the government. That's pretty much it. If there is some additional impact in this quarter, it's going to be a minor impact. So the bulk of the impact has already been recognized in the Third Quarter.

**Q - Matt Farwell** {BIO 16404848 <GO>}

All right. Thank you very much.

**A - Marcelo Martins** {BIO 16440115 <GO>}

Sure.

**Operator**

(Operator Instructions) Your next question is from Juan Raffetto of MetLife.

**Q - Juan Raffetto**

Hi. Good morning. My question is related to the Rumo investment. Just if you can give us an update on the timing of the funding and approximate mix of equity and debt for that purpose.

**A - Marcos Lutz** {BIO 6779636 <GO>}

Juan, this is Marcos here. I'll actually have Marcelo speaking about the financial structure. But obviously on -- the business is already working. We started working strongly with railcars this January. So business plan is on track. There is, again obviously -- Marcelo can discuss a little bit. But we stalled a little bit the final discussions with the equity and funding because of this major MOU signed and published with Shell. So Marcelo can give you more flavor on that.

**A - Marcelo Martins** {BIO 16440115 <GO>}

Okay. We should have an equity stake in the company of around 25% to 30%. This is what we're discussing with a potential partner at this point in time. As Marcos said, we had to put the discussions on hold because of what was going on and because we were about to release the news about the potential JV. But now we're resuming the conversations. And my suggestion to you is that you assume that we would sell a 25% to 30% stake in the company.

**Q - Juan Raffetto**

Okay. Thank you. But on the total BRL1.2 billion announced, do you think -- which would be the mix of equity and debt, in general?

**A - Marcelo Martins** {BIO 16440115 <GO>}

Bloomberg Transcript

Well it's going to be -- we would probably raise roughly BRL800 million in debt for that project.

## Q - Juan Raffetto

Okay. Thank you.

## Operator

Your next question is from (Natalia Lukova) of Credit Suisse.

## Q - Natalia Lukova

My question is, if we exclude the effect of the Refis government financing, your EBITDA in the ethanol/sugar business would be something like (17). And I just wanted you to discuss more in detail what were the main reasons for the decline in revenues, despite increasing sugar prices. And what should we expect for the next quarter?

## A - Marcelo Martins {BIO 16440115 <GO>}

Yes. We had lower sales during last quarter, for all the reasons we discussed over the call. And we believe that the sales will increase over the last quarter of the year, during the intercrop period because, as you probably realize, the level of our inventories is pretty high. And what we're doing is we're actually selling that product, or sugar and ethanol, over this last quarter of the year.

The good news on the ethanol side of the business, as well as I mentioned during the call, is that exports would be lower in this next quarter, which should impact positively the results in the ethanol business because, as I mentioned before, the price in the domestic market in the Third Quarter was roughly 45% higher than the export price. So all combined. And I would say, a lower cost pressure as well, should result, I believe, in a better performance in this last quarter of the year.

## Q - Natalia Lukova

Okay. But in the Fourth Quarter, you will continue to account for a lower TSR. So we should continue to see costs on a unit basis higher than we usually saw. And in terms for the NovAmerica, can you remind me the explanation why NovAmerica had to buy sugar in the spot market?

## A - Marcelo Martins {BIO 16440115 <GO>}

Natalia, we always buy sugar in the market. NovAmerica has an internal market. With the NovAmerica and Cosan combined, we have an internal market of roughly 1 million tonnes of sugar. Out of this, like 20% is product that we actually originate in the domestic market. We have refining services hired also. And we do have a larger retail presence than even the production of this product specifically. So we do have origination, both in ethanol and sugar throughout the year. And this is not new. We always have that.

FINAL

Bloomberg Transcript

FINAL

What is new is that actually this year, we put more product to be sold in the last quarter where prices are the best possible. And you always originate during the crop because this is where -- when you can actually get -- even if it's expensive, it's better than -- it's available. And it's less expensive than it will be on the realization quarter, which is the intercrop period.

So what happened last quarter is that we have a lot of -- on top of the lower TSR effect, we also have origination of both ethanol and sugar in a stronger way. In the last quarter, we won't have that effect. So you will have a loosening in the COGS for the last quarter. But obviously the TSR effect will be there. So we won't have the origination effect but we will have the TSR effect.

### **Q - Natalia Lukova**

Okay. Thank you.

### **Operator**

Your next question is from Giovana Araujo of Itau Securities.

### **Q - Giovana Araujo** {BIO 16356713 <GO>}

Hi. Two questions. The first one, you mentioned the TSR negative effect will be present, of course, in the next quarter. I would like to know if we should expect some negative effect from un-harvested sugarcane. The first question.

The second question is regarding the Shell. I would like to know if Shell is developing some -- any research on the second-generation ethanol. And in case of yes, I would like to -- if you could share some (details) in terms of timeline for commercial scale, something like that. Thank you.

### **A - Marcelo Martins** {BIO 16440115 <GO>}

Giovana, can you repeat your second question? I was distracted a little bit, please.

### **Q - Giovana Araujo** {BIO 16356713 <GO>}

No. I would like to know if Shell is developing any research on second-generation ethanol and if you have some timelines for a commercial scale of that.

### **A - Marcos Lutz** {BIO 6779636 <GO>}

They certainly are. This is actually through the companies they are contributing to the JV, logen and Codexis. So this is actually their vehicle for R&D in second-generation, which is being -- their stake in this company is being contributed to the JV. So from the moment we close the deal, the JV will actually be the shareholder in these two companies.

And in your first question, I think you asked about the standing sugarcane, right?

Bloomberg Transcript

**Q - Giovana Araujo** {BIO 16356713 <GO>}

Yes. But before that, does Shell has today any timeline for any -- for the commercial scale of second-generation ethanol?

**A - Marcos Lutz** {BIO 6779636 <GO>}

2015. The commercial plant is scheduled to come on stream in January 2015.

**Q - Giovana Araujo** {BIO 16356713 <GO>}

2015. Okay. Thank you.

**A - Marcelo Martins** {BIO 16440115 <GO>}

And your question about the sugarcane standing (inaudible). It's a good point because I forgot to mention it in the call. We've made all the adjustments related to the sugarcane standing in the fields. We might have some adjustment in this quarter but it's going to be a minor adjustment. The bulk of the adjustment was already made in the last quarter.

**Q - Giovana Araujo** {BIO 16356713 <GO>}

Okay.

**Operator**

(Operator Instructions) We have no further questions at this time. I would now like to hand the floor back over to Mr. Marcelo Martins for any closing remarks.

**A - Marcelo Martins** {BIO 16440115 <GO>}

Okay. Thanks again for your presence on this call. I'm sure we will have more to talk over the next couple of months. And we'll let you know whenever we have any information to disclose. Thank you. Bye-bye.

**Operator**

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

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the*



*views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*

FINAL

Bloomberg Transcript