Q2 2009 Earnings Call

Company Participants

- Felipe Jansen, IRO
- Paulo Diniz, CFO and IR Officer

Other Participants

- Bevan Rosenblum, Analyst
- Christopher Agnew, Analyst
- Debbie Bobovnikova, Analyst
- Fernando Sierra, Analyst
- Giovanna Araujo, Analyst
- Gustavo Gattass, Analyst
- John Sierra, Analyst
- Jose Cavaliere, Analyst
- Juan Rafetto, Analyst
- Luiz Campos, Analyst
- Patricia Fernandez, Analyst
- Tereza Mello, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. At this time, we would like to welcome everyone to the Cosan Limited and Cosan SA Second Quarter of 2009 results conference call. Today with us we have Paulo Diniz, CFO and Investor Relations Officer, Pedro Mizutani, Chief Operating Officer, and Felipe Jansen, Investor Relations Manager.

We'd like to inform you that this event is recorded and all participants will be in 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)

Before proceeding, let me mention that forward-looking statements will be made during 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 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 over to CFO and Investor Relations Officer Paulo Diniz. Mr. Diniz, you may begin your presentation.

Paulo Diniz

Hi, everyone. In general, the results of Cosan SA mirrored the revised guidance released in the beginning of October, was the strong devaluation of reals, (et al) bringing a functional (low) cash flows on the dollar-denominated debt of the Company, and at the same time generated a strong ongoing operational performance, besides a better competitiveness for Cosan.

Despite keeping the commercial strategy of building up inventories and, consequently, registering sales volume of 282 million liters of ethanol and 740,000 of sugar, that is 7.8% and 10.2%, respectively, more than the volumes sold in the Second Quarter of last year.

Net revenues of BRL715 million presented a 14% growth over the same quarter of last year. Naturally, that the greatest portion of this contribution came from prices that were enhanced in reals by the dollar conversion. In other words, the ethanol average price of BRL826 per cubic meter in the Second Quarter was 30% higher than the average price in the Second Quarter of last year, while the sugar sold at an average price of BRL554 per ton, that is, 23% above than the price in the Second Quarter of last year.

Considering these volumes sold, the ethanol stock at the end of the quarter reached 817 million liters, while the sugar stocks reached almost 1.2 billion (tons). Despite the reduction in the total amount of cost of goods sold, the pace of such reduction was lower than the proportion of the reduction in volumes sold. In fact, the (unitary) cost was pressured by the increase in the processing cost, due to the higher sugarcane cost, increases in amortization due to the harvest adjustment and higher industrial costs, due to the (crushing) reduction due to rain.

Even though the EBITDA of BRL175 million was 131% superior than the Second Quarter of last year, while EBITDA margin of 24.5% was the highest in the last 24 months. The EBITDAH, that is, EBITDA with H at the end, of almost BRL200 million, considering the effects of locking prices in FX (weight) in future markets generated a margin of almost 25%, also very interesting considering the (syndicated) period that the sugarcane industry in Brazil is facing.

Unfortunately, from an accounting point of view, this excellent operating result was more than corroded by non-cash financial expenses of BRL501 million on the dollar-denominated debt, generating a negative bottom line of BRL308 million. In this quarter, Cosan SA carried out investments of BRL325 million, including around BRL130 million in cogen with Gasa plant registered its first billing of BRL6 million for the electricity sold in the quarter.

It should be noted that the cogen plants of Costa Pinto, Rafard and Bonfim are in their last stage of construction, while the company prepares itself for the cogen projects of the (news) of Diamante, Univalem and Barra and (Epausu). However, we want to stress once again that each one of these projects will be started only if and when the respective financing has been assured. The financial debt of Cosan SA, totaling BRL2.4 billion at the end of the Second Quarter, mainly due to the FX effect, which was 21.3% of both the FX rate in the Second Quarter of last year.

Net debt shrink to BRL837 million, considering the cash position of BRL1.562 billion at Cosan SA level. It should also be noted that after the closing of the Second Quarter, on December 1st, Cosan SA officially took control of Esso Brasileira de Petroleo through the payment of US$715 million to ExxonMobil, plus the assumption of US$175 million of financial debt outstanding at Essobras. The funding for this acquisition was done by the placement of BRL1.1 billion of commercial paper -- that means around US$500 million, another US$240 million of cash available at Cosan SA and another US$150 million of Cosan inventory.

It should also be mentioned that Cosan SA completed its capital increase of BRL880, basically described by (expanded) company, Cosan Limited, that increased its participation from 62.8% to 69.4% of the outstanding capital of BRL3.8 billion of Cosan SA, with the remaining balance of 30.6% traded at the Bovespa, the stock exchange. Later on, the parent company, Cosan Limited, succeeded with its capital increase of US$200 million through a private placement of class A shares. Therefore, currently the controlling Board, led by Rubens Silveira Mello, owns 41.5% of the economic interest of Cosan Limited, while the other 58.5% are floated at the New York Stock Exchange, out of which Gavea Investimentos Fund has a participation of over 14%.

Additionally, at the end of November, as a kind of liquidity assurance, if you like, against the current world financial crisis, Cosan Limited arranged a loan of US$150 million for two years in order to extend even further its liquidity position. Talking about Cosan Limited, its results in the quarter greatly mirrored the financials of Cosan SA. Therefore, the net revenue of US$383 million in this Second Quarter was 17% above the ones registered in the same quarter of last year.

Such net revenue has Cosan SA top line as a basis was adjusted by the exclusion of Santa Luiza's portion, because there is no such thing as proportional consolidation for US GAAP purposes. Another major GAAP difference at Cosan Limited is the level of cost of goods sold, far above Cosan SA's level due to the purchasing accounts method in the US GAAP, which carries a higher depreciation due to the higher amounts of fixed assets and a lower amount of goodwill created, due to the absence of goodwill amortization for US GAAP purposes.

Besides that, the private placement costs do not flow through the P&L but are netted out against the total capital raised and added to net the net worth directly. Finally, the financial expenses were improved by BRL110 million due to the mark-to-market effect of Cosan Limited's position for US GAAP purposes. Having that both in mind, Cosan Limited reached EBITDA of US$118 million in the quarter, almost twice the amount booked in the Third Quarter last year. In terms of EBITDA margin, it reached over 30% in the period, against 12.8% in the Second Quarter of last year.

However, as Cosan's main functional currency, not the reporting currency, is in reals, the same non-cash account impact was perceived by Cosan Limited, generating financial expenses of US$170 million in the quarter. On a consolidated basis, at the end of this quarter, Cosan Limited presented a net debt position of only US$154 million,(Sic-see press release) including in the year a cash cost addition of US$969, being US$231 million at Cosan Limited itself and the remaining balance at Cosan SA, as mentioned before.

Well, these were the main highlights for the Second Quarter of our fiscal year. We open now for Q&A in the certainty of having placed Cosan once more in a unique position to face the current market difficulties, magnified by the world financial crisis.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Patricia Fernandez of Itau. Please go ahead.

Q - Patricia Fernandez {BIO 19801776 <GO>}

Hi, (Paulo). I have a question about Esso. I just wanted to know, how was Esso's EBITDA margin in 2008.

A - Paulo Diniz

Well, basically, this year it has been very, very similar to last year. Consequently, we do expect a slightly better performance of Essobras this year when we compare to last year.

We are also planning in our next call a special section with Essobras figures, including guidance, once we are going to be able to have consolidated figures for this downstream asset here in Brazil. But, again, to summarize, performance has been better than last year.

Q - Patricia Fernandez {BIO 19801776 <GO>}

Okay. Thank you.

Operator

Thank you. Our next question comes from Fernando Sierra of Cosan. Please go ahead.

Q - Fernando Sierra {BIO 21663718 <GO>}

Hi, it's actually Fernando from Merrill Lynch. Good afternoon, Paulo, and everyone. I have a question regarding M&A, if your leverage level concerns you at the moment, or can you look for M&A or are you looking for M&A opportunities in terms of other sugar mills? And my second question is are you looking for any asset sales or any asset divestment, especially inside Esso?

A - Paulo Diniz

With regards to M&A, I guess we have already stated, and I thank you for the question, because now we can do it also here -- despite our liquidity position, we are not planning to do any kind of acquisition using cash. I guess this has to be understood. Eventually, in case there is a very interesting opportunity, in case we can again continue the consolidation process, we could consider an acquisition, but doing a swap of shares.

Therefore, we do not plan to have an impact in our liquidity positions by acquiring (new) at this point in time. With regards to divestitures, similar to what we do in terms of acquisitions, we are always searching for opportunities. Consequently, in case there is a certain price level and we do realize that the offer is good, yes, we would take a serious look. But, again, at this point in time there's nothing concrete in terms of any potential divestment.

Q - Fernando Sierra {BIO 21663718 <GO>}

Okay. Thank you, Paulo.

Operator

Thank you. Our question comes from (Bevan Rosenblum) of RBS. Please go ahead.

Q - Bevan Rosenblum

Hi, thanks for the calls. Just one question about your inventory levels. Can you explain to us the stockpiling strategy, please?

A - Paulo Diniz

Sorry, we got cut in here. Could you repeat the question again?

Q - Bevan Rosenblum

Yes, can you just explain to us? We noticed that inventories doubled, can you explain to us your strategy for stockpiling inventory?

A - Paulo Diniz

Okay, so thanks for the question, Bevan. I guess this is very important, because sometimes the people, they start to get concerned, wow, they have not been successful in selling their products and so on and so forth. Come on, guys, we have to understand that sugar is something that's traded in the New York Board of Trade, therefore, anybody at any time can sell the sugar over there.

Therefore, there is not such a thing as having difficulties in order to sell their product. Basically, our commercial area believes that during the inter-harvest period, because the great majority of the mills here in Brazil are not being able to carry that much inventory, because they do have to sell products as soon as they produced in order to generate cash, they believe that inter-harvest prices could be better than the current price level that we are verifying.

Consequently, preferring to keep, to hold, inventory at this point in time, as much as they can, of course, they have to meet all the ongoing contracts. But there are certain ones that can be holding inventory, in order to start the sale in a more aggressive way during the inter-harvest period.

Q - Bevan Rosenblum

Okay, great, and when do you expect to draw that down, and how much?

A - Paulo Diniz

Well, basically, although we have anticipated we have changed our year-end closing to March this year, because from an R&D point of view, early varieties of sugarcane we're developing. Therefore, to date, when people with the cane start crushing in April, so we have anticipated to March. The game plan is that inventories should be built in at the end of April. That was the internal plan for the Company, and this is what we expect to do.

Q - Bevan Rosenblum

Okay. Great. Thank you, very much.

Operator

Thank you. (Operator Instructions)

Our next question comes from Christopher Agnew of Goldman Sachs. Please go ahead.

Q - Christopher Agnew {BIO 3408258 <GO>}

Thank you, very much. Good afternoon. First of all, I was wondering if you could update us on how you are tracking to your crushing capacity goal in 2012, and maybe also update us on your greenfield expansion plans. Thanks.

A - Paulo Diniz

With regards to our greenfield, the overall project was basically three modules of 4 million tons, each one of the modules. We are in the middle of module 1 that we call Jatai, that we plan to have its crushing by next year, so by mid of 2009 we are starting to crush. For the other two modules, they are in a hold position as we are currently analyzing the alternative of building up those greenfields against acquisition or even against doing nothing. Therefore, we are still undecided on how to proceed with the second module or even compare it to potential acquisitions.

With regards to the net or the capital -- the crushing capacity increase in the coming years, I guess that had -- this year, last year, we crushed 40.3 million tons. This year, we are still crushing, but we shall have an increase by 8% to 10% and somehow we are expecting to continue in this pace, because any reduction in one of the modules of our greenfield projects, it shall be balanced by an acquisition. Therefore, the goal of moving towards the 60 million tons of crushing capacity continues more concrete than ever.

Q - Christopher Agnew {BIO 3408258 <GO>}

And with respect to greenfield development costs, I guess with steel prices and machinery and industrial costs coming down, have you started to see that reverse? And what would your estimate be for development costs for greenfield at the moment?

A - Paulo Diniz

Not really. This is one of the main reasons why we decide to put in the fridge the second and third modules against existing opportunities in acquisitions, because it seems that equipment manufacturers, they are trying to make the last penny off of those that are moving forward with the greenfields. Therefore, we would rather prefer to wait a little bit and ponder against other opportunities.

In terms of cost per ton of sugarcane, existing costs, they are around I would say US$80 to US$90 per ton of crushing capacity. Of course, this is really a function of (FX) rate that you take, but nevertheless this is, in our view, part of some ongoing discussions in the marketplace with regards to acquisition opportunities that we have heard.

Q - Christopher Agnew {BIO 3408258 <GO>}

Great, and one last question, please. You mentioned, I think, seven cogeneration projects. Can you just provide a timeline for when all those projects will be generating revenue? Thanks.

A - Felipe Jansen {BIO 16471255 <GO>}

Hi, Chris, this is Felipe. Well, we already are performing the Gasa (unity) that already sold energy for this crop, and for the next crop, in 2009 calendar year, we will start coming in with costs into and form a unity together with Gasa. Then, in 2010, you see other units that participated in the energy auction or granted and sold contracts established, bilateral contracts, with a power company, which is the Baja, and also our greenfields, Jatai. Then you also have Diamante and Univalem unity also, starting to perform 2010 calendar year.

Then you have kind of a ramp up. They will start generating more, especially the Jatai, which should have more sugarcane to crush than you have raw material to produce energy, and then they reach the full potential by 2012 and 2013, which is the sale of 1,900 gigawatt hours.

Q - Christopher Agnew {BIO 3408258 <GO>}

Excellent, thank you very much.

Operator

Our next question comes from Tereza Mello of Citi. Please go ahead.

Q - Tereza Mello {BIO 6448187 <GO>}

Hi. Good afternoon. A couple of questions. Could you review with us what are current CapEx expectations for 2009 and 2010, fiscal year 2009, 2010, if you have them? Are you planning to reduce any of the maintenance CapEx, any of the brownfield CapEx? I know that you talked a little bit about the greenfield, but what about maintenance, mechanization and brownfield? Should we see a deceleration there? Thanks.

A - Paulo Diniz

Hi, Tereza. Basically, in our guidance we had the total CapEx for last year is likely over BRL1 billion --.

Q - Tereza Mello {BIO 6448187 <GO>}

Yes.

A - Paulo Diniz

And this year we have an increase even if we decide to cut a little bit, such an increase, but basically, yes, areas that we are reducing are mainly in planting, in operating improvements and also the inter-harvest maintenance.

However, at the same time as Felipe just pointed out, we also won some energy auctions. In part, we have signed bilateral agreements. And, therefore, the final -- let's put it this way -- update on this figure this year, not so much for this year but mainly next year is going to be a function of the funding that we may or may not arrange for cogeneration projects. Therefore, we believe that in our next earnings release, we are going to be able to update this guidance in order to point out funding that we arrange, or not, in order to continue with some of those projects that we just discussed and of course make sure that we are not going to be putting the Company in any kind of squeeze, especially in times like this one.

Q - Tereza Mello {BIO 6448187 <GO>}

Okay, okay, and do you think that this reduction in plant implementation or maybe even maintenance of the facilities, can it reduce your productivity or it's just to have less growth going forward?

A - Paulo Diniz

Well, I guess at the end of the day it's a combination, because we are also going to have some sugarcane in this year at the end of this crop, so we're going to have (Canne and Vivada), something like 6% to 8%. Therefore, this sugarcane we are going to be crushing next year. Of course, that includes -- may have an impact in terms of our sucrose content, but our according to our calculations it's not going to be something relevant. We still think that the weather conditions are going to be the key variable in trying to better define the sucrose content from that crop.

Q - Tereza Mello {BIO 6448187 <GO>}

Okay, and another question, if I may. What are your expectations for the inter-harvesting inventories for the industry as a whole. Do you think we can see any issues with lack of anhydrous ethanol, or even hydrous ethanol? How do you think the industry is kind of in bounds?

A - Paulo Diniz

No, I guess that some movement that we start to be pursued a month or two ago are going -- let's put it this way -- aborted. Therefore, we don't believe that we are going to see any shortage of any type of ethanol. And, at the same time, we continue to believe that basically a (great) part of the inventory is going to be sold. Therefore, all producers shall be not only finished the crop, now in the same, but that main entry, the year crop in April of next year, was very, very reduced levels of inventory for sugar and ethanol.

Q - Tereza Mello {BIO 6448187 <GO>}

Okay. Thank you very much.

A - Paulo Diniz

Thanks, thanks, Tereza.

Operator

Your next question is from Luiz Campos of Credit Suisse. Please go ahead.

Q - Luiz Campos {BIO 17409443 <GO>}

Hi. Good afternoon, everyone. I just have a quick question, regarding the commercial papers you issued, could you provide us the cost of that on that one? Thanks.

A - Paulo Diniz

Yes, that was a private placement by (Bradesco). The cost is CDI plus 3% for a one-year tenure.

Q - Luiz Campos {BIO 17409443 <GO>}

Okay. Thank you.

Operator

Thank you. Our net question comes from Giovanna Araujo of Unibanco. Please go ahead.

Q - Giovanna Araujo

Yes. Good afternoon. I had a question about the subscription of warrant by Cosan Limited. Current cash of Cosan Limited ideally should be used to that, and we know that you have one year to make that decision, and how do you intend to manage that? Do you intend to wait for an appreciation of Cosan SA shares and try to accommodate the inter-staff (rural companies)? I would appreciate some color on that, thank you.

A - Paulo Diniz

As you said, this is an option that we extended to all potential investors of Cosan SA. As you know, the great majority was subscribed by Cosan Limited. Just a very, very small portion for minorities. Therefore, what is said is true, that Cosan Limited today has those rights, basically 33 million warrants outstanding and 99.9 in the hands of Cosan Limited and only 0.01 in the hands of minorities. We do have an equivalent strike price for conversion into shares of BRL16, and therefore it's our option that we do have until the end of next year to decide of moving forward or not. I mean, there's no -- at this point in time -- (interim) discussions on what to do with that, because, again, not only the price is totally out of the market but you know Cosan SA does not need any money at this point in time.

Therefore, we do not have any clear answer for this question at this point in time, only that we are going to keep that option open.

Q - Giovanna Araujo

Okay. Thank you.

Operator

Thank you. Our next question comes from Juan Rafetto of Metlife. Please go ahead.

Q - Juan Rafetto

Hi. Good afternoon. One of my question was really answered, but just to clarify, the acquisition of Esso is going to -- in these financials, it's not reflected yet, only the funds in the accounts? And basically the equity contribution has already been played? So just to clarify the timing for the payments. The only question I have is do you still have the PESA debt on balance?

A - Paulo Diniz

Could you repeat your last question, please?

Q - Juan Rafetto

Just mentioning if you still have the PESA debt on balance?

A - Paulo Diniz

Oh, yes. We do have the PESA debt, but at the same time we do have the (50 ends) in our balance sheet. Therefore, one is going to wash out the other in maturity. Therefore, we do not consider debt, because it's a self-liquidating debt, not only ourselves but rating agencies and so on and so forth. Yes, but you are right. We do have it.

Q - Juan Rafetto

Okay, and do you still consider as an alternative to issue equity to fund further growth? Or it's always on the table, despite the recent equity increase?

A - Paulo Diniz

Well, again, Cosan SA closed the quarter with roughly BRL1.6 billion in cash. We do not foresee any capital need at this point in time. Therefore, again, we do not have plans for any capital raising in the coming months.

Q - Juan Rafetto

Okay. Thank you.

Operator

Thank you. Our next question comes from Gustavo Gattass of UBS. Please go ahead.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Hi. Good afternoon, guys. I have a couple of questions here. The first one, in your press release you mentioned what appears to have been a significant reduction in planted area, of about 50% or so. Just wanting to understand, does that have anything to do with the startup of greenfields, or is that a management strategy to significantly bring down owned planted cane?

A - Paulo Diniz

Well, basically, we have sometimes said in the past, I guess it's important to understand the nature of our industry. It's different than other cultures, such as corn, beats, wheat or soybeans, whatever. Those cultures, they are annual culture. That means after you harvest, you have to plant it, otherwise, you are not going to be able to harvest the year after. This is not the case with regards to sugarcane. Sugarcane, once you plant, you know that we keep that for five, six years. Therefore, in case there is a crisis moment when the whole industry is facing difficulties, it's natural that you reduce your plantation and you just treat your sugarcane that you harvest, so that next year you are going to be able to harvest it again.

We may have a reduction in the sucrose content, but, again, this is nothing compared to the cash out that you would incur in order to keep that keep that plantation. So due to basically, let's say, our approach to this manner, we analyzed all these areas that we are required any new plantation, and basically we segregated areas where keeping the existing plantations would produce a sucrose content not that reduced and we only replaced -- we only planted in the areas where the reduction in sucrose content would be relevant. And this is basically the rationale that drove us in order to try to optimize the cash position during these difficult times.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay, just as a follow-up on that, then, can you give us an idea of what you expect your average (ATR) to be on this crop and where do you expect it to be next crop? And maybe even just touch on exactly when do you think your crop is ending this year?

A - Paulo Diniz

Yes, I guess that this crop will show finished sucrose content ATR around 140 kilos, and we do not expect any major decrease for next year, because, again, we may even have a kind of increase next year, but at least the same sucrose content that we are very fine this year.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. I had one more question, if I could. I know you mentioned to Tereza that you don't expect any kind of a shortage. In the event that we do see a much tighter market in the months to come, I just wanted to have a feeling from you guys. Do you think you're going to be able to capture, let's say, significantly higher ethanol prices in Brazil or do you believe that we should not expect to see any kind of significant gain on that front, be it because of fuel price in Brazil or be it because of regulation?

A - Paulo Diniz

Well, basically, very few mills, they are going to be able to continue to carry inventory after the harvest period that ends now in December. Therefore, the great majority by far we will have already sold its inventory. As a consequence, yes, this is our commercial bet for commercial area, basically. We still believe that in the inter-harvest period should present by slightly better prices than the ones that we are seeing now.

When they question that in the case of ethanol are your prices have been dramatically reduced? But at the same time, here in Brazil, I think the correlation is not that strong, especially because the cost structure of those oil produces, they do mill oil at a much higher price. Therefore, we do not expect oil price, consequently gasoline prices, to be reduced, because therefore their cost structure is (adapting) to something different. So again, also in terms of ethanol, we do see an upside with regards to ethanol prices.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. Thank you.

Operator

Okay. Thank you. Our next question comes from Debbie Bobovnikova of JPMorgan. Please go ahead.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Hi. Good afternoon. First question, on your costs, I noticed that your cash costs per ATR actually declined both year over year and quarter over quarter, which is a little strange. I mean, it's great, but it's a little strange, given the operating situation with the lower sucrose content and delays due to rainfall.

So I'm just wondering if you can explain to us what was the reasoning behind the decrease in cash costs.

A - Felipe Jansen {BIO 16471255 <GO>}

Hi, Debbie, this is Felipe speaking. As, I mean, we have already I think discussed about that, and we are planning to -- I would say to do it different for next year, which is in regard to depreciation. So the depreciation that is in the COGS, it's not a depreciation that you see when you recalculate the EBITDA. So in other words, the depreciation that is in the COGS is related to the sale of the products an the depreciation that is recalculated through the EBITDA is done proportionately with the production. So in other words, you cannot do the math that you were doing on regards to cash costs, not for this fiscal year.

But we are planning to adjust that and while the depreciation that we will see for next year, it will be exactly the depreciation that is inside the COGS with the same adjustment, which is on regard to the sale of the products. So that's why you cannot conclude that the cash costs is higher or is lesser because of the effect of the depreciation.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Okay, thanks, Felipe. Secondly, on your strategy, I know from previous conference calls, you mentioned possible investments in either CBI or Mexico in either integrated or dehydration plants, and at that point you were waiting to see the outcome of the US elections. Well, now we have the outcome. Just wondering what your views are as to those plans, if you are more positive on them, given that Obama's in office and his seeming support for ethanol demand in the US? And, also, if you have any updates to your views on the import tariffs the US currently puts on.

A - Paulo Diniz

Yes, you said the election is over, although there is no new position on this matter. Consequently -- by the American government. Consequently, in our case, we are also on hold with regard to those initiatives -- especially considering the world situation nowadays. Basically, we would not go ahead with any investment in the CBI or even in Mexico at this point in time, especially, again, considering that the situation with regard to the ethanol market in the US is still very, very undecided.

One thing is for sure. The American population is much more cautious with regards to what are the upsides, but mainly the downsides with regard to the existing US$0.54 per gallon import duty, and also with regards to the fiscal benefit of US$0.51 conceived to the blenders to be passed to ethanol producers in the US. So based on that and also considering the target fixed by the American government for biofuels, we still believe that nowadays all the discussions that are going on and shall increase in the near future with regards to reducing the import duty does make much more sense. As a consequence, again, just support our position of not moving forward with regards to this project.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Okay. Great. Then one last question, just on the ethanol exports. Can you give us some color on your exports this quarter, how much were they fuel ethanol versus industrial ethanol, and what were the main destinations?

A - Paulo Diniz

I don't have the breakdown here in the top of my mind, but the great majority by far was fuel ethanol, and mainly to the US. Second was to Europe and third was to CBI, but, again, to the US. We can provide you figures later on, but the US continues to lead directly or indirectly to CBI, continues to lead as the key destination of not only ours, but also ethanol exports out of Brazil.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

And should that then imply that right now your opportunity costs of exporting to the US, whether directly or through CBI, is that still positive, versus selling in the domestic market?

A - Paulo Diniz

Well, at the end of the day, it's an equation, let's put it this way, that you have to make sure that the balance is achieved by selling locally and exporting. It doesn't help to keep 100% of ethanol in here and have a price war and ethanol prices down the drains.

At the same time, it doesn't help to export 100% of the ethanol and having the Brazilian government just without any kind of authorization to continue that export. So this is an equation that has to be managed in order to make sure that any amount of ethanol exported, even if margins are not that high, you can recover that here in the local market and vice versa. This is basically what we are trying to do during this time.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

So basically, even if it's not as profitable as selling domestically, you're going to continue exporting ethanol for strategic reasons just to keep that market open, and vice versa?

A - Paulo Diniz

No, what I'm saying is even if we're not making that much money on exporting, I am sure that when I export I can -- by exporting that volume I am taking that volume out of Brazil and consequently I can sell the ethanol here locally at a higher price, compensating any kind of a price reduction that we get abroad, and, again, vice versa, depending on the situation and the moment.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Okay. Great. Well, thank you very much.

Operator

Thank you. Our next question comes from (John Sierra) of (Scopus). Please go ahead.

Q - John Sierra

I have just one question. I would like to know, if we see for next fiscal year the effects at BRL2.3 per dollar and the sugar price at US$0.12 per pound, what range of EBITDA margin should we expect to see, if you can give us an idea of this range with these figures, it would be great.

A - Paulo Diniz

Yes, that's a very important question. It is basically sometimes the people still get surprised by EBITDA levels. I guess one very basic rule of thumb that all of us we should have in mind is that by analyzing the cost structure of Cosan, it is such that every 10% increase in sugar prices or every 10% increase in the dollar rate appreciating against the real, this represents 50% increase in our EBITDA.

Therefore, from an operating cash flow point of view, any increase like the ones that you are stating, will represent roughly a 50% increase in our EBITDA.

Q - John Sierra

Okay, but can we expect margins above this 25% for the next full fiscal year with these levels? Do you think this is sustainable?

A - Paulo Diniz

Yes, considering the drivers that you mentioned, in the case of having capital, variables, FX rate and sugar prices, yes, we are going to be back to the situation that the Company operated two years ago, yes.

Q - John Sierra

Okay. Thank you very much.

Operator

Thank you. Our last question comes from Jose Cavaliere of Cavaliere Capital. Please go ahead.

Q - Jose Cavaliere

Good afternoon. I have twofold question and a remark, actually. Normally, there are two advantages to being vertically integrated. First, you can always sell your product with your retail outlets and, second, you can have better control over the pricing that you sell it at. So I'm assuming that you're going to accomplish both things. You're going to be able to hopefully to get better pricing at the retail outlets, and you'll be able to easily sell what you're stockpiling. First of all, would you comment on that? Then, secondly, how does your stockpile compare to your sales volume to your retail outlets?

In other words, are you going to be buying ethanol from third parties, or are you going to be able to supply your own needs at the retail level yourselves?

A - Paulo Diniz

Well, basically, we are producing 1.5 billion liters, and roughly this is the same volume that Essobras buys in terms of ethanol, so rough we have a one-to-one relationship. However, we do not want any kind of inefficiency in producing that ethanol or in buying that ethanol in terms of Essobras to be perpetuated. Therefore, Cosan will continue to be able to sell that ethanol to the best price it can get in the market, and at the same time Essobras will continue to be able to purchase the ethanol from the cheapest sources in the market.

What is important to note is that instead of trade 1.5 billion liters, the two companies, we are going to be able to manage more than 3 billion liters in the marketplace in terms of ethanol. And this, again, from a trading point of view, this is something extremely, extremely important. This is one of the points.

Prior to that, also we discussed some time ago, when you put together the margin of the ethanol producers, plus the margin of the fuel distributor, plus the margin of the gas stations, you are going to see that these three margins together, they are 50% less volatile than the margin of the ethanol producers. So this is also a major point that we have to factor in our Company, especially in times when all the ethanol producers are facing huge difficulties.

And, finally, we also have in terms of our vertical integration what we can say that the whole business chain can be (automized), because we are working with commodities that do not have a very high value added. And, at the same time, its logistics are extremely repetitive, repetition, the frequency is basically every second.

Therefore, any savings in here of US$0.01 will represent a lot. And, consequently, for example, any truck that comes empty to our mills in order to carry ethanol and to go back to the fuel distributors, in case it can come bringing gasoline so that we can multiply the logistic centers, including our own mills, that would be representing a major plus to our Company. So in a nutshell, this is basically some of the rational addressing your question.

Q - Jose Cavaliere

I have one more question. Thank you, by the way, for the reply. My last question is do you foresee any increase or decrease in your acquisition program of shares? In other words, Cosan Limited's purchase of Cosan SA's shares?

A - Paulo Diniz

Well, it really is going to depend on the opportunities that we are going to have in front of us. Therefore, it's difficult to at its point in time to give a precise answer on that one.

Q - Jose Cavaliere

Thank you, very much.

A - Paulo Diniz

Thank you.

Operator

Thank you. At this time, I would like to turn the conference back over to Mr. Diniz for any closing remarks.

A - Paulo Diniz

So dear colleagues, we end here our call related to the Second Quarter of 2009 fiscal year. And, once again, thank you very much for your presence and your continued support to our Company. Bye now, and very happy holidays.

Operator

Thank you. This concludes today's call. At this time, you may disconnect your line.