

Q4 2009 Earnings Call

Company Participants

- Marcelo Martins, CFO & IRO
- Marcos Lutz, CEO

Other Participants

- Debbie Bobovnikova, Analyst
- Eduardo Vieira, Analyst
- Giovana Araujo, Analyst
- Gustavo Gattass, Analyst
- Matt Farwell, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Cosan Limited and Cosan SA's Fourth 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 being 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. 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 (sic). 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 the 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 the CFO and the Investor Relations Officer Marcelo Martins. Mr. Martins, you may begin your conference.

Marcelo Martins {BIO 16440115 <GO>}

Well. Good morning, everybody. I'd like to start the presentation by making some remarks. Actually, I just wanted to remind you that in the previous year, in the year of 2009, we had 11 months only compared to 12 months in 2010. And the reason for that was because over last year we actually changed our fiscal year to the period from April 1st through March 31st.

In addition to that, we have also made the acquisition of ExxonMobil's downstream assets in Brazil. And those assets were actually incorporated into Cosan at December 1, 2008.

We have also performed the acquisition of NovAmerica's assets back in 2009. And we consolidated the Company starting in June, 1st of June, 2009, which means that out of the 12 months in this fiscal year, ten months were actually the months where NovAmerica was part of Cosan.

If you could turn to page four, I'd like to start by breaking down our financial highlights by business units. The purpose of doing this is to make it clear to the market the results generated by each business unit of the Company. We will, from now on, continue to do that. And in the case of CAA, it's actually subdivided by sugar, ethanol. And the co-generation businesses.

Out of the CAA business, we had a total -- we had net revenues in the amount of BRL5.2 billion, out of which BRL1.275 billion was EBITDA for the sugar and ethanol business. And BRL83.2 million was the EBITDA for the co-gen business. The EBITDA hedge was BRL1.689 billion. As part of this EBITDA hedge, we had roughly BRL300 million coming from the marking-to-market of the sugar that we had exported and hedged for up until the 31st of March 2010.

Rumo had total net revenues of BRL158 million in 2010. And EBITDA was BRL42.8 million, of which BRL41.8 million was EBITDA hedged. The fuel distribution and lubricants business had total -- had net revenues of BRL10.1 billion. And EBITDA was BRL332 million and an EBITDA hedge of the same amount, BRL332 million. Overall net revenues of BRL15.3 billion and EBITDA of BRL1.733 billion and an EBITDA hedge of BRL2.064 billion.

There was 145% positive variation on the net revenues of the Company compared to 2009. It actually comes from the fact that in 2009 we had only a few months of CCL being part of Cosan's consolidated figures. In the case of the sugar and ethanol business, we had an increase in revenues of 72% to BRL5.4 billion, which was a function of the merger with NovAmerica, the higher sugar prices in the international markets and revenues coming from the co-generation business in the amount of BRL92.4 million.

In the case of Rumo, there was a substantial increase in the net revenues coming from that business as a function of us having started the operations in conjunction with ALL,

which means that up until 2009, we had only the terminals part of the business being incorporated by Rumo. In CCL, we had net revenues of BRL10.1 billion, which represented a substantial increase compared to 2009 for the reasons I have previously explained.

On page six, we show how the EBITDA changed. It actually increased 141%. And the bulk of the EBITDA came from the sugar and ethanol business in the amount of BRL1.358 billion. BRL43 million came from Rumo. And BRL332 million came from the downstream business.

Cosan posted a record EBITDA last year as a function of better market conditions for the sugar business and an increase in the margin of the fuel distribution business as well. In terms of an EBITDA breakdown, the sugar and ethanol business represented 74% of the total EBITDA of the Company in 2010, compared to 26% coming from the other businesses.

It is in line with the Company's strategy to keep focusing in growing the businesses which have more stable EBITDA, compared to the sugar and ethanol business that presents a higher volatility as a function of the exposure to the sugar business, mainly and its high volatility, which has been especially noticed now with the decrease in the price at the international markets.

When we look forward in 2014, when we should have the co-gen and the logistics business generating or operating at full capacity, they should represent, together with the downstream business, 60% of the total EBITDA of Cosan. Roughly 40% would come from the sugar and ethanol business. It does not include any sort of expansion, either through acquisitions or Greenfield projects. And it does not consider the JV with Shell, which would substantially change, not only the EBITDA, the projected EBITDA. But also the breakdown when we consider the -- especially the downstream business, which would be merged with Shell.

In terms of the EBITDA hedge, there was an impact of BRL332 million last year, which was actually -- which derived from gains with FX in the amount of BRL417 million and losses in the commodities -- with the commodities in the amount of BRL186 million. The reason why we presented the losses in the commodities was because we had hedges, a substantial part of our exports before the fiscal year of 2010. And the price of sugar went up pretty substantially, which ended up having a negative impact on the sugar business. On the other hand, because of the FX variation, the impact on this business ended up being very positive.

I just wanted to mention that, starting next quarter, we're going to -- we'll do the hedge accounting of our business. And you should be able to see with more clarity the results coming from the hedging of the sugar prices in international markets as part of our results in the Company. Today, the way we do it, we have only part of the hedging results being referenced -- being in reference to gains and losses already performed. And part of it actually comes from marking-to-market the exposure we have to the sugar derivatives looking forward.

In terms of our hedging position, as of May 31, 2010, we had 1.659 million tons of sugar hedged at an average of US\$0.203 per pound. And we had 513,000 tons of sugar hedged at an average of US\$0.18 per pound. On the FX side, we had US\$473 million hedged at an average price of BRL2 per US dollar and BRL170 million hedged for 2012 at BRL2.03.

Now going through the financial highlights per business and starting out with sugar, we had a variation -- a positive variation in the net revenues of this business of 87% to BRL3.38 billion, which was a function of an increase in the average price and volume sold in the international and in the domestic market. The average price went up 38%. And the volume went up almost 36%.

The bulk of this growth came from the international market. But a pretty substantial part came from an increase in our sales to the domestic market, especially the function of the acquisition of NovAmerica back in 2009.

The COGS, the cost of goods sold, went up as well, mainly as a function of the increase in the price of -- and the cost coming from the price of sugarcane, especially from third parties. And a decrease in the TSR over last year when we had a very rainy crop season. Therefore, even with the -- with higher costs, we managed to increase our gross margin from 27.3% to 37.4%, represented by BRL161 per ton in 2009 and BRL205 per ton in 2010.

On the ethanol side of the business, we also saw a special increase in the revenues, in the net revenues, 49%. And which was a function of a 44% increase in the volume in the domestic and a slight growth in the international markets as well and a 2.4% only growth on the average price in the domestic and international markets.

On the other hand, the increase in the COGS, for the same reasons as I described before, more than offset the increase in the price, which ended up having a negative impact on the gross -- on the unit gross margin of the system, which came from 7.4% in 2009 down to 0.1% in 2010.

On the following slide, what we tried to do was to actually adjust the cost of goods sold by the one-off impacts we saw last year, mainly coming from a reduction in the TSR and the fact that because we acquired NovAmerica and we entered or actually increased our presence in the retail business. We ended up buying sugar in the domestic market at a higher cost, because we actually were selling products at a premium. And of course the premium made perfect sense to us to pay more for the sugar we would have to buy to sell on the domestic market.

Overall, it had a negative impact on the cost of goods sold as well. And if you take that into account, the conclusion is that, in a year that was very challenging in terms of keeping production costs stable, because of the excess rain and the increase in the cost of the sugarcane, we ended up having an adjusted cost that was very much in line with the previous year.

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Turning to the co-generation business, it was a fairly relevant year as well. As we keep ramping up this business and we keep investing in the growth of the co-gen business to actually keep generating energy that has already been sold through long-term agreements we have signed, not only with the government but with the private companies in Brazil as well. We saw an increase in the revenues from BRL15.1 million to BRL92.4 million, which represents an average price of BRL142 per megawatt, which is composed by a fixed price, which is the contracted price of BRL165 and available price that is a function of the sale of the -- of part of the energy in the spot market.

In terms of the consolidated EBITDA for the sugar and ethanol business, the margins went up from 19.8% to 25.2%, represented by an EBITDA of BRL1.358 billion. The EBITDA for the sugar and ethanol businesses together presented a margin of 24.1%. In the case of the co-gen, the EBITDA margin was of 90%.

Okay. Now we'd like to talk a little bit about Rumo. This is, again, the first time that we provide to the market some further detail on the logistics business. Our net revenues increased by 200% roughly, since we not only increased the loading capacity of the Company. But we have also included the transportation revenues coming from the agreement with ALL.

So the loading tonnage is coming up from 3.5 million tons in 2009 to 8.124 million in 2010. The average price went up 13% from 15.5% to 17.5%. Cosan represents roughly 35% of the total sugar that is loaded at Rumo today with 2.8 million tons.

In terms of the EBITDA, we had a margin of 27%, represented by BRL42.8 million. It compares with a higher margin in 2009. But it's important to say that because this is a business that keeps growing as we continue to make investments, we're actually normalizing the EBITDA margin to the level that should be the level from now on, once it becomes a more sizable business.

On the fuel distribution part of the business, we have also seen a very good year in terms of an increase in the revenues, even if we take into consideration the months that -- where the assets were not part of Cosan. In terms of the revenues breakdown by product, roughly 87% -- 84% comes from the sugar -- sorry, from the gasoline and diesel products. And 7% refers to the sale of ethanol, being -- and 6% lubricants.

In terms of cost of goods sold, of course the bulk of the increase comes from the fact that we sold a much higher volume in 2010. And the unit gross margin went up, pretty substantially, from 6.1% to 7.6%, represented by BRL137 per cubic meter.

The EBITDA for the business was of BRL332 million with a margin of 3.3%, compared to 2.1% in 2009. The EBITDA per cubic meter was roughly BRL60, represented by this margin of 3.3% that I just mentioned to you.

Now moving to the debt breakdown of the Company, the increase in the debt over the last quarter of the year, came from some additional debt raised with BNDES, BRL123 million. And part of it -- and there is BRL100 million an increase of debt from BNDES, which

is actually a function of some debt reclassification we did, compared to the previous quarter.

Overall, the cash position increased as well to more than offset the increase in the debt. And the net debt came down to BRL4.25 billion. We have also paid down part of the -- 100% of the debt with IFC in the amount of BRL90 million because of the trigger that was in the IFC loan that would start actually increasing interest based on the variation of the EBITDA of the Company.

Overall, the net debt-to-EBITDA ratio came down to 2.4 times if you do not -- I'm sorry, if you include two more months of NovAmerica in the EBITDA of the Company. Even if you offset those two months from NovAmerica, the net debt-to-EBITDA ratio was around 2.45 times.

The net income was of BRL986.5 million, which was a record net income for Cosan. Then the profit margin was of 6.4%. The main reasons for such an increase in this net income were the higher prices and volumes in pretty much every single business unit. And exchange variation had an effect, a positive effect, on the dollar-denominated debt of the Company of BRL560 million and the tax restructuring program that was actually put in place by the Brazilian government, which benefited Cosan through a gain of BRL270 million.

The Board of Directors has also approved a dividend distribution in the amount of BRL200 million for last fiscal year. And this dividend payment is going to be submitted to the shareholders' meeting approval in the month of July.

In terms of our guidance, we provided to the market for the fiscal year that is -- that we're actually in the middle of it now, is of a crushing capacity going up from 50 million to -- I'm sorry, not the crushing capacity but the actual sugarcane crushed coming up from 50 million tons to 58 -- from a range of 58 million to 62 million tons, sugar volume sold of 4.7 million to 5.1 million tons. And ethanol volumes sold from 2 billion to 2.2 billion liters, a volume of energy sold of 1.2 million to 1.5 million megawatts and loading volume at Rumo from 9.5 million to 11.5 million tons, transportation volume from 5.5 million to 6.5 million tons as well.

In terms of the fuels and lubricants business, we're projecting a jump from 4.5 billion liters this year to something in the range of 4.5 billion to 5.9 billion -- I'm sorry, 5.4 billion to 5.9 billion liters and on the lubes business from 130 million to 150 million liters.

Overall, it should represent revenues of BRL16.5 billion to BRL18.5 billion and an EBITDA in the range of BRL2 billion to BRL2.4 billion. We should also see an increase in the CapEx. But it's important to make clear that the bulk of the CapEx for the year 2011 will come from investments at Rumo. This is going to be the year with the most substantial investments at the Rumo business. And we will still see some residual investment on the co-gen side of the business, as well.

Overall, this is what I have to say. We will now open for questions. And Marcos Lutz and I will be here to answer the questions you might have. Thank you.

Questions And Answers

Operator

(Operator Instructions) We ask that you limit your questions to two questions per listener. Your first question comes from the line of Giovana Araujo with Itau Securities. Giovana Araujo, your line is open.

Q - Giovana Araujo {BIO 16356713 <GO>}

Hi. Hi, everyone. I'm sorry. My question -- first question's about Rumo. When you look through your numbers, you reported an EBITDA margin of 27%. And our question is if you expect a material change in Rumo's margins for the next year, this year, in the current year when accounting for the full transportation volumes. First question's on Rumo.

And also, the second question's about your guidance. When we look to your numbers, we see a material increase in the crushing capacity in sugar production, roughly 19% and slight ethanol volumes but also higher fuel sales. But when we look to revenues, the increase is just 14% already accounting for the co-generation in Rumo. So it seems that you are assuming lower sugar and ethanol prices for the current year.

So my question is, when you mentioned US\$0.18 per pound in the Portuguese call, you were considering both raw and white sugar? And also, if you can give us your implicit ethanol prices in your revenues projections, it would be interesting. Thank you.

A - Marcos Lutz {BIO 6779636 <GO>}

Giovana, Marcos here speaking. In terms of Rumo, I think, I mean, we are really at the beginning. And that is very -- I would not recommend you use any, let's say, past number to do your projections, because really they are not a material, let's say, not a significant representation of what will be the Company's numbers and Company's, let's say, margins and et cetera.

This year that we are reporting here had pretty much on the -- let's say the ALL contract January -- I'd say from January to March and pretty much the beginning. So almost nothing in terms of transportation revenues.

This that we are now will be the first year of Rumo's business plans. So in fact, we are starting now. And -- but I -- if you would like to have a guidance, I would say that margins, EBITDA margins, will be roughly under 30% level. But obviously changing a lot with the mix. If you have, let's say, on the transportation side, depends on how far you're actually having your average ranges about picking up the sugar. This can change quite significantly. So that's kind of our -- the number.

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In terms of -- I'll go -- I'll pass to Marcelo to give the numbers in the budget that were the base numbers to give the guidance in terms of pricing. We might discuss a little bit our views as well versus the budget, which is pretty much in line at this point. But they can have small variations in the future.

A - Marcelo Martins {BIO 16440115 <GO>}

Giovana, a couple of things, first, you have to take into consideration the projected price, which was partly offset by a different exchange rate, compared to last year. Okay?

Q - Giovana Araujo {BIO 16356713 <GO>}

Okay.

A - Marcelo Martins {BIO 16440115 <GO>}

So in terms of sugar, the price only, we considered an average of 5% higher than the average of last year's. And in terms of -- this is, of course, with the -- for the external market. For the internal market, we consider a price that is roughly 10% lower.

Q - Giovana Araujo {BIO 16356713 <GO>}

Okay.

A - Marcelo Martins {BIO 16440115 <GO>}

12% lower than last year. And in the case of ethanol, we considered a pricing export market of 30% higher than this year, in the domestic market a price that is roughly 5% higher than last year's. I'm talking about the price we took into consideration for the budget compared to the actual price for 2010.

A - Marcos Lutz {BIO 6779636 <GO>}

And Giovana, there's one additional thing we'd like to point out. I'm not sure if you are seeing this clearly. But this 50 million tons that we crushed in this current year, had 4 million tons less than, let's say, the assets because this is the beginning of the crop of NovAmerica that is not accounted here. So if we would compare asset to asset, we're talking about going from 54 million to roughly 60 million let's say on the average projections here. So it's not going from 50 million to 60 million. Okay? But your points on pricing, they still hold.

Q - Giovana Araujo {BIO 16356713 <GO>}

Okay. Okay. That's fine. Thank you.

Operator

Your next question comes from the line of Matt Farwell with Imperial Capital.

Q - Matt Farwell {BIO 16404848 <GO>}

Hi. Good afternoon. So I just curious about what you mentioned on sugar. Do you think that the US\$0.18 that was mentioned, is that going to be sort of front-end loaded in the back half, may fall off a bit due to hedges rolling off? And the second question I have is regarding exports. Have you -- can you characterize color, discussions you're having with US refiners on bringing in advanced biofuels over the next five years? And also, do you see the export market picking up this year?

A - Marcos Lutz {BIO 6779636 <GO>}

Matt, Marcos here. Well in terms of the pricing here, there is -- obviously, there's a front load of what is actually already priced. So I have a portion of my sugar already priced with the traders. So this is a portion that is not actually a doubt anymore, is already there. But we do see a market where in about, let's say, October, people will start to understand clearly what will be the crop, Brazilian crops for the other year. And market actually reacts a lot ahead of the physical market.

So we see the people in the trading community and analysts and everybody imagining that Brazil will actually grow strongly in the other year. And we don't see this at all. We basically see pretty much shrinkage, a very small but a shrinkage in Brazilian cane for next year. And even for this year, it's a great year for crops. Probably cost will go down.

But the fact is that this really dry weather reduces the amount of cane. The productivity per hectare reduces. You get a better cane, lower cost. But with less rain, as it's a grass. It will grow less tons per hectare. So people are not accounting very well this. And this, in my point of view, will be basically more taken into account in October and forward. So we might have a good, good news about the March '11 screen, which is probably a good possibility.

And sorry, about the ethanol question, I don't see US as a market for Brazilian export for this year. I see US actually with very low price at this moment, corn prices down as well. So I see exports from Brazil going mainly to Asia, smaller countries. And even Europe. And obviously industrial destinations there have different dynamics. Even the US have no barriers, no tariffs to imports for industrial ethanol. So we still have this line which is, let's say, a 2 billion liter per year line that actually goes to industrial ethanol, which is quite a different market than the energy ethanol.

Q - Matt Farwell {BIO 16404848 <GO>}

Then are you having or can you characterize any conversations that you've had with the US refiners over the advanced biofuel standard and the renewable fuel standard lately?

A - Marcos Lutz {BIO 6779636 <GO>}

Well we have discussions in California. There's clearly -- California's clearly the state that is moving faster in actually ranking the quality of, let's say, carbon capturing on the ethanol itself. So it's not the ethanol anymore in liters. But it is in, let's say, amount -- tons of carbon of CO2 that you actually take out of the air. This will impose a premium to Brazilian ethanol.

And we are better than the average in Brazil, given that we have co-gen plants, that we have actually mechanization larger than the average and things like that. So we don't burn as much the fuels. To harvest the fuel will be probably less than 28% will be not mechanized. So mechanization is above 70% already this year, 70%.

So we're trying to bring the new line to improve even more the value of Cosan's ethanol in US. But those discussions are, at this point, a little (insistent) given the prices parity between Brazilian and US market now. Brazil market is still higher priced for us than US market.

Q - Matt Farwell {BIO 16404848 <GO>}

Thank you very much. And congratulations on a successful year.

A - Marcos Lutz {BIO 6779636 <GO>}

Thank you.

Operator

Your next question comes from the line of Debbie Bobovnikova with JPMorgan.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Hi. Good afternoon. I wanted to follow up on Rumo and just get some more color. I know you said that it's still at the very early stages. But can you at least give us some color on the transportation side, how much you were able to ship in the quarter and how those lines should progress on a quarterly basis for next year? Then also if you can give us some color on the pricing and margin front, that would be great.

A - Marcos Lutz {BIO 6779636 <GO>}

Okay, Debbie. I don't see -- again, this is the First Quarter. So the beginning of a ramp up in inter-crop -- it is -- in the moment, there is no crop and beginning. So it's really not relevant. But I have to say that we currently have already almost 400 rail cars already running. We're receiving next week the first locomotive. And the investments and the transportation are being ahead of schedule or ahead of the business plan.

In the First Quarter, we did not give clearly all the details of the volume, not to, let's say, explicitly tell the terms of my contract with ALL, which is something we will try to protect.

But I would say that, on this number, on this guidance here that we say basically on average 6 million tons, this is only, let's say, the rail portion of Rumo that will be hauled through the ALL contract. So yes, we are ahead of schedule. The business plan was to hold like 5 million tons. We'll be probably on the top end of this range we gave. So that's - I don't know what more I can actually disclose but if that's okay.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Okay. Great. And on a different topic, we saw recently the deal between Guarani and Petrobras. Just wanted to get your general thoughts on how you see that impacting your markets, if there's any impact you think on ethanol pricing as a result, any impact on fuel distribution margins. And they were also very vocal about saying that they want to be a consolidator in the market. Do you see that as a risk to M&A prices? What are the strategic implications of that deal for you and for the sector?

A - Marcos Lutz {BIO 6779636 <GO>}

Debbie, again, in terms of the impact of the move itself, it's very small because at the end, Guarani is a sugar-oriented company. It's mostly sugar and very little ethanol production, compared to the whole crushing capacity.

The fact that Petrobras moved into -- more strongly into the sector, I see this as a positive thing. This will, on the -- as a trend, this might make Petrobras more aligned with the sector interests, because they will be with a stake on the sector. So this is a very good thing.

In terms of consolidation, I mentioned this many times in many calls. We like the fact to see serious consolidators appearing. A market with three or four Cosans in Brazil will be a lot better market than the current market. So it is good. And you mentioned the risk of M&A prices going up. I think they are high enough to make people kind of not do much. If they are that high, we won't buy anything. So that's the point. The risk for us is actually not to grow as fast in the consolidation process, given that people are somehow doing this work to us, I would say. And 60 million tons is a huge size already. We have a lot of stuff to do without consolidating even more.

And -- but if you ask my opinion, I don't see this happening. I don't -- I see the market, the consolidation happening because the market will understand clearly what are the correct prices for M&A activities. And people will be more and more disciplined as they learn about the markets and they understand better, the dynamics.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

And would you like to comment on what you think the correct M&A multiples should be or valuations?

A - Marcos Lutz {BIO 6779636 <GO>}

In terms of what should be a right price? This depends a lot on the assets. This is like me asking what is the correct price for a car and all depends on which car or the age of the car, the conditions. And everything. So this changes a lot. And for us, there is this, let's say, big threshold of US\$100 for crushing capacity, which is a lot higher than our multiple I would say. So it's like twice Cosan's value. So this makes no sense. We think something close to US\$60 -- between US\$60 and US\$80 something that normally is feasible, obviously accounting for the quality of the asset.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Perfect. Thank you very much.

Operator

(Operator Instructions) Your next question comes from the line of Eduardo Vieira with Credit Suisse.

Q - Eduardo Vieira {BIO 3087009 <GO>}

Hi. Thanks for the call. In the previous call, you gave guidance that, assuming the agreement with Shell went through, the way it was designed, any JVs that were created as part of that agreement would fully guarantee all of Cosan's bonds on top of the Company Cosan, the entity itself.

I'd like to ask if you can reiterate it, if that remains the case, you -- if that's really the case. And also, what's your strategy for ratings? Are you talking to rating agencies? Do you expect to be better rated? And when? How important is that for you? Is investment grade something that you envision? And if you could talk about that, the perspective, that would be great. Thank you.

A - Marcelo Martins {BIO 16440115 <GO>}

Eduardo, a couple of things, first, I think that in terms of the rating agencies, we are -- we're in very close contact with them. We talked to them when we announced the deal. Some of them have already envisioned positive outlooks. And they have initially indicated that they see, with very good eyes, a potential upgrade once we announce the deal, we announce the closing of the deal. I don't think it has changed. Actually, we keep monitoring the rating agencies. And we keep talking to them. We're actually starting a new round of conversations with them next week.

On the debt side of the business, we will keep the guarantees in place. If we decide for some reason that we should remove a guarantee, we'll certainly pursue any waiver necessary from the investors to change the guarantee, whenever it's applicable. If it's not -- if we decide not to remove the guarantee, which is possible, we'll find a way to get compensated by Shell for the situations where they would not provide a guarantee to the bonds of the JV.

Ideally, this is a company that should be run on a standalone basis, which means that none of us should provide any guarantees from -- of course, none of us, the shareholders, the controlling shareholders should provide any guarantee to the debt of the company to be incurred in the future. But to the extent that we need to keep the existing guarantees in place, we'll do it.

Q - Eduardo Vieira {BIO 3087009 <GO>}

Okay. And would the -- how would be -- how is the inclination from both the Cosan side and if you may speak for Shell at all from their feedback in terms of willingness to be providing that guarantee to boost the bonds ratings?

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Bloomberg Transcript

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A - Marcelo Martins {BIO 16440115 <GO>}

Going forward, I don't think Shell has the intention to provide direct guarantees to the bonds that will be issued by the JV. And actually --

Q - Eduardo Vieira {BIO 3087009 <GO>}

No. I'm mentioning, I'm sorry, the JVs providing guarantee, not Shell, the actual JVs.

A - Marcelo Martins {BIO 16440115 <GO>}

I'm sorry, the JV providing guarantee to what debt, the debt to --?

Q - Eduardo Vieira {BIO 3087009 <GO>}

Yes. The JV between Cosan Shell providing guarantees to existing Cosan --

A - Marcelo Martins {BIO 16440115 <GO>}

Yes, sure. Sure. 100%. 100%.

Q - Eduardo Vieira {BIO 3087009 <GO>}

No. So it is still the plan. That's -- I'm not talking about Cosan Limited or the owner of the parent of Cosan or the shareholder of Cosan or Shell itself. I'm just talking about the current guarantor and guarantors, existing ones. And the JVs, the JVs as becoming guarantors of the existing bonds.

A - Marcelo Martins {BIO 16440115 <GO>}

Okay. Let's assume for a second that we will have two JVs, which is likely to be the case, one JV for the upstream business, other JV for the downstream business.

Q - Eduardo Vieira {BIO 3087009 <GO>}

Okay.

A - Marcelo Martins {BIO 16440115 <GO>}

We might have part of the debt allocated to the upstream JV. We might have part of the debt allocated to the downstream JV. In any case, we have core guarantees, which means that the upstream JV should provide guarantees to the downstream JV's debt. And the downstream JV should provide guarantee to the upstream JV's debt.

Q - Eduardo Vieira {BIO 3087009 <GO>}

Basically, my question's related to the existing bonds. So the 14s, the 17s. And the perpetuals. They are currently guaranteed by Cosan and its guarantors as part of the indenture. My question's related to those bonds. Would that -- is there a situation where there would be a differentiation in terms of like who would be guarantee -- would we have potential different -- additional guarantors to each one of those bonds?

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A - Marcelo Martins {BIO 16440115 <GO>}

No, additional guarantors, I don't think so. I think what's going to happen is that to the extent that we have a JV, assuming that the JV is formed and it's pretty operational and we have already contributed 100% of the debt or the limit of the debt that is being agreed upon to the JV. So the bonds will be sitting at the JV. I don't know if some bonds will be sitting at the downstream or the upstream JVs or vice versa. But at the end of the day, all the companies that formed the JV will cross-guarantee (debt) that is sitting with the other companies (as part) of the JV.

Cosan will keep the guarantees in place to the extent that we believe it's necessary to keep those guarantees in place. And any sort of agreement that we need to have with Shell for -- (that) provides -- the guarantee we'll be providing, it would not be provided. It's the problem to be resolved between Cosan and Shell.

Q - Eduardo Vieira {BIO 3087009 <GO>}

Okay.

A - Marcelo Martins {BIO 16440115 <GO>}

I think that's pretty much it.

Q - Eduardo Vieira {BIO 3087009 <GO>}

I understand. I understand. If I may, like just one final question -- is that -- is the Company -- how is the Company is positioned to basically -- is the Company willing to protect the -- not let the credit quality -- not the credit quality but the guarantee or the backing, the businesses and the entities -- they are backing the bonds -- remain at least the way they are so that there's no risk of downgrade?

A - Marcelo Martins {BIO 16440115 <GO>}

We don't foresee the risk of a downgrade honestly. Much to the contrary, we foresee the risk of an upgrade for the debt of the JV and even for the credit rating of the JV itself.

Q - Eduardo Vieira {BIO 3087009 <GO>}

Okay.

A - Marcos Lutz {BIO 6779636 <GO>}

Let me make a suggestion. If you want to get some additional details, we have some other people who want to ask questions. If you can just --

Q - Eduardo Vieira {BIO 3087009 <GO>}

Sure. Yes. We can follow up offline, yes.

A - Marcos Lutz {BIO 6779636 <GO>}

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Thank you. I appreciate it. Thank you.

Q - Eduardo Vieira {BIO 3087009 <GO>}

Yes. Thank you very much.

Operator

Your next question comes from the line of Gustavo Gattass with BTG Pactual.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Hi, guys. I had a couple of questions. Some of them actually come back from the Portuguese call. So apologies on that end. But let me start with a separate one. For awhile now, we've been hearing, I would say small snippets and thoughts and possibilities about a potential restructuring, even at the CZZ and (CZON) level. I just wanted to have an update. Has something else actually happened there? Is that still a plan? Is that something that we can still think about?

The second question that I have is much more one on trying to get clarity on the guidance itself. In the Portuguese calls, you guys were talking about both the EBITDA figures and, let's say, the sugar price that was embedded in your guidance. And I just wanted to have a little bit more clarity about what we were looking at in two main fronts, the first one being, when we look at the revenue stream, are we already thinking of that revenue stream with hedge accounting and at the EBITDA already with hedge accounting as well? That would be the first question.

And when we effectively think of the revenue stream, would that already be impacted by sugar prices improving and to the benefit of the hedge or not? So those are the two questions. Apologies for taking longer.

A - Marcelo Martins {BIO 16440115 <GO>}

Okay. Just starting out of your second question, Gustavo, the (every) -- yes, we've been working on the hedge accounting since last year. So when we finalize these projections and when we finalize -- because what you're seeing in terms of guidance is 100% based on our budgeting exercise and what we have submitted to the approval of the Board.

So it's based on the hedge accounting. And I'm not saying that we wouldn't eventually have some sort of adjustments, minor adjustments, once we implement hedge accounting. But what the numbers you are seeing already contemplate hedge accounting being performed at the Company starting in the next quarter, in the Second Quarter of 2011. Is it a satisfactory answer to --?

Q - Gustavo Gattass {BIO 1702868 <GO>}

No. That's fair. That's fair. So this is truly comparable to how you're going to be reporting. It's not --

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A - Marcelo Martins {BIO 16440115 <GO>}

No. It is.

Q - Gustavo Gattass {BIO 1702868 <GO>}

-- a different accounting. Okay. That's perfect.

A - Marcelo Martins {BIO 16440115 <GO>}

It is. Sorry. And your first question was about the restructuring of Cosan Limited, right?

Q - Gustavo Gattass {BIO 1702868 <GO>}

Yes, hopefully or something -- it's a little bit more of a fishing question than anything else. But just to try to understand if that's something that you guys are still thinking about.

A - Marcelo Martins {BIO 16440115 <GO>}

Well this is something I can't stop thinking about to be honest with you, Gustavo. But it doesn't mean that we're going to do something about it immediately. The reason why I have to keep thinking about it is because I don't really understand the reason why there is a discount on CZZ compared to Cosan SA. But I can tell you that there's no decision made at this point in time about any potential restructuring of CZZ, Cosan Limited. If something happens, it will happen after we submit any potential restructuring to the approval of the shareholders. And of course, the shareholders who have to approve any proposal that would come from the management.

To be very honest with you, we're 100% focused on finalizing the JV with Shell because this is a very complex transaction, as you can imagine. And it's transformation of a transaction for our company. Once we're finished with this deal, we'll be in a better position to discuss other important moves for Cosan, either at the businesses that will stay outside of the JV or the companies that we have listed today.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. Perfect. Thank you, guys.

A - Marcelo Martins {BIO 16440115 <GO>}

Thank you. Bye.

Operator

At this time, you have no further questions. I'll now turn the call back over to Marcelo Martins for closing remarks.

A - Marcelo Martins {BIO 16440115 <GO>}

Well I just wanted to thank you and just pass it onto Marcos to make his closing remarks.

A - Marcos Lutz {BIO 6779636 <GO>}

Well thank you all for participating in our fiscal year 2010 results call. We had a challenging year in CAA. We had a record rainfall that caused huge operational burdens. But we had large benefits on the top line and also on the other business lines. We affirm our strategy of developing stable cash flow businesses around our sugar and ethanol. But those are on top of improving the stability and productivity of our cash flow. It can also provide a lot of synergies among themselves.

So we'll keep on that route. This year will be a year where those lines will be very relevant. I mean, when we mentioned about our -- let's say, our projections for next year, our guidance, this guidance is already a lot less affected by sugar than it was in the past. So we are already getting the results from it and this year we are currently on. We had some results of that last year as well. But thank you, all, for being -- following us and for being here in this call.

Operator

This concludes today's conference call. You may now disconnect.

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