Q2 2010 Earnings Call

Company Participants

- Marcelo Martins, CFO and Investor Relations Officer
- Marcos Lutz, CEO

Other Participants

- Debbie Bobovnikova, Analyst
- Giagana Arruja, Analyst
- Matt Farwell, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to the Cosan Limited and Cosan S.A. Second 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. (Operator Instructions)

The audio and slide show of this presentation are available through the live Webcast at www.cosan.com.br/ir. 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 assumption of Cosan Limited and Cosan S.A.'s management 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 results of Cosan Limited and Cosan S.A. and could (also result to) differ materially from those expressed in such forward-looking statements.

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

Marcelo Martins {BIO 16440115 <GO>}

Thanks. Good afternoon, everybody. I just wanted to start by reminding you that this quarter is comprised by the months of July, August. And September, which the Second Quarter of 2009 was comprised by the months of August through October. This month we also have for the first time the incorporation of the full results of NovAmerica within Cosan S.A.

I'd just wanted to start by giving you some highlights, starting with the net revenue figures that jumped from BRL715 million back in the Second Quarter of 2009 to BRL3.6 billion, roughly, in this quarter, which actually means an increase of 400%. The bulk of this revenue generation comes from the CCL business, which is the former ExxonMobil downstream assets in Brazil.

So CCL represented roughly two-thirds of the net revenues of the Company in this quarter. And BRL1.2 billion was represented by the revenues generated by the sugar and ethanol business, which is-- under the Company, we call CAA.

In terms of the net revenues breakdown by product, what we had last year was 100% of the revenues being generated by the sugar and ethanol businesses, which comprised 100% of the businesses of the Group. And in this quarter, we had roughly 67% of the revenues coming from the fuels and lubes business and roughly 31% coming from sugar and ethanol.

In terms of the breakdown by market, last year we had the bulk of the sales being directed to the export market; roughly 70%. And this year we have roughly 83% of the sales being done domestically, as-- Through the acquisition of CCL, the bulk of the market is located in Brazil.

In terms of the EBITDA for this quarter, we also saw a substantial jump from last year, a jump of roughly 95%, coming from BRL182.5 million to BRL356 million during this quarter. The reason why we had a record EBITDA was because we saw a much better market for sugar and ethanol, combined with an EBITDA that was actually better than the First Quarter in the lubes and fuels business. And the reason why this quarter was better than last quarter is because last quarter we had as part of the revenues the jet fuel business, which, as you know, we sold at the end of last quarter.

In terms of the EBITDA breakdown by segment, we have 76%, roughly, coming from sugar and ethanol and 24% coming from lubes and fuels. When we add the cogen and logistics businesses' EBITDA, we come up with roughly 11% of the total EBITDA of the Company being allocated to those businesses. Therefore, roughly 35% of the EBITDA was actually derived from operations that are not sugar and ethanol.

In terms of the net income during the same period of time, we had a substantial jump from a negative income, meaning a loss, in the Second Quarter of last year, representing a negative margin of 53.3%, to a positive margin of 4.8% in this quarter, represented by an income of BRL173 million. In the year, we have a total income of BRL511 million, equivalent to a margin of 7.2%. The reason for this very positive income is, first, the fact that there was a positive exchange rate variation, which resulted in gains not only in the hedging of the business but, with the combination of better sugar prices, higher margin for the sugar business as well. In terms of ethanol, what we have seen is that, despite the fact that the price has recovered compared to the First Quarter, it is still substantially lower than the equivalent quarter last year.

Before we start talking about numbers per business units, I would like to pass it on to Marcos, who will talk a little bit about the market conditions for sugar and ethanol.

Marcos Lutz {BIO 6779636 <GO>}

Well a lot of noises in terms of the Brazilian crop. And I'd like to basically explain a little bit about what happened and the reasons because the combination of the central-south of Brazil frustrating the harvest on this last three months-- the combination of that with the deficit in India made a big part of the explanation of what happened in the price. And this, for sure, will be the most significant impact in the coming months.

We experienced this year in Brazil-- This winter was the rainiest winter since 30 years ago. So we had some of the months with the largest rainfall volume since Brazil started monitoring this more than 40 years ago. So actually, we experienced a very wet winter, completely out of the curve. So this was what made not only Cosan but, more than Cosan, the whole central-south of Brazil-- in some areas, a lot more impacted than Cosan.

Had two main drivers of reduction of final production. One is this cane crush crushed, which was actually frustrated because of rainfall stopping the crop in the fields but, also, the fact of this rain reduced the ATR, which is the sucrose level in the sugar cane, that made the final production per (ton) of cane crushed being smaller as well.

The combination of this higher-- this smaller sucrose and also smaller crushing with the fact that India is experiencing now a very low inventory level-- India consumes about 22 million tons of sugar per year and is producing a very small crop this year compared to three years ago. They are experiencing at the beginning of their crop, which is happening now in November, a very low inventory level. So the combination of that made prices of sugar jump from the $0.12 to the $0.15 to the $0.22 and even more than $0.22 per (ton) that we saw, especially in the (next March) screen.

So the combination of that really transformed the market in Brazil not only in the sugar level but also made the producers in Brazil prioritize sugar instead of ethanol. So we had a swing in the mix of production that made the market of ethanol in Brazil a lot short. And this shorter market made prices of ethanol also come from BRL600-plus per cubic meter to BRL1,000 per cubic meter, which is what we are experiencing now and will be experiencing in the next months.

So yes, we are now through a very healthy market. The initial fear of having the domestic market in Brazil reducing because of the crisis really did not materialize. The vehicle sales in Brazil actually broke a new record, more than-- roughly 90% of the new cars sold in Brazil this year were flex fuel cars. And the absolute number was, again, a record number every single month since April. So basically, we are experiencing a very healthy internal market on the ethanol side. What made the smaller production combination a very-- let's say very healthy in terms of prices put us in the position we are for the next months.

I will turn back to Marcelo now. He will discuss all the financial highlights. And we'll be here for further questioning at the end of the presentation.

Marcelo Martins {BIO 16440115 <GO>}

Thanks, Marcos. I'd like to start by talking a little bit about the sugar business. What we have seen in this quarter was a major increase from sugar sales in the equivalent quarter last year. We had total sales of 1.1 million tons this quarter compared to 740,000 tons in the equivalent quarter last year. But better than, actually, the increase is the change in the price. We have seen prices going up substantially, getting to BRL726 per ton, compared to BRL550 for last year.

Part of the increase in the price was offset by an increase in the cost of goods sold, which was represented mainly by an increase in the sugar and the white sugar in the total mix of the Company and also an increase in the sucrose and the cost of the TSR, meaning the increase for the cost of the sucrose from BRL0.256 to BRL0.299, which meant an increase of roughly 17%. That increase was offset by a lower cost of production deriving from the increase in the mechanization of the harvest, which represented a reduction of BRL5.22 per ton.

Overall, the net revenues represented a 95% increase coming from BRL410 million to BRL799 million in this quarter. In terms of the unit gross margin, we saw a big jump, from 27% last year to 35% this year, represented by a unit margin, meaning a reais per ton margin of BRL251 compared to BRL149 last year.

In terms of the ethanol business, we have also seen a substantial increase in the sales of this product, coming from 282 million liters last year to 451 million liters this quarter, which represented an increase of 60%. And also-- sorry-- To offset an increase in the volumes sold, we had a decrease in the price that was coming from BRL857 per thousand liters to roughly BRL700 as per thousand liters in this quarter.

I just wanted you to bear in mind that there is a big impact of the exchange rate in this price because, by the time we load the ethanol to export-- We use the prevailing exchange rate. And whatever difference we have as a function of the hedging we did for the ethanol we exported would be reflected in the financial results of the Company.

In terms of the cost of goods sold, again, the impact which represented a 5% increase in the unit cost coming from BRL672 to BRL707 per thousand liters was also a function of the increase in the TSR. That has an impact not only in sugar cane we acquire from the farmers but also in the price of the land lease.

The net revenues increased by 41% from BRL232 million to BRL328 million in this quarter. In terms of the unit gross margin, we saw a major decrease from BRL154 to BRL20 per thousand liters, which is certainly a much higher number than the First Quarter of this year.

Overall, the EBITDA of the sugar and ethanol business went up from BRL183 million to BRL270 million, which meant an increase of 48%. In terms of the EBITDA hedge, we saw this number coming from BRL185 million to BRL253 million, which means BRL17 million lower than the actual EBITDA for this period of the year. The reason why we see this number lower is a function of the mark-to-market adjustment we have to do in the accounting of the derivatives for the sale of sugar.

Actually, what we had in the past was an EBITDAH, number, an EBITDA-hedge number, that was a function of the actual price we obtained for selling the product in the market during the quarter. And we're planning on bringing this number back in the next quarter.

Now let's skip to the fuels and lubes business. We had a reduction in the net revenues from BRL2.7 billion to BRL2.4 billion in this quarter. But this reduction in the net revenues was offset, actually, by a 12.1% lower cost of goods sold, represented by BRL2.2 billion compared to BRL2.53 billion last year. The lower COGS actually is a function of a different mix in the products that are sold by the Company, meaning that we increased the sale of ethanol and diesel. And we ended up reducing a little bit the sale of gasoline.

Another point that I would like to bring up to your attention is the fact that we don't have the revenues coming from the sale of jet fuels in this quarter, while we had it last year. And it should have had an impact of roughly BRL290 million in the total revenues-- in the net revenues of the Company had it been part of the portfolio still.

In terms of the gasoline, the reduction in the volume of gasoline sold in the market was represented by a reduction in the net revenues by roughly BRL78 million. But this number was actually offset by an increase in the sale of ethanol and diesel, as I mentioned before.

In terms of the breakdown of net revenues by product, we have gasoline and diesel representing roughly 83% of the net revenues of the Company in this quarter, while ethanol represented 8% and lubes 7%.

In terms of the unit gross margin for this business, we saw a big improvement, from 6% to 7.7%, represented by an improvement in the margin from BRL115 per thousand liters to BRL136 per thousand liters.

The EBITDA, as I mentioned before, was a record EBITDA for this Company, if we take into consideration that, last quarter, we had a positive impact of BRL7 million coming from the sale of the jet fuel business. Therefore, this year the EBITDA had a margin of 3.6%, which means, in terms of a ratio per cubic meter of BRL63.8, which is substantially higher than within this business in the past.

I just wanted to talk a little bit about the hedging. As we've been disclosing to the market, we were actually-- on September 30, sold in 1.1 million tons of sugar at an average price of $0.185 per pound. And at that time, we had 1.063 million tons of sugar sold for the next crop at an average price of $0.205 per pound. Today, we are roughly 32% hedged into the next crop.

In terms of the FX, we had a total volume of $803 million fixed at an average rate of BRL1.837 for this crop and $467 million at an average rate of BRL1.931 for the next crop.

We decided to break down our debt as of yesterday. And the reason why we did it differently from what we normally do is because we had a very important payment, or debt amortization, that took place yesterday, which was the payment of the Bradesco loan. We have paid the loan in total. And we have actually raised money through other sources to make this payment.

We have recently announced that we would be raising from $200 million to $300 million through a pre-export facility. And we have so far withdrawn roughly BRL200 million under that facility. There is 100 million more to be withdrawn in the future. And we have also raised BRL100 in credit export notes with a final maturity of three years. In addition to that, we have raised BRL300 million with an average tenure of two years through notes called contract of export financing.

We have today an outstanding debt of BRL4.876 billion and a net debt of BRL4.083 billion that represent a multiple to EBITDA to the last 12-month, prorated EBITDA of 3.06 times.

In terms of the profile of our debt, the bulk of it is long term. The only short-term portion we have is represented by debt we raised for investments that we have recently made in one of our greenfield projects. And actually, this debt is going to be refinanced by BNDES whenever we get an additional disbursement under the existing facility we have with them.

Now moving to the investments, or the CapEx, of the Company during this quarter, we had an increase of roughly BRL10 million compared to the same quarter last year. And the bulk of the investments were made in the greenfield projects, meaning that we have actually concluded the investments in the Jatai project in the state of Goias. And we're also about to conclude investments in Caarapo, which is the major project we acquired along with NovAmerica. And this second project is, as I said, about to be finished. And the Company should become-- sorry-- And the mill should become operational by end of this crop.

In terms of the cogeneration, we have invested mainly in Barra and Bonfim a total of BRL93 million during this quarter. And we have other projects in the sugar and ethanol business that are basically for additional investments in the planting of sugar cane, especially because we have increased the production of sugar cane. And as a consequence, we're going to have a much more substantial production of sugar and ethanol. And we also had total investments of BRL57 million in this project.

In terms of the notices to the market, we have-- As I think you are all aware of, we have announced the issuance of bonds by CCL at the end of the First Quarter in the amount of BRL350 million.

We have also announced the creation of the shared services center, which will actually provide services to all business units within the Company.

But I would say that the most relevant notice we've had recently is actually the replacement of Mr. Rubens Mello by Marcos Lutz as the new CEO of the Company. And Marcos has effectively taken over on November 1.

Lastly, we have announced that we would be selling. And we have actually sold, 10 million warrants as part of the warrants we had at Cosan Limited that would give Cosan Limited the right to subscribe shares to be issued by Cosan S.A. And we have later announced that we would subscribe roughly 23.7 million of Cosan S.A. under those warrants.

We're also providing some additional guidance, which is different from the previous guidance we had last quarter. And the most relevant changes come from the fact that we're increasing our sugar and ethanol production. And we are also forecasting a higher EBITDA as a consequence of the better prices we're seeing in the sugar and ethanol businesses.

Overall, this is what I had to say. And I just wanted to turn it back to you for questions I'm sure you all have. Thank you.

Questions And Answers

Operator

(Operator Instructions) (Giagana Arruja), Itau.

Q - Giagana Arruja

I have two questions. The first question is regarding NovAmerica. You consolidate the NovAmerica operations this year. And I would like to know if NovAmerica's margins are still running below Cosan's margins in the CAA division and when we might see some synergies coming from this acquisition and overall if you are seeing some improvement in the margins in the retail sugar business. This is the first question.

And the second question is regarding the expansion plans of the Group in the sugar and ethanol division. We know that the acquisition multiples increased recently. And we assume that the market conditions will remain at current levels in the next two marketing years. I would like to know if it's reasonable to assume a resumption of the greenfield projects in the state of Goias. I know that you already have one and another now from the acquisition of America. But I would like to know if it's reasonable to assume another one in the third year looking forward. Thank you.

A - Marcos Lutz {BIO 6779636 <GO>}

So starting with NovAmerica, yes, we had actually improved a lot on the NovAmerica operation. I would say now, because the characteristics of the NovAmerica operation of being very focused in the internal market, this brought a lot of value to the Company. I would say that NovAmerica this quarter-- those assets were probably the best result in the Company. The fact that we also are operating jointly the Barra brand and the Uniao brand helped us also to optimize the logistics and also the commercial operations.

And summing this with the fact that we had experienced a very, very short market in the internal market of sugar in Brazil, the commercial portion, combined with the operational part, made this a lot better than we anticipated. So there's a very strong result of NovAmerica embedded in those three months. And the current month and, actually, last October, we experienced also very strong numbers from NovAmerica.

But let's say, the operation is already integrated. But there are some steps ahead of us. In January is when we actually move NovAmerica to our SAP system. They had an Oracle ERP. And we are migrating all that to Cosan's system. So the process is still ongoing. But I mean, we are really happy with the results of that acquisition.

We have to also remind you that NovAmerica had 30% of the Rumo Logistica business. So this also adds up to a very good operation when we analyzed, let's say, the final cost of the total operation.

You're right. The M&A activity is picking up again. I would say to you that the new trend would be a lot more focus in old companies than greenfields. The deals we are watching around us are in numbers under, let's say, replacement cost, which, in our view, is what makes sense. We have not been too active because we still believe those prices will come down a little bit when the buyers actually are, let's say, with their hands full. And there's a very small number of buyers at the end and a very large number of sellers. So we'll actually have to watch a little bit more and be very, let's say, disciplined with acquisitions here at Cosan.

A - Marcelo Martins {BIO 16440115 <GO>}

I'm sorry. Just to clarify what Marcos said, when he said that NovAmerica had the best result of the Company, he means they had the highest margin within our portfolio.

Q - Giagana Arruja

Okay. Thank you.

Operator

Debbie Bobovnikova, JPMorgan.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

I just wanted to follow up on a few things you've already touched on. But on the hedges, you mentioned that you've already extended the hedges slightly for the next marketing year to, I think you said, 35% of expected volumes. What was the average price? Sorry; it was 32%. But what was the average price that you extended them at, both in terms of the dollar per pound for sugar and also the currency?

A - Marcelo Martins {BIO 16440115 <GO>}

In terms of the dollar per pound, it's around the same level as you've seen in the end of the first and Second Quarter. It's around $0.205 per pound. And the exchange rate is around BRL1.93.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Okay. Great. Also, on the last question, you mentioned about you're now much more apt to go back to looking for acquisitions rather than following greenfield. And you said that you think that valuations are attractive. Can you give us an idea of how you see the recent transactions-- how you calculated their (EV) per ton? And how do you see the market behaving in the coming months? What would be an attractive acquisition multiple for you on an EV-per-ton basis?

A - Marcos Lutz {BIO 6779636 <GO>}

Okay. We haven't seen many deals taking place recently. There was one deal that was announced yesterday. I think average US dollar per ton we've seen in this deal was around $80, if I'm not mistaken, which is certainly pretty attractive compared to where other deals could eventually take place after this one was announced. So what we're seeing is, actually, the new deals potentially coming in at higher multiples. And we're talking about a multiple in the range of maybe $95 to $110 per ton. And at this level, it doesn't make a lot of sense for us to make acquisitions whilst we have already a total crushing capacity of 60 million tons, being, by far, the largest crush in Brazil. And we're actually being traded at a multiple that is substantially lower than this multiple. So we don't think it makes sense to pay that sort of multiple. But we believe that some transactions will take place at this level.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

What do you think is a reasonable replacement cost to assume now, because, obviously, the last time we saw big expansion plans, we were in a very inflationary environment. So things have changed significantly. What do you estimate are the new replacement costs?

A - Marcos Lutz {BIO 6779636 <GO>}

If you consider the mill only, without the cane, you can consider around $100 per ton. If you consider the cane along with it, it should be around $130 per ton.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Okay. Great. If I can just ask one last question for now, just-- We talked about the hedges. And I saw some comments that I guess you made on the previous call with reporters about your sugar outlook. Can you just take us through a little bit about how you see the global sugar supply/demand evolving in the coming months? When will the new supply hit, really? And when will prices react to that new supply? So just give us an idea of how you see the coming months.

A - Marcos Lutz {BIO 6779636 <GO>}

I would say that the next-- the Fourth Quarter of '09 is a very strong deficit type of quarter. Roughly 1.6 million (tons) or a little more than that, in our view, which is also a very strong deficit in the raw sugar side but also in the whites. So it will be an all-around deficit quarter. Then you have the First Quarter of next year, '10, will be a small deficit. Then, our view is that, from Q2 2010 and on, we'll resume having a surplus of sugar.

But the point is there's a combination there. One is the fact that the surplus will happen in raw sugar after the Brazilian crop starts strong again next year, combined with also the, let's say, comeback of the Indian crop. So we will see a white sugar deficit throughout next year. So we do have a very strong view on being white sugar premiums quite high.

In terms of, let's say, overall look on all that, I would say that-- The main driver will be Brazil. We have a strong crop next year, a lot of cane, more crushing capacity. And if the weather allows, people will crush a lot of cane here. Combined with that, you still see a world with a very low inventory level. You see India, especially, with a record low inventory level in terms of days of consumption. So we anticipate next year a very short year on the physical side and a very volatile year with prices going up and down 'til-- We really have at the end of 2010 a more stable flow of product all over the place.

So we will see, in our view, opportunities to hedge. And we will see a very volatile market in the next six months because we will see a very short physical market with sometimes long and sometimes short financial market playing those screens. So that's our view.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

And given that view, would you then say you'd try to anticipate the hedges for next year because it is-- the scenario will turn a little bit easier in terms of the supply/demand starting in your next crushing season. So does that mean we should anticipate a bigger percentage of your crushing-- or of your expected production to be hedged before the start of the following season?

A - Marcos Lutz {BIO 6779636 <GO>}

We have already more than 30% for next year hedged, which is a lot more than the average in Brazil. So we will actually anticipate. But again, we will wait for spikes to do so. So yes, if we have a big spike now to 30, we will go deep on anticipating. On those levels, I see a lot of-- We are to do, let's say, an average. So we don't want to go too strong ahead of everybody. But also, we will use the fact that we have the liquidity and the expertise to advance our hedging when a good opportunity appears.

But again, the dollar exchange rate worldwide is difficult now. So the equilibrium price would not be 12 or 10 as it was in the past. So we see this as a good price. But we see a lot of upside possible in the next six months as well.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

And I just wanted to say thank you for the new disclosure on the hedges. It's a lot clearer. We appreciate it. I'll get back in the queue. Thanks.

Operator

(Operator Instructions) (Matt Farwell), Imperial Capital.

Q - Matt Farwell {BIO 16404848 <GO>}

Could you describe the situation in India? You had some interesting details in the financial letter. How is the regulated pricing increasing but perhaps not at the pace that will attract farmers to sugar and away from other agricultural commodities? In general, how quickly do you expect India to bounce back from this year's harvest?

A second question. Can you also answer whether or not the 3.7% EBITDA margin in CCL is sustainable?

A - Marcos Lutz {BIO 6779636 <GO>}

Starting from the last one, I would say that 3.6% to 3.7% EBITDA will be sustainable in the long future. For now, I would say we still have to develop a lot of synergies that we have current, onward. We've been able to capture those margins because of many opportunities that happened in the market. But we are not sure that those opportunities will appear on the origination side and on the logistics side as well. So I would say this number is too strong for, let's say, the short run. We hope to maintain it. But I would not give you assurance that we will maintain that. But for sure, in the long run, we aim to have this or even more.

Going back to your question about India, I'm not sure if I got it. But what you see now in India is a lot higher price of cane compared to what they had one year ago. The government actually is now very focused in trying to raise the attractiveness for the producer. You have other crops also at surplus at this point. So this also pushes out of those crops towards sugar cane. Many producers as well.

And crushing capacity in India is not a limit. They have crushed in the past two times more cane than they crushed last year. So the capacity is there, installed. And as we well know, the mills to crush all that is, let's say, the slow-moving part of the new crushing. Given that they have the crushing capacity there already, they can swing a lot faster. And we believe we have to work with a scenario where this swing should be happening fast enough because the incentives are there already.

So I'm giving you many reasons, basically, to say that we can for the next crop in India. So the 2010 crop, see numbers well above 20 million (tons). So from 2010/2011, this can happen. And obviously, we are too far from there to be more accurate on that. But we'll be watching.

Q - Matt Farwell {BIO 16404848 <GO>}

That's helpful. Thank you.

Operator

(Operator Instructions) Debbie Bobovnikova, JPMorgan.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

I'm going to keep going. I just wanted to touch a little bit on the other businesses, especially the businesses that are growing the most for you within sugar/ethanol division; the logistics and cogeneration businesses. On the logistics side, just quickly, you mentioned that Rumo was impacted by the poor weather in the quarter. Can you just give us a sense of what we can expect from those results in the coming quarters and in 2011? And also, similarly, what can we expect from your cogeneration revenues in this year and next year, given how much you're investing in those assets?

And maybe, finally, if you could just touch a little bit on what you mentioned in the press release-- there was, you said, a penalty payment on yields for a breach of a contract. Can you just elaborate on that? Thanks.

A - Marcelo Martins {BIO 16440115 <GO>}

Let me start with your last question. This, actually, penalty derives from the fact that we have-- We decided not to invest in a new mill under the greenfield project we have in Goias. So we had already announced that we would not be increasing the size of the mill-- I'm sorry-- the cluster where we had plans to build two other mills. And this is what it is, actually. This is all we had to pay for the government because of-- we ended up canceling this project.

In terms of your other questions, I'm sorry-- You asked about Rumo and cogen. Right?

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Exactly.

A - Marcelo Martins {BIO 16440115 <GO>}

Okay. Unfortunately, we don't give out projections, as you know. But what I can tell you is that we are ramping up results of both businesses in terms of revenues. We should see the full potential of these two businesses being reached by 2012 in the case of Rumo and 2013 in the case of the cogen business. And at that time, we believe that those two companies together should represent, I would say-- Again, it's just a rough estimate. But it should, combined, represent maybe around 40% of the EBITDA of the Company. It's just an estimate, as I said. It's a ramp-up. So by the time we get there, we should eventually get to this number. But in the meantime, we'll keep growing; not steadily because, in the case of Rumo, 2011 and 2012 should be much better years than this year and 2010. And in the case of cogen, it should be more steady, as we have already started to make those investments. And we're going to start-- We have already started to cogenerate.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

And that 40% of EBITDA number-- that implies something about what you're assuming for long-term sugar prices and ethanol prices. Can you share that with us?

A - Marcelo Martins {BIO 16440115 <GO>}

Unfortunately not, Debbie. As you know, we don't. But look at (Sarnico). I think they provide a very good market estimate. So if you could see what the projections are, maybe you will have a very good idea of our-- for the potential price for sugar.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

I'm sorry. Who did you mention? Look at where? (Unica)?

A - Marcelo Martins {BIO 16440115 <GO>}

(Zarneco).

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Oh, Zarneco. Got you. Yes. Just one other-- I thought I'd try. But just a quick question on a slightly different topic. You mentioned also that you're investing in vinasse applications. Basically, you're trying to, I guess, diminish the amount you spend on potash. Can you give us some color on those projects in terms of what would be the magnitude on your fertilizer purchases and how quickly can we see a change? And how much of a project--? How much of an up-front cost is to really switch to vinasse as to opposed to purchased potash?

A - Marcos Lutz {BIO 6779636 <GO>}

Debbie, I can't give you some additional information because we don't have the person who's the expert in the subject. Roughly, we were planning to invest BRL70 million to BRL80 million in one of our mills in cost (inaudible) for that vinasse project. What I'd like to suggest is that you give us a call later. And we'll put you in contact with the technical person.

Q - Debbie Bobovnikova {BIO 4684018 <GO>}

Okay. We'll do that. Great. Thank you very much, Marcos.

Operator

Thank you. I would now like to turn the floor back to Mr. Marcos Lutz.

A - Marcos Lutz {BIO 6779636 <GO>}

Thank you, all, for participating on our Second Quarter results teleconference. We are-- I'd really like to restate that we are very confident in the Company's direction in consolidating the operations. We feel in every single piece of the Company a clear development towards having a very strong consolidated market that would pretty much put a platform to reduce its costs, to focus in all the synergies possible. And developing all the, let's say, synergistic businesses around the sugar and ethanol business here in Brazil.

I'll turn the floor to Marcelo that will give final words here.

A - Marcelo Martins {BIO 16440115 <GO>}

There are two clarifications I'd like to make before we finish the call. First, when we released the financial letter yesterday, we included a number that was not correct because it did not encompass 100% of the inventories for Cosan and NovAmerica, which was the sugar and the ethanol inventory, which we published as being 822,000 (tons) of sugar and 377,000 cubic meters of ethanol. So the actual number, which we have already replaced in the letter and we have already submitted it-- You'll find it in the site-- is 1.071 million (tons) of sugar and 450,000 cubic meters of ethanol.

There was an additional question that was asked by a participant in the previous call that I would like to mention here. I would like to explain here what's with the comment that we made about having today unused credit lines available in the amount of BRL3 billion. We have as part of our strategy to diversify our sources of funding (enable) to increase substantially our credit lines with financial institutions overall; banks-- international banks and Brazilian banks. And as a result of this increase in the credit line, we have today outstanding BRL3 billion.

This is certainly-- This-- Our line-- These are nice to have. We are not going to be using this line. It's not part of our objective to use those lines to, for instance, make acquisitions. I just wanted to make it very clear to all of you. But it's a comment that was made in the previous call in Portuguese. And one of the purposes why we think it's important to have those lines is to cover for margin calls under our hedging of sugar, which, as Marcos explained, we plan on advancing further over the next couple of months.

That's all if have to say. Again, thank you very much for participating. And we'll talk to you again in the next call. Thank you.

Operator

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