

Q2 2011 Earnings Call

Company Participants

- Felipe Jansen, Head IR
- Marcello Martins, CFO, IR

Other Participants

- Alessandro Baldoni, Analyst
- Fernando Ferreira, Analyst
- Gene Lang, Analyst
- Giovana Araujo, Analyst
- Matt Farwell, Analyst
- Paula Kovarsky, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to the Cosan Limited and Cosan SA Second Quarter of 2011 results conference call. Today with us we have Mr. Marcello Martins, CFO and Investor Relations Officer and Felipe Jansen, Head of IR.

We would like to inform you that this event is recorded and all participants will be in a listen only mode during the Company's presentation. After Cosan Ltd and Cosan SA's remarks, there will be a question and answer session for industry analysts.

At that time, further instructions will be given. (Operator Instructions) The audio and slide show of this presentation are available through live webcast at www.cosan.com.br/ir. The slides are also can be downloaded from the webcast platform.

Before proceeding, let me mention that forward-looking statements will be made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Cosan Ltd and Cosan SA'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 Ltd 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 Investor Relations Officer, Marcello Martins. Mr. Martins, you may begin your conference.

Marcello Martins

Thanks. Good morning, everybody. We are happy to have this call with you today, especially after we have announced another record quarter in terms of our financial results at Cosan SA and Cosan Ltd. And I wanted to start my presentation by going through the production figures, the production highlights. During this Second Quarter of 2011, we have actually crushed 23 million tons of sugar cane, which represents an increase of 25% compared to the same quarter in 2010.

The increase in the crushing of sugar cane is a function of the startup of the (inaudible) projects, Jatai and Caarapo and more favorable climate conditions compared to the same quarter of last year. As you probably recall it, we had a very rainy season during this time of year in 2010 and this time we had a much more favorable -- a much drier mid-season in the state of Sao Paulo.

We had, in terms of sugar production, a total of 1.843 million tons produced out of our mills compared to 1.4 million tons in 2010, meaning an increase of 30%. In terms of the ethanol production, we jumped from 675,000 cubic meters to roughly 1 million cubic meters this year, being 316,000 cubic meters anhydrous and 675 hydrous ethanol.

In terms of the TSR, we also saw a big jump from an average of 136.7 kilograms per ton in the Second Quarter of 2010 compared to 149.6 kilograms per ton in this quarter. The mix favored the sugar production and we have also increased the (inaudible) mechanization, reaching almost 80% in this Second Quarter of 2011.

Now moving to our financial highlights, our net revenues increased by 32% coming from BRL3.5 billion in the First Quarter of last year, to BRL4.7 billion in this quarter. The bulk of the increase came from the downstream business, thanks to an increase in the volume. And better pricing as well. And also a big jump in Rumo as a function of the ramping up of the operations as we had originally anticipated to the market would be the case.

In terms of our EBITDA, we also saw a big move from BRL356 million last year to BRL797 million this year, which represented an increase of 124%. All of this BRL797 million, there is an impact coming from non-recurring revenues in the sugar and ethanol business of BRL174 million, which resulted from the sale of the 25% state at Rumo to Gavea and TPG.

In terms of our net income, we also saw an increase of 164% coming from BRL173 million to BRL440 million during this quarter.

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Now talking a little bit about the sugar business, the sugar revenues increased 42% from BRL776 million to BRL1.1 billion in this quarter. In terms of volume and average price, we also saw a big increase from 1.1 million tons last year to 1.372 million tons this year. And the average price in reais jumping from BRL704 to BRL807 during this quarter. So volumes sold were increased by 11.2% in the domestic market and 30% in the export market.

What also helped with the increase in the volume sold was the recovery of the pace of shipping at the Santos port. And as you probably know, because of the excess weighing last year, we were having difficulties in shipping sugar out of our four terminals in Santos.

The expansion of the sugar mills, which took place last year also helped increase the volume, produced other volumes, even though because of the delay in executing the -- that expansion plan, we might also have a negative impact in the forthcoming months. And I'm going to talk a little bit about it as we move to the market guidance. Overall, the price of sugar in international markets varied 19.1% meaning 19% higher than the first -- or the Second Quarter of 2010.

Ethanol. Net revenues coming from ethanol varied from BRL328 million to BRL532 million, represented by a 62.4% increase compared to last year. The volume also jumped from 450,000 cubic meters to 640,000 cubic meters in this quarter. And the price per cubic meter jumped from BRL727 to BRL833.

Most importantly, which what helped was the dynamics in this market or the price increase dynamics in this market was the fact that we managed to export less during this quarter than we did last year.

During the Second Quarter, the domestic market represented 543,000 cubic meters and the external market represented less than 100,000 cubic meters compared to 165,000 cubic meters last quarter.

The price increase represented 12% higher than the Second Quarter of 2010 and even though there was a jump of 18% in international markets, when we compare the price in international markets this quarter was less of the quarter -- the equivalent quarter of last year. We had a much lower international price last year, which had a very negative impact on our results at that time.

The local cogeneration business, we increased our revenues by 111% as we have planned for. Once we have increased the mills where we have cogen from 6 to 10 this year, representing an increase of 158% as a result of our startup operation in our mills.

In terms of the volume and average price, we had sold during this quarter. We have sold 552 gigawatt hours compared to 224 in the same quarter last year. The average price was BRL144 compared to BRL159 in the previous year.

We have reduced the average price as a function of the fact that we have some additional energy that was sold in the spot market. And the price in the spot market was not as

favorable as the price we had lined up in our long-term agreement.

So on a consolidated basis, EBITDA of the sugar and ethanol business was of the amount of BRL653 million compared to BRL260 million last year. If we deduct the non-recurring EBITDA during this quarter, we will come up with BRL483.3 million and a non-recurring of BRL169.4 million for this quarter.

I'd like to call your attention to the non-recurring effect on the SG&A of the Company as well. I have read the reports that were issued by most analysts in the market and I realize that they have taken the revenues, the non-recurring impact of the revenues. But they have not taken into consideration the non-recurring impact on the cost side of the business and the expenses as well.

And I'd like then to tell you that out of our G&A, we have roughly BRL5 million of a non-recurring impact during this quarter.

Now moving to Rumo, we have an increase in Rumo's net revenues of 237% coming from BRL43 million to BRL145 million during this quarter. And the bulk of the increase came from the revenue generated by the transportation business compared to loading that has increased roughly 10% since the same quarter last year. This was something that we had already anticipated as part of the ramp-up process of Rumo's operations and we should see that number continuing to grow over the next quarters.

Because of the volume loaded, at our four terminals, Rumo is very much in line with the same quarter later year, if we're going to 2.5 million pounds of sugar. On the other hand, because of the increase in the transportation revenues, we had a reais per ton of BRL57.4 compared to BRL17.7 during this quarter last year.

The EBITDA increased by 343%, going to BRL44 million compared to BRL10 million of the -- during the same quarter last year. The margin at that time was 22.5% and this quarter, it was (inaudible) 30.4%.

Now moving to CCL, (inaudible) business. Net revenues increased by 25% from BRL2.4 billion to BRL3 billion. And the main reason for that was the increase in the volumes sold, even though the price variation was not substantial. Was despite the price increase, we had a slight increase in costs as well. So at the end of the day, the net impact was positive.

And again in the fuels business, we had an increase in the volume of 23% from 1.3 billion to over 1.6 billion meters. And in the case of the lubes business, from 34,400 cubic meters to 42,500 cubic meters. On the other hand, the price of the -- the average price of lubes went down from BRL4,968 to BRL4,812 even though in the case of the lubes business there was a reduction in the cost that was actually not enough to upset the reduction in the price -- I'm sorry -- there was a (inaudible) step in reduction in the price, therefore the net results increased.

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Overall, I think what is worth mentioning is the fact that we have increased our diesel sales in relation to gasoline sales in our sales mix, which helped with volume. But had a negative impact in terms of the average margin of the business. As you know, due to (inaudible), you have the lower margin than gasoline.

Overall, the EBITDA of the (inaudible) business increased from BRL86.3 million to \$100.2 million, representing 16.1%. And the EBITDA margin came down from 3.6% to 3.3%.

EBITDA per cubic meter increased from BRL63.6 to BRL54.4 if we excluding the non-recurring impact, which was equivalent to BRL5.8. Adding the non-recurring impact, the EBITDA margin per cubic meter would be of 3.2%, equivalent to BRL60.2.

As I did in the case of the sugar and ethanol business, I just wanted to remind you of the impact of the non-recurring expenses on our SG&A. The non-recurring expenses were equivalent to BRL5.8 million during this quarter. And we had also on the revenue side a positive impact from the sale of non-operating assets from our downstream business.

So overall, our SG&A remained stable per cubic meter. Actually, it was the exact same as the previous -- as the quarter of last year, equivalent to BRL78.9 per cubic meter.

Now moving towards hedging figures, we have a hedge at 1.2 -- we had hedges at the last day of the Second Quarter of 2011, 1.2 million tons of sugar. And 922,000 tons of sugar for next year at an average price of \$0.22 (inaudible) per pound. For this drop, \$0.175 for next year.

If we take into calculation the exchange rate today, we would have an adjusted sugar price of \$0.228 per pound for this year. And if we take into consideration the futures in the FX market, the equivalent of the hedging for next year would be \$0.194 per pound.

In terms of our US dollar net exposure. We have a total of \$18.5 million negative in the case of the currency for this crop. At an average price of BRL1.766 and \$396 million for next year at an average of roughly BRL2.00 per \$1.00.

Now moving toward net debt position, even though we have picked our investments in this crop. And historically this is the highest level of investments we make on the upstream business, we have a total debt -- a draft debt of four -- of BRL5.7 billion at the end of the Second Quarter. And a net debt of BRL4.7 billion at the end of the same quarter. Compared to 2010, the figures were BRL5.6 billion of -- sorry-- of gross debt. And BRL4.5 billion of net debt.

If you consider the EBITDA over the last 12 months, the net debt to EBITDA ratio of our Company went down to 2.1 times. Assuming that the good results will continue over the next quarters, this ratio should continue to come down and as we all know as we actually close the transaction with Shell, those figures will change dramatically as a function of the capital injections that will be made by our partners in (inaudible).

Overall we had amortizations of around BRL107 million during this period and we have raised additional debt from BNDES as well through various credit lines, with the objective of financing our -- mainly our equipment purchases and our cogeneration operation.

Now I think that we wanted to talk a little bit about the update on the guidance for this crop. As you probably had already anticipated, as a function of this -- the impact of the drought on our crushing capacities over this crop. And especially over the -- and of the excess rain maybe over the last couple of months, we have revised our sugar cane crushing for this crop to the range of 54 million to 55 million, I'm sorry, to 58 million tons.

The sugar volumes sold was also revised down to 4.1 million to 4.5 million tons. Ethanol volume sold remains stable and the reason why we see a change in the sugar volume sold compared to stability on the ethanol part of the business is the delay in starting to operate the mills because of the operational factors we have since we starting investing the expansion of our sugar production capacity last year.

The volume of energy sold as a function of a lower crushing has already been revised down to 1,000 to 1,300 megawatt hours. And the loading volume at Rumo has also been revised down to 9 million through 11 million tons for this crop.

Transportation volume was also revised down to 5 million to 6 million tons during this crop.

On the other hand, to compensate the reduction in the revenues and capacity on the EBITDA, because of the lower crushing during this crop, we had an increase in the volume of fuels sold projected to be between four -- 5.7 billion and 6.2 billion liters. And the volume of lubes projected to be between 140 million and 160 million meters during this year. Therefore, we don't foresee a change in the projected revenues, nor in the EBITDA and we keep the same guidance as we have anticipated to you over the last quarters of this crop year.

This actually will stop our presentation on the results of our businesses. The only additional comment I would like to make has to do with an award we were actually given a couple of days ago, which honored us very much not only because of the importance of the magazine Institutional Investor. But mainly because this award was given to us by you guys by the research analysts from the buy and the sell side.

And we were really encouraged by the -- not only the vote of confidence that we got from you guys. But the recognition for the tremendous efforts we've made at Cosan to disclose more and more information than has the governance of structure that is more friendly and accessible to the market overall. So we really appreciate the award. Myself, Felipe Jansen. And Marcos Lutz, who unfortunately is traveling today and is not going to be able to participate in our call.

With that, I would like to turn it back to you for your questions. Thank you very much.

Questions And Answers

Operator

(Operator Instructions) Your first question is from Fernando Ferreira of Bank of America.

Q - Fernando Ferreira {BIO 19179419 <GO>}

Hi, congratulations for the quarter, guys. I have a couple of questions. The first one I'd like to understand a little bit more of these non-recurring gains on CCL and on the sale of Rumo. Were these non-recurring gains already net of taxes or not? Because you mentioned net gains in the press release. And I would like to understand also why does gains of the sale stake at Rumo were booked under the sugar and ethanol business? That will be my first question.

A - Marcello Martins

Okay, Fernando. No, yes, the answer to your question is yes, it net of taxes and it is actually a function of the gains we've made as part of the sale of over the 25% stake to TPG and Gavea. We have a total of book value of Rumo at around BRL300 million. And that's the pace that we used for the calculation of the gains. It was, of course, grouped out of respect of the -- at Cosan sugar and ethanol. Okay?

So after the capital increase, we had a total gain of roughly BRL707 million, which incorporated BRL307 million gives us a total of BRL400 million. And when you use the 75% stake, for the same BRL707 million (inaudible) to the BRL307 million, we're going to come up with the net gains that I have just disclosed to you.

If you need some additional information or some details on how we made the calculation, we're more than happy to provide it to you right after the call.

Q - Fernando Ferreira {BIO 19179419 <GO>}

Sure. The second question would be on sugar and also hedging. I understand that by reading your comments that you are now assuming that the expected oversupply in India in the upcoming harvest won't be as large and won't have as much effect on the global trade. And if that's the case, have you been holding the moment to accelerate your hedges or not? Can you provide us a picture of your hedging, how it's looking like at the moment?

A - Marcello Martins

Yes. We actually over the last week or so accelerated our hedging for the next crop mainly because we thought that the prices were good enough to lock in as good EBITDA margin for next quarter. We accelerated roughly 200,000 tons for the next crop year. And we did it over the last week or so. So any additional acceleration will be a function of our expectations for the price moving forward, (inaudible) the potential impact of the increasing of production in Brazil.

We're not sure how much is already embedded in the prices we're seeing today. Then at the same time, any additional hedging will be discussed with the special JV partner once this is a (inaudible) that has no overlap in terms of competition in Brazil and because the bulk of the impact on this hedging will be absorbed by the JV in the future.

Q - Fernando Ferreira {BIO 19179419 <GO>}

Sure. And can I assume that this 200,000 tons were done at the level of \$0.25 or more per pound?

A - Marcello Martins

Yes, \$0.25 and up.

Q - Fernando Ferreira {BIO 19179419 <GO>}

Okay. Thank you.

Operator

Your next question is from Alessandro Baldoni of Morgan Stanley.

Q - Alessandro Baldoni {BIO 16127503 <GO>}

Hi. Good afternoon. First of all congrats on the (inaudible) results. Well deserved. I have two questions about your guidance. First one, you revised down sugar volume, cogen. And (inaudible) volumes. And increased fuels and lubes. So the net impact of all these changes would indicate a reduction yet in the EBITDA.

But your EBITDA guidance isn't changing. I know you already guide that to the range. But would you say that you are closer to the bottom of this range now or because the results of this quarter compensates for that? That's the first one.

Then the second one is on Rumo. Your guidance, the original one for this year was also for BRL200 million in EBITDA. With this reduction in the volume guidance, what is the impact on your guidance for the EBITDA of Rumo specifically?

A - Marcello Martins

Alessandro, well first off, in the case of the sugar and ethanol business, we have a reduction in the correction of the sugar cane and the sugar production. But on the other hand, they are an increase in the price as well, which was not fully embedded in the previous guidance we gave to you guys.

So the off selling doesn't necessarily come only from CCL, even though it comes partly from the (inaudible) business mainly and from the sales distribution business as well. But also because of the pricing the sugar price and the ethanol price will increase as well compared to the last guidance.

But then with Rumo, we had indicated a range of BRL150 million to BRL200 million, if I'm not mistaken. And we haven't changed the guidance on Rumo. Up to now when we don't think we're going to change it in the future. So we don't foresee any major change at Rumo. We might see a slight reduction compared to what we have anticipated. We had a good last month. This month is a little bit small because -- mainly because of the excess rain in the (inaudible). But overall, we think that we're going to have a pretty good year compared to what we had originally anticipated.

Q - Fernando Ferreira {BIO 19179419 <GO>}

Thank you, Marcello.

Operator

Your next question is from Paula Kovarsky of Itau.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Yes, congratulations on the results. I have two questions here. First of all is a quick one on Rumo. Is there any impact of the moorage [ph] in the results of this quarter? And the other question is on CCL. Actually I mean I know you guys do not disclose lubricant margins. But if we assume (inaudible) similar from the previous quarter, we probably have seen a reduction in the EBITDA for a cubic meter of the fuel distribution business.

So the question is, is this just higher a piece of volume sold in to industrial customers combined with the issues with the ethanol (inaudible). Or does that reflect the fact that you guys have more or less stopped with the initiatives to reduce expenses in that for a while, waiting for the JV? Then should this be the level of EBITDA per cubic meter that we should consider to be kind of the recording number for ethal or do will we -- shall we expect this to be higher?

A - Marcello Martins

Well in terms of Rumo, no. No to the moorage impact. Much to the contrary. Actually we had a \$1 million revenue coming from the moorage in this quarter. So -- and we don't (inaudible) any impact moving forward.

Then on CCL, you're right. I mean the average margin came down because of the big increase on the diesel side of the business. The other -- the margin with the other parts remains stable. There is much stable in this quarter. So the negative impact came from diesel. If it -- it had a positive impact on the one side because it represented a net increase in the overall volumes of the business. It had a negative impact because it has an average lower volume than the (inaudible) for instance, as we know.

Moving forward, the non-recurring impact at CCL remains the same, which are mainly the integration process with Shell. A good part -- expanse is related to integrating this business and has not been a low number as you probably noticed in the disclosure of the non-recurring impact on the SG&A. So it will certainly remain over the next couple of quarters and that's pretty much it.

I mean we may have some additional non-recurring revenues as well potentially coming from sale of other non-operating assets. But I don't think it's going to be relevant or not nearly as relevant as it was in this quarter.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay. But Marcello, thinking of CCL on a standalone basis, I mean prior to any integration with the JVs, is this the kind of recurring EBITDA per cubic meter that we should think about? Or can this number be higher, I mean regarding this (inaudible) JV?

A - Marcello Martins

Well before the JV I think this is the number, this is the recurring number and this is the number I would suggest you use going forward. After the JV of course it's a different story. But what we have perceived over the last month and this month so far should be pretty much what you have seen already. So I don't think we'll see any major change at this point.

Q - Paula Kovarsky {BIO 15363001 <GO>}

Okay. Thank you very much, Marcello.

Operator

Your next question is from Rafael (inaudible) of (inaudible).

Q - Unidentified Participant

(inaudible) Marcello. Calling the trend and congratulations on the (inaudible). Just two quick questions on the cogeneration business front. First, I just wanted to get an updated picture on what to expect for cogeneration investments going forward. CapEx this quarter was substantially lower and I just wanted to get some additional color here.

The second question will be more related to the price trend of cogeneration. Reading the press release, I had the feeling that the decrease in your average price was more a function of new contracts kicking in that have lower prices. So I just wanted to know if you continue for the trend or if this number was really in fact impacted by higher stock market sales. So those are my two questions.

A - Marcello Martins

Well first in terms of the cogen Company investments, we are forecasting BRL400 million of investments for next year. And this would be the last relevant investment to be made by the cogen business. We might have some residual investments to be made in the following years. But I would say less than BRL300 million, actually less than BRL200 million for the next years.

Of course this could change if we decide to increase our cogen capacity as a function of future options that could eventually take place and we actually believe that (inaudible) more likely to have other options than we thought would be the case for last quarter.

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In terms of the average price, you are right. We had an average price -- a higher average price in the previous quarter because of the mills that we invested first. As in all we always give preference to projects that have the best return, making sure that we comply with the timeline we have. And that (inaudible) is the function as well as reducing the average price. And moreover, as you know we sold some energy in the stock market as well, which was much lower than it is today. And if we were to sell for managing in the stock market today it will be substantially higher than last quarter.

But overall, the impact comes from the new mills that are coming upstream and which have the lower price than the initial ones.

Q - Unidentified Participant

Very good. Thank you.

Operator

(Operator Instructions) Your next question is from Giovana Araujo of Itau Securities.

Q - Giovana Araujo {BIO 16356713 <GO>}

Hi, everyone. Congratulations for the results. I have a question on sugar. On your sugar capacity, I would like to know if you intend to increase your sugar production capacity next year and how far you can go on that? And if you can provide some color on the topics and it will be good wait.

And a second question. We would like to understand better the reason why your margins in Rumo decreased over a quarterly basis. And that's it.

A - Marcello Martins

Giovana, first on the -- sorry. Just remind me of the first question. It was more complicated on the second one.

Q - Giovana Araujo {BIO 16356713 <GO>}

If you intend to increase your sugar capacity?

A - Marcello Martins

Sure. The sugar capacity actually will -- behind where we have projected for the increase in sugar production for this crop, as you probably recall it, we had expected to increase sugar capacity by roughly 400,000 tons this quarter. And we have actually increased it by less than 300,000 tons. So we're expecting to catch up over the next crop year. But we will not foresee any major investments in expansion overall of the sugar capacity moving forward.

But overall we have been discussing with Shell a potential increase in sugar production to (inaudible) projects, which I think will happen. But this investment would start to be made

probably closer to closing. And it would not have an impact on next year. But mostly on the coming years.

A - Felipe Jansen {BIO 16471255 <GO>}

Giovana, it's Felipe speaking. So talking about the margin of Rumo. If you're comparing with the previous quarter with the First Quarter of 2011, we had extraordinary gains of BRL7.5 million, which was related to dispatch. So that's what, we had an increase in the margin close to the 35%.

If you compare with the same quarter of last year, then what we are seeing in terms of impact is the G&A of Rumo, which is accommodating at the higher level (inaudible) increase. Of course in a new management and people that are being hired, to increase the capacity and well, to have known the management to all these new projects and this new Company that is being (inaudible).

And in addition to that, we continue to (inaudible) some impact extraordinary (inaudible) in terms of G&A related most of these to private placement with Gavea that we had to put no -- it was impacting also this year. So all in all, we're not clear today at what level in all this G&A is going to establish. But it's clearly going to be no lower than what we are seeing in this quarter because of those extraordinary events. That's mainly impacting the overall profitability in terms of margins for Rumo.

Q - Giovana Araujo {BIO 16356713 <GO>}

Okay. Thanks.

Operator

The next question is from Matt Farwell of Imperial Capital.

Q - Matt Farwell {BIO 16404848 <GO>}

Hi. Good morning. Congratulations on a good quarter. I'm wondering if you could provide some more color on your longer-term outlook for sugar given the strength in real and its affect on your overall competitiveness in the global market.

A - Marcello Martins

Well Matt, overall we believe that first review could be a disappointment in terms of sugar production and mainly as a function of a lower sugar crushing capacity than I think (inaudible) had anticipated in the beginning of the crop. Therefore I think it's certainly one of the factors that has impacted -- that have impacted the price of sugar today.

The other I think potential impact comes from the fact that we haven't seen any major investments being made in Brazil on the expansion of sugar cane crushing capacity, which of course has an impact not only on the price of sugar. But the price of ethanol as well.

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So overall, we don't foresee a reason for -- a strong reason for the price of sugar to come down dramatically. We don't think that it will necessarily stay where it is today. But we don't foresee any major decline in the price of sugar moving forward.

This is certainly one of the reasons why we felt motivated to start hedging or accelerate a little bit our hedging for next crop, which doesn't necessarily mean that we'll keep hedging moving forward. But because we think that it has reached a level that compels us to hedge more.

So overall, in terms of the impacts on the price of sugar, not only the potential crop or that the export volumes coming from India, which is still highly unclear, I think through the whole market. They have just started their crop here. Then if you look at the (inaudible) from the market, there is a big discrepancy still.

But I think that another impact has been the exchange rate. We see the real as an important component in setting the price of sugar, the NY 11 mainly. And we think it will continue to be the case, therefore I think that's (inaudible) the price already is a function of the devaluation of the US dollar or the expected devaluation in the US dollar moving forward.

Q - Matt Farwell {BIO 16404848 <GO>}

Great, thank for the color. And congratulations again.

Operator

(Operator Instructions) The next question is from the line of Gene Lang of Woodbine. Mr. Lang, please go ahead.

Q - Gene Lang {BIO 2410043 <GO>}

I'm sorry. Just a follow-up on that last question. Could you lay out a little bit more in terms of your hedging philosophy for sugar given some of the movements we've seen in price? I mean has that -- has your philosophy changed at all in the last six to 12 months?

A - Marcello Martins

No. It hasn't. It remains the same, which means that we hedge with the purpose of locking in an EBITDA margin we consider to be acceptable given the historical volatility of the commodity. And we tend to do the hedging of the sugar price along with the hedge of the FX and you can notice that price, the formation we have just as close to the market. So it hasn't really changed.

What has effectively changed is the fact that from now on the impact of the future hedging will be on the JV as opposed to on Cosan itself and we are actually making those decisions in light of the partnership we're going to have with Shell in the future. So but overall we still keep the same discipline. We discuss our hedging strategy every week in the risk meeting that takes place every Tuesday morning here at Cosan where we have

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representatives from finance, from the sugar business, from the operations. And the CEO as well. So the short answer to your question is no, it hasn't changed.

Operator

(Operator Instructions) There are no further questions at this time. I would now like to turn to the call over to Mr. Martins for any closing remarks.

A - Marcello Martins

Well again thank you very much for your attendance. We were again very happy with the results of the Company in this quarter. We had a non-recurring impact -- a relevant non-recurring impact. But despite that impact we had a very good quarter, not only in the upstream business but the downstream business as well. And we believe that will continue to be the case over the next couple of quarters.

I don't think we're going to have the opportunity to talk again through this conference call and so I wish you all good holidays and we'll talk to you again next year. Thank you very much.

Operator

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

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