

**Cosan S.A. Indústria e Comércio**

**Condensed Consolidated Financial Statements**

For the nine-month periods ended December 31, 2010 and 2009

# **COSAN S.A. INDÚSTRIA E COMÉRCIO**

## **CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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## **Report of independent registered public accounting firm**

To the Board of Directors and Shareholders of  
**Cosan S.A. Indústria e Comércio**

We have reviewed the condensed consolidated balance sheet of Cosan S.A. Indústria e Comércio and subsidiaries as of December 31, 2010, the related condensed consolidated statements of operations and cash flows for the nine-month periods ended December 31, 2010 and 2009 and the condensed consolidated statement of shareholders' equity and comprehensive income for the nine-month period ended December 31, 2010. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Cosan S.A. Indústria e Comércio and subsidiaries as of March 31, 2010, and the related consolidated statements of operations, shareholders' equity and cash flows for the year then ended not presented herein and in our report dated June 10, 2010, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of March 31, 2010, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

São Paulo, Brazil  
February 09, 2011

ERNST & YOUNG TERCO  
Auditores Independentes S.S.  
CRC 2SP015199/O-8

Luiz Carlos Nannini  
Accountant CRC 1SP171638/O-7

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Condensed consolidated balance sheets  
 December 31, 2010 and March 31, 2010  
 (In thousands of U.S. dollars, except share data)

	<b>(Unaudited) December 31, 2010</b>	<b>March 31, 2010</b>
Assets		
Current assets:		
Cash and cash equivalents	<b>682,320</b>	605,483
Restricted cash	<b>165,796</b>	25,251
Derivative financial instruments	<b>108,032</b>	129,456
Trade accounts receivable, less allowances: December 31, 2010 – \$28,964; March 31, 2010 – \$32,144	<b>394,582</b>	430,328
Inventories	<b>1,206,343</b>	587,720
Advances to suppliers	<b>161,202</b>	132,258
Recoverable taxes	<b>240,725</b>	184,090
Other current assets	<b>74,023</b>	48,303
	<b>3,033,023</b>	2,142,889
Non-current assets:		
Property, plant, and equipment, net	<b>4,584,208</b>	3,997,815
Goodwill	<b>1,420,186</b>	1,289,625
Intangible assets, net	<b>590,465</b>	600,573
Accounts receivable from federal government	<b>205,323</b>	187,385
Judicial deposits	<b>108,558</b>	94,083
Other non-current assets	<b>554,403</b>	423,447
	<b>7,463,143</b>	6,592,928
Total assets	<b>10,496,166</b>	8,735,817

See accompanying notes to condensed consolidated financial statements.

	<b>(Unaudited) December 31, 2010</b>	<b>March 31, 2010</b>
Liabilities and shareholders' equity		
Current liabilities:		
Trade accounts payable	<b>452,744</b>	319,707
Taxes payable	<b>131,307</b>	121,203
Salaries payable	<b>105,407</b>	79,497
Current portion of long-term debt	<b>672,983</b>	445,593
Derivative financial instruments	<b>227,492</b>	43,067
Dividends payable	<b>4,224</b>	65,451
Other current liabilities	<b>155,119</b>	111,971
	<b>1,749,276</b>	1,186,489
Long-term liabilities:		
Long-term debt	<b>3,537,602</b>	2,842,953
Estimated liability for legal proceedings and labor claims	<b>335,957</b>	294,605
Taxes payable	<b>425,212</b>	381,805
Deferred income taxes	<b>416,744</b>	408,832
Other long-term liabilities	<b>164,588</b>	154,728
	<b>4,880,103</b>	4,082,923
Shareholders' equity		
Cosan shareholders' equity:		
Common stock, no par value. Authorized 407,101,853 shares; issued and outstanding 407,101,853 as of December 31, 2010 and 406,560,317 shares as of March 31, 2010	<b>2,425,641</b>	2,420,018
Treasury stock	<b>(10,948)</b>	(1,979)
Additional paid-in capital	<b>504,796</b>	390,600
Accumulated other comprehensive income	<b>438,204</b>	343,136
Retained earnings	<b>349,478</b>	281,238
Equity attributable to shareholders of Cosan	<b>3,707,171</b>	3,433,013
Equity attributable to noncontrolling interests	<b>159,616</b>	33,392
Total shareholders' equity	<b>3,866,787</b>	3,466,405
Total liabilities and shareholders' equity	<b>10,496,166</b>	8,735,817

See accompanying notes to condensed consolidated financial statements.

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Condensed consolidated statements of operations  
 Nine-month period ended December 31, 2010 and 2009  
 (In thousands of U.S. dollars, except share and per-share data)  
 (Unaudited)

	<b>December 31, 2010</b>	<b>December 31, 2009</b>
Net sales	<b>7,729,980</b>	5,845,469
Cost of goods sold	<b>(6,781,192)</b>	(5,179,260)
Gross profit	<b>948,788</b>	666,209
Selling expenses	<b>(441,685)</b>	(345,159)
General and administrative expenses	<b>(227,321)</b>	(175,801)
Operating income	<b>279,782</b>	145,249
Other income (expenses):		
Financial (expense) income, net	<b>(45,614)</b>	176,107
Gain on tax recovery program	-	121,554
Other (expenses) income	<b>(22,995)</b>	26,882
Income before income taxes and equity loss of affiliates	<b>211,173</b>	469,792
Income taxes expense	<b>(86,449)</b>	(178,298)
Income before equity loss of affiliates	<b>124,724</b>	291,494
Equity loss of affiliates	<b>(1,264)</b>	(5,413)
Net income	<b>123,460</b>	286,081
Less net (loss) income attributable to noncontrolling interests	<b>(7,741)</b>	3,075
Net income attributable to Cosan	<b>115,719</b>	289,156
Per-share amounts attributable to Cosan		
Net income		
Basic	<b>0.28</b>	0.79
Diluted	<b>0.28</b>	0.78
Weighted number of shares outstanding		
Basic	<b>406,849,935</b>	365,931,831
Diluted *	<b>407,214,304</b>	370,136,214

\* Adjusted for the effect of dilutive stock options

See accompanying notes to condensed consolidated financial statements.

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Condensed consolidated statements of shareholders' equity and comprehensive income  
 Nine-month period ended December 31, 2010  
 (In thousands of U.S. dollars, except share data)  
 (Unaudited)

	Common stock		Treasury stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Non controlling interest	Total shareholders' equity
	shares	amount	shares	amount					
Balances at March 31, 2010	406,560,317	2,420,018	343,139	(1,979)	390,600	281,238	343,136	33,392	3,466,405
Exercise of stock options	541,476	5,622	-	-	(3,738)	-	-	-	1,884
Exercise of common stock warrants	60	1	-	-	-	-	-	-	1
Issuance of common shares of Rumo to non controlling interest	-	-	-	-	117,543	-	-	110,247	227,790
Proportionate share on stock issuance costs of investee	-	-	-	-	(495)	-	-	(216)	(711)
Share based compensation	-	-	-	-	886	-	-	-	886
Dividends	-	-	-	-	-	(47,479)	-	-	(47,479)
Acquisition of treasury shares	-	-	591,400	(8,969)	-	-	-	-	(8,969)
Net income	-	-	-	-	-	115,719	-	7,741	123,460
Effective portion of gains/losses on derivative instrument that qualifies as a cash flow hedge	-	-	-	-	-	-	(144,252)	-	(144,252)
Pension Plan	-	-	-	-	-	-	(1,546)	-	(1,546)
Currency translation adjustment	-	-	-	-	-	-	240,866	8,452	249,318
Total comprehensive income	-	-	-	-	-	-	-	-	226,980
Balances at December 31, 2010	407,101,853	2,425,641	934,539	(10,948)	504,796	349,478	438,204	159,616	3,866,787

See accompanying notes to condensed consolidated financial statements.

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Condensed consolidated statements of cash flows  
Nine-month period ended December 31, 2010 and 2009

(In thousands of U.S. dollars)

(Unaudited)

	<u>December 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
Cash flows from operating activities		
Net income for the year attributable to Cosan	115,719	289,156
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	517,528	379,497
Deferred income taxes	52,443	137,220
Interest, monetary and exchange variation	51,682	(264,046)
Gain on tax recovery program	-	(121,554)
Others	17,736	(31,683)
Decrease/increase in operating assets and liabilities		
Trade accounts receivable, net	81,253	94,947
Inventories	(460,808)	(288,984)
Recoverable taxes	(38,518)	(5,111)
Advances to suppliers	(32,877)	(4,520)
Trade accounts payable	111,009	55,264
Derivative financial instruments	14,403	67,138
Taxes payable	(10,798)	(59,581)
Other assets and liabilities, net	(46,992)	33,402
Net cash provided by operating activities	<u>371,780</u>	<u>281,145</u>
Cash flows from investing activities:		
Restricted cash	(165,796)	(92,059)
Cash received from sales of noncurrent assets	12,066	69,472
Acquisition of investment	(9,883)	-
Acquisition of property, plant and equipment	(929,101)	(678,093)
Others	-	8,409
Net cash used in investing activities	<u>(1,092,714)</u>	<u>(692,271)</u>
Cash flows from financing activities:		
Related parties	-	(262,340)
Proceeds from issuance of common stock	229,776	304,426
Acquisition of treasury shares	(8,969)	-
Additions of long-term debt	1,348,242	1,656,427
Dividends payments	(115,811)	-
Payments of long-term debt	(746,965)	(1,311,464)
Net cash provided by financing activities	<u>706,273</u>	<u>387,049</u>
Effect of exchange rate changes on cash and cash equivalents	<u>91,498</u>	<u>209,621</u>
Net increase in cash and cash equivalents	<u>76,837</u>	<u>185,544</u>
Cash and cash equivalents at beginning of period	<u>605,483</u>	<u>310,710</u>
Cash and cash equivalents at end of period	<u>682,320</u>	<u>496,254</u>
Supplemental cash flow information		
Cash paid during the period for:		
Interest	181,903	146,042
Income taxes	16,045	2,189
Non cash transaction:		
Acquisition paid with equity	-	321,087

See accompanying notes to condensed consolidated financial statements.

## **COSAN S.A. INDÚSTRIA E COMÉRCIO**

Notes to the condensed consolidated financial statements  
(In thousands of U.S. dollars, unless otherwise stated)  
(Unaudited)

### **1. Operations**

Cosan S.A. Indústria e Comércio and subsidiaries (“Cosan” or “the Company”) is incorporated under the laws of the Federative Republic of Brazil. Cosan shares are traded on the São Paulo Stock Exchange (Bovespa).

Cosan Limited, a company incorporated in Bermuda, is the controlling shareholder of Cosan holding a 62.19% interest therein as of December 31, 2010 (62.27% as of March 31, 2010). The class “A” common shares of Cosan Limited are traded in the New York Stock Exchange (NYSE) and Bovespa.

The companies included in the condensed consolidated financial statements have as their primary activity the production of ethanol and sugar, the marketing and distribution of fuel and lubricants in Brazil, and logistics services in the state of São Paulo, Brazil.

On February 1, 2010, the Company announced that it, along with Royal Dutch Shell (“Shell”), had reached a non-binding memorandum of understanding (“MOU”) to form a joint venture for a combined 50/50 investment. On August 25, 2010 the Company announced the conclusion of the negotiations with Shell and signed a binding MOU along with other arrangements. Cosan will contribute its sugar and ethanol and its distribution assets to the joint venture while Shell will contribute its distribution assets in Brazil. Shell will also make a fixed cash contribution in the amount of \$1.6 billion over a 2 year period. The sugar logistics and distribution of lubricants business along with the investment in Radar Propriedades Agrícolas S.A. will not be contributed to the joint venture. On January 4, 2011, the Company received unconditional merger clearance from the European Union to form the proposed Joint Venture in Brazil. The two companies will now focus on securing conditions precedent to be met or waived, and detailed integration work before launching the joint venture, expected for the first half of 2011, as announced on August 25, 2010. The Joint Venture is still under analysis by the Brazilian Competition Authority (CADE). During the nine-month period ended December 31, 2010, this association did not generate any accounting records.

## **COSAN S.A. INDÚSTRIA E COMÉRCIO**

Notes to the condensed consolidated financial statements (Continued)  
(In thousands of U.S. dollars, unless otherwise stated)  
(Unaudited)

### **1. Operations (Continued)**

On July 2, 2010, the indirect subsidiary Novo Rumo Logística S.A. (“Novo Rumo”), entered into a Subscription Agreement with TPG Participações and GIF LOG Participações S.A. (“Investors”) whereby the investors would acquire a 25% equity interest of Rumo Logística S.A. (“Rumo”), a subsidiary of Novo Rumo. On September 2, 2010, the subscription took place through a capital increase in the amount of \$227,790, paid in equal portions by the Investors and the issuance of shares by Rumo. Before the payment the Company held, directly and indirectly, an equity interest of 92.9% in Novo Rumo, which, in turn, held an equity interest of 99.9% in Rumo Logística S.A. After the contribution, Novo Rumo now holds 75.0% of Rumo’s equity and each of the Investors hold a 12.5% interest. This transaction was treated as an equity transaction.

### **2. Presentation of the consolidated financial statements**

#### **a. Basis of reporting for interim financial statements**

In the opinion of management, the unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the Company’s results for the periods presented. Interim results for the nine-month period ended December 31, 2010, are not necessarily indicative of the results that may be expected for the fiscal year.

The unaudited condensed consolidated financial statements include the accounts of Cosan and its subsidiaries. All significant intercompany transactions have been eliminated.

These condensed consolidated financial statements should be read in conjunction with Cosan’s annual consolidated financial statements for the fiscal year ended March 31, 2010.

The accounts of Cosan and its subsidiaries are maintained in Brazilian reais, which is the functional currency. The accounts have been translated into U.S. dollars in accordance with Accounting Standards Codification (“ASC”) 830, “*Foreign Currency Matters*”.

The exchange rate of the Brazilian *real* (R\$) to the US\$ was R\$1.67=US\$ 1.00 at December 31, 2010 and R\$1.78=US\$1.00 at March 31, 2010.

## **COSAN S.A. INDÚSTRIA E COMÉRCIO**

Notes to the condensed consolidated financial statements (Continued)  
(In thousands of U.S. dollars, unless otherwise stated)  
(Unaudited)

### **2. Presentation of the consolidated financial statements (Continued)**

#### **b. Use of estimates**

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from these estimates. These estimates and assumptions are reviewed and updated regularly to reflect recent experience.

#### **c. New Accounting Pronouncements**

In January 2010, the FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*, which will require companies to make new disclosures about recurring or nonrecurring fair value measurements including significant transfers into and out of Level 1 and Level 2 fair value hierarchies and information on purchases, sales, issuance and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. The ASU is effective prospectively for financial statements issued for fiscal years and interim periods beginning after December 15, 2009. The new disclosures about purchases, sales, issuance and settlements on a gross basis in the reconciliation of Level 3 fair value measurements is effective for interim and annual reporting periods beginning after December 15, 2010. The Company expects that the adoption of ASU 2010-06 will not have a material impact on its consolidated financial statements.

## **COSAN S.A. INDÚSTRIA E COMÉRCIO**

Notes to the condensed consolidated financial statements (Continued)  
(In thousands of U.S. dollars, unless otherwise stated)  
(Unaudited)

### **2. Presentation of the consolidated financial statements (Continued)**

#### **c. New Accounting Pronouncements (Continued)**

In December 2010, the FASB issued ASU 2010-28, *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts, a consensus of the FASB Emerging Issues Task Force (Issue No. 10-A)*. This ASU modifies Step 1 of the goodwill impairment test under FASB ASC Topic 350, Intangibles-Goodwill and Other, for reporting units with zero or negative carrying amounts to require an entity to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are adverse qualitative factors in determining whether an interim goodwill impairment test between annual test dates is necessary. The ASU allows an entity to use either the entity or enterprise valuation premise to determine the carrying amount of a reporting unit. On adoption of the ASU, goodwill impairment that results from this requirement to perform Step 2 of the goodwill impairment test would be recognized as a cumulative effect adjustment to beginning retained earnings in the period of adoption. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The Company expects that the adoption of ASU 2010-28 will not have a material impact on its consolidated financial statements.

#### **d. Derivative financial instruments**

Cosan accounts for derivative financial instruments utilizing ASC 815, *Accounting for Derivative Instruments and Hedging Activities*, as amended. As part of Cosan's risk management program, it uses a variety of financial instruments, including commodity futures contracts, forward currency agreements, interest rate and foreign exchange swap contracts and option contracts. Beginning April 1, 2010, Cosan recognized a portion of its derivative instruments as cash flow hedge transactions. The derivative instruments are measured at fair value and the gains or losses resulting from the changes in fair value of the instruments are recorded in financial income or financial expense or other comprehensive income when designated as a cash flow hedge (effective portion only). See note 14 for further detail.

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Notes to the condensed consolidated financial statements (Continued)  
(In thousands of U.S. dollars, unless otherwise stated)  
(Unaudited)

### 3. Inventories

	<b>December 31, 2010</b>	<b>March 31, 2010</b>
Finished goods:		
Sugar	<b>349,697</b>	52,561
Ethanol	<b>300,691</b>	31,573
Lubricants and fuel (Gasoline, Diesel and Ethanol)	<b>201,254</b>	149,613
	<b>851,642</b>	233,747
Annual maintenance cost of growing crops	<b>220,475</b>	243,709
Supplies and others	<b>134,226</b>	110,264
	<b>1,206,343</b>	587,720

### 4. Taxes payable

	<b>December 31, 2010</b>	<b>March 31, 2010</b>
ICMS – State VAT	<b>25,325</b>	27,623
IPI	<b>22,832</b>	3,582
INSS	<b>13,932</b>	13,414
PIS	<b>3,816</b>	4,564
COFINS	<b>17,571</b>	18,010
Tax Recovery from Brazilian Law No 11.941/09 and MP 470/09	<b>398,438</b>	373,650
Income tax and social contribution	<b>59,000</b>	50,471
Others	<b>15,605</b>	11,694
	<b>556,519</b>	503,008
Current liabilities	<b>(131,307)</b>	(121,203)
Long-term liabilities	<b>425,212</b>	381,805

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Notes to the condensed consolidated financial statements (Continued)  
(In thousands of U.S. dollars, unless otherwise stated)  
(Unaudited)

### 5. Long-term debt

The Company's debt is summarized as follows:

	Index	Average annual interest rate	December 31, 2010	March 31, 2010
Resolution No. 2471 (PESA)	IGP-M	3.9%	348,890	295,291
Senior notes due 2014	US Dollar	9.5%	363,300	354,433
Senior notes due 2017	US Dollar	7.0%	411,589	404,589
Perpetual notes	US Dollar	8.3%	759,154	455,304
BNDES	TJLP	3.6%	974,099	520,068
Credit notes	DI	2.1%	183,516	212,660
Credit notes	US Dollar	6.2%	101,094	102,656
Export Pre-payments	US Dollar+Libor	6.3%	435,451	547,230
ACC – Export pre-payments	US Dollar	1.6%	126,248	103,416
Others	Various	Various	507,244	292,899
			<u>4,210,585</u>	<u>3,288,546</u>
Current portion			<u>(672,983)</u>	<u>(445,593)</u>
Long-term debt			<u><u>3,537,602</u></u>	<u><u>2,842,953</u></u>

Long-term debt has the following scheduled maturities:

2012	526,498
2013	228,748
2014	573,058
2015	428,639
2016 and thereafter	1,780,659
	<u><u>3,537,602</u></u>

#### ***Resolution No. 2471 - Special Agricultural Financing Program (Programa Especial de Saneamento de Ativos), or PESA***

To extend the repayment period of debts incurred by Brazilian agricultural producers, the Brazilian government passed Law 9.138 followed by Central Bank Resolution 2,471, which, together, formed the PESA program. PESA offered certain agricultural producers with certain types of debt the opportunity to acquire Brazilian treasury bills ("CTNs") in an effort to restructure their agricultural debt. The face value of the Brazilian treasury bills was the equivalent of the value of the restructured debt and was for a term of 20 years.

## **COSAN S.A. INDÚSTRIA E COMÉRCIO**

Notes to the condensed consolidated financial statements (Continued)  
(In thousands of U.S. dollars, unless otherwise stated)  
(Unaudited)

### **5. Long-term debt (Continued)**

#### ***Resolution No. 2471 - Special Agricultural Financing Program (Programa Especial de Saneamento de Ativos), or PESA (Continued)***

The acquisition price was calculated by the present value, discounted at a rate of 12% per year or at the equivalent of 10.4% of its face value. The CTNs were deposited as a guarantee with a financial institution and cannot be renegotiated until the outstanding balance is paid in full. The outstanding balance associated with the principal is adjusted in accordance with the IGP-M until the expiration of the restructuring term, which is also 20 years, at which point the debt will be discharged in exchange for the CTNs. Because the CTNs will have the same face value as the outstanding balance at the end of the term, it will not be necessary to incur additional debt to pay PESA debt.

On July 31, 2003, the Central Bank issued Resolution 3,114, authorizing the reduction of up to five percentage points of PESA related interest rates, effectively lowering the above-mentioned rates to 3%, 4% and 5%, respectively. The CTNs held by Cosan as of December 31, 2010 and March 31, 2010 amounted to \$162,836 and \$133,039, respectively, and are classified as other non-current assets.

#### ***Senior notes due 2014***

On August 4, 2009, the indirect subsidiary CCL Finance Limited issued \$350,000 of senior notes in the international capital markets. These senior notes, listed on the Luxembourg Stock Exchange, mature in August 2014 and bear interest at a rate of 9.5% per annum, payable semi-annually in February and August of each year, from February of 2010.

#### ***Senior notes due 2017***

On January 26, 2007, the wholly-owned subsidiary Cosan Finance Limited issued \$400,000 of senior notes in the international capital markets. These senior notes, listed on the Luxembourg Stock Exchange, mature in November 2017 and bear interest at a rate of 7% per annum, payable semi-annually. The senior notes are guaranteed by Cosan, and its subsidiary, Cosan Açúcar e Alcool.

## **COSAN S.A. INDÚSTRIA E COMÉRCIO**

Notes to the condensed consolidated financial statements (Continued)  
(In thousands of U.S. dollars, unless otherwise stated)  
(Unaudited)

### **5. Long-term debt (Continued)**

#### ***Perpetual notes***

On January 24 and February 10, 2006, Cosan issued perpetual notes which are listed on the Luxembourg Stock Exchange - EURO MTF. These notes bear interest at a rate of 8.25% per year, payable quarterly on May 15, August 15, November 15 and February 15 of each year, beginning May 15, 2006. These notes may, at the discretion of Cosan, be redeemed on any interest payment date subsequent to February 15, 2011. The notes are guaranteed by Cosan and by Cosan S.A. Açúcar e Álcool.

On November 5, 2010 the subsidiary Cosan Overseas Limited issued \$300,000 of perpetual notes in the foreign market, in accordance with "Regulation S". These notes bear interest at a rate of 8.25% per year, payable quarterly.

#### ***BNDES***

Refers to the financing of cogeneration and logistics projects as well as the financing of the Jataí and Caarapó greenfields (sugar and ethanol mills). The BNDES financing is due from 2012 through 2025.

#### ***Credit Notes***

The Company executed several credit note agreements with several financial institutions during 2010 which will be paid through export operations during 2012. The credit notes bear interest at rates between 2.1% and 6.2% per annum, payable semi-annually.

#### ***Export Pre-payment Notes***

During the third quarter of 2009, the Company obtained funds from export pre-payment notes for the total amount of \$530,000. The export pre-payment notes are due from 2012 through 2014, and bear interest of Libor plus 6.3%.

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Notes to the condensed consolidated financial statements (Continued)  
(In thousands of U.S. dollars, unless otherwise stated)  
(Unaudited)

### 5. Long-term debt (Continued)

#### Covenants

Cosan and its subsidiaries are subject to certain restrictive covenants related to their indebtedness.

At December 31, 2010, Cosan was in compliance with its debt covenants.

### 6. Related parties

Assets and liabilities with related parties are summarized as follows:

	<b>Assets</b>	
	<b>December 31, 2010</b>	<b>March 31, 2010</b>
Rezende Barbosa S.A. Administração e Participações	50,014	48,889
Vertical UK LLP	7,575	8,403
Others	216	2,377
	<b>57,805</b>	<b>59,669</b>
Current (*)	(12,183)	(13,958)
Noncurrent (*)	45,622	45,711
	<b>Liabilities</b>	
	<b>December 31, 2010</b>	<b>March 31, 2010</b>
Rezende Barbosa S.A. Administração e Participações	43,356	-
Logisport Armazéns Gerais S.A.	-	6,313
Others	1,434	1,781
	<b>44,790</b>	<b>8,094</b>
Current (*)	(44,790)	(8,094)
Noncurrent	-	-

(\*) included in other current and non-current assets or liabilities

The receivable of \$50,014 (\$48,889 as of March 31, 2010) with Rezende Barbosa S.A. Administração e Participações is related to credits assumed by Rezende Barbosa, in connection with the acquisition of Cosan Alimentos and intercompany loans.

The amount receivable from the affiliate Vertical UK LLP, refers to ethanol trading, with an average maturity date of 30 days.

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Notes to the condensed consolidated financial statements (Continued)  
(In thousands of U.S. dollars, unless otherwise stated)  
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### 6. Related parties (Continued)

The payable of \$43,356 with Rezende Barbosa S.A. Administração e Participações is related to the purchase of sugar cane. This amount is presented net of credits assumed by Rezende Barbosa, in connection with the acquisition of Cosan Alimentos and intercompany loans.

The payable to Logisport is related to the remaining payment in connection with the interest acquired, which were settled during the period.

Cosan conducts some of its operations through various ventures and other partnership forms which are principally accounted for using the equity method. The condensed consolidated income statement includes the following amounts resulting from transactions with related parties:

	December 31, 2010	December 31, 2009
<b>Transactions involving assets</b>		
Sale of products and services to associates	103,529	98,320
Cash received due to the sale of products, services, and other assets	(109,230)	(109,642)
Added through acquisition	-	73,338
<b>Transactions involving liabilities</b>		
Purchase of sugar cane from associates	173,845	80,227
Payment of financial resources, net of funding	-	-
Payments to associates	(139,361)	(52,667)
Financial income (expense)	-	(41,573)
Payment to Cosan Limited	-	(170,457)

The purchase and sale of products are carried out at arm's length and unrealized profit or losses with consolidated companies have been eliminated. Those operations are also carried out at prices and under conditions similar to those existing in the market.

At December 31 and March 31, 2010, Cosan S.A. and its subsidiaries were lessees of approximately 68,000 hectares (unaudited) of affiliated companies' land and land of its related party Radar Propriedades Agrícolas S.A., which is controlled by another shareholder. Additionally, Cosan and its subsidiary Cosan S.A. Açúcar e Álcool purchased a total of 6,003 thousands of tons of sugar cane (unaudited) from Rezende Barbosa during the nine-month period ended December 31, 2010. These operations are carried out under conditions and prices similar to those prevailing in the market, calculated based on sugarcane tons per hectare, valued in accordance with the price established by CONSECANA (São Paulo State Council of Sugarcane, Sugar and Ethanol Producers).

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Notes to the condensed consolidated financial statements (Continued)  
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### 7. Estimated liability for legal proceedings and labor claims and commitments

	<b>December 31, 2010</b>	<b>March 31, 2010</b>
Tax contingencies	<b>192,615</b>	173,924
Civil and labor contingencies	<b>143,342</b>	120,681
	<b>335,957</b>	<b>294,605</b>

Cosan and its subsidiaries are parties in various ongoing labor claims, civil and tax proceedings in Brazil arising in the normal course of its business. Respective provisions for contingencies were recorded considering those cases in which the likelihood of loss has been rated as probable. Management believes resolution of these disputes will have no significant effect compared to the estimated amounts accrued.

Judicial deposits recorded by Cosan under other non-current assets, in the balance sheet, amounting to \$108,558 at December 31, 2010 (\$94,083 at March 31, 2010) have been made for certain of these suits. Judicial deposits are restricted assets of Cosan placed on deposit with the court and held in judicial escrow pending legal resolution of the related legal proceedings.

The major tax contingencies as of December 31, 2010 and March 31, 2010 are described as follows:

	<b>December 31, 2010</b>	<b>March 31, 2010</b>
Compensation with Finsocial	<b>108,561</b>	97,114
ICMS credits	<b>43,170</b>	33,824
PIS and Cofins	<b>15,590</b>	11,910
IPI – Federal VAT	<b>5,179</b>	4,692
Other	<b>20,115</b>	26,384
	<b>192,615</b>	<b>173,924</b>

The detail of the movement in the estimated liability for legal proceedings and labor claims is as follows:

<b>Balance at March 31, 2010</b>	<b>294,605</b>
Provision	29,081
Settlements	(38,006)
Accrued interest	29,282
Foreign currency translation	20,995
<b>Balance at December 31, 2010</b>	<b>335,957</b>

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Notes to the condensed consolidated financial statements (Continued)  
(In thousands of U.S. dollars, unless otherwise stated)  
(Unaudited)

### 7. Estimated liability for legal proceedings and labor claims and commitments (Continued)

In addition to the aforementioned claims, Cosan and its subsidiaries are involved in other contingent liabilities relating to tax, civil and labor claims and environmental matters, which have not been recorded, considering their current stage and the likelihood of unfavorable outcomes rated as possible. These claims are broken down as follows:

	<b>December 31, 2010</b>	<b>March 31, 2010</b>
Withholding income tax	<b>115,103</b>	102,652
ICMS – State VAT	<b>292,042</b>	180,988
IPI - Federal VAT	<b>264,375</b>	246,190
PIS and COFINS	<b>89,068</b>	80,604
Civil and labor	<b>373,097</b>	275,403
INSS and other	<b>124,917</b>	69,842
	<b><u>1,258,602</u></b>	<b><u>955,679</u></b>

### 8. Accounts receivable from Federal Government

The subsidiary Cosan Açúcar e Álcool has several indemnification suits filed against the Federal Government. The suits relate to product prices that did not conform to the reality of the market, which were mandatorily established at the time the sector was under the Government's control.

In connection with one of these suits, a final and unappealable decision in the amount of US\$149,121 was rendered in September 2006 in favor of Usina de Barra. This has been recorded as a gain in the statement of operations in 2007. Since the recorded amount is substantially composed of interest and monetary restatement, it was recorded in financial income and in a non-current receivable on the balance sheet. In connection with the settlement process, the form of payment continues to be negotiated with the government.

At December 31, 2010, the receivable and corresponding lawyers' fees totaled US\$205,323 and US\$24,639 (US\$187,385 and US\$22,486 at March 31, 2010), respectively.

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Notes to the condensed consolidated financial statements (Continued)  
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### 9. Financial income and expenses, net

	Nine-month period ended	
	December 31, 2010	December 31, 2009
<b>Financial expenses</b>		
Interest	(215,661)	(207,538)
Monetary variation	(35,701)	(88,854)
Other	(2,195)	(3,258)
	<u>(253,557)</u>	<u>(299,650)</u>
<b>Financial income</b>		
Interest	33,193	52,672
Monetary variation	14,361	2,520
Other	33,865	22,639
	<u>81,419</u>	<u>77,831</u>
<b>Foreign exchange gains</b>	<b>124,640</b>	<b>318,097</b>
<b>Derivatives</b>		
Commodities	(14,380)	(193,880)
Exchange rate and interest	16,264	273,709
	<u>1,884</u>	<u>79,829</u>
<b>Financial income, net</b>	<b><u>(45,614)</u></b>	<b><u>176,107</u></b>

### 10. Income taxes

Income tax expense attributable to income from operations for the nine-month periods ended December 31, 2010 and 2009 consists of:

	December 31, 2010	December 31, 2009
Income taxes expense:		
Current	(34,016)	(41,078)
Deferred	(52,433)	(137,220)
	<u>(86,449)</u>	<u>(178,298)</u>

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Notes to the condensed consolidated financial statements (Continued)  
(In thousands of U.S. dollars, unless otherwise stated)  
(Unaudited)

### 10. Income taxes (Continued)

Income taxes for the nine-month periods ended December 31, 2010 and 2009, differed from the amounts computed by applying the income tax rate of 25% and social contribution tax rate of 9% to income before income taxes due to the following:

	<b>December 31, 2010</b>	<b>December 31, 2009</b>
Income before income taxes and equity in loss of affiliates	<b>211,173</b>	469,792
Income tax expense at statutory rate — 34%	<b>(71,799)</b>	(159,729)
Increase (reduction) in income taxes resulting from:		
Equity in earnings of affiliates not subject to taxation	<b>(430)</b>	(1,840)
Nondeductible donations and contributions	<b>(4,610)</b>	(1,437)
Recognized granted options	<b>(300)</b>	(1,526)
Tax loss carryforward unrealizable in subsidiaries	<b>(4,315)</b>	(1,359)
Others	<b>(4,995)</b>	(12,407)
Income tax expense	<b><u>(86,449)</u></b>	<b><u>(178,298)</u></b>

Cosan accounts for unrecognized tax benefits in accordance with ASC 740, "Accounting for Uncertainty in Income Taxes". A reconciliation of the beginning and ending amount of unrecognized tax benefits in the estimated liability for legal proceedings, and labor claims, is as follows

Balance at March 31, 2010	49,013
Accrued interest on unrecognized tax benefit	1,916
Settlements	(145)
Effect of foreign currency translation	3,428
Balance at December 31, 2010 (*)	<b><u>54,212</u></b>

(\*) Recorded as taxes payable (long-term)

It is possible that the amount of unrecognized tax benefits will change in the next twelve months, however, an estimate of the range of the possible change cannot be made at this time due to the long time to reach a settlement agreement or decision with the taxing authorities.

The Company and its subsidiaries file income tax returns in Brazil and they are subject to income tax examinations by the relevant tax authorities for the years 2005 through 2010.

## **COSAN S.A. INDÚSTRIA E COMÉRCIO**

Notes to the condensed consolidated financial statements (Continued)  
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### **11. Shareholders' equity**

#### ***a. Capital***

On July 29, 2010, the Board of Directors approved a capital increase of US\$1 through issuance of 60 new common shares, with no par value, at an issue price of US\$9.00, due to exercise of subscription warrants by the holders. On the same day, the shareholders unanimously approved a capital increase of \$1,558 through the issuance of 449,819 newly registered uncertificated common shares with no par value, in connection with the "Company's Stock Option Plan", due to exercise of such options by qualifying executives.

On September 17, 2010, the Board of Directors approved a capital increase of US\$326 through issuance of 91,657 new common shares, with no par value, for purposes of meeting the needs of the Stock Option Plan, due to exercise of such options by qualifying executives.

As of December 31, 2010, the Company's capital is represented by 407,101,853 common shares (406,560,317 as of March 31, 2010), with no par value.

#### Treasury stock

During the fiscal year ended March 31, 2009, the Company acquired 343,139 common shares from dissident shareholders related to a prior acquisition. These shares are held in treasury.

On November 22, 2010, the Board of Directors approved a program to buy back the Company's common shares, to be held in treasury for future sale or cancellation. The validity period for this operation is up to 365 days (until November 22, 2011) and the maximum number of shares to be repurchased during the period is 6,640,091 shares, with no par value.

During the quarter ended December 31, 2010, the Company acquired 591,400 shares for US\$8,969, including expenses associated with the repurchase of shares.

As of December 31, 2010, the Company's treasury stock is represented by 934,539 shares, which market value per share, on that date, was US\$16.57.

## **COSAN S.A. INDÚSTRIA E COMÉRCIO**

Notes to the condensed consolidated financial statements (Continued)  
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### **11. Shareholders' equity (Continued)**

#### ***b. Dividends***

On July 30, 2010, additional dividends over the minimum compulsory of \$47,479, were approved in the extraordinary general shareholders' meeting in relation to the year ended March 31, 2010.

#### ***c. Additional paid-in capital and noncontrolling interest***

As mentioned in note 1, on September 2, 2010, the shareholders approved a capital increase at Rumo through issuance of shares in exchange for cash provided by investors. As a result of this transaction, Cosan recorded noncontrolling interest in the amount of \$110,247. The cash contribution in excess of the book value the investors interest in Rumo has been accounted for as an equity transaction, leading to an additional paid-in capital of \$117,543.

### **12. Deferred gain on sale of investments in subsidiaries**

Agrícola Ponte Alta S.A. is a subsidiary whose principal assets are land used for the growing of sugarcane for Cosan. On December 15, 2008, the shareholders approved a partial spin-off of the assets of Ponte Alta and created four new subsidiaries. Agricultural land was then transferred from Ponte Alta to each of the entities. On December 30, 2008, two of the entities, Nova Agrícola Ponte Alta S.A. and Terras da Ponte Alta S.A. were sold to Radar, an affiliate company accounted for by the equity method. The selling price was fair value, \$123,596, which resulted in a gain of \$47,080. This gain has previously been deferred since there were no lease contracts executed for the land, which was being used by Cosan for a monthly fee. During the year ended March 31, 2009 the lease contracts were executed, and the gain is being amortized to profit and loss over the 19 year average term of the leases since then.

During the nine-month period ended December 31, 2010, the Company recognized a gain of \$2,893 related to this sale-leaseback transaction.

### **13. Share-based compensation**

Cosan offers a stock option plan to officers and employees. The plan authorizes the issue of up to 5% of the shares comprising Cosan's share capital. The exercise of options may be settled only through issuance of new common shares or treasury shares.

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Notes to the condensed consolidated financial statements (Continued)  
(In thousands of U.S. dollars, unless otherwise stated)  
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### 13. Share-based compensation (Continued)

The employees that resign Cosan S.A before the vesting period will forfeit 100% of their rights. However, if the employment is terminated by Cosan without cause, the employees will have right to exercise 100% of their options of that particular year plus the right to exercise 50% of the options of the following year.

The fair value of share-based awards was estimated using a binominal model with the following assumptions:

	<b>Options granted on September 22, 2005</b>	<b>Options granted on September 11, 2007</b>	<b>Options granted on August 7, 2009</b>
Grant price - in U.S. dollars	3.67	3.67	3.67
Expected life (in years)	7.5	7.5	Immediate
Interest rate	14.52%	9.34%	(1)
Expected volatility	34.00%	46.45%	(1)
Expected dividend yield	1.25%	1.47%	(1)
Weighted-average fair value at grant date - in U.S. dollars	7.41	10.92	(1)

(1) The options were fully vested at the date of issuance so the fair value was the quoted market price as of the grant date.

As of December 31, 2010, the amount of \$851 related to the unrecognized compensation cost related to stock options is expected to be recognized in 9 months.

As of December 31, 2010 there were 112,440 options outstanding with a weighted-average exercise price of \$3.67.

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Notes to the condensed consolidated financial statements (Continued)  
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### 14. Risk management and financial instruments

#### a) Risk management

The Company is exposed to market risks, mainly related to the volatility of sugar prices and foreign exchange rates. Management analyzes these risks and uses financial instruments to hedge a portion of the risk exposure.

On December 31 and March 31, 2010, fair values related to transactions involving derivative financial instruments with the purpose of hedge or other purposes were measured at market value (fair value) by observables factors such as quoted prices in active markets or discounted cash flows based on market curves and are presented below:

	Notional		Fair Value	
	December 31, 2010	March 31, 2010	December 31, 2010	March 31, 2010
<b>Price risk</b>				
Commodity derivatives				
Future contracts	1,027,319	661,110	(157,488)	63,101
Options contracts	11,727	603,357	(25,908)	(6,586)
Swap contracts	758,912	56,594	(4)	607
			<u>(183,400)</u>	<u>57,122</u>
<b>Exchange rate risk</b>				
Future contracts	154,309	1,180,829	1,321	264
Forward contracts	682,979	537,422	60,933	20,527
Options contracts	35,711	377,036	2,955	8,827
			<u>65,209</u>	<u>29,618</u>
<b>Interest rate risk</b>				
Interest derivative	207,574	291,291	(1,269)	(351)
			<u>(1,269)</u>	<u>(351)</u>
<b>Total</b>			<u>(119,460)</u>	<u>86,389</u>
<b>Total Assets</b>			<u>108,032</u>	<u>129,456</u>
<b>Total Liabilities</b>			<u>(227,492)</u>	<u>(43,067)</u>

#### b) Price risk

This arises from the possibility of fluctuations in the market prices of products sold by the Company, mainly raw material sugar - VHP (sugar #11) and white sugar (LIFFE sugar #5). These fluctuations in prices can cause substantial changes in the revenues of the Company. To mitigate these risks, the Company constantly monitors the markets, seeking to anticipate changes in prices. The positions of the consolidated derivative financial instruments to hedge the price risk of commodities are shown in the table below:

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Notes to the condensed consolidated financial statements (Continued)  
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### 14. Risk management and financial instruments (Continued)

Price risk: price derivatives outstanding as of December 31, 2010						
Derivative	Purchased / sold	Market	Contract	Maturity	Notional	Fair Value
<b>Derivative financial instruments designated as cash flow hedges</b>						
Future	Sold	NYBOT	#11	01/Mar/11	(141.838)	(41.973)
Future	Sold	NYBOT	#11	01/May/11	(26.294)	(14.623)
Future	Sold	NYBOT	#11	01/Jul/11	(107.259)	(26.491)
Future	Sold	NYBOT	#11	01/Oct/11	(74.827)	(19.438)
Future	Sold	NYBOT	#11	01/Mar/12	(20.049)	(335)
Sw ap	Sold	NYBOT	#11	01/Mar/11	(30.238)	(23.353)
Sw ap	Sold	NYBOT	#11	01/May/11	(16.534)	115
Sw ap	Sold	NYBOT	#11	01/Jul/11	(170.502)	(18.724)
Sw ap	Sold	NYBOT	#11	01/Oct/11	(176.946)	(20.452)
<b>Subtotal designated as cash flow hedges</b>					<b>(764.487)</b>	<b>(165.274)</b>
<b>Derivative financial instruments not designated under hedge accounting</b>						
Future	Sold	NYBOT	#11	01/Mar/11	(27.017)	(10.414)
Future	Sold	NYBOT	#11	01/Oct/11	(34.436)	(15.070)
					<b>(61.453)</b>	<b>(25.484)</b>
Future	Purchased	NYBOT	#11	01/Mar/11	(24.904)	1.285
Future	Purchased	NYBOT	#11	01/Mar/11	(5.960)	3.957
Future	Purchased	NYBOT	#11	01/Oct/11	(24.752)	2.643
Future	Purchased	NYBOT	#11	01/Mar/12	(30.125)	13.890
Sw ap	Purchased	NYBOT	#11	01/Jul/11	(53.872)	4.806
Sw ap	Purchased	NYBOT	#11	01/Oct/11	(61.768)	6.688
					<b>(201.381)</b>	<b>33.270</b>
Future	Sold	BMFBovespa	Hydrated ethanol	31/Jan/11	758.912	(4)
					<b>758.912</b>	<b>(4)</b>
Call	Sold	NYBOT/OTC	#11	01/Mar/11	3.022	(13.173)
Call	Sold	NYBOT	#11	01/Mar/11	451	(2.513)
Call	Sold	NYBOT	#11	01/Mar/11	160	(865)
Call	Sold	NYBOT/OTC	#11	01/Oct/11	1.711	(5.293)
Call	Sold	NYBOT/OTC	#11	01/Oct/11	2.390	(6.531)
					<b>7.734</b>	<b>(28.374)</b>
Put	Purchased	NYBOT/OTC	#11	01/Oct/11	1.677	1.000
Put	Purchased	NYBOT/OTC	#11	01/Oct/11	2.316	1.466
					<b>3.993</b>	<b>2.466</b>
<b>Subtotal derivative financial instruments not designated under hedge accounting</b>					<b>507.807</b>	<b>(18.126)</b>
<b>Total price risk related derivatives</b>					<b>(256.680)</b>	<b>(183.400)</b>

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Notes to the condensed consolidated financial statements (Continued)  
(In thousands of U.S. dollars, unless otherwise stated)  
(Unaudited)

### 14. Risk management and financial instruments (Continued)

#### c) Foreign exchange risk

This arises from the possibility of fluctuations in the exchange rates of the foreign currencies used by the Company for the export revenues of products, imports, debt cash flow and other assets and liabilities denominated in a foreign currency. The Company uses derivative transactions to manage the risks of cash flow coming from the export revenues denominated in U.S. dollars, net of other cash flows denominated in foreign currency. The table below demonstrates the consolidated positions open as of December 31, 2010 of derivatives used to hedge exchange rates:

Foreign exchange risk: derivatives outstanding as of December 31, 2010						
Derivative	Purchased / Sold	Market	Contract	Maturity	Notional	Fair value
					US\$ (thousand)	US\$ (thousand)
<b>Derivative financial instruments designated as cash flow hedge.</b>						
Forward	Sold	OTC/Cetip	NDF	January 3, 2011	53,691	8,688
Forward	Sold	OTC/Cetip	NDF	April 1, 2011	111,196	9,104
Forward	Sold	OTC/Cetip	NDF	May 31, 2011	84,792	12,027
Forward	Sold	OTC/Cetip	NDF	July 1, 2011	59,597	7,134
Forward	Sold	OTC/Cetip	NDF	August 1, 2011	62,267	9,224
Forward	Sold	OTC/Cetip	NDF	October 3, 2011	156,860	20,715
<b>Sub-total designated as cash flow hedge</b>					<b>528,403</b>	<b>66,892</b>
<b>Derivative financial instruments not designated under hedge accounting</b>						
Future	Sold	BMFBovespa	Commercial U.S. dollar rate	January 3, 2011	228,604	1,639
Future	Sold	BMFBovespa	Commercial U.S. dollar rate	February 1, 2011	83,526	809
<b>Sub-total Future Sold</b>					<b>312,130</b>	<b>2,448</b>
Future	Purchased	BMFBovespa	Commercial U.S. dollar rate	January 3, 2011	(157,821)	(1,126)
<b>Sub-total Future Purchased</b>					<b>(157,821)</b>	<b>(1,126)</b>

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Notes to the condensed consolidated financial statements (Continued)  
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### 14. Risk management and financial instruments (Continued)

Foreign exchange risk: derivatives outstanding as of December 31, 2010						
Derivative	Purchased / Sold	Market	Contract	Maturity	Notional	Fair value
Forward	Purchased	OTC	NDF (Offshore)	February 2, 2011	6,352	(140)
Forward	Purchased	OTC	NDF (Offshore)	May 2, 2011	6,470	(138)
Forward	Purchased	OTC	NDF (Offshore)	August 2, 2011	6,610	(136)
Forward	Purchased	OTC	NDF (Offshore)	November 1, 2011	6,749	(153)
Forward	Purchased	OTC	NDF (Offshore)	February 1, 2012	6,895	(190)
Forward	Purchased	OTC	NDF (Offshore)	May 2, 2012	7,035	(188)
Forward	Purchased	OTC	NDF (Offshore)	August 1, 2012	7,189	(198)
Forward	Purchased	OTC	NDF (Offshore)	October 30, 2012	7,345	(212)
Forward	Purchased	OTC	NDF (Offshore)	January 31, 2013	7,505	(215)
Forward	Purchased	OTC	NDF (Offshore)	April 30, 2013	7,646	(195)
Forward	Purchased	OTC	NDF (Offshore)	July 31, 2013	7,800	(181)
Forward	Purchased	OTC	NDF (Offshore)	October 31, 2013	7,956	(169)
Forward	Purchased	OTC	NDF (Offshore)	January 31, 2014	8,115	(191)
Forward	Purchased	OTC	NDF (Offshore)	April 29, 2014	8,248	(278)
Forward	Purchased	OTC	NDF (Offshore)	July 31, 2014	8,404	(379)
Forward	Purchased	OTC	NDF (Offshore)	October 31, 2014	8,559	(478)
Forward	Purchased	OTC	NDF (Offshore)	February 2, 2015	8,700	(551)
Forward	Purchased	OTC	NDF (Offshore)	April 29, 2015	8,838	(598)
Forward	Purchased	OTC	NDF (Offshore)	July 31, 2015	9,004	(660)
Forward	Purchased	OTC	NDF (Offshore)	October 30, 2015	9,155	(710)
<b>Sub-total Forward Purchased</b>					<b>154,575</b>	<b>(5,960)</b>
Put Offshore	Purchased	OTC	Commercial U.S. dollar rate	February 11, 2011	25,677	1,776
Put Offshore	Purchased	OTC	Commercial U.S. dollar rate	February 11, 2011	10,035	1,179
<b>Sub-total Put Purchased</b>					<b>35,711</b>	<b>2,955</b>
<b>Total de Foreign exchange derivatives designated for exportation</b>					<b>872,999</b>	<b>65,209</b>
Sw ap	Purchased	OTC/Cetip	U.S. dollar/DI		193,268	22,032
Sw ap	Sold	OTC/Cetip	U.S. dollar/DI		(193,268)	(22,032)
<b>Total Foreign exchange</b>					<b>872,999</b>	<b>65,209</b>

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Notes to the condensed consolidated financial statements (Continued)  
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### 14. Risk management and financial instruments (Continued)

On December 31, 2010 and March 31, 2010, the Company had the following net exposure to the variation of U.S. dollar assets and liabilities denominated in U.S. dollars

	<u>December 31, 2010</u>	<u>March 31, 2010</u>
Amounts pending foreign exchange closing	9,666	71,732
Overnight	10,161	28,338
Trade notes receivable - foreign	57,704	83,467
Senior Notes due in 2014	(363,300)	(354,433)
Senior Notes due in 2017	(411,589)	(404,589)
Perpetual bonds	(759,154)	(455,304)
Foreign currency-denominated loans	(227,342)	(269,016)
Export pre-payments	(435,451)	(547,230)
Restricted cash	165,796	25,251
Exchange exposure	<u>(1,953,509)</u>	<u>(1,821,784)</u>

#### d) hedge accounting effects

The Company formally designated its transactions subject to hedge accounting for cash flow hedges from sugar VHP (raw material) export revenue, documenting: (i) the relationship of the hedge, (ii) the Company's purpose for taking the hedge and its risk management strategy, (iii) identification of the financial instrument, (iv) the transaction or item covered, (v) the nature of the risk being hedged, (vi) a description of the hedging relationship (vii) the demonstration of correlation between the hedge and the object of coverage, and (viii) the prospective analysis of hedge effectiveness. The Company has designated derivative financial instruments of Sugar # 11 (NYBOT or OTC) to cover the risk of price and Non-Deliverable Forwards (NDF) to cover exchange rate risk, as demonstrated in topics (b) and (c) of this Note.

The Company records gains and losses deemed effective for purposes of hedge accounting to a specific account in shareholders' equity ("other comprehensive income"), until the object of coverage (hedged item) affects the profit and loss.

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Notes to the condensed consolidated financial statements (Continued)  
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### 14. Risk management and financial instruments (Continued)

Derivative	Market	Risk	Expected period to affect P&L		
			2010/2011	2011/2012	Total
Future	OTC/ NYBOT	#11	(56,790)	(221,363)	(278,153)
NDF	OTC/ CETIP	USD	5,693	53,896	59,589
			(51,097)	(167,467)	(218,564)
			17,373	56,939	74,312
(-) Deferred income taxes					
<b>Shareholders' equity effect</b>			<u>(33,724)</u>	<u>(110,528)</u>	<u>(144,252)</u>

The detail of the movement of the cash flow hedge gain or loss in other comprehensive income is as follows:

#### Cash flow hedges

<b>Balance at March 31, 2010</b>	-
Gain/(losses) of cash flow hedges for the period	
Commodities future and swap contracts	(342,540)
Currency forward contracts	73,847
Reclassification adjustments for losses included in the income statement (net sales)	50,129
Total before tax effect	(218,564)
Tax effect on gain/(losses) of cash flow hedges for the period – 34%	74,312
<b>Balance at December 31, 2010</b>	<u>(144,252)</u>

During the nine-month period ended December 31, 2010, the Company recorded the amount of \$8,967 on results for operations due to hedged items that would no longer qualify to be designated under hedge accounting. Also, the Company recorded the amount of \$219 related to the gains and losses of the hedges' ineffectiveness during the nine-month period ended December 31, 2010.

#### e) Interest rate risk

The Company monitors fluctuations of the interest rates related to certain loan contracts, mainly those with Libor interest rate risk, and in the event of increased volatility of such rates, it may engage in transactions with derivatives so as to minimize such risks. At December 31, 2010, the Company presented the following net balance sheet exposure related to interest rate risk:

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Notes to the condensed consolidated financial statements (Continued)  
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### 14. Risk management and financial instruments (Continued)

#### e) Interest rate risk (Continued)

Interest rate risk: outstanding interest rate swap derivatives on December 31, 2010							
Derivative	Purchased /sold	Market	Contract	Number of Contract	Average price	Notional	Fair value
Swap	Purchased	OCT/Cetip	Fix/Libor 3 month	1	1.99%/libor 3 Month	69,192	(423)
Swap	Purchased	OCT/Cetip	Fix/Libor 3 month	1	1.99%/libor 3 Month	138,382	(846)
						<u>207,574</u>	<u>(1,269)</u>

#### f) Credit risk

A significant portion of sales made by the Company is to a select group of best-in-class counterparts (i.e. trading companies, fuel distribution companies and large supermarket chains).

Credit risk is managed through specific rules of client acceptance including credit ratings and limits for customer exposure, including the requirement of a letter of credit from major banks and obtaining actual warranties on given credit, when applicable. Management believes that the risk of credit is covered by the allowance for doubtful accounts.

The Company buys and sells commodity derivatives in futures and options markets on the New York Board of Trade (NYBOT) and the London International Financial Futures and Options Exchange (LIFFE), as well as in the over-the-counter (OTC) market with selected counterparties. The Company buys and sells foreign exchange derivatives on BM&FBovespa and OTC contracts registered with CETIP (OTC clearing house) with banks Goldman Sachs & Co, Banco Barclays S.A., BNP Paribas Commodity Futures Ltd, Newedge LLC, Macquarie Bank Ltd, ADM Investors Services International Limited (Hencorp), Prudential Bache Commodities LLC, Natixis Commodity Markets Ltd, Espirito Santo Investimento do Brasil S.A., Deutsche Bank S.A. – Banco Alemão, Banco Bradesco S.A., Banco JP Morgan S.A., Banco Standard de Investimentos S.A., Banco Morgan Stanley Witter S.A. and Banco BTG Pactual S.A..

## **COSAN S.A. INDÚSTRIA E COMÉRCIO**

Notes to the condensed consolidated financial statements (Continued)  
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### **14. Risk management and financial instruments (Continued)**

Guarantee margins – The Company's derivative operations on commodity exchanges (NYBOT, LIFFE and BM&FBovespa) require an initial guarantee margin. The brokers with which the Company operates on these commodity exchanges offer credit limits for these margins. As of December 30, 2010, the total credit limit used as initial margin was \$83,227 (\$38,543 as of March 31, 2010). As a requirement to trade in BM&FBovespa, the Company posted on December 31, 2010, the amount of \$19,061 (\$46,627 as of March 31, 2010) as guarantee in the form of a settlement bond issued by a first-class banking institution. Over-the-counter derivative transactions of the Company are exempt from margin guarantees.

#### **g) Debt acceleration risk**

As of December 31, 2010 and March 31, 2010, the Company was a party to loan and financing agreements with covenants generally applicable to these operations, including requirements related to cash generation, debt to equity ratio and others. These covenants are being fully complied with by the Company and do not place any restrictions on its operations as a going-concern.

### **15. Fair value measurements**

Effective May 1, 2008, Cosan adopted ASC 820, *Fair Value Measurements*, for all financial instruments and non-financial instruments accounted for at fair value on a recurring basis. ASC 820 establishes a new framework for measuring fair value and expands related disclosures. Broadly, the ASC 820 framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. ASC 820 establishes market or observable inputs as the preferred source of values, followed by assumptions based on hypothetical transactions in the absence of market inputs. The valuation techniques required by ASC 820 are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1 - Quoted prices for identical instruments in active markets.

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Notes to the condensed consolidated financial statements (Continued)  
(In thousands of U.S. dollars, unless otherwise stated)  
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### 15. Fair value measurements (Continued)

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 - Significant inputs to the valuation model are unobservable.

The following section describes the valuation methodologies Cosan uses to measure different financial instruments at fair value.

#### Derivatives

Cosan uses closing prices for derivatives included in Level 1, which are traded either on exchanges or liquid over-the-counter markets.

The remainder of the derivatives portfolio is valued using internal models, most of which are primarily based on market observable inputs including interest rate curves and both forward and spot prices for currencies and commodities. Derivative assets and liabilities included in Level 2 primarily represent interest rate swaps, foreign currency swaps and commodity forward contracts.

The following table presents our assets and liabilities measured at fair value on a recurring basis as of December 31, 2010.

<b>Fair value measurements</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Derivatives	(126,028)	6,568	(119,460)
Assets			108,032
Liabilities			(227,492)
<b>Total</b>			<b>(119,460)</b>

## **COSAN S.A. INDÚSTRIA E COMÉRCIO**

Notes to the condensed consolidated financial statements (Continued)  
(In thousands of U.S. dollars, unless otherwise stated)  
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### **16. Segment information**

#### ***a. Segment information***

The following information about segments is based upon information used by Cosan's senior management to assess the performance of operating segments and to decide on the allocation of resources. Cosan's operating and reportable segments are business units in Brazil that target different industry segments. Each reportable segment is managed separately because of the need to specifically address customer needs in these different industries. The operations of these segments are based solely in Brazil.

The Company has three operating segments: Sugar and Ethanol ("S&E"), Fuel Distribution and Lubricants ("CCL"), and Sugar Logistics ("Rumo").

The S&E segment produces and sells a broad variety of sugar and ethanol products.

The sugar products include raw (also known as very high polarization - VHP sugar), organic, crystal and refined sugars, which are sold to a wide range of customers in Brazil and abroad. Cosan exports the majority of the sugar produced through international commodity trading companies. Cosan's domestic customers include wholesale distributors, food manufacturers and retail supermarkets, through which it sells its "Da Barra" and "União" branded products. The ethanol products include fuel ethanol and industrial ethanol. Cosan's principal fuel ethanol products are hydrous and anhydrous. Hydrous ethanol is used as an automotive fuel and anhydrous (which has a lower water content than hydrous ethanol) is used as an additive in gasoline. The fuel ethanol products are mainly sold in the domestic market by fuel distribution companies. Consumption of hydrous ethanol in Brazil is increasing as a result of the introduction of flex fuel vehicles that can run on either gasoline or ethanol (or a combination of both). In addition, the S&E segment sells liquid and gel ethanol products used mainly in the production of paint, cosmetics and alcoholic beverages for industrial clients in various sectors. Also, the S&E segment includes the co-generation activities and most of the corporate activities.

The CCL segment is engaged in the distribution in Brazil of fuel products, derived from petroleum or ethanol, and lubricants as well as the operation of convenience stores. The network to which the fuel distribution segment distributes such products is comprised of approximately 1,700 fuel stations.

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Notes to the condensed consolidated financial statements (Continued)  
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### 16. Segment information (Continued)

#### a. Segment information (Continued)

The Rumo segment provides logistics services for the transport, storage and port lifting of sugar for both the S&E segment and third parties.

The accounting policies underlying the financial information provided for the segments are based on Brazilian GAAP. We evaluate segment performance based on information generated from the statutory accounting records.

Segment profit and loss and selected balance sheet data under Brazilian GAAP is as follows:

	December 31, 2010				
	S&E	CCL	RUMO	Adjustment/ elimination	Consolidated
	Brazilian GAAP				US GAAP
<b>Balance sheet:</b>					
Property, plant & equipment (PP&E)	3,076,888	235,627	392,876	878,817	4,584,208
Goodwill and Intangible assets	861,051	858,060	44,213	247,327	2,010,651
Loans, net of cash and cash equivalents	(3,292,443)	(276,906)	(3,985)	45,069	(3,528,265)
Others assets (liabilities)	2,518,543	349,950	14,467	(2,082,768)	800,193
Total net assets	<b>3,164,039</b>	<b>1,166,731</b>	<b>447,571</b>	<b>(911,555)</b>	<b>3,866,787</b>
<b>Income statements (9 months)</b>					
Net Sales	2,700,275	5,087,365	208,236	(265,896)	7,729,980
Gross profit	605,232	362,451	66,202	(85,097)	948,788
Selling general and administrative expenses	(412,335)	(230,643)	(11,843)	(14,185)	(669,006)
Operating income	192,897	131,808	54,359	(99,282)	279,782
Other income (expense)	94,081	8,639	4,997	(130,712)	(22,995)
<b>Other selected data:</b>					
Additions to PP&E (Capex)	647,701	56,486	224,914	-	929,101
Depreciation and amortization	380,027	21,242	8,115	108,144	517,528

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Notes to the condensed consolidated financial statements (Continued)  
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### 16. Segment information (Continued)

#### a. Segment information (Continued)

	March 31, 2010				
	S&E	CCL	RUMO	Adjustment/ elimination	Consolidated
	Brazilian GAAP				US GAAP
<b>Balance sheet:</b>					
Property, plant & equipment (PP&E)	2,775,752	199,983	165,094	856,986	3,997,815
Goodwill and Intangible assets	735,198	774,716	38,824	341,460	1,890,198
Loans, net of cash and cash equivalents	(2,443,354)	(249,839)	(59,799)	69,929	(2,683,063)
Others assets (liabilities)	2,113,306	342,720	7,696	(2,202,267)	261,455
Total net assets	3,180,902	1,067,580	151,815	(933,892)	3,466,405

	December 31, 2009				
	S&E	CCL	RUMO	Adjustment/ elimination	Consolidated
	Brazilian GAAP				US GAAP
<b>Income statements (9 months)</b>					
Net sales	1,888,554	4,004,480	62,514	(110,079)	5,845,469
Gross profit	404,958	298,685	15,403	(52,837)	666,209
Selling, general and administrative expenses	(320,130)	(186,328)	(6,528)	(7,974)	(520,960)
Operating income	8,483	112,357	8,874	15,535	145,249
Other income (expense)	116,759	50,660	(12,647)	(6,338)	148,435
<b>Other selected data:</b>					
Additions to PP&E (Capex)	654,879	22,808	406	-	678,093
Depreciation and amortization	232,592	14,196	5,674	127,035	379,497

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Notes to the condensed consolidated financial statements (Continued)  
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### 16. Segment information (Continued)

#### *b. Detailed net sales per segment*

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
S&E (Brazilian GAAP)		
Sugar	1,642,591	1,145,897
Ethanol	880,202	607,054
Cogeneration	109,107	45,969
Other	68,375	89,634
	<u>2,700,275</u>	<u>1,888,554</u>
CCL (Brazilian GAAP)		
Fuels	4,707,665	3,728,550
Lubricants	351,406	246,487
Other	28,294	29,442
	<u>5,087,365</u>	<u>4,004,480</u>
Rumo (Brazilian GAAP)		
Port lifting	58,904	61,082
Logistics	142,862	1,432
Other	6,470	-
	<u>208,236</u>	<u>62,514</u>
Adjustments / eliminations	<u>(265,896)</u>	<u>(110,079)</u>
Total (US GAAP)	<u>7,729,980</u>	<u>5,845,469</u>

#### *c. Net sales by region*

The percentage of net sales by geographic area for the nine-month periods ended December 31, 2010 and 2009 are as follows:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
<b>Sales by geographic area</b>		
Brazil	67.65%	80.14%
Europe	26.45%	13.33%
Middle east and Asia	2.51%	2.06%
North America	1.01%	3.43%
Latin American (Except Brazil)	0.57%	0.44%
Others	1.81%	0.60%
Total	<u>100.00%</u>	<u>100.00%</u>

## **COSAN S.A. INDÚSTRIA E COMÉRCIO**

Notes to the condensed consolidated financial statements (Continued)  
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### **16. Segment information (Continued)**

#### ***d. Concentration of clients***

##### ***S&E***

There are several clients in this segment, one of which represents more than 10% of the segment net sales -- the SUCDEN Group (16.1% for the nine-month period ended December 31, 2010 and 21.3% for the nine-month period ended December 31, 2009).

##### ***CCL***

In this segment there are no clients that represent more than 10% of the net sales for the nine-month period ended December 31, 2010 and 2009.

##### ***Rumo***

For the nine-month period ended December 31, 2010, 55.3% of the segment net sales were generated from sales to the S&E segment (27.7% for the nine-month period ended December 31, 2009). There are two other customers which represented more than 10% of the net sales for nine-month period ended December 31, 2010 and 2009 of this segment. SUCDEN Group accounted for 7.4% of segment sales for the nine-month period ended December 31, 2010 (14.4% for the nine-month period ended December 31, 2009) and the ED&F Man Group accounted for 4.3% of segment sales for the nine-month period ended December 31, 2010.

### **17. Subsequent events**

On January 11, 2011, the Company entered into a binding memorandum of understanding with the shareholders of Usina Zanin Açúcar e Álcool Ltda. ("Zanin"), subject to an exclusivity period of 45 days, aiming to purchase the total outstanding equity interests of Zanin for the amount of R\$142.0 million ("Transaction"), to be funded with available cash. In addition, Cosan will assume debts amounting to R\$236.6 million. This Transaction will include Zanin assets related to the industrial and agricultural activities with annual crushing capacity of approximately 2.6 million tons of sugarcane and a greenfield project in the city of Prata, State of Minas Gerais.

The formation of this Transaction is subject to the satisfaction of some precedent conditions such as the successful renegotiation of the financial liabilities with banks and the negotiation of the final contracts.