

**Cosan S.A. Indústria e Comércio**

**Condensed Consolidated Financial Statements**

For the three-month periods ended June 30, 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 June 30, 2010, the related condensed consolidated statements of operations and cash flows for the three-month periods ended June 30, 2010 and 2009 and the condensed consolidated statement of shareholders' equity and comprehensive income (loss) for the three-month period ended June 30, 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  
August 12, 2010

ERNST & YOUNG  
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  
 June 30, 2010 and March 31, 2010  
 (In thousands of U.S. dollars, except share data)

	(Unaudited) June 30, 2010	March 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	585,575	605,483
Restricted cash	28,462	25,251
Derivative financial instruments	80,215	129,456
Trade accounts receivable, less allowances: June 30, 2010 – \$31,206; March 31, 2010 – \$32,144	343,673	430,328
Inventories	795,814	587,720
Advances to suppliers	179,557	132,258
Recoverable taxes	197,266	184,090
Other current assets	65,626	48,303
	<u>2,276,188</u>	<u>2,142,889</u>
Property, plant, and equipment, net	4,059,075	3,997,815
Goodwill	1,289,354	1,289,625
Intangible assets, net	580,590	600,573
Accounts receivable from federal government	186,663	187,385
Judicial deposits	93,739	94,083
Other non-current assets	450,545	423,447
	<u>6,659,966</u>	<u>6,592,928</u>
Total assets	<u><u>8,936,154</u></u>	<u><u>8,735,817</u></u>

	(Unaudited) June 30, 2010	March 31, 2010
Liabilities and shareholders' equity		
Current liabilities:		
Trade accounts payable	397,588	319,707
Taxes payable	109,548	121,203
Salaries payable	122,058	79,497
Current portion of long-term debt	473,176	445,593
Derivative financial instruments	20,781	43,067
Dividends payable	64,707	65,451
Other current liabilities	173,522	111,971
	<u>1,361,380</u>	<u>1,186,489</u>
Long-term liabilities:		
Long-term debt	2,915,024	2,842,953
Estimated liability for legal proceedings and labor claims	297,743	294,605
Taxes payable	380,702	381,805
Deferred income taxes	403,241	408,832
Other long-term liabilities	151,794	154,728
	<u>4,148,504</u>	<u>4,082,923</u>
Shareholders' equity		
Cosan shareholders' equity:		
Common stock, no par value. Authorized 406,560,317 shares; issued and outstanding 406,560,317 as of June 30, 2010 and as of March 31, 2010	2,420,018	2,420,018
Treasury stock	(1,979)	(1,979)
Additional paid-in capital	390,884	390,600
Accumulated other comprehensive income	314,686	343,136
Retained earnings	268,688	281,238
Equity attributable to shareholders of Cosan	<u>3,392,297</u>	<u>3,433,013</u>
Equity attributable to noncontrolling interests	33,973	33,392
Total shareholders' equity	<u>3,426,270</u>	<u>3,466,405</u>
Total liabilities and shareholders' equity	<u>8,936,154</u>	<u>8,735,817</u>

See accompanying notes to condensed consolidated financial statements.

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Condensed consolidated statements of operations  
 Three-month periods ended June 30, 2010 and 2009  
 (In thousands of U.S. dollars, except share data)  
 (Unaudited)

	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Net sales	<b>2,233,840</b>	1,720,270
Cost of goods sold	<b>(1,993,162)</b>	(1,560,626)
Gross profit	<b>240,678</b>	159,644
Selling expenses	<b>(122,709)</b>	(102,072)
General and administrative expenses	<b>(67,906)</b>	(7,660)
Operating income	<b>50,063</b>	49,912
Other income (expenses):		
Financial income	<b>48,989</b>	151,409
Financial expenses	<b>(108,838)</b>	66,133
Other	<b>(133)</b>	(7,921)
(Loss) income before income taxes and equity in income (loss) of affiliates	<b>(9,919)</b>	259,533
Income taxes expense	<b>(1,242)</b>	(76,543)
(Loss) income before equity in income (loss) of affiliates	<b>(11,161)</b>	182,990
Equity income (loss) of affiliates	<b>553</b>	(1,713)
Net (loss) income	<b>(10,608)</b>	181,277
Less net (loss) income attributable to noncontrolling interests	<b>(1,942)</b>	3,737
Net (loss) income attributable to Cosan	<b>(12,550)</b>	185,014
Per-share amounts attributable to Cosan		
Net (loss) income		
Basic	<b>(0.03)</b>	0.58
Diluted	<b>*</b>	0.57
Weighted number of shares outstanding		
Basic	<b>406,560,317</b>	313,845,887
Diluted **	<b>*</b>	315,396,031

\* Antidilutive

\*\* 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 (loss)  
 Three-month period ended June 30, 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
Share based compensation	-	-	-	-	284	-	-	-	284
Net (loss) income	-	-	-	-	-	(12,550)	-	1,942	(10,608)
Effective portion of gains/losses on derivative instrument that qualifies as a cash flow hedge	-	-	-	-	-	-	11,125	-	11,125
Pension Plan	-	-	-	-	-	-	(515)	-	(515)
Currency translation adjustment	-	-	-	-	-	-	(39,060)	(1,361)	(40,421)
Total comprehensive loss	-	-	-	-	-	-	(39,060)	(1,361)	(40,134)
Balances at June 30, 2010	406,560,317	2,420,018	343,139	(1,979)	390,884	268,688	314,686	33,973	3,426,270

See accompanying notes to condensed consolidated financial statements.

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Condensed consolidated statements of cash flows  
 Three-month periods ended June 30, 2010 and 2009  
 (In thousands of U.S. dollars)  
 (Unaudited)

	<b>June 30, 2010</b>	<b>June 30, 2009</b>
Cash flow from operating activities		
Net (loss) income for the year attributable to Cosan	<b>(12,550)</b>	185,014
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	<b>144,484</b>	100,134
Deferred income taxes	<b>(5,288)</b>	65,989
Interest, monetary and exchange variation	<b>72,054</b>	(136,300)
Others	<b>27,339</b>	(31,095)
Decrease/increase in operating assets and liabilities		
Trade accounts receivable, net	<b>85,072</b>	56,541
Inventories	<b>(157,992)</b>	88,423
Advances to suppliers	<b>(42,561)</b>	(38,804)
Recoverable taxes	<b>(11,826)</b>	5,326
Trade accounts payable	<b>81,518</b>	24,065
Derivative financial instruments	<b>67,709</b>	(16,246)
Taxes payable	<b>(16,119)</b>	(29,270)
Other assets and liabilities, net	<b>76,258</b>	24,784
Net cash provided by operating activities	<b>308,098</b>	298,561
Cash flows from investing activities:		
Restricted cash	<b>(28,462)</b>	(14,516)
Cash received from sales of noncurrent assets	-	60,325
Acquisition of investment	<b>(2,080)</b>	(2,050)
Acquisition of property, plant and equipment	<b>(333,280)</b>	(226,994)
Acquisitions, net of cash acquired	<b>372</b>	32,045
Net cash used in investing activities	<b>(363,450)</b>	(151,190)
Cash flows from financing activities:		
Related parties	-	(62,184)
Additions of long-term debt	<b>356,588</b>	88,593
Payments of long-term debt	<b>(311,767)</b>	(65,510)
Net cash provided by (used in) financing activities	<b>44,821</b>	(39,101)
Effect of exchange rate changes on cash and cash equivalents	<b>(9,379)</b>	59,048
Net increase (decrease) in cash and cash equivalents	<b>(19,908)</b>	167,318
Cash and cash equivalents at beginning of period	<b>605,483</b>	310,710
Cash and cash equivalents at end of period	<b>585,575</b>	478,028
Supplemental cash flow information		
Cash paid during the period for:		
Interest	<b>47,094</b>	22,063
Income taxes	<b>3,391</b>	18,287

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 62.27% interest therein as of June 30, 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 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, had reached a non-binding memorandum of understanding to form a joint venture for a combined 50/50 investment. 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 \$1,625 billion over a 2 year period. The closing of this transaction is dependent upon the conclusion of the negotiations. During the three-month period ended June 30, 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)

### **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 three-month period ended June 30, 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 financial condensed consolidated statements should be read in conjunction with Cosan's annual financial consolidated 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\$1.8015=US\$ 1.00 at June 30, 2010 and R\$1.7810=US\$1.00 at March 31, 2010.

#### **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.

## **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

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.

#### 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. See note 12 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>June 30, 2010</b>	<b>March 31, 2010</b>
Finished goods:		
Sugar	<b>165,911</b>	52,561
Ethanol	<b>178,626</b>	31,573
Lubricants and fuel (Gasoline, Diesel and Ethanol)	<b>151,562</b>	149,613
	<b>496,099</b>	233,747
Annual maintenance cost of growing crops	<b>203,896</b>	243,709
Others	<b>95,819</b>	110,264
	<b>795,814</b>	587,720

### 4. Taxes payable

	<b>June 30, 2010</b>	<b>March 31, 2010</b>
ICMS – State VAT	<b>21,059</b>	27,623
IP	<b>8,559</b>	3,582
INSS	<b>13,328</b>	13,414
PIS	<b>2,608</b>	4,564
COFINS	<b>12,136</b>	18,010
Tax Recovery from Brazilian Law No 11.941/09 and MP 470/09	<b>367,834</b>	373,650
Income Tax and Social Contribution	<b>52,564</b>	50,471
Others	<b>12,162</b>	11,694
	<b>490,250</b>	503,008
Current liabilities	<b>(109,548)</b>	(121,203)
Long-term liabilities	<b>380,702</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

Long-term debt is summarized as follows:

	Index	Average annual interest rate	June 30, 2010	March 31, 2010
Resolution No. 2471 (PESA)	IGP-M	3.9%	305,050	295,291
Senior notes due 2014	US Dollar	9.5%	362,838	354,433
Senior notes due 2017	US Dollar	7.0%	411,589	404,589
Perpetual notes	US Dollar	8.3%	455,304	455,304
BNDES	TJLP	3.6%	741,719	520,068
Credit notes	DI	2.4%	169,220	212,660
Credit notes	US Dollar	6.2%	101,076	102,656
Export Pre-payments	US Dollar	6.2%	495,805	547,230
Others	Various	Various	345,599	396,315
			<b>3,388,200</b>	3,288,546
Current portion			<b>(473,176)</b>	<b>(445,593)</b>
Long-term debt			<b>2,915,024</b>	<b>2,842,953</b>

Long-term debt has the following scheduled maturities:

2011	366,293
2012	360,990
2013	421,913
2014	206,167
2015	79,188
2016	478,703
2017	94,782
2018 and thereafter	906,988
	<b>2,915,024</b>

#### ***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 June 30, 2010 and March 31, 2010 amounted to \$137,653 and \$133,039, respectively, and are classified as other non-current assets.

#### ***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.

#### ***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.

## **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 Açúcar e Álcool.

#### ***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 6.2%.

#### ***BNDES***

Refers to the financing of cogeneration projects, as well as the financing of 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.

#### ***Covenants***

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

At June 30, 2010, Cosan was in compliance with its debt covenants.

## COSAN S.A. INDÚSTRIA E COMÉRCIO

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

### 6. Related parties

Assets and liabilities with related parties are summarized as follows:

	<b>Assets</b>	
	<b>June 30, 2010</b>	<b>March 31, 2010</b>
Rezende Barbosa S.A. Administração e Participações	<b>48,262</b>	48,889
Vertical UK LLP	<b>18,035</b>	8,403
Others	<b>5,585</b>	2,377
	<b>71,882</b>	59,669
Current (*)	<b>(27,690)</b>	(13,958)
Nuncurrent (*)	<b>44,192</b>	45,711

  

	<b>Liabilities</b>	
	<b>June 30, 2010</b>	<b>March 31, 2010</b>
Rezende Barbosa S.A. Administração e Participações	<b>60,948</b>	-
Logisport Armazéns Gerais S.A.	<b>4,161</b>	6,313
Others	<b>1,543</b>	1,781
	<b>66,652</b>	8,094
Current (*)	<b>(66,652)</b>	(8,094)
Nuncurrent	-	-

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

A receivable of \$48,262 (\$48,889 as of March 31, 2010) with Rezende Barbosa S.A. Administração e Participações 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.

A payable of \$60,948 with Rezende Barbosa S.A. Administração e Participações related to purchase of sugar cane. This amount is presented offset 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.



## COSAN S.A. INDÚSTRIA E COMÉRCIO

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

### 6. Related parties (Continued)

Cosan conducts some of its operations through various joint 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:

	<u>June 30,</u> <u>2010</u>	<u>June 30,</u> <u>2009</u>
<b>Transactions involving assets</b>		
Cash received due to the sale of finished products, services performed, and assets held, net of payments	<b>(29,720)</b>	(38,781)
Sale of finished products and services	-	146,986
Purchase of finished products and services	-	(146,986)
Sale of finished products and services in a subsidiary	<b>42,676</b>	35,386
Receivables added through acquisition of Nova América	-	71,061
<b>Transactions involving liabilities</b>		
Payment of financial resources, net of funding	<b>(4,510)</b>	(1,809)
Purchase of sugar cane	<b>63,449</b>	-
Financial income/expenses	-	(30,885)

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 June 30 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. 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)  
(In thousands of U.S. dollars, unless otherwise stated)  
(Unaudited)

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

	<b>June 30, 2010</b>	<b>March 31, 2010</b>
Tax contingencies	<u>174,837</u>	173,924
Civil and labor contingencies	<u>122,906</u>	120,681
	<u><b>297,743</b></u>	<u>294,605</u>

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 sheets, amounting to \$74,406 at June 30, 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 June 30, 2010 and March 31, 2010 are described as follows:

	<b>June 30, 2010</b>	<b>March 31, 2010</b>
Compensation with Finsocial	<u>97,329</u>	97,114
ICMS credits	<u>44,105</u>	33,824
PIS and Cofins	<u>14,099</u>	11,910
IPI – Federal VAT	<u>4,686</u>	4,692
Other	<u>14,618</u>	26,384
	<u><b>174,837</b></u>	<u>173,924</u>

## 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 (Continued)

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	7,494
Settlements	(1,004)
Foreign currency translation	(3,352)
<b>Balance at June 30, 2010</b>	<b>297,743</b>

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>June 30, 2010</b>	<b>March 31, 2010</b>
Withholding Income Tax	<b>103,579</b>	102,652
ICMS – State VAT	<b>187,457</b>	180,988
IAA - Sugar and Ethanol Institute	<b>1,418</b>	1,428
IPI - Federal Value-added tax	<b>239,167</b>	246,190
INSS	<b>2,364</b>	2,280
PIS and COFINS	<b>80,567</b>	80,604
Civil and labor	<b>278,883</b>	275,403
Other	<b>72,733</b>	66,134
	<b>966,168</b>	955,679

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Notes to the condensed consolidated financial statements (Continued)  
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### 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 June 30, 2010, the receivable and corresponding lawyers' fees totaled US\$186,663 and US\$22,399 (US\$187,385 and US\$22,486 at March 31, 2010), respectively.

### 9. Income taxes

Income tax benefit (expense) attributable to income from operations for the three-month periods ended June 30, 2010 and 2009 consists of:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Income taxes benefit (expense):		
Current	<b>(6,530)</b>	(11,240)
Deferred	<b>5,288</b>	(65,303)
	<u><b>(1,242)</b></u>	<u>(76,543)</u>

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Notes to the condensed consolidated financial statements (Continued)  
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### 9. Income taxes (Continued)

Income taxes for the three-month periods ended June 30, 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:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Income (loss) before income taxes and equity in income (loss) of affiliates	<b>(9,919)</b>	259,533
Income tax benefit (expense) at statutory rate — 34%	<b>3,373</b>	(88,241)
Increase (reduction) in income taxes resulting from:		
Equity in earnings of affiliates not subject to taxation	<b>188</b>	(582)
Tax loss on tax free entities	<b>(1,856)</b>	-
Nondeductible goodwill amortization	-	12,206
Nondeductible donations and contributions	<b>(817)</b>	(236)
Recognized granted options	<b>(97)</b>	(570)
Others	<b>(2,033)</b>	880
Income tax (expense) benefit	<u><b>(1,242)</b></u>	<u>(76,543)</u>

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	709
Settlements	-
Effect of foreign currency translation	<u>(558)</u>
Balance at June 30, 2010 (*)	<u><b>49,164</b></u>

(\*) 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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### **10. Shareholders' equity**

#### ***Capital***

As of June 30, 2010, the Company's capital is represented by 406,560,317 common shares (406,560,317 as of March 31, 2010), with no par value.

#### **Treasury stock**

During 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.

### **11. 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 three-month period ended June 30, 2010, the Company recognized a gain of \$939 related to this sale-leaseback transaction.

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Notes to the condensed consolidated financial statements (Continued)  
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### 12. 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.

The employees that leave Cosan 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:

	Options granted on September 22, 2005	Options granted on September 11, 2007	Options granted on August 7, 2009
Grant price - in U.S. dollars	3.39	3.39	3.39
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	6.86	5.67	(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 June 30, 2010, the amount of \$1,360 related to the unrecognized compensation cost related to stock options is expected to be recognized in 3 months.

As of June 30, 2010 there were 653,976 options outstanding with a weighted-average exercise price of \$3.39.

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Notes to the condensed consolidated financial statements (Continued)  
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### 13. 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 June 30 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	
	June 30, 2010	March 31, 2010	June 30, 2010	March 31, 2010
Price risk				
Commodity derivatives				
Future contracts	609,197	661,110	26,497	63,101
Options contracts	22,410	603,357	(1,831)	(6,586)
Swap contracts	-	56,594	-	607
			24,666	57,121
Exchange rate risk				
Exchange rate derivative				
Future contracts	317,325	1,180,829	1,537	264
Forward contracts	685,601	537,422	27,899	20,527
Options contracts	518,736	377,036	6,162	8,827
Swap contracts	178,753	180,810	-	-
			35,598	29,618
Interest rate risk				
Interest derivative	287,977	291,291	(830)	(350)
			(830)	(350)
TOTAL			59,434	86,389
Total Assets			80,215	129,456
Total Liabilities			(20,781)	(43,067)



## 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. Risk management and financial instruments (Continued)

#### 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:

Price risk: price derivatives outstanding on June 30, 2010						
Derivative	Purchased / sold	Market	Contract	Maturity	Notional	Fair value
<i>Derivative financial instruments designated in the cash flow hedge accounting</i>						
Swap	Sold	OTC	#11	Sep-10	90,728	16,598
Future	Sold	NYBOT	#11	Sep-10	82,819	7,059
Future	Sold	NYBOT	#11	Feb-11	68,355	2,231
Future	Sold	NYBOT	#11	Apr-11	23,093	2,300
Future	Sold	NYBOT	#11	Jun-11	86,411	2,145
Future	Sold	NYBOT	#11	Sep-11	52,284	22
						<b>30,355</b>
<i>Derivative financial instruments not designated in the cash flow hedge accounting</i>						
Future	Sold	LIFFE	White Sugar	Jul-10	14,385	(1,558)
Future	Sold	LIFFE	White Sugar	Sep-10	10,862	655
Future	Sold	NYBOT	#11	Sep-10	89,377	10,212
						<b>9,309</b>
Future	Purchased	NYBOT	#11	Sep-10	(4,225)	74
Future	Purchased	NYBOT	#11	Feb-11	(80,496)	(13,148)
Future	Purchased	NYBOT	#11	Apr-11	(1,930)	(79)
Future	Purchased	NYBOT	#11	Jun-11	(1,871)	(88)
						<b>(13,241)</b>
Future	Purchased	NYMEX	HO	Jul-10	(2,361)	74
						<b>74</b>
Call	Purchased	OTC	#11	Sep-10	(2,328)	77
Call	Purchased	OTC	#11	Sep-10	(2,460)	77
						<b>154</b>
Call	Sold	NYBOT/OTC	#11	Sep-10	4,283	(627)
Call	Sold	NYBOT/OTC	#11	Sep-10	3,734	(440)
Call	Sold	NYBOT/OTC	#11	Feb-11	3,022	(732)
Call	Sold	NYBOT	#11	Feb-11	451	(138)
Call	Sold	NYBOT	#11	Feb-11	160	(49)
						<b>(1,985)</b>
Put	Purchased	NYBOT/OTC	#11	Sep-10	3,759	2,823
Put	Purchased	NYBOT/OTC	#11	Sep-10	1,312	1,055
						<b>3,878</b>
Put	Sold	NYBOT/OTC	#11	Sep-10	(819)	(2,823)
Put	Sold	NYBOT/OTC	#11	Sep-10	(82)	(1,055)
						<b>(3,878)</b>
						<b>24,666</b>
Total Commodities						

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

#### c) Foreign exchange risk

## COSAN S.A. INDÚSTRIA E COMÉRCIO

Notes to the condensed consolidated financial statements (Continued)  
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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 on June 30, 2010 of derivatives used to hedge exchange rates:

Foreign exchange risk: Exchange rate derivatives outstanding on June 30, 2010							
Derivative	Purchased/ sold	Market	Contract	Maturity	Notional	Fair value	
<i>Derivative financial instruments designated in the cash flow hedge accounting</i>							
Forward	Sold	OTC/Cetip	NDF	Jul-10	53,733	3,469	
Forward	Sold	OTC/Cetip	NDF	Aug-10	79,788	3,791	
Forward	Sold	OTC/Cetip	NDF	Sep-10	5,640	527	
Forward	Sold	OTC/Cetip	NDF	Sep-10	25,636	2,114	
Forward	Sold	OTC/Cetip	NDF	Oct-10	81,851	5,843	
Forward	Sold	OTC/Cetip	NDF	Dec-10	53,081	1,275	
Forward	Sold	OTC/Cetip	NDF	Jan-11	49,659	2,504	
Forward	Sold	OTC/Cetip	NDF	May-11	78,424	2,269	
Forward	Sold	OTC/Cetip	NDF	Jul-11	55,121	407	
Forward	Sold	OTC/Cetip	NDF	Aug-11	57,591	2,222	
Forward	Sold	OTC/Cetip	NDF	Oct-11	145,079	3,479	
						<b>27,899</b>	
<i>Derivative financial instruments not designated in the cash flow hedge accounting</i>							
Future	Sold	BMFBovespa	Commercial U.S. dollar rate	Aug-10	152,879	573	
Future	Sold	BMFBovespa	Commercial U.S. dollar rate	Dec-10	71,708	441	
Future	Sold	BMFBovespa	Commercial U.S. dollar rate	Jul-11	189,260	1,177	
Future	Sold	BMFBovespa	Commercial U.S. dollar rate	Aug-11	43,586	270	
Future	Sold	BMFBovespa	Euro	Jul-10	8,445	(4)	
						<b>2,457</b>	
Future	Purchased	BMFBovespa	Commercial U.S. dollar rate	Dec-10	(51,220)	(315)	
Future	Purchased	BMFBovespa	Commercial U.S. dollar rate	Jul-11	(97,334)	(605)	
						<b>(921)</b>	
Put Onshore	Purchased	BMFBovespa	Commercial U.S. dollar rate	Oct-10	485,706	5,393	
Put Offshore	Purchased	OTC	Commercial U.S. dollar rate	Feb-11	23,748	424	
Put Offshore	Purchased	OTC	Commercial U.S. dollar rate	Feb-11	9,281	346	
						<b>6,163</b>	
<b>Total Exchange rate derivative</b>						<b>35,598</b>	

## COSAN S.A. INDÚSTRIA E COMÉRCIO

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

On June 30, 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:

	<b>June 30, 2010</b>	<b>March 31, 2010</b>
Amounts pending foreign exchange closing	<b>24,906</b>	71,732
Overnight	<b>28,254</b>	28,338
Trade notes receivable - foreign	<b>70,702</b>	83,467
Senior Notes due in 2014	<b>(362,838)</b>	(354,433)
Senior Notes due in 2017	<b>(411,589)</b>	(404,589)
Perpetual bonds	<b>(455,303)</b>	(455,304)
Foreign currency-denominated loans	<b>(203,316)</b>	(269,066)
Export pre payments	<b>(499,090)</b>	(550,552)
Restricted cash	<b>28,462</b>	25,251
Exchange exposure	<b>(1,779,812)</b>	(1,825,156)

#### 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. When the hedged item affects the profit and loss, the gain or loss is recorded in the same line as the hedged item (in this case, sales revenue). On June 30, 2010, the impact recorded in equity and the periods in which they will affect the profit and loss are as follows:

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

Derivative	Market	Risk	Expected period to affect P&L		
			2010/2011	2011/2012	Total
Future	OTC / NYBOT	#11	3,695	3,302	6,997
NDF	OTC/Cetip	USD	3,246	6,613	9,859
(-) Deferred income taxes			(2,360)	(3,371)	(5,731)
Total			<u>4,581</u>	<u>6,544</u>	<u>11,125</u>

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

#### Cash flow hedges

##### **Balance at March 31, 2010**

Gain/(losses) of cash flow hedges for the period	-
Commodities future and swap contracts	6,448
Currency forward contracts	9,860
Reclassification adjustments for losses included in the income statement (net sales)	548
Tax effect on gain/(losses) of cash flow hedges for the period – 34%	(5,731)
<b>Balance at June 30, 2010</b>	<u><u>11,125</u></u>

During the three-month period ended June 30, 2010, there was no effect on results for operations of hedged items that would no longer qualify to be designated to hedge accounting. Also, the Company recorded the amount of \$215 related to the gains and losses of the hedges' ineffectiveness during the three-month period ended June 30, 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 June 30, 2010, the Company presented the following net balance sheet exposure related to interest rate risk:

Interest rate risk: outstanding interest rate swap derivatives on June 30, 2010							
Derivative	Purchased/ sold	Market	Contract	Number of contracts	Average price	Notional	Fair value
Swap	Purchased	OCT/Cetip	Fix/Libor 3 month	1	1,199% / Libor 3 month	300,000	(830)

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

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

#### 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. e Banco BTG Pactual S.A

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 June 30, 2010, the total credit limit used as initial margin was \$30,434 (\$38,543 as of March 31, 2010). As a requirement to trade in BM&FBovespa, the Company posted on June 30, 2010, the amount of \$53,313 (\$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.

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

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

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

As of June 30, 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.

### **14. Fair value measurements**

Effective May 1, 2008, Cosan adopted ASC 820, Fair Value Measurements (SFAS 157), 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.

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.

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Notes to the condensed consolidated financial statements (Continued)  
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### 14. Fair value measurements (Continued)

#### 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 June 30, 2010.

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
<b>Assets</b>			
Derivatives	33,427	46,788	80,215
<b>Liabilities</b>			
Derivatives	(4,643)	(16,138)	(20,781)

### 15. 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.

Following is a description of the operating segments of the business.

The Sugar and Ethanol ("S&E") segment produces and sells a broad variety of sugar and ethanol products.

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

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### **15. Segment information (Continued)**

#### ***a. Segment information*** (continued)

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 Fuel Distribution and Lubricants ("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.

The Sugar Logistics ("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.



# 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. Segment information (Continued)

### a. Segment information (continued)

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

	June 30, 2010				
	S&E	CCL	RUMO	Adjustment/ elimination	Consolidated
	Brazilian GAAP				US GAAP
<b>Balance Sheet:</b>					
Property, plant & equipment (PP&E)	2,818,027	191,603	229,915	819,530	4,059,075
Intangible assets	-	-	-	580,590	580,590
Loans, net of cash and cash equivalents	(2,540,785)	(223,618)	(82,155)	43,933	(2,802,625)
Others assets (liabilities)	1,458,506	1,076,879	16,518	(962,672)	1,589,232
Total net assets	1,735,748	1,044,864	164,278	481,381	3,426,271
<b>Income statements (3 months)</b>					
Net Sales	701,798	1,495,664	33,671	2,707	2,233,840
Gross profit	149,381	114,830	18,368	(41,901)	240,678
Selling general and administrative expenses	(108,162)	(74,463)	(4,482)	(3,508)	(190,616)
Operating income	40,497	43,239	11,736	(45,409)	50,063
Other income (expense)	(2,782)	(2,499)	4,208	939	(133)
<b>Other selected data:</b>					
Additions to PP&E (Capex)	258,443	8,243	68,794	-	335,480
Depreciation and amortization	133,316	9,064	2,105	-	144,484
<b>March 31, 2010</b>					
	S&E	CCL	RUMO	Adjustment/ elimination	Consolidated
	Brazilian GAAP				US GAAP
<b>Balance Sheet:</b>					
Property, plant & equipment (PP&E)	1,330,266	128,712	29,414	613,395	2,101,787
Intangible assets	423,571	966	-	(183,186)	241,351
Loans, net of cash equivalents	(1,122,560)	39,663	4,811	(488,458)	(1,566,544)
Others assets (liabilities)	2,943,642	(78,223)	(1,469)	(1,917,548)	946,402
Total net assets	3,574,919	91,118	32,756	(1,975,797)	1,722,996
<b>June 30, 2009</b>					
	S&E	CCL	RUMO	Adjustment/ elimination	Consolidated
	Brazilian GAAP				US GAAP
<b>Income Statements (3 months)</b>					
Net sales	562,937	1,137,572	18,928	833	1,720,270
Gross profit	80,918	40,368	6,213	(17,639)	159,644
Selling, general and administrative expenses (SG&A)	(89,065)	(53,371)	(1,660)	34,364	(109,732)
Operating income	(8,147)	36,780	4,554	16,725	49,912
Other income (expense)	1,797	45,392	(12,240)	(42,870)	(7,921)
<b>Other selected data:</b>					
Additions to PP&E (Capex)	220,583	6,049	362	-	226,994
Depreciation and amortization	94,062	4,311	1,761	-	100,134

## COSAN S.A. INDÚSTRIA E COMÉRCIO

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

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

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
S&E (Brazilian GAAP)		
Sugar	462,631	314,145
Ethanol	188,786	220,461
Cogeneration	29,741	14,443
Other	20,640	14,088
	<u>701,798</u>	<u>562,937</u>
CCL (Brazilian GAAP)		
Fuels	1,363,004	1,055,989
Lubricants	109,766	72,504
Other	22,894	9,079
	<u>1,495,664</u>	<u>1,137,572</u>
Rumo (Brazilian GAAP)		
Port lifting	28,706	18,407
Transports	4,965	521
	<u>33,671</u>	<u>18,928</u>
Adjustments / eliminations	2,707	833
Total (US GAAP)	<u>2,233,840</u>	<u>1,720,270</u>

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

The percentage of net sales by geographic area for the three-month period ended June 30, 2010 and 2009 are as follows:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
<b>Sales by geographic area</b>		
Brazil	69.27%	54.35%
Europe	26.82%	35.34%
Middle east and Asia	2.12%	1.95%
North America	0.37%	6.17%
Latin American (Except Brazil)	0.07%	2.19%
Others	1.35%	-
Total	<u>100.00%</u>	<u>100.00%</u>

## **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. 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 (26.6% for the three-month period ended June 30, 2010 and 33% for the three-month period ended June 30, 2009).

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

In this segment there are no clients that represent more than 10% of the net sales for the three-month period ended June 30, 2010 and 2009.

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

For the three-month period ended June 30, 2010 42.7% of the segment net sales were generated from sales to the S&E segment (34.9% for the three-month period ended June 30, 2009). There are two other customers which represented more than 10% of the net sales for three-month period ended June 30, 2010 and 2009 of this segment. SUCDEN Group accounted for 17% of segment sales for the three-month period ended June 30, 2010 (21% for the three-month period ended June 30, 2009) and the ED&F Man Group accounted for 22.6% of segment sales for the three-month period ended June 30, 2010 (no sales in the previous period).

## 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. Subsequent events

#### Subscription Agreement by Means of Capital Increase in Rumo Logística S.A. ("Rumo")

On July 2, 2010, the indirect subsidiary Novo Rumo Logística S.A. ("Novo Rumo"), entered into a Subscription Agreement with investment vehicles administered by TPG Capital and Gávea Investimentos ("Investors"). The subscription will take place through capital increase in the amount of \$222,037, to be paid in equal portions by the Investors.

The aforementioned agreement is subject to certain preceding conditions, which shall have to materialize up to September 30, 2010. At the closing of the operation the Investors shall have to subscribe the shares and pay in the capital, as well as enter into a shareholders' agreement. The Company holds, directly and indirectly, approximately 92.9% of Novo Rumo's equity, which, in turn, holds 99.9% of Rumo's equity. After the payment, Novo Rumo will hold 75.0% of Rumo's equity and each of the Investors shall hold 12.5% of the equity.

#### Capital increase

In the meeting of the Board of Directors held on July 29, 2010, the shareholders unanimously approved a capital increase of \$1,525 through the issuance of 449,819 newly registered uncertificated common shares with no par value, in connection with the "Company's Stock Option Plan" and with the exercise of such option by the eligible executives, at an issuance price of \$3.39 per share, set in the terms of the stock option plan. In connection with the issuance of the new shares, the Company's capital comprised 407,010,196 registered uncertificated common shares with no par value.

#### Approval of additional dividends over the minimum statutory dividend

On July 30, 2010, additional dividends over the minimum statutory dividend of \$45,757, were approved in the extraordinary general shareholders' meeting, totaling an amount of \$111,018 of dividends to be distributed on August 30, 2010.

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

Notes to the condensed consolidated financial statements (Continued)  
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### **16. Subsequent events (Continued)**

#### BNDES Finance

On August 4, 2010, the indirect subsidiary Rumo, through its subsidiary Cosan Operadora Portuária S.A. ("Portuária"), obtained the approval of BNDES for a credit line of \$430,827 to be invested by Portuária in railways and in a construction of a logistic terminal in the region of Itirapina, State of São Paulo. The aforementioned finance is subject to annual interest of 1.92% plus TJLP, with payment due in 12 years.