



Moody's Investors Service

Rating Action: **Moody's places Cosan's Ba3 ratings under review for possible upgrade**

Global Credit Research - 01 Mar 2010

Approximately USD 850 Million of Debt Securities Affected.

Sao Paulo, March 01, 2010 -- Moody's Investors Service placed the Ba3 corporate family rating for Cosan S.A. Indústria e Comércio ("Cosan") and its guaranteed senior unsecured debt ratings on review for possible upgrade, following the announcement that the company has entered into a memorandum of understanding with Shell for the formation of two joint ventures to combine the majority of Cosan's businesses with several of Shell's assets in Brazil, including its fuel distribution business.

On January 31st, 2010, Cosan and Shell International Petroleum Company Limited ("Shell", unrated, a subsidiary of Royal Dutch Shell plc, rated Aa1/stable) entered into a non-binding memorandum of understanding (MOU) to form two joint ventures that would consist essentially of the majority of Cosan's sugar and ethanol, cogeneration and fuel distribution assets. Cosan's other assets comprised of its logistics business, its lubricant business; future cogeneration assets; retail sugar brands Da Barra and União; and, owned land are excluded from the transaction. Cosan would also essentially transfer all of its net debt of around USD 2.5 billion to the new entity.

Shell, on the other hand, will contribute USD 1.625 billion in cash over two years and a contingent contribution estimated by Cosan in USD 300 million over a period of approximately 5 years. Shell would also contribute its fuel distribution and retail businesses (including aviation) and its equity stakes in companies involved in biomass research and development (IOGEN and CODEXIS). The MOU calls for a mutual exclusivity period of 180 days to conclude negotiations. The transaction is subject to the execution of the definitive agreements, as well as shareholder and regulatory approvals.

The transaction, if consummated, could result in more than a one-notch upgrade of Cosan's existing senior unsecured rating based on the expected stronger credit profile of the joint ventures where virtually all of Cosan's debt will be transferred to. Cosan's existing credit profile post this transaction is also likely to improve as the remaining company will essentially be debt-free.

Cosan's standalone operating results and leverage have improved for the last twelve months ended in December 31st, 2009 compared to FY09 ended in March 31st, 2009, driven by higher revenues due to record sugar prices and good revenue growth and margin expansion of Cosan's CCL division.

The review will focus on the likely consummation of the transaction, as well as the final capital and organizational structures, corporate governance and business plans of the new entity and remaining Cosan, after the transaction. Additionally, Cosan's unsecured debt rating will be based on the final guarantee and overall structure of the bonds.

Moody's last rating action on Cosan occurred on September 23, 2008 when we downgraded its rating to Ba3 with a negative outlook from Ba2, following the announcement that Cosan entered into an agreement with ExxonMobil International Holdings B.V. to acquire ExxonMobil's fuel distribution and lubricant assets in Brazil.

The principal methodology used in rating Cosan was "Moody's Global Food -- Protein and Agricultural Industry" rating methodology (September 2009), which can be found at www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

Ratings placed under review for possible upgrade:

Corporate Family Rating: Ba3/A3.br

USD 450 million Guaranteed Perpetual Senior Unsecured Notes: Ba3

USD 400million Guaranteed Senior Unsecured due 2017: Ba3

Cosan is a low-cost Brazilian sugar and ethanol producer with a leading position in the global sugar and ethanol industry. Cosan is also the fourth largest fuel distributor in Brazil.

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Moody's Investors Service

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