



Usina Caeté S/A

Financial statements
December 31, 2002 and 2001

(A translation of the original report in Portuguese, as published in Brazil, containing financial statements prepared in accordance with accounting practices adopted in Brazil)



Usina Caeté S/A

Financial statements

December 31, 2002 and 2001

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Independent auditors' report

To
The Shareholders of
Usina Caeté S/A
Maceió - AL

1. We have examined the balance sheet of Usina Caeté, as of December 31, 2002, and the related statements of income, changes in shareholders' equity and changes in financial position for the year then ended, which are the responsibility of its management. Our responsibility is to express an opinion on these financial statements.
2. Our examination was conducted in accordance with auditing standards generally accepted in Brazil and included: (a) planning of the audit work, considering the materiality of the balances, the volume of transactions and the accounting systems and internal accounting controls of the Company; (b) verification, on a test basis, of the evidence and records which support the amounts and accounting information disclosed; and (c) evaluation of the most significant accounting policies and estimates adopted by Company management as well as the presentation of the financial statements taken as a whole.
3. According to note explanatory no. 14 to the financial statements, based on its legal advisors' opinion, of a probable final issue with favorable court decision, the Company recognized excise tax credits in the approximate amount of R\$ 67.000 thousand (R\$ 30.000 thousand in 2001), classified as other operating income. In accordance with the accounting practices, contingent gains can only be recognized after a final favorable court decision, for which no appeal is applicable.
4. In our opinion, except for the possible effects of the subject mentioned in paragraph 3, the aforementioned financial statements present fairly in all material respects, the financial position of Usina Caeté S/A as of December 31, 2002, and the results of its operations, changes in shareholders' equity and changes in its financial position for the year then ended, in conformity with accounting practices adopted in Brazil.



5. The accompanying financial statements as of December 31, 2001, presented for comparison purposes were audited for other independent auditors, that issued their opinion on February 22, 2002, with the exception mentioned in paragraph 3.

March 21, 2003

KPMG Auditores Independentes
CRC-2SP014428/O-6



João Bruno Cruz
Contador CRC 1SP076600/O-0

Usina Caeté S/A

Balance sheets

December 31, 2002 and December 31, 2001

(In thousands of reais)

Assets	2002	2001	Liabilities	2002	2001
Current assets			Current liabilities		
Cash and cash equivalents	8,133	4,431	Accounts payable to suppliers	14,687	19,040
Marketable securities	22,948	45,705	Bank loans and financing	152,425	74,620
Trade accounts receivable	58,834	29,728	Salaries and charges	2,864	4,104
Inventories	104,877	126,980	Advances from customers	10,177	10,458
Other accounts receivable	1,734	4,432	Taxes and contributions payable	5,742	6,942
Recoverable taxes	64,084	29,104	Income and social contribution taxes	502	9,944
	<u>260,610</u>	<u>240,380</u>	Dividends payable	6,000	-
			Other accounts payable	460	7,599
				<u>192,857</u>	<u>132,707</u>
Non current assets			Non current liabilities		
Marketable securities	28,802	1,220	Bank loans and financing	134,523	44,981
Current accounts - Group companies	153,384	131,493	Current accounts - Group companies	-	38,152
Judicial deposits	7,903	7,955	Taxes and contributions payable	1,340	4,105
Recoverable taxes	8,384	33,596	Provision for contingencies	14,702	44,788
	<u>198,473</u>	<u>174,264</u>	Accounts payable	-	112
				<u>150,565</u>	<u>132,138</u>
Permanent assets			Shareholders' equity		
Investments	19,108	17,620	Capital	350,000	310,000
Property, plant and equipment	330,160	224,505	Treasury shares	(3,008)	(3,008)
Deferred charges	5,777	6,868	Capital reserves	17,323	30,924
	<u>355,045</u>	<u>248,993</u>	Revenue reserves	2,943	4,070
			Retained earnings	103,448	56,806
				<u>470,706</u>	<u>398,792</u>
	<u>814,128</u>	<u>663,637</u>		<u>814,128</u>	<u>663,637</u>

See accompanying notes to the financial statements.

Usina Caeté S/A

Statements of income

Year ended December 31, 2002 and December 31, 2001

(In thousands of reais)

	2002	2001
Gross Income		
Sale of goods and services		
Domestic Market	211,737	220,804
Foreign Market	299,252	161,833
Services rendered	<u>2,377</u>	<u>861</u>
	513,366	383,498
Deductions		
Sales taxes	(22,497)	(26,926)
Returns and discounts	<u>(1,139)</u>	<u>(1,268)</u>
	(23,636)	(28,194)
Net revenues	489,730	355,304
Cost of goods and services sold	<u>(357,029)</u>	<u>(208,323)</u>
Gross profit	132,701	146,981
(Expenses) other operating income		
Selling expenses	(31,630)	(20,229)
Administrative and general expenses	(42,892)	(28,921)
Net financial	(29,078)	(3,232)
Equity in net income (loss) of subsidiaries and group companies	1,088	(9,728)
Other operating	<u>61,432</u>	<u>42,978</u>
	(41,080)	(19,132)
Operating income	<u>91,621</u>	<u>127,849</u>
Nonoperating income	<u>405</u>	<u>923</u>
Net income before income and social contribution taxes	<u>92,026</u>	<u>128,772</u>
Income and social contribution taxes	<u>(33,163)</u>	<u>(47,379)</u>
Net income for the year	<u>58,863</u>	<u>81,393</u>
Net income per lot of thousand shares - R\$	<u>4,105.10</u>	<u>5,676.34</u>

See accompanying notes to the financial statements.

Usina Caeté S/A

Statements of changes in shareholders' equity

Years ended December 31, 2002 and 2001

(In thousands of Reais)

	Capital	Treasury Shares	Capital reserves	Revenue Reserves	Retained earnings	Total
Balances at January 1, 2001	277,290	-	11,683	1,918	42,495	333,386
Prior year adjustment			(951)		59	(892)
Capital increase	32,710		(1,528)	(1,918)	(29,264)	-
Acquisition of common stock		(3,008)				(3,008)
Capital reserve arising from income tax exemption incentive			21,720			21,720
Net income for the year					81,393	81,393
Distributions:						
Legal reserve				4,070	(4,070)	-
Dividends payable					(33,807)	(33,807)
Balances at December 31, 2001	<u>310,000</u>	<u>(3,008)</u>	<u>30,924</u>	<u>4,070</u>	<u>56,806</u>	<u>398,792</u>
Prior year adjustment					1,728	1,728
Capital increase	40,000		(30,924)	(4,070)	(5,006)	-
Capital reserve arising from income tax exemption incentive			17,323			17,323
Net income for the year					58,863	58,863
Distributions:						
Legal reserve				2,943	(2,943)	-
Dividends payable					(6,000)	(6,000)
Balances at December 31, 2002	<u>350,000</u>	<u>(3,008)</u>	<u>17,323</u>	<u>2,943</u>	<u>103,448</u>	<u>470,706</u>

See the accompanying notes to the financial statements.

Usina Caeté S/A

Statements of changes in financial position

Years ended December 31, 2002 and 2001

(In thousands of reais)

	2002	2001
Sources of funds		
Operations		
Net income for the year	58,863	81,393
Items not affecting working capital		
Monetary variation and interest on long term items	14,564	547
Depreciation and amortization	31,253	30,673
Residual cost on disposal of investment	-	36,844
Residual cost on disposal of fixed assets	1,374	49,933
Equity in net income (loss) of subsidiaries and group companies	(1,088)	9,728
Capital reserve arising from income tax exemption incentive	<u>17,323</u>	<u>21,720</u>
From operations	122,289	230,838
From third parties		
Increase in noncurrent liabilities	106,139	47,201
Increase in accounts payable associated company	-	37,377
Decrease in noncurrent assets	2,405	-
Prior year adjustment	<u>1,728</u>	<u>-</u>
	<u>232,561</u>	<u>315,416</u>
Applications of funds		
Property, plant and equipment	137,191	117,159
Increase in accounts receivable from group company	21,891	118,105
Decrease in accounts payable from group company	38,152	-
Investments	400	3,349
Decrease in noncurrent liabilities	35,140	3,352
Noncurrent assets	33,707	23,948
Treasury shares	-	3,008
Prior year adjustment	-	892
Dividends payable	<u>6,000</u>	<u>33,807</u>
	<u>272,481</u>	<u>303,620</u>
Increase (decrease) in working capital	<u>(39,920)</u>	<u>11,796</u>
Changes in working capital		
Current assets		
At end of year	260,610	240,380
At beginning of year	<u>240,380</u>	<u>225,953</u>
	<u>20,230</u>	<u>14,427</u>
Current liabilities		
At end of year	192,857	132,707
At beginning of year	<u>132,707</u>	<u>130,076</u>
	<u>60,150</u>	<u>2,631</u>
Increase (decrease) in working capital	<u>(39,920)</u>	<u>11,796</u>

See accompanying notes to the financial statements.

Usina Caeté S/A

Notes to the financial statements

Years ended December 31, 2002 and 2001

(In thousands of reais)

1 Operations

The Company is engaged in the production and selling of sugar, alcohol, brandy, and any other products derived from sugar cane, plants and cultivates sugar cane on its own land and third parties land, supply of electrical energy, imports and exports its own products and/or third party products and invests in other companies.

The Company concentrates its production process in 5 plants, being three located in the state of Alagoas and two in the state of Minas Gerais.

On November 30, 2001, the Company transferred its agricultural activities to its subsidiary Delta Agrícola Ltda. and to its associated company Varrela Agrícola Ltda., starting these to bill the sugar cane exclusively for the Company. The agricultural crop as of October 31, 2001 was transferred integrally for those companies.

2 Presentation of the financial statements

The financial statements were prepared in accordance with accounting practices derived from the Brazilian Corporation Law.

Usina Caeté S/A

Notes to the financial statements

(In thousands of reais)

Description of significant accounting policies

a. Income statement

Income and expenses are recognized on the accrual basis.

Revenue from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognized in the income statement in proportion to the stage of completion of the service. Revenue is not recognized if there are significant uncertainties on its realization.

b. Foreign currency

Monetary assets and liabilities denominated in foreign currencies were translated into reais at the foreign exchange rate ruling at the balance sheet date.

c. Current and non-current assets

▪ Marketable securities

Marketable securities are recorded at cost plus income accrued to the balance sheet date, which does not exceed market value.

▪ Provision for doubtful accounts

The provision for doubtful accounts was calculated at an amount considered adequate by management to cover any losses arising on collection of accounts receivable.

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Notes to the financial statements

(In thousands of reais)

- **Inventories**

Inventories are stated at the lower of average cost or market value.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

- **Other current and non-current assets**

Presented at the net realizable value.

d. Permanent assets

- **Investments**

Investments in subsidiaries and associated companies were valued using the equity method plus the premium paid on acquisition of subsidiary, when applicable.

Other investments were valued at cost.

- **Property, plant and equipment**

Property, plant and equipment are recorded at the cost of acquisition, formation or construction. Depreciation is provided using the straight-line method at rates established by the Brazilian Tax Regulation.

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Notes to the financial statements

(In thousands of reais)

- **Deferred charges**

Deferred charges are recorded at purchase and formation cost, less amortization, which is calculated by the straight-line method at 10% per year, beginning when these assets start operation.

- e. Current and noncurrent liabilities*

Stated at the amounts acknowledged or estimated, plus, when applicable, the corresponding charges, monetary and exchange variations incurred up to the balance sheet date.

- f. Provisions*

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recorded considering the best estimates of the risk specific to the liability.

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Notes to the financial statements

(In thousands of reais)

g. Income and social contribution taxes

The income and social contribution taxes, current and deferred, are based on the effective rates of the income tax and social contribution on net income.

The Company has a fiscal incentive of income tax exemption over the profit of the exploration in its three units located in the State of Alagoas.

The income tax incentive amounts determined for each fiscal year are recognized in the income statement and credited to equity, as a compulsory capital reserve account, for future capital increase.

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Notes to the financial statements

(In thousands of reais)

3 Marketable securities

	2002	2001
Fixed-income funds	4,848	2,048
Bank Deposit Certificate – income between 98,5% and 106% (98% and 104% in 2001) of the Interbank Deposit Certificate rates.	46,043	44,274
Other	<u>859</u>	<u>603</u>
Total	<u>51,750</u>	<u>46,925</u>
Current assets	(22,948)	(45,705)
Non current assets	<u>28,802</u>	<u>1,220</u>

The noncurrent assets marketable securities have the following redemption maturities:

	2002	2001
2003	-	836
2004	24,536	384
2005	4,258	-
2006 to 2007	<u>8</u>	<u>-</u>
	<u>28,802</u>	<u>1,220</u>

Usina Caeté S/A

Notes to the financial statements

(In thousands of reais)

4 Trade accounts – related companies

	2002	2001
Domestic customers	20,259	11,988
Foreign customers	<u>46,436</u>	<u>18,820</u>
	66,695	30,808
Discounted trade receivables	(7,081)	-
Provision for doubtful accounts	<u>(780)</u>	<u>(1,080)</u>
	<u>58,834</u>	<u>29,728</u>

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Notes to the financial statements

(In thousands of reais)

5 Inventories

	2002	2001
Finished goods	74,042	72,404
Maintenance supplies	6,405	9,076
Advanced payments to sugar cane suppliers	11,361	29,972
Industry off-season maintenance costs	<u>13,069</u>	<u>15,528</u>
	<u>104,877</u>	<u>126,980</u>

Usina Caeté S/A

Notes to the financial statements

(In thousands of reais)

6 Recoverable taxes

	2002		2001	
	Current asset	Non current asset	Current asset	Non current asset
Income tax - IRPJ	15,681	-	14,258	-
Value added tax - ICMS	6,937	8,384	7,803	3,357
Excise tax - IPI	30,611		6,726	30,239
Income Tax Withheld at Source - IRRF	10,245	-	-	-
Other taxes	<u>610</u>	<u>-</u>	<u>317</u>	<u>-</u>
	<u>64,084</u>	<u>8,384</u>	<u>29,104</u>	<u>33,596</u>

The excise tax - IPI credit recoverable is being recognized based on court discussions, starting from the fiscal credit taken in the respective tax book.

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Notes to the financial statements

(In thousands of reais)

7 Current accounts – group companies

The tied company SOTAN - Sociedade de Táxi Aéreo do Nordeste Ltda., it renders services of aerial transport for the Company. These services amounted R\$ 2.671 (R\$ 1.693 in 2001).

The sales of chemical products used in the industrial process made by the group Company PROFERTIL - Produtos Químicos e Fertilizantes S.A, for the Company amounted R\$ 4.260 (R\$ 11.022 in 2001 including fertilizers).

The sugar cane sales made by Varrela Agrícola Ltda. and Delta Agrícola Ltda. amounted R\$ 79.793 and R\$ 64.943, respectively (R\$ 18.428 and R\$ 18.532 in 2001).

The balances of the transactions with the group companies are maintained at historical values as follows:

Usina Caeté S/A

Notes to the financial statements

(In thousands of reais)

	2002	2001	
	Non current assets	Non current assets	Non current liabilities
Profertil S.A.	45	3,712	15,955
Lagense S.A.	4,606	3,079	8
Varrela Agrícola Ltda.	53,488	49,110	-
Fabrica da Pedra S.A.	2,654	909	702
Sotan Ltda.	12,584	6,128	230
Delta Agrícola Ltda.	76,822	68,285	21,257
Varrela Pecuária Ltda.	3,066	-	-
Other	119	270	-
	<u>153,384</u>	<u>131,493</u>	<u>38,152</u>

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Notes to the financial statements

(In thousands of reais)

8 Investments

Participation in subsidiaries and group companies and other investments are as follows:

	2002			2001		
	SOTAN - Sociedade de Táxi Aéreo do Nordeste Ltda..	Delta Agrícola Ltda.	Total	SOTAN - Sociedade de Táxi Aéreo do Nordeste Ltda	Delta Agrícola Ltda.	Total
Capital	2,342	7,500	9,842	2,342	7,500	
Number of shares	50	75,000		50	75,000	
Investment interest	19,91%	99,80%		19,91%	99,80%	
Shareholders' equity at December 31, 2002	403	5,705	-	690	4,457	-
Book value of investment	138	4,548	4,686	164	3,326	3,490
Equity in net income (loss) of subsidiaries and group companies	(57)	<u>1,145</u>	<u>1,088</u>	(26)	<u>1,222</u>	<u>1,196</u>
Adjusted book value of investment	<u>81</u>	<u>5,693</u>	<u>5,774</u>	<u>138</u>	<u>4,548</u>	<u>4,686</u>
Premium paid on acquisition of Delta Agrícola Ltda.	-	-	5,275	-	-	4,686
Property and real estate	-	-	5,679	-	-	5,279
Other investments	-	-	<u>2,380</u>	-	-	<u>2,380</u>
	<u>-</u>	<u>-</u>	<u>19,108</u>	<u>-</u>	<u>-</u>	<u>17,620</u>

The premium paid on acquisition (excess of cost over net assets) of the subsidiary Delta Agrícola Ltda., arises from the difference between the market value and the understated historical cost of the land owned by such company.

Usina Caeté S/A

Notes to the financial statements

(In thousands of reais)

9 Property, plant and equipment

	Useful Life (years)	2002	2001
Buildings and improvements	25	45,616	34,850
Installations	10	7,246	6,775
Machinery and equipment	10	126,828	98,125
Machinery and agricultural implements	4	46,268	40,064
Generation of energy	10	50,417	-
Fixtures and fittings	10	2,693	2,067
Vehicles	5	32,842	23,417
Computers equipment	5	7,286	5,124
Apparels and tools	10	4,469	4,338
Others		<u>1,876</u>	<u>1,202</u>
		325,541	215,962
Accumulated depreciation		(107,821)	(80,273)
		217,720	135,689
Land		80,707	70,820
Fixed assets in progress		12,054	17,996
Advances to suppliers		<u>19,679</u>	<u>-</u>
		<u>330,160</u>	<u>224,505</u>

Usina Caeté S/A

Notes to the financial statements

(In thousands of reais)

10 Bank loans and financing

	2002	2001
Foreign currency:		
Exchange variation, plus interest of 2,08% to 9,00% (2,93% to 10% in 2001) p.y.	150,454	58,947
Local currency:		
Interest of 8,75% to 12,5% (8,00% to 12,5% in 2001) p.y. over TJLP	<u>136,494</u>	<u>60,654</u>
	286,948	119,601
Current portion included in current liabilities	<u>(152,425)</u>	<u>(74,620)</u>
	<u>134,523</u>	<u>44,981</u>

Usina Caeté S/A

Notes to the financial statements

(In thousands of reais)

The long-term installments have the following payment schedule:

Maturity:	2002	2001
2003	-	26,114
2004	19,245	9,673
2005	32,921	6,711
2006	18,952	2,483
2007 up to 2015	<u>63,405</u>	<u>-</u>
	<u>134,523</u>	<u>44,981</u>

The financings and loans are guaranteed by collateral security of the financed assets in the amount of R\$ 103,620 (R\$ 60,410 in 2001), promissory notes and management and controlling Company sureties in the amount of R\$ 60,775 (R\$ 32,672 in 2001).

Usina Caeté S/A

Notes to the financial statements

(In thousands of reais)

11 Provision for contingencies

The Company takes part in legal actions and administrative proceeding in various courts of appeals and governmental entities, resulting from the normal course of operations, involving tax, labor, civil and other issues.

Based on information provided by its legal advisors and on analysis of the pending legal demands, management constituted provision in an amount considered sufficient to cover possible losses with the actions in course, as follows:

	2002	2001
Social security contribution – INSS over directors remuneration	1,147	1,147
Sugar and Alcohol Institute Contribution Rate - IAA	8,935	8,675
Excise Tax – IPI	4,383	4,383
Excise Tax credit on export	-	30,239
Others	<u>237</u>	<u>344</u>
	<u>14.702</u>	<u>44.788</u>

The Company has other liability contingencies involving tax issues, in an estimated amount of R\$ 13,700. Due to their stage, the final results of these actions could not be determined at the moment and, therefore, no provision for losses was recognized in the financial statements.

Usina Caeté S/A

Notes to the financial statements

(In thousands of reais)

12 Income and social contribution taxes

The reconciliation between the tax expense as calculated by the combined statutory and the income and social contribution tax expense charged to net income is presented below:

	2002	2001
Net income before income and social contribution taxes	<u>92.026</u>	<u>128.772</u>
Combined statutory rates	34%	34%
Income and social contribution taxes calculated at the statutory rates	31,168	43,648
Permanent additions		
Nondeductible expenses	2,754	4,350
Permanent exclusion:		
Nontaxable revenues	(<u>759</u>)	(<u>619</u>)
Income and social contribution taxes charged to net income	<u>33.163</u>	<u>47.379</u>
Effective rates	36%	37%

The amount of R\$ 33.163 (R\$ 47.379 in 2001), includes the income tax incentive exemption on the profit of the exploration, in the amount of R\$ 17.323 (R\$ 21.720 in 2001), as mentioned in the explanatory note 2, item g.

Usina Caeté S/A

Notes to the financial statements

(In thousands of reais)

13 Shareholders' equity

The subscribed and paid-in, at December 31, 2002, is of R\$ 350.000 (R\$ 310.000 in 2001), divided in 14.339 nominative ordinary shares with no par value.

The Company's bylaw determines the following destination of profits for each year, after approval by the General Ordinary Shareholders' meeting:

- 5% for the legal reserve, which cannot exceed the limit of 20% of the capital;
- amount (optional) approved by the shareholders' meeting as a fund for installation replacement;
- up to 10% for bonus to management;
- a minimum of 25%, adjusted in the form of the corporate law, for distribution of dividends to the shareholders.

The Company is proposing the distribution of dividends on the net profit for the year for approval by the shareholders as follows:

	2002	2001
Net income for the year	58,863	81,393
Appropriation for legal reserve	<u>(2,943)</u>	<u>(4,070)</u>
Base for calculation of the dividends	55,920	77,323
Statutory dividends	<u>13,980</u>	<u>19,331</u>
Proposed dividends	<u>6,000</u>	<u>33,807</u>

Usina Caeté S/A

Notes to the financial statements

(In thousands of reais)

14 Other operating income (net)

	2002	2001
Other operational revenues:		
Excise Tax - IPI – Credits on supply purchases	35,631	13,037
Excise Tax - IPI – Credits on export sales	32,093	29,718
Recovery of several expenses	5,367	5,679
Other	<u>1,095</u>	<u>1,632</u>
	<u>74.186</u>	<u>50.066</u>
Other operational expenses:		
Social security financing tax on other income - Cofins	5,088	1,706
Employees' Profit Participation Program on other income - PIS	1,342	370
Tax on financial activities - CPMF	2,866	2,366
Value added tax – ICMS – rate difference	1,553	515
Other	<u>1,905</u>	<u>2,131</u>
	<u>12.754</u>	<u>7.088</u>
	<u>61.432</u>	<u>42.978</u>

The credits of excise tax - IPI were recognized based on the legal advisors' opinion, that consider probable the success of the lawsuits in process.

Usina Caeté S/A

Notes to the financial statements

(In thousands of reais)

15 Financial instruments

On December 31, 2002 and of 2001, the Company has financial instruments represented by marketable securities and bank loans and financing. The accounting values of these financial instruments closely approximate their corresponding market values, which could be obtained if the instruments were traded on an active market, or in the absence thereof, their net present values adjusted based on the prevailing market interest rate.

The main market risk factors that affect the Company's businesses are:

Credit Risk

The Company's sales policies are closely related with its level of credit risk arising from its normal course of business. The selection and the diversification of its client portfolio and the follow-up of financing terms of sales by business segment are procedures followed by the Company to minimize exposure to eventual risks resulting from the default of its clients.

Price Risk

The volatility of foreign currency exchange rate, market interest rates and prices of commodities are the principal market risks that the Company is exposed to. The sales in the future market and exchange rate variation over the sales price are managed with derivatives securities, which are realized with the exclusive objective to reduce exposure, and not for speculative purposes. The Company has transactions in the future market in the New York Stock Exchange (NYBOT – Coffee Sugar Cocoa Exchange) concerning sugar sale contracts in dollars for future delivery at pre-fixed prices, with various maturities up to July 2003.

Usina Caeté S/A

Notes to the financial statements

(In thousands of reais)

To protect the sugar price in the maturity date of future delivery contracts, the Company is operating in the sugar option market with pre-fixed price in the maturity date of contracts. At December 31, 2002, the position of purchase options sold represents 18.267 ton. of sugar (105.000 ton in 2001).

Foreign currency exchange and interest rates risks

These risks arise from the possibility of the Company to incur losses due to fluctuation in the foreign currency exchange rate or of the market interest rates, increasing its liabilities with bank loans and financings and its financial expenses. The details of the interest rates on marketable securities and bank loans and financings are described in the footnotes 3 and 10.

The Company negotiates "swap" contracts based in the variation of pre-fixed interest rates, to protect its sugar sale contracts for future delivery from the foreign currency exchange rate variation. At December 31, 2002, the amount negotiated with those contracts is of approximately US\$ 13.000 (US\$ 33.100 in 2001), equivalent to R\$ 45.933 (R\$ 76.805 in 2001), and the Company had unrealized gains with these transactions, in the approximate amount of R\$ 7 (R\$ 11.406 in 2001).

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