

Usina Caeté S/A

Financial statements
December 31, 2003 and 2002

Usina Caeté S/A

Financial statements

December 31, 2003 and 2002

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Independent auditors' report

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

1. We have examined the balance sheet of Usina Caeté S/A, as of December 31, 2003 and 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 examinations were 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. Based on the opinion of its legal advisors, who assessed as likely a favourable final court decision on litigations in process, the Company, is recognizing excise tax (IPI) credits, which the financial statements effects are being disclosed in footnote 12. In accordance with accounting practices adopted in Brazil, these credits represent contingent gains, which only could have been recognized after a final favourable court decision, with no recourses.

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, 2003 and 2002, and the results of its operations, changes in shareholders' equity and changes in its financial position for the years then ended, in conformity with accounting practices adopted in Brazil.

March 05, 2004

KPMG Auditores Independentes
CRC-2SP014428/O-6



João Bruno Cruz
Accountant CRC-1SP076600/O-0

Usina Caeté S/A

Balance sheets

December 31, 2003 and December 31, 2002

(In thousands of reais)

Assets	2003	2002	Liabilities	2003	2002
Current assets			Current liabilities		
Cash and cash equivalents	11,463	8,133	Accounts payable to suppliers	33,009	14,687
Marketable securities	17,577	22,948	Bank loans and financing	156,257	152,425
Trade accounts receivable	63,613	58,834	Salaries and charges	3,903	2,864
Inventories	174,724	104,877	Advances from customers	24,181	10,177
Other accounts receivable	1,655	1,734	Taxes and contributions payable	5,411	5,742
Recoverable taxes	90,829	64,084	Income and social contribution taxes	2,467	502
	<u>359,861</u>	<u>260,610</u>	Dividends payable	-	6,000
			Other accounts payable	764	460
				<u>225,992</u>	<u>192,857</u>
Non current assets			Non current liabilities		
Marketable securities	26,480	28,802	Bank loans and financing	134,388	134,523
Current accounts - Group companies	162,749	153,384	Current accounts - Group companies	6,851	-
Judicial deposits	7,335	7,903	Taxes and contributions payable	2,658	1,340
Recoverable taxes	7,119	8,384	Provision for contingencies	15,060	14,702
	<u>203,683</u>	<u>198,473</u>	Accounts payable	1,430	-
				<u>160,387</u>	<u>150,565</u>
Permanent assets			Shareholders' equity		
Investments	37,158	19,108	Capital	400,000	350,000
Property, plant and equipment	350,975	330,160	Treasury shares	(3,008)	(3,008)
Deferred charges	4,161	5,777	Capital reserves	35,136	17,323
	<u>392,294</u>	<u>355,045</u>	Revenue reserves	4,563	2,943
			Retained earnings	132,768	103,448
				<u>569,459</u>	<u>470,706</u>
	<u>955,838</u>	<u>814,128</u>		<u>955,838</u>	<u>814,128</u>

See accompanying notes to the financial statements.

Usina Caeté S/A

Statements of income

Year ended December 31, 2003 and December 31, 2002

(In thousands of reais)

	2003	2002
Gross Income		
Sale of goods and services		
Domestic Market	260,199	211,737
Foreign Market	303,709	299,252
Services rendered	181	2,377
	<u>564,089</u>	<u>513,366</u>
Deductions		
Sales taxes	(31,061)	(22,497)
Returns and discounts	(1,761)	(1,139)
	<u>(32,822)</u>	<u>(23,636)</u>
Net revenues	531,267	489,730
Cost of goods and services sold	<u>(365,044)</u>	<u>(357,029)</u>
Gross profit	166,223	132,701
(Expenses) other operating income		
Selling expenses	(45,697)	(31,630)
Administrative and general expenses	(37,696)	(42,892)
Net financial	1,974	(29,078)
Equity in net income of subsidiaries and group companies	1,932	1,088
Other operating	50,889	61,432
	<u>(28,598)</u>	<u>(41,080)</u>
Operating income	<u>137,625</u>	<u>91,621</u>
Nonoperating income	712	405
	<u>138,337</u>	<u>92,026</u>
Net income before income and social contribution taxes	<u>138,337</u>	<u>92,026</u>
Income and social contribution taxes	<u>(47,077)</u>	<u>(33,163)</u>
Net income for the year	<u>91,260</u>	<u>58,863</u>
Net income per lot of thousand shares - R\$	<u>6,364.46</u>	<u>4,105.10</u>
Number of shares at year-end	<u>14,339</u>	<u>14,339</u>

See accompanying notes to the financial statements.

Statements of changes in shareholders' equity

Years ended December 31, 2003 and 2002

(In thousands of Reais)

	Capital	Treasury Shares	Capital reserves	Revenue Reserves	Retained earnings	Total
Balances at January 1, 2002	310,000	(3,008)	30,924	4,070	56,806	398,792
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					(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>
Capital increase	50,000			(2,943)	(47,057)	-
Reversion of dividends of treasury share					128	128
Prior year adjustment					(448)	(448)
Capital reserve arising from income tax exemption incentive			17,813			17,813
Net income for the year					91,260	91,260
Distributions:						
Legal reserve				4,563	(4,563)	-
Dividends					(10,000)	(10,000)
Balances at December 31, 2003	<u>400,000</u>	<u>(3,008)</u>	<u>35,136</u>	<u>4,563</u>	<u>132,768</u>	<u>569,459</u>

See the accompanying notes to the financial statements

Usina Caeté S/A

Statements of changes in financial position

Years ended December 31, 2003 and 2002

(In thousands of reais)

	2003	2002
Sources of funds		
Operations		
Net income for the year	91,260	58,863
Items not affecting working capital		
Monetary variation and interest on long term items	(10,277)	14,564
Depreciation and amortization	38,944	31,253
Residual cost on disposal of investment	1,682	-
Residual cost on disposal of fixed assets	1,557	1,374
Loss from capital increase in subsidiary	1,981	-
Equity in net income of subsidiaries and group companies	(1,932)	(1,088)
Capital reserve arising from income tax exemption incentive	<u>17,813</u>	<u>17,323</u>
From operations	141,028	122,289
From Shareholders		
Reversion of dividends of treasury shares	128	-
From third parties		
Increase in noncurrent liabilities	48,987	106,139
Increase in accounts payable associated company	6,851	-
Decrease in noncurrent assets	10,127	2,405
Prior year adjustment	<u>-</u>	<u>1,728</u>
	<u>207,121</u>	<u>232,561</u>
Applications of funds		
Property, plant and equipment	59,360	137,191
Increase in accounts receivable from group company	9,365	21,891
Decrease in accounts payable from group company	-	38,152
Investments	19,781	400
Decrease in noncurrent liabilities	38,315	35,140
Noncurrent assets	3,736	33,707
Prior year adjustment	448	-
Dividends	<u>10,000</u>	<u>6,000</u>
	<u>141,005</u>	<u>272,481</u>
Increase (decrease) in working capital	<u>66,116</u>	<u>(39,920)</u>
Changes in working capital		
Current assets		
At end of year	359,861	260,610
At beginning of year	<u>260,610</u>	<u>240,380</u>
	<u>99,251</u>	<u>20,230</u>
Current liabilities		
At end of year	225,992	192,857
At beginning of year	<u>192,857</u>	<u>132,707</u>
	<u>33,135</u>	<u>60,150</u>
Increase (decrease) in working capital	<u>66,116</u>	<u>(39,920)</u>

See accompanying notes to the financial statements.

Usina Caeté S/A

Notes to the financial statements

Years ended December 31, 2003 and 2002

(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. Most of the consumed raw material (sugar cane) is produce its subsidiary Delta Agrícola Ltda. and to its associated company Varrela Agrícola Ltda.

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

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 as to its realization.

b. Accounting estimates

The accounting estimates were established on objective and subjective factors, based on management's opinion of the appropriate amount to be recorded in the financial statements. Significant items subject to these estimates and assumptions include the residual value of property, plant and equipment, allowance for doubtful accounts, inventories, deferred income tax assets, provision for contingencies, valuation of derivative instruments, and assets and liabilities related to employees' benefits. The settlement of transactions involving these estimates may result in significantly different amounts due to the lack of precision inherent to the process of their determination. The Company reviews the estimates and assumptions at least once a year.

Usina Caeté S/A

Notes to the financial statements

(In thousands of reais)

c. 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.

d. Current and non-current assets

▪ **Interest earning bank deposits**

Interest earning bank deposits are recorded at cost plus income accrued up to the balance sheet date.

▪ **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.

▪ **Inventories**

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. The industry off-season maintenance and the cultivation tracts for the sugar cane plantation refers to maintenance costs, to be appropriated to the cost of the next crop.

Usina Caeté S/A

Notes to the financial statements

(In thousands of reais)

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

Presented at the net realization amount.

e. Permanent assets

- **Investments**

Investments in subsidiaries and associated companies were valued using the equity method plus positive goodwill or less negative goodwill, when applicable.

Other investments were valued at cost, less a provision for devaluation, when applicable.

- **Property, plant and equipment**

Property, plant and equipment is recorded at the cost of acquisition, formation or construction. Depreciation is provided using the straight-line method at rates described in footnote 09, established by Brazilian fiscal law.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul costs, is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits of the item of property, plant and equipment. All other expenditure is recognized in the income statement as an expense as incurred.

Usina Caeté S/A

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.

f. Current and noncurrent liabilities

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

g. 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)

h. Income and social contribution taxes

The income and social contribution taxes, current, 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.

Usina Caeté S/A

Notes to the financial statements

(In thousands of reais)

3 Marketable securities

	2003	2002
Fixed-income funds	822	4,848
Bank Deposit Certificate – income between 98,5% and 106% (98% and 104% in 2002) of the Interbank Deposit Certificate rates.	42,597	46,043
Other	<u>638</u>	<u>859</u>
Total	<u>44,057</u>	<u>51,750</u>
Current assets	<u>(17,577)</u>	<u>(22,948)</u>
Non current assets	<u>26,480</u>	<u>28,802</u>

The noncurrent assets marketable securities have the following redemption maturities:

	2003	2002
2004	-	24,536
2005	26,230	4,258
2006 to 2007	<u>250</u>	<u>8</u>
	<u>26,480</u>	<u>28,802</u>

Usina Caeté S/A

Notes to the financial statements

(In thousands of reais)

4 Trade accounts – related companies

	2003	2002
Domestic customers	12,503	20,259
Foreign customers	<u>51,875</u>	<u>46,436</u>
	64,378	66,695
Discounted trade receivables	-	(7,081)
Provision for doubtful accounts	(<u>765</u>)	(<u>780</u>)
	<u>63,613</u>	<u>58,834</u>

Usina Caeté S/A

Notes to the financial statements

(In thousands of reais)

5 Inventories

	2003	2002
Finished goods	118,046	74,042
Maintenance supplies	5,143	6,405
Advanced payments to sugar cane suppliers	40,719	11,361
Industry off-season maintenance costs	<u>10,816</u>	<u>13,069</u>
	<u>174,724</u>	<u>104,877</u>

Usina Caeté S/A

Notes to the financial statements

(In thousands of reais)

6 Recoverable taxes

	2003		2002	
	Current asset	Non current asset	Current asset	Non current asset
Income tax – IRPJ	29,525	-	15,681	-
Value added tax - ICMS	12,827	7,119	6,937	8,384
Excise tax – IPI	45,020	-	30,611	-
Income Tax Withheld at Source - IRRF	629	-	10,245	-
Employees' Profit Participation Program – PIS	2,815	-	434	-
Other taxes	<u>13</u>	<u>-</u>	<u>176</u>	<u>-</u>
	<u>90,829</u>	<u>7,119</u>	<u>64,084</u>	<u>8,384</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 main balances of assets and liabilities as of December 31, 2003 and 2002, as well as the transactions, which influenced the income of the year, related to operations with related parties, result from transactions between the Usina Caeté S/A and its subsidiaries, which were performed under normal market conditions for similar types of operations:

- The tied company SOTAN - Sociedade de Táxi Aéreo do Nordeste Ltda., it renders services of aerial transport for the Company. These services amounted R\$ 2,607 (R\$ 2,671 in 2002).
- 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\$ 466 (R\$ 4,260 in 2002 including fertilizers).
- The sugar cane sales made by Varrela Agrícola Ltda. and Delta Agrícola Ltda. amounted R\$ 65,495 and R\$ 117,000, respectively (R\$ 79,793 and R\$ 64,943 in 2002).
- The other balances refer the loans, which were performed under normal market conditions.

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)

	2003		2002
	Non current assets	Non current liabilities	Non current Assets
Profertil S.A.	-	77	45
Lagense S.A.	-	6,732	4,606
WW Rent	-	42	-
Varrela Agrícola Ltda.	77,012	-	53,488
Fábrica da Pedra S.A.	4,678	-	2,654
Sotan Ltda.	240	-	12,584
Delta Agrícola Ltda.	80,583	-	76,822
Varrela pecuária Ltda.	209	-	3,066
Others	<u>27</u>	<u>-</u>	<u>119</u>
Total	<u>162,749</u>	<u>6,851</u>	<u>153,384</u>

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Notes to the financial statements

(In thousands of reais)

8 Investments

	2003				2002		
	SOTAN – Sociedade de Táxi Aéreo do Nordeste Ltda.	Varrela Pecuária Ltda.	Delta Agrícola Ltda.	Total	SOTAN – Sociedade de Táxi Aéreo do Nordeste Ltda.	Delta Agrícola Ltda.	Total
Capital	19,100	11,000	7,500	37,600	2,342	7,500	9,842
Number of shares	1,852,809	20,000	75,000		50,215	75,000	
Investment interest	88.45%	18.18%	99.80%		19.91%	99.80%	
Shareholders' equity at December 31, 2003	16,293	10,964	7,693	-	403	5,705	-
Book value of investment	16,438	2,000	5,693	24,131	138	4,548	4,686
Loss for capital increase	(1,981)	-	-	(1,981)	-	-	-
Equity in net income (loss) of subsidiaries and group companies	(45)	7	1,984	1,932	(57)	1,145	1,088
Adjusted book value of investment	<u>14,412</u>	<u>1,993</u>	<u>7,677</u>	<u>24,082</u>	<u>81</u>	<u>5,693</u>	<u>5,774</u>
Premium paid on acquisition of Delta Agrícola Ltda.				5,275			5,275
Property and real estate				7,103			5,679
Other investments				<u>699</u>			<u>2,380</u>
				<u>37,158</u>			<u>19,108</u>

Usina Caeté S/A

Notes to the financial statements

(In thousands of reais)

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.

On November 30, 2001, the Company transferred its agricultural activities to its subsidiary Delta

On July 04, 2003, through of the first alteration the Social Contract of Varrela Pecuária Ltda., the Usina Caeté S/A started to participate in associated company with 18.18% on total of quotas, equivalent the R\$ 2,000 of the capital.

On November 15, 2003, by the 10th alteration the Social Contract, the Usina Caeté S/A acquired the control in the SOTAN – Sociedade de Táxi Aéreo do Nordeste Ltda. with 1,852,809 quotas equivalent 88.45% of the participation.

Usina Caeté S/A

Notes to the financial statements

(In thousands of reais)

9 Property, plant and equipment

	Average depreciation Rate (p.a.)	2003			2002
		Cost	Depreciation	Net	Net
Buildings and improvements	4	58,990	(10,284)	48,706	41,409
Installations	10	18,659	(3,697)	14,962	6,050
Machinery and equipment	10	227,264	(60,282)	166,982	123,620
Machinery and agricultural implements	25	45,695	(33,395)	12,300	20,498
Fixtures and fittings	10	2,740	(1,143)	1,597	1,420
Vehicles	20	31,472	(19,092)	12,380	17,632
Computers equipment	20	8,449	(4,368)	4,081	4,020
Apparels and tools	10	4,601	(2,740)	1,861	1,927
Equipment and phone apparels	20	1,254	(730)	524	653
Others		186	(59)	127	127
Land		83,711	-	83,711	82,329
Fixed assets in progress		1,040	-	1,040	10,796
Advances to suppliers		<u>2,704</u>	<u>-</u>	<u>2,704</u>	<u>19,679</u>
		<u>486,765</u>	<u>(135,790)</u>	<u>350,975</u>	<u>330,160</u>

Usina Caeté S/A

Notes to the financial statements

(In thousands of reais)

10 Suppliers

	2003	2002
Sugar cane suppliers	12,870	828
Others suppliers	<u>20,139</u>	<u>13,859</u>
	<u>33,009</u>	<u>14,687</u>

Usina Caeté S/A

Notes to the financial statements

(In thousands of reais)

11 Bank loans and financing

	2003	2002
Foreign currency:		
Exchange variation, plus interest of 1.53% to 6.50% (2.08% to 9% in 2002) p.y.	147,776	150,454
Local currency:		
Interest of 8.00% to 11.5% (8.75% to 12.5% in 2002) p.y. over TJLP	<u>142,869</u> 290,645	<u>136,494</u> 286,948
Current portion included in current liabilities	<u>(156,257)</u> <u>134,388</u>	<u>(152,425)</u> <u>134,523</u>

Usina Caeté S/A

Notes to the financial statements

(In thousands of reais)

The long-term installments have the following payment schedule:

Maturity:	2003	2002
2004	-	19,245
2005	18,525	32,921
2006	26,577	18,952
2007	27,401	11,103
2008	4,949	-
2009 up to 2015	<u>56,936</u>	<u>52,302</u>
	<u>134,388</u>	<u>134,523</u>

The financings and loans are guaranteed by collateral security of the financed assets in the amount of R\$ 91,759 (R\$ 103,620 in 2002), promissory notes and management and controlling Company sureties in the amount of R\$ 69,035 (R\$ 60,775 in 2002).

Usina Caeté S/A

Notes to the financial statements

(In thousands of reais)

12 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 and labor litigations, based in preceding experience refer the negotiated values, the management constituted provision in an amount considered sufficient to cover possible losses with the actions in course, as follows:

	2003	2002
Social security contribution – INSS over directors remuneration	1,147	1,147
Sugar and Alcohol Institute Contribution Rate – IAA	9,259	8,935
Excise Tax – IPI	4,383	4,383
Others	<u>271</u>	<u>237</u>
	<u>15,060</u>	<u>14,702</u>

Based on its legal advisors' opinion, of a probable final issue with favorable court decision, the Company have been recognized excise tax credits - IPI, classifying as other operating income. In consequence, the net income for de year in December 31, 2003 this increased in R\$ 61,000 thousand (R\$ 67,000 thousand in 2002), and the shareholders's equity this increased in R\$ 158,000 thousand (R\$ 97,000 thousand in 2002).

The Company has other contingencies involving tax issues in the estimated amount of R\$ 25,000. Due to their current stage of these actions, and based on its legal advisors' opinion of a probable favourable court decision, management decided not to recognize a provision for eventual losses in the financial statements.

Usina Caeté S/A

Notes to the financial statements

(In thousands of reais)

13 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:

	2003	2002
Net income before income and social contribution taxes	<u>138,337</u>	<u>92,026</u>
Combined statutory rates	34%	34%
Income and social contribution taxes calculated at the statutory rates	47,035	31,168
Permanent additions		
Nondeductible expenses	651	2,754
Permanent exclusion:		
Nontaxable revenues	(609)	(759)
Income and social contribution taxes charged to net income	<u>47,077</u>	<u>33,163</u>
Effective rates	34%	36%

The amount of R\$ 47,077 (R\$ 33,163 in 2002), includes the income tax incentive exemption on the profit of the exploration, in the amount of R\$ 17,813 (R\$ 17,323 in 2002), as mentioned in the explanatory note 2, item h.

Usina Caeté S/A

Notes to the financial statements

(In thousands of reais)

14 Shareholders' equity

The subscribed and paid-in, at December 31, 2003, is of R\$ 400,000 (R\$ 350,000 in 2002), 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.

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Notes to the financial statements

(In thousands of reais)

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

	2003	2002
Net income for the year	91,260	58,863
Appropriation for legal reserve	<u>(4,563)</u>	<u>(2,943)</u>
Base for calculation of the dividends	86,697	55,920
Statutory dividends	<u>21,674</u>	<u>13,980</u>
Proposed dividends	<u>10,000</u>	<u>6,000</u>

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Notes to the financial statements

(In thousands of reais)

15 Other operating income (net)

	2003	2002
Other operational revenues:		
Excise Tax - IPI – Credits on supply purchases	12,594	35,631
Excise Tax - IPI – Credits on export sales	48,510	32,093
Recovery of several expenses	2,168	5,367
Others	<u>1,004</u>	<u>1,095</u>
	<u>64,276</u>	<u>74,186</u>
Other operational expenses:		
Social security financing tax on other income – COFINS	3,078	5,088
Employees' Profit Participation Program on other income – PIS	1,691	1,342
Tax on financial activities – CPMF	3,120	2,866
Value added tax – ICMS – rate difference	1,148	1,553
Loss for capital increase in subsidiary	1,981	-
Others	<u>2,369</u>	<u>1,905</u>
	<u>13,387</u>	<u>12,754</u>
	<u>50,889</u>	<u>61,432</u>

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Notes to the financial statements

(In thousands of reais)

16 Financial instruments

The estimated realization values of financial assets and liabilities of the Company were determined through information available in the market and appropriate valuation methodologies. However, considerable judgment was required in the interpretation of the market data to estimate of the most adequate realization value. Consequently, the estimates below do not necessarily indicate the values that could be realized in the current exchange market. The use of different market methodologies may have a material effect on the estimated realizable values.

The management of these instruments is done through operating strategies, aimed at liquidity, profitability and security. The control policy consists of permanent follow-up of the rates engaged versus those in force in the market. The Company and its subsidiaries do not invest in derivatives or any other risk assets on a speculative basis.

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.

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Notes to the financial statements

(In thousands of reais)

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 October 2004.

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, 2003, the position of purchase options sold represents 10,160 ton. of sugar (18,267 ton. in 2002).

Exchange and interest rates risks

The results of the Company and its subsidiaries are susceptible to significant variations arising from financing and loan operations contracted at floating interest rates.

The Company use derivative financial instruments to protect or reduce the financial costs of the financing operations.

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, 2003, the amount negotiated with those contracts is of approximately US\$ 400,000 (US\$ 13,000 in 2002), equivalent to R\$ 1,156 (R\$ 45,933 in 2002), and the unrealized results with these transactions are approximately zero.

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