



Usina Caeté S/A

Financial statements
December 31, 2007 and 2006

(A free 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, 2007 and 2006

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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 sheets of Usina Caeté S/A, as of December 31, 2007 and 2006, and the related statements of income, changes in shareholders' equity and changes in financial position for the years 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. In our opinion, the aforementioned financial statements present fairly in all material respects, the financial position of Usina Caeté S/A as of December 31, 2007 and 2006, 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.



4. The Company has not yet held the Ordinary and Extraordinary General Meeting, with the purpose of, among other matters, deciding on the accounts of the management, examining, discussing and voting on the financial statements for the year ended December 31, 2006, on the result of the year 2006 and the proposal for capital increase, in non-compliance with the articles 132 and 134 of the Brazilian Corporation Law. Pursuant to the meeting notice published on May 16, 2008 in Diário Oficial do Estado de Alagoas (Official State Gazette) and in the periodical "O Jornal", the Company shareholders were summoned to attend an Ordinary and Extraordinary General Meeting on May 27, 2008 in order to decide on these matters.

May 16, 2008

KPMG Auditores Independentes
CRC 2SP014428/O-6

A handwritten signature in blue ink, appearing to read 'Alberto Bressan Filho', written in a cursive style.

Alberto Bressan Filho
Accountant CRC 1SP0144380/O-7 S – AL

Usina Caeté S/A

Balance sheets

December 31, 2007 and 2006

(In thousand of reais)

Assets	Note	2007	2006	Liabilities	Note	2007	2006
Current assets				Current liabilities			
Cash and cash equivalents		29,663	3,150	Accounts payable to suppliers	13	67,589	92,518
Marketable securities	4	51,182	51,833	Bank loans and financing	14	195,990	101,361
Trade accounts receivable	5	76,898	83,684	Salaries and charges		19,174	16,686
Inventories	6	405,479	367,473	Advances from customers		1,338	14,554
Advanced payments to sugar cane suppliers		74,467	56,063	Taxes and contributions payable	15	18,769	15,407
Other accounts receivable		8,887	21,513	Income and social contribution taxes		-	6,137
Recoverable taxes	7	18,941	8,281	Other accounts payable		817	785
		<u>665,517</u>	<u>591,997</u>			<u>303,677</u>	<u>247,448</u>
Non-current				Non-current			
Non current assets				Non current liabilities			
Group companies	8	14,075	1,534	Bank loans and financing	14	488,026	320,793
Advanced payments to sugar cane suppliers		7,814	7,173	Group companies	8	8,795	7,616
Judicial deposits		13,711	6,623	Taxes and contributions payable	15	56,569	59,188
Recoverable taxes	7	17,430	21,866	Provision for contingencies	16	225,073	215,781
Other accounts receivable	9	17,602	25,082	Accounts payable		16,829	17,562
		<u>70,632</u>	<u>62,278</u>			<u>795,292</u>	<u>620,940</u>
Permanent assets				Shareholders' equity			
Investments	10	17,249	18,840	Capital	18	538,062	538,062
Property, plant and equipment	11	1,249,080	1,078,518	Treasury shares		12,484	12,484
Deferred charges	12	3,608	2,884	Capital reserves		307,931	309,353
		<u>1,269,937</u>	<u>1,100,242</u>	Revenue reserves		14,445	13,071
		<u>2,006,086</u>	<u>1,754,517</u>	Retained earnings (accumulated losses)		34,195	13,159
						<u>907,117</u>	<u>886,129</u>
						<u>2,006,086</u>	<u>1,754,517</u>

See accompanying notes to the financial statements.

Usina Caeté S/A

Statements of income

Years ended December 31, 2007 and 2006

(In thousand of reais)

	Note	2007	2006
Gross Income			
Sale of goods and services			
Domestic Market		537,319	541,279
Foreign Market		446,612	571,365
Services rendered		<u>5,969</u>	<u>12,302</u>
		989,900	1,124,946
Deductions			
Sales taxes		(97,316)	(103,035)
Returns and discounts		<u>(3,101)</u>	<u>(8,334)</u>
		(100,417)	(111,369)
Net revenues		889,483	1,013,577
Cost of goods and services sold		<u>(710,733)</u>	<u>(616,060)</u>
Gross profit		178,750	397,517
Operating (expenses) income			
Selling expenses		(85,206)	(81,347)
Administrative and general expenses		(52,321)	(55,373)
Net financial		2,764	(47,893)
Equity in net income of subsidiaries and group companies	10	(1,591)	(696)
Other operating income (expense)	19	<u>(1,726)</u>	<u>16,272</u>
		<u>(138,080)</u>	<u>(169,037)</u>
Operating income		<u>40,670</u>	<u>228,480</u>
Nonoperating income		<u>1,539</u>	<u>3,182</u>
Net income before income and social contribution taxes		<u>42,209</u>	<u>231,662</u>
Income and social contribution taxes	17	<u>(14,738)</u>	<u>(79,392)</u>
Net income for the year		<u><u>27,471</u></u>	<u><u>152,270</u></u>
Net income per lot of thousand shares - R\$		<u><u>1,922.26</u></u>	<u><u>10,654.96</u></u>
Number of shares at year-end		<u><u>14,291</u></u>	<u><u>14,291</u></u>

See accompanying notes to the financial statements.

Usina Caeté S/A

Statements of changes in shareholders' equity

Years ended December 31, 2007 and 2006

(In thousand of Reais)

	Capital	Capital reserves	Revaluation reserves	Revenue reserves	Retained earnings (accumulated losses)	Total
Balances at January 1, 2006	530,000	19,503	327,312	5,458	(130,016)	752,257
Capital reduction	(3,694)					(3,694)
Capital increase	11,756	(11,756)				-
Reversal of part of 2005 revaluation reserve unduly recognized			(16,537)			(16,537)
Realization of revaluation reserve			(1,422)		1,422	-
Adjustment of 2003 capital reserve arising from income tax exemption incentive		(7,747)			7,747	-
Prior year adjustments					(651)	(651)
Capital reserve arising from income tax exemption incentive		12,484				12,484
Net income for the year					152,270	152,270
Distributions:						
Legal reserve				7,613	(7,613)	-
Proposed dividends					(10,000)	(10,000)
Balances at December 31, 2006	538,062	12,484	309,353	13,071	13,159	886,129
Realization of revaluation reserve			(1,422)		1,422	-
Prior year adjustments					1,017	1,017
Net income for the year					27,471	27,471
Distributions:						
Legal reserve				1,374	(1,374)	-
Proposed dividends					(7,500)	(7,500)
Balances at December 31, 2007	<u>538,062</u>	<u>12,484</u>	<u>307,931</u>	<u>14,445</u>	<u>34,195</u>	<u>907,117</u>

See accompanying notes to the financial statements.

Usina Caeté S/A

Statements of changes in financial position

Years ended December 31, 2007 and 2006

(In thousand of reais)

	2007	2006
Sources of funds		
Operations		
Net income for the year	27,471	152,270
Items not affecting working capital		
Monetary variation and interest on long term items	77,595	34,103
Depreciation and amortization	182,156	123,300
Residual cost on disposal of investment	-	11
Residual cost on disposal of fixed assets	835	765
Deferred income and social contribution taxes	(733)	(733)
Equity in net income of subsidiaries and associated companies	1,591	696
Capital reserve arising from income tax exemption incentive	-	12,484
From operations	<u>288,915</u>	<u>322,896</u>
From third parties		
Increase in noncurrent liabilities	193,153	108,791
Decrease in accounts receivable - associated company	2,747	5,928
Increase in accounts payable - associated company	9,950	7,613
Decrease in noncurrent assets	6,443	8,450
Prior year adjustments	1,017	-
	<u>502,225</u>	<u>453,678</u>
Applications of funds		
Property, plant and equipment	354,278	262,420
Increase in accounts receivable from group company	3,467	-
Decrease in accounts payable for group company	8,770	-
Investments	-	5,250
Decrease in noncurrent liabilities	96,842	75,908
Noncurrent assets	14,077	24,329
Capital reduction	-	3,694
Prior year adjustment	-	651
Proposed dividends	7,500	10,000
	<u>484,934</u>	<u>382,252</u>
Increase in working capital	<u>17,291</u>	<u>71,426</u>
Changes in working capital		
Current assets		
At end of year	665,517	591,997
At beginning of year	<u>591,997</u>	<u>474,700</u>
	<u>73,520</u>	<u>117,297</u>
Current liabilities		
At end of year	303,677	247,448
At beginning of year	<u>247,448</u>	<u>201,577</u>
	<u>56,229</u>	<u>45,871</u>
Increase in working capital	<u>17,291</u>	<u>71,426</u>

See accompanying notes to the financial statements.

Usina Caeté S/A

Notes to the financial statements

Years ended December 31, 2007 and 2006

(In thousand of reais)

1 Operations

The Company is engaged in the production and selling of sugar, alcohol, and other products derived from sugar cane, sugar cane plantation and cultivation, supply of electrical energy, imports and exports and invests in other companies. Most of the consumed raw material (sugar cane) is the Company's own property production.

The Company's production process is spread over five plants, being three located in the State of Alagoas and two in the State of Minas Gerais.

In accordance with the strategic planning of the Group, in 2007 the Company started a construction project of a new industrial unit industrial located in the municipality of Paulicéia, State of São Paulo, called Usina Caeté S/A – Filial Paulicéia, whereas by December 31, 2007 investments had been made in the amount of R\$ 105 million for an extraction capacity in the first phase of 1,100,000 tons of sugarcane, with estimated increase of milling for the subsequent harvest of 1,970,000 tons of sugarcane. The start of extraction is planned for the 2009/2010 harvest.

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 thousand of reais)

3 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.

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 and the foreign exchange differences arising on translation are recognized in the statement of income.

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Notes to the financial statements

(In thousand of reais)

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.

- *Trade accounts receivable*

Accounts receivable from customers are recorded by the billed amount including the related sales taxes. 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*

Inventories are stated at the lower of average acquisition or production cost, less a provision for losses or market value.

The cost of inventories includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of finished goods, cost includes an appropriate share of overheads based on normal operating capacity.

The cultivation tracts for sugarcane plantations refer to maintenance costs, to be appropriated to the cost of the next crop.

- *Investments*

Investments in subsidiaries and associated companies were valued using the equity method.

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

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Notes to the financial statements

(In thousand of reais)

- *Property, plant and equipment*

Property, plant and equipment is recorded at the cost of acquisition, formation or construction, increased due to revaluation. Depreciation is provided using the straight-line method at rates described in note 11, which take into account the estimated useful lives of the assets.

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.

The industry off-season maintenance refer to maintenance costs, to be appropriated to the cost of the next crop.

- *Deferred charges*

Deferred charges are recorded at purchase and formation cost, less amortization, which is calculated by the straight-line method at rates that consider the useful life of the intangible assets. Deferred charges are recognized only when there is an increase in the economic benefit related to those assets.

- *Other current and non-current assets*

Presented at the net realization amount.

e. Current and non-current 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.

Usina Caeté S/A

Notes to the financial statements

(In thousand of reais)

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.

g. 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.

h. Hedge operations

The Company operates with derivatives aiming to reduce its exposure to sugar price variations. The Company operates mainly in the futures market. Margin calls by brokerage firms are performed periodically in transactions involving the futures market. The Company also operates with derivatives, non-deliverable forwards – NDF's and swaps, aiming to reduce its exposure to variations of the exchange rate on its revenue from exports and operating costs. These operations with derivatives allow it to guarantee minimum average income for part of the future production.

The financial income obtained in this type of transaction and in operations in the futures market is only recognized in income for the year upon the billing of the “protected” product, whereas margin calls are kept in a current assets account until they are realized.

Forward and swap contracts are only recorded upon their financial settlement, which takes place upon the billing of the “protected” product.

Usina Caeté S/A

Notes to the financial statements

(In thousand of reais)

i. Deferred income and social contribution taxes

Deferred income and social contribution taxes classified in noncurrent liabilities result from the revaluation reserve recorded in December 2005, calculated with a basis on the rates of 15% plus a surcharge of 10% for income tax and 9% for social contribution. Their realization is occurring in the same proportion as the depreciation and write-off of the assets that generated them.

j. Environmental aspects

The Company's production facilities are subject to environmental regulations. The Company reduces the risks associated with environmental matters, by operating procedures and controls and investments in pollution control equipment and systems. The Company believes that no provision for loss relating to environmental matters is required at present, based on the current laws and regulations in force.

4 Marketable securities

	2007	2006
Fixed-income funds – income pos-fixed of the 11.27% per year	21,426	1,292
Bank Deposit Certificate – income between 100% and 103% of the Interbank Deposit Certificate	28,535	49,669
Others	<u>1,221</u>	<u>872</u>
Total	<u>51,182</u>	<u>51,833</u>

Usina Caeté S/A

Notes to the financial statements

(In thousand of reais)

5 Trade accounts receivable

	2007	2006
Domestic customers	46,749	38,929
Foreign customers	<u>30,784</u>	<u>45,346</u>
	77,533	84,275
Provision for doubtful accounts	(<u>635</u>)	(<u>591</u>)
	<u>76,898</u>	<u>83,684</u>

6 Inventories

	2007	2006
Finished goods	188,511	194,020
Sugarcane plantations	189,390	155,948
Soybean agriculture	6,607	729
Maintenance supplies and others	<u>20,971</u>	<u>16,776</u>
	<u>405,479</u>	<u>367,473</u>

Usina Caeté S/A

Notes to the financial statements

(In thousand of reais)

7 Recoverable taxes

	2007		2006	
	Current assets	Non-current assets	Current assets	Non-current assets
Income tax – IRPJ	5,847	-	569	-
Value added tax – ICMS	7,302	5,518	5,102	6,877
Excise tax credit – IPI	-	3,098	-	6,175
Employees' Profit Participation Program – PIS	781	-	2,063	-
Social Contribution for Social Security Financing – COFINS	5,005	-	430	-
Social security contribution – INSS	-	8,814	-	8,814
Other taxes	<u>6</u>	<u>-</u>	<u>117</u>	<u>-</u>
	<u>18,941</u>	<u>17,430</u>	<u>8,281</u>	<u>21,866</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.

Usina Caeté S/A

Notes to the financial statements

(In thousand of reais)

8 Group companies

The main balances of assets and liabilities as of December 31, 2007 and 2006, 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 associated company SOTAN - Sociedade de Táxi Aéreo do Nordeste Ltda., renders services of aerial transport for the Company. These services amounted R\$ 3,397 (R\$ 3,494 in 2006).
- The balance with Varrela Pecuária Ltda. refers to a loan without incidence of financial charges, with no date estimated for its settlement.
- The balance with Empresa Futura Agropecuária Ltda refers to the amount of the initial costs relating to the development of the construction project of a new production unit, which with the effective formalization of the corporate documents determining the transfer of the controlling interest from Futura – Agropecuária Indústria e Comércio Ltda. to Usina Caeté S/A and to Lagense S/A Administração e Participação and was reclassified to this group. In the previous year, this balance was recorded in other accounts receivable – Noncurrent (note 9).

Usina Caeté S/A

Notes to the financial statements

(In thousand of reais)

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

	2007		2006	
	Non-current Assets	Non-current Liabilities	Non-current Assets	Non-current Liabilities
Lagense S.A.	-	8,795	-	7,616
Sotan Ltda.	773	-	38	-
Varrela Pecuária Ltda.	4,041	-	1,465	-
Futura Agropecuária Ltda	9,261	-	-	-
Others	<u>-</u>	<u>-</u>	<u>31</u>	<u>-</u>
	<u>14,075</u>	<u>8,795</u>	<u>1,534</u>	<u>7,616</u>

9 Others account receivables – Non-current

	2007	2006
Road paving and improvements recoverable from the Minas Gerais State Government	16,855	13,261
Futura Agropecuária Ltda.	-	11,821
Others	<u>747</u>	<u>-</u>
	<u>17,602</u>	<u>25,082</u>

Usina Caeté S/A

Notes to the financial statements

(In thousand of reais)

10 Investments

	2007				2006		
	SOTAN – Sociedade de Táxi Aéreo do Nordeste Ltda. (*)	Varrela Pecuária Ltda. (*)	Futura Agropecuária Ltda. (*)	Total	SOTAN – Sociedade de Táxi Aéreo do Nordeste Ltda. (*)	Varrela Pecuária Ltda. (*)	Total
Capital	29,500	12,400	10	46,900	24,500	12,400	31,500
Number of shares/quotas	1,852,809	20,000	10	-	1,852,809	20,000	-
Investment interest	90.38%	16.13%	99%	-	90.38%	16.13%	-
Shareholders' equity at December 31	14,450	7,952	(30)	-	15,892	9,735	-
Book value of investment	14,363	1,571	-	15,934	14,871	1,759	16,630
Equity in net income (loss) of subsidiaries and group companies	(1,303)	(288)	=	(1,591)	(508)	(188)	(696)
Adjusted book value of investments	<u>13,060</u>	<u>1,283</u>	=	<u>14,343</u>	<u>14,363</u>	<u>1,571</u>	<u>15,934</u>
Property and real state				2,342			2,342
Other investments				<u>564</u>			<u>564</u>
				<u>17,249</u>			<u>18,840</u>

(*)Revised companies

Usina Caeté S/A

Notes to the financial statements

(In thousand of reais)

11 Property, plant and equipment

a. Composition of balances

	Average depreciation rate (p.a.)	2007			2006
		Cost	Depreciation	Net	Net
Buildings and improvements	4	169,463	(28,377)	141,086	132,781
Installations	10	29,627	(11,384)	18,243	17,506
Machinery and equipment	10	437,314	(196,811)	240,503	225,257
Machinery and agricultural implements	25	54,828	(43,207)	11,621	26,146
Fixtures and fittings	10	6,397	(2,692)	3,705	3,175
Vehicles	20	64,182	(46,316)	17,866	18,988
Computers equipment	20	15,954	(10,624)	5,330	3,834
Apparels and tools	10	6,752	(4,347)	2,405	2,256
Equipment and phone apparels	20	2,503	(1,770)	733	584
Sugarcane plantation	20	416,249	(94,897)	321,352	214,748
Others		71	(59)	12	129
Land		411,443	-	411,443	406,806
Fixed assets in progress		9,924	-	9,924	7,288
Industry off-season maintenance costs		97,552	(67,385)	30,167	19,020
Advances to suppliers		<u>34,690</u>	<u>-</u>	<u>34,690</u>	<u>-</u>
		<u>1,756,949</u>	<u>(507,869)</u>	<u>1,249,080</u>	<u>1,078,518</u>

Usina Caeté S/A

Notes to the financial statements

(In thousand of reais)

b. Changes in the cost

	2006	2007			Cost
	Cost	Additions	Write-offs	Others	
Buildings and improvements	154,758	77	-	14,628	169,463
Installations	25,800	192	-	3,635	29,627
Machinery and equipment	397,032	2,651	(82)	37,713	437,314
Machinery and agricultural implements	50,984	5,867	(2,134)	111	54,828
Fixtures and fittings	5,374	567	(107)	563	6,397
Vehicles	59,055	5,892	(1,018)	253	64,182
Computers equipment	12,680	1,589	(139)	1,824	15,954
Apparels and tools	6,100	564	(29)	117	6,752
Equipment and phone apparels	2,173	290	(1)	41	2,503
Sugarcane plantation	292,294	155,526	-	(31,571)	416,249
Others	71	-	-	-	71
Land	406,844	4,599	-	-	411,443
Fixed assets in progress	7,288	61,521	-	(58,885)	9,924
Industry off-season maintenance costs	19,020	78,532	-	-	97,552
Advances to suppliers	-	<u>34,690</u>	-	-	<u>34,690</u>
	<u>1,439,473</u>	<u>352,557</u>	<u>(3,510)</u>	<u>(31,571)</u>	<u>1,756,949</u>

Usina Caeté S/A

Notes to the financial statements

(In thousand of reais)

12 Deferred

	2007	2006
Preoperating expenses	10,273	8,552
Accumulated amortization	<u>(6,665)</u>	<u>(5,668)</u>
	<u>3,608</u>	<u>2,884</u>

Preoperating expenses

Pre-operating expenses, which include employee remuneration, training and rental of equipment, refer to the deployment and expansion of Unidade Volta Grande up to the time it began to operate normally and to the construction project of the new industrial unit called "Filial Paulicéia". The deferred expenses of Unidade Volta Grande are amortized over the period of up to ten years.

Usina Caeté S/A

Notes to the financial statements

(In thousand of reais)

13 Suppliers

	2007	2006
Sugar cane suppliers	31,779	38,004
Others suppliers	<u>35,810</u>	<u>54,514</u>
	<u>67,589</u>	<u>92,518</u>

14 Bank loans and financing

<u>Type</u>	<u>Financial charges</u>		<u>2007</u>		<u>2006</u>	
	<u>Index</u>	<u>Annual Interest Average</u>	<u>Short term</u>	<u>Long term</u>	<u>Short term</u>	<u>Long term</u>
Rural credit	R\$	8.75%	12,135	-	10,197	-
FAT (BNDES)	URTJLP	9.305%	22,714	118,663	17,577	116,763
	UMBNDDES	9.2615 to 10.2615				
Finame	URTJLP	7.5% to 11.5%	16,953	25,517	19,263	24,045
Pró Indústria	IGP-M	50% of the index	3,485	1,843	5,018	3,278
Resolution 2770	Us\$	4.53 to 8.5%	27,313	-	-	-
Resolution 635/87	UMBNDDES	9.96%	8,856	-	814	1,314
Advances on Exchange Contracts	Us\$	5.72% to 6.10%	12,680	-		
Working capital – Export	Us\$	-	10,149	-	153	-
Industrial credite note	R\$	8.91% to 10.12%	14,569	-		
NCE – Export credit note	Us\$	8.91% to 10.12%	29,070	5,314	17,406	17,104
Export pre-payment	Us\$	5.98% to 7.0%	23,168	315,902	26,777	133,198
Bank Credit Note	Us\$	5.95%	10,049	20,787	162	25,091
Rural promissory note	R\$	6.75%	<u>4,849</u>	<u>-</u>	<u>3,994</u>	<u>-</u>
			<u>195,990</u>	<u>488,026</u>	<u>101,361</u>	<u>320,793</u>

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The long-term installments have the following payment schedule:

Maturity:	2007	2006
2008	-	83,294
2009	65,838	37,670
2010	133,972	59,957
2011	89,507	38,015
2012	100,081	58,567
2013 up to 2015	<u>98,628</u>	<u>43,290</u>
	<u>488,026</u>	<u>320,793</u>

The loans and financing are guaranteed by collateral security of the financed assets in the amount of R\$ 491,562 (R\$ 302,174 in 2006), promissory notes and management and controlling Company sureties in the amount of R\$ 524,637 (R\$ 402,481 in 2006)

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15 Taxes and contributions payable

	2007	2006
Taxes and contributions payable	3,884	3,241
Taxes and contributions payable	1,812	1,691
Taxes and contributions payable	968	427
Taxes and contributions payable	1,110	416
Taxes and contributions payable	240	90
Taxes and contributions payable	629	572
Medical assistance	217	231
Social security – sugar cane suppliers	316	389
Social security payable in installments	911	1,337
(ICMS) Value added tax-regular transactions	3,076	1,299
(ICMS) Value added tax withheld from third parts	35	12
(ICMS) Value added tax payable in installments	-	95
(PAES) Special installments program	90	188
(ICMS) Alagoas State installments agreement	61,124	63,544
Others	<u>926</u>	<u>1,063</u>
	<u>75,338</u>	<u>74,595</u>
Amounts classified as current liabilities	<u>(18,769)</u>	<u>(15,407)</u>
Amounts classified as non-current liabilities	<u>56,569</u>	<u>59,188</u>

The Company recognized in 2005, the value added tax (ICMS) due in installments, in accordance with an agreement signed with the Alagoas State Government, including principal plus interest.

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The company is paying the installment in a normal condition and the final installment will be paid will january, 2019.

16 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. The amounts related to these litigations have been provide for and partially deposited on court. Based on the opinion of its legal advisors, the Company does not expect losses higher than the amounts provide for these litigations.

- a) Based on information provided by its legal advisors and on analysis of the pending legal demands and labor claims, based in preceding experience refer the negotiated values, management recognized provisions in amounts considered sufficient to cover possible losses with the actions in course, as follows:

	2007	2006
Social security contribution – INSS over directors remuneration	147	147
Excise Tax – IPI – Delta unity	4,383	4,383
Excise Tax Credits – IPI (export credit premium)	219,421	210,484
Others	<u>1,122</u>	<u>767</u>
	<u>225,073</u>	<u>215,781</u>

Based on the opinion of its legal advisors, the Company recognized excise tax (IPI) credits in prior years, comprising premium on exports, non taxable and zero rate items, which are pending judicial court decisions. Following accounting practices for contingent gains, in 2005 the Company recognized the provisions for contingencies required to cover the tax credits taken in prior years.

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b) The Company has other contingencies involving tax and civil issues the amount of which cannot be determined with certainty. Due to their current stage of completion the final outcome of these actions could not be determined and, therefore, no provision for losses was recorded in the financial statements

c) Contingent assets:

The Company is claiming for certain contingent assets, such as a credit of approximately R\$ 270,000 (from its Cachoeira Business Unit), arising from an indemnity action, based on Law 4,870/65, which regulates the sugar production, the revenue of the Sugar and Alcohol Institute (IAA), and its application. Although the litigation has been judged with a favorable decision to the Company, the amount remains under discussion, therefore, the contingent gain will be recognized only when such decision might be in effect, with no chances of recourse by the counter part.

17 Income and social contribution taxes

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

	2007	2006
Net income before income and social contribution taxes	<u>42,209</u>	<u>231,662</u>
Combined statutory rates	34%	34%
Income and social contribution taxes calculated at the statutory rates	14,351	78,765
Permanent additions:		
Nondeductible expenses	387	627
Income and social contribution taxes charged to net income	<u>14,738</u>	<u>79,392</u>
Effective tax rates	34%	34%

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In 2006, The amount of R\$ 79,392 includes the income tax incentive exemption on the profit of the exploration, in the amount of R\$ 12,484, as mentioned in the note 3, item g

18 Shareholders' equity

a. Capital

The subscribed and paid-in, at December 31, 2007, is of R\$ 538,062 (identical in 2006), divided in 14,291 (identical in 2006) nominative ordinary shares with no par value.

b. Reserves

Legal reserve

In compliance with article 193 of Law 6404/76, the reserve was recorded at the rate of 5% of the net profit for the year, up to the limit of 20% of the capital.

Tax incentive reserve

Relates to an income tax incentive to companies located in the northeast region of the country, recognizing the right to income tax exemption over the exploration profit, calculated for the sugar and alcohol activities.

Revaluation reserve

The reserve was recognized as a result of the revaluations of land and buildings improvements, recorded by the Company, based on an appraisal report prepared by independent appraisers. The deferred income and social contribution tax effects over depreciable items are classified under noncurrent liabilities.

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The revaluation reserve is realized in proportion to the depreciation, disposal or sale of the revalued assets, net of the related taxes.

c. Dividends

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

- amount (optional) to be approved by the shareholders' meeting as a fund for installation replacement;
- up to 10% for management bonus;
- a minimum of 25%, adjusted as determined by the Brazilian Corporate Law, for distribution of dividends to the shareholders.

In 2007 the Company advanced a distribution of dividends on the net profit for the year as follows:

	2007
Net income for the year	27,471
Appropriation for legal reserve	(1,374)
Base for calculation of the dividends	26,097
Statutory dividends (25%)	<u>6,524</u>
Proposed dividends	<u>7,500</u>

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19 Other operating income (expense) net

	2007	2006
Other operating revenues:		
Excise Tax - IPI – Credits on supply purchases	-	18,148
Credit of carbon	2,950	-
Tax credits of PIS Law 10.637/02 and of COFINS Law 10.833/03	4,046	4,913
Others	<u>3,049</u>	<u>3,943</u>
	<u>10,045</u>	<u>27,004</u>
Other operating expenses:		
Social Contribution for Social Security Financing – COFINS	64	270
Social Integration Program over other income – PIS	14	59
Tax on financial activities – CPMF	5,794	5,182
Value added tax – ICMS – rate difference	2,131	1,820
Others	<u>3,768</u>	<u>3,401</u>
	<u>11,771</u>	<u>10,732</u>
	<u>1,726</u>	<u>16,272</u>

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20 Insurance coverage

The Company has insurance policies taken out with the main insurance companies in Brazil, which were determined in accordance with the orientation of experts and take into consideration the nature and the level of risk involved. The assumptions adopted, given their nature, are not part of the scope of an audit of financial statements and, accordingly, they were not examined by our independent auditors.

21 Financial instruments

The Company utilizes certain financial instruments aimed to reduce its exposure to risks over its exportable products, which may arise from the volatility of foreign currency exchange rates, market interest rates and prices of commodities.

These instruments are managed 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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Price Risk

The volatility of foreign currency exchange rates, market interest rates and the prices of commodities are the principal risks to which the Company is exposed. There are certain financial instruments that allow to minimize these risks, such as sugar future market contracts negotiated in the New York Board of Trading (NYBOT), which allow the Company to fix the sugar future sales price. At December 31, 2007, the Company had a position of 377,236 tons of sugar (41,621 tons in 2006), projecting a revenue of US\$ 89,001 (US\$ 10,369 in 2006)

Exchange and interest rates risks

The results of the Company are susceptible to significant oscillation arising from variations of foreign currency exchange rates and market interest rates.

The Company uses financial instruments to protect its future export sales and also to reduce its financial costs with loans and financing transactions in foreign currency.

At December 31, 2007, there are US\$ 96,000,000 (US\$ 38,000,000 in 2006) negotiated under these instruments, and the unrealized results expected with these transactions is approximately R\$ 5,761 (R\$ 3,250 in 2006).

22 Changes in the Brazilian Corporate Law (Law No. 6,404/76)

Law No. 11,638 published in the Official Federal Gazette on December 28, 2007 changed a number of provisions in Law No.6,404 (Brazilian Corporate Law). These changes came into effect on January 1, 2008.

Among the major changes introduced, we highlight the following issues that in our assessment may change the presentation of our financial statements and the criteria for determination of our financial position and earnings as from the year ending 2008:

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- The mandatory disclosure of the Statement of Changes in Financial Position was eliminated and will be replaced by the Statement of Cash Flows. For publicly-held companies, the Statement of Added-Value was also introduced as a mandatory disclosure. The Statement of Cash Flows and the Statement of Added Value are also mandatory for all large companies, irrespective of its corporate structure, which must be subject to examination by independent auditors.
- Intangible assets and rights were segregated from the tangible ones, and permanent assets are now classified into investments, property, plant and equipment, intangible items and deferred charges.
- The caption "Equity valuation adjustments" was created under Shareholders' Equity. Any counterparties to increases or decreases in the amount assigned to asset and liabilities items, arising from its market price valuation, will be considered as adjustments to equity while not computed in the income statement for the year in accordance with the accrual basis.
- Pre-operating expenses and restructuring costs effectively contributing to increase in earnings for the year for more than one fiscal year and not representing just a decrease in costs or addition to the operating efficiency will be classified as Deferred Charges.
- Tax incentives will no longer be classified as a capital reserve, and will now be recognized in the income statement for the year. In view of determination by the Management bodies, the General Shareholders' Meeting may assign part of the profit corresponding to these incentives for recognition of a Fiscal Incentives Reserve, to be created as part of the profit reserves and that may be excluded from the mandatory dividend calculation basis.
- Additionally, the criteria for valuation of assets and liabilities were changed, with the following issues worth mentioning:
 - *Asset and liabilities items arising from long-term operations, as well as significant short-term operations, will be adjusted at present value, in accordance with international accounting standards;*

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- *The recovery amount of property, plant and equipment, intangible assets and deferred charges assets and rights shall be periodically evaluated so that the company may record potential losses or carry out a review of the depreciation rates, amortization, and depletion criteria;*
- *Rights classified under intangible assets shall be evaluated based on the cost incurred upon purchase deducted from the balance of the respective amortization account;*
- *"Available-for-sale" or "Held-for-Trading" financial instruments will now be evaluated at market value;*
- *All other financial instruments shall be evaluated based on their updated cost or adjusted in accordance with the probable realizable value, if lower.*
- In Transformation, Incorporation, Merger or Spin-off operations between independent parties in which there is an effective transfer of control, the valuation of assets and liabilities must be at market value.
- Interest in debentures, held by employees and management, even if as financial instruments, or as employees assistance institutions or pension funds, not characterized as expenses, shall be included in the statement of income for the year.
- Elimination of the possibility to record revaluation reserves for corporations. The new Law granted an option to companies to either maintain any existing balances and recognize these balances under the current rules or reverse these balances until the end of the year 2008.

The Company's Management is analyzing the effects that the aforementioned changes will have on its shareholders' equity and earnings for 2008, and it will also consider the guidance and definitions to be issued by the regulatory bodies. Management currently understands it is not possible to determine the effects of these changes on the income statement or shareholders' equity for the year ended December 31, 2007.

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