

Lagense S.A. - Comércio, Administração e Participações

Financial statements
December 31, 2003 and 2002

Lagense S.A. - Comércio, Administração e Participações

Financial statements

December 31, 2003 and 2002

Contents

Independent Auditors' report	3 - 4
Balance sheets	5
Statements of income	6
Statements of changes in shareholders' equity	7
Statements of changes in financial position	8
Notes to the financial statements	9 - 40

Independent auditors' report


To
The Shareholders of
Lagense S.A. – Comercio, Administração e Participações
Maceió - AL

1. We have examined the balance sheet consolidated of Usina Caeté S/A, as of December 31, 2003, 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. The Financial Statements of the subsidiary Profertil - Produtos Quimicos e Fertilizantes S.A. representing approximately 9% of consolidated assets and 29% of consolidated revenues for 2003, were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for such subsidiary, is based solely on the report of the other auditors.
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. Based on the opinion of its legal advisors, who assessed as likely a favourable final court decision on litigations in process, the subsidiary Usina Caeté S/A, is recognizing excise tax (IPI) credits, which the financial statements effects are disclosed in footnote 14. 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, based on our audits and the report of the other auditors, except for the possible effects of the matter described in paragraph 3, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lagense S.A. – Comércio, Administração e Participações and the consolidated financial position of the Company and its subsidiaries as of December 31, 2003, the results of its operations, changes in shareholders' equity and changes in financial position for the year then ended in accordance with accounting practices adopted in Brazil.
5. The financial statements for the year ended December 31, 2002, presented for comparison purposes have been audited by us and by other auditors, and our opinion dated April 10, 2003, contained the same exception as mentioned in paragraph 3 above and an emphasis paragraph regarding the accumulated losses by the subsidiaries Profertil – Produtos Químicos e Fertilizantes S.A. and Fábrica da Pedra S.A. – Fiação e Tecelagem, and disclosing that the financial statements of these subsidiaries have been prepared considering these subsidiaries continued operations on a going concern basis.

March 18, 2004

KPMG Auditores Independentes
CRC-2SP014428/O-6



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

Lagense S.A. - Comércio, Administração e Participações

Balance Sheets

year ended December 31, 2003 and 2002

(In thousands of reais)

Assets	Parent Company		Consolidated	
	2003	2002	2003	2002
Current				
Cash and cash equivalents	87	26	13,462	11,260
Marketable securities	-	288	33,051	41,827
Trade accounts receivable	121	192	94,332	97,130
Inventories	-	-	242,976	156,509
Dividends receivable	-	5,932	-	-
Other accounts receivable	60	104	894	22,265
Tax receivable	2,655	2,454	99,422	70,668
	<u>2,923</u>	<u>8,996</u>	<u>484,137</u>	<u>399,659</u>
Noncurrent assets				
Marketable securities	-	77	31,191	28,880
Subsidiaries and associated company	6,731	676	82,793	59,623
Other accounts receivable	6	269	9,075	14,480
Tax receivable	-	-	10,505	13,327
Deferred income and social contribution taxes	-	-	-	1,306
	<u>6,737</u>	<u>1,022</u>	<u>133,564</u>	<u>117,616</u>
Permanent assets				
Investments	596,950	501,650	19,682	17,668
Property, plant and equipment	3,252	3,529	468,863	486,194
Deferred charges	-	-	4,161	6,878
	<u>600,202</u>	<u>505,179</u>	<u>492,706</u>	<u>510,740</u>
	<u>609,862</u>	<u>515,197</u>	<u>1,110,407</u>	<u>1,028,015</u>

Liabilities	Parent Company		Consolidated	
	2003	2002	2003	2002
Current liabilities				
Supplying	503	6	71,752	66,424
Loans and financing	-	-	191,421	209,669
Salaries and vacation pay	-	-	6,094	5,537
Taxes payable	27	92	9,143	11,651
Dividends to paid	11,786	6,258	16,126	6,328
Advances from customers	-	-	24,792	15,481
Other accounts payable	-	-	5,228	1,084
	<u>12,316</u>	<u>6,356</u>	<u>324,556</u>	<u>316,174</u>
Noncurrent liabilities				
Loans and financing	-	-	157,773	177,916
Provision for contingencies	39	-	15,635	18,491
Subsidiaries and associated company	42	5,283	84	2
Taxes payable	-	-	4,570	1,338
Other accounts payable	-	-	1,429	-
Deferred income and social contribution taxes	-	-	1,369	5,514
	<u>81</u>	<u>5,283</u>	<u>180,860</u>	<u>203,261</u>
Minority interest			<u>9,310</u>	<u>5,867</u>
Shareholders' equity				
Capital	455,000	400,000	455,000	400,000
Revaluation reserves from subsidiary	3,230	25,742	3,230	25,742
Capital reserves	6,496	5,156	6,496	5,156
Retained earnings	132,739	72,660	130,955	71,815
	<u>597,465</u>	<u>503,558</u>	<u>595,681</u>	<u>502,713</u>
	<u>609,862</u>	<u>515,197</u>	<u>1,110,407</u>	<u>1,028,015</u>

See the accompanying notes to the financial statement

Lagense S.A. - Comércio, Administração e Participações

Statements of income

Years ended December 31, 2003 and 2002

(In thousands of Reais)

	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Gross Income	50	500	796,790	710,341
Deductions				
Sales taxes	(5)	(43)	(60,239)	(41,767)
Returns and discounts	-	-	(5,790)	(2,389)
Net revenues	45	457	730,761	666,185
Cost of goods sold and services rendered	-	-	(523,285)	(500,732)
Gross profit	45	457	207,476	165,453
(Expenses) other operating income				
Selling expenses	-	-	-	(47,780)
Administrative and general expenses	(842)	(901)	(107,780)	(53,530)
Net financial expenses	334	626	11,101	(59,025)
Equity in income of subsidiaries and associated companies	131,156	49,832	896	-
Other operating (expense) income	(615)	154	52,288	57,857
	<u>130,033</u>	<u>49,711</u>	<u>(43,495)</u>	<u>(102,478)</u>
Operating income	130,078	50,168	163,981	62,975
Nonoperating (expense) income	(164)	112	(937)	598
Net income before income and social contribution taxes and profit sharing	129,914	50,280	163,044	63,573
Income and social contribution taxes	-	(84)	(53,421)	(32,985)
Net income before minority interest	129,914	50,196	109,623	30,588
Minority interest	-	-	(1,127)	10
Net income for the year	<u>129,914</u>	<u>50,196</u>	<u>108,496</u>	<u>30,598</u>
Net income per lot of a thousand shares - R\$	<u>2,887</u>	<u>1,115</u>		
Number of shares at year-end	<u>45,000</u>	<u>45,000</u>		

See the accompanying notes to the financial statements

Lagense S.A. - Comércio, Administração e Participações

Statements of changes in shareholders' equity

Years ended December 31, 2003 and 2002

(In thousands of Reais)

	Capital	Revaluation reserves subsidiary	Profit Reserve	Retained earnings	Total
Balances at January 1, 2002	365,000	24,788	6,097	60,873	456,758
Capital increase	35,000		(3,451)	(31,549)	-
Revaluation reserve reflex from subsidiary		3,604			3,604
Realization of revaluation reserves from subsidiary		(2,650)		2,650	-
Net income for the year				50,196	50,196
Distributions:					
Legal reserve			2,510	(2,510)	-
Dividends				(7,000)	(7,000)
Balances at December 31, 2002	<u>400,000</u>	<u>25,742</u>	<u>5,156</u>	<u>72,660</u>	<u>503,558</u>
Capital increase	55,000		(5,156)	(49,844)	-
Reversal of revaluation reserve from subsidiary		(3,009)			(3,009)
Split-off as per the General Shareholder's Meeting of November 15, 2003		(17,197)		(5,801)	(22,998)
Realization of revaluation reserves from subsidiary		(2,306)		2,306	-
Net income for the year				129,914	129,914
Distributions:					
Legal reserve			6,496	(6,496)	-
Dividends				(10,000)	(10,000)
Balances at December 31, 2003	<u>455,000</u>	<u>3,230</u>	<u>6,496</u>	<u>132,739</u>	<u>597,465</u>

See the accompanying notes to the financial statements.

Statements of changes in financial position

Years ended December 31, 2003 and 2002

(In thousands of Reais)

	Parent Company		Consolidated	
	2003	2002	2003	2002
Sources of funds				
Operations				
Net income for the year	129,914	50,196	108,496	30,598
Items not affecting working capital				
Depreciation and amortization	277	338	53,503	48,166
Residual cost on disposal of fixed assets	2,098	235	8,156	1,951
Deferred income and social contribution taxes	-	-	-	(263)
Equity in net income of subsidiaries and associated companies	(131,158)	(49,832)	(845)	-
Provision for contingencies	-	-	70	287
Loss from capital increase in subsidiary	-	-	1,981	-
Capital reserve arising from income tax exemption incentive	-	-	21,081	17,323
Monetary variation of noncurrent items	-	(35)	(12,644)	15,899
Minority interest	-	-	1,125	(10)
Resources from operations	1,131	902	180,923	113,951
From shareholders				
Reversal of dividends arising from treasury shares	-	-	128	-
Capital increase in cash	-	-	16,357	-
From third parties				
Increase in noncurrent liabilities	38	-	60,955	113,257
Received dividends	9,887	5,932	-	-
Decrease in noncurrent assets	341	332	13,745	5,293
Increase in accounts payable associated company	-	2,173	-	1
Prior year adjustment	-	-	-	1,728
Revaluation reserve reflex from subsidiary	-	3,604	-	5,112
	11,397	12,943	272,108	239,342
Applications of funds				
Property, plant and equipment	-	-	90,470	178,703
Increase in accounts receivable from group company	6,055	-	22,527	9,344
Decrease in accounts payable from group company	5,241	-	82	-
Investments	2,134	3,604	21,915	400
Prior year adjustment in subsidiary	-	-	518	6
Decrease in noncurrent liabilities	-	-	1,115	-
Transfer of noncurrent liabilities to current liabilities	-	-	41,333	39,624
Noncurrent assets	-	726	4,487	41,793
Effect of split-off	-	-	3,452	-
Proposed dividends	10,000	7,000	10,113	7,068
(Decrease) Increase in working capital	(12,033)	1,613	76,096	(37,596)
Changes in working capital				
Current assets				
At end of year	2,923	8,996	484,137	399,659
At beginning of year	8,996	4,914	399,659	354,700
	(6,073)	4,082	84,478	44,959
Current liabilities				
At end of year	12,316	6,356	324,556	316,174
At beginning of year	6,356	3,887	316,174	233,619
	5,960	2,469	8,382	82,555
(Decrease) Increase in working capital	(12,033)	1,613	76,096	(37,596)

See the accompanying notes to the financial statement:

Lagense S.A. – Comercio, Administração e Participações

Notes to the financial statements

Years ended December 31, 2003 and 2002

(In thousands of reais)

1 Operations

The Company is engaged in the commercialization, industrialization agricultural, export import, services, administration of subsidiaries, al well as any other commercial, agricultural or industrial activities.

Presently, its main activity is the participation in subsidiaries.

The main activities of the subsidiaries are summarized as follows:

Usina Caeté S/A

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 five plants, being three located in the state of Alagoas and two in the state of Minas Gerais.

Lagense S.A. – Comercio, Administração e Participações

Notes to the financial statements

(In thousands of reais)

PROFERTIL – Produtos Químicos e Fertilizantes S.A.

The Company is engaged in the production and selling of fertilizers, chemical products in general, being also able to develop activities such as representations, transports, exports and imports of chemicals for agribusiness.

The Company was the first fertilizer producer in the Northeast, starting its operations in 1944, being acquired by the Carlos Lyra Group in 1991. Presently the company has two plants, in Santa Luiza do Norte (Alagoas State) and Candeias (Bahia State). The principal products are fertilizers, phosphates, mixes NPK formulas in grain, sulphuric acid and brimstone.

SOTAN – Sociedade de Táxi Aéreo do Nordeste Ltda.

The Company is engaged in the air transport of passengers and cargo as an air cab, utilising Lear Jet 55 and 31 A, King Air F 90 and Carioca, rendering regional, domestic and international services.

Delta Agrícola Ltda.

The Company is engaged in the production and commercialization of sugar cane plantations exclusively for the Group mills.

Fábrica da Pedra S.A. – Fiação e Tecelagem

The consolidated financial statements for the year ended December 31, 2002, included the investment in the subsidiary Fábrica da Pedra S.A. Fiação e Tecelagem, split-off during the year, as described in footnote 2, and its operating activities were as follows:

Lagense S.A. – Comercio, Administração e Participações

Notes to the financial statements

(In thousands of reais)

The Company is engaged in the production of textiles, being also able to process cotton and rendering services, as well as participate as an investor in other companies.

Its main products are threads, fabrics crude or finished.

Located in Delmiro Gouveia, in the Alagoas State, the company has the highest technology plant and is constantly under research and development for its products, with a high quality control. Its production is basically for use such as table and bed fabrics and is one of the national market leaders, being its production mainly oriented to the São Paulo city market.

Lagense S.A. – Comercio, Administração e Participações

Notes to the financial statements

(In thousands of reais)

2 Split-off

The General shareholders meeting of the parent company Lagense S.A. – Comércio, Administração e Participações as of December 15, 2003 approved the split-off of the parent company on November 30, 2003, based on an appraisal certificate, transferring the split net equity to Alpha Participações Ltda.. The appraisal certificate presented the following split position:

	R\$
Investments	
Fábrica da Pedra S/A (99.748% of shareholder's equity)	<u>22,998</u>
	<u>22,998</u>
Shareholder's equity	
Revaluation reserve reflex from subsidiary	17,197
Retained earnings	<u>5,801</u>
	<u>22,998</u>

Lagense S.A. – Comercio, Administração e Participações

Notes to the financial statements

(In thousands of reais)

3 Presentation of the financial statements

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

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. 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.

Lagense S.A. – Comercio, Administração e Participações

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

▪ **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.

▪ **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.

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

Presented at the net realizable value.

Lagense S.A. – Comercio, Administração e Participações

Notes to the financial statements

(In thousands of reais)

e. 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, 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, as described in footnote 11, established by the 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 embodied in the item of property, plant and equipment. All other expenditure is recognized in the income statement as an expense as incurred.

▪ **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.

Lagense S.A. – Comercio, Administração e Participações

Notes to the financial statements

(In thousands of reais)

f. 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.

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.

h. 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 subsidiary Usina Caete S/A and Profertil – Produtos Químicos e Fertilizantes S.A. 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.

Lagense S.A. – Comercio, Administração e Participações

Notes to the financial statements

(In thousands of reais)

4 Consolidated financial statements

The accounting policies have been consistently applied by the consolidating enterprises and are consistent with those used in the previous year.

The consolidated financial statements include the financial statements of Lagense S.A. - Comércio, Administração e Participações and its subsidiaries, as listed below:

	2003		2002	
	Direct	Indirect	Direct	Indirect
Usina Caeté S/A	98.87	-	98.87	-
Fábrica da Pedra S.A. – Fiação e Tecelagem.	-	-	99.75	-
Profertil – Produtos Químicos e Fertilizantes S.A.	97.76	-	97.76	-
Sotan – Sociedade de Táxi Aéreo do Nordeste Ltda.	0.67	88.45	4.66	19.55
Delta Agrícola Ltda.	-	99.80	-	99.80

Lagense S.A. – Comercio, Administração e Participações

Notes to the financial statements

(In thousands of reais)

Description of main consolidation procedures

- a.** Elimination of intercompany asset and liability account balances;
- b.** Elimination of investment in the subsidiaries' capital, reserves and retained earnings;
- c.** Elimination of intercompany income and expense balances and unearned income arising from intercompany transactions. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment; and
- d.** Elimination of charges of taxes over unearned income and presented as deferred tax in the consolidated finance statements; and
- e.** Identification of minority interests in the consolidated financial statements.

Lagense S.A. – Comercio, Administração e Participações

Notes to the financial statements

(In thousands of reais)

The reconciliation of the results for the year and shareholders' equity is shown below:

	Result		Shareholders' equity	
	2003	2002	2003	2002
Parent Company	<u>129,914</u>	<u>50,196</u>	<u>597,465</u>	<u>503,558</u>
Elimination of unrealized earnings on inter-company transaction (sugar cane sales)	(940)	(845)	(1,784)	(845)
Recognition of reserve related to income tax exemption incentive	(20,795)	(17,128)	-	-
Prior year adjustment	443	(1,709)	-	-
Reversal of dividends arising from treasury shares	(126)	-	-	-
Other	<u>-</u>	<u>84</u>	<u>-</u>	<u>-</u>
Consolidated	<u>108,496</u>	<u>30,598</u>	<u>595,681</u>	<u>502,713</u>

Lagense S.A. – Comercio, Administração e Participações

Notes to the financial statements

(In thousands of reais)

5 Marketable securities

	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Fixed-income funds	-	-	1,043	5,030
Bank Deposit Certificate – income between 98.5% and 106% (98% and 104% in 2001) of the Interbank Deposit Certificate rates.	-	365	62,562	64,818
Others	<u>-</u>	<u>-</u>	<u>637</u>	<u>859</u>
Total	<u>-</u>	<u>365</u>	<u>64,242</u>	<u>70,707</u>
Current assets	<u>-</u>	<u>(288)</u>	<u>(33,051)</u>	<u>(41,827)</u>
Non current assets	<u>-</u>	<u>77</u>	<u>31,191</u>	<u>28,880</u>

Lagense S.A. – Comercio, Administração e Participações

Notes to the financial statements

(In thousands of reais)

The noncurrent assets marketable securities have the following redemption maturities:

	Parent Company		Consolidated	
	2003	2002	2003	2002
2003	-	-	-	-
2004	-	77	-	24,537
2005	-	-	30,941	4,335
2006 to 2007	<u>-</u>	<u>-</u>	<u>250</u>	<u>8</u>
	<u>-</u>	<u>77</u>	<u>31,191</u>	<u>28,880</u>

Lagense S.A. – Comercio, Administração e Participações

Notes to the financial statements

(In thousands of reais)

6 Trade accounts – related companies

	Parent Company		Consolidated	
	2003	2002	2003	2002
Domestic customers	121	192	46,193	62,013
Foreign customers	<u>-</u>	<u>-</u>	<u>51,874</u>	<u>46,436</u>
	121	192	98,067	108,449
Discounted trade receivables	-	-	-	(7,081)
Provision for doubtful accounts	<u>-</u>	<u>-</u>	<u>(3,735)</u>	<u>(4,238)</u>
	<u>121</u>	<u>192</u>	<u>94,332</u>	<u>97,130</u>

Lagense S.A. – Comercio, Administração e Participações

Notes to the financial statements

(In thousands of reais)

7 Inventories

	Consolidated	
	2003	2002
Finished goods	119,315	83,013
Raw materials	28,220	17,537
Materials of resale	-	487
Industry off-season maintenance costs	48,254	22,980
Maintenance supplies	-	16,692
Advanced payments to sugar cane suppliers	43,543	12,102
Others	<u>3,644</u>	<u>3,698</u>
Total	<u>242,976</u>	<u>156,509</u>

Lagense S.A. – Comercio, Administração e Participações

Notes to the financial statements

(In thousands of reais)

8 Recoverable taxes

	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Income tax – IRPJ and Social Contribution	2,509	2,257	36,912	32,982
Value added tax credit on fixed assets	3	4	7,877	13,397
Value added tax - ICMS	143	142	16,643	5,484
Employees' Profit Participation Program – PIS and Social contribution – COFINS	-	-	3,144	1,077
Excise Tax - IPI	-	-	45,020	30,611
Others	<u>-</u>	<u>51</u>	<u>331</u>	<u>444</u>
Total	<u>2,655</u>	<u>2,454</u>	<u>109,927</u>	<u>83,995</u>
Current assets	<u>(2,655)</u>	<u>(2,454)</u>	<u>(99,422)</u>	<u>(70,668)</u>
Non current assets	<u>-</u>	<u>-</u>	<u>10,505</u>	<u>13,327</u>

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

Lagense S.A. – Comercio, Administração e Participações

Notes to the financial statements

(In thousands of reais)

9 Current accouts – group companies

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

	<u>Controladora</u>		<u>Consolidado</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Noncurrent assets				
Usina Caeté S/A	6,731	676	-	-
Fábrica da Pedra S.A. – Fiação e Tecelagem	-	-	4,678	-
Cachoeira Agrícola Ltda.	-	-	310	310
Varrela Agrícola Ltda.	-	-	77,011	55,540
Varrela Pecuária Ltda.	-	-	209	3,067
WWRent Tecn. em Informática Ltda.	-	-	-	91
Fertinor – Fertil. do Nordeste S/A	-	-	559	559
Others	<u>-</u>	<u>-</u>	<u>26</u>	<u>56</u>
	<u>6,731</u>	<u>676</u>	<u>82,793</u>	<u>59,623</u>
Noncurrent Liabilities				
Usina Caeté S/A	-	5,283	-	-
WW Rent	42	-	84	-
Others	<u>-</u>	<u>-</u>	<u>-</u>	<u>2</u>
	<u>42</u>	<u>5,283</u>	<u>84</u>	<u>2</u>

Lagense S.A. – Comercio, Administração e Participações

Notes to the financial statements

(In thousands of reais)

10 Investments

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

	Usina Caeté S/A		Profertil - Produtos Químicos e Fertilizantes S.A.		Fábrica da Pedra S. A. Fiação e Tecelagem		Controladora	
	2003	2002	2003	2002	2003	2002	2003	2002
Capital	400,000	350,000	25,949	25,949	-	45,816		
Number of shares	14,177	14,177	597,539	597,539	-	25,049		
Investment interest	98,87%	98,87%	97,76%	97,76%	-	99,75%		
Shareholders' equity at December 31, 2002	569,480	470,706	30,774	7,475	-	25,216		
Book value of investment	465,388	388,355	7,307	25,546	-	34,115		448,016
Equity in net income (loss) of subsidiaries and group companies	<u>107,450</u>	<u>77,033</u>	<u>22,846</u>	<u>(18,239)</u>	<u>861</u>	<u>(8,962)</u>	<u>131,156</u>	<u>49,832</u>
Adjusted book value of investment	<u>563,044</u>	<u>465,388</u>	<u>30,084</u>	<u>7,307</u>	<u>-</u>	<u>25,153</u>	<u>593,128</u>	<u>497,848</u>
Property and real estate							1,213	1,133
Other investments							<u>2,609</u>	<u>2,669</u>
							<u>596,950</u>	<u>501,650</u>

Lagense S.A. – Comercio, Administração e Participações

Notes to the financial statements

(In thousands of reais)

Fábrica da Pedra S.A. Fiação e Tecelagem

As described in footnote 2 the Parent Company approved a split-off on November 30, 2003, based on appraisal certificate, transferring the split net equity, comprising its participation on Fabrica da Pedra S.A. Fiação e Tecelagem to Alpha Participações Ltda..

Lagense S.A. – Comercio, Administração e Participações

Notes to the financial statements

(In thousands of reais)

11 Property, plant and equipment

	Average depreciation rate (p. a.)	Parent Company				Consolidated			
		2003		2002		2003		2002	
		Cost	Depreciation	Net	Net	Cost	Depreciation	Net	Net
Buildings	4	3,045	(1,379)	1,666	1,788	78,817	(19,623)	59,194	43,607
Installations	10	29	(18)	11	13	18,702	(3,723)	14,979	6,069
Machinery and equipment	10	-	-	-	-	249,331	(74,301)	175,030	123,620
Machinery and agricultural implements	25	-	-	-	-	48,567	(33,909)	14,658	20,926
Fixtures and fittings	10	440	(389)	51	64	3,859	(2,053)	1,806	1,505
Vehicles	20	80	(69)	11	21	35,622	(20,291)	15,331	20,201
Computers equipment	20	349	(285)	64	113	8,899	(4,689)	4,210	4,156
Apparels and tools	10	-	-	-	-	4,664	(2,742)	1,922	1,937
Aircrafts	10	424	(297)	127	170	29,905	(2,267)	27,638	30,314
Sugar Cane plantation	20	-	-	-	-	79,766	(22,250)	57,516	42,877
Others	10	442	(294)	148	185	4,470	(2,070)	2,400	982
Land	0	749	-	749	749	88,338	-	88,338	86,357
Work in Progress		425	-	425	426	3,136	-	3,136	11,635
Advances to suppliers		-	-	-	-	<u>2,705</u>	-	<u>2,705</u>	<u>19,679</u>
		<u>5,983</u>	<u>(2,731)</u>	<u>3,252</u>	<u>3,529</u>	<u>656,781</u>	<u>(187,918)</u>	<u>468,863</u>	<u>413,865</u>

Lagense S.A. – Comercio, Administração e Participações

Notes to the financial statements

(In thousands of reais)

12 Accounts payable to suppliers

	Parent Company		Consolidated	
	2003	2002	2003	2002
Other material suppliers	503	6	58,882	65,596
Sugar cane suppliers	<u>-</u>	<u>-</u>	<u>12,870</u>	<u>828</u>
	<u>503</u>	<u>6</u>	<u>71,752</u>	<u>66,424</u>

Lagense S.A. – Comercio, Administração e Participações

Notes to the financial statements

(In thousands of reais)

13 Bank loans and financing

	<u>Consolidated</u>	
	<u>2003</u>	<u>2002</u>
Foreign currency:		
Exchange variation, plus interest of 1.53% to 6.50% (2.08% to 9.00% in 2002) p.y.	192,416	213,781
Local currency:		
Interest of 8.00% to 11.5% (8.75% to 12.5% in 2002) p.y. over TJLP	<u>156,778</u>	<u>173,804</u>
	349,194	387,585
Current portion included in current liabilities	<u>(191,421)</u>	<u>(209,669)</u>
Current portion included in noncurrent liabilities	<u>157,773</u>	<u>177,916</u>
Provision for judicial deposits	-	(2,484)
Provisão para questionamento judicial	<u>-</u>	<u>(9,339)</u>
Bank loans and financing net provisions	<u>-</u>	<u>166,093</u>

Lagense S.A. – Comercio, Administração e Participações

Notes to the financial statements

(In thousands of reais)

The long-term installments have the following payment schedule:

	Consolidated	
	2003	2002
Maturity		
2004	-	27,647
2005	21,729	40,455
2006	33,406	31,616
2008 a 2020	29,236	9,436
	<u>73,402</u>	<u>56,939</u>
	<u>157,773</u>	<u>166,093</u>

The financings and loans are guaranteed by collateral security of the financed assets in the amount of R\$ 211,708 (R\$ 270,954 in 2002), promissory notes and management and Parent Company sureties in the amount of R\$ 204,854 (R\$ 107,262 in 2002).

Lagense S.A. – Comercio, Administração e Participações

Notes to the financial statements

(In thousands of reais)

14 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:

	Consolidated	
	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	6,644
Social contribution – COFINS and Employees' Profit Participation Program - PIS	846	1,455
Others	<u>-</u>	<u>310</u>
	<u>15,635</u>	<u>18,491</u>

Based on the opinion of its legal advisors, who assessed as likely a favourable final court decision on litigations in process, the subsidiary Usina Caeté S/A, is recognizing excise tax (IPI) credits. 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. Consequently net earnings for the year is overstated by R\$ 61,000 (R\$ 67,000 in 2002), and shareholders equity is overstated by R\$ 158,000 (R\$ 97,000 in 2002).

Lagense S.A. – Comercio, Administração e Participações

Notes to the financial statements

(In thousands of reais)

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

15 Income and social contribution taxes

The deferred income and social contribution taxes are recognized to reflect future tax effects attributable to temporary differences between the tax bases of assets and liabilities and their book values.

The origin of deferred income and social contribution taxes is presented below:

	Consolidated	
	2003	2002
Noncurrent Assets		
Income tax loss	-	518
Negative basis for social contribution tax	<u>-</u>	<u>788</u>
	<u>-</u>	<u>1,306</u>
Noncurrent Liabilities		
Revaluation Reserve	<u>1,369</u>	<u>5,514</u>

Lagense S.A. – Comercio, Administração e Participações

Notes to the financial statements

(In thousands of reais)

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:

	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
Provisão do exercício	-	84	32,491	15,925
Income tax incentive exemption on the profit of the exploration	-	-	21,081	17,323
Diferido, relativo a realização da reserva de reavaliação e outros	<u>-</u>	<u>-</u>	<u>(151)</u>	<u>(263)</u>
Income and social contribution taxes charged to net income	<u>-</u>	<u>84</u>	<u>53,421</u>	<u>32,985</u>

Lagense S.A. – Comercio, Administração e Participações

Notes to the financial statements

(In thousands of reais)

16 Shareholders' equity

The subscribed and paid-in, at December 31, 2003, is of R\$ 455,000 (R\$ 400,000 in 2002), divided in 45,000 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.

Lagense S.A. – Comercio, Administração e Participações

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:

	Parent company	
	2003	2002
Net income for the year	129,914	50,196
Appropriation for legal reserve	(6,496)	(2,510)
Base for calculation of the dividends	<u>123,418</u>	<u>47,686</u>
Statutory dividends	<u>30,854</u>	<u>11,921</u>
Proposed dividends	<u>10,000</u>	<u>7,000</u>

Lagense S.A. – Comercio, Administração e Participações

Notes to the financial statements

(In thousands of reais)

17 Other operating income (net)

	Parent Company		Consolidated	
	2003	2002	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
Employees' Profit Participation Program on other income credit as law 10.637/02	-	-	4,305	-
Recovery of several expenses	-	-	5,171	5,488
Other	<u>252</u>	<u>240</u>	<u>725</u>	<u>1,682</u>
	<u>252</u>	<u>240</u>	<u>71,305</u>	<u>74,894</u>
Outras despesas operacionais:				
Social security financing tax on other income - COFINS	17	25	3,660	5,602
Employees' Profit Participation Program on other income - PIS	11	6	2,013	1,530
Tax on financial activities - CPMF	4	10	4,415	4,112
Value added tax – ICMS – rate difference	-	-	1,490	1,838
Others expenses no tax deductible	-	-	3,170	-
Other	<u>835</u>	<u>45</u>	<u>4,269</u>	<u>3,955</u>
	<u>867</u>	<u>86</u>	<u>19,017</u>	<u>17,037</u>
	<u>(615)</u>	<u>154</u>	<u>52,288</u>	<u>57,857</u>

Lagense S.A. – Comercio, Administração e Participações

Notes to the financial statements

(In thousands of reais)

18 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.

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

Credit Risk

The subsidiary'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.

Lagense S.A. – Comercio, Administração e Participações

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 rate risk

The results of the Company and its subsidiaries are susceptible to significant variations, because their liabilities are tied to the volatility of the exchange rate.

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

The subsidiary Usina Caete S/A 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 these 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 result with these transactions, are the approximately zero.

Lagense S.A. – Comercio, Administração e Participações

Notes to the financial statements

(In thousands of reais)

The subsidiary Profertil – Produtos Quimicos e Fertilizantes S.A. negotiates “swap” to protect its foreign currency exchange rate variation on financing. At December 31, 2003, the amount negotiated with these contracts is of approximately US\$ 2,490 (US\$ 10,837 in 2002), equivalent to R\$ 7,194 (R\$ 38,290 in 2002), and the Company had unrealized gains with these transactions, in the approximate amount of R\$ 597 (R\$ 4,493 in 2002).

19 Tax loss carry-forwards

The Company had the following tax loss carry-forwards:

	Parent Company		Consolidated	
	2003	2002	2003	2002
a. Income tax loss	864	729	14,603	49,210
c. Negative basis for social contribution tax	1,511	1,368	12,120	51,568

Income tax losses and the negative basis for social contribution tax may be offset against a maximum of 30% of annual taxable income, with no statutory limitation period.

* * *