



**Usina Caeté S/A**

**Financial statements  
December 31, 2005 and 2004**

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



## Usina Caeté S/A

### Financial statements

**December 31, 2005 and 2004**

### 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 - 32



**KPMG Auditores Independentes**  
Rua Sete de Setembro, 1950  
13560-180 - São Carlos, SP - Brasil  
Caixa Postal 708  
13560-970 - São Carlos, SP - Brasil

Central Tel 55 (16) 3362-6300  
Fax 55 (16) 3371-0482  
Internet www.kpmg.com.br

## Independent auditors' report

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

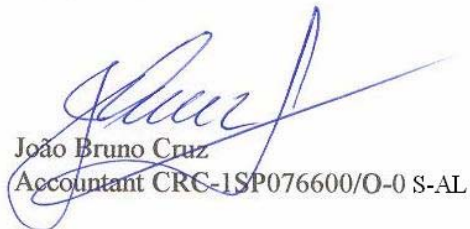
1. We have examined the balance sheet of Usina Caeté S/A, as of December 31, 2005, and the related statements of income, changes in shareholders' equity and changes in financial position for the year then ended, which are the responsibility of its management. Our responsibility is to express an opinion on these financial statements.
2. Our examination was conducted in accordance with auditing standards generally accepted in Brazil and included: (a) planning of the audit work, considering the materiality of the balances, the volume of transactions and the accounting systems and internal accounting controls of the Company; (b) verification, on a test basis, of the evidence and records which support the amounts and accounting information disclosed; and (c) evaluation of the most significant accounting policies and estimates adopted by Company management as well as the presentation of the financial statements taken as a whole.
3. 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, 2005, and the results of its operations, changes in shareholders' equity and changes in its financial position for the year then ended, in conformity with accounting practices adopted in Brazil.
4. Based on the opinion of its legal advisors, the Company recognized in prior years excise tax (IPI) credits, (comprising "premium on exports, non taxable and zero rate items"), which are pending judicial court decisions. In accordance with generally accepted accounting practices, contingent gains only can be recognized when a final favorable court decision produces its effects, with no chances of recourses by the counter part. Following such accounting practices for contingent gains, in 2004 and 2005, the Company decided to recognize the provisions for contingencies required to cover these tax credits taken in prior years, by charging accumulated losses in the amount of R\$ 138.689 thousand in 2005, and R\$ 63,765 thousand in 2004, being 58,917 thousand against accumulated losses and R\$ 4,848 thousand charged to net income for that year. Additionally, the Company recognized in 2005 the value added tax due in installments, by charging R\$ 64,852 thousand to accumulated losses based on a term of transaction and adhesion signed with the Alagoas State Government. The recognition of these liabilities charged to accumulated losses, eliminated in 2005, the overstatement of stockholders equity disclosed in the 2004 opinion, which effects are disclosed in footnotes 13, 14a and 16d.



5. The financial statements for the year ended December 31, 2004, presented for comparison purposes, have been audit by us and our opinion thereon, was issued on March 03, 2005, with exception regarding the lack of recognition of provision for contingencies related to taxes liabilities arising from excise tax (IPI) credits and value added tax (ICMS) due in installments, recognized in 2005, as commented in paragraph 4 above.

March 10, 2006

KPMG Auditores Independentes  
CRC-2SP014428/O-6



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

# Usina Caeté S/A

## Balance sheets

December 31, 2005 and December 31, 2004

(In thousand of reais)

<b>Assets</b>	<b>2005</b>	<b>2004</b>	<b>Liabilities</b>	<b>2005</b>	<b>2004</b>
<b>Current assets</b>			<b>Current liabilities</b>		
Cash and cash equivalents	3,033	5,297	Accounts payable to suppliers	75,041	55,893
Marketable securities	30,472	39,538 (*)	Bank loans and financing	86,870	217,858
Trade accounts receivable	72,686	58,216	Salaries and charges	13,170	12,051
Inventories	325,456	362,155	Advances from customers	8,650	5,340
Advanced payments to sugar cane suppliers	26,639	14,364 (*)	Taxes and contributions payable	16,828	7,374
Other accounts receivable	10,833	5,203	Income and social contribution taxes	288	619
Recoverable taxes	<u>41,257</u>	<u>55,549</u>	Other accounts payable	<u>730</u>	<u>2,143</u>
	<u>510,376</u>	<u>540,322</u>		<u>201,577</u>	<u>301,278</u>
<b>Non current assets</b>			<b>Non current liabilities</b>		
Group companies	8,462	5,372	Bank loans and financing	285,648	224,547
Advanced payments to sugar cane suppliers	7,913	19,746 (*)	Group companies	3	527
Judicial deposits	10,092	7,502	Taxes and contributions payable	61,450	2,624
Recoverable taxes	15,067	62,759 (*)	Provision for contingencies	183,690	69,571
Other accounts receivable	<u>4,991</u>	<u>-</u>	Accounts payable	<u>18,395</u>	<u>-</u>
	<u>46,525</u>	<u>95,379</u>		<u>549,186</u>	<u>297,269</u>
<b>Permanent assets</b>			<b>Shareholders' equity</b>		
Investments	14,297	18,013 (*)	Capital	530,000	520,000
Property, plant and equipment	924,033	472,619	Capital reserves	19,503	22,255
Deferred charges	<u>7,789</u>	<u>8,281</u>	Revaluation reserves	327,312	-
	<u>946,119</u>	<u>498,913</u>	Revenue reserves	5,458	2,952
			Accumulated losses	<u>(130,016)</u>	<u>(9,140)</u>
				<u>752,257</u>	<u>536,067</u>
	<u>1,503,020</u>	<u>1,134,614</u>		<u>1,503,020</u>	<u>1,134,614</u>

(\*) Balances reclassified for presentation improvements.

See accompanying notes to the financial statements.

# Usina Caeté S/A

## Statements of income

Year ended December 31, 2005 and December 31, 2004

(In thousand of reais)

	2005	2004
<b>Gross Income</b>		
<b>Sale of goods and services</b>		
Domestic Market	412,606	244,786
Foreign Market	483,080	310,673
Services rendered	<u>5,933</u>	<u>8,371</u>
	901,619	563,830
<b>Deductions</b>		
Sales taxes	(72,404)	(41,343)
Returns and discounts	<u>(7,746)</u>	<u>(566)</u>
	(80,150)	(41,909)
<b>Net revenues</b>	821,469	521,921
<b>Cost of goods and services sold</b>	<u>(580,091)</u>	<u>(393,817)</u>
<b>Gross profit</b>	241,378	128,104
<b>Operating (expenses) income</b>		
Selling expenses	(86,462)	(54,997)
Administrative and general expenses	(40,817)	(40,037)
Net financial	(10,523)	(6,564)
Equity in net income of subsidiaries and group companies	(2,508)	(2,036)
Other operating income	<u>(1,403)</u>	<u>8,533</u>
	(141,713)	(95,101)
<b>Operating income</b>	<u>99,665</u>	<u>33,003</u>
Nonoperating income	<u>2,192</u>	<u>448</u>
<b>Net income before income and social contribution taxes</b>	<u>101,857</u>	<u>33,451</u>
<b>Income and social contribution taxes</b>	<u>(13,789)</u>	<u>(12,343)</u>
<b>Net income for the year</b>	<u>88,068</u>	<u>21,108</u>
<b>Net income per lot of thousand shares - R\$</b>	<u>6,119.66</u>	<u>1,472.07</u>
<b>Number of shares at year-end</b>	<u>14,391</u>	<u>14,339</u>

See accompanying notes to the financial statements.

## Usina Caeté S/A

### Statements of changes in shareholders' equity

Years ended December 31, 2005 and 2004

(In thousand of Reais)

	Capital	Treasury shares	Capital reserves	Revaluation reserves	Revenue reserves	Retained earnings (Accumulated losses)	Total
<b>Balances at December 31, 2004</b>	400,000	(3,008)	35,136	-	4,563	132,768	569,459
Capital increase	120,000		(17,323)		(4,563)	(98,114)	-
Cancellation of common stock		3,008				(3,008)	-
Dividends						(4,000)	(4,000)
Net assets of the subsidiary Delta Agrícola Ltda and of the associated company Varrela Agrícola Ltda. merged in 2004					1,897		1,897
Prior year adjustment						2,078	2,078
Adjustment related to recognition of provision for excise tax credits, as described in footnote 16d.						(58,917)	(58,917)
Capital reserve arising from income tax exemption incentive			4,442				4,442
Net income for the year						21,108	21,108
Distributions:							
Legal reserve					1,055	(1,055)	-
<b>Balances at December 31, 2004</b>	<u>520,000</u>	<u>-</u>	<u>22,255</u>	<u>-</u>	<u>2,952</u>	<u>(9,140)</u>	<u>536,067</u>
Capital increase	10,000		(8,103)		(1,897)		-
Revaluation reserves recognized for:							
Land				291,251			291,251
Buildings and improvements				54,456			54,456
Deferred income and social contribution taxes over the revaluation reserve for buildings and improvements				(18,395)			(18,395)
Adjustment related to recognition of provision for excise tax credits, as described in footnote 16d.						(204,541)	(204,541)
Capital reserve arising from income tax exemption incentive			5,351				5,351
Net income for the year						88,068	88,068
Distributions:							
Legal reserve					4,403	(4,403)	-
<b>Balances at December 31, 2005</b>	<u>530,000</u>	<u>-</u>	<u>19,503</u>	<u>327,312</u>	<u>5,458</u>	<u>(130,016)</u>	<u>752,257</u>

See accompanying notes to the financial statements.

# Usina Caeté S/A

## Statements of changes in financial position

Years ended December 31, 2005 and 2004

(In thousand of reais)

	2005	2004
<b>Sources of funds</b>		
<b>Operations</b>		
Net income for the year	88,068	21,108
<b>Items not affecting working capital</b>		
Monetary variation and interest on long term items	(4,266)	(12,011)
Depreciation and amortization	77,974	64,940
Residual cost on disposal of investment	1,208	13,557
Residual cost on disposal of fixed assets	475	690
Loss from capital increase in subsidiary	2,508	-
Equity in net income of subsidiaries and associated companies	-	2,036
Reversion of provision for contingencies	-	(9,390)
Capital reserve arising from income tax exemption incentive	5,351	4,442
	<u>171,318</u>	<u>85,372</u>
<b>From operations</b>	171,318	85,372
<b>From subsidiary and associated company</b>		
Net assets of subsidiary and associated Companies merged	-	1,897
<b>From third parties</b>		
Increase in noncurrent liabilities	310,829	191,217
Decrease in accounts receivable - associated company	-	157,377
Decrease in noncurrent assets	64,723	262
	<u>546,870</u>	<u>436,125</u>
<b>Applications of funds</b>		
Property, plant and equipment	183,664	186,118
Increase in accounts receivable from group company	10,705	-
Decrease in accounts payable from group company	-	6,324
Investments	-	1,723
Decrease in noncurrent liabilities	72,517	26,614
Noncurrent assets	5,688	15,834
Prior year adjustment	204,541	56,839
Dividends	-	4,000
	<u>477,115</u>	<u>297,452</u>
<b>Increase in working capital</b>	<u>69,755</u>	<u>138,673</u>
<b>Changes in working capital</b>		
<b>Current assets</b>		
At end of year	510,376	540,322
At beginning of year	540,322	326,363
	<u>(29,946)</u>	<u>213,959</u>
<b>Current liabilities</b>		
At end of year	201,577	301,278
At beginning of year	301,278	225,992
	<u>(99,701)</u>	<u>75,286</u>
<b>Increase in working capital</b>	<u>69,755</u>	<u>138,673</u>

See accompanying notes to the financial statements.

# Usina Caeté S/A

## Notes to the financial statements

**Years ended December 31, 2005 and 2004**

*(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.

### **2 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 as to its realization.

# Usina Caeté S/A

## Notes to the financial statements

*(In thousand of reais)*

### *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.

### *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.

# Usina Caeté S/A

## Notes to the financial statements

*(In thousand of reais)*

- **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 manufactured products and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

The industry off-season maintenance and the cultivation tracts for sugarcane plantations refer to maintenance costs, to be appropriated to the cost of the next crop.

- **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.

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, increased due to revaluation. Depreciation is provided using the straight-line method at rates described in footnote 9, established by Brazilian fiscal law.

# Usina Caeté S/A

## Notes to the financial statements

*(In thousand of reais)*

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.

- **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.

*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.

*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.

# Usina Caeté S/A

## Notes to the financial statements

*(In thousand of reais)*

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.

### 3 Marketable securities

	2005	2004
Fixed-income funds	560	985
Bank Deposit Certificate – income between 100% and 100,5% (98.5% and 106% in 2004) of the Interbank Deposit Certificate rates.	26,285	37,890
Other	<u>3,627</u>	<u>663</u>
Total	<u>30,472</u>	<u>39,538</u>

# Usina Caeté S/A

## Notes to the financial statements

*(In thousand of reais)*

### 4 Trade accounts receivable

	<b>2004</b>	<b>2004</b>
Domestic customers	50,473	18,513
Foreign customers	<u>24,086</u>	<u>40,320</u>
	74,559	58,833
Provision for doubtful accounts	( 1,783)	( 617)
	<u>72,686</u>	<u>58,216</u>

### 5 Inventories

	<b>2005</b>	<b>2004</b>
Finished goods	144,412	220,978
Sugarcane plantations	137,098	91,614
Soybean agriculture	2,625	2,930
Industry off-season and sugar cane cultivation maintenance costs	26,862	28,363
Maintenance supplies and others	<u>14,459</u>	<u>18,270</u>
	<u>325,456</u>	<u>362,155</u>

# Usina Caeté S/A

## Notes to the financial statements

(In thousand of reais)

### 6 Recoverable taxes

	2005		2004	
	Current assets	Non current assets	Current assets	Non current assets
Income tax – IRPJ	12,851	-	28,887	-
Value added tax – ICMS	10,278	4,269	18,843	4,899
Excise tax credit – IPI	178	10,798	-	39,804
Employees’ Profit Participation Program – PIS	4,172	-	-	4,962
Social Contribution for Social Security				
Financing - COFINS	4,746	-	-	13,094
Social security contribution – INSS	8,814	-	7,426	-
Other taxes	<u>218</u>	<u>-</u>	<u>393</u>	<u>-</u>
	<u>41,257</u>	<u>15,067</u>	<u>55,549</u>	<u>62,759</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.

### 7 Group companies

The main balances of assets and liabilities as of December 31, 2005 and 2004, 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\$ 1,869 (R\$ 2,409 in 2004).

# Usina Caeté S/A

## Notes to the financial statements

(In thousand of reais)

- The other balances relate 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:

	<u>2005</u>		<u>2004</u>	
	<b>Non current assets</b>	<b>Non current Liabilities</b>	<b>Non current assets</b>	<b>Non current Liabilities</b>
Lagense S.A.	1,097	-	-	485
WW Rent	-	-	-	42
Fábrica da Pedra S.A.	-	3	-	-
Sotan Ltda.	5,128	-	5,024	-
Varrela Pecuária Ltda.	2,083	-	212	-
Others	<u>154</u>	<u>-</u>	<u>136</u>	<u>-</u>
	<u>8,462</u>	<u>3</u>	<u>5,372</u>	<u>527</u>

# Usina Caeté S/A

## Notes to the financial statements

(In thousand of reais)

### 8 Investments

	2005			2004			
	SOTAN – Sociedade de Táxi Aéreo do Nordeste Ltda.	Varrela Pecuária Ltda.	Total	SOTAN – Sociedade de Táxi Aéreo do Nordeste Ltda.	Varrela Pecuária Ltda.	Delta Agrícola Ltda.	Total
Capital	19,100	12,400	31,500	19,100	12,400	7,500	39,000
Number of shares	1,852,809	20,000	-	1,852,809	20,000	75,000	-
Investment interest	87.76%	16.13%	-	88.45%	16.13%	99.80%	-
Shareholders' equity at December 31	10,963	10,905	-	13,713	10,906	8,173	-
Book value of investment	12,129	1,759	13,888	14,411	1,993	7,677	24,081
Equity in net income (loss) of subsidiaries and group companies	( 2,508)	( -)	(2,508)	( 2,282)	( 234)	480	(2,036)
Elimination of investments on merged subsidiaries	—	—	—	—	—	(8,157)	(8,157)
Adjusted book value of investments	<u>9,621</u>	<u>1,759</u>	<u>11,380</u>	<u>12,129</u>	<u>1,759</u>	—	<u>13,888</u>
Property and real state	-	-	2,346	-	-	-	3,426
Other investments	—	—	<u>571</u>	—	—	—	<u>699</u>
	—	—	<u>14,297</u>	—	—	—	<u>18,013</u>

# Usina Caeté S/A

## Notes to the financial statements

(In thousand of reais)

Based in the General shareholders meeting as of April 29, 2004 the merger of net assets of the subsidiary Delta Agrícola Ltda., has been approved, eliminating the related investment.

### 9 Property, plant and equipment

	Average depreciation rate (p.a.)	2005		2004	
		Cost	Depreciation	Net	Net
Buildings and improvements	4	133,470	(16,639)	116,831	59,337
Installations	10	19,621	(6,630)	12,991	14,417
Machinery and equipment	10	276,741	(105,981)	170,760	160,141
Machinery and agricultural implements	25	69,484	(54,121)	15,363	10,712
Fixtures and fittings	10	4,589	(1,792)	2,797	1,970
Vehicles	20	54,012	(33,015)	20,997	18,863
Computers equipment	20	10,602	(7,422)	3,180	3,471
Apparels and tools	10	5,661	(3,464)	2,197	2,197
Equipment and phone apparels	20	1,797	(1,266)	531	619
Sugarcane plantation	20	217,186	(73,877)	143,309	102,928
Others		187	(59)	128	129
Land		397,372	-	397,372	94,523
Fixed assets in progress		16,972	-	16,972	2,946
Advances to suppliers		<u>20,605</u>	<u>-</u>	<u>20,605</u>	<u>366</u>
		<u>1,228,299</u>	<u>(304,266)</u>	<u>924,033</u>	<u>472,619</u>

# Usina Caeté S/A

## Notes to the financial statements

*(In thousand of reais)*

In accordance with law 6.404/76 and based on an appraisal report issued by a specialized firm, the Company recognized at December 31, 2005, the revaluation of its land and buildings and improvements in the base date of April 30, 2005.

The amounts of revaluation in accordance with the appraisal report are as follows:

	<b>Residual value</b>	<b>Market value</b>	<b>Revaluation value</b>
Land	83,754	375,005	291,251
Buildings and improvements	<u>56,430</u>	<u>110,886</u>	<u>54,456</u>
	<u>140,184</u>	<u>485,891</u>	<u>345,707</u>

### 11 Deferred charges

	<b>2005</b>	<b>2004</b>
Preoperating expenses	16,443	16,160
Accumulated amortization	<u>(13,929)</u>	<u>(13,154)</u>
	2,514	3,006
Goodwill on investments	<u>5,275</u>	<u>5,275</u>
	<u>7,789</u>	<u>8,281</u>

# Usina Caeté S/A

## Notes to the financial statements

(In thousand of reais)

### *a. Preoperating expenses*

The preoperating expenses, include start-up costs connected with the Volta Grande unit expansion. These expenses are being amortized over a period of ten years.

### *b. Goodwill*

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

## 11 Suppliers

	<b>2005</b>	<b>2004</b>
Sugar cane suppliers	25,322	14,420
Others suppliers	<u>49,719</u>	<u>41,473</u>
	<u>75,041</u>	<u>55,893</u>
Current liabilities	_____ -	<u>(41,473)</u>
Non current liabilities	_____ -	_____ -

# Usina Caeté S/A

## Notes to the financial statements

(In thousand of reais)

### 12 Bank loans and financing

Type	Financial Charges		2005		2004	
	Index	Annual interest average	Short term	Long term	Short term	Long term
Rural credit		8,75%	10.284	-	-	-
FAT (BNDES)	URTJLP	4,00%	6.178	55.951	6.034	50.718
Finame	URTJLP	4,50% (5,50% in 2004)	26.465	32.684	24.994	42.763
Pró Industry	IGP-M	50% of the index	4.460	2.183	5.925	862
Resolution 2770		10,75%	107	-	108	107
Resolution 635/87	UMBNDDES	10,50% (10,75% in 2004)	950	3.982	571	3.083
Working capital – Export	US\$	-	167	-	190	-
NCE – Export credit note	US\$	6,60%	64	11.704	73	13.272
Export pre-payment	US\$	6,50% (5,30% in 2004)	38.195	179.144	27.264	113.347
Warrant		11,50%			21.506	
Promissory note		8,75%			3.148	
Leasing	CDI	100% CDI plus 0,35% per month			824	395
ACC – Advances on exchange contract	US\$	3,30%	—	—	<u>127.221</u>	—
			<u>86.870</u>	<u>285.648</u>	<u>217.858</u>	<u>224.547</u>

# Usina Caeté S/A

## Notes to the financial statements

*(In thousand of reais)*

The long-term installments have the following payment schedule:

<b>Maturity:</b>	<b>2005</b>	<b>2004</b>
2007	77,632	35,945
2008	39,511	78,945
2009	21,878	49,188
20010 up to 2015	<u>146,627</u>	<u>60,469</u>
	<u>285,648</u>	<u>224,547</u>

The loans and financing are guaranteed by collateral security of the financed assets in the amount of R\$ 149,264 (R\$ 137,713 in 2004), promissory notes and management and controlling Company sureties in the amount of R\$ 190,427 (R\$ 155,308 in 2003).

# Usina Caeté S/A

## Notes to the financial statements

*(In thousand of reais)*

### 13 Taxes and contributions payable

	<b>2005</b>	<b>2004</b>
Social security contributions	2.896	2.103
Severance indemnity fund	1.359	1.310
Withheld income tax	272	376
Cofins	882	216
Medical assistance	181	432
Social security – sugar cane suppliers	396	551
Social security payable in installments	2.633	3.087
(ICMS) Value added tax-regular transactions	2.712	342
(ICMS) Value added tax withheld from third parts	86	221
(ICMS) Value added tax payable in installments	437	170
(PAES) Special installments program	291	431
(ICMS) Alagoas State installments agreement	64.620	-
Others	<u>1.513</u>	<u>759</u>
	<u>78.278</u>	<u>9.998</u>
Amounts classified as current liabilities	<u>(16.828)</u>	<u>(7.374)</u>
Amounts classified as non-current liabilities	<u>61.450</u>	<u>2.624</u>

# Usina Caeté S/A

## Notes to the financial statements

*(In thousand of reais)*

The Company recognized in 2005, the value added tax (ICMS) due in installments, in accordance with a term of transaction and adhesion signed with the Alagoas State Government, including principal plus interest, which balance at December 31, 2005, represented by 155 remaining installments, amounts to R\$ 64,620 (see footnote 16d.).

### **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. 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:

	<b>2005</b>	<b>2004</b>
Social security contribution – INSS over directors remuneration	1,147	1,147
Excise Tax – IPI	4,383	4,383
Excise Tax Credits – IPI	178,044	63,764
Others	<u>116</u>	<u>271</u>
	<u>183,690</u>	<u>69,571</u>

# Usina Caeté S/A

## Notes to the financial statements

*(In thousand of reais)*

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. In accordance with generally accepted accounting practices, contingent gains only can be recognized when a final favorable court decision produces its effects, with no chances of recourses by the counter part. Following such accounting practices for contingent gains, in 2004 and 2005, the Company decided to recognize the provisions for contingencies required to cover these tax credits taken in prior years, by charging accumulated losses in the amount of R\$ 138,689 in 2005, and R\$ 63,765 in 2004, being R\$ 58,917 against accumulated losses and R\$ 4,848 thousand charged to net income for that year.

### b) 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.

# Usina Caeté S/A

## Notes to the financial statements

*(In thousand of reais)*

### 15 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:

	<b>2005</b>	<b>2004</b>
Net income before income and social contribution taxes	<u>101,857</u>	<u>33,451</u>
Combined statutory rates	34%	34%
Income and social contribution taxes calculated at the statutory rates	34,631	11,373
Permanent additions		
Nondeductible expenses	1.214	970
Permanent exclusion:		
Nontaxable revenues	<u>(22.056)</u>	<u>-</u>
Income and social contribution taxes charged to net income	<u>13,798</u>	<u>12,343</u>
Effective tax rates	14%	36%

The amount of R\$ 13,798 (R\$ 12,343 in 2004), includes the income tax incentive exemption on the profit of the exploration, in the amount of R\$ 5,351 (R\$ 4,442 in 2004), as mentioned in the note 3h.

# Usina Caeté S/A

## Notes to the financial statements

*(In thousand of reais)*

### **16 Shareholders's equity**

#### ***a. Capital***

The subscribed and paid-in, at December 31, 2005, is of R\$ 530,000 (R\$ 520,000 in 2004), divided in 14,391 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.

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

# Usina Caeté S/A

## Notes to the financial statements

*(In thousand of reais)*

### *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 corporate law, for distribution of dividends to the shareholders.

In 2004 the Company advanced a distribution of dividends on the net profit for the year as follows:

	<b>2004</b>
Net income for the year	21,108
Appropriation for legal reserve	( <u>1,055</u> )
Base for calculation of the dividends	20,053
Statutory dividends	<u>5,013</u>
Proposed dividends	<u>4,000</u>

# Usina Caeté S/A

## Notes to the financial statements

(In thousand of reais)

### *d. Prior years adjustments*

Comprises substantially adjustments recognized during 2005 and 2004, related to prior years, basically due to utilization of excise tax (IPI) credits related to premium on exports, non taxable and zero rate items, which are pending judicial court decisions for compensation with other taxes due. Also the company recognized in 2005, the value added tax (ICMS) due in installments, including principal plus interests, based on a term of transaction and adhesion signed with the Alagoas State Government. The prior years adjustments are detailed as follows:

	<b>2005</b>	<b>2004</b>
Excise tax (IPI) credits on export, non taxable and zero rate items	217,740	-
Reversion of withheld income tax restatements on financial income	6,525	-
Utilization of withheld income tax on financial income to offset Income and social contribution taxes due from 1995 to 1999	18,389	-
Reversion of excise tax compensation request replaced with withheld income tax on financial income	(13,100)	-
Reversion of compensations of income and social contributions taxes after the restatement of prior years income tax returns	(15,467)	-
Income and social contribution taxes refundable as a result of the restatement of prior years income tax returns	(5,643)	-
Reversion of provision for contingencies with taxes credits due to recognition of the total taxes due	(58,917)	-
Reduction of PIS and Cofins debit related to the taxes credits reversal and restatement of prior years income tax returns	(9,719)	-
Provision for contingencies with excise tax credits	-	58,917
Others	( 119)	-
	139,689	58,917
Recognition of value added tax (ICMS) liabilities due in installments	64,852	-
Social security tax (INSS) credit by court decision	-	2,078
	<u>204,541</u>	<u>56,839</u>

# Usina Caeté S/A

## Notes to the financial statements

(In thousand of reais)

### 17 Other operating income (net)

	<b>2005</b>	<b>2004</b>
Other operating revenues:		
Excise Tax - IPI – Credits on supply purchases	133	-
Excise Tax - IPI – Credits on export sales	551	-
Social Security Credit - INSS with court decision – Process 935654-6	-	6,363
Reversal of provision for contingencies – IAA	-	9,390
Tax credits of PIS Law 10.637/02 and of COFINS Law 10.833/03	6,008	5,813
Others	<u>3,957</u>	<u>3,690</u>
	<u>10,649</u>	<u>25,256</u>
Other operating expenses:		
Social Contribution for Social Security Financing – COFINS	134	932
Social Integration Program over other income – PIS	29	239
Tax on financial activities – CPMF	3,903	3,360
Value added tax – ICMS – rate difference	1,827	1,563
Loss for capital increase in subsidiary	-	-
Value added tax credit - ICMS - consolidation	2,641	3,867
Reversal of value added tax - ICMS extraordinary credits	-	3,771
Others	<u>3,518</u>	<u>2,991</u>
	<u>12,052</u>	<u>16,723</u>
	<u>(1,403)</u>	<u>8,533</u>

# Usina Caeté S/A

## Notes to the financial statements

*(In thousand of reais)*

### **18 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.

#### ***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, 2005, the Company had a position of 30.000 tons of sugar (5,384 tons in 2004), projecting a revenue of US\$ 500,000.

# Usina Caeté S/A

## Notes to the financial statements

*(In thousand of reais)*

### ***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, 2005, there are US\$ 40,992,000 (US\$ 1,000,000 in 2004) negotiated under these instruments, and the unrealized results expected with these transactions is approximately R\$ 3,800.

\* \* \*