



Usina Caeté S/A

Financial statements
December 31, 2006 and 2005

(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, 2006 and 2005

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Independent auditors' report

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

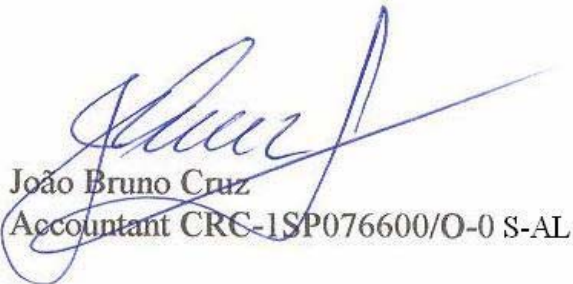
1. We have examined the balance sheets of Usina Caeté S/A, as of December 31, 2006 and 2005, and the related statements of income, changes in shareholders' equity and changes in financial position for the years then ended, which are the responsibility of its management. Our responsibility is to express 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, 2006 and 2005, 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. 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 2005 the Company recognized the provisions for contingencies required to cover the tax credits taken in prior years, plus the liabilities connected with the value added tax due in installments in accordance with the agreement signed with the Alagoas State Government. The recognition of these liabilities charged to accumulated losses, eliminated in 2005 the overstatement of stockholders equity, which effects are disclosed in footnotes 14, 15a and 17d.

March 16, 2007

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, 2006 and 2005

(In thousand of reais)

Assets	Note	2006	2005	Liabilities	Note	2006	2005
Current assets				Current liabilities			
Cash and cash equivalents		3,150	3,033	Accounts payable to suppliers	12	92,518	75,041
Marketable securities	3	51,833	30,472	Bank loans and financing	13	101,361	86,870
Trade accounts receivable	4	83,684	72,686	Salaries and charges		16,686	13,170
Inventories	5	367,473	298,594 (*)	Advances from customers		14,554	8,650
Advanced payments to sugar cane suppliers		56,063	26,639	Taxes and contributions payable	14	15,407	16,828
Other accounts receivable		21,513	10,833	Income and social contribution taxes		6,137	288
Recoverable taxes	6	8,281	32,443 (*)	Other accounts payable		785	730
		<u>591,997</u>	<u>474,700</u>			<u>247,448</u>	<u>201,577</u>
Non-current				Non-current			
Non current assets				Non current liabilities			
Group companies	7	1,534	8,462	Bank loans and financing	13	320,793	285,648
Advanced payments to sugar cane suppliers		7,173	7,913	Group companies	7	7,616	3
Judicial deposits		6,623	10,092	Taxes and contributions payable	14	59,188	61,450
Recoverable taxes	6	21,866	23,881 (*)	Provision for contingencies	15	215,781	183,690
Other accounts receivable	8	25,082	4,991	Accounts payable		17,562	18,395
		<u>62,278</u>	<u>55,339</u>			<u>620,940</u>	<u>549,186</u>
Permanent assets				Shareholders' equity			
Investments	9	18,840	14,297	Capital		538,062	530,000
Property, plant and equipment	10	1,078,518	950,895 (*)	Treasury shares	16 e 17	12,484	19,503
Deferred charges	11	2,884	7,789	Capital reserves		309,353	327,312
		<u>1,100,242</u>	<u>972,981</u>	Revenue reserves		13,071	5,458
				Retained earnings (accumulated losses)		13,159	(130,016)
		<u>1,754,517</u>	<u>1,503,020</u>			<u>886,129</u>	<u>752,257</u>
						<u>1,754,517</u>	<u>1,503,020</u>

(*) Balances reclassified for presentation improvements.

See accompanying notes to the financial statements.

Usina Caeté S/A

Statements of income

Years ended December 31, 2006 and 2005

(In thousand of reais)

	Note	2006	2005
Gross Income			
Sale of goods and services			
Domestic Market		541,279	412,606
Foreign Market		571,365	483,080
Services rendered		<u>12,302</u>	<u>5,933</u>
		1,124,946	901,619
Deductions			
Sales taxes		(103,035)	(72,404)
Returns and discounts		<u>(8,334)</u>	<u>(7,746)</u>
		(111,369)	(80,150)
Net revenues		1,013,577	821,469
Cost of goods and services sold		<u>(616,060)</u>	<u>(580,091)</u>
Gross profit		397,517	241,378
Operating (expenses) income			
Selling expenses		(81,347)	(86,462)
Administrative and general expenses		(55,373)	(40,817)
Net financial		(47,893)	(10,523)
Equity in net income of subsidiaries and group companies		(696)	(2,508)
Other operating income	18	<u>16,272</u>	<u>(1,403)</u>
		<u>(169,037)</u>	<u>(141,713)</u>
Operating income		<u>228,480</u>	<u>99,665</u>
Nonoperating income		<u>3,182</u>	<u>2,192</u>
Net income before income and social contribution taxes		<u>231,662</u>	<u>101,857</u>
Income and social contribution taxes	16	<u>(79,392)</u>	<u>(13,789)</u>
Net income for the year		<u><u>152,270</u></u>	<u><u>88,068</u></u>
Net income per lot of thousand shares - R\$		<u><u>10,654.96</u></u>	<u><u>6,119.66</u></u>
Number of shares at year-end		<u><u>14,291</u></u>	<u><u>14,391</u></u>

See accompanying notes to the financial statements.

Usina Caeté S/A

Statements of changes in shareholders' equity

Years ended December 31, 2006 and 2005

(In thousand of Reais)

	Capital	Capital reserves	Revaluation reserves	Revenue reserves	Retained earnings (accumulated losses)	Total
Balances at December 31, 2004	520,000	22,255	-	2,952	(9,140)	536,067
Capital increase	10,000	(8,103)		(1,897)		-
Revaluation reserves recognize for:						
Land			291,252			291,252
Buildings and improvements			54,455			54,455
Deferred income and social contribution taxes over the revaluation reserve for buildings and improvements			(18,395)			(18,395)
Adjustment related to constitution 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)	-
Balances at December 31, 2005	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	<u>538,062</u>	<u>12,484</u>	<u>309,353</u>	<u>13,071</u>	<u>13,159</u>	<u>886,129</u>

See accompanying notes to the financial statements.

Usina Caeté S/A

Statements of changes in financial position

Years ended December 31, 2006 and 2005

(In thousand of reais)

	2006	2005
Sources of funds		
Operations		
Net income for the year	152,270	88,068
Items not affecting working capital		
Monetary variation and interest on long term items	34,103	(4,266)
Depreciation and amortization	123,300	77,974
Residual cost on disposal of investment	11	1,208
Residual cost on disposal of fixed assets	765	475
Deferred income and social contribution taxes	(733)	-
Equity in net income of subsidiaries and associated companies	696	2,508
Capital reserve arising from income tax exemption incentive	<u>12,484</u>	<u>5,351</u>
From operations	322,896	171,318
From third parties		
Increase in noncurrent liabilities	108,791	310,829
Decrease in accounts receivable - associated company	5,928	-
Increase in accounts payable - associated company	7,613	-
Decrease in noncurrent assets	<u>8,450</u>	<u>64,723</u>
	<u>453,678</u>	<u>546,870</u>
Applications of funds		
Property, plant and equipment	262,420	210,526 (*)
Increase in accounts receivable from group company	-	10,705
Investments	5,250	-
Decrease in noncurrent liabilities	75,908	72,517
Noncurrent assets	24,329	14,502 (*)
Capital reduction	3,694	-
Prior year adjustment	651	204,541
Proposed dividends	<u>10,000</u>	<u>-</u>
	<u>382,252</u>	<u>512,791 (*)</u>
Increase in working capital	<u>71,426</u>	<u>34,079 (*)</u>
Changes in working capital		
Current assets		
At end of year	591,997	474,700 (*)
At beginning of year	<u>474,700</u>	<u>540,322</u>
	<u>117,297</u>	<u>(65,622) (*)</u>
Current liabilities		
At end of year	247,448	201,577
At beginning of year	<u>201,577</u>	<u>301,278</u>
	<u>45,871</u>	<u>(99,701)</u>
Increase in working capital	<u>71,426</u>	<u>34,079 (*)</u>

(*) Balances reclassified for presentation improvements.

See accompanying notes to the financial statements.

Usina Caeté S/A

Notes to the financial statements

Years ended December 31, 2006 and 2005

(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.

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Notas explicativas às demonstrações financeiras

(Em milhares de 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**

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.

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- **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 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.

- **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 10, established by Brazilian fiscal law.

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

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Notas explicativas às demonstrações financeiras

(Em milhares de reais)

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.

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.

Usina Caeté S/A

Notas explicativas às demonstrações financeiras

(Em milhares de reais)

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

	2006	2005
Fixed-income funds – income pos-fixed of the 11,27% per year	1.292	560
Bank Deposit Certificate – income between 100% and 103% (100% and 100,5% in 2005) of the Interbank Deposit Certificate	49.669	26.285
Others	<u>872</u>	<u>3.627</u>
Total	<u>51.833</u>	<u>30.472</u>

4 Trade accounts receivable

	2006	2005
Domestic customers	38.929	50.473
Foreign customers	<u>45.346</u>	<u>24.086</u>
	84.275	74.559
Provision for doubtful accounts	<u>(591)</u>	<u>(1.873)</u>
	<u>83.684</u>	<u>72.686</u>

Usina Caeté S/A

Notas explicativas às demonstrações financeiras

(Em milhares de reais)

5 Inventories

	2006	2005
Finished goods	194.020	144.412
Sugarcane plantations	155.948	137.098
Soybean agriculture	729	2.625
Maintenance supplies and others	<u>16.776</u>	<u>14.459</u>
	<u>367.473</u>	<u>298.594</u>

6 Recoverable taxes

	2006		2005	
	Current assets	Non-current assets	Current assets	Non-current assets
Income tax – IRPJ	569	-	12.851	-
Value added tax – ICMS	5.102	6.877	10.278	4.269
Excise tax credit – IPI	-	6.175	178	10.798
Employees’ Profit Participation Program – PIS	2.063	-	4.172	-
Social Contribution for Social Security Financing – COFINS	430	-	4.746	-
Social security contribution – INSS	-	8.814	-	8.814
Other taxes	<u>117</u>	<u>-</u>	<u>218</u>	<u>-</u>
	<u>8.281</u>	<u>21.866</u>	<u>32.443</u>	<u>23.881</u>

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

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Notas explicativas às demonstrações financeiras

(Em milhares de reais)

7 Group companies

The main balances of assets and liabilities as of December 31, 2006 and 2005, 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\$ 3,494 (R\$ 1,869 in 2005).

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

	<u>2006</u>		<u>2005</u>	
	<u>Non-current Assets</u>	<u>Non-current Liabilities</u>	<u>Non-current Assets</u>	<u>Non-current Liabilities</u>
Lagense S.A.	-	7.616	1.097	-
Fábrica da Pedra S.A.	-	-	-	3
Sotan Ltda.	38	-	5.128	-
Varrela Pecuária Ltda.	1.465	-	2.083	-
Others	<u>31</u>	<u>-</u>	<u>154</u>	<u>-</u>
	<u>1.534</u>	<u>7.616</u>	<u>8.462</u>	<u>3</u>

Usina Caeté S/A

Notas explicativas às demonstrações financeiras

(Em milhares de reais)

8 Others account receivables – Non-current

	2006	2005
Road paving and improvements recoverable from the Minas Gerais State Government	13.261	4.991
Futura Agropecuária Ltda. (*)	<u>11.821</u>	<u>-</u>
	<u>25.082</u>	<u>4.991</u>

(*) Start-up costs connected with the development of the project of construction of a new production unit, temporarily classified as other accounts receivable, to be transferred to the definitive accounts, upon formalization of the corporate acts and their regularization, as investments made by Usina Caeté S/A and Lagense S/A Administração e Participação.

Usina Caeté S/A

Notas explicativas às demonstrações financeiras

(Em milhares de reais)

9 Investments

	2006			2005		
	SOTAN – Sociedade de Táxi Aéreo do Nordeste Ltda.	Varrela Pecuária Ltda.	Total	SOTAN – Sociedade de Táxi Aéreo do Nordeste Ltda.	Varrela Pecuária Ltda.	Total
Capital	19.100	12.400	31.500	19.100	12.400	31.500
Number of shares	1.852.809	20.000	-	1.852.809	20.000	-
Investment interest	90,38%	16,13%	-	87,76%	16,13%	-
Shareholders' equity at December 31	15.892	9.735	-	10.963	10.905	-
Book value of investment	14.871	1.759	16.630	12.129	1.759	13.888
Equity in net income (loss) of subsidiaries and group companies	(508)	(188)	(696)	(2.508)	(-)	(2.508)
Adjusted book value of investments	<u>14.363</u>	<u>1.571</u>	<u>15.934</u>	<u>9.621</u>	<u>1.759</u>	<u>11.380</u>
Property and real state			2.342			2.346
Other investments			<u>564</u>			<u>571</u>
			<u>18.840</u>			<u>14.297</u>

Usina Caeté S/A

Notas explicativas às demonstrações financeiras

(Em milhares de reais)

10 Property, plant and equipment

	Average depreciation rate (p.a.)	2006			2005
		Cost	Depreciation	Net	Net
Buildings and improvements	4	154.758	(21.977)	132.781	116.831
Installations	10	26.166	(8.660)	17.506	12.991
Machinery and equipment	10	361.274	(136.017)	225.257	170.760
Machinery and agricultural implements	25	86.301	(60.155)	26.146	15.363
Fixtures and fittings	10	5.399	(2.224)	3.175	2.797
Vehicles	20	59.055	(40.067)	18.988	20.997
Computers equipment	20	12.695	(8.861)	3.834	3.180
Apparels and tools	10	6.126	(3.870)	2.256	2.197
Equipment and phone apparels	20	2.104	(1.520)	584	531
Sugarcane plantation	20	292.294	(77.546)	214.748	143.309
Others		187	(58)	129	128
Land		406.806	-	406.806	397.372
Fixed assets in progress		7.288	-	7.288	16.972
Industry off-season maintenance costs (*)		19.020	-	19.020	26.862
Advances to suppliers		-	-	-	<u>20.605</u>
		<u>1.439.473</u>	<u>(360.955)</u>	<u>1.078.518</u>	<u>950.895</u>

(*) Reclassified from inventory for better presentation following brazilian accounting practices, to be amortized in one year, during the next production season, with no significant impact in the current year results, as such amounts comprise costs incurred and/or legally contracted liabilities.

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Notas explicativas às demonstrações financeiras

(Em milhares de reais)

11 Deferred

	2006	2005
Preoperating expenses	8.552	16.443
Accumulated amortization	<u>(5.668)</u>	<u>(13.929)</u>
	2.884	2.514
Goodwill on investments	<u>-</u>	<u>5.275</u>
	<u>2.884</u>	<u>7.789</u>

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., arising from the difference between the market value and the understated historical cost of the land owned by such company, has been realized in 2006 against revaluation reserve of the respective lands.

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Notas explicativas às demonstrações financeiras

(Em milhares de reais)

12 Suppliers

	2006	2005
Sugar cane suppliers	38.004	25.322
Others suppliers	<u>54.514</u>	<u>49.719</u>
	<u>92.518</u>	<u>75.041</u>

13 Bank loans and financing

Type	Financial charges		2006		2005	
	Index	Annual Interest Average	Short term	Long term	Short term	Long term
Rural credit		8,75%	10.197	-	10.284	-
FAT (BNDES)	URTJLP	3,54% to 8,85% (4,00% in 2005)	17.577	116.763	6.178	55.951
Finame	URTJLP	3,89% to 11,04% (4,50% in 2005)	19.263	24.045	26.465	32.684
Pró Indústria	IGP-M	50% of the index	5.018	3.278	4.460	2.183
Resolution 2770		10,75%	-	-	107	-
Resolution 635/87	UMBNDDES	9,96% (10,50% in 2005)	814	1.314	950	3.982
Working capital – Export	Us\$	-	153	-	167	-
NCE – Export credit note	Us\$	6,50%	17.406	17.104	64	11.704
Export pre-payment	Us\$	6,10% a 6,68% (6,50% in 2005)	26.777	133.198	38.195	179.144
Bank Credit Note	Us\$	5,95%	162	25.091		
Rural promissory note		8,75%	<u>3.994</u>	-	-	-
			<u>101.361</u>	<u>320.793</u>	<u>86.870</u>	<u>285.648</u>

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Notas explicativas às demonstrações financeiras

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The long-term installments have the following payment schedule:

Maturity:	2006	2005
2007		77.632
2008	83.294	39.511
2009	37.670	21.878
2010 up to 2015	<u>199.829</u>	<u>146.627</u>
	<u>320.793</u>	<u>285.648</u>

The loans and financing are guaranteed by collateral security of the financed assets in the amount of R\$ 302.174 (R\$ 149,264 in 2005), promissory notes and management and controlling Company sureties in the amount of R\$ 402.481 (R\$ 190,427 in 2005)

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14 Taxes and contributions payable

	2006	2005
Taxes and contributions payable	3.241	2.896
Taxes and contributions payable	1.691	1.359
Taxes and contributions payable	427	272
Taxes and contributions payable	416	882
Medical assistance	231	181
Social security – sugar cane suppliers	389	396
Social security payable in installments	1.337	2.633
(ICMS) Value added tax-regular transactions	1.299	2.712
(ICMS) Value added tax withheld from third parts	12	86
(ICMS) Value added tax payable in installments	95	437
(PAES) Special installments program	188	291
(ICMS) Alagoas State installments agreement	63.544	64.620
Others	<u>1.725</u>	<u>1.513</u>
	<u>74.595</u>	<u>78.278</u>
Amounts classified as current liabilities	(15.407)	(16.828)
Amounts classified as non-current liabilities	<u>59.188</u>	<u>61.450</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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15 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:

	2006	2005
Social security contribution – INSS over directors remuneration	147	1.147
Excise Tax – IPI	4.383	4.383
Excise Tax Credits – IPI	210.484	178.044
Others	<u>767</u>	<u>116</u>
	<u>215.781</u>	<u>183.690</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.

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16 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:

	2006	2005
Net income before income and social contribution taxes	<u>231.662</u>	<u>101.857</u>
Combined statutory rates	34%	34%
Income and social contribution taxes calculated at the statutory rates	78.765	34.631
Permanent additions:		
Nondeductible expenses	627	1.214
Permanent exclusions:		
Nontaxable revenues	(_____-)	<u>(22.056)</u>
Income and social contribution taxes charged to net income	<u>79.392</u>	<u>13.789</u>
Effective tax rates	34%	14%

The amount of R\$ 79,392 (R\$ 13,789 in 2005), includes the income tax incentive exemption on the profit of the exploration, in the amount of R\$ 12,484 (R\$ 5,351 in 2005), as mentioned in the note 2, item g

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17 Shareholders's equity

a. Capital

The subscribed and paid-in, at December 31, 2006, is of R\$ 538,062 (R\$ 530,000 in 2005), divided in 14,291 (14.391 in 2005) 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.

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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 2006 the Company advanced a distribution of dividends on the net profit for the year as follows:

	2006
Net income for the year	152.270
Appropriation for legal reserve	<u>(7.613)</u>
Base for calculation of the dividends	144.657
Statutory dividends	<u>36.164</u>
Proposed dividends	<u>10.000</u>

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d. Prior years adjustment

In 2006, comprises provisions for labor claims, and in 2005, related to prior years impact, 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. The Company also recognized in 2005, the value added tax (ICMS) due in installments, including principal plus interests, based on an agreement signed with the Alagoas State Government. The prior years adjustments are detailed as follows:

	2006	2005
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 off-set 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)
Others	-	(119)
	-	139.689
Recognition of value added tax (ICMS) liabilities due in installments	-	64.852
Provision for labor claims	<u>651</u>	<u>-</u>
	<u>651</u>	<u>204.541</u>

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18 Other operating income (net)

	2006	2005
Other operating revenues:		
Excise Tax - IPI – Credits on supply purchases	18.148	133
Excise Tax - IPI – Credits on export sales	-	551
Tax credits of PIS Law 10.637/02 and of COFINS Law 10.833/03	4.913	6.008
Others	<u>3.943</u>	<u>3.957</u>
	<u>27.004</u>	<u>10.649</u>
Other operating expenses:		
Social Contribution for Social Security Financing – COFINS	270	134
Social Integration Program over other income – PIS	59	29
Tax on financial activities – CPMF	5.182	3.903
Value added tax – ICMS – rate difference	1.820	1.827
Value added tax – ICMS – state agreement	-	2.641
Others	<u>3.401</u>	<u>3.518</u>
	<u>10.732</u>	<u>12.052</u>
	<u>16.272</u>	<u>(1.403)</u>

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19 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, 2006, the Company had a position of 41.621 tons of sugar (39,000 tons in 2005), projecting a revenue of US\$ 470,158 (US\$ 500,000 in 2005)

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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, 2006, there are US\$ 38,500,000 (US\$ 40,992,000 in 2005) negotiated under these instruments, and the unrealized results expected with these transactions is approximately R\$ 3,250 (R\$ 3,800 in 2005).

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