18,420,870 Common Shares

SÃO MARTINHO S.A.

Offer Price: R$20.00 per Common Share

We, São Martinho S.A., and the selling shareholders identified in this offering memorandum are offering a total of 18,420,870 common shares to the public in Brazil, to institutional investors in the United States and to institutional and other investors elsewhere.

No public market currently exists for our common shares, or shares. We have applied to register this offering with the Brazilian Securities Commission (*Comissão de Valores Mobiliários*), or the CVM, and to list our common shares, or shares, on the *Novo Mercado* segment of the São Paulo Stock Exchange (*Bolsa de Valores de São Paulo*), or the BOVESPA, under the symbol "SMT03." The ISIN number for our shares is BRSMTOACNOR3. Neither the CVM, the United States Securities and Exchange Commission, nor any other regulatory authority has approved or disapproved these securities or determined if this offering memorandum (or the prospectus in Portuguese used in connection with the offering of our shares in Brazil) is accurate or complete. Any representation to the contrary is a criminal offense.

We will not receive any of the proceeds from the offering of our shares by the selling shareholders.

We have granted Banco UBS Pactual S.A. an option for a period of 30 days from the date of this offering memorandum to place up to an additional 2,763,130 shares at the offering price to cover over-allotments, if any.

The offer of our shares has not been and will not be registered under the U.S. Securities Act of 1933, as amended, or the Securities Act, or under any U.S. state securities laws. Accordingly, our shares are being offered and sold in the United States only to qualified institutional buyers as defined in Rule 144A under the Securities Act in reliance on the exemptions from registration provided under the Securities Act and outside the United States to institutional and other investors in accordance with Regulation S under the Securities Act. See "Transfer Restrictions" on page 155 for a description of restrictions on transfers of our shares.

Investors residing outside Brazil, including qualified institutional buyers in the United States and institutional and other investors outside the United States and Brazil, may purchase our shares if they comply with the registration requirements of CVM Instruction No. 325, dated January 27, 2000, as amended, and Resolution No. 2,689, dated January 26, 2000, as amended, of the Brazilian National Monetary Council (*Conselho Monetário Nacional*), or the CMN.

Investing in our shares involves risks. See "Risk Factors" beginning on page 16 for a discussion of certain factors you should consider before investing in our shares.

Payment for our shares must be made in *reais* through the Brazilian Settlement and Custodial Company (*Companhia Brasileira de Liquidação e Custódia*), or CBLC. It is expected that our shares will be delivered through the CBLC on or about February 14, 2007. See "Trading, Settlement and Clearance."

Global Coordinator and Sole Bookrunner

UBS Investment Bank

Co-Manager

Deutsche Bank

The date of this confidential offering memorandum is February 9, 2007.

TABLE OF CONTENTS

	Page		Page
SUMMARY	1	MANAGEMENT	120
RISK FACTORS	16	PRINCIPAL AND SELLING SHAREHOLDERS	124
FORWARD-LOOKING STATEMENTS	26	RELATED PARTY TRANSACTIONS	126
USE OF PROCEEDS	28	DESCRIPTION OF SHARE CAPITAL	127
MARKET INFORMATION	29	TRADING, SETTLEMENT AND CLEARANCE	143
CAPITALIZATION	33	TAXATION	144
DILUTION	34	PLAN OF DISTRIBUTION	152
EXCHANGE RATES	35	TRANSFER RESTRICTIONS	155
SELECTED FINANCIAL AND OTHER INFORMATION	36	LEGAL MATTERS	160
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	39	INDEPENDENT AUDITORS	161
SUGAR AND ETHANOL INDUSTRIES	71	ENFORCEMENT OF JUDGMENTS	162
BUSINESS	87	GENERAL INFORMATION	163
		INDEX TO CONSOLIDATED FINANCIAL STATEMENTS	F-1

You should rely only on the information contained in this offering memorandum. Neither we, the selling shareholders, Banco UBS Pactual S.A. (the Brazilian underwriter) nor UBS Securities LLC (the placement agent appointed by the Brazilian underwriter to facilitate the placement of our shares outside Brazil) have authorized any other person to provide you with different or additional information from that contained in this offering memorandum. If anyone provides you with different or additional information, you should not rely on it. Our shares are being offered, and offers to purchase our shares are being sought, only in jurisdictions where such offers and sales are permitted. The information in this offering memorandum is accurate only as of the date of this offering memorandum, regardless of the time of delivery of this offering memorandum or any sale of our shares. Neither the deliver of this offering memorandum nor any sale made hereunder shall under any circumstances imply that there has been no change in our affairs or the affairs of any of our subsidiaries or that the information set forth in this offering memorandum is correct as of any date subsequent to the date of this offering memorandum.

Unless otherwise indicated or the context otherwise requires, all references in this offering memorandum to "São Martinho," "our company," "we," "us" and "our" or similar terms refer to (1) São Martinho S.A. and its consolidated subsidiaries, as of and for the six months ended October 31, 2006 and (2) Companhia Industrial e Agrícola Ometto (which changed its name to São Martinho S.A. on September 28, 2006), Usina São Martinho S.A. and their respective consolidated subsidiaries on a combined basis as of and for the six months ended October 31, 2005 and as of and for the fiscal years ended April 30, 2006, 2005 and 2004. See "Presentation of Financial and Other Information—Combined Financial Information." The term "selling shareholders" means, collectively, Mariangela Ometto Rolim, Francisco Pazelli Ometto, Orlando Correa da Silva Ometto, Eduardo Correa da Silva Ometto, Otávio Correa da Silva Ometto, Odila Ometto Lotufo, Luiz Olavo Baptista, Norma Mello Rossetti, Agenor Cunha Pavan, Thiago Cunha Pavan and Adriana Cunha Pavan.

This offering memorandum is highly confidential, and we have prepared it for use solely in connection with the proposed offering of our shares. This offering memorandum is personal to the offeree to whom it has been delivered by the placement agent and does not constitute an offer to any other person or to the public in general to subscribe for our shares. Distribution of this offering memorandum to any person other than the offeree and those persons, if any, retained to advise that offeree with respect thereto is unauthorized, and any disclosure of any of its contents without our prior written consent is prohibited. Each offeree, by accepting delivery of this offering memorandum, agrees to the foregoing and agrees to make no photocopies of this offering memorandum.

Our shares offered through this offering memorandum are subject to restrictions on transferability and resale, and may not be transferred or resold in the United States except as permitted under the Securities Act and applicable U.S. state securities laws pursuant to registration or exemption from them. You should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. In making an investment decision, you must rely on your own examination of our business and the terms of this offering, including the merits and risks involved.

You must (1) comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell our shares or possess or distribute this offering memorandum and (2) obtain any consent, approval or permission required for your purchase, offer or sale of our shares under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. Neither we, the selling shareholders, the Brazilian underwriter nor the placement agent will have any responsibility therefor.

We, the selling shareholders, the Brazilian underwriter and the placement agent reserve the right to reject any offer to purchase, in whole or in part, and for any reason, our shares offered hereby. We, the selling shareholders, the Brazilian underwriter and the placement agent also reserve the right to sell or place less than all of our shares offered hereby.

In any Member State of the European Economic Area that has implemented Directive 2003/71/EC (together with any applicable implementing measures in any Member State, or the Prospectus Directive), this communication is only addressed to and is only directed at qualified investors in that Member State within the meaning of the Prospectus Directive.

This offering memorandum has been prepared on the basis that all offers for our shares will be made pursuant to an exemption under the Prospectus Directive, as implemented in Member States of the European Economic Area, from the requirement to produce a prospectus for offers of our shares. Accordingly any person making or intending to offer our shares within the European Economic Area should only do so in circumstances in which no obligation arises for us, the selling shareholders, the Brazilian underwriter or the placement agent to produce a prospectus for such offer. Neither we, the selling shareholders, the Brazilian underwriter nor the placement agent have authorized, nor do we or they authorize, the making of any offer of our shares through any financial intermediary, other than offers made by the Brazilian underwriter and the placement of our shares by the placement agent as contemplated in this offering memorandum.

Each person in a Member State of the European Economic Area that has implemented the Prospectus Directive, or a Relevant Member State, who receives any communication in respect of, or who acquires any of our shares under, the offers contemplated in this offering memorandum will be deemed to have represented, warranted and agreed to and with the Brazilian underwriter, the placement agent, us and the selling shareholders that:

- it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and
- in the case of any shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) our shares acquired by it in the offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the placement agent has been given to the offer or resale, or (ii) where shares have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those shares to it is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of this representation, the expression an "offer" in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any shares to be offered so as to enable an investor to decide to purchase or subscribe for our shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

This document is only being distributed to and is only directed at (i) persons who are outside the United Kingdom, (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"), (iii) high net worth entities and other falling within Article 49(2)(a) to (d) of the Order or (iv) to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) (all such persons together being referred to as "relevant persons"). Our shares are only available to, and any invitation, offer or agreement to subscribe, purchase or acquire such shares will only be engaged in with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

No representation or warranty, express or implied, is made by the Brazilian underwriter or the placement agent as to the accuracy or completeness of any of the information set forth in this offering memorandum, and nothing contained herein is or shall be relied upon as a promise or representation by the Brazilian underwriter or the placement agent, whether as to the past or the future.

This offering is being made in Brazil by a prospectus in Portuguese with the same date as this offering memorandum. The Brazilian prospectus, which has been filed with the CVM, is in a format different from that of this offering memorandum and contains information not generally included in documents such as this one. This offering is being made in the United States and elsewhere outside Brazil solely on the basis of the information contained in this offering memorandum, and you should take this information into account when making your decision to invest in our shares.

In connection with this offering, the Brazilian underwriter, acting through UBS Pactual Corretora de Títulos e Valores Mobiliários S.A., may over-allot or effect transactions with a view to supporting the market price of our shares at a level higher than that which might otherwise prevail. However, there is no assurance that the Brazilian underwriter or UBS Pactual Corretora de Títulos e Valores Mobiliários S.A. will undertake stabilizing actions. Such stabilizing activities, if commenced, may be discontinued at any time and must be brought to an end after a limited period. See "Plan of Distribution."

NOTICE TO NEW HAMPSHIRE RESIDENTS

Neither the fact that a registration statement or an application for a license has been filed under RSA 421-B with the State of New Hampshire nor the fact that a security is effectively registered or a person is licensed in the State of New Hampshire implies that any document filed under RSA 421-B is true, complete and not misleading. Neither any such fact nor the fact that an exemption or exception is available for a security or a transaction means that the Secretary of State of the State of New Hampshire has passed in any way upon the merits or qualifications of, or recommended or given approval to, any person, security or transaction. It is unlawful to make, or cause to be made, to any prospective purchaser, customer or client any representation inconsistent with the provisions of this paragraph.

INTERNAL REVENUE SERVICE CIRCULAR 230 DISCLOSURE

PURSUANT TO INTERNAL REVENUE SERVICE CIRCULAR 230, WE HEREBY INFORM YOU THAT THE DESCRIPTION SET FORTH HEREIN WITH RESPECT TO U.S. FEDERAL TAX ISSUES WAS NOT INTENDED OR WRITTEN TO BE USED, AND SUCH DESCRIPTION CANNOT BE USED BY ANY TAXPAYER, FOR THE PURPOSE OF AVOIDING ANY PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER UNDER THE U.S. INTERNAL REVENUE CODE. SUCH DESCRIPTION WAS WRITTEN TO SUPPORT THE MARKETING OF THE SHARES. TAXPAYERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All references herein to the *"real," "reais"* or "R$" are to the Brazilian *real,* the official currency of Brazil. All references to "U.S. dollars," "dollars" or "U.S.$" are to U.S. dollars.

On January 17, 2007, the exchange rate for *reais* into U.S. dollars was R$2.133 to U.S.$1.00, based on the selling rate as reported by the Central Bank. The selling rate was R$2.143 to U.S.$1.00 as of October 31, 2006, R$2.089 to U.S. $1.00 as of April 30, 2006, R$2.254 to U.S.$1.00 as of October 31, 2005 and R$2.531 to U.S. $1.00 as of April 30, 2005, and the commercial selling rate was R$2.945 to U.S.$1.00 as of April 30, 2004. The *real*/dollar exchange rate may fluctuate widely, and the selling rate as of January 17, 2007 may not be indicative of past or future exchange rates. See "Exchange Rates" for information regarding exchange rates for the Brazilian currency since April 30, 2002.

Solely for your convenience, we have translated certain amounts included in "Summary—Summary Financial and Other Information," "Capitalization," "Selected Financial and Other Information" and elsewhere in this offering memorandum from *reais* into U.S. dollars using the selling rate as reported by the Central Bank as of October 31, 2006 of R$2.143 to U.S.$1.00. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate as of that or any other date.

Financial Statements

We maintain our books and records in *reais*.

We prepare our consolidated financial statements in accordance with accounting practices adopted in Brazil, or Brazilian GAAP, which are based on:

- Brazilian Law No. 6,404/76, as amended by Brazilian Law No. 9,457/97 and Brazilian Law No. 10,303/01, which we refer to collectively as the Brazilian Corporation Law;
- the rules and regulations of the CVM; and
- the technical releases issued by the Brazilian Institute of Independent Auditors (*Instituto dos Auditores Independentes do Brasil – IBRACON*).

Brazilian GAAP varies in significant respects from accounting principles generally accepted in the United States, or U.S. GAAP.

Our consolidated financial statements as of and for (1) the six months ended October 31, 2006 and 2005 (including the combined financial information set forth in note 24 thereto) and (2) the fiscal years ended April 30, 2006, 2005 and 2004 (including the combined financial information set forth in note 19.3 thereto) have been audited by Deloitte Touche Tohmatsu and are included elsewhere in this offering memorandum.

In accordance with CVM Instruction No. 247/96 (as amended by CVM Instruction Nos. 269/97, 285/98 and 319/99, which we refer to collectively as CVM Instruction 247), our consolidated financial statements as of and for (1) the six months ended October 31, 2005 and (2) the fiscal years ended April 30, 2006, 2005 and 2004 proportionally consolidated the assets, liabilities and results of operations of Usina São Martinho S.A., of which we owned 11.4% of the share capital and jointly controlled this company together with our controlling shareholders. Our consolidated financial statements as of and for the six months ended October 31, 2006 (1) fully consolidated Usina São Martinho S.A., of which we own 100% of the share capital as from September 28, 2006 as a result of the contribution of the remaining 88.6% of its share capital to us by our controlling shareholders, which we refer to as the São Martinho Capital Contribution, and (2) proportionally consolidated the assets, liabilities and results of operations of Mogi Agrícola S.A., or Mogi Agrícola, through Usina São Martinho S.A., which owned 30.7% of Mogi Agrícola as from May 5, 2006 and 46.0% of Mogi

Agrícola as from May 17, 2006 (as a result of a loan that Usina São Martinho S.A. made to Agrotin Agropecuária e Participações Ltda. in an aggregate amount of R$7.1 million, which loan matures in May 2008 and is secured by a pledge of 2,039,056 common shares of Mogi Agrícola (representing 15.2% of its total share capital)). We have accounted for this loan as an acquisition as we have the right to vote the pledged shares during the term of the loan agreement and expect that the loan will be repaid with these shares, and we jointly control this company through a shareholders' agreement.

We fully consolidated our wholly-owned subsidiary, Omtek Indústria e Comércio Ltda., or Omtek, for all periods included in this offering memorandum.

Our results of operations for the six months ended October 31, 2006 and 2005 are not fully comparable, due to the São Martinho Capital Contribution and the spin-off on April 30, 2006 (retroactively effective as of March 31, 2006 for accounting purposes) by our company and Usina São Martinho S.A. of some of our respective assets and liabilities that were related to cattle raising, including our ownership interests in Monte Sereno Agrícola Ltda., Agropecuária Caieira do Norte S.A. and Agropecuária do Cachimbo S.A. and Usina São Martinho S.A.'s ownership interests in Vale do Mogi S.A., Agropecuária do Cachimbo S.A., Duas Matas Agrícola Ltda. (formerly known as Boa Vista Agrícola e Pecuária Ltda.), Monte Sereno Agrícola Ltda. and Agropecuária Caieira do Norte S.A., in a net amount of R$17.5 million and R$21.4 million, respectively, which we refer to collectively as the Spin-Off. To enhance the comparability of our results of operations for the six months ended October 31, 2006 and 2005, we have presented (1) the combined results of operations of the spun-off companies on our income statement under the line item "Income (loss) from discontinued operations" and (2) audited combined financial information in note 24 of our audited financial statements as of and for the six months ended October 31, 2006 and 2005, combining our results of operations with those of Usina São Martinho S.A. for the six months ended October 31, 2005. See "—Combined Financial Information."

Our results of operations for the fiscal years ended April 30, 2006, 2005 and 2004 are fully comparable.

Separate Financial Statements of Usina São Martinho S.A.

We have included in this offering memorandum separate consolidated audited financial statements as of and for the fiscal years ended April 30, 2006, 2005 and 2004 of Usina São Martinho S.A., prepared in accordance with Brazilian GAAP, which differs in significant respects from U.S. GAAP. Our controlling shareholders contributed all of the remaining share capital of Usina São Martinho S.A. to our company on September 28, 2006 as part of the São Martinho Capital Contribution. Prior to the São Martinho Capital Contribution, we owned 11.4% of the total share capital of Usina São Martinho S.A., and our controlling shareholders jointly controlled and managed this company together with us. Usina São Martinho S.A. is a major producer of sugar and ethanol through its ownership and operation of our São Martinho mill. We have included in this offering memorandum separate financial statements and financial information for Usina São Martinho S.A. because it has become our principal subsidiary as a result of the São Martinho Capital Contribution.

Usina São Martinho S.A.'s consolidated financial statements as of and for the fiscal years ended April 30, 2006, 2005 and 2004 have been audited by Deloitte and are included elsewhere in this offering memorandum.

Presentation of financial and other information

Combined Financial Information

As part of the São Martinho Capital Contribution (which was undertaken by our controlling shareholders in conjunction with a corporate reorganization), our controlling shareholders contributed the remaining 88.6% of the outstanding share capital of Usina São Martinho S.A. to our company on September 28, 2006. As we were under common control with Usina São Martinho S.A. at the time of the São Martinho Capital Contribution, we accounted for the São Martinho Capital Contribution using the historical book value of Usina São Martinho S.A. in accordance with Brazilian GAAP. In addition, as we were under common control and common management with Usina São Martinho S.A. at the time of the São Martinho Capital Contribution, we are permitted under Brazilian GAAP to present combined financial information for periods prior to September 28, 2006 (combining our operations with those of Usina São Martinho S.A.). Accordingly, we have included in this offering memorandum audited combined financial information as of and for the fiscal years ended April 30, 2006, 2005 and 2004 and as of and for the six months ended October 31, 2005, which is set forth in notes 19.3 and 24, respectively, and has been audited by Deloitte. All inter-company transactions have been eliminated in the combination, including the proportional consolidation in our consolidated financial statements of our 11.4% interest in Usina São Martinho S.A.

We have prepared this combined financial information under Brazilian GAAP on the basis of:

- our historical consolidated financial statements as of and for the fiscal years ended April 30, 2006, 2005 and 2004;
- our historical consolidated financial information as of and for the six months ended October 31, 2005;
- Usina São Martinho S.A.'s historical consolidated financial statements as of and for the fiscal years ended April 30, 2006, 2005 and 2004; and
- Usina São Martinho S.A.'s historical consolidated financial information as of and for the six months ended October 31, 2005.

In accordance with Brazilian GAAP, our financial statements as of and for the six months ended October 31, 2006 have been presented on a consolidated basis, as they fully consolidate our 100% ownership interest in Usina São Martinho S.A. for all periods commencing on or after May 1, 2006 even though the São Martinho Capital Contribution occurred on September 28, 2006.

Discontinued Operations

On April 30, 2006 (retroactively effective as of March 31, 2006 for accounting purposes), we and Usina São Martinho S.A. effected the Spin-Off. We have presented the combined results of the assets and liabilities included in the Spin-off on our income statement under the line item "Income (loss) from discontinued operations" to assist investors in analyzing our results of operations excluding the effects of the Spin-Off. The financial information of these spun-off assets and liabilities is not included in the combined financial information presented in this offering memorandum.

Harvest and Fiscal Year

The annual sugarcane harvesting period in the Center-South region of Brazil, where our sugarcane mills are located, generally covers a seven-month period that generally commences in May and ends in November of each year. Accordingly, our fiscal year begins on May 1 of each year and ends on April 30 during the subsequent year, such that fiscal year 2006 commenced on May 1, 2005 and ended on April 30, 2006. Due to the fact that the fiscal year includes parts of two calendar years, we refer to a particular harvest during a particular calendar year as a harvest beginning in one calendar year and ending in the immediately succeeding calendar year, such that we refer to the harvest that commenced in May 2005 and ended in November 2005 as the 2005/2006 harvest. However, for purposes of calculating income and social contribution taxes in accordance with Brazilian tax laws, the applicable year ends on December 31.

Presentation of financial and other information

As a result of a recent trend in the Center-South region of Brazil to commence the harvest in April of each year (rather than May), our 2006/2007 harvest ended in October 2006, and our fiscal year 2007 will end on March 31, 2007 (an 11-month period). Thereafter, our subsequent harvests and fiscal years will commence on April 1 of each year and end on March 31 of the subsequent year.

Share Split

On November 24, 2006, our shareholders authorized the two-for-one split of all of our outstanding shares. Unless otherwise indicated, all references to numbers of shares and per share amounts in this offering memorandum have been adjusted to give effect to this two-for-one share split. As this share split occurred after the date of our most recent balance sheet included elsewhere in this offering memorandum, references to numbers of shares and dividend amounts in our Financial Statements have not been adjusted to give effect to the share split. In addition, all references to numbers of shares in this offering memorandum do not give effect to the exercise of the over-allotment option by the Brazilian underwriter.

Market Data

We obtained the market and competitive position data, including market forecasts, used throughout this offering memorandum from internal surveys, market research, publicly available information and industry publications. We include data from reports prepared by the Cooperative of Sugarcane, Sugar and Alcohol Producers of the State of São Paulo (*Cooperativa de Produtores de Cana-de-açúcar, Açúcar e Álcool do Estado de São Paulo*), or Copersucar, and other sources, such as LMC International Ltd., or LMC, the Central Bank of Brazil (*Banco Central do Brasil*), or the Central Bank, *União da Agroindústria Canavieira de São Paulo*, or UNICA, *Datagro Publicações Ltda.*, or Datagro, F.O. Licht, Pro-sugarcane Communications Sales and Support Ltd. (*Apoio e Vendas Procana Comunicações Ltda.*), the São Paulo Commodities and Futures Exchange (*Bolsa de Mercadorias e Futuros*), or BM&F, the International Sugar Organization, the Brazilian National Economic and Social Development Bank (*Banco Nacional de Desenvolvimento Econômico e Social*), or BNDES, the New York Board of Trade, or the NYBOT, the Brazilian National Association of Automotive Vehicle Manufacturers (*Associação Nacional de Fabricantes de Veículos Automotores*), or ANFAVEA, Case IH (CNH America LLC), the Brazilian Ministry of Agriculture, Cattle Raising and Development (*Ministério da Agricultura, Pecuária e Desenvolvimento*), or MAPA, the Brazilian National Supply Company (*Companhia Nacional de Abastecimento*), or CONAB, the United States Department of Agriculture, or USDA, the Brazilian Foreign Trade Office/Ministry of Development, Industry and Foreign Trade (*Secretaria de Comércio Exterior/Ministério de Desenvolvimento, Indústria e Comércio Exterior*), or SECEX/MDIC, and the London International Financial Futures and Options Exchange. Industry publications, including those referenced here, generally state that the information presented therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and neither we, the selling shareholders, the Brazilian underwriter nor the placement agent make any representation as to the accuracy of such information.

Technical and Other Terms

As used in this offering memorandum, the following terms have these meanings:

- Raw Value means the equivalent in terms of raw sugar testing 96 sugar degrees, as determined by a polarimetric test performed in accordance with procedures recognized by the International Commission for Uniform Methods of Sugar Analysis (ICUMSA).

- Sugar means any grade or type of saccharine product derived, directly or indirectly, from sugarcane or sugar beets and consisting of, or containing, sucrose or invert sugar, including all raw sugar, refined crystalline sugar, liquid sugar, edible molasses, and cane syrup.
- MTBE means methyl tertiary butyl ether, which is used primarily as an octane booster for gasoline.

Rounding

We have made rounding adjustments to reach some of the figures included in this offering memorandum. Accordingly, numerical figures shown as totals in some tables may not be an arithmetic aggregation of the figures that preceded them.

(This page intentionally left blank)

SUMMARY

This summary highlights information presented in greater detail elsewhere in this offering memorandum. This summary is not complete and does not contain all of the information you should consider before investing in our common shares. You should carefully read this entire offering memorandum before deciding whether to invest in our common shares, including the "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections and our consolidated financial statements and notes to those statements, included elsewhere in this offering memorandum. Unless otherwise specified, all financial information included in this offering memorandum has been prepared on a combined basis for fiscal years ended April 30, 2006, 2005 and 2004 and the six months ended October 31, 2005, combining the operations of our company with those of Usina São Martinho S.A. in accordance with Brazilian GAAP. As a result of the São Martinho Capital Contribution and in accordance with Brazilian GAAP, we have fully consolidated Usina São Martinho S.A. for all periods commencing on or after May 1, 2006. See "Presentation of Financial and Other Information."

Overview

We are one of the largest producers of sugar and ethanol in Brazil. We purchase, cultivate, harvest and crush sugarcane – the main raw material used in our sugar and ethanol operations. We believe that:

- we are the second largest crusher of sugarcane in Brazil, having crushed 9.7 million tons of sugarcane during the 2005/2006 harvest, and Brazil is the largest crusher of sugarcane in the world;
- we are the second largest ethanol producer in Brazil, having produced 440.0 thousand cubic meters during the 2005/2006 harvest; and
- we are the fifth largest sugar producer in Brazil, having produced 597.3 thousand tons of sugar during the 2005/2006 harvest.

We cultivate and harvest sugarcane on land with a total area of 88,600 hectares (approximately 219,000 acres). We lease approximately 46,900 hectares (or 52.9%) of this total area from third parties (with whom we have long-standing relationships and some of whom are our shareholders or other related parties (representing 40,000 hectares, or approximately 85.3% of our total leased lands), which we refer to collectively as our partners) under renewable contracts that generally have approximately six-year terms. We own the remaining 41,800 hectares (or 47.1%) of the total area on which we cultivate and harvest sugarcane. We also purchase sugarcane from third party suppliers to whom we generally provide harvesting and planting services (the cost of which we offset against the purchase price we pay for this sugarcane). These purchases represented approximately 30.7% of the total sugarcane that we crushed during the 2005/2006 harvest.

The following table sets forth certain financial information and operating data for the periods and fiscal years indicated:

	As of and for the Six Months Ended October 31,	As of and for the Fiscal Years Ended April 30,		
	2006	2006	2005	2004
	(consolidated)		(combined)	
	(in millions of *reais*, except percentages, ratios and tons)			
Net sales revenue	462.9	793.2	648.2	518.0
Net income(loss)	58.6	74.3	35.8	(25.6)
EBITDA(1)	147.3	220.9	164.2	89.4
EBITDA margin(2)	31.8%	27.8%	25.3%	17.3%
Net profit margin(3)	12.7%	9.4%	5.5%	(4.9%)
Net debt(4)	241.6	158.5	213.6	293.2
Net debt/ EBITDA ratio(5)	0.9	0.7	1.3	3.3
Tons of sugarcane crushed	9.2	9.7	9.5	8.8
São Martinho mill	6.7	7.1	6.8	6.1
Iracema mill	2.5	2.6	2.7	2.7

(1) We define EBITDA as our net income, adjusted for our financial income (expenses), net, income tax and social contribution, income (loss) from discontinued operations, depreciation and amortization and non-operating income (expenses), net. In calculating EBITDA, we do not adjust for our proportionate share of the results on derivative financial instruments entered into by Copersucar to protect against sugar and ethanol price fluctuation risk, which amounts reflected losses of R$6.6 million during the six months ended October 31, 2006 and R$37.8 million and R$5.7 million during the fiscal years ended April 30, 2006 and 2005, respectively. However, in calculating EBITDA, we have adjusted EBITDA for income (loss) from discontinued operations and non-operating income (expenses), net. We believe that EBITDA serves as a useful tool for measuring our operating cash flow performance. However, EBITDA is not a recognized measure under Brazilian GAAP, and because not all companies use identical calculations, our presentation of EBITDA may not be comparable to other similarly titled measures or to free cash flow for our discretionary use, as it does not consider certain cash requirements, such as interest payments, tax payments and debt service payments. EBITDA should not be considered as an alternative to net income (loss) as an indicator of our operating performance, or as an alternative to cash flow as an indicator of liquidity. For a reconciliation of EBITDA to our net income, see "—Summary of Financial and Other Information" and "Selected Financial and Other Information."

(2) EBITDA margin is EBITDA divided by net sales revenue.

(3) Net profit margin is net income divided by net sales revenue.

(4) Net debt is the sum of total short- and long-term loans and financings, *plus* all obligations to Copersucar relating to advances on foreign exchange contracts and for working capital, *less* cash and cash equivalents. For purposes of calculating our net debt, (1) our loans and financings include obligations in an aggregate amount of R$118.7 million as of October 31, 2006 and R$124.2 million, R$134.4 million and R$133.6 million as of April 30, 2006, 2005 and 2004, respectively, under the Special Agricultural Financing Program (*Programa Especial de Saneamento de Ativos*), or PESA, a program established by the Brazilian government to extend the repayment period of debt incurred by Brazilian agricultural producers and (2) our obligations to Copersucar totaled R$15.8 million as of October 31, 2006 and R$21.1 million, R$42.9 million and R$85.0 million as of April 30, 2006, 2005, 2004, respectively. We classify our PESA obligations as Securitized Rural Credits (*Créditos Rurais Securitizados*). See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness" and note 12 to our consolidated financial statements and financial information included elsewhere in this offering memorandum.

(5) Net debt/EBITDA ratio is the ratio of our net debt as of the end of the applicable period divided by our EBITDA for the then-most recently concluded period of four consecutive fiscal quarters, including the four consecutive fiscal quarters ended October 31, 2006. In addition, due to the effects of seasonality on our business, we incurred more debt during the six months ended October 31, 2006 than during the rest of our fiscal year ended April 30, 2006 in order to finance our inventory.

We currently conduct our sugar and ethanol operations through our two mills, Iracema and São Martinho, which are located in the state of São Paulo, approximately 163 kilometers and 320 kilometers, respectively, from the city of São Paulo, and 235 kilometers and 392 kilometers, respectively, from the port of Santos. We believe that our São Martinho mill:

- was the largest sugarcane crushing mill in Brazil during the 2005/2006 harvest, having achieved the following world sugarcane-crushing records for a single sugarcane mill during that harvest: (1) crushing 14,560 tons of sugarcane in a single eight-hour shift; (2) crushing 42,526 tons of sugarcane in a single 24-hour period; (3) crushing 1.2 million tons of sugarcane in a single calendar month; and (4) crushing 7.1 million tons of sugarcane during the entire harvest;

- has an average capacity to produce 3,000 tons of sugar daily (assuming that 60% of the mill's production capacity is used to produce sugar and the remaining production capacity is used to produce ethanol); and

- produces a daily average of 2.0 thousand cubic meters of ethanol.

We have begun construction of a third mill, Boa Vista, in the city of Quirinópolis in the state of Goiás, which we expect will begin operating in the 2008/2009 harvest with an initial estimated annual sugarcane crushing capacity of 1.7 million tons and annual ethanol production capacity of 94.6 thousand cubic meters. We currently intend to increase the annual sugarcane crushing capacity and the annual ethanol production capacity of this mill to 3.0 million tons and 286.9 thousand cubic meters, respectively, by the 2010/2011 harvest and may further increase the production capacity of this mill thereafter. We anticipate that this additional mill will initially produce only hydrous ethanol, which is used primarily as fuel for vehicles that exclusively run on ethanol, or for flex-fuel vehicles, which are vehicles that can operate using gasoline or ethanol (or any mixture of both), and for industrial purposes. Our estimated capital expenditures to complete construction of this mill by the 2008/2009 harvest will total R$282.9 million (which is in addition to the R$60.1 million that we have already invested through December 2006).

On January 4, 2007, the Brazilian National Development Bank (*Banco Nacional de Desenvolvimento Econômico e Social*), or BNDES, authorized loans to our company up to an aggregate amount of R$248.9 million, a portion of the proceeds of which we intend to use for a variety of purposes related to the construction and development of our Boa Vista mill. This loan, however, remains subject to the negotiation and execution of definitive loan documentation. Accordingly, we cannot confirm when or whether we will receive the proceeds of these loans from BNDES.

We currently market and sell all of the sugar and ethanol produced by our Iracema and São Martinho mills, both domestically and for export, through Copersucar. Copersucar was founded in 1959 to provide marketing, sales, logistical and other services to its member companies. During the 2005/2006 harvest, Copersucar had 29 members that produce sugar and ethanol in the states of São Paulo, Minas Gerais and Paraná, which collectively crushed 57.0 million tons of sugarcane. Copersucar also owns and operates port and warehouse facilities at the Port of Santos in the state of São Paulo, from which it exports sugar and ethanol products manufactured by its members. During fiscal year 2006, the sugar and ethanol that we delivered to Copersucar represented approximately 17.9% and 16.5%, respectively, of Copersucar's total sales volumes (measured in tons and liters, respectively). We believe that our membership in Copersucar provides us with economies of scale resulting in competitive advantages, including: (i) lower sales costs; (ii) integrated logistics; (iii) a broad marketing and distribution network; and (iv) lower financing costs.

Our Main Products

Sugar

We are able to produce several types of raw sugar. Over the last three fiscal years, our main sugar product has been VVHP (or very, very high polarization) sugar, which is a type of sugar that is the trade standard in the international sugar market. Copersucar exports approximately 70.0% of the total sugar produced by its members to customers in 11 countries (predominantly sugar processing companies) located primarily in Asia and Africa. In Brazil, Copersucar sells our sugar products to sugar processing companies, wholesale distributors and food and beverage manufacturers. We delivered 597.3 thousand tons of sugar to Copersucar during the 2005/2006 harvest, resulting in R$339.5 million, or 42.8%, of our net revenue in fiscal year 2006 (which figure includes 29.7 thousand tons of sugar that we delivered to Copersucar during the 2004/2005 harvest and that was sold in fiscal year 2006).

Ethanol

We produce and sell both hydrous and anhydrous ethanol, as well as industrial alcohol that is used mainly to produce paint, cosmetics and alcoholic beverages. Anhydrous ethanol, which is used as a gasoline additive, was the most common form of ethanol consumed in Brazil until recently. However, sales of hydrous ethanol (which is used as fuel for flex-fuel and pure ethanol vehicles) have increased significantly during the last three years as sales of flex-fuel vehicles have grown from approximately 48,200 vehicles in 2003 to approximately 1.0 million vehicles during the nine months ended September 30, 2006, representing approximately 72.1% of overall new car sales in Brazil during such period. Copersucar sells the majority of its ethanol to fuel distribution companies in Brazil and exports the remaining amount to customers located in eight countries. We delivered 440.0 thousand cubic meters of ethanol to Copersucar during the 2005/2006 harvest, resulting in R$419.2 million, or 52.8%, of our net revenue in fiscal year 2006 (which figure includes 39.0 thousand cubic meters of ethanol that we delivered to Copersucar during the 2004/2005 harvest and that was sold in fiscal year 2006).

Other Products

We also produce ribonucleic acid, or RNA, a flavor enhancer and raw material that is used in the pharmaceutical and food industries, through our wholly-owned subsidiary, Omtek. We sell all of the RNA that we produce to Mitsubishi Corporation, or Mitsubishi, through a long-term contract that we entered into in 1992. In addition, we produce yeast, fusel oil (which is used as a solvent and in the manufacture of explosives and pure amyl alcohol) and bagasse (the pulp that remains after the juice is extracted from sugarcane) as by-products of our production of sugar and ethanol. We sell yeast and fusel oil directly to customers in Brazil, use bagasse to self-generate all of the steam and electricity that we need to operate our mills and sell excess bagasse to customers (primarily orange juice manufacturers) in Brazil for their generation of electricity and steam.

Brazil's Competitive Advantages in the Production of Sugarcane, Sugar and Ethanol

We believe that Brazilian producers of sugar and ethanol, including us, enjoy competitive advantages over sugar and ethanol producers in other countries due to the following factors:

Production scale and strong growth capacity. Brazil is the largest sugarcane, sugar and ethanol producer in the world. The sugar and ethanol industry accounted for approximately 1.8% of Brazil's gross domestic product and 6.5% of Brazil's agricultural gross domestic product in 2005. During the 2005/2006 harvest, Brazil produced:

- 386.6 million tons of sugarcane;
- 27.9 million tons of sugar, representing approximately 19% of global production, including sugar produced with sugar beet; and
- 15.9 million cubic meters of ethanol, representing approximately 35.5% of global production.

Brazil is also the largest sugar exporter in the world, with a total of 19.1 million tons of sugar (Raw Value) exported during the 2005/2006 harvest, representing approximately 38.7% of global exports.

Brazil has a vast territory and favorable climate, which results in a large supply of land available for sugarcane production. Sugarcane in Brazil is grown in the Center-South and North-Northeast regions, permitting Brazil to harvest sugarcane twice annually (between April and November in the Center-South region of Brazil and between September and March in the North-Northeastern region of Brazil). Only 4.1% of Brazil's agricultural land, or 6.2 million hectares, is currently used for sugarcane production, so Brazil should be able to expand its production capacity significantly depending on market conditions and the suitability of available land for sugarcane cultivation. Brazil's favorable growing conditions also permit sugarcane to be harvested five times before requiring re-planting, compared to (i) India, where, on average, sugarcane must be re-planted every two harvests, and (ii) the United States and other countries that harvest sugar beet, which has one annual crop and must be re-planted every year, as well as requiring crop rotations that range between three and five years.

Low-cost producer. Brazil is the lowest cost producer of sugar in the world due to its extremely favorable climate and soil, as well as technological improvements that it has developed in the production of sugar and ethanol. These technological improvements have resulted in longer harvesting cycles, higher sugarcane yield per hectare and increased sucrose content from crushed sugarcane, which has improved sugar output. Sugar production costs in Brazil are significantly lower than the world's other major sugar producers, including India, China, the United States, the United Kingdom, France and Germany. For example, during the 2004/2005 harvest, average production costs per ton of sugar in each of these countries were 93%, 76%, 138% (sugarcane)/181% (sugar beet), 187%, 205% and 296% higher, respectively, than the average cost of sugar produced in the Center-South region of Brazil.

Strong domestic demand. Brazil consumed approximately 9.7 million tons of sugar during the 2005/2006 harvest and is one of the world's largest sugar consuming markets. Sugar consumption in Brazil has continued to grow principally as a result of higher consumption of processed food products made with sugar. In addition, since the mid-1970s, the Brazilian government has promoted the use of ethanol as an alternative fuel, including through regulations requiring a compulsory mixture of ethanol (currently 23.0%) with gasoline. The introduction of flex-fuel vehicles in Brazil that can run on either gasoline or ethanol (or a combination of both), has increased ethanol demand. We believe that sales of flex-fuel vehicles, and related demand for hydrous ethanol, will likely continue to increase in Brazil significantly as older vehicles are replaced with newer models.

Our Strengths

Technological innovation and highly mechanized agro-industrial complex. We regularly seek to implement technological innovations in our planting, harvesting and manufacturing processes, which has greatly improved our productivity and reduced our operating costs in recent years. During the 2005/2006 harvest, we harvested approximately 70% of the sugarcane that we crushed using mechanized harvesters, which we operate 24-hours per day, seven days per week throughout the harvesting season. We are the most mechanized sugar and ethanol producer in Brazil and were the first major Brazilian sugar company to develop and use mechanized planting equipment. We have developed and implemented numerous technological improvements for our mechanized planting and harvesting equipment, which has significantly improved our productivity levels. As a result of these technological improvements, we have:

- decreased the number of mechanized harvesters that we use at our São Martinho mill by 20.8%, from 48 during the 1995/1996 harvest to 38 during the 2005/2006 harvest, while at the same time increasing the average amount of sugarcane harvested by each harvester by 100.1%, from 72.9 tons during the 1995/1996 harvest to 145.9 tons during the 2005/2006 harvest, which has substantially increased our productivity;

- increased our agricultural productivity to an average of 91.2 tons of sugarcane per hectare harvested during the 2005/2006 harvest, 10.1% higher than the average (82.8 tons) in the Center-South region of Brazil for this harvest;

- significantly reduced our need to burn our sugarcane crops. Burning is necessary prior to manual harvesting and is required by law to be phased out gradually by 2021. As we have invested substantially in mechanized harvesting equipment, we expect that our capital expenditures related to mechanization will be lower than the capital expenditures of certain of our competitors going forward;

- reduced our related operating costs and our number of workplace accidents, as mechanical harvesting is more labor intensive than mechanical harvesting; and

- been pioneers in the implementation of a Systems Applications and Products in Data Processing, or SAP, integrated management system in the Brazilian agribusiness industry. Through our SAP system, as entries are made for sales production and payments, corresponding journal entries are automatically posted. In addition, SAP provides us with access to standardized "best-practice" processes relating to financial accounting, controls, human resources, materials management and production planning, which we believe assists us in reducing our operating costs and provides us with a competitive advantage.

We believe that our productivity levels will continue to improve as a result of our continued investment in mechanization and other technological improvements. We plan to increase significantly our use of mechanized harvesters at our Iracema mill (as 39.5% of the sugarcane that it crushed during the 2005/2006 harvest was harvested with mechanized harvesters, compared to 85.8% of the sugarcane crushed by our São Martinho mill). We have planned our Boa Vista mill (which we anticipate will begin operating during the 2008/2009 harvest) to be highly automated, with centralized control that will allow us to operate it with fewer employees than our other mills. In addition, we expect that most of the planting and all of the harvesting for our Boa Vista mill will be mechanized.

Expansive lands strategically located in the Center-South region of Brazil and close to our mills. We cultivate and harvest sugarcane on land with a total area of 88,600 hectares (approximately 219,000 acres). We lease approximately 46,900 hectares (or 53.9%) of this total area from third parties (with whom we generally have long-standing relationships and some of whom are our shareholders or other related parties (representing 40,000 hectares, or approximately 85.3% of our total leased lands), which we refer to collectively as our partners) under renewable contracts that generally have approximately six-year terms. We own the remaining 41,800 hectares (or 47.1%) of the total area on which we cultivate and harvest sugarcane. We also purchase sugarcane from third party suppliers to whom we generally provide harvesting and planting services (the cost of which we offset against the purchase price we pay for this sugarcane). These purchases represented approximately 30.7% of the total sugarcane that we crushed during the 2005/2006 harvest.

The land on which we cultivate and harvest sugarcane benefits from favorable natural conditions in the Center-South region of Brazil, in which approximately 87% of Brazilian sugarcane was produced during the 2005/2006 harvest. Our expansive owned and leased lands are also strategically located within an average of 24 kilometers from our mills. This close proximity, coupled with our high level of mechanization, (i) reduces our transportation costs and (ii) allows us to begin processing our sugarcane within an average of nine hours from the time that it is harvested (as compared to an estimated average for the Center-South region of 36 to 48 hours), which enables us to maximize the extraction of sugar from the harvested sugarcane (as harvested sugarcane begins to lose its sugar content over time) and increase our productivity.

Our excellent logistical facilities lower our operating costs. Our mills are located in close proximity to railroad lines and Copersucar's port terminals and warehouses, thus decreasing delivery time, increasing operating efficiencies, reducing logistics costs and facilitating responses to shifts in demand. Our two mills, Iracema and São Martinho, are located in the state of São Paulo, approximately 163 kilometers and 320 kilometers, respectively, from the city of São Paulo, and 235 kilometers and 392 kilometers, respectively, from the port of Santos. We recently adapted the storage facilities at our São Martinho mill to allow us to store sugar in bulk (rather than in bags), which we believe will decrease significantly our storage costs and will facilitate exports of sugar, which is exported in bulk. Due to (i) our close proximity to Copersucar's port facilities (compared to other members) and (ii) the investments that we have made in our logistical and warehousing facilities (which we assign to Copersucar for its use), Copersucar reduced the selling expenses allocated to our company by R$4.6 million and R$5.0 million in fiscal years 2006 and 2005, respectively.

Financial strength and steady cash flow from operations. Our steady cash flow from operations and financial strength enable us to access financing sources on favorable terms and conditions to implement our business growth strategy. We recorded EBITDA of R$220.9 million, R$164.2 million and R$89.4 million, and an EBITDA margin of 27.8%, 25.3% and 17.3%, during fiscal years 2006, 2005 and 2004, respectively. As of April 30, 2006, our net debt totaled R$158.5 million (R$124.2 million of which consisted of PESA obligations), equivalent to approximately 0.7 times our EBITDA during fiscal year 2006. As a result of our capital expenditures that have significantly increased the level of mechanization of our Iracema mill and the ongoing construction of our Boa Vista mill, which will be highly automated, we believe that we have low operating costs that will us to continue to increase our cash flow from operations and improve our financial strength.

Experienced and professional management team. Our senior management has significant experience and knowledge in the sugar and ethanol industries and in our production and operations and has been employed by us for more than 10 years, and our controlling shareholders have more than 40 years of experience in the sugar and ethanol industry. Our management team and our other professionals are highly trained, and we have a results-oriented corporate culture that is focused on reducing operating costs and increasing revenues. We utilize human resource management tools that focus on the integration and motivation of our management team and other professionals to help maximize their effectiveness.

Membership in Copersucar. We are a member of Copersucar, which is:

- the cooperative entity that is the largest collective grower and processor of sugarcane in the world, the members of which collectively crushed 56.8 million tons of sugarcane during the 2005/2006 harvest;
- the cooperative entity that had the highest collective sales volume of sugar in Brazil, having sold 3.3 million tons of sugar during fiscal year 2006 (among the highest domestic sales volume in the world);
- the cooperative entity that had the highest collective export sales volume of sugar in the world, having exported approximately 2.4 million tons of sugar during fiscal year 2006 (representing approximately 5% of total worldwide sugar exports);
- the cooperative entity that had the highest collective sales volume of ethanol in Brazil, having sold 2,700 thousand cubic meters of ethanol during fiscal year 2006 (the second highest domestic sales volume in the world); and
- the cooperative entity that had the highest collective export sales volume of ethanol in the world, having exported 535.0 thousand cubic meters of ethanol during fiscal year 2006.

Copersucar's leading market position in terms of crushing and sales volume, large scale of operations, extensive port and warehouse facilities and solid credit rating give Copersucar a competitive advantage that enables it to lower its selling expenses, as it sells approximately 80% of its members' sugar products directly to end-users without using trading companies as intermediaries, and provide its members, including our company, with integrated logistics and access to a broad marketing and distribution network.

Our Strategy

Our strategy is to be one of the lowest cost sugar and ethanol producers in Brazil and one of the largest in the world, as well as one of the leading companies in the world in mechanized planting and harvesting of sugarcane and in automated production of sugar and ethanol, with a professional management team and a focus on developing additional value-added sugar and ethanol products. To achieve these goals, we intend to build on our competitive strengths to maintain steady and sustained profitable growth and to continue to create value for our shareholders. The main components of this strategy are to:

Grow organically and through strategic acquisitions or partnerships and new projects. To capitalize on the growing demand for ethanol both in Brazil and globally, and as we are currently operating at close to our maximum production capacity at our existing facilities, we have begun construction of a third mill, Boa Vista, in the city of Quirinópolis in the state of Goiás, which we anticipate will begin operating during the 2008/2009 harvest. We anticipate that this additional mill will be dedicated initially solely to the production of hydrous ethanol, which is used as fuel for flex-fuel vehicles.

In constructing our Boa Vista mill, we are building on the model of our existing operating facilities, leveraging our facility designs, incorporating our technological improvements and adding a production facility at a strategic location near expansive sugarcane plantations. Our Boa Vista mill will be located close to the Paranaíba River, which interconnects to the river port of São Simão in the state of Goiás, where we expect to transport our ethanol products via the Tietê-Paraná river system.

We plan to continue to expand through this and other potential new projects in the future. We also closely monitor the Brazilian sugar and ethanol industries and may pursue selective acquisitions in Brazil that present opportunities to increase economies of scale, operating synergies and productivity gains. Currently, we are analyzing the potential acquisition of a sugar mill in Brazil, possibly with our controlling shareholders. We currently plan to submit a bid to purchase this mill in a private auction at the end of January 2007. We also expect that our new Boa Vista mill, when constructed and operating, will generate approximately 41 megawatts of electricity in excess of our internal needs, which electricity we plan to sell to third parties at market rates. As this electricity will be generated by burning bagasse and the electricity generated from bagasse is a clean, renewable energy source that complements Brazil's predominantly hydroelectric energy generation, we expect that these electricity sales will improve our profitability, as bagasse is a by-product of our production of sugar and ethanol that we produce without any incremental cost. We also plan to sell the excess Assigned Amount shares (AAUs, or carbon emission credits) generated by this process to companies in countries that are not in compliance with the Kyoto Protocol to the United Nations Framework Convention on Climate Change, or the Kyoto Protocol, emission levels.

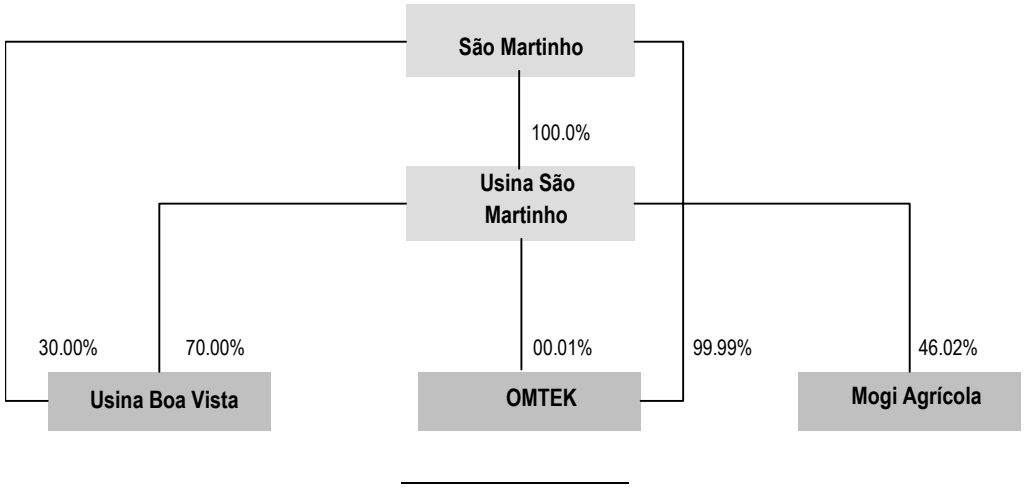
Continue to reduce our operating costs and increase our operating efficiencies. We intend to continue to focus on improving the efficiency of our operations through additional investments in technology, including agricultural, industrial and logistical processes and information technology. As part of this effort, we intend to increase the level of mechanization of our Iracema mill. In addition, we have planned our Boa Vista mill to be highly automated, with centralized control that will allow us to operate with relatively fewer employees, and expect that the majority of the planting and all of the harvesting for our Boa Vista mill will be mechanized. We also plan to use technology to continue to improve further our management information and internal control systems, which should help to facilitate and accelerate our decision-making capabilities, while maintaining tight controls.

Expand our participation in the international sugar and ethanol markets. We intend to use our existing production flexibility and our new Boa Vista mill to take advantage of additional export opportunities that we believe will emerge over the medium- to long-term from the liberalization of trade and import restrictions that currently limit our access to certain large sugar and ethanol markets, and the growing use of ethanol as an alternative, renewable and clean fuel, including as a gasoline additive.

Our History

The group of companies that led to the formation of our company as it currently exists began in 1938 with the acquisition of Usina Iracema Ltda., which owned our Iracema mill. In 1943, we transformed Usina Iracema Ltda. from a limited liability company to a corporation under Brazilian law and changed its name to Companhia Industrial e Agrícola Ometto (which was the name of our company until September 28, 2006, when our name was changed to São Martinho S.A. in connection with the São Martinho Capital Contribution).

Seeking to expand our business, we and our controlling shareholders acquired Usina São Martinho S.A., which owned our São Martinho mill, in 1950. As a result of the São Martinho Capital Contribution, we currently own all of the outstanding share capital of Usina São Martinho S.A. Our current corporate structure is set forth below.



Our principal executive office is located at Rua Geraldo Flausino Gomes, 61 – cj. 132 – Brooklin Novo, 04575-060, in the city of São Paulo, state of São Paulo, Brazil. Our telephone number is 55-11-2105-4100, and our facsimile number is 55-11-2105-4141.

Our web site address is http://www.saomartinho.ind.br. Information on our website is not incorporated into this offering memorandum and should not be relied upon in determining whether to make an investment in our shares.

Summary of The Offering

Issuer	São Martinho S.A.
Selling Shareholders	Mariangela Ometto Rolim, Francisco Pazelli Ometto, Orlando Corrêa da Silva Ometto, Eduardo Corrêa da Silva Ometto, Otávio Corrêa da Silva Ometto, Odila Ometto Lotufo, Luiz Olavo Baptista, Norma Mello Rossetti, Agenor Cunha Pavan, Thiago Cunha Pavan and Adriana Cunha Pavan.
Common Shares offered in the Offering	A total of 10,236,870 common shares are being offered by us, and a total of 8,184,000 common shares are being offered by the selling shareholders: ➤ to the public in Brazil, in reliance on CVM Regulations and Regulation S under the Securities Act; ➤ to qualified institutional buyers in the United States, in reliance on exemptions from registration under the Securities Act; and ➤ to institutional and other investors elsewhere outside the United States and Brazil to purchasers that are not U.S. persons, in reliance on Regulation S under the Securities Act.
Over-allotment option	We have granted to Banco UBS Pactual S.A. an option for a period of 30 days from the date of this offering memorandum to place up to an additional 2,763,130 shares at the offering price to cover over-allotments, if any.
Offering Price	R$20.00 per share.
Share Capital	Our share capital immediately prior to the offering consists of 100,000,000 common shares. Immediately after the offering, we will have 110,236,870 common shares outstanding, assuming no exercise of the over-allotment option by Banco UBS Pactual S.A.
Use of Proceeds	We estimate that our net proceeds from the offering will be approximately R$193.4 million. We intend to use the net proceeds from this offering to invest in (i) the construction of the Boa Vista mill with approximately 40% of such net proceeds, (ii) technological improvements and modernization of our São Martinho and Iracema mills with approximately 20% of such net proceeds and (iii) increasing our production capacity with approximately 40% of such net proceeds, either through acquisitions or strategic partnerships. For further information, see "Use of Proceeds." We will not receive any proceeds from the sale of common shares by the selling shareholders.

Voting Rights	Holders of our common shares are entitled to one vote per common share in all shareholders' meetings. See "Description of Share Capital—Rights of Common Shares."
Tag-along Rights	As long as our common shares trade on the *Novo Mercado*, any person who acquires control of our company will be required to make a tender offer within 90 days for all of the remaining publicly traded common shares at a price per common share equivalent to not less than the price paid per share for the controlling stake. See "Description of Share Capital."
Dividends	The Brazilian Corporation Law and our by-laws require us to distribute at least 25% of our annual adjusted net income, as calculated under Brazilian GAAP and the Brazilian Corporation Law (which differs in certain significant respects from net income as calculated under U.S. GAAP), unless the payment of dividends is suspended by our board of directors after having concluded that such distribution would be incompatible with our financial condition.
Lock-up Agreements	We, our controlling shareholders, the selling shareholders, our directors and officers have agreed that, subject to certain exceptions, we and they will not issue, offer, sell, or otherwise dispose of any shares of our share capital or securities convertible into or exchangeable or exercisable for any shares of our share capital without the prior express approval of Banco UBS Pactual S.A. during the 180-day period begining February 8, 2007. According to the rules of the *Novo Mercado,* the members of our board of directors and our controlling shareholder, subject to certain exceptions, cannot sell or offer to sell shares issued by us for the first six months after the beginning of the trading of our common shares on the *Novo Mercado*. After this initial period of six months, the members of our board of directors and our controlling shareholder will not be entitled to sell or offer more than 40% of the common shares issued by us for an additional six months. However, this limitation will not apply in the event of the assignment or loan of common shares for the purpose of exercising market-making activities by entities registered with the BOVESPA, provided, however, that the amount of such assignment or loan of common shares does not exceed 15% of the total of our common shares available in the market.

Protective Provision Against Hostile Takeovers	Our by-laws contain a provision that may: (1) hinder takeover attempts of our company by requiring prior negotiation with our current controlling shareholders; and (2) avoid concentration of our common shares in the hands of a small group of investors and facilitate the maintenance of a widely-dispersed shareholder base. Accordingly, any shareholder (except our current controlling shareholders and certain other investors who may become our shareholders through certain transactions set forth in our by-laws) who becomes the holder of 10% or more of our outstanding shares must make a public offer to purchase all of our remaining shares at fair market value within 30 days of the date that this 10% threshold was first met. This provision may hinder, delay or prevent merger or takeover attempts of our company that may be of interest to our shareholders.
Listing	On January 18, 2007, we entered into the *Novo Mercado* Participation Agreement with the BOVESPA, which is expected to become effective on the first business day following the publication of the notice of commencement of this offering. We expect that our common shares will be approved for listing on the *Novo Mercado* segment of the BOVESPA under the symbol "SMTO3" prior to the closing of this offering.
Transfer Restrictions	Our common shares have not been registered under the Securities Act and are subject to restrictions on transfer. For information on restrictions on transfer of our common shares, see "Transfer Restrictions." Transfer of our shares, including by and between residents of jurisdictions outside Brazil, may only be effected in Brazil.
Risk factors	See "Risk Factors" and the other information included in this offering memorandum for a discussion of factors you should consider before deciding to invest in our common shares.

SUMMARY FINANCIAL AND OTHER INFORMATION

The following summary financial data has been derived from (1) our consolidated financial statements as of and for the six months ended October 31, 2006 and (2) our combined financial information included in notes 19.3 and 24 of our consolidated financial statements as of and for April 30, 2006, 2005 and 2004 and as of and for the six months ended October 31, 2005, respectively, in each case audited by our independent auditors Deloitte and included elsewhere in this offering memorandum.

Our financial statements have been prepared in accordance with Brazilian GAAP.

This financial information should be read in conjunction with "Presentation of Financial and Other Information," "Selected Financial and Other Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements of our company and Usina São Martinho S.A., including the notes thereto, included elsewhere in this offering memorandum.

	As of and for the Six Months Ended October 31,			As of and for the Fiscal Year Ended April 30,			
	2006	2006	2005	2006	2006	2005	2004
	(consolidated)		(combined)		(combined)		
	(in millions of US$, except financial ratios)	(in millions of *reais*, except financial ratios)		(in millions of US$, except financial ratios)	(in millions of *reais*, except financial ratios)		
Income statement data:							
Net sales revenues:							
Sugar	US$107.8	R$231.1	R$164.7	US$158.4	R$339.5	R$312.7	R$293.2
Hydrous ethanol	58.1	86.0	46.7	147.9	102.3	80.6	37.9
Anhydrous ethanol	40.1	124.5	124.7	47.7	316.9	223.6	157.1
Other	9.9	21.3	20.5	16.1	34.5	31.3	29.8
Total net sales revenues	215.9	462.9	356.6	370.1	793.2	648.2	518.0
Cost of goods sold and services rendered	(136.2)	(291.9)	(254.0)	(251.0)	(537.8)	(432.9)	(366.2)
Gross profit	79.7	171.0	102.6	119.1	255.4	215.3	151.8
Selling, general, and administrative expenses	(36.9)	(79.0)	(62.4)	(57.2)	(122.8)	(129.8)	(130.2)
Other operating income (expenses), net	0.4	0.6	0.4	0.5	1.0	1.1	(2.6)
Financial income (expenses), net	(2.6)	(5.5)	(13.8)	(13.2)	(28.2)	(32.1)	(41.2)
Non-operating income (expenses), net	0.6	1.3	0.6	0.7	1.5	0.9	(6.6)
Income and social contribution taxes	(13.9)	(29.8)	(9.7)	(18.1)	(38.8)	(18.8)	3.8
Income (loss) from discontinued operations	–	–	6.8	2.9	6.2	(0.8)	(0.6)
Net income (loss)	US$27.3	R$58.6	R$24.5	US$34.7	R$74.3	R$35.8	R$(25.6)
Net profit (loss) per share	US$0.28	R$0.59	R$0.36	US$0.51	R$1.09	R$0.53	R$(0.38)
Balance sheet data (at period end):							
Cash and cash equivalents	US$32.9	R$70.4	R$65.8	US$48.3	R$103.5	R$53.4	R$49.8
Accounts receivable – Copersucar	25.2	54.0	31.5	21.0	45.1	36.2	54.2
Inventory	165.7	355.2	286.6	66.6	142.7	149.8	116.5
Taxes recoverable	8.6	18.4	11.8	6.1	13.1	8.4	14.2
Other short-term assets	6.1	13.0	21.6	10.3	22.1	14.6	26.7
Long-term assets	36.3	77.7	97.7	37.7	80.7	99.9	118.2
Property, plant and equipment	567.8	1,216.9	1,160.6	578.0	1,238.9	1,204.0	1,210.7
Assets from discontinued operations	–	–	37.1	–	–	36.2	35.9
Total assets	842.6	1,805.6	1,712.7	768.0	1,646.1	1,602.5	1,626.2
Short-term loans and financings	47.6	102.1	106.5	25.8	55.3	37.1	47.7
Trade accounts payable	32.2	69.1	55.9	21.1	45.3	49.0	25.8
Short-term accounts payable – Copersucar	1.0	2.2	12.3	0.8	1.8	17.5	75.4
Payroll and social contribution	14.7	31.5	28.0	9.2	19.7	15.8	14.5
Taxes payable	2.8	6.0	6.4	1.6	3.4	4.7	3.7
Funds from related parties	–	–	–	–	0.1	3.7	3.1
Dividends payable	7.0	14.9	6.7	2.1	4.6	2.0	–
Other short-term liabilities	5.6	11.9	2.3	0.9	2.0	3.0	2.7
Long-term loans and financings	90.6	194.1	186.5	86.8	186.0	186.8	210.3
Long-term accounts payable – Copersucar	96.3	206.4	193.7	95.1	203.9	195.8	180.5
Deferred taxes	54.6	117.1	120.8	55.9	119.7	117.9	119.8
Provision for contingencies	31.4	67.2	56.9	30.4	65.1	53.6	51.4
Other long-term liabilities	1.1	2.2	3.5	1.6	3.3	5.4	7.6
Liabilities from discontinued operations	–	–	6.2	–	–	2.3	2.6
Total liabilities	384.9	824.7	785.7	331.3	710.2	694.6	745.1
Shareholders' equity	457.7	980.9	927.0	436.7	935.9	907.9	881.1
Total liabilities and shareholders' equity	842.6	1,805.6	1,712.7	768.0	1,646.1	1,602.5	1,626.2
Other data:							
Depreciation and amortization	25.5	54.7	48.6	40.7	87.3	77.6	70.4
EBITDA(2)	68.7	147.3	89.2	103.1	220.9	164.2	89.4
EBITDA margin(3)	31.8%	31.8%	25.0%	27.8%	27.8%	25.3%	17.3%
Net debt(4)	112.7	241.6	255.2	74.0	158.5	213.6	293.2
Net debt/EBITDA ratio(5)	0.9	0.9	2.9	0.7	0.7	1.3	3.3
Operating capital expenditures(6)	40.0	85.9	–	57.6	123.4	71.4	79.0

(1) Solely for the convenience of the reader, Brazilian *real* amounts as of and for the fiscal year ended April 30, 2006 and the six months ended October 31, 2006 have been translated into U.S. dollars at the exchange rate as of October 31, 2006 of R$2.143 to U.S.$1.00. See "Exchange Rates" for further information about recent fluctuations in exchange rates.

(2) We evaluate our business performance based primarily upon our operating margin, or the spread between the average price of our products and the sum of our cost of goods sold and operating expenses. We also focus on the volume and quality of products that we produce and deliver to Copersucar, the price and cost per unit sold and ultimately, our EBITDA. We define EBITDA as our net income, adjusted for our financial income (expenses), net, income tax and social contribution, income (loss) from discontinued operations, depreciation and amortization and non-operating income (expenses), net. In calculating EBITDA, we do not adjust for our proportionate share of the results on derivative financial instruments entered into by Copersucar to protect against sugar and ethanol price fluctuation risk, which amounts reflected losses of R$6.6 million and R$4.2 million during the six months ended October 31, 2006 and 2005, respectively and R$37.8 million and R$5.7 million during the fiscal years ended April 30, 2006 and 2005, respectively. However, in calculating EBITDA, we have adjusted EBITDA for income (loss) from discontinued operations and non-operating income (expenses), net. We believe that EBITDA serves as a useful tool for measuring our operating cash flow performance. However, EBITDA is not a recognized measure under Brazilian GAAP, and because not all companies use identical calculations, our presentation of EBITDA may not be comparable to other similarly titled measures or to free cash flow for our discretionary use, as it does not consider certain cash requirements, such as interest payments, tax payments and debt service payments. EBITDA should not be considered as an alternative to net income (loss) as an indicator of our operating performance, or as an alternative to cash flow as an indicator of liquidity. For a reconciliation of EBITDA to our net income, see "—Summary of Financial and Other Information" and "Selected Financial and Other Information." We calculate our EBITDA as follows:

	As of and for the Six Months Ended October 31,			As of and for the Fiscal Year Ended April 30,			
	2006	2006	2005	2006	2006	2005	2004
	(consolidated)		(combined)		(combined)		
	(in millions of US$, except financial ratios)	(in millions of *reais*, except financial ratios)		(in millions of US$, except financial ratios)	(in millions of *reais*, except financial ratios)		
Net income (loss)	US$27.2	R$58.6	R$24.5	US$34.7	R$74.3	R$35.8	R$(25.6)
Adding back:							
Financial (income) expenses, net	2.6	5.5	13.8	13.2	28.2	32.1	41.2
Income and social contribution taxes	13.9	29.8	9.7	18.1	38.8	18.8	(3.8)
(Income) loss from discontinued operations	–	–	(6.8)	(2.9)	(6.2)	0.8	0.6
Depreciation and amortization	25.5	54.7	48.6	40.7	87.3	77.6	70.4
Non-operating (income) expenses, net	(0.6)	(1.3)	(0.6)	(0.7)	(1.5)	(0.9)	6.6
EBITDA	68.7	147.3	89.2	103.1	220.9	164.2	89.4

(3) EBITDA margin is EBITDA divided by net operating revenues, expressed as a percentage.

(4) Net debt is the sum of total short- and long-term loans and financings, *plus* all obligations to Copersucar relating to advances on foreign exchange contracts and for working capital, *less* cash and cash equivalents. For purposes of calculating our net debt, (1) our loans and financings include obligations in an aggregate amount of R$118.7 million and R$126.8 million as of October 31, 2006 and 2005, respectively, and R$124.2 million, R$134.4 million and R$133.6 million as of April 30, 2006, 2005 and 2004, respectively, under the PESA, a program established by the Brazilian government to extend the repayment period of debt incurred by Brazilian agricultural producers and (2) our obligations to Copersucar totaled R$15.8 million and R$28.1 million as of October 31, 2006 and 2005, respectively, and R$21.1 million, R$42.9 million and R$85.0 million as of April 30, 2006, 2005, 2004, respectively. We classify our PESA obligations as Securitized Rural Credits (*Créditos Rurais Securitizados*). See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness" and note 12 to our consolidated financial statements as of and for the six months ended October 31, 2006 and 2005 and note 10 to our consolidated financial statements as of and for the years ended April 30, 2006, 2005 and 2004 included elsewhere in this offering memorandum.

(5) Net debt/EBITDA ratio is the ratio of our net debt as of the end of the applicable period divided by our EBITDA for the then-most recently concluded period of four consecutive fiscal quarters, including the four consecutive fiscal quarters ended October 31 of each fiscal year. In addition, due to the effects of seasonality on our business, we incurred more debt during the six months ended October 31 of each fiscal year than during the rest of our fiscal year in order to finance our inventory.

(6) Represents operating capital expenditures determined on the accrual basis for property, plant and equipment, including expenditures for crop formation, and excluding expenditures for acquisitions of land. Total capital expenditures determined on the accrual basis for permanent assets (investments, property, plant and equipment, deferred charges and premium (discount) on the acquisition of investments) are presented in the Statement of Changes in Financial Position in our and Usina São Martinho S.A.'s consolidated financial statements included elsewhere in this offering memorandum.

RISK FACTORS

Investing in our shares involves a high degree of risk. You should carefully consider the risks and uncertainties described below and the other information in this offering memorandum before making an investment in our shares. The risks described below are not the only ones facing our company or investments in Brazil in general. Our business, financial condition, results of operations and/or prospects could be materially adversely affected by any of these risks. Additional risks not presently known to us or that we currently deem immaterial may also impair our business, financial condition, results of operation and/or prospects. The market price of our shares can decrease due to any of these risk factors and you may lose part or all of your investment.

When a risk below is described as able to cause an "adverse effect" on us or "adversely affect" us, we mean that this risk may materially adversely affect our business, financial condition, results of operations, prospects and/or the market price of our shares.

Certain Factors Relating to Our Business and Industries

Fluctuations in the price of our products, as well as Brazilian and global economic, political and financial uncertainties, may adversely affect us.

The sugar and ethanol industries, both globally and in Brazil, have historically been cyclical and sensitive to domestic and international changes in supply and demand, causing fluctuations in the prices of these products, as well as in our profit margins. In addition, sugar and ethanol are commodities and are subject to price fluctuations that generally affect commodities. Various factors beyond our control contribute to the volatility in the prices of sugar, ethanol and other sugarcane by-products, including:

- the demand for sugar, ethanol and other sugarcane by-products both in Brazil and abroad;
- climatic conditions and natural disasters in areas where sugarcane is cultivated;
- the production capacity of our competitors;
- government incentives and subsidies to promote the production, domestic sale, export and consumption of these products both in Brazil and in other countries that produce sugar and ethanol;
- the availability of substitutes for sugar, ethanol and other sugarcane by-products such as saccharine, high fructose corn syrup, or HFCS, and petroleum derivatives; and
- developments in trade negotiations through the World Trade Organization, or the WTO.

In addition, sugar and ethanol are traded on commodities and futures exchanges, and thus, are subject to speculative trading, which may adversely affect us.

The price of sugar and ethanol sold by us, through Copersucar, is based on prevailing market prices, and thus, is subject to macroeconomic factors that may affect our industry, Brazil and/or the global economy. Any significant and prolonged decline in sugar and/or ethanol prices could adversely affect us. There can be no assurance that we will be able to maintain sales at generally prevailing market prices for sugar and ethanol in Brazil without discounts, nor that we will be able to export sufficient quantities of sugar and ethanol to assure an appropriate domestic market balance.

In addition, Copersucar, which sells all of our sugar and ethanol products, may or may not use financial instruments to protect its members (including our company) against the risk of fluctuations in sugar and ethanol prices. We neither control, nor have the power to veto, the hedging policies adopted by Copersucar from time to time. In the event that market prices exceed the price set under future contracts entered into by Copersucar, or if Copersucar decides to decrease or eliminate its hedging transactions in the future, we may be adversely affected. See "Business—Copersucar."

A decline in the price of sugar may adversely affect both our sugar and ethanol businesses.

The price of ethanol is very closely associated with the price of sugar. The vast majority of ethanol in Brazil is produced at sugarcane mills that produce both ethanol and sugar. Because some millers are able to alter their production mix in response to the relative prices of ethanol and sugar, the prices of these products are generally closely correlated. For example, when sugar prices decline, millers may shift their production to produce more ethanol, which will increase the supply of ethanol and put downward pressure on ethanol prices.

In addition, as sugar prices in Brazil are linked to international sugar prices, Brazilian ethanol prices are also influenced by international sugar prices. The limited liquidity of the ethanol futures market has restricted the availability of hedging mechanisms to protect against fluctuations in ethanol prices. Therefore, a decline in the domestic or international price of sugar may also adversely affect our ethanol business.

A reduction in the productivity of our sugarcane crop may adversely affect us.

Our sugar production depends on the volume and sucrose content of the sugarcane that we cultivate or that is supplied to us by growers located in the vicinity of our mills. Crop yields and sucrose content depend primarily on geographic factors, such as land composition and topography, weather conditions, such as the amount of rainfall and average temperatures, agricultural techniques that may be employed and the variety of sugarcane planted. Accordingly, many factors beyond our control, including drought, frost and/or sugarcane pests and diseases may adversely affect the quantity and quality of sugarcane that we produce and purchase from third parties, our sugar and ethanol production volumes and our company.

Termination of our sugarcane supply contracts or land lease agreements or a decrease or an interruption in the sale of sugarcane by our suppliers may adversely affect us.

Sugarcane is the main raw material we use to produce sugar and ethanol. During the 2005/2006 harvest, we harvested approximately 6.7 million tons of sugarcane, 3.1 million tons of which we cultivated on our properties (46.1%) and 3.6 million tons of which we obtained from land owned by third parties with whom we executed long-term supply contracts (including contracts entered into with our shareholders and other related parties) on which we cultivate sugarcane, or land lease agreements (53.9%). In addition, we purchased approximately 3.0 million tons of sugarcane (30.7%) from third-party suppliers. See "Business—Operations—Sugarcane" and "Related Party Transactions—Transactions with Shareholders."

If our supply of sugarcane is interrupted or any of our partnership or land lease agreements are rescinded or are not renewed upon the expiration of their respective terms, we may be required to pay higher prices for sugarcane and/or the volume of sugarcane available to us may decrease significantly, each of which could adversely affect us.

We face significant competition in the sugar and ethanol industries, which may adversely affect our market share and profitability.

The sugar and ethanol industries are highly competitive. Domestically, we compete with numerous small- and medium-size sugar and ethanol producers. Despite increased consolidation, the Brazilian sugar and ethanol industries remain highly fragmented. Currently, our main competitors in Brazil are Cosan, Grupo Vale do Rosário, Grupo Zillo Lorenzetti and various producers owned by the Biaggi Family, Nova América, Louis Dreyfus, Grupo Tércio Wanderley and Cargill.

We also face competition from international sugar producers. In particular, we face strong competition in certain markets, such as the U.S. and the European Union, or the E.U., which have historically implemented tariffs, agriculture subsidies and/or other governmental incentive programs to protect local sugar producers from foreign competition. Many of these tariffs, subsidies and other governmental incentive programs remain in effect.

Moreover, we face competition from alternative sweeteners, such as aspartame, saccharine and HFCS. We believe that the increased use of these sweeteners has reduced sugar consumption in Brazil and throughout the rest of the world. For example, soft drink bottlers in Brazil and many other countries have switched from sugar to one or more of these alternative sweeteners, thereby reducing the demand for sugar. A substantial decrease in sugar consumption, or the increased use of alternative or artificial sweeteners, could adversely affect us.

In the event that one or more of our competitors increase their financial and other resources, present a greater breadth of products than we do or adopt more successful sales or pricing policies, our competitive position and our company may be adversely affected. If we are unable to remain competitive with our competitors, our market share and profitability may also be adversely affected.

A reduction in market demand for ethanol as a clean fuel or a change in the Brazilian government's policy requiring that ethanol be added to gasoline may adversely affect us.

The Brazilian government currently requires the use of ethanol as an additive to gasoline. Since 1997, the Brazilian Sugar and Alcohol Interministerial Council (*Conselho Interministerial do Açúcar e Álcool*) has set the percentage of anhydrous ethanol that must be used as an additive to gasoline (which has generally fluctuated between 20% and 25% and is currently 23% by volume). Approximately half of all fuel ethanol in Brazil is used in automobiles that run on a blend of anhydrous ethanol and gasoline, and the remainder is used in vehicles that are powered directly by hydrous ethanol and bio-fuel. Any reduction in the percentage of ethanol required to be added to gasoline or change in the Brazilian government policy towards ethanol use, as well as the growth in the demand for natural gas and other fuels as an alternative to ethanol, may adversely affect us.

Government policies and regulations affecting the agricultural sector and related industries could adversely affect us.

Agricultural production and trade flows are significantly affected by government policies and regulations. Governmental policies, such as taxes, tariffs, duties, subsidies and import and export restrictions on agricultural commodities and products made from these commodities can adversely affect the agricultural industry and its profitability, the allocation of agricultural resources, the location and size of crop production, the trading of unprocessed or processed commodity products, and the type and volume of imports and exports, which may adversely affect us.

We are subject to extensive environmental regulation and may be exposed to liabilities as a result of our handling of hazardous materials and potential costs for environmental compliance, including the acquisition of conservation plots.

We are subject to strict Brazilian federal, state and local environmental protection and health and safety laws and regulations that govern, among other things:

- the generation, storage, handling, use and transportation of hazardous materials;
- the emission and discharge of hazardous materials into the ground, air or water; and
- the health and safety of our employees.

We are regularly inspected by various governmental environmental protection agencies to ensure our compliance with applicable laws and regulations.

We are also required to obtain permits from governmental authorities for certain aspects of our operations. These laws and regulations and permits often require us to purchase and install expensive pollution control equipment or to make operational changes to limit impacts or potential impacts on the environment and/or health of our employees.

In addition, we must reserve 20% of our rural property in the form of a wildlife preservation area in accordance with the Brazilian Forestry Code (*Código Florestal Brasileiro)*. In 2001, the state of São Paulo adopted a provisional measure that permits land owners who are not yet in full compliance with this reserve requirement to satisfy the 20% reserve requirement (1) over a 30-year period (i.e., satisfying 10% of the total reserve requirement every three years), and/or (2) by offsetting non-contiguous land against the reserve requirement, including land that is jointly-owned in the form of a condominium, other land owned in the same hydrological region of the state, leased land that is subject to a preservation easement or servitude or purchasing ownership interests (quotas) in preservation areas expressly created for this purpose. We are subject to similar restrictions in the State of Goiás, where our Boa Vista mill is expected to begin operations during the 2008/2009 harvest. If we are unable to comply with these reserve requirements in a timely manner, we may be adversely affected. We are presently involved in litigation brought against us by the state of São Paulo seeking to enforce our obligations in respect of these reserve requirements. If we lose this litigation, we may be adversely affected. See "Business—Legal and Administrative Proceedings—Environmental Proceedings" and note 18.1 to our financial statements as of and for the six months ended October 31, 2006 and 2005 included elsewhere in this offering memorandum.

Non-compliance with environmental laws and regulations may require us to remedy any environmental damage, as well as subject us to criminal and administrative penalties, such as fines and/or the suspension of our activities. In addition, we may be strictly liable for certain environmental damages caused by third-parties on or related to property that we acquired from such third parties.

In addition to litigation involving the reserve requirement discussed above, we are involved in a substantial number of judicial and administrative proceedings related to environmental matters. If we lose some or all of these lawsuits, we may be adversely affected. In addition, any changes in applicable environmental regulation or changes in its interpretation may lead to an increase in compliance costs, which may adversely affect us. Environmental protection laws in Brazil are becoming more strict, therefore our expenses in complying with our environmental obligations may significantly increase in the future. See "Business—Environmental Rules and Regulations" and "Legal and Administrative Proceedings—Environmental Proceedings."

We are substantially dependent on our facilities and the port facilities of Copersucar and any interruption or operational failure in any of these facilities may result in a reduction of the volume of sugar and ethanol we produce or export and, therefore, adversely affect us.

All of our profit is derived from the sale of the sugar, ethanol and sugarcane by-products produced in our two mills, and 55.3% of our net sales revenue during the six months ended October 31, 2006 was derived from exports of our sugar and ethanol products through Copersucar's port facilities located in the city of Santos in the state of São Paulo. If an accident or natural or climatic disaster occurs (1) in one or both of our mills, we may be adversely affected and all or part of our operations may be interrupted or (2) at Copersucar's port facilities, we may be adversely affected and all or part of our export sales may be interrupted. In addition, we and Copersucar are subject to labor strikes and other operational incidents, such as equipment failures, fires, explosions, pipe ruptures, transportation accidents and natural disasters. These and other operational accidents may result in physical injury, death, material loss and destruction of our and Copersucar's properties and equipment, or, in the case of environmental accidents, may result in the suspension of our operations or Copersucar's port operations and/or the imposition of civil and criminal penalties. Our and Copersucar's insurance

policies may not cover all of the possible operational accidents that may arise from our respective activities, and we cannot assure you that we or Copersucar will be able to renew existing insurance policies on commercially favorable terms. In either case, we and Copersucar may be rexposed to risks that are not covered by our respective insurance policies, which may adversely affect us. As a member of Copersucar, we would be required to pay a proportionate amount of all costs to repair or replace Copersucar's port facilities caused by operational incidents to the extent these costs are not covered by Copersucar's insurance policies.

Adverse conditions may create delays in the construction of our Boa Vista mill and/or significantly increase the amount of our budgeted investments.

As part of our strategy to increase our market share and increase our competitiveness through economies of scale, we began construction of the Boa Vista mill, which is expected to commence operations during the 2008/2009 harvest. We have invested approximately R$60.1 million in this project through December 31, 2006, and we estimate that we will invest an additional R$282.9 million to complete its construction. This project involves various risks, including engineering, construction and regulatory risks, as well as other significant challenges that can hinder or delay the project's scheduled completion date and successful operation or that can result in significant cost increases. In addition, the Boa Vista mill may not operate at projected capacity or may incur higher operating costs than estimated, and we may not be able to sell the ethanol produced by the Boa Vista mill at competitive prices. Our ability to complete this construction within our established time and budgetary limits is subject to various factors beyond our control, including our ability to obtain adequate financing. If (1) construction is delayed, (2) we are required to invest more than the budgeted amount to complete this project or (3) we fail to operate the mill or operate it at a lower capacity than we anticipate or are unable to sell all of the ethanol produced by this mill, we may be adversely affected.

We may not be able to successfully implement our growth strategy, which may adversely affect us.

Our growth strategy involves increasing our sales and our participation in the sugar and ethanol markets, whether by creating new mills, acquiring existing mills and/or forming strategic alliances and partnerships.

The successful integration of a new business will depend on our ability to manage such business satisfactorily and eliminate redundant or excessive costs. Our ability to expand our business successfully through acquisitions depends on many factors, including our ability to identify companies to acquire, as well as our ability to access financing at an acceptable cost and negotiate commercially favorable transaction terms. Such acquisitions may require us to incur additional indebtedness, which may adversely affect us.

Acquisitions also pose the risk that we may be exposed to successor liability relating to any actions involving the acquired company and its management or any contingent liabilities incurred before the acquisition, including environmental liabilities. The due diligence we conduct in connection with an acquisition, and any contractual guarantees or indemnities that we receive from the sellers of acquired companies, may not be sufficient to protect us from, or compensate us for, the actual liabilities of the acquired company. Any material liabilities associated with an acquisition could adversely affect our reputation, financial condition and results of operations and reduce the benefits of the acquisition. Accordingly, we cannot guarantee that any acquisition or alliance will be successful, will create synergies with our existing activities or will be consummated on satisfactory terms (including price) and conditions (both financial and operational), or that we will be able to obtain any permits and authorizations that are necessary to consummate the acquisition or operate the acquired company.

In addition, the successful execution of this strategy depends on various factors, including:

- the demand for our products;
- changes in Brazil's regulatory environment;
- macroeconomic and other factors in Brazil and abroad;
- our capacity to compete effectively with our competitors;
- the development of the sugar and/or ethanol industries;
- our ability to control costs, obtain resources for development and technology and retain qualified professionals and other labor;
- the ease with which we can obtain necessary licenses and authorizations for the implementation of new mills, such as the Boa Vista mill; and
- construction delays and cost overruns.

If we are unable to implement our growth strategy successfully, we may be adversely affected.

The liquidation or reorganization of Copersucar, financial difficulties that it may experience or a reduction in the number of its members, or our decision to no longer be a member of Copersucar, may adversely affect us.

The liquidation or reorganization of Copersucar, financial difficulties that it may experience or a reduction in the number of its members, or our decision to no longer be a member of Copersucar, may adversely affect us. All of our sugar and ethanol products are currently marketed and sold exclusively by Copersucar. Accordingly, if Copersucar's current structure changes, Copersucar experiences financial difficulties or we cease to be a member of Copersucar, (1) our net sales revenue may decrease and/or operating costs may increase, which may adversely affect us, including as a result of incurring higher costs to replace Copersucar's services or by losing or diminishing Copersucar's bargaining power as the number of its members and its sales volume decreases, or (2).we may be required to pay a proportionate share of any losses that Copersucar suffers as a result of its financial difficulties.

The loss of certain members of our board of directors or executive officers may adversely affect us.

Our operations are dependent on certain members of our board of directors, key employees and some of our executive officers, particularly with respect to business planning, strategy and operations. None of our main employees nor directors are bound by employment contracts or non-competition agreements. If any of these key members of our management leaves our company, we may be adversely affected.

Certain Factors Relating to Brazil

The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. Brazilian economic and political conditions have a direct impact on our business.

The Brazilian economy has been characterized by frequent, and occasionally drastic, intervention by the Brazilian government, which has often changed monetary, credit and other policies to influence Brazil's economy. The Brazilian government's actions to control inflation and affect other policies have often involved wage and price controls, depreciation of the real, controls on remittances abroad,

fluctuations of the Central Bank's base interest rate, as well as other measures. We have no control over, nor can we foresee, any measures or policies that the federal government may adopt in the future. We may be adversely affected by changes in the policies of the federal government, in addition to other general economic factors, including, without limitation:

- economic and social instability;
- inflation;
- exchange rate fluctuations;
- exchange controls and restrictions on remittances abroad;
- tax policy and amendments to the tax legislation;
- interest rates;
- liquidity of domestic and foreign capital and lending markets;
- government control of oil production;
- environmental laws and regulations; and
- other political, social and economic policies or developments in or affecting Brazil.

Luiz Inácio Lula da Silva, the leader of the Workers' Party, was reelected as President of Brazil in October 2006. The President of Brazil has considerable power to determine governmental policies and actions that relate to the Brazilian economy and, consequently, affect the operations and financial performance of businesses, such as our company. Although President Lula is expected to continue the macroeconomic and other policies in effect during his first term, he may seek to implement new policies. We cannot predict what policies will be adopted by the Brazilian government and whether these policies will negatively affect the Brazilian economy or adversely affect us.

Inflation, and the Brazilian government's measures to combat inflation, may contribute significantly to economic uncertainty in Brazil and adversely affect us.

Brazil has historically experienced high rates of inflation, particularly prior to 1995. According to the General Price Index – Internal Availability (*Índice Geral de Preços – Disponibilidade Interna*), or IGP-DI, the annual inflation rates were 26.4% in 2002, 7.7% in 2003, 12.1% in 2004, 1.2% in 2005 and 2.9% during the ten-month period ended October 31, 2006. The Brazilian government's measures to control inflation have often caused significant adverse effects on the Brazilian economy. Inflation, policies adopted to combat inflation and public speculation about possible additional actions also may contribute materially to economic uncertainty in Brazil and the high volatility of the Brazilian commodities market.

Brazil may experience high levels of inflation in the future, which may curtail our ability to access foreign financial markets and may lead to further government intervention in the economy, including the introduction of government policies that may adversely affect us.

Economic and market conditions in other emerging market countries may adversely affect the Brazilian economy and, therefore, the market price of our shares.

The market for securities issued by Brazilian companies is influenced by economic and market conditions in Brazil, and to a certain extent, in other Latin American and emerging market countries. Although economic conditions are distinct in each country, the reaction of investors to events in one country may cause the capital markets in other countries to suffer fluctuations. Political, economic and social events in other

emerging market countries, including in Latin America, or investors' perception of increased risk because of crises in other emerging market, may adversely affect the availability of credit for, and the price of foreign commodities of, Brazilian companies, resulting in a significant outflow of resources from Brazil and a reduction in the level of foreign currency invested in Brazil.

If any such political, economic and social events in other emerging market countries were to affect the Brazilian capital markets, our ability to borrow funds at an acceptable interest rate or to raise additional equity capital when and if there should be a need for us to do so may be adversely affected.

Changes in Brazilian tax laws may have an adverse impact on our results of operations.

According to Law No. 10,833, enacted on December 29, 2003, the disposition of assets located in Brazil by a non-resident to either a Brazilian resident or a non-resident is subject to taxation in Brazil, regardless of whether the disposition occurs outside or within Brazil. If a disposition of assets is interpreted to include a disposition of our shares, this law could result in the imposition of withholding taxes on a disposition of our shares by a non-resident of Brazil to another non-resident of Brazil. Because Law No. 10,833 has been recently enacted and no judicial guidance as to its application yet exists, we are unable to predict whether an interpretation applying such tax laws to dispositions of our shares between non-residents could ultimately prevail in the courts of Brazil.

The Brazilian government frequently implements changes to tax regimes that affect us and our customers. These changes include changes in the prevailing tax rates and, on occasion, enactment of temporary taxes, the proceeds of which are earmarked for designated governmental purposes.

Some of these changes may result in increases in our tax payments, which can adversely impact industry profitability and increase the prices of our products, restrict our ability to do business in our existing markets and could otherwise adversely affect us. There can be no assurance that we will be able to maintain our prices, projected cash flow and/or profitability following increases in Brazilian taxes applicable to us, our subsidiaries or our operations.

Restrictions on the movement of capital out of Brazil may adversely affect your ability to receive dividends and distributions on, and the proceeds of any sale of, our shares.

Brazilian law permits the Brazilian government to impose temporary restrictions on the conversion of Brazilian currency into foreign currencies and on the remittance to foreign investors of proceeds from their investments in Brazil whenever there is a serious imbalance in Brazil's balance of payments or there are reasons to foresee a serious imbalance. The Brazilian government last imposed restrictions on remittance for approximately six months in 1989 and early 1990. There can be no certainty that the Brazilian government will not take similar measures in the future. The imposition of such restrictions on conversions and remittance could hinder or prevent you from converting dividends, distributions or the proceeds from any sale in Brazil of our shares into U.S. dollars or other foreign currencies and remitting those funds abroad. It could also hinder our ability to access the international capital markets. As a result, these restrictions could reduce the market price of our shares.

We are controlled by a small group of shareholders, who have the power to control our business and whose interests may conflict with those of our other shareholders.

Our controlling shareholders, Luiz Ometto Participações S.A., João Ometto Participações S.A. and Nelson Ometto Participações S.A., together will hold 62.8% of our voting share capital following consummation of this offering (assuming no exercise of the over-allotment option by the Brazilian underwriter) and have the power to, among other things: (1) elect the majority of our directors; and (2) determine the outcome of any action requiring shareholder approval, including transactions with related parties, corporate reorganizations, acquisitions and dispositions of assets and the timing and

payment of any future dividends, according to the Brazilian Corporation Law. Our controlling shareholders hold the power to engage in transactions which may create the potential for, or could result in, conflicts of interests with other shareholders and may prevent or frustrate attempts to remove the current members of our Board of Directors and our Board of Executive Officers.

Certain Factors Relating to Our Shares

An active and liquid market for our shares may not develop, which would limit your ability to sell your shares at a price and at a time when you wish to do so.

There is currently no public market for our shares. We have applied to list our shares on the BOVESPA, the principal Brazilian stock exchange. We cannot predict the extent to which investor interest in our company will lead to the development of a trading market for our shares on the BOVESPA or how liquid that market will become. Active and liquid markets in general present lesser price volatility and more efficient execution of purchase and sale orders for investors. The liquidity of a securities markets is frequently affected by the volume of shares publicly held by non-related parties, or free float.

The offering price for our shares may not be indicative of prices that will prevail in the open market following this offering.

Investments in securities and commodities in emerging markets, such as Brazil, frequently involve greater risks and are, in general, considered to be more speculative than investments in securities in the United States. The Brazilian securities markets are substantially smaller, less liquid and more concentrated and volatile than foreign securities markets. The BOVESPA, which is the principal Brazilian stock exchange, had exchange capitalization of approximately R$1.27 trillion on September 30, 2006, and an average daily trading volume of R$2.32 billion in the first nine months of 2006. In comparison, The New York Stock Exchange, or the NYSE, had a market capitalization of U.S.$14.4 trillion on September 30, 2006, and an average daily trading volume of U.S.$1.42 billion in the first nine months of 2006. In addition, the top 10 stocks in terms of trading volume accounted for approximately 48.7% of all shares traded on the BOVESPA in the first nine months of 2006.

These market characteristics may substantially limit the ability of holders of our shares to sell their shares at a price and at a time when they wish to do so.

Our by-laws contain a protective provision against hostile takeovers of our company and may hinder or delay transactions that may be of interest to our shareholders.

Our by-laws contain a provision that may: (1) hinder takeover attempts of our company by requiring prior negotiation with our current controlling shareholders; and (2) avoid concentration of our shares in the hands of a small group of investors and facilitate the maintenance of a widely-dispersed shareholder base. Accordingly, any shareholder (except our current controlling shareholders and certain other investors who may become our shareholders through certain transactions set forth in our by-laws) who holds equal to or greater than 10% of our outstanding shares must make a public offer to purchase all of our remaining shares at fair market value within 30 days of the date that this 10% threshold was first met. This provision may hinder, delay or prevent merger or takeover attempts of our company that may be of interest to our shareholders.

Holders of our shares may not receive any dividends or interest attributable to shareholders' equity.

According to our by-laws, we must pay our shareholders at least 25% of our annual net profit as dividends or interest attributable to shareholders' equity, as determined and adjusted by the Brazilian Corporation Law. This adjusted net profit may be capitalized, used to absorb losses or otherwise appropriated as allowed under the Brazilian Corporation Law and may not be available to be paid as dividends or interest attributable to shareholders' equity. In addition, according to the Brazilian Corporation Law, we may suspend the distribution of dividends in any particular fiscal year if our board of directors reports to our annual shareholders' meeting that such distribution would be inadvisable in view of our financial condition. See "Description of Share Capital—Allocation of Net Income and Distribution of Dividends—Payment of Dividends and Interest Attributable to Shareholders' Equity."

Sales of a substantial number of our shares after this offering may adversely affect the price of our shares, and the issuance of new shares will dilute all other share holdings.

Sales, either directly or indirectly, of a substantial number of our shares on the BOVESPA following this offering, or the perception that such sales could occur, could adversely affect the market price of our shares. Our controlling shareholders are not subject to any contractual or other restrictions on future sales of our shares, except the short-term lock-up agreements and other restrictions described in the *Novo Mercado* Rules and in "Plan of Distribution."

We currently have 100,000,000 outstanding common shares, which will increase to 110,236,870 common shares following this offering, assuming the Brazilian underwriter does not exercise its over-allotment option. Our by-laws allow up to R$113.0 million of authorized capital, which allows us to issue new shares up to this limit without further authorization from our shareholders. Furthermore, our controlling shareholders may increase the value of our authorized capital and decide on any future increases of our share capital. Thus, we will have the ability to issue substantial amounts of shares in the future, which could dilute the ownership percentage held by investors who purchase our shares in this offering.

The protections afforded to minority shareholders in Brazil are different, and may be more difficult to enforce, than those in the United States.

The protections afforded to minority shareholders in Brazil are different from those in the United States. In particular, the case law with respect to shareholder disputes is less developed in Brazil than in the United States, and there are different procedureal requirements for bringing shareholder lawsuits, such as shareholder derivate suits. As a result, in practice it may be more difficult for our minority shareholders to enforce their rights against us, our directors or our controlling shareholders than it would be for shareholders of a U.S. company.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains statements, principally in "Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Conditions and Results of Operations," "Sugar and Ethanol Industries" and "Business" that constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Many of the forward-looking statements contained in this offering memorandum can be identified by the use of forward-looking words such as "anticipate," "believe," "could," "expect," "should," "plan," "intend," "estimate" and "potential," among others. Although we believe that these forward-looking statements are based upon reasonable assumptions, these statements are subject to several risks and uncertainties and are made in light of information currently available to us. These statements appear in a number of places in this offering memorandum and include, but are not limited to, statements regarding our intent, belief or current expectations with respect to:

- our direction and future operation;
- economic, political and business conditions in Brazil and in major international markets to which we export sugar and ethanol through Copersucar;
- the cost and availability of financing;
- our investment, acquisition, joint venture, strategic alliances or divestituture plans, including our construction and development of the Boa Vista mill;
- inflation and exchange rates between Brazilian and foreign currencies;
- existing and future regulations;
- market price variation, client preferences and competition;
- cyclical and seasonal variations in our results of operations;
- our ability to successfully implement our strategy and capital expenditure plans;
- the timetable for completion of construction of our new Boa Vista mill, our future production capacity and the availability of sugarcane;
- the expectation that demand for ethanol will increase in Brazil and internationally;
- the declaration or payment of dividends or interest attributable to shareholders' equity;
- changes in tax policies and legislation;
- export duties and tariffs, as well as tariff barriers;
- other factors or trends that may affect our financial condition or results of operations;
- the factors discussed under the section entitled "Risk Factors" in this offering memorandum; and
- other statements contained in this offering memorandum regarding matters that are not historical facts.

Forward-looking statements

Forward-looking statements are only our current expectations and are based on our management's beliefs and assumptions and on information currently available to our management. Such statements are subject to risks and uncertainties, and actual results may differ materially from those expressed or implied in the forward-looking statements as a result of various factors, including, but not limited to, those identified under the section entitled "Risk Factors" in this offering memorandum. These risks and uncertainties include factors relating to the Brazilian economy, securities and foreign exchange markets, which exhibit volatility and can be adversely affected by developments in other countries, factors relating to the Brazilian and international sugar and ethanol industries and changes in their regulatory environment and factors relating to the highly competitive markets in which we operate, among others. Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to update them in light of new information or future developments or to release publicly any revisions to these statements in order to reflect later events or circumstances or to reflect the occurrence of unanticipated events. In light of such limitations, you should not make any investment decision on the basis of the forward-looking statements contained herein.

USE OF PROCEEDS

We expect to receive net proceeds, after deducting underwriting commissions and estimated expenses, of approximately R$193.4 million (US$90.2 million) from the sale of our shares in this offering.

We intend to use our net proceeds from this offering to invest in (i) the construction of our Boa Vista mill with approximately 40% of such net proceeds, (ii) technological improvements and modernization of our São Martinho and Iracema mills with approximately 20% of such net proceeds and (iii) increasing our production capacity with approximately 40% of such net proceeds, either through acquisitions or strategic partnerships.

We will not receive any proceeds from the offering of our shares by the selling shareholders in this offering.

MARKET INFORMATION

Market Price of Our Shares

Prior to this offering, there has been no public market for our shares. We cannot assure you that an active trading market will develop for our shares, or that our shares will trade in the public market subsequent to the offering at or above the initial public offering price. We have applied to list our shares on the *Novo Mercado* segment of the BOVESPA under the symbol "SMTO3."

Trading on the BOVESPA

In 2000, the BOVESPA was reorganized through the execution of memoranda of understanding by the Brazilian stock exchanges. Under the memoranda, all securities are now traded only on the BOVESPA, with the exception of electronically traded public debt securities and privatization auctions, which are traded on the Rio de Janeiro Stock Exchange.

When shareholders trade shares on the BOVESPA, the trade is settled three business days after the trade date, without adjusting the purchase price for inflation. The seller is ordinarily required to deliver our shares to the exchange on the second business day following the trade date. Delivery of and payment for shares are made through the facilities of the CBLC.

The BOVESPA is a nonprofit entity owned by its member brokerage firms. Trading on the BOVESPA is limited to member brokerage firms and a limited number of authorized nonmembers. Trading is conducted by these firms between 11:00 a.m. and 6:00 p.m., or between 10:00 a.m. and 5:00 p.m. during daylight savings time in the United States on an automated system known as the Computer Assisted Trading System (*Sistema de Negociação Assistida por Computador*) on the BOVESPA and on the National Electronic Trading System (*Sistema Eletrônico de Negociação Nacional*). This computerized system links electronically with the seven smaller regional exchanges. The BOVESPA also permits trading from 5:45 to 7:00 p.m. or from 6:45 p.m. to 7:30 p.m. during daylight savings time on an online system connected to traditional and Internet brokers called the "after market." Trading on the after market is subject to regulatory limits on price volatility and on the volume of shares transacted through Internet brokers. Currently, there are no specialists or officially recognized market makers for our common shares in Brazil. Upon the completion of this offering, we may contract specialists and/or market makers for our common shares.

In order to better control volatility, the BOVESPA adopted a "circuit breaker" system pursuant to which trading sessions may be suspended for a period of 30 minutes or one hour whenever the indices of the BOVESPA fall below the limits of 10% or 15%, respectively, in relation to the index registered in the previous trading session.

The BOVESPA is significantly less liquid than the NYSE or other major exchanges in the world. The BOVESPA had exchange capitalization of approximately R$1.27 trillion on September 30, 2006, and an average daily trading volume of R$2.32 billion in the first nine months of 2006. In comparison, the NYSE had a market capitalization of US$14.4 trillion on September 30, 2006, and an average daily trading volume of US$1.42 billion in the first nine months of 2006. There is also significant concentration in the Brazilian securities markets. The top ten stocks in terms of trading volume accounted for approximately 48.7% of all shares traded on the BOVESPA in the first nine months of 2006. Although any of the outstanding shares of a listed company may trade on the BOVESPA, in most cases fewer than half of the listed shares are actually available for trading by the public, the remainder being held by small groups of controlling persons, by government entities or by one principal shareholder.

Trading on the BOVESPA by a holder not deemed to be domiciled in Brazil for Brazilian tax and regulatory purposes, or by a non-Brazilian holder, is subject to certain limitations under Brazilian foreign investment legislation. With limited exceptions, non-Brazilian holders may only trade on Brazilian stock exchanges in accordance with the requirements of Resolution No. 2,689. Resolution No. 2,689 requires that securities held by non-Brazilian holders be maintained in the custody of, or in deposit accounts with, financial institutions, and be registered with a clearinghouse. Such financial institutions and clearinghouse must be duly authorized to act as such by the Central Bank and the CVM. In addition, Resolution No. 2,689 requires non-Brazilian holders to restrict their securities trading to transactions on Brazilian stock exchanges or organized over-the-counter markets. With limited exceptions, non-Brazilian holders may not transfer the ownership of investments made under Resolution No. 2,689 to other non-Brazilian holders through a private transaction. See "Taxation—Tax on Financial Transactions ("IOF Tax")" for a description of certain tax benefits extended to non-Brazilian holders who qualify under Resolution No. 2,689.

Corporate Governance Practices and the *Novo Mercado*

In 2000, the BOVESPA introduced three special listing segments, known as Levels 1 and 2 of Differentiated Corporate Governance Practices and the *Novo Mercado,* aimed at fostering a secondary market for securities issued by Brazilian companies with securities listed on the BOVESPA, by prompting these companies to follow good practices of corporate governance. The listing segments were designed for the trading of shares issued by companies voluntarily undertaking to abide by corporate governance practices and disclosure requirements in addition to those already imposed by Brazilian law. These rules generally increase shareholders' rights and enhance the quality of information provided to shareholders.

To become a Level 1 (*Nível 1*) company, an issuer must agree to (a) ensure that shares of the issuer representing 25% of its total capital are effectively available for trading, (b) adopt offering procedures that favor widespread ownership of shares whenever making a public offering, (c) comply with minimum quarterly disclosure standards, (d) follow stricter disclosure policies with respect to transactions made by controlling shareholders, members of boards of directors and our executive officers involving securities issued by the issuer, (e) submit any existing shareholders' agreements and stock option plans to the BOVESPA, and (f) make a schedule of corporate events available to shareholders.

To become a Level 2 (*Nível 2*) company, an issuer must agree to (a) comply with all of the listing requirements for Level 1 companies, (b) grant tag-along rights for all shareholders in connection with a transfer of control of the company, offering to the holders of common shares the same price paid per share for controlling block common shares and to the holders of preferred shares at least 70% of the price paid per share of controlling block common shares, (c) grant voting rights to holders of preferred shares in connection with certain corporate reorganizations and related party transactions, such as (1) any transformation of the company into another corporate form, (2) any merger, consolidation or spin-off of the company, (3) approval of any transactions between the company and its controlling shareholder, including parties related to the controlling shareholder, (4) approval of any valuation of assets to be delivered to the company in payment for shares issued in a capital increase, (5) appointment of an expert firm to ascertain the fair value of the company in connection with any deregistration and delisting tender offer, and (6) any changes to these voting rights, (d) have a board of directors comprised of at least five members with a term limited to one year, (e) prepare annual financial statements in English, including cash flow statements, in accordance with international accounting standards, such as U.S. GAAP or International Financial Reporting Standards, or IFRS, (f) if it elects to delist from the Level 2 segment, effect a tender offer by the company's controlling shareholder (the minimum price of our shares to be offered will be determined by an appraisal process), and (g) adhere exclusively to the rules of the BOVESPA Arbitration Chamber for resolution of disputes between the company and its investors.

To be listed in the *Novo Mercado,* an issuer must meet all of the requirements described above under Level 1 and Level 2, in addition to (a) issuing only voting shares and (b) granting tag-along rights for all shareholders in connection with a transfer of control of the company, offering the same price paid per share for controlling block common shares.

Regulation of the Brazilian Securities Market

The Brazilian securities markets are regulated by the CVM, which has regulatory authority over the stock exchanges and securities markets, as well as by the Central Bank, which has, among other powers, licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions. The Brazilian securities markets are governed by Law No. 6,385 dated December 7, 1976, as amended and supplemented, the principal law governing the Brazilian securities markets, Brazilian Corporation Law, and by regulations issued by the CVM, the CMN and the Central Bank. These laws and regulations, among others, provide for disclosure requirements applicable to issuers of traded securities, criminal sanctions for insider trading and price manipulation, and protection of minority shareholders. They also provide for licensing and oversight of brokerage firms and governance of Brazilian stock exchanges. However, the Brazilian securities markets are not as highly regulated and supervised as U.S. securities markets.

Under Brazilian Corporation Law, a company is either publicly held (a *companhia aberta*) or privately held (a *companhia fechada*). All listed companies are publicly held and registered with the CVM and are subject to reporting and regulatory requirements. A company registered with the CVM may trade its securities either on the BOVESPA or in the Brazilian over-the-counter market. Shares of companies listed on the BOVESPA may not simultaneously trade on the Brazilian over-the-counter market. Our shares of a listed company may also be traded privately, subject to several limitations. To be listed on the BOVESPA, a company must apply for registration with the BOVESPA and the CVM.

The trading of securities on the BOVESPA may be halted at the request of a company in anticipation of a material announcement. Trading may also be suspended on the initiative of the BOVESPA or the CVM, among other reasons, based on or due to a belief that a company has provided inadequate information regarding a significant event or has provided inadequate responses to inquiries by the CVM or the BOVESPA.

On January 25, 2006, the Committee to Regulate and Control the Financial, Capital Insurance, Social Security and Capitalization Markets (*Comitê de Regulação e Fiscalização dos Mercados Financeiros, de Capitais, de Seguros, de Previdência e Capitalização*), or Coremec, was formed to coordinate the Brazilian Federal government agencies that control and regulate the activities of the financial, capital insurance, social security and capitalization markets in Brazil. In addition, Coremec would be responsible to support the improvement of these markets through debates, coordinated activities and exchange of information among the different Brazilian governmental agencies and entities, including international agencies.

Disclosure Requirements

Pursuant to CVM Rule No. 358, of January 3, 2002, the CVM revised and consolidated the requirements regarding the disclosure and use of information related to material facts and acts of publicly held companies, including the disclosure of information in the trading and acquisition of securities issued by publicly held companies.

Such requirements include provisions that:

- establish the concept of a material fact that gives rise to reporting requirements. Material facts include decisions made by controlling shareholders, resolutions of the general meeting of shareholders and of management of the company, or any other facts related to the company's business (whether occurring within the company or otherwise somehow related thereto) that may influence the price of its publicly traded securities, or the decision of investors to trade such securities or to exercise any of such securities' underlying rights;

- specify examples of facts that are considered to be material, which include, among other facts, the execution of shareholders' agreements providing for the transfer of control, the entry or withdrawal of shareholders that maintain any managing, financial, technological or administrative function with or contribution to the company, and any corporate reorganization undertaken among related companies;

- oblige the officer of investor relations, controlling shareholders, other executive officers, members of the board of directors, members of the audit committee and other advisory boards to disclose material facts;

- require simultaneous disclosure of material facts to all markets in which the corporation's securities are admitted for trading;

- require the acquirer of a controlling stake in a corporation to publish material facts, including its intentions as to whether or not to de-list the corporation's shares, within one year;

- establish rules regarding disclosure requirements in the acquisition and disposal of a material stockholding stake; and

- restrict the use of insider information.

CAPITALIZATION

The following table sets forth our consolidated capitalization as of October 31, 2006 derived from our audited consolidated financial statements as of and for the six months ended October 31, 2006 and 2005 prepared in accordance with Brazilian GAAP:

- on an actual basis; and
- as adjusted to give effect to the issuance of our shares offered by our company hereby, assuming net proceeds to us of approximately R$193.4 million (US$90.2 million).

You should read this table in conjunction with "Selected Financial and Other Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements as of and for the six months ended October 31, 2006 and 2005 included elsewhere in this offering memorandum.

	As of October 31, 2006			
	Actual		As Adjusted	
	(in millions of US$)(1)	(in millions of *reais*)	(in millions of US$)(1)	(in millions of *reais*)
Cash and equivalents(2)	U.S.$32.9	R$70.4	U.S.$123.1	R$263.8
Short-term indebtedness	47.6	102.1	47.6	102.1
Long-term indebtedness (including PESA)	90.6	194.1	90.6	194.1
Shareholders' equity(2)	457.7	980.9	548.0	1,174.3
Total capitalization(2)	**U.S.$595.9**	**R$1,277.1**	**U.S.$686.2**	**R$1,470.5**

(1) Solely for the convenience of the reader, Brazilian *real* amounts as of and for the fiscal year ended April 30, 2006 and the six months ended October 31, 2006 have been translated into U.S. dollars at the exchange rate as of October 31, 2006 of R$2.143 to US$1.00. See "Exchange Rates" for further information about recent fluctuations in exchange rates.

(2) Amounts adjusted to reflect only the receipt of net proceeds of the offering.

As of October 31, 2006, we had R$142.8 million of debt that was secured by some of our land and industrial and agricultural equipment and machinery. There has been no material adverse change in our capitalization since October 31, 2006.

DILUTION

Purchasers of our shares will experience immediate and substantial dilution to the extent of any difference between the initial public offering price per share and the net book value per share upon the completion of the offering.

Net book value represents the difference between our total assets and our total liabilities. Net book value per share is determined by dividing our net book value by the number of our outstanding shares. As of October 31, 2006, our net book value was R$9.81 per share (which amount has been adjusted to reflect our two-for-one share split on November 24, 2006).

Based upon an offering price of R$20.00 per share, the immediate dilution to purchasers of our shares in the offering will be R$9.35 per share, or 46.7%. Dilution for this purpose represents the difference between the price per share paid by investors in this offering and the net book value per share immediately after completion of this offering. The following table illustrates this per share dilution:

	Per Share
Offering price per share	R$20.00
Net book value before this offering	9.81
Increase in net book value per share to existing shareholders	0.84
Net book value after this offering	10.65
Dilution per share to new investors	R$9.35
Percentage dilution of new investors(1)	46.7%

(1) The percentage dilution of new investors is calculated by dividing the dilution per share to the new investors by the offering price per share.

EXCHANGE RATES

Prior to March 14, 2005, there were two official foreign exchange markets in Brazil:

- the commercial rate exchange market; and
- the floating rate exchange market.

Most trade and financial foreign exchange transactions were carried out on the commercial rate exchange market. The floating rate exchange market generally applied to transactions to which the commercial market rate did not apply. In March 2005, the National Monetary Council enacted Resolution No. 3,265, as well as additional regulations, that consolidated the two foreign exchange markets into a single foreign exchange market in order to make foreign exchange transactions simpler and more efficient. As a result, all foreign exchange transactions in Brazil are carried out in this single foreign exchange market through authorized financial institutions.

Foreign exchange rates continue to be freely negotiated, but may be influenced from time to time by Central Bank intervention. From March 1995 through January 1999, the Central Bank allowed the gradual devaluation of the *real* against the U.S. dollar. In January 1999, the Central Bank allowed the *real*/U.S. dollar exchange rate to float freely. Since then, the *real*/U.S. dollar exchange rate has been established mainly by the Brazilian interbank market and has fluctuated considerably. In the past, the Central Bank has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to allow the *real* to float freely or will intervene in the exchange rate market through a currency band system or otherwise, or that the exchange market will not be volatile as a result of political or economic instability or other factors. In light of these factors, we also cannot predict whether the *real* will depreciate or appreciate in value in relation to the U.S. dollar in the future. In addition, exchange rate fluctuations may also affect our financial condition and results of operations.

The following tables set forth the exchange rate, expressed in *reais* per U.S. dollar (R$/US$) for the periods indicated, as reported by the Central Bank. The information in the "Average" column represents the average of the exchange rates on the last day of each month during the years presented.

Fiscal Year Ended April 30,	Period-end	Average for Period	Low	High
		(*reais* per U.S. dollar)		
2002	R$2.890	R$3.322	R$2.377	R$3.955
2003	2.945	2.925	2.802	3.074
2004	2.531	2.810	2.520	3.205
2005	2.089	2.262	2.089	2.515
2006	R$2.089	R$2.285	R$2.089	R$2.531

Source: Central Bank.

Month	Period-end	Low	High
		(*reais* per U.S. dollar)	
July 2006	R$2.176	R$2.165	R$2.213
August 2006	2.139	2.133	2.191
September 2006	2.174	2.128	2.219
October 2006	2.143	2.133	2.168
November 2006	2.167	2.135	2.187
December 2006	2.138	2.138	2.169
January 2007	2.125	2.125	2.156
February 2007 (through February 7)	2.095	2.083	2.109

Source: Central Bank.

SELECTED FINANCIAL AND OTHER INFORMATION

The following selected financial data has been derived from (1) our consolidated financial statements as of and for the six months ended October 31, 2006 and (2) our combined financial information included in notes 19.3 and 24 of our consolidated financial statements as of and for April 30, 2006, 2005 and 2004 and as of and for the six months ended October 31, 2005, respectively, in each case audited by our independent auditors Deloitte and included elsewhere in this offering memorandum. The selected financial data as of and for the six months ended October 31, 2006 have been derived from our audited consolidated financial information included elsewhere in this offering memorandum.

Our financial statements have been prepared in accordance with Brazilian GAAP.

This financial information should be read in conjunction with "Presentation of Financial and Other Information," "Summary Financial and Other Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements of our company and Usina São Martinho S.A., including the notes thereto, included elsewhere in this offering memorandum.

Selected financial and other information

	As of and for the Six Months Ended October 31,			As of and for the Fiscal Year Ended April 30,			
	2006	2006	2005	2006	2006	2005	2004
	(consolidated)		(combined)		(combined)		
	(in millions of US$, except financial ratios)	(in millions of *reais*, except financial ratios)		(in millions of US$, except financial ratios)	(in millions of *reais*, except financial ratios)		
Income statement data:							
Net sales revenues:							
Sugar	US$107.8	R$231.1	R$164.7	US$158.4	R$339.5	R$312.7	R$293.2
Hydrous ethanol	58.1	86.0	46.7	147.9	102.3	80.6	37.9
Anhydrous ethanol	40.1	124.5	124.7	47.7	316.9	223.6	157.1
Other	9.9	21.3	20.5	16.1	34.5	31.3	29.8
Total net sales revenues	215.9	462.9	356.6	370.1	793.2	648.2	518.0
Cost of goods sold and services rendered	(136.2)	(291.9)	(254.0)	(251.0)	(537.8)	(432.9)	(366.2)
Gross profit	79.7	171.0	102.6	119.1	255.4	215.3	151.8
Selling, general, and administrative expenses	(36.9)	(79.0)	(62.4)	(57.2)	(122.8)	(129.8)	(130.2)
Other operating income (expenses), net	0.4	0.6	0.4	0.5	1.0	1.1	(2.6)
Financial income (expenses), net	(2.6)	(5.5)	(13.8)	(13.2)	(28.2)	(32.1)	(41.2)
Non-operating income (expenses), net	0.6	1.3	0.6	0.7	1.5	0.9	(6.6)
Income and social contribution taxes	(13.9)	(29.8)	(9.7)	(18.1)	(38.8)	(18.8)	3.8
Income (loss) from discontinued operations	–	–	6.8	2.9	6.2	(0.8)	(0.6)
Net income (loss)	US$27.3	R$58.6	R$24.5	US$34.7	R$74.3	R$35.8	R$(25.6)
Net profit (loss) per share	US$0.28	R$0.59	R$0.36	US$0.51	R$1.09	R$0.53	R$(0.38)
Balance sheet data (at period end):							
Cash and cash equivalents	US$32.9	R$70.4	R$65.8	US$48.3	R$103.5	R$53.4	R$49.8
Accounts receivable – Copersucar	25.2	54.0	31.5	21.0	45.1	36.2	54.2
Inventory	165.7	355.2	286.6	66.6	142.7	149.8	116.5
Taxes recoverable	8.6	18.4	11.8	6.1	13.1	8.4	14.2
Other short-term assets	6.1	13.0	21.6	10.3	22.1	14.6	26.7
Long-term assets	36.3	77.7	97.7	37.7	80.7	99.9	118.2
Property, plant and equipment	567.8	1,216.9	1,160.6	578.0	1,238.9	1,204.0	1,210.7
Assets from discontinued operations	–	–	37.1	–	–	36.2	35.9
Total assets	842.6	1,805.6	1,712.7	768.0	1,646.1	1,602.5	1,626.2
Short-term loans and financings	47.6	102.1	106.5	25.8	55.3	37.1	47.7
Trade accounts payable	32.2	69.1	55.9	21.1	45.3	49.0	25.8
Short-term accounts payable – Copersucar	1.0	2.2	12.3	0.8	1.8	17.5	75.4
Payroll and social contribution	14.7	31.5	28.0	9.2	19.7	15.8	14.5
Taxes payable	2.8	6.0	6.4	1.6	3.4	4.7	3.7
Funds from related parties	–	–	–	–	0.1	3.7	3.1
Dividends payable	7.0	14.9	6.7	2.1	4.6	2.0	–
Other short-term liabilities	5.6	11.9	2.3	0.9	2.0	3.0	2.7
Long-term loans and financings	90.6	194.1	186.5	86.8	186.0	186.8	210.3
Long-term accounts payable – Copersucar	96.3	206.4	193.7	95.1	203.9	195.8	180.5
Deferred taxes	54.6	117.1	120.8	55.9	119.7	117.9	119.8
Provision for contingencies	31.4	67.2	56.9	30.4	65.1	53.6	51.4
Other long-term liabilities	1.1	2.2	3.5	1.6	3.3	5.4	7.6
Liabilities from discontinued operations	–	–	6.2	–	–	2.3	2.6
Total liabilities	384.9	824.7	785.7	331.3	710.2	694.6	745.1
Shareholders' equity	457.7	980.9	927.0	436.7	935.9	907.9	881.1
Total liabilities and shareholders' equity	842.6	1,805.6	1,712.7	768.0	1,646.1	1,602.5	1,626.2
Other data:							
Depreciation and amortization	25.5	54.7	48.6	40.7	87.3	77.6	70.4
EBITDA(2)	68.7	147.3	89.2	103.1	220.9	164.2	89.4
EBITDA margin(3)	31.8%	31.8%	25.0%	27.8%	27.8%	25.3%	17.3%
Net debt(4)	112.7	241.6	255.2	74.0	158.5	213.6	293.2
Net debt/EBITDA ratio(5)	0.9	0.9	2.9	0.7	0.7	1.3	3.3
Operating capital expenditures(6)	40.0	85.9	–	57.6	123.4	71.4	79.0

(1) Solely for the convenience of the reader, Brazilian *real* amounts as of and for the fiscal year ended April 30, 2006 and the six months ended October 31, 2006 have been translated into U.S. dollars at the exchange rate as of October 31, 2006 of R$2.143 to US$1.00. See "Exchange Rates" for further information about recent fluctuations in exchange rates.

(2) We evaluate our business performance based primarily upon our operating margin, or the spread between the average price of our products and the sum of our cost of goods sold and operating expenses. We also focus on the volume and quality of products that we produce and deliver to Copersucar, the price and cost per unit sold and ultimately, our EBITDA. We define EBITDA as our net income, adjusted for our financial income (expenses), net, income tax and social contribution, income (loss) from discontinued operations, depreciation and amortization and non-operating income (expenses), net. In calculating EBITDA, we do not adjust for our proportionate share of the results on derivative financial instruments entered into by Copersucar to protect against sugar and ethanol price fluctuation risk, which amounts reflected losses of R$6.6 million and R$4.2 million during the six months ended October 31, 2006 and 2005, respectively and R$37.8 million and R$5.7 million during the fiscal years ended April 30, 2006 and 2005, respectively. However, in calculating EBITDA, we have adjusted EBITDA for income (loss) from discontinued operations and non-operating income (expenses), net. We believe that EBITDA serves as a useful tool for measuring our operating cash flow performance. However, EBITDA is not a recognized measure under Brazilian GAAP, and because not all companies use identical calculations, our presentation of EBITDA may not be comparable to other similarly titled measures or to free cash flow for our discretionary use, as it does not consider certain cash requirements, such as interest payments, tax payments and debt service payments. EBITDA should not be considered as an alternative to net income (loss) as an indicator of our operating performance, or as an alternative to cash flow as an indicator of liquidity. For a reconciliation of EBITDA to our net income, see "—Summary of Financial and Other Information" and "Selected Financial and Other Information." We calculate our EBITDA as follows:

	As of and for the Six Months Ended October 31,			As of and for the Fiscal Year Ended April 30,			
	2006	2006	2005	2006	2006	2005	2004
	(consolidated)		(combined)	(combined)			
	(in millions of US$, except financial ratios)	(in millions of *reais*, except financial ratios)		(in millions of US$, except financial ratios)	(in millions of *reais*, except financial ratios)		
Net income (loss)	US$27.2	R$58.6	R$24.5	US$34.7	R$74.3	R$35.8	R$(25.6)
Adding back:							
Financial (income) expenses, net	2.6	5.5	13.8	13.2	28.2	32.1	41.2
Income and social contribution taxes	13.9	29.8	9.7	18.1	38.8	18.8	(3.8)
(Income) loss from discontinued operations	–	–	(6.8)	(2.9)	(6.2)	0.8	0.6
Depreciation and amortization	25.5	54.7	48.6	40.7	87.3	77.6	70.4
Non-operating (income) expenses, net	(0.6)	(1.3)	(0.6)	(0.7)	(1.5)	(0.9)	6.6
EBITDA	68.7	147.3	89.2	103.1	220.9	164.2	89.4

(3) EBITDA margin is EBITDA divided by net operating revenues, expressed as a percentage.

(4) Net debt is the sum of total short- and long-term loans and financings, *plus* all obligations to Copersucar relating to advances on foreign exchange contracts and for working capital, *less* cash and cash equivalents. For purposes of calculating our net debt, (1) our loans and financings include obligations in an aggregate amount of R$118.7 million and R$126.8 million as of October 31, 2006 and 2005, respectively, and R$124.2 million, R$134.4 million and R$133.6 million as of April 30, 2006, 2005 and 2004, respectively, under the PESA, a program established by the Brazilian government to extend the repayment period of debt incurred by Brazilian agricultural producers and (2) our obligations to Copersucar totaled R$15.8 million and R$28.1 million as of October 31, 2006 and 2005, respectively and R$21.1 million, R$42.9 million and R$85.0 million as of April 30, 2006, 2005, 2004, respectively. We classify our PESA obligations as Securitized Rural Credits (*Créditos Rurais Securitizados*). See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness" and note 12 to our consolidated financial statements as of and for the six months ended October 31, 2006 and 2005 and note 10 to our consolidated financial statements as of and for the years ended April 30, 2006, 2005 and 2004 included elsewhere in this offering memorandum.

(5) Net debt/EBITDA ratio is the ratio of our net debt as of the end of the applicable period divided by our EBITDA for the then-most recently concluded period of four consecutive fiscal quarters, including the four consecutive fiscal quarters ended October 31 of each fiscal year. In addition, due to the effects of seasonality on our business, we incurred more debt during the six months ended October 31 of each fiscal year than during the rest of our fiscal year in order to finance our inventory.

(6) Represents operating capital expenditures determined on the accrual basis for property, plant and equipment, including expenditures for crop formation, and excluding expenditures for acquisitions of land. Total capital expenditures determined on the accrual basis for permanent assets (investments, property, plant and equipment, deferred charges and premium (discount) on the acquisition of investments) are presented in the Statement of Changes in Financial Position in our and Usina São Martinho S.A.'s consolidated financial statements included elsewhere in this offering memorandum.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements as of and for the fiscal years ended April 30, 2006, 2005 and 2004 and our audited consolidated financial information as of and for the six months ended October 31, 2006 and 2005, in each case included elsewhere in this offering memorandum, as well as the information presented under "Presentation of Financial and Other Information" and "Selected Financial and Other Information." Unless otherwise specified, all amounts included in the following discussion have been prepared on a combined basis for fiscal years ended April 30, 2006, 2005 and 2004 and the six months ended October 31, 2005, presenting the operations of the Company combined with those of Usina São Martinho S.A. in accordance with Brazilian GAAP. As a result of the São Martinho Capital Contribution and in accordance with Brazilian GAAP, we have fully consolidated Usina São Martinho S.A. for all periods commencing on or after May 1, 2006.

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those set forth in "Forward-Looking Statements" and "Risk Factors."

Overview

We are one of the world's largest producers of sugar and ethanol. We purchase, cultivate, harvest and process sugarcane, the principal raw material used to produce sugar and ethanol. Over the last three years, our main sugar product has been VVHP sugar, a type of raw sugar that is the trade standard in the international sugar market. Our main ethanol products include fuel ethanol, which is used alone as automotive fuel or as a gasoline additive, and industrial alcohol.

During fiscal year 2006, we recorded net sales revenue of R$793.2 million (U.S.$370.1 million), gross profit of R$255.4 million (U.S.$119.2 million) and net income of R$74.3 million (U.S.$34.7 million). During the six months ended October 31, 2006, we recorded net sales revenue of R$462.9 million (U.S.$215.9 million), gross profit of R$171.0 million (U.S.$79.7 million) and net income of R$58.6 million (U.S.$27.2 million).

We currently conduct our principal sugar and ethanol operations through our two mills, Iracema and São Martinho, which are located in the state of São Paulo.

We currently market and sell all of our sugar and ethanol products, both domestically and through exports, via Copersucar, a cooperative that was founded in 1959 to provide marketing, sales, financial, logistical, administrative, legal and other services to its member companies. During the 2005/2006 harvest, Copersucar had 29 members located in the states of São Paulo, Minas Gerais and Paraná. Copersucar owns and operates port and warehouse facilities at the Port of Santos in the state of São Paulo, through which it exports sugar and ethanol products. During fiscal year 2006, the sugar and ethanol that we delivered to Copersucar represented approximately 17.9% and 16.5%, respectively, of Copersucar's total sales volumes.

Factors Affecting Operating Results

Our results of operations have been influenced and will continue to be influenced by the following key factors:

Our Cost of Goods Sold

We incur costs and expenses in producing our products. We classify our cost of goods sold into two major categories: (1) costs that we incur that are directly related to our agricultural activities, or agricultural costs; and (2) costs that we incur that are directly related to our processing of sugarcane into sugar, ethanol or our other products, or industrial costs. Most of the categories of our agricultural and industrial costs (such as, labor costs and benefits, third-party service costs, maintenance and replacement part costs, fuel and lubricant costs, taxes and administrative costs) overlap. However, our agricultural costs also include the cost of harvesting, loading and transporting sugarcane, as well as the cost of purchasing sugarcane from third parties and related parties (partners) and costs related to leasing land. Similarly, our industrial costs include packaging costs and costs relating to our purchase of other raw materials that we use to process sugarcane. As a percentage of our net sales revenue, our cost of goods sold represented 67.8%, 66.8% and 70.7% during fiscal years 2006, 2005 and 2004, respectively. The following table shows the evolution of our principal costs for the periods presented.

	Six Months Ended October 31,		Fiscal Year Ended April 30,		
	2006	2005	2006	2005	2004
	(as a percentage of total costs of goods sold(1) for the period or fiscal year)				
Industrial costs	15.3%	20.8%	18.3%	19.6%	23.2%
Agricultural costs (own sugarcane)	45.2	48.4	47.0	48.4	43.8
Agricultural costs (sugarcane purchased from third parties)	39.5	30.8	34.7	32.0	33.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Costs of goods sold include only costs that affect our cash flows and accordingly exclude depreciation, amortization and exhaustion.

As a producer of commodities, we attempt to increase our margins through efficient management of our operations, including effective control over our agricultural and production costs. We believe that our significant investments in mechanization (for both planting and harvesting) and in our logistical facilities have assisted us in improving our gross margin.

In addition, the cost of sugarcane purchased and land lease payments (which together accounted for approximately 34.7%, 32.0% and 33.0% of our cost of goods sold during fiscal years 2006, 2005 and 2004, respectively) are linked to the wholesale prices of our products, which we believe helps to maintain our gross margin and to reduce substantially the effects of volatility in sugarcane costs on our results of operations. Prices for sugarcane (including sugarcane that is harvested on land that we lease) are set based on criteria published by the Council of Sugarcane, Sugar and Alcohol Producers of the State of São Paulo (*Conselho dos Produtores de Cana-de-Açúcar, Açúcar e Álcool do Estado de São Paulo*), or CONSECANA, a sugar industry association that analyzes, develops and publishes criteria to determine the quality and price of sugarcane. Although the CONSECANA system is voluntary, we and all of our sugarcane suppliers (as most other sugar and ethanol producers and sugarcane suppliers in the state of São Paulo) use the CONSECANA system to establish the price of sugarcane periodically. Under the CONSECANA system, the benefit or burden of higher or lower prices for sugar and ethanol products is shared between sugarcane growers and sugar and ethanol producers. The margin shared is calculated based on the market price for sugar and ethanol products and their respective production costs. The market price for sugar and ethanol products is derived from average prices published by the

Center for Advanced Studies in Applied Economics (*Centro de Estudos Avançados em Economia Aplicada*, or CEPEA), which is administered by the University of São Paulo (*Universidade de São Paulo*) and the *Escola Superior de Agricultura Luiz de Queiroz*, or ESALQ.

The unit price (per kilogram) of sugarcane varies in part based on the amount of Total Recoverable Sugar (*Açúcares Totais Recuperáveis*) equivalents in the ethanol and sugar that we produce. The quality of sugarcane is also expressed in Total Recoverable Sugar equivalents. To determine the amount of Total Recoverable Sugar equivalents in sugarcane delivered to our mills, we inspect all of the sugarcane that we process upon receipt by our mills. Accordingly, the price of sugarcane that we pay to third parties is based on the quality of the sugarcane (as measured by the Total Recoverable Sugar equivalents), the volume of sugarcane delivered to us and the price per kilogram of Total Recoverable Sugar equivalents.

Our Productivity

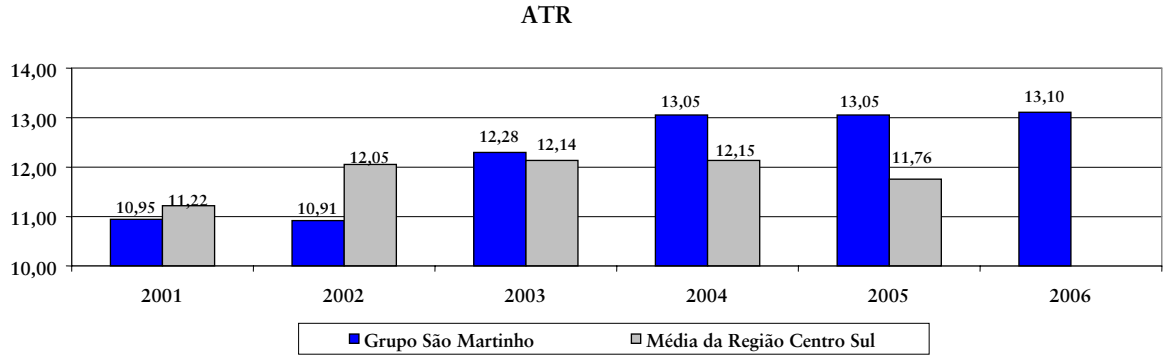
Our results of operations are materially affected by the level of our productivity, including the level of Total Recoverable Sugar equivalents per ton of our harvested sugarcane, which is also affected by the quality of our soil. We have increased our agricultural productivity to 91.2 tons of sugarcane per hectare harvested during the 2005/2006 harvest, 10.1% higher than average productivity of sugarcane per hectare (82.8 tons) harvested in the Center-South region of Brazil during the same harvest. We believe that this increased level of productivity (compared to the average of the sector) is the result of several factors, including our increased use of mechanization in our planting, harvesting and manufacturing processes and the Long Live Sugarcane Project (*Projeto Viva a Cana*), which we introduced at both of our mills in 2003 to reduce damage to our sugarcane crop from being trampled by our machinery and equipment during the harvesting process.

During the 2005/2006 harvest, we harvested approximately 70% of the total sugarcane that we crushed using mechanized harvesters, which we operate 24-hours per day throughout the harvesting season. We are the most mechanized sugar and ethanol producer in Brazil and were also the first major Brazilian sugar company to develop and use mechanized planting and harvesting equipment. We have developed and implemented numerous technological improvements for our mechanized planting and harvesting equipment, which has significantly improved our productivity levels.

We use computer simulations to model the harvesting, loading and transportation of our sugarcane under various conditions, which has assisted us in improving our productivity. We also have improved the quality of our soil through mechanized harvesting, which leaves a base of sugarcane on the ground that has led to up to a 60% reduction in the level of impure minerals transferred to our mills together with the sugarcane. This substantial decrease in the level of impure minerals delivered to our mills with our sugarcane has also increased the useful life of our sugarcane plants, as these minerals increase the wear and tear of our machinery and equipment. In addition, we have improved our productivity by planting new varieties of sugarcane developed by the Center for Sugarcane Technology that are more resistant to diseases and pests. We also use satellite imaging to monitor our sugarcane crops and to plan for the future.

Our productivity is also determined in part by the level of Total Recoverable Sugar equivalents per ton of our harvested sugarcane. During the 2005/2006 harvest, the Total Recoverable Sugar equivalents per ton of our harvested sugarcane exceeded the average in the Center-South region of Brazil, as published by UNICA. However, the level of Total Recoverable Sugar equivalents per ton of our harvested sugarcane remained stable during the 2005/2006 and the 2004/2005 harvests, primarily as a result of climatic fluctuations that adversely affected our sugarcane growing cycle. The level of Total Recoverable Sugar equivalents per ton of our harvested sugarcane is also positively impacted by the work of our soil laboratory, which has won awards from the Agronomical Institute of Campinas (*Instituto Agronômico de Campinas*) for its innovative work in adding nutrients to the soil to increase our productivity.

The following table shows the evolution of our productivity (in tons of Total Recoverable Sugar equivalents, per hectare) or ATRs compared to average productivity in the Center-South region of Brazil for the harvests presented.



Sources: UNICA and our company.

During the 2005/2006 harvest, our average productivity was 13.1 tons of ATRs per hectare. Data for the Center-South region of Brazil for the same period is not yet available for comparative purposes.

Pricing

As a member of Copersucar, we deliver all of the sugar and ethanol that we produce to Copersucar for sale on our behalf. Although the sugar and ethanol that we produce may physically remain in our warehouses and storage facilities, which we transfer to Copersucar at no cost or obligation under a unilateral contract known as a *comodato*, our sugar and ethanol is deemed to be delivered to Copersucar once delivered to our warehouses and storage facilities. One of our directors serves as trustee of the sugar and ethanol stored for Copersucar at our facilities. Copersucar may remove the sugar and ethanol from our warehouses and storage facilities and sell it at any time and for prices that it deems appropriate. Although our production process takes approximately six months (from harvest to finished products), Copersucar generally sells our products over an up to 13-month period. Upon delivering our products to Copersucar, we receive a receipt from Copersucar (and we make a corresponding entry in our SAP R/3 information processing system) showing the type and volume of products that we have delivered.

As established in Copersucar's bylaws, the revenue generated from the sale of sugar and ethanol is reduced by administrative and selling expenses incurred by Copersucar and then allocated by Copersucar to each of its members in proportion to the amount of each sugar and ethanol product that such member delivered to Copersucar, independent of the quantity of products physically removed from each member's storage facilities, as most sugar and ethanol products produced by the members of Copesucar are fungible. Copersucar credits its members using a measure known as the "Unicop," which is a reference value that corresponds to the average price of a 50-kilogram sack of sugar during a particular period of measurement. The average price of ethanol is also measured in these credits. See "Business—Copersucar." Copersucar issues detailed monthly reports specifying the amount of revenue and selling and other expenses allocated by Copersucar to each of its members, including the quantity of inventory (for accounting purposes) sold. During fiscal year 2006, credits allocated to us by Copersucar accounted for approximately 95.5% of our gross sales revenue (94.9% in 2005 and 94.1% in 2004).

In calculating the amount of credits to be allocated to each of its members, Copersucar adjusts (higher or lower) the amount of credits for each member based on the quality of the member's logistical facilities. Due to (1) our close proximity to Copersucar's port facilities (compared to same of its other members) and (2) the investments that we have made in our logistical and warehousing facilities, Copersucar reduced the selling expenses allocated to our company by R$4.6 million and R$5.0 million in fiscal years 2006 and 2005, respectively.

Based on market conditions during the period in which Copersucar markets and sells the products of its members, the value of Copersucar's credits (which reflect the average price of all products that Copersucar markets and sells during a particular period) fluctuates, and Copersucar adjusts the value of these credits in each member's monthly accounting statement (as an additional cost, in the case of a price decrease, or as a reduction in costs, in the case of a price increase). As our products are fungible with similar products of other Copersucar members, Copersucar sells our products together with similar products of its other members and pays each member the same average price per ton for these products, irrespective of when during a particular harvesting season each member delivered its products to Copersucar and subject to appropriate credit given for quality and logistical differentials (as discussed above (quality) and below (logistics)). Although we do not receive any financial benefit from delivering our products to Copersucar when prices are high during a particular harvest, we also are not penalized if prices are low when we deliver our products to Copersucar.

The value of the credits allocated by Copersucar to each of its members is principally affected by domestic and international raw sugar prices and by fluctuations in the *real*/dollar exchange rate. Sugar prices are affected by the perceived and actual supply and demand for sugar and its substitute products. The supply of sugar is affected by weather conditions, governmental trade policies and regulations (including import tariffs and other trade restrictions) and the amount of sugarcane and sugar beet planted by farmers, including substitution by farmers growing other agricultural commodities for sugarcane or sugar beet. Demand is affected by growth in domestic and worldwide consumption of sugar and the prices of substitute sugar products. See "Sugar and Ethanol Industries." From time to time, imbalances may occur between overall sugarcane and sugar beet processing capacity, the supply of sugarcane and sugar beet and demand for sugar and ethanol products. Prices of sugar and ethanol products are also affected by these imbalances, which, in turn, impact Copersucar's decisions regarding when to sell its sugar and ethanol inventories, as well as its market projections regarding the recommended overall mix between sugar and ethanol.

In addition, the overall amount of credits allocated by Copersucar to each of its members varies based on the production mix of each member, which each member is required to define prior to each planting season (in consultation with Copersucar). However, any unsold inventory as of the end of a fiscal year is recorded as beginning inventory for the subsequent fiscal year. During fiscal years 2006 and 2005, we recorded 38,200 tons and 65,000 tons of sugar and 20.5 thousand cubic meters and 56.8 thousand cubic meters of ethanol that we delivered to Copersucar during the 2004/2005 and 2003/2004 harvests, respectively, as beginning inventory. These volumes represented 5.6% and 12.7% of our total production volumes during the 2004/2005 and 2003/2004 harvests, respectively.

World raw sugar prices increased from U.S.$0.0658 per pound in May 2004 to U.S.$0.0860 per pound in April 2005 to U.S.$0.1713 per pound in April 2006, principally due to: (1) demand for sugar that exceeded supply in part due to lower sugar production caused by droughts in China, India, Thailand and Cuba and a resulting reduction in world sugar inventories to meet demand; (2) the anticipated reduction in protectionist practices in the European market; and (3) the 29.1% appreciation of the *real* against the U.S. dollar during this two-year period. Domestic Brazilian raw sugar prices rose similarly, increasing from R$24.3 per 50 kilogram bag in May 2004 to R$27.4 per 50 kilogram bag in April 2005 to R$49.7 per 50 kilogram bag in April 2006. Due to the appreciation of the *real* against the U.S. dollar, the domestic Brazilian price of raw sugar in U.S. dollar terms increased by approximately 187.9% (compared to 104.2% in *reais*) during the same period.

During the six months ended October 31, 2006, world raw sugar prices decreased from U.S.$0.1773 per pound on May 1, 2006 to U.S.$0.1155 per pound on October 31, 2006, principally due to market expectations that production volumes in Brazil, Australia and India would increase significantly, thereby also increasing global inventories. Domestic Brazilian raw sugar prices fell similarly, decreasing from R$49.4 per 50 kilogram bag on May 2, 2006 to R$37.1 per 50 kilogram bag on October 31, 2006. Due to the appreciation of the *real* against the U.S. dollar during this period, the domestic Brazilian price of raw sugar in U.S. dollar terms increased by approximately 27.3% (compared to 24.8% in *reais*).

The overall amount of credits that are allocated by Copersucar to each of its members is also affected by domestic and international prices of ethanol, competition, governmental policies and regulations and market demand for ethanol as an alternative or additive to gasoline. The price for ethanol that Copersucar sells its products domestically in Brazil is established in accordance with market prices, with reference to indices published by ESALQ and the São Paulo Futures and Commodities Exchange (*Bolsa de Mercadorias e Futuros– BMF*). There is still no established reference for the international price of ethanol, and prices for exported ethanol are generally set in accordance with international market prices, dictated by the balance of supply and demand and by opportunities to sell ethanol in Brazil. In addition, even though the New York Board of Trade recently launched an ethanol futures contract, these instruments are not yet liquid. The prices of the industrial alcohol and bottled alcohol products that Copersucar sells are also determined in accordance with market prices, which historically have higher prices than ethanol for use as a gasoline additive. See "Sugar and Ethanol Industries."

Due to an excess supply of ethanol in May 2004, the Brazilian market price of ethanol fell to R$541.90 per cubic liter of anhydrous ethanol and R$472.70 per cubic liter of hydrous ethanol in comparison to R$883.80 per cubic liter of anhydrous ethanol and R$745.20 per cubic liter of hydrous ethanol in May 2003. The Brazilian market price of ethanol in May 2005 reached R$680.90 per cubic liter of anhydrous ethanol and R$593.30 per cubic liter of hydrous ethanol in comparison to R$966.50 per cubic liter of anhydrous ethanol and R$848.60 per cubic liter of hydrous ethanol in May 2006.

During the six months ended October 31, 2006, the Brazilian market price of ethanol decreased to R$867.00 per cubic liter of anhydrous ethanol and R$758.60 per cubic liter of hydrous ethanol. We believe that the demand for ethanol in Brazil is likely to continue to grow. The introduction of flex-fuel vehicles in Brazil in March 2003 has served to increase the demand in Brazil for hydrous ethanol. During calendar year 2003, approximately 48,200 flex-fuel vehicles were sold in Brazil. During 2004 and 2005, more than 328,000 and 812,000 flex-fuel vehicles were sold in Brazil, respectively. During the nine months ended September 30, 2006, approximately 1.0 million flex-fuel vehicles were sold in Brazil, representing approximately 72.1% of new vehicles sold in Brazil during this period.

Other factors that we believe will influence the price of the sugar and ethanol include:

- greater use of ethanol as a source of cleaner, renewable energy;
- higher petroleum price levels;
- the growth rate of the global economy and resulting corresponding growth in worldwide sugar consumption;
- the growth rate of Brazil's gross domestic product, or GDP, which positively impacts demand for sugar and ethanol products in Brazil, particularly by industrial consumers;
- the exchange rate of the Brazilian *real* against the U.S. dollar, which directly affects Copersucar's net sales revenue and its financing costs, and indirectly affects the international market price of sugar (Brazil is a major player in the international sugar market), our sugar-cane-indexed land leases and our cost of third-party supplied sugarcane; and
- the tax policies adopted by the Brazilian federal government and the state governments where we and Copersucar operate, and our and its resulting tax obligations.

Brazilian Economic Conditions

As a company with all of our operations and a significant portion of our net sales revenue derived from sales in Brazil, our results of operations are affected by Brazilian economic conditions. The Brazilian economic environment has been characterized by significant variations in economic growth, inflation and currency exchange rates. From 2001 to 2003, Brazil experienced a period of low growth in its GDP.

In 2003, the Lula administration largely continued the macroeconomic policies of the previous presidential administration. The *real* appreciated by 22.3% against the U.S. dollar in 2003, and inflation for 2003, as measured by the IGP-M, was 8.7% (9.3% when measured by the IPC-A). However, Brazilian GDP increased by only 0.5% in 2003 largely because of high interest rates that constrained economic growth.

The Brazilian economy significantly improved in 2004 as a result of the reduction of interest rates, an increase in exports and reduced political uncertainty relating to the Lula administration. In 2004, Brazilian GDP increased by 4.9%, and the *real* appreciated by 9.0% against the U.S. dollar. Inflation, as measured by the IGP-M, was 12.4% in 2004 (7.6% when measured by the IPC-A). An increase in exports and foreign-direct investment resulted in a surplus for Brazil's balance of payments of more than U.S.$11.0 billion (equivalent to 1.9% of Brazil's GDP for that year), which made it possible for Brazil to reduce its foreign currency-denominated debt, as well as its ratio of exports to foreign currency debt, significantly improving the risk profile of the Brazilian economy.

In 2005, Brazil continued to improve its principal economic indicators: the *real* appreciated by 13.4% against the U.S. dollar; and inflation for 2005, as measured by the IGP-M, was 1.2% (5.7% when measured by the IPC-A). However, GDP increased by only 2.3% in 2005. The Central Bank decreased the base interest rate from 19.8% in May 2005 to 18.0% in December 2005. In January 2006, the Central Bank reduced the base interest rate further to 17.3%.

During the ten months ended October 31, 2006, the Central Bank continued to reduce the base interest rate (to 13.7% as of October 31, 2006), and the average base interest rate during the 12 months ended October 31, 2006 was 16.13%. During the ten months ended October 31, 2006, inflation, as measured by the IGP-M, was 2.7% (2.3% when measured by the IPC-A), and the *real* appreciated by 8.3% against the U.S. dollar, reaching R$2.143 per U.S.$1.00 on October 31, 2006. In addition, President Lula was reelected for an additional four-year term on October 29, 2006 and is expected to continue the macroeconomic policies implemented during his first term in office. However, we cannot predict what policies will be adopted by the Brazilian government and whether these policies will negatively affect the economy or our business or financial performance.

The following table shows selected Brazilian economic indicators for the years and period presented.

	As of and for the Ten Months Ended October 31,	As of and for the Year Ended December 31,		
	2006	2005	2004	2003
Inflation (IGP-M)(1)	2.7%	1.2%	12.4%	8.7%
Inflation (IPC-A)(2)	2.3%	5.7%	7.6%	9.3%
SELIC(3)	12.8%	19.1%	16.4%	24.2%
TJLP(4)	6.7%	9.8%	9.8%	11.5%
CDI(5)	12.8%	19.0%	16.2%	23.3%
Growth (contraction) in GDP(6)	–	1.4%	4.7%	0.9%
Devaluation (appreciation) of the *real vs.* US dollar	(8.3)%	(11.9)%	(8.2)%	(21.4)%
Period-end exchange rate (R$/U.S.$)	2.1	2.3	2.7	2.9
Average exchange rate (R$/U.S.$)(7)	2.2	2.4	2.9	3.1

Sources: Getúlio Vargas Foundation, IBGE, and the Central Bank.

(1) Inflation (IGP-M) is the general market price index measured by the Getúlio Vargas Foundation (*Fundação Getúlio Vargas*).

(2) Inflation (IPC-A) is a broad consumer price index measured by IBGE.

(3) SELIC was calculated based on the average of the rate at the close of business for the 252 days during the ten-month period ended October 31, 2006.

(4) The Long-Term Interest Rate (*Taxa de Juros de Longo Prazo*), or the TJLP, was calculated on an annualized basis (January through December) in 2005, 2004 and 2003 and for the ten-month period ended October 31, 2006.

(5) The CDI is the Interbank Deposit Interest Rate (*Certificados de depósito interbancário*).

(6) GDP data is not yet available for the ten months ended October 31, 2006.

(7) Represents the average of the commercial selling exchange rates on the last day of each month during the year or period.

Operating Expenses

We incur operating expenses, including our general and administrative expenses, which consist of salaries and benefits paid to our employees, taxes, expenses related to third-party services, rentals (other than land) and other expenses. As a percentage of our net sales revenue, our general and administrative expenses (excluding expenses that are allocated to us by Copersucar), represented 9.0%, 9.2% and 10.3% during fiscal years 2006, 2005 and 2004, respectively. As a member of Copersucar, we record a proportionate share of the costs and expenses that Copersucar incurs in selling our products and providing us with other services, which costs and expenses Copersucar allocates to us on a monthly basis. These costs and expenses represented 42.0% of the total operating expenses that we incurred during fiscal year 2006 (53.9% during fiscal year 2005 and 59.0% during fiscal year 2004, respectively) (including our cost of goods sold with our operating expenses, these costs and expenses would represent 7.8%, 12.4% and 15.5%, respectively, of our total operating expenses and costs of goods sold). These costs and expenses include the following:

Copersucar Expense	Description	Our Classification of these Items
Operating Expenses	In preparing its members' products for final sale, Copersucar incurs operating expenses, including freight (both in transferring sugar and ethanol products from its members and in delivering final sugar products to its domestic and export customers and final ethanol products to its export customers, as its domestic ethanol customers generally accept delivery of ethanol at the mills of Copersucar's members), packaging, sales commissions and processing (primarily related to transforming raw sugar into processed sugar through Copersucar's jointly-controlled company, Refinaria Piedade S.A., which Copersucar sold in 2004), port and other (including inspection and certification) expenses. Copersucar allocates a proportionate share of these expenses to each of its members on a monthly basis based on the overall mix of products supplied by each member and sold by Copersucar.	We include these costs on our income statement under the line item "Selling expenses."
Administrative Expenses	Copersucar also incurs administrative expenses in connection with its activities on behalf of its members. Copersucar's administrative expenses primarily include:	
	➤ salaries and other charges payable in respect of its administrative staff and other employees; legal and consulting fees; and administrative expenses related to Copersucar's monitoring and other activities at each of its members' production facilities; and	We record our proportionate share of these expenses on our income statement under the line item "General and administrative expenses."
	➤ selling expenses and logistical costs; and advertising and marketing expenses.	We record our proportionate share of these expenses on our income statement under the line item "Selling expenses."

In addition to operating and administrative expenses, Copersucar incurs:

- financial expenses related to debt service payments in respect of its outstanding indebtedness, which it incurs primarily to finance its exports and working capital and to provide financing to its members. We record our proportionate share of financial expenses related to the indebtedness that Copersucar incurs to finance its exports and working capital, as well as financial expenses related to indebtedness that we incur from Copersucar to finance our operations, on our income statement under the line item "Financial income (expenses), net";

- expenses under transactions that Copersucar engages in from time to time to hedge its exposure to fluctuations in the value of the *real* as against the U.S. dollar and other foreign currencies. We record our proportionate share of these expenses on our income statement under the line item "Financial income (expenses), net";

- expenses under transactions that Copersucar engages in from time to time to hedge its exposure to fluctuations in sugar and ethanol prices. Copersucar deducts a proportionate amount of these expenses from our gross sales revenue. Accordingly, the gross sales revenue that we record on our income statement is net of this deduction by Copersucar, which deduction totaled R$6.6 million during the six months ended October 31, 2006, R$37.8 million during fiscal year 2006 and R$5.7 million during fiscal year 2005; and

- expenses related to taxes paid in respect of the sale of its members' products, including state and federal value added taxes. We record our proportionate share of these taxes on our income statement under the line item "Deductions from gross sales revenue," and during fiscal years 2006 and 2005, these taxes represented 73.9% and 73.9%, respectively, of our total deductions from gross sales revenue.

General administrative expenses incurred by Copersucar (i.e., including those expenses not related to a particular type of product that we produce) are allocated monthly by Copersucar to us and its other members through Activity Based Costing, or ABC (which aggregates overhead costs for each organizational activity, and assigns such costs to the products, services or customers involved in that activity, and the other administrative and financial expenses incurred by Copersucar are allocated among its members based on the overall mix of products delivered to Copersucar by each of its members.

Although we participate in Copersucar's management (including through the appointment of two out of a total of 22 directors serving on Copersucar's board of directors), we do not control Copersucar's operating costs or administrative and financial expenses, which have fluctuated over the last three years as a percentage of our total selling, general and administrative expenses. However, we have influence over Copersucar's policies, and all of Copersucar's strategic decisions are reached by a consensus of its members. Over the last three years, we have assisted Copersucar to reduce its general and administrative and other operating costs significantly, which has positively impacted our results of operations during these years. Copersucar has reduced these costs in part due to its policy to focus mainly on its core commodities export business and to increase its direct sales, without using trading companies or other intermediaries.

Seasonality

Our business is subject to seasonal trends based on the sugarcane growing cycle in the Center-South region of Brazil. The annual sugarcane harvesting period in the Center-South region of Brazil begins in April/May and ends in October/November. This creates fluctuations in our inventory (which usually peaks from October to December to cover sales between the sugarcane harvest (i.e., January through April)), our net sales revenue and gross profit. In addition, seasonality affects our level of outstanding indebtedness and working capital, as we generally incur more indebtedness and working capital to support our operations during the harvesting period, which increases our financial expenses during this period.

Financial Presentation and Accounting Policies

Consolidated Financial Statements

We have prepared (1) our consolidated financial statements as of and for the fiscal years ended April 30, 2006, 2005 and 2004 (including the combined financial information set forth in note 19.3 thereto) and (2) our consolidated interim financial information as of and for the six months ended October 31, 2006 and 2005 (including the combined financial information with respect to the six months ended October 31, 2005 set forth in note 24 thereto) in accordance with Brazilian GAAP, which differs in significant respects from U.S. GAAP. In accordance with Brazilian GAAP, our financial statements as of and for the six months ended October 31, 2006 have been presented on a consolidated basis, as they fully consolidate our 100% ownership interest in Usina São Martinho S.A. for all periods commencing on or after May 1, 2006 even though the São Martinho Capital Contribution occurred on September 28, 2006.

Our consolidated financial statements and consolidated interim financial information have been audited by Deloitte and are included elsewhere in this offering memorandum.

Separate Financial Statements of Usina São Martinho S.A.

We have included in this offering memorandum separate consolidated audited financial statements as of and for the fiscal years ended April 30, 2006, 2005 and 2004 of Usina São Martinho S.A. prepared in accordance with Brazilian GAAP, which differs in significant respects from U.S. GAAP. Our controlling shareholders contributed all of the remaining share capital of Usina São Martinho S.A. to our company on September 28, 2006 as part of the São Martinho Capital Contribution. Prior to the São Martinho Capital Contribution, we owned 11.4% of the total share capital of Usina São Martinho S.A. and were jointly controlled and managed with this company by our controlling shareholders. Usina São Martinho S.A. is a major producer of sugar

and ethanol through its ownership and operation of our São Martinho mill. We have included separate financial statements for Usina São Martinho S.A. because it has become our principal subsidiary as a result of the São Martinho Capital Contribution and to assist potential investors in better understanding the combined financial information that we present in this offering memorandum.

Usina São Martinho S.A.'s consolidated financial statements and consolidated financial information have been audited by Deloitte and are included elsewhere in this offering memorandum.

Combined Financial Information

As part of the São Martinho Capital Contribution (which was carried out by our controlling shareholders in conjunction with a corporate reorganization), our controlling shareholders contributed the remaining 88.6% of the outstanding share capital of Usina São Martinho S.A. to our company on September 28, 2006. As we were under common control with Usina São Martinho S.A. at the time of the São Martinho Capital Contribution, we accounted for the São Martinho Capital Contribution using the historical book value of Usina São Martinho S.A. in accordance with Brazilian Corporation Law and Brazilian GAAP. In addition, as we were under common control and common management with Usina São Martinho S.A. at the time of the São Martinho Capital Contribution, we are permitted under Brazilian GAAP to present combined financial information for periods prior to September 28, 2006 (combining our operations with those of Usina São Martinho S.A.). Accordingly, we have included in this offering memorandum audited combined financial information as of and for the fiscal years ended April 30, 2006, 2005 and 2004 and as of and for the six months ended October 31, 2005. All inter-company transactions have been eliminated in the combination, including the proportional consolidation in our consolidated financial statements of the 11.4% interest in Usina São Martinho S.A. that we held prior to the São Martinho Capital Contribution.

We have prepared our combined financial information under Brazilian GAAP on the basis of:

- our historical consolidated financial statements as of and for the fiscal years ended April 30, 2006, 2005 and 2004;
- our historical consolidated financial information as of and for the six months ended October 31, 2005;
- Usina São Martinho S.A.'s historical consolidated financial statements as of and for the fiscal years ended April 30, 2006, 2005 and 2004; and
- Usina São Martinho S.A.'s historical consolidated financial information as of and for the six months ended October 31, 2005.

In accordance with Brazilian GAAP, our financial statements as of and for the six months ended October 31, 2006 have been presented on a consolidated basis, as they fully consolidate our 100% ownership interest in Usina São Martinho S.A. for all periods commencing on or after May 1, 2006, even though the São Martinho Capital Contribution occurred on September 28, 2006.

Discontinued Operations

On March 31, 2006, we and Usina São Martinho S.A. spun-off some of our respective assets and liabilities that were related to cattle raising, including our ownership interests in Monte Sereno Agrícola Ltda., Agropecuária Caieira do Norte S.A., Duas Matas Agrícola Ltda. (known as Boa Vista Agrícola e Pecuária Ltda. until August 30, 2006) and Agropecuária do Cachimbo S.A. and Usina São Martinho's ownership interests in Vale do Mogi S.A., Agropecuária do Cachimbo S.A., Duas Matas Agrícola Ltda. (known as Boa Vista Agrícola e Pecuária Ltda. until August 30, 2006), Monte Sereno Agrícola Ltda. and Agropecuária Caieira do Norte S.A., in a net amount of R$17.5 million and R$21.4 million, respectively (which we collectively refer to as the Spin-Off). We have presented the assets, liabilities and

results of operations of the spun-off companies in separate line items in our financial statements as of and for the fiscal years ended April 30, 2006, 2005 and 2004 to demonstrate the effect of the Spin-Off on our financial statements. Accordingly, the spun-off companies are not included in the combined financial information presented in this offering memorandum.

Critical Accounting Policies

The presentation of our financial condition and results of operation in conformity with Brazilian GAAP requires us to make certain judgments and estimates regarding the effects of matters that are inherently uncertain and that impact the carrying value of our assets and liabilities. Actual results could differ from those estimates. In order to provide an understanding about how we form our judgments and estimates about certain future events, including the variables and assumptions underlying the estimates, and the sensitivity of those judgments to different variables and conditions, we have summarized the critical accounting policies set forth below under Brazilian GAAP that may be impacted by our judgments and estimates. Copersucar also maintains additional critical accounting policies (including in respect of the valuation of derivative instruments, a portion of the cost of which is allocated to us monthly, see "—Operating Costs") over which we do not have control.

- *Revenue Recognition*. We recognize net sales revenue for our product sales as reported by Copersucar (based on when risk and title to our proportionate share of the products that Copersucar sells is transferred to its customers). Transfer generally occurs at the time when the product is delivered to customers or their freight carriers (in respect of export sales).

- *Provision for Doubtful Accounts.* We estimate a provision for doubtful accounts based on information provided to us by Copersucar. We record our proportionate share of Copersucar's provision for doubtful accounts in our selling expenses, which total provision Copersucar believes is in an amount sufficient to cover any probable losses on realization of its accounts receivable. In order to determine the overall adequacy of the allowance for doubtful accounts, Copersucar regularly evaluates the amount and characteristics of its accounts receivable, including based on past collection experience, significant payment delays and its belief that it may not receive payment in full. Copersucar does not record a provision when the accounts receivable are guaranteed by a creditworthy entity or where there are other reasonable grounds to believe that they will be paid.

- *Inventories*. Inventories are mainly comprised of finished products, plantation period costs and materials for consumption. Inventories are recorded at average acquisition or production cost, not exceeding market value. The plantation period costs correspond to the expenses incurred in connection with the maintenance of our sugarcane plantations and industrial sites, respectively, which are charged to the production costs of the harvest. Inventories of materials for consumption are classified as current assets based on our estimates of when they will be consumed.

- *Impairment, Depreciation and Amortization of Permanent Assets*. Depreciation is calculated using the straight-line method with annual rates that take into consideration the estimated useful economic and remaining service life of the assets. As required under Brazilian GAAP, we regularly perform cash flow studies to determine if the book value of our assets, mainly our fixed assets, are compatible with the expected future profitability resulting from these assets, which future profitability we do not discount to present value. If the expected cash flows are lower than the related book value, we record a provision for impairment of the asset's value. We charge maintenance costs, which do not affect the estimated useful economic life of the assets, to expenses as they are incurred. Items related to existing assets that are fully depreciated during one harvest are capitalized when replaced, and depreciation expenses are charged to operations during the succeeding harvest. New assets that are acquired to replace fully depreciated assets are capitalized and depreciated on the same basis as our other assets.

- *Deferred Taxes*. We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities, as well as on the tax loss carryforward credits, using prevailing tax rates. We regularly review any deferred tax assets for recoverability and reduce their carrying value, as required, based on projected future taxable income and the expected timing of any reversals of existing temporary differences. If one of our subsidiaries operates at a loss or is unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or the time period within which the underlying temporary differences become taxable or deductible, we evaluate the need to partially or completely reduce the carrying value of our deferred tax assets.

- *Contingencies*. We are currently involved in judicial and administrative proceedings, as described under "Business—Legal and Administrative Proceedings" and in note 19 to our consolidated financial statements as of and for the six months ended October 31, 2006 and 2005 included elsewhere in this offering memorandum. We record a provision for contingencies that we deem probable of resulting in a loss based on the opinion of legal counsel.

Recent Developments

On January 4, 2007, BNDES authorized loans to our company in an aggregate amount of up to R$248.9 million, to be divided into eight tranches (A through H).

Although BNDES has authorized these loans, we will not receive any of the proceeds from these loans unless and until we and BNDES complete the negotiation and execution of definitive loan documentation. If these loans are made, we expect that (1) tranches A, C and E (in an aggregate principal amount of R$24.7 million) will accrue interest at a rate based on the Monetary Unit of BNDES (*Unidade Monetaria de BNDES*), or UM, a BNDES rate based on a basket of currencies (which rate reflects the daily exchange rate fluctuations in the currencies in which BNDES borrows), plus a margin of 1.65% per year, (2) tranches B, D, F and H (in an aggregate principal amount of R$223.2 million) will accrue interest at the TJLP plus a margin of 2.15% per year, and (3) Tranche G (in an aggregate principal amount of R$1.0 million) will accrue interest at the TJLP. If we receive these loans, we expect to use the proceeds from (1) tranches A and B to construct an ethanol distillery and to acquire an electricity co-generation substation in the city of Quirinópolis, (2) tranches C and D to purchase machinery and equipment for our Boa Vista mill, (3) tranches E and F to plant 21,000 hectares of sugarcane in the cities of Quirinópolis and Paranaguaia in the state of Goias, and (4) tranches G and H to invest in social and environmental programs, respectively, in communities surrounding our Boa Vista mill. If these loans are made, we expect that they will be secured with equipment of our Boa Vista mill and by land that we own near our Iracema mill.

Results of Operations

The following discussion of our results of operations is provided on a combined basis, except in respect of the six months ended October 31, 2006 (which is provided on a consolidated basis).

In the following discussion, references to increases or decreases in any fiscal year or period are made by comparison with the corresponding prior fiscal year or period, except as the context otherwise indicates.

Six Months Ended October 31, 2006 Compared to Six Months Ended October 31, 2005

The following table sets forth consolidated financial information for the six months ended October 31, 2006 and combined financial information for the six months ended October 31, 2005. For more information on how we derived our combined financial information, see "Presentation of Financial and Other Information—Combined Financial Information" and "—Financial Presentation and Accounting Policies—Combined Financial Information."

	For the Six Months Ended October 31,				
	2006	2005	% Change	% of Net Sales Revenue	
	(consolidated)	(combined)		2006	2005
	(in millions of *reais*)			(consolidated)	(combined)
Financial Information:					
Net sales revenue	462.9	356.6	29.8	100.0	100.0
Sugar	231.1	164.7	40.3	49.9	46.2
Anhydrous ethanol	124.5	124.7	(0.2)	26.9	35.0
Hydrous ethanol	86.0	46.7	84.2	18.6	13.1
Other	21.3	20.5	3.9	4.6	5.7
Cost of goods sold and services rendered	(291.9)	(254.0)	14.9	(63.1)	(71.2)
Gross profit	171.0	102.6	66.8	36.9	28.8
Selling, general and administrative expenses	(79.0)	(62.4)	26.6	(17.1)	(17.5)
Other operating income (expenses), net	0.6	0.4	100.0	0.2	0.1
Financial income (expenses), net	(5.5)	(13.8)	(60.1)	(1.2)	(3.9)
Non-operating income (expenses), net	1.3	0.6	116.7	0.3	0.2
Income and social contribution taxes	(29.8)	(9.7)	207.2	(6.4)	(2.7)
Income from discontinued operations	–	6.8	(100.0)	–	1.9
Net income	58.6	24.5	139.2	12.7	6.9

Net Sales Revenue

Our net sales revenue increased by 29.8% to R$462.9 million during the six months ended October 31, 2006 from R$356.6 million during the corresponding period in 2005, primarily as a result of the net effect of: (1) a 40.3% increase in net sales revenue from sugar sales to R$231.1 million during the six months ended October 31, 2006 from R$164.7 million during the corresponding period in 2005; (2) a 84.2% increase in net sales revenue from hydrous ethanol sales to R$86.0 million during the six months ended October 31, 2006 from R$46.7 million during the corresponding period in 2005; and (3) a 0.2% decrease in net sales revenue from anhydrous ethanol sales to R$124.5 million during the six months ended October 31, 2006 from R$124.7 million during the corresponding period in 2005.

Sugar

Our net sales revenue from sugar sales increased by 40.3% to R$231.1 million during the six months ended October 31, 2006 from R$164.7 million during the corresponding period in 2005, primarily as a result of the combined effect of (1) a 38.7% increase in net sales revenue from sugar export sales (to R$156.0 million during the six months ended October 31, 2006 from R$112.5 million during the corresponding period in 2005) and (2) a 43.9% increase in net sales revenue from domestic sugar sales (to R$75.1 million during the six months ended October 31, 2006 from R$52.2 million during the corresponding period in 2005).

The 38.7% increase in net sales revenue from sugar export sales was due to the net effect of:

- a 49.6% increase in average international sugar prices (to R$727.7 per ton during the six months ended October 31, 2006 from R$495.5 per ton during the corresponding period in 2005); and

- a 5.6% decrease in sugar export sales volumes (to 214,000 tons during the six months ended October 31, 2006 from 226,000 tons during the corresponding period in 2005).

The 43.9% increase in net sales revenue from domestic sugar sales was due to the combined effect of:

- a 42.7% increase in average domestic sugar prices (to R$691.8 per ton during the six months ended October 31, 2006 from R$484.9 per ton during the corresponding period in 2005), primarily as a result of the increase in international sugar prices and the effect of the appreciation of the *real* against the U.S. dollar during the six months ended October 31, 2006 compared to the corresponding period in 2005, as domestic sugar prices are linked to international reference prices quoted in U.S. dollars; and

- a 0.9% increase in domestic sugar sales volumes (to 109,000 tons during the six months ended October 31, 2006 from 108,000 tons during the corresponding period in 2005).

Ethanol

Our net sales revenue from ethanol sales increased by 22.8% to R$210.5 million during the six months ended October 31, 2006 from R$171.4 million during the corresponding period in 2005, primarily as a result of the net effect of: (1) a 84.2% increase in net sales revenue from hydrous ethanol to R$86.0 million during the six months ended October 31, 2006 from R$46.7 million during the corresponding period in 2005; and (2) a 0.2% decrease in net sales revenue from anhydrous ethanol to R$124.5 million during the six months ended October 31, 2006 from R$124.7 million during the corresponding period in 2005.

Anhydrous

The 0.2% decrease in net sales revenue from anhydrous ethanol sales during the six months ended October 31, 2006 was due primarily to the net effect of:

- a 67.4% decrease in domestic anhydrous ethanol sales volumes (to 47 thousand cubic meters during the six months ended October 31, 2006 from 146 thousand cubic meters during the corresponding period in 2005) as a result of a reduction in the percentage of anhydrous ethanol required to be added to gasoline in Brazil from 25% to 20% on March 1, 2006 and from 20% to 23% on November 20, 2006;

- a 24.2% increase in average domestic anhydrous ethanol prices (to R$930.3 per cubic liter during the six months ended October 31, 2006 from R$749.0 per cubic liter during the corresponding period in 2005);

- a 251.3% increase in export sales volumes of anhydrous ethanol (to 75 thousand cubic meters during the six months ended October 31, 2006 from 21 thousand cubic meters during the corresponding period in 2005) in light of increased export opportunities for this product; and

- a 48.0% increase in average international anhydrous ethanol prices (to R$1,069.7 per cubic liter during the six months ended October 31, 2006 from R$721.3 per cubic meters during the corresponding period in 2005) as a result of higher international gasoline and other petroleum derivative prices.

Hydrous

The 84.2% increase in net sales revenue from hydrous ethanol during the six months ended October 31, 2006 was due primarily to the net effect of:

- a 23.8% increase in average domestic hydrous ethanol prices (to R$801.6 per cubic liter during the six months ended October 31, 2006 from R$647.5 per cubic liter during the corresponding period in 2005) as a result of increased domestic demand for hydrous ethanol in light of higher gasoline prices and the increased number of flex-fuel and pure ethanol vehicles in Brazil (representing 85% of all vehicles sold in Brazil in October 2006);

- a 177.6% increase in domestic sales volumes of hydrous ethanol (to 83 thousand cubic meters during the six months ended October 31, 2006 from 30 thousand cubic meters during the corresponding period in 2005) as a result of Copersucar's decision to prioritize sales of hydrous ethanol in Brazil due to higher domestic prices for this product;

- a 53.5% decrease in export sales volumes of hydrous ethanol (to 20 thousand cubic meters during the six months ended October 31, 2006 from 43 thousand cubic meters during the corresponding period in 2005) as a result higher domestic demand for hydrous ethanol; and

- a 54.6% increase in average international hydrous ethanol prices expressed in *reais* (to R$990.7 per cubic liter during the six months ended October 31, 2006 from R$640.9 per cubic liter during the corresponding period in 2005), primarily as a result of the appreciation of the *real* against the U.S. dollar during the six months ended October 31, 2006 compared to the corresponding period in 2005.

Cost of Goods Sold and Services Rendered

Cost of goods sold and services rendered increased by 14.9% to R$291.9 million during the six months ended October 31, 2006 from R$254.0 million during the corresponding period in 2005, primarily as a result of increased production costs associated with the following items:

- sugarcane obtained from third parties due to a 46.2% price increase instituted by CONSECANA;

- labor costs, payroll charges, employment benefits and collective labor agreement, which increased by 7.0% on average;

- depreciation and amortization;

- services agreements with third parties;

- manure, fertilizers and raw materials (excluding sugarcane); and

- fuels and lubricants.

As a percentage of our net sales revenue, cost of goods sold and services rendered decreased to 63.1% during the six months ended October 31, 2006 from 71.2% during the corresponding period in 2005.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses (including executive officers' remuneration) increased by 26.6% to R$79.0 million during the six months ended October 31, 2006 from R$62.4 million during the corresponding period in 2005, primarily as a result of the combined effect of a 33.3% increase in our selling expenses during the six months ended October 31, 2006 and a 22.5% increase in our general and administrative expenses (including executive officers' remuneration) during the same period. As a percentage of our net sales revenue, our selling, general and administrative expenses decreased to 17.1% during the six months ended October 31, 2006 from 17.5% during the corresponding period in 2005.

The 33.3% increase in our selling expenses to R$31.6 million during the six months ended October 31, 2006 from R$23.7 million during the corresponding period in 2005 primarily as a result of higher freight costs related to export sales of anhydrous ethanol. As a percentage of our net sales revenue, our selling expenses increased to 6.8% during the six months ended October 31, 2006 from 6.6% during the corresponding period in 2005.

General and administrative expenses (including executive officers' remuneration) increased by 22.5% to R$47.4 million during the six months ended October 31, 2006 from R$38.7 million during the corresponding period in 2005, primarily as a result of a 25% increase in executive officers' remuneration and the increased use of consultants and other third-party service providers due to a more concentrated harvesting season as a result of climactic conditions in the Center-South region of Brazil during the 2006/2007 harvest. As a percentage of our net sales revenue, our general and administrative expenses (including executive officers' remuneration) decreased to 10.2% during the six months ended October 31, 2006 from 10.9% during the corresponding period in 2005.

Other Operating Income (Expenses), Net

Other operating income (expenses), net, increased by 130.4% to R$0.8 million during the six months ended October 31, 2006 from R$0.4 million during the corresponding period in 2005, primarily as a result of income that we received from sugarcane planting services that we rendered to third parties during the six months ended October 31, 2006.

Financial Income (Expenses), Net

Our financial expenses include interest payable in respect of working capital and our loans and financings to fund our capital expenditures, interest payable in respect of financial obligations owed to Copersucar and a portion of Copersucar's financial expenses incurred under pre-export or other loans to finance its export sales and exchange rate variation in respect of our operations and Copersucar's activities (a proportionate share of which is allocated to us by Copersucar on a monthly basis). Financial expenses, net, decreased by 60.1% to R$5.5 million during the six months ended October 31, 2006 from R$13.8 million during the corresponding period in 2005, due to the net effect of the following factors:

- a reduction in interest rates (primarily CDI and TJLP);
- a reduction in the average cost of our loans, primarily in respect of loans funded by BNDES; and
- an increase in financial income due to a corresponding increase in the average balance of our financial investments as a result of increased cash on hand from higher sales revenue.

Non-Operating Income (Expenses), Net

Non-operating income (expenses), net, increased by 103.1% to income of R$1.3 million during the six months ended October 31, 2006 from income of R$0.6 million during the corresponding period in 2005.

Income and Social Contribution Taxes

Income and social contribution tax expenses increased by 207.2% to R$29.8 million during the six months ended October 31, 2006 from R$9.7 million during the corresponding period in 2005, primarily as a result of the 223.1% increase in our net income before income and social contribution taxes during the six months ended October 31, 2006.

Net Income

As a result of the foregoing, during the six months ended October 31, 2006, we recorded net income of R$58.6 million, compared to net income of R$24.5 million during the corresponding period in 2005.

Year Ended April 30, 2006 Compared with Year Ended April 30, 2005

The following table sets forth combined financial information for each of the fiscal years ended April 30, 2006 and 2005.

	For the Fiscal Year Ended April 30,				
	2006	2005	% Change	% of Net Sales Revenue	
	(combined) (in millions of *reais*)			2006	2005
Financial Information:					
Net sales revenue	793.2	648.2	22.4	100.0	100.0
Sugar	339.5	312.7	8.6	42.8	48.2
Anhydrous ethanol	316.9	223.6	41.7	40.0	34.5
Hydrous ethanol	102.3	80.6	26.9	12.9	12.4
Other	34.5	31.3	10.2	4.3	4.8
Cost of goods sold and services rendered	(537.8)	(432.9)	24.2	(67.8)	(66.8)
Gross profit	255.4	215.3	18.6	32.2	33.2
Selling, general and administrative expenses	(122.8)	(129.8)	(5.4)	(15.5)	(20.0)
Other operating income (expenses), net	1.0	1.1	(9.1)	0.1	0.2
Financial income (expenses), net	(28.2)	(32.1)	(12.1)	(3.6)	(5.0)
Non-operating income (expenses), net	1.5	0.9	66.7	0.2	0.1
Income and social contribution taxes	(38.8)	(18.8)	106.4	(4.9)	(2.9)
Income (loss) from discontinued operations	6.2	(0.8)	(875.0)	0.8	(0.1)
Net income	74.3	35.8	107.5	9.4	5.5

Net Sales Revenue

Our net sales revenue increased by 22.4% to R$793.2 million during fiscal year 2006 from R$648.2 million during fiscal year 2005, primarily as a result of a 41.7% increase in net sales revenue from anhydrous ethanol to R$316.9 million during fiscal year 2006 from R$223.6 million during fiscal year 2005.

Sugar

Our net sales revenue from sugar sales increased by 8.6% to R$339.5 million during fiscal year 2006 from R$312.7 million during fiscal year 2005, primarily as a result of a 16.2% increase in net sales revenue from sugar export sales (to R$215.0 million during fiscal year 2006 from R$185.0 million during fiscal year 2005), which was offset in part by a 2.5% decrease in net sales revenue from domestic sugar sales (to R$124.5 million during fiscal year 2006 from R$127.7 million during fiscal year 2005).

The 16.2% increase in net sales revenue from sugar export sales was due to the combined effect of a 2.8% increase in average international sugar prices (to R$516.87 per ton during fiscal year 2006 from R$502.78 per ton during fiscal year 2005), and a 13.1% increase in sugar export sales volumes (to 416,000 tons during fiscal year 2006 from 368,000 tons during fiscal year 2005).

The 2.5% decrease in net sales revenue from domestic sugar sales was due to the net effect of:

- a 7.3% decrease in domestic sugar sales volumes (to 209,000 tons during fiscal year 2006 from 226,000 tons during fiscal year 2005), in part as a result of Copersucar's focus on its core commodities export business to reduce its domestic sugar refined sales; and

- a 5.2% increase in average domestic sugar prices (to R$595.42 per ton during fiscal year 2006 from R$566.02 per ton during fiscal year 2005), primarily as a result of the effect of the appreciation of the *real* against the U.S. dollar in fiscal year 2006 compared to fiscal year 2005, which compounded the 2.8% increase in average international sugar prices as domestic sugar prices are linked to international reference prices quoted in U.S. dollars.

Ethanol

Our net sales revenue from ethanol sales increased by 37.8% to R$419.2 million during fiscal year 2006 from R$304.2 million during fiscal year 2005, primarily as a result of a 54.4% increase in net sales revenue from domestic sales of anhydrous ethanol (to R$294.2 million during fiscal year 2006 from R$190.5 million during fiscal year 2005), which was offset in part by a 31.4% decrease in net sales revenue from export sales of anhydrous ethanol (to R$22.7 million during fiscal year 2006 from R$33.1 million during fiscal year 2005).

Anhydrous

The 54.4% increase in net sales revenue from domestic sales of anhydrous ethanol during fiscal year 2006 was due primarily to the combined effect of a 20.8% increase in average domestic anhydrous ethanol prices (to R$942.96 per cubic liter during fiscal year 2006 from R$780.29 per cubic liter during fiscal year 2005) and a 27.8% increase in domestic anhydrous ethanol sales volumes (to 312.0 thousand cubic meters during fiscal year 2006 from 244.1 thousand cubic meters during fiscal year 2005). The increase in average domestic anhydrous ethanol prices and domestic anhydrous ethanol sales volumes was primarily a result of increased domestic consumption of gasoline, which is mixed with anhydrous ethanol (25% by volume) as required by Brazilian law.

The 31.4% decrease in net sales revenue from export sales of anhydrous ethanol was due to the net effect of:

- a 40.8% decrease in export sales volumes of anhydrous ethanol (to 32 thousand cubic meters during fiscal year 2006 from 54 thousand cubic meters during fiscal year 2005) as a result of Copersucar's decision to prioritize sales in the domestic market, as Copersucar exports this product only when opportunities arise; and

- a 15.9% increase in average international anhydrous ethanol prices (to R$709.13 per cubic liter during fiscal year 2006 from R$611.94 per cubic liter during fiscal year 2005) as a result of higher international gasoline and other petroleum derivative prices.

Hydrous

Net sales revenue from domestic sales of hydrous ethanol increased by 7.0% to R$68.4 million during fiscal year 2006 from R$63.9 million during fiscal year 2005, due to the net effect of:

- a 22.0% increase in average domestic hydrous ethanol prices (to R$844.95 per cubic liter during fiscal year 2006 from R$692.82 per cubic liter during fiscal year 2005) as a result of increased domestic demand for hydrous ethanol in light of higher gasoline prices and the increased number of flex-fuel and pure ethanol vehicles in Brazil (which number of vehicles collectively increased by 38.2% from 900 thousand as of May 1, 2005 to 1.2 million as of April 30, 2006); and

- a 12.2% decrease in domestic sales volumes of hydrous ethanol (to 81 thousand cubic meters during fiscal year 2006 from 92 thousand cubic meters during fiscal year 2005) as a result of Copersucar's decision to prioritize sales of anhydrous ethanol in Brazil due to higher domestic prices for this product.

Net sales revenue from export sales of hydrous ethanol increased by 103.0% to R$33.9 million during fiscal year 2006 from R$16.7 million during fiscal year 2005 as a result of the net effect of:

- a 117.3% increase in export sales volumes of hydrous ethanol (to 53 thousand cubic meters during fiscal year 2006 from 24 thousand cubic meters during fiscal year 2005) as a result of higher international demand for this product primarily for industrial use;

- a 6.5% decrease in average international hydrous ethanol prices expressed in *reais* (to R$639.3 per cubic liter during fiscal year 2006 from R$683.5 per cubic liter during fiscal year 2005), primarily as a result of the appreciation of the *real* against the U.S. dollar during fiscal year 2006 compared to fiscal year 2005.

Cost of Goods Sold and Services Rendered

Cost of goods sold and services rendered increased by 24.2% to R$537.8 million during fiscal year 2006 from R$432.9 million during fiscal year 2005, primarily as a result of:

- a 10.6% increase in the overall volume of sales of our products;

- a 14.1% increase in labor costs, payroll charges, employment benefits and collective labor agreement (which increased by 7.0% during fiscal year 2006);

- a 23.3% increase in the price of sugarcane obtained from third parties as set by CONSECANA; and

- an increase in equipment maintenance and fuel costs.

As a percentage of our net sales revenue, cost of goods sold and services rendered increased to 67.8% during fiscal year 2006 from 66.8% during fiscal year 2005.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses (including executive officers' remuneration) decreased by 5.4% to R$122.8 million during fiscal year 2006 from R$129.8 million during fiscal year 2005, primarily as a result of a 29.5% decrease in our selling expenses during fiscal year 2006, which was

offset in part by a 12.0% increase in our general and administrative expenses (including executive officers' remuneration). As a percentage of our net sales revenue, our selling, general and administrative expenses decreased to 15.5% during fiscal year 2006 from 20.0% during fiscal year 2005.

The 29.5% decrease in our selling expenses to R$38.3 million during fiscal year 2006 from R$54.4 million during fiscal year 2005 primarily resulted from Copersucar's focus on its core commodities export business and reduction of its domestic refined sugar sales, which generally reduced its overall margins from sugar sales, and its related decision to reduce selling expenses by increasing its direct sales, without the use of trading companies or other intermediaries, which direct sales represented approximately 80% of Copersucar's total sales during fiscal year 2006 (and which percentage of direct sales has increased significantly over the last three fiscal years from approximately 40% during fiscal year 2004). As a percentage of our net sales revenue, our selling expenses decreased to 4.8% during fiscal year 2006 from 8.4% during fiscal year 2005.

General and administrative expenses (including executive officers' remuneration) increased by 12.0% to R$84.4 million during fiscal year 2006 from R$75.4 million during fiscal year 2005, primarily as a result of an increase in our provision for certain labor claims. As a percentage of our net sales revenue, our general and administrative expenses decreased to 10.6% during fiscal year 2006 from 11.6% during fiscal year 2005.

Other Operating Income (Expenses), Net

Other operating income (expenses), net, decreased by 9.1% to income of R$1.0 million during fiscal year 2006 from income of R$1.1 million during fiscal year 2005.

Financial Income (Expenses), Net

Financial expenses, net, decreased by 12.1% to R$28.2 million during fiscal year 2006 from R$32.1 million during fiscal year 2005, primarily as a result of a reduction in financial expenses in light of the refinancing of certain of our short-term indebtedness with longer term indebtedness at lower interest rates and the repayment of certain of our short-term indebtedness as it became due.

Non-Operating Income (Expenses), Net

Non-operating income, net, increased by 66.7% to R$1.5 million during fiscal year 2006 from R$0.9 million during fiscal year 2005, primarily as a result of the sale of some of our vehicles during fiscal year 2006.

Income and Social Contribution Taxes

Income and social contribution tax expenses increased by 106.4% to R$38.8 million during fiscal year 2006 from R$18.8 million during fiscal year 2005, primarily as a result of a significant increase in our taxable income given the 92.9% increase in our net income before income and social contribution taxes during fiscal year 2006.

Income (Loss) from Discontinued Operations

We recorded income from discontinued operations of R$6.2 million during fiscal year 2006, compared to a loss from discontinued operations of R$0.8 million during fiscal year 2005, primarily as a result of the equity in the results of our spun-off entities engaged in cattle raising activities and the results from dispositions of property, plant and equipment of during fiscal year 2006. The greatest impact on our income was due to gains from property sales of R$1.3 million.

Net Income

As a result of the foregoing, our net income increased by 107.5% to R$74.3 million during fiscal year 2006 from R$35.8 million during fiscal year 2005.

Year Ended April 30, 2005 Compared with Year Ended April 30, 2004

The following table sets forth combined financial information for each of the fiscal years ended April 30, 2005 and 2004.

	For the Fiscal Year Ended April 30,				
	2005	2004	% Change	% of Net Sales Revenue	
	(combined) (in millions of *reais*)			2005	2004
Financial Information:					
Net sales revenue	648.2	518.0	25.1	100.0	100.0
Sugar	312.7	293.2	6.7	48.2	56.6
Anhydrous ethanol	223.6	157.1	42.3	34.5	30.3
Hydrous ethanol	80.6	37.9	112.7	12.4	7.3
Other	31.3	29.8	5.0	4.8	5.8
Cost of goods sold and services rendered	(432.9)	(366.2)	18.2	(66.8)	(70.7)
Gross profit	215.3	151.8	41.8	33.2	29.3
Selling, general and administrative expenses	(129.8)	(130.2)	(0.4)	(20.0)	(25.2)
Other operating income (expenses), net	1.1	(2.6)	(142.3)	0.2	(0.5)
Financial income (expenses), net	(32.1)	(41.2)	(22.1)	(5.0)	(8.0)
Non-operating income (expenses), net	0.9	(6.6)	(113.6)	0.1	(1.3)
Income and social contribution taxes	(18.8)	3.8	(582.1)	(2.9)	0.8
Income (loss) from discontinued operations	(0.8)	(0.6)	33.3	(0.1)	(0.1)
Net income	35.8	(25.6)	(239.8)	5.5	(4.9)

Net Sales Revenue

Our net sales revenue increased by 25.1% to R$648.2 million during fiscal year 2005 from R$518.0 million during fiscal year 2004, primarily as a result of (1) a 42.3% increase in net sales revenue from anhydrous ethanol sales to R$223.6 million during fiscal year 2005 from R$157.1 million during fiscal year 2004 and (2) a 112.7% increase in net sales revenue from hydrous ethanol sales to R$80.6 million during fiscal year 2005 from R$37.9 million during fiscal year 2004.

Sugar

Our net sales revenue from sugar sales increased by 6.7% to R$312.7 million during fiscal year 2005 from R$293.2 million during fiscal year 2004, primarily as a result of the net effect of a 22.0% increase in net sales revenue from sugar export sales (to R$185.0 million during fiscal year 2005 from R$151.7 million during fiscal year 2004), which was offset in part by a 9.8% decrease in net sales revenue from domestic sugar sales (to R$127.7 million during fiscal year 2005 from R$141.5 million during fiscal year 2004).

The 22.0% increase in our net sales revenue from sugar export sales was due to the combined effect of:

- an 11.7% increase in average international sugar prices (to R$502.78 per ton during fiscal year 2005 from R$450.18 per ton during fiscal year 2004); and

- an 9.2% increase in sugar export sales volumes (to 368,000 tons during fiscal year 2005 from 337,000 tons during fiscal year 2004), in part as a result of Copersucar's focus on its core commodities export business to reduce its domestic sugar refined sales.

The 9.8% decrease in net sales revenue from domestic sugar sales was due to the net effect of:

- a 13.6% decrease in domestic sugar sales volumes (to 226,000 tons during fiscal year 2005 from 261,000 tons during fiscal year 2004), primarily as a result of the higher participation of ethanol in our overall product mix during fiscal year 2005 and Copersucar's focus on its core commodities export business to reduce its domestic sugar refined sales; and
- a 4.4% increase in average domestic sugar prices (to R$566.02 per ton during fiscal year 2005 from R$541.92 per ton during fiscal year 2004), primarily as a result of the increase in international sugar prices and the effect of the appreciation of the *real* against the U.S. dollar in fiscal year 2005 as compared to fiscal year 2004, as domestic sugar prices are linked to international reference prices quoted in U.S. dollars.

Ethanol

Our net sales revenue from ethanol sales increased by 56.0% to R$304.2 million during fiscal year 2005 from R$195.0 million during fiscal year 2004, primarily as a result of (1) a 30.9% increase in net sales revenue from domestic sales of anhydrous ethanol (to R$190.5 million during fiscal year 2005 from R$145.5 during fiscal year 2004), (2) a 106.8% increase in net sales revenue from domestic sales of hydrous ethanol (to R$63.9 million during fiscal year 2005 from R$30.9 million during fiscal year 2004) and (3) a 185.3% increase in net sales revenue from export sales of anhydrous ethanol (to R$33.1 million during fiscal year 2005 from R$11.6 million during fiscal year 2004).

Anhydrous

The 30.9% increase in net sales revenue from domestic sales of anhydrous ethanol was due to the net effect of:

- a 31.9% increase in average domestic anhydrous ethanol prices (to R$780.29 per cubic liter during fiscal year 2005 from R$591.49 per cubic liter during fiscal year 2004), primarily due to increased domestic consumption of gasoline, which is mixed with anhydrous ethanol (25% by volume, currently 23%) as required by Brazilian law; and
- a 0.8% decrease in domestic sales volumes of anhydrous ethanol (to 244 thousand cubic meters during fiscal year 2005 from 246 thousand cubic meters during fiscal year 2004), primarily as a result of Copersucar's decision to prioritize export sales of this product during fiscal year 2005 in light of increased export sales opportunities.

The 185.3% increase in net sales revenue from export sales of anhydrous ethanol was due to the combined effect of:

- a 237.9% increase in export sales volumes of anhydrous ethanol (to 54 thousand cubic meters during fiscal year 2005 from 16 thousand cubic meters during fiscal year 2004) as a result of higher international demand for this product during fiscal year 2005; and
- a 15.5% decrease in average international anhydrous ethanol prices expressed in *reais* (to R$611.94 per cubic liter during fiscal year 2005 from R$724.56 per cubic liter during fiscal year 2004), primarily as a result of the appreciation of the *real* against the U.S. dollar during fiscal year 2005 compared to fiscal year 2004.

Hydrous

The 106.8% increase in net sales revenue from domestic sales of hydrous ethanol was due to the combined effect of:

- a 44.2% increase in domestic sales volumes of hydrous ethanol (to 92 thousand cubic meters during fiscal year 2005 from 64 thousand cubic meters during fiscal year 2004) as a result of increased domestic demand for hydrous ethanol in light of higher gasoline prices and the increased number of flex-fuel and pure ethanol vehicles in Brazil (which number of vehicles collectively increased by 125.0% from 400 thousand as of May 1, 2004 to 900 thousand as of April 30, 2005); and

- a 43.1% increase in average domestic hydrous ethanol prices (to R$692.82 per cubic liter during fiscal year 2005 from R$484.05 per cubic liter during fiscal year 2004) also as a result of increased domestic demand for hydrous ethanol, as discussed above.

Net sales revenue from export sales of hydrous ethanol increased by 138.5% to R$16.7 million during fiscal year 2005 from R$7.0 million during fiscal year 2004 as a result of the combined effect of an 8.1% increase in average international hydrous ethanol prices (to R$683.49 per cubic liter during fiscal year 2006 from R$632.80 per cubic liter during fiscal year 2004) and a 118.2% increase in export sales volumes of hydrous ethanol (to 24 thousand cubic meters during fiscal year 2005 from 11 thousand cubic meters during fiscal year 2004) as a result of higher international demand for this product primarily for industrial use.

Cost of Goods Sold and Services Rendered

Cost of goods sold and services rendered increased by 18.2% to R$432.9 million during fiscal year 2005 from R$366.2 million during fiscal year 2004, primarily as a result of the net effect of (1) a 14.3% increase in the volume of sales of our products and (2) a 5% net increase in costs relating to labor, sugarcane obtained from third parties and maintenance equipment and services.

As a percentage of our net sales revenue, cost of goods sold and services rendered decreased to 66.8% during fiscal year 2005 from 70.7% during fiscal year 2004.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses (including executive officers' remuneration) decreased by 0.4% to R$129.8 million during fiscal year 2005 from R$130.3 million during fiscal year 2004, primarily as a result of the net effect of:

- a 5.6% decrease in our selling expenses during fiscal year 2005; and

- a 3.7% increase in our general and administrative expenses (including executive officers' remuneration).

As a percentage of our net sales revenue, our selling, general and administrative expenses (including executive officers' remuneration) decreased to 20.0% during fiscal year 2005 from 25.2% during fiscal year 2004, as our net sales revenue increased by 25.1% during fiscal year 2005.

Our selling expenses decreased by 5.6% to R$54.4 million during fiscal year 2005 from R$57.6 million during fiscal year 2004, primarily as a result of Copersucar's focus on its core commodities export business and reduction of its domestic refined sugar sales, which generally reduced its overall margins from sugar sales, and its related decision to reduce selling expenses by increasing its direct sales, without the use of trading companies or other intermediaries. As a percentage of our net sales revenue, our selling expenses decreased to 8.4% during fiscal year 2005 from 11.1% during fiscal year 2004.

General and administrative expenses (including executive officers' remuneration) increased by 3.7% to R$75.4 million during fiscal year 2005 from R$72.7 million during fiscal year 2004, primarily as a result of an increase in our provisions for certain labor claims. As a percentage of our net sales revenue, our general and administrative expenses decreased to 11.6% during fiscal year 2005 from 14.0% during fiscal year 2004, as our net sales revenue increased by 25.1% during fiscal year 2005.

Other Operating Income (Expenses), Net

Other operating income (expenses), net, was income of R$1.1 million during fiscal year 2005, compared to an expense of R$2.6 million during fiscal year 2004.

Financial Income (Expenses), Net

Financial expenses, net, decreased by 22.1% to R$32.1 million during fiscal year 2005 from R$41.2 million during fiscal year 2004, primarily as a result of the refinancing of certain of our short-term indebtedness with longer term indebtedness at lower interest rates and the repayment of certain of our short-term indebtedness as it became due.

Non-Operating Income (Expenses), Net

Non-operating income (expenses), net, was income of R$0.9 million during fiscal year 2005 compared to an expense of R$6.6 million during fiscal year 2004, as a result of the recognition of losses on the sale of property, plant and equipment (land, machinery and vehicles) during fiscal year 2004.

Income and Social Contribution Taxes

We incurred income and social contribution tax expenses of R$18.8 million during fiscal year 2005, compared to a credit of R$3.9 million during fiscal year 2004, as we recorded a net loss prior to income and social contribution taxes during fiscal year 2004.

Income (Loss) from Discontinued Operations

Income (loss) from discontinued operations increased by 33.3% to a loss of R$0.8 million during fiscal year 2005 from a loss of R$0.6 million during fiscal year 2004.

Net Income

As a result of the foregoing, we recorded net income of R$35.8 million in fiscal year 2005, compared to a net loss of R$25.6 million during fiscal year 2004.

Liquidity and Capital Resources

Our financial condition and liquidity is and will be influenced by a variety of factors, including:

- our ability to generate cash flows from our operations;
- the level of our outstanding indebtedness and the interest we are obligated to pay on this indebtedness, which affects our net financial expenses;
- prevailing domestic and international interest rates, which affects our debt service requirements;
- our ability to continue to borrow funds from Brazilian and international financial institutions; and

- our capital expenditure requirements, which consist primarily of investments in crop planting and the purchase of equipment, as well as amounts that we will be required to invest to open our Boa Vista mill.

Our cash requirements consist mainly of the following:

- working capital requirements;
- the servicing of our indebtedness;
- the payment of dividends or interest attributable to shareholders' equity; and
- capital expenditures related to investments in operations and maintenance, as well as amounts that we will be required to invest to open our Boa Vista mill.

Our sources of liquidity consist mainly of the following:

- cash flows from operating activities; and
- short- and long-term borrowings.

During fiscal year 2006 and the six months ended October 31, 2006, cash flow generated by operations was used primarily for investing activities, for working capital requirements and to distribute dividends. As of October 31, 2006, our cash and cash equivalents and other investments amounted to R$70.4 million, and we had working capital of R$273.3 million.

Projected Sources and Uses of Cash

We anticipate that we will be required to spend approximately R$258.3 million to meet our short-term contractual obligations and commitments and budgeted capital expenditures in fiscal year 2007. We expect that we will meet these cash requirements through a combination of cash generated from operating activities and cash generated by financing activities, including some of the proceeds of this offering, additional debt financings and the refinancing of our existing short-term indebtedness as it becomes due.

We anticipate that we will be required to spend approximately R$296.2 million to meet our long-term contractual obligations and commitments and budgeted capital expenditures through fiscal year 2008. We anticipate that we will meet these cash requirements through a combination of cash generated from operating activities and cash generated by financing activities, including additional debt financings and the refinancing of our indebtedness as it becomes due.

Indebtedness

As of October 31, 2006, our total outstanding indebtedness on a combined basis, excluding obligations to Copersucar, was R$296.2 million, consisting of R$102.1 million of short-term indebtedness, including the current portion of long-term indebtedness (or 34.5% of our total indebtedness), and R$194.1 million of long-term indebtedness (or 65.5% of our total indebtedness). 94.5% of our outstanding indebtedness as of October 31, 2006 was denominated in *reais*. We also had obligations to Copersucar in an aggregate amount of R$208.6 million, primarily due to funding that we obtained from Copersucar at relatively low rates to finance our operations and our proportionate share of provisions created by Copersucar in respect of ongoing tax litigation to which it is party primarily related to a challenge to the constitutionality of certain federal value added taxes (*Imposto sobre Produtos Industrializados*, or IPI). We record these obligations as long-term indebtedness, in accordance with Copersucar's financial statements.

Seasonality affects our level of outstanding indebtedness and working capital, as we generally incur more indebtedness and working capital to support our operations during the harvesting period, which increases our financial expenses during this period. Accordingly, our level of indebtedness as of October 31, 2006 is generally significantly higher than during other periods during our fiscal year.

Short-Term Indebtedness

Our short-term debt, including the current portion of long-term debt, but excluding short-term obligations to Copersucar in an aggregate amount of R$2.2 million, increased to R$102.1 million as of October 31, 2006 from R$55.3 million as of April 30, 2006, primarily as a result of our increased need for working capital during the harvesting period. We maintain short-term lines of credit with a number of financial institutions in Brazil. Although we have no committed lines of credit with these financial institutions, we believe that we will continue to be able to obtain sufficient credit to finance our working capital needs based on current market conditions. As of October 31, 2006, the total outstanding balance under our working capital lines of credit was R$21.0 million.

Long-Term Indebtedness

Our long-term debt increased to R$194.1 million as of October 31, 2006 from R$186.0 million as of April 30, 2006, primarily as a result of our increased need for financing during the harvesting period. Our long-term debt consisted of loans under the following facilities: the PESA program; the FINAME/BNDES Automatic program; and the rural credit program. As of October 31, 2006, R$124.8 million of our debt was secured. In order to secure this debt, we have pledged some of our land and industrial and agricultural equipment and machinery.

PESA

To extend the repayment period of debt incurred by Brazilian agricultural producers, the Brazilian government passed Law No. 9,138 followed by Central Bank Resolution No. 2,471, which, together, formed the PESA program. PESA offered agricultural producers that were burdened by certain types of debt the opportunity to acquire restricted Brazilian treasury bills (CTNs) in an effort to restructure their agricultural debt. The face value of the Brazilian treasury bills was the equivalent of the face value of the restructured debt, and these securities would mature in 20 years. The acquisition price was calculated as the present value, discounted at a rate of 12.0% per year, or the equivalent of 10.4% of its face value. The face value of the CTNs will be readjusted according to IGP-M plus 12.0% per year. The CTNs were deposited as a guarantee and cannot be sold until the outstanding balance is paid in full. The outstanding balance associated with the principal is adjusted in accordance with the IGP-M until the expiration of the reorganization term, which is also 20 years, at which point the debt will be discharged in exchange for the CTNs (which may not be used by us for any other purpose). We joined the PESA program between 1998 and 2000, and the program is structured to automatically repay our PESA debt between 2018 and 2020.

Because the CTNs will have the same face value as the outstanding balance of the restructured debt at the end of the term, it will not be necessary for us to incur additional debt to repay our PESA debt. Accordingly, during the 20-year term, our annual cash outflows are limited to 3.0% to 4.96% of the amount of the restructured debt, as adjusted in accordance with the IGP-M. The amount of our outstanding PESA liabilities (R$118.7 million as of October 31, 2006, including the current portion of our long-term debt) reflected the undiscounted sum of these future interest payments as of October 31, 2006. In fiscal year 2006 and during the six months ended October 31, 2006, our PESA related interest payments totaled R$8.8 million and R$8.1 million, respectively. Our PESA obligations are secured by mortgages on portions of our land, with an aggregate market value of R$113.7 million as of October 31, 2006.

FINAME/BNDES Automatic Program

BNDES offers various machinery and equipment financing programs to Brazilian companies, including the FINAME program and the BNDES Automatic program. The FINAME program provides financing, without limit in value, for the acquisition of new domestically manufactured machinery and equipment approved by BNDES, and associated working capital provided through accredited financial institutions. The BNDES Automatic program is similar to the FINAME program.

However, BNDES Automatic loans are limited to a total of R$10.0 million per year. FINAME and BNDES Automatic loans generally have a tenor of up to 60 months, and we pay interest at either (1) the TJLP plus an average weighted margin of 5.32% per annum, (2) a fixed interest rate of 12.01% per annum or (3) a rate based on exchange rate fluctuations of a basket of foreign currencies plus an average weighted margin of 5.8% per annum (only in respect of foreign-currency denominated loans). We also pay fees to BNDES (including financial intermediation fees between 0.8% and 2.95% of the principal amount of the loan) and to the financial institution that originates the loan under these programs. We have secured our loans under these programs with the equipment that we purchase with the proceeds of these loans, a mortgage over some of our land and a pledge of some of our sugarcane. As of October 31, 2006, the outstanding principal amount of our loans under these programs (including the current portion of our long-term debt) totaled R$101.9 million.

Rural Credit Program

All financial institutions in Brazil that accept deposits or make commercial loans are required to reserve a portion of the deposits and interbank loans that they receive to originate loans to companies engaged in agricultural activities. These loans are regulated by the Central Bank, and as they are structured to help defray planting and other agricultural costs, they have lower costs and short tenors. In light of our increased activities during the harvesting period, we incur a significant amount of loans under the rural credit program for working capital purposes. Accordingly, the outstanding principal amount of these loans increased to R$39.5 million as of October 31, 2006 from R$7.8 million as of April 30, 2006. We pay a fixed interest rate of 8.75% per annum for these loans.

Off-Balance Sheet Arrangements

We do not currently have any transactions involving off-balance sheet arrangements.

Contractual Commitments and Capital Expenditures

Contractual Commitments

The following table summarizes significant contractual obligations and commitments as of October 31, 2006 that have an impact on our liquidity:

	Payments Due by Period				
	Less than One Year	One to Three Years	Three to Five Years	More than Five Years	Total
	(In millions of *reais*)				
Loans and financings(1)	93.1	67.4	28.8	–	189.3
PESA interest obligations(2)	9.0	27.2	6.3	64.5	107.0
Sugarcane payment obligations with related parties(3)	1.0	15.6	6.9	17.4	40.9
Sugarcane and equipment supply obligations(4)	9.6	0.2	–	0.0	9.8
Total contractual obligations	112.7	110.4	42.0	81.9	347.0

(1) Includes interest accrued as of October 31, 2006. Due to seasonality, our level of loans and financings increases during the harvesting period (ending in October/November) to support our operations.
(2) Consists of estimated future payments of interest accruing on outstanding PESA debt at a rate of 3.0% to 4.9%, per year, assuming that all such interest payments will be made on their scheduled payment dates.
(3) Consists of purchase commitments for raw materials pursuant to binding obligations which include all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Based upon the applicable purchase prices at October 31, 2006.
(4) Consists of commitments to equipment and service providers that are not yet reflected on our balance sheet.

Other Obligations

We are also subject to contingencies with respect to tax, labor and other claims and have established provisions for accrued liability for legal proceedings related to certain claims in an aggregate amount of R$88.8 million and have made judicial deposits in an aggregate amount of R$21.6 million, in each case as of October 31, 2006. These contingencies relate primarily to tax claims alleging that we or Usina São Martinho S.A. offset our federal tax liability with tax credits in excess of the limit of 30.0% of taxable income and labor claims for overtime pay and reimbursement of deductions from salaries related to union fees. See "—Legal and Administrative Proceedings" and note 19 to our consolidated financial statements as of and for the six months ended October 31, 2006 and 2005.

Capital Expenditures

Our capital expenditures on property, plant and equipment were R$122.3 million in 2006, R$71.4 million in 2005 and R$78.6 million in 2004. Over the last three fiscal years, we have applied our capital expenditures mainly to:

- plant sugarcane to stabilize our sugarcane crops;
- modernize our processing facilities;
- increase the mechanization of our harvesting and production process;
- purchase tractor-trailers to improve our transportation infrastructure;
- improve environmental controls;
- improve our management and internal controls by purchasing new SAP modules; and
- adapt the storage facilities at our São Martinho mill to allow us to store sugar in bulk, rather than in bags (which we believe will decrease significantly our storage costs and will facilitate exports of sugar, which is exported in bulk).

We have budgeted total capital expenditures of approximately R$440.3 million for fiscal years 2007 and 2008. However, our actual capital expenditures for these fiscal years may exceed or fall short of these budgeted amounts, including if we acquire another sugar mill in Brazil in a private auction taking place in late January 2007. The following table sets forth our principal capital expenditures for fiscal years 2006 (already made), 2007, 2008 and 2009.

Fiscal Year	Total Budgeted Amount (in millions of *reais*)	Description of Principal Projects
2006 (already made)	122.7	Continued construction of our Boa Vista mill (R$10.7 million) Maintenance, automation and mechanization of our existing mills and equipment (R$112.0 million)
2007(1)	220.3	Continued construction of our Boa Vista mill (R$133.3 million) Maintenance, automation and mechanization of our existing mills and equipment (R$87.0 million)
2008	220.0	Continued construction of our Boa Vista mill (R$146.0 million) Maintenance, automation and mechanization of our existing mills and equipment (R$74.0 million)
2009	130.0	Completion of construction of our Boa Vista mill (R$77.0 million) Maintenance, automation and mechanization of our existing mills and equipment (R$53.0 million)

(1) Includes investments made through December 31, 2006.

We plan to obtain financing for approximately 70.0% of our capital expenditures, including from Brazilian financial institutions and with some of the proceeds of this offering. We intend to pay for the remaining 30.0% of our capital expenditures through internal cash generation.

Quantitative and Qualitative Disclosures About Market Risk

Risk Management

We consider market risk to be the potential loss arising from adverse changes in market rates and prices. We are exposed to a number of market risks arising from our normal business activities. Such market risks principally involve the possibility that changes in commodity prices, interest rates or exchange rates will adversely affect the value of our inventory, financial assets and liabilities or future cash flows and earnings. We periodically review our exposure to market risks and determine at the senior management level how to manage and reduce the impact of these risks. We use derivative financial instruments periodically, and Copersucar uses derivative financial instruments regularly (a proportionate share of the cost of which we record on our income statement under the line item "Financial income (expenses), net," or is deducted from our gross operating revenue), in each case solely for the purpose of managing market risks, primarily fluctuations in commodity prices and foreign exchange rates. While these hedging instruments fluctuate in value, these fluctuations are generally offset by the value of the underlying hedged exposures. The counterparties to these contractual arrangements are primarily commodities exchanges, in the case of commodity futures and options, and major financial institutions, in the case of foreign exchange derivative instruments and interest rate swaps. As a result, we do not believe that we are subject to any material credit risk arising from these contracts, and accordingly, we do not anticipate any material credit-related losses. We and Copersucar do not enter into derivative or other hedging instruments for speculative purposes.

Commodities Risk

The availability and prices of agricultural commodities fluctuate widely due to unpredictable factors, such as weather, level of crop plantings, worldwide government agricultural programs and policies (including trade tariffs), changes in global demand resulting from population growth and migration, and changes in standards of living, and global production of similar, competitive products. Copersucar enters into various types of derivative contracts, primarily commodity exchange-traded futures and options, mainly in order to manage its (and indirectly, our) exposure to adverse price changes in sugar. Copersucar uses a sensitivity analysis to regularly estimate its (and indirectly, our) exposure to market risk on its agricultural commodity position.

Historically, Copersucar's strategy has been to hedge at least 70% of its sugar contracts. Assuming sugar production and sales volumes remain constant at fiscal year 2006 levels during fiscal year 2007, and considering Copersucar's contracted hedged volumes for 70% of its sugar contracts and average sugar prices for fiscal year 2006, we believe that a 10% decrease in unhedged sugar prices would reduce our net sales revenue from sugar sales by approximately R$11.0 million on an annual basis. Similarly, assuming ethanol production and sales volumes remain constant at fiscal year 2006 levels during fiscal year 2007, and considering that Copersucar had no contracted hedges for ethanol on May 1, 2006, we believe that a 10% decrease in unhedged ethanol prices (considering average prices for fiscal year 2006) would reduce our net sales revenue from ethanol sales by approximately R$47.0 million on an annual basis.

For risk management purposes and to evaluate our overall level of commodity price exposure, we further reduce our exposure to commodity market risk by the sugar and ethanol produced from sugarcane that we purchase from growers and sugarcane harvested from leased land, as we pay for the sugarcane and lease costs based on Total Recoverable Sugar equivalents. Unlike sugarcane harvested on our own land, the price of sugarcane supplied by growers or the lease payments we incur to produce sugarcane harvested by us from leased land is indexed to the market price of sugar and ethanol, which provides a partial natural hedge to our sugar price exposure. When we acquire sugarcane from growers, we take samples from the delivered sugarcane to measure its sugar content (or Total Recoverable Sugar) and pay only for the Total Recoverable Sugar that we acquire according to a formula established by CONSECANA. The lease payments that we make for the land are also calculated according to an established volume of Total Recoverable Sugar equivalents and a price calculated using the CONSECANA formula. Therefore, our net market risk would be R$40.0 million, which is the potential loss in fair value resulting from a hypothetical 10% decrease in prices. The results of this analysis, which may differ from actual results, are as follows:

	Fair Value – Net Revenue	Market Risk – 10% Price Decrease
	(in millions of *reais*)	
Total unhedged position as of April 30, 2006	R$579.9	R$58.0
Sugarcane paid to growers at fiscal year 2006 level	(R$141.1)	(R$14.1)
Sugarcane from leased land at fiscal year 2006 level	(R$39.0)	(R$3.9)
Net unhedged position as of April 30, 2006	R$399.7	R$40.0

Interest Rate Risk

We have fixed and floating rate indebtedness, so we are exposed to market risk as a result of changes in interest rates. We engage in interest rate-related hedging transactions from time to time for other than trading or speculative purposes. We did not have an outstanding interest rate swap as of April 30, 2006. Approximately 32%, or R$76.3 million, of our total debt outstanding of R$262.1 million as of April 30, 2006 was fixed rate debt.

Interest rate risk is the effect on our financial results resulting from an increase in interest rates on our variable rate debt indexed to Libor, TJLP, TR, IGP-M and CDI. Based on the level and characteristics of our total debt vis-à-vis our operations, the results from a hypothetical 10% increase in interest rates would adversely effect our earnings before income tax by R$1.0 million.

Foreign Currency Exchange Rate Risk

A substantial portion of our net operating income is denominated in U.S. dollars. Net sales revenue from exports amounted to R$286.1 million in fiscal year 2006 and a hypothetical 10% appreciation of the *real* as against the U.S. dollar would have a negative effect of R$28.7 million on our net sales revenue . The majority of our costs are denominated in *reais*, therefore, our operational margins are negatively affected when there is an appreciation of the *real* to the dollar.

A portion of our debt is denominated in dollars, so we are exposed to market risk related to exchange movements between the *real* and the U.S. dollar. We engage from time to time in foreign exchange rate-related financial transactions for other than trading or speculative purposes. As of April 30, 2006, approximately 7.2%, or R$18.8 million, of our debt was denominated in U.S. dollars.

We estimate our foreign currency exchange rate risk as the potential devaluation of the *real* on our dollar denominated debt. Based on the profile of our dollar denominated debt vis-à-vis our operations, the results from a hypothetical 10% devaluation of the *real* would have an effect of R$1.9 million on our financial results.

SUGAR AND ETHANOL INDUSTRIES

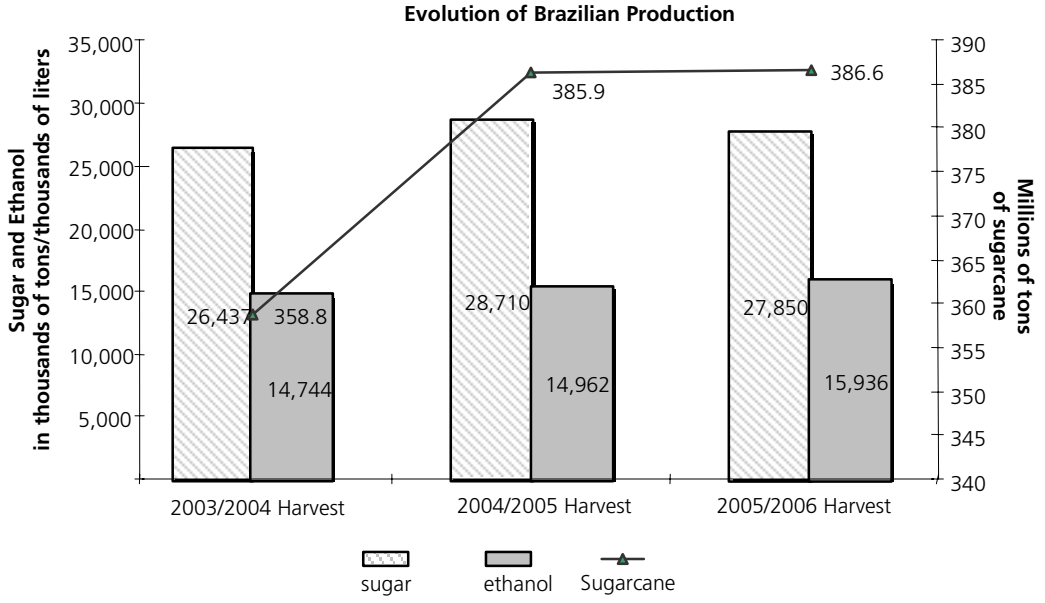
Introduction

The sugar and ethanol industries differ significantly from one another. Sugar is a staple consumer product that is produced in over 121 countries and supplies a highly-developed market that continues to grow largely due to population growth. Ethanol, on the other hand, is a relatively new product internationally, and more than 50 countries currently produce ethanol, with Brazil and the United States alone producing more than 65% of the world's total ethanol production. However, ethanol production offers significant growth prospects, particularly in light of recent initiatives in several countries to seek alternative sources of energy as a substitute for petroleum.

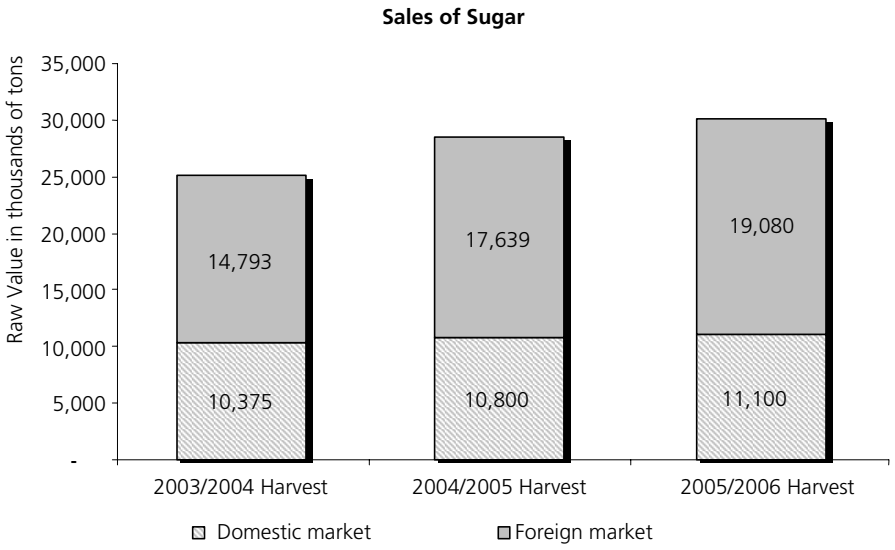
Brazilian Sugar and Ethanol Industry

Brazil is the largest sugar and has been the largest ethanol producer in the world. However, the United States is expected to surpass Brazil in ethanol production during the 2006/2007 harvest. During the 2005/2006 harvest, agribusiness accounted for 27.9% of Brazil's GDP, and the Brazilian sugar and ethanol industries account for approximately 1.8% of Brazil's GDP and 6.5% of Brazil's agricultural GDP, employing over one million people. During the 2005/2006 harvest, Brazil crushed 386.6 million tons of sugarcane and produced 27.9 million tons of sugar (Raw Value) and 15.9 thousand cubic meters of ethanol. During the same harvest, Brazil exported a total of 19.1 million tons of sugar, representing approximately 38.7% of the world's sugar exports.

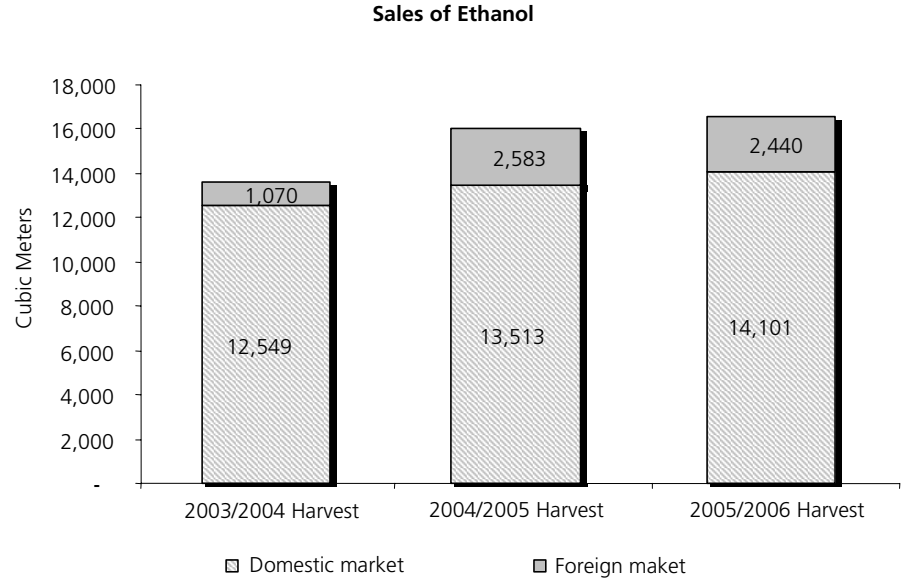
The following charts illustrate the evolution of Brazilian production of sugarcane, sugar and ethanol, as well as a breakdown of sales of sugar and ethanol produced in Brazil by market (domestic and export sales).



Sources: Copersucar and LMC International.



Source: LMC International.



Source: Copersucar.

History of Sugar and Ethanol Production in Brazil

Sugarcane is cultivated in two main regions of Brazil: the Center-South region, including the South, Southeast and Center-West regions, encompassing the states of Paraná, São Paulo, Minas Gerais, Rio de Janeiro, Espírito Santo, Mato Grosso do Sul and Goiás; and the North-Northeast region, encompassing the states of Alagoas, Pernambuco, Paraíba, Sergipe, Rio Grande do Norte and Bahia. There are two harvesting periods in Brazil, one in each region, and the land on which sugarcane is cultivated accounts for 4.1% of Brazil's total fertile land, or approximately 6.2 million hectares. In the Center-South region, the harvesting period runs from March to October (as of the commencement of the 2006/2007 harvest, whereas prior harvests ran from April to November of each year), whereas in the North-Northeast region, it runs from September to March.

During the 2005/2006 harvest, the Center-South region accounted for approximately 87.1%, 85.2% and 90.0% of total sugarcane, sugar and ethanol production in Brazil, respectively.

During the 2005/2006 harvest, there were approximately 72,000 sugarcane suppliers and 320 active sugar and ethanol industrial plants in Brazil, of which approximately 240 industrial plants were located in the Center-South region, with the remainder located in the North-Northeast region. Currently, over 70 new industrial plants have been planned or are currently under construction, and according to a study by UNICA, a significant number of new industrial plants are to begin operations during the 2006/2007 harvest.

Brazil's vast territory and favorable climate provides a large supply of available land for sugarcane production. Brazil's favorable conditions permit sugarcane to be harvested five to six times before requiring re-planting, compared to other countries, such as India, where, on average, sugarcane needs to be re-planted every two to three harvests. Brazil is the world's largest producer of sugarcane, followed by India and China, having produced 386.6 million tons during the 2005/2006 harvest. The planting and harvesting of sugarcane is significantly less costly than planting and harvesting sugar beet, which has one annual crop, needs to be re-planted every year and requires crop rotations every three to five years.

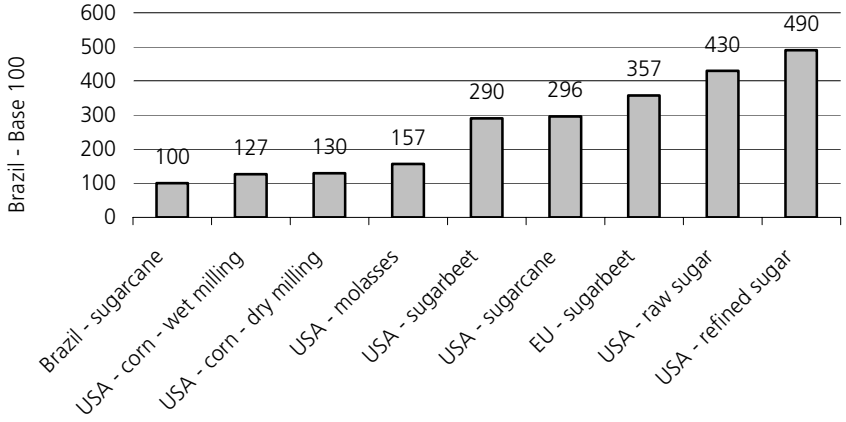
Ethanol in Brazil

Brazil produced 15.9 thousand cubic meters of ethanol during the 2005/2006 harvest, representing approximately 35.5% of the world's total ethanol production. Over 88.5% of Brazil's ethanol production is sold domestically.

Over the past several years, the use of ethanol as a fuel in Brazil has increased significantly. There are two types of ethanol, hydrous and anhydrous ethanol. Anhydrous ethanol is used as a fuel additive, and hydrous ethanol is used directly by vehicles that run exclusively on ethanol or flex-fuel vehicles, which run on ethanol, gasoline or a combination of both. Ethanol has been used as a fuel additive in Brazil since the 1930s. Ethanol increased in importance in Brazil in the mid-1970s as a result of the international oil crisis and high domestic demand for gasoline, in response to which the Brazilian government implemented the Pro-Ethanol ("*Pró-Álcool*") program, mandating the addition of anhydrous ethanol to gasoline to minimize Brazil's vulnerability to oil shortages, trade balance deficits and foreign exchange fluctuations.

Although many countries produce ethanol, most countries produce volumes of ethanol that are significantly lower than Brazilian production. Brazil is not only the world's largest ethanol exporter, but also one of the world's largest ethanol consumers. In terms of cost, Brazil is the most competitive among ethanol-producing countries, including as a result of expansive tracts of land in Brazil that are suitable for sugarcane cultivation, the development of state-of-the-art industrial and agricultural technology, large production scale and favorable climate.

Average Estimated Ethanol Production Costs from 2003 through 2005

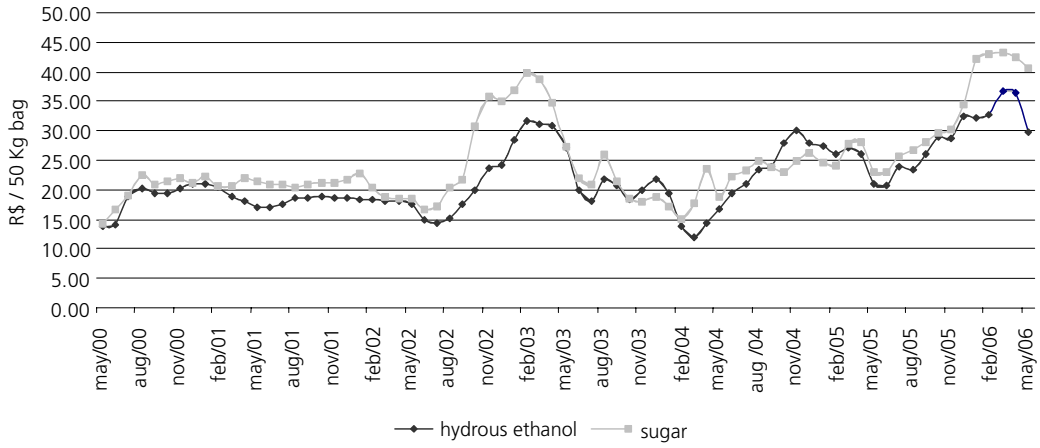


Source: USDA – United States Department of Agriculture.

The Brazilian government requires a certain percentage of anhydrous ethanol to be mixed with gasoline, which has varied between 20.0% and 25.0%. 23.0% of gasoline content in Brazil is currently required to be composed of anhydrous ethanol, in part due to concerns by the Brazilian government that ethanol producers will not be able to meet the increased demand for anhydrous ethanol. We believe that the Brazilian ethanol industry may successfully convince the Brazilian government that it has the production capacity to meet market demand at the 25.0% level. As the percentage of anhydrous ethanol in gasoline increases, the price of gasoline to consumers and the amount of harmful emissions from vehicles tend to decrease.

Anhydrous ethanol and hydrous ethanol prices have not been subject to Brazilian government control since 1997 and 1999, respectively. The ability of sugar and ethanol producers to shift production quickly from one product to another have historically caused sugar and ethanol prices to be highly correlated. The following chart shows the evolution of sugar and ethanol prices in Brazil during the period indicated.

Domestic Market (Sugar) x Domestic Market (Hydrous Ethanol)
(equivalent to a 50Kg bag)
Net to Producer



Source: CEPEA-ESALQ/USP.

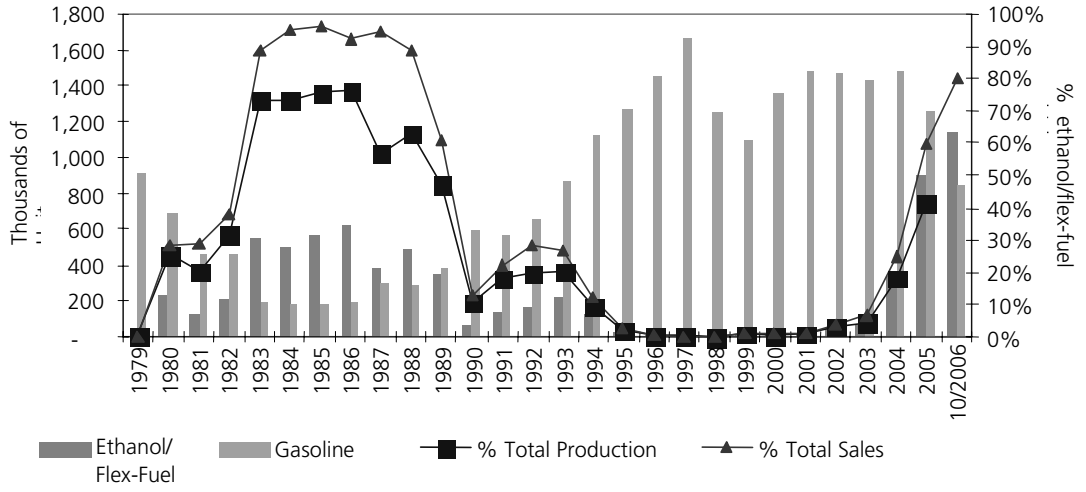
Ethanol Consumption in Brazil

As a result of the Pro-Ethanol program, the number of hydrous ethanol-fueled vehicles increased significantly, peaking in 1986 when 697,000 vehicles were sold, representing 88.6% of domestic sales of light-weight vehicles. However, Brazilian ethanol producers were unable to meet increasing demand, causing hydrous ethanol prices to increase and the supply of hydrous ethanol to decrease at the same time that petroleum and gasoline prices were falling, leading to a decline in demand for hydrous ethanol-fueled vehicles.

The reduction in demand for hydrous ethanol was partially offset by greater use of anhydrous ethanol. During the 1990s, the government promoted the use of anhydrous ethanol as an additive to gasoline.

The introduction of flex-fuel vehicles in Brazil in March 2003 increased demand for hydrous ethanol significantly. Flex-fuel vehicles are designed to operate on gasoline, hydrous ethanol or a mixture of both. According to ANFAVEA, sales of flex-fuel vehicles have grown from approximately 48,200 vehicles in 2003 to approximately 1.0 million vehicles during the nine months ended September 30, 2006, representing approximately 72.1% of overall new car sales in Brazil. Through July 2006, a total of approximately 2.0 million flex-fuel vehicles have been sold in Brazil. In addition, approximately 80.2% of the current Brazilian automotive fleet consists of gasoline-fueled vehicles that were produced prior to the introduction of flex-fuel technology in Brazil. The follow chart shows the evolution of sales of flex-fuel vehicles and pure ethanol vehicles compared to gasoline vehicles in Brazil during the period indicated.

Brazil – Production and Sales of Light-Weighted Vehicles (by fuel

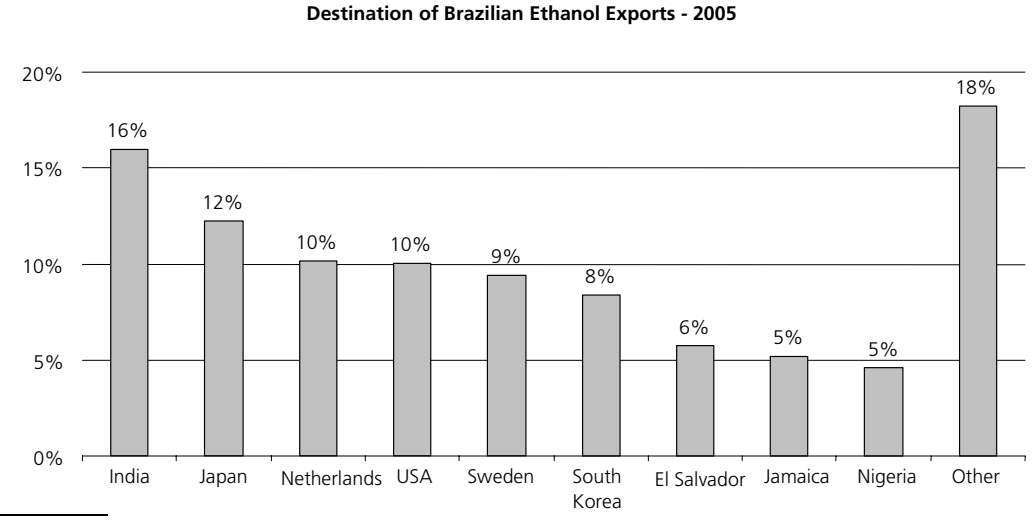


Source: ANFAVEA.

Leading Ethanol Exporter

The volume of ethanol exports from Brazil has always been significantly lower than domestic consumption of ethanol. However, as a result of increasing awareness of environmental concerns related to greenhouse gases, such as global warming, and consequently of the need to reduce dependence on petroleum derivatives, Brazilian ethanol and production related technology have attracted global attention. Brazilian ethanol exports increased from 1.0 million cubic meters during the 2004/2005 harvest to 2.6 million cubic meters during the 2005/2006 harvest, and are expected to reach approximately 3.0 thousand cubic meters during the 2006/2007 harvest.

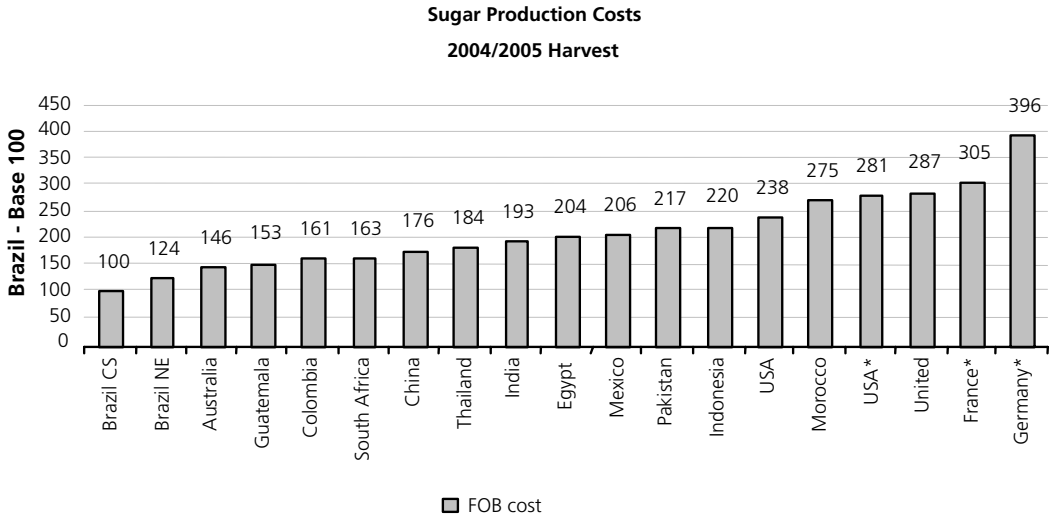
The United States, Japan, China and India have adopted, or are planning to adopt, programs that require anhydrous ethanol to blended with gasoline to replace methyl tert-butyl ether, or MTBE, a gasoline additive whose use is strongly opposed by environmental groups. Delegations from several countries have visited Brazilian companies involved in the sugar and ethanol industry, as well as Brazilian governmental authorities, to learn more about ethanol production and flex-fuel technology. Based on the interest expressed by these delegations, we believe that world ethanol consumption will increase. As a number of countries do not have the installed capacity to meet expected demand, Brazilian ethanol exports are expected to grow significantly. The following chart shows the principal destinations of Brazilian ethanol exports by country during calendar year 2005.



Source: Secex/MDIC.

Brazilian Sugar Production

As illustrated in the following chart, Brazil is the lowest cost producer of sugar in the world due to its favorable climate and its development of agricultural and industrial technology related to the production of sugarcane, sugar and ethanol over the last 30 years.



Source: LMC International.

* Corresponds to costs related to sugar beet.

Brazil's technological developments have resulted in longer harvesting cycles, higher sugarcane production per hectare, higher sucrose contents from the crushed sugarcane and lower losses during production of sugar and ethanol, which has yielded larger sugar outputs.

Production costs for raw sugar in the Center-South region of Brazil are lower than those in the North-Northeast region due to a more favorable topography and climate, a more developed transportation infrastructure and the close proximity of the sugarcane mills in the Center-South region to ports and the major consumption centers in Brazil. Privatization of various highways, port facilities and railroads have improved Brazil's transportation and export infrastructure, resulted in reduced sugar costs and shorter delivery times of sugar to world markets.

Brazilian Sugar Consumption

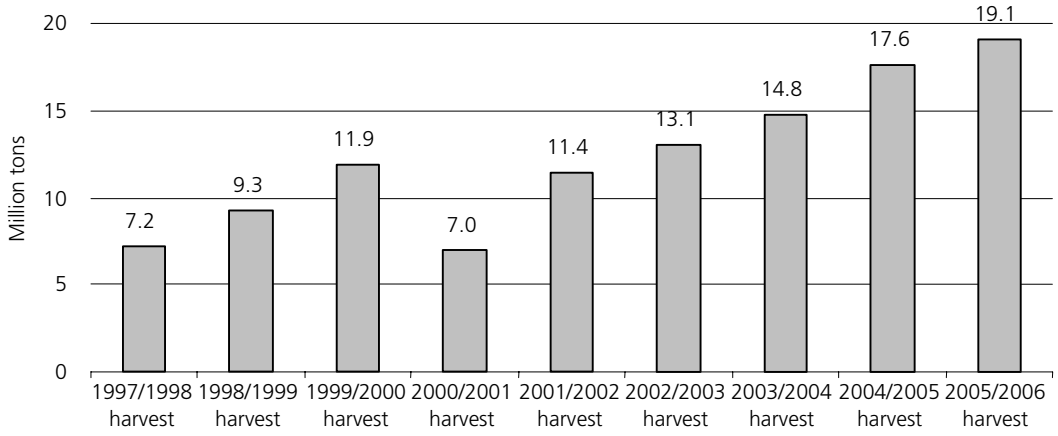
Brazil is one of the world's largest consumers of sugar, having consumed approximately 9.7 million tons during the 2005/2006 harvest. The consumption of sugar in Brazil continues to grow principally as a result of an increase in processed products made from sugar. Food manufacturers, especially manufacturers of soft drinks, chocolate and ice-cream, account for approximately 50% of domestic sugar consumption.

Leading Sugar Exporter

Brazil is the world's largest exporter of sugar, exporting 19.1 million tons (Raw Value) during the 2005/2006 harvest, valued at approximately U.S.$4.1 billion. Brazilian sugar exports consist primarily of raw sugar and refined white sugar. Raw sugar is mainly handled and shipped in bulk and reprocessed in refineries. Refined sugar then is used in manufacturing food products, such as chocolate powders, soft drinks or retail products, as well as in pharmaceutical products. During the 2005/2006 harvest, raw sugar and refined white sugar accounted for 62.0% and 38.0%, respectively, of Brazil's sugar exports. The raw sugar most exported by Brazil, VHP sugar, has a higher sucrose content than the typical raw sugar negotiated based on the NY 11 price, and, as of July 1, 2006, is commanding a premium of 4.05% over the raw sugar price negotiated based on the NY 11 price. The following chart shows the evolution of Brazilian sugar export volumes (Raw Value) for the harvests indicated.

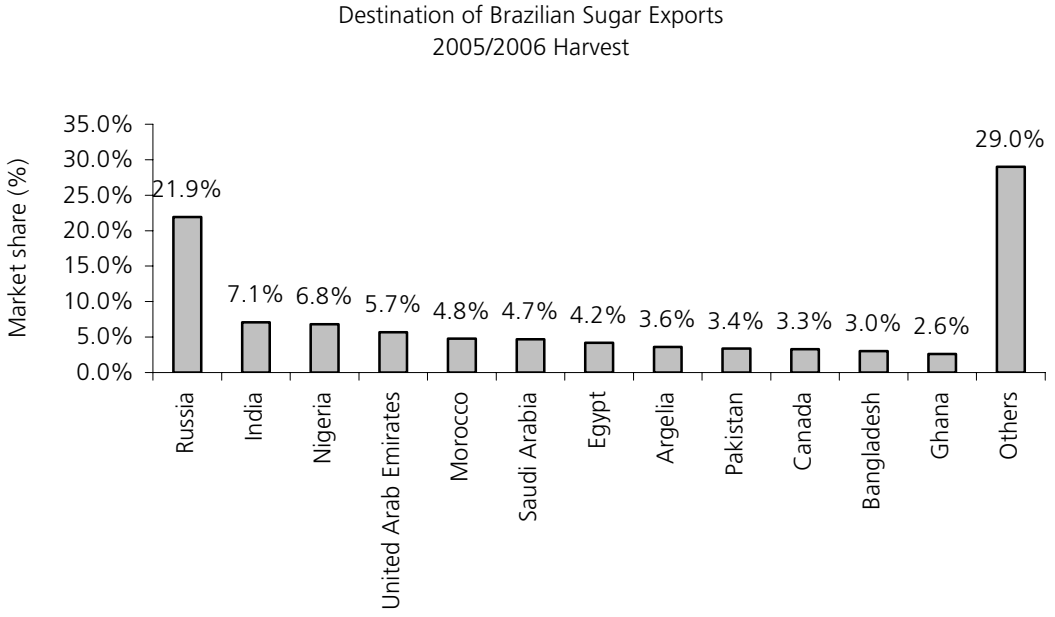
Brazilian Sugar Exports

Raw Value



Source: LMC.

Brazil accounts for approximately 38.7% of the world's total sugar exports during 2005/2006. Russia, India, Nigeria, Arab Emirates and Morocco were the main importers of Brazilian sugar, as shown in the following chart:



Source: Unica.

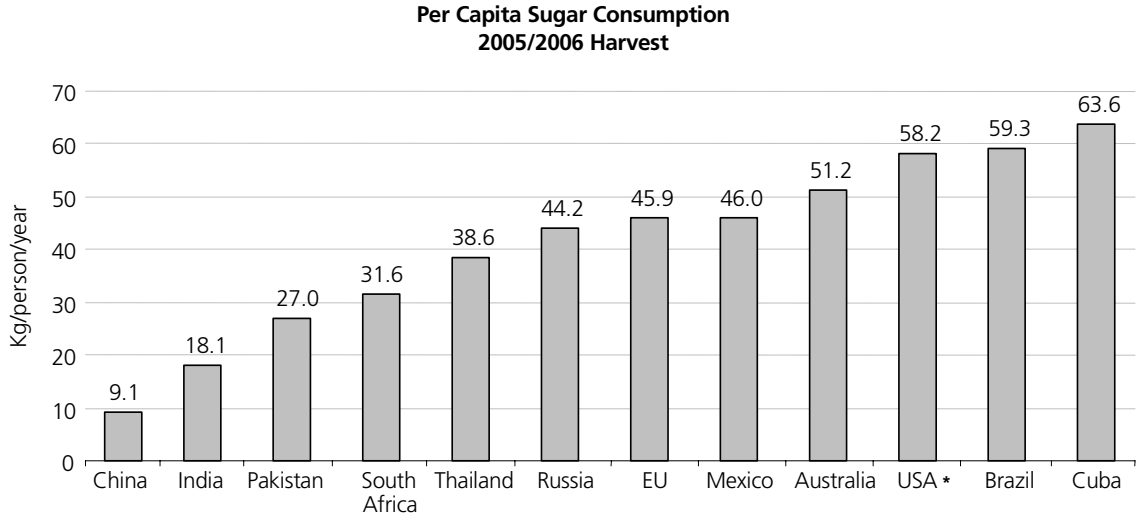
World Sugar and Ethanol Industry

Sugar

Sugar is a staple consumer product and essential commodity produced in various parts of the world. Sugar is primarily derived from sugarcane and sugar beet, with sugarcane accounting for more than 70% of the world's total sugar production. Sugar has agricultural and industrial applications and its production is both labor and capital intensive.

Production and Consumption

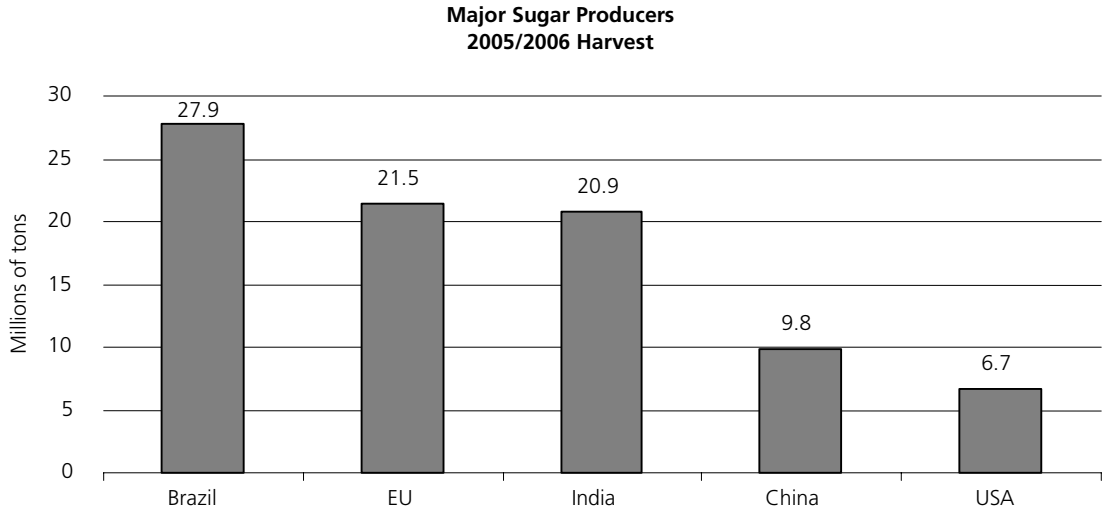
Worldwide sugar production and consumption have increased by more than 20.0% over the last 10 years, totaling approximately 146.9 million tons and 147.5 million tons, respectively, during the 2005/2006 harvest, according to LMC International. Consumption has generally outpaced production, reducing world sugar inventories. Over the last three years, world sugar consumption grew at an average annual rate of 2.1%, close to the average world urban population growth rate of 2.4% during this period. We believe that the consumption of sugar is likely to continue to grow due to overall population growth, increasing purchasing power of consumers in many areas of the world and increasing worldwide consumption of processed foods as a result of the widespread migration from rural to urban areas. Accordingly, we believe the strongest future growth in per capita consumption is likely to occur in Asia, where per capita income is growing rapidly and population migration to urban centers is occurring on an accelerated basis. The following chart illustrates the per capita sugar consumption of certain countries during the 2005/2006 harvest.



Source: LMC International.

(*) Figures refer to U.S. per capita consumption and include the total consumption of sugar and corn glucose.

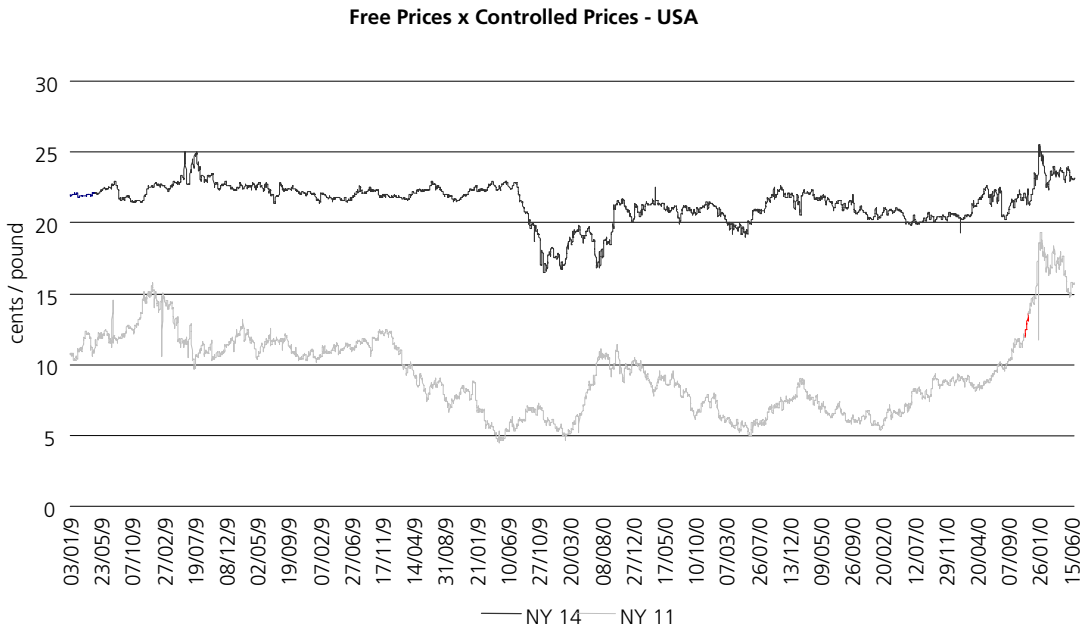
The five largest sugar producing countries accounted for approximately 59.1% of the world's sugar output during the 2005/2006 harvest. Brazil is the largest sugar producer and exporter with an approximate 19.0% share of total world sugar production. The next largest producers are the E.U. and India, with approximate 14.6% and 14.2% shares, respectively. The following charts show the largest producers and exporters of sugar during the 2005/2006 harvest.



Source: LMC International.

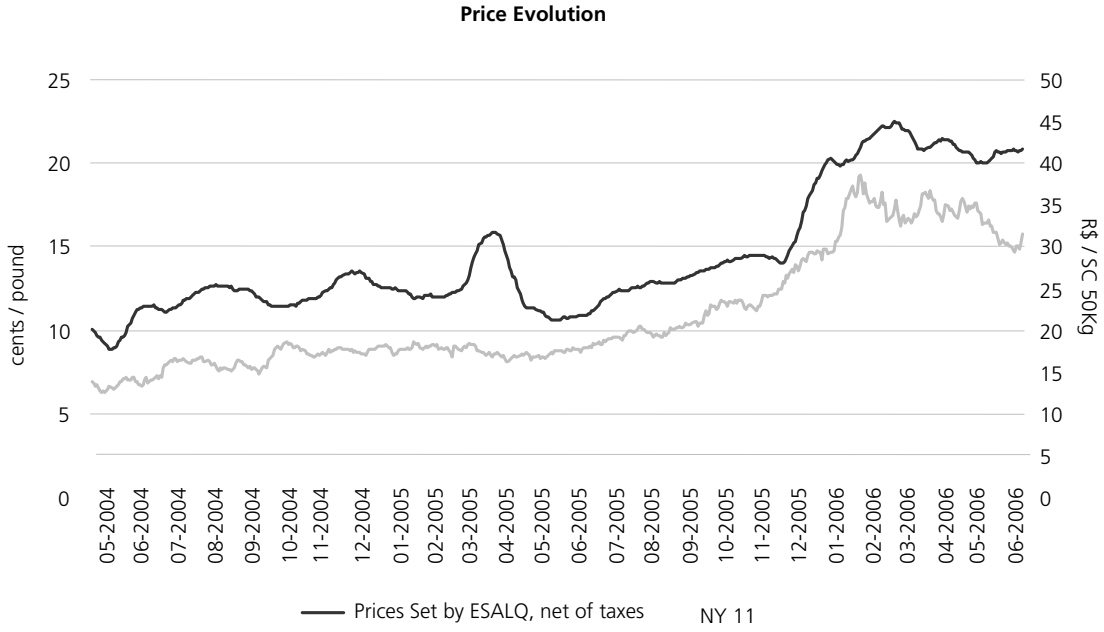
Sugar Prices

The following chart highlights and compares the correlation between U.S. domestic prices (which benefit from governmental price protections), represented by the NY 14 agreement, and international prices, represented by the NY 11 agreement. Prices are reflected in U.S.$ cents per pound as transacted at the NYBOT. Although there is a high correlation between these prices, U.S. domestic prices consistently exceed international prices.



Source : NYBOT.

In Brazil, domestic sugar prices generally follow international sugar prices. The following chart shows the evolution of raw sugar in the NY 11 and crystal sugar (ESALQ tax free).



Sources: CEPEA/ESALQ and NYBOT.

The impact of fluctuations in international sugar prices on sugar production is mitigated by two factors. Many sugar producers operate in regulated markets, are protected from price fluctuations and therefore do not tend to modify production significantly. In addition, sugarcane, the main raw material used for global sugar production, is semi-perennial, with 2 to 7 years plant cycles. In Brazil, the world's largest sugar producer, the average plant cycle is five years.

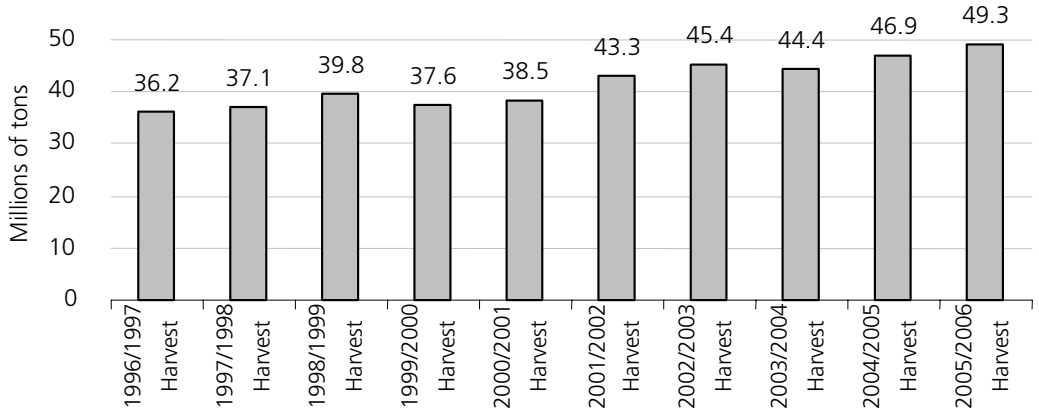
Over the last few years, international sugar prices have generally increased as a result of a reduction in global sugar inventories and certain production problems faced by sugar producers in China, India and Thailand, mainly related to unfavorable climate conditions and the reduction of government subsidies for the planting of sugarcane in the European Economic Area. Brazil, as the world's largest sugar producer accounting for approximately 38.7% of global exports during the 2005/2006 harvest, plays a key role in the establishment of world sugar prices. Appreciation of the *real* against the U.S. dollar has also contributed to higher international sugar prices.

Trade Restrictions

LMC International estimates that approximately 66% of the sugar produced in the world during the 2005/2006 harvest was consumed domestically by sugar producing countries. The world sugar trade increased from approximately 36.2 million tons during the 1996/1997 harvest to 49.3 million tons during the 2005/2006 harvest. Despite this significant growth, the sugar industry remains highly regulated and protected in several countries through quotas, subsides and import restrictions. The following table shows the volume of global sugar exports for the periods indicated.

Global Sugar Exports

Raw Value; National Crop Year



Source: LMC International.

We believe that these protectionist policies are due to sugar's strategic value to development and job creation. The U.S. and the E.U., which respectively consumed 9.3 million and 17.7 million tons of sugar (except HFCS) in the 2005/2006 harvest, are heavily protected, supported by lobbying efforts from farmers and processors. Brazil and other sugar producing nations have limited access to these large markets as a result of these trade restrictions. The E.U. has been under pressure from other countries and international organizations to relax its sugar import regulations and subsidies for domestic production.

On August 29, 2003, the WTO established an arbitration panel upon requests made by Australia, Brazil and Thailand, which alleged that the E.U. had breached rules governing the establishment of export subsidies in violation of international agreements and other rules in connection with the E.U. sugar regime, causing a distortion in world sugar prices. These countries allege that if these subsides had not been granted, global sugar prices would rise by approximately 20.0%, and Brazilian sugar producers would have earned additional net income ranging from U.S.$500.0 million to U.S.$700.0 million per year from exports. In August 2004, the WTO issued a preliminary ruling in favor of these countries after concluding that the E.U.'s sugar subsidies give its farmers an unfair advantage in global export markets. The E.U.'s appeal to this decision was rejected in April 2005.

In July 2006, following almost 40 years during which the European Union sugar subsidies system remained largely unchanged, the European Union enacted reforms seeking to enhance the competitiveness and market-orientation of European sugar exports, to guarantee the long-term sustainable future for European sugar production and to strengthen the European Union's negotiating position in the international sugar market. Among the measures adopted, is to cut sugar prices paid to sugar producers by approximately 36% over a period of four years in the following manner: 20% in the first year, 27.5% in the second year, 35% in the third year and, finally, 36% in the fourth year. In addition, sugar producers that renounce their quota in the European sugar market will receive 730 euros as compensation per renounced ton of sugar during the first two years. Following the rationale of the sugar price guaranteed to sugar producers, such compensation will be reduced within the four-year period to 520 euros per ton in the fourth year. European sugar production is expected to be reduced by approximately 6 million tons by 2010. As a consequence of the European Union sugar reform, and according to the statements of Ms. Mariann Fischer Boel, Commissioner for Agriculture and Rural Development, European sugar exports could fall dramatically, increasing international sugar prices. We anticipate that the liberalization of the European sugar market could create additional opportunities for sugar exports from Brazil and other low cost sugar-producing countries.

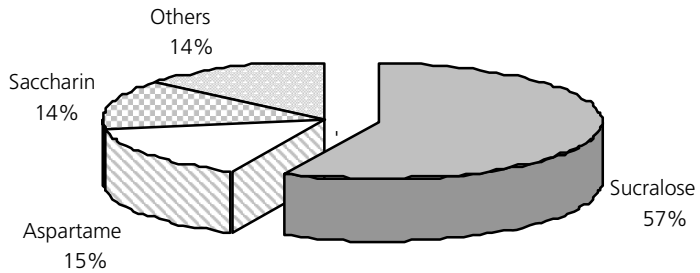
Artificial Sweeteners

The world market for artificial sweeteners, or high intensity sweeteners, or HIS, was dominated by saccharin until 1981. In 1981, aspartame, launched by GD Searle, revolutionized the artificial sweetener market because of its improved taste and lack of side effects. In 2003, aspartame had the largest share of the artificial sweetener market and was sold under various brand names, including Equal, Candarel, Spoonfuls and Nutrasweet.

In recent years, sucralose, a third generation sweetener commercialized under the Splenda brand, has emerged as a competitor to aspartame. Sucralose (trichlorogalactosucrose), a sugar by-product, was first discovered in 1975 when it was found that by modifying the sucrose (sugar) molecule it was possible to make a much sweeter alternative substance (600 times that of sugar) while retaining the natural taste of sugar. The chlorination of sugar, a process by which three hydrogen-oxygen groups are replaced by three chlorine atoms, produces sucralose, an artificial sugar-based sweetener that has no calories when ingested by humans and can be consumed by diabetics. Unlike aspartame, sucralose is heat resistant and thus able to broaden the end-user market to include the canned and baked food industries, among others.

The most visible evidence of the success of sucralose is in its growing level of acceptance in the retail market. Since its launch in mid-2000, Splenda has rapidly replaced other low-calorie sweeteners to become consumers' preferred artificial sweetener. According to Domino Sugar, in 2005, sucralose accounted for 57% of the non-caloric sweeteners market in North America. We believe that the growth in the production and use of sucralose, given its sugar base, should create significant growth opportunities for sugar producers. The following chart shows the share of sucralose and other products in the North American artificial sweeteners market.

Sucralose - Market Share in North America



Source: Domino Sugar.

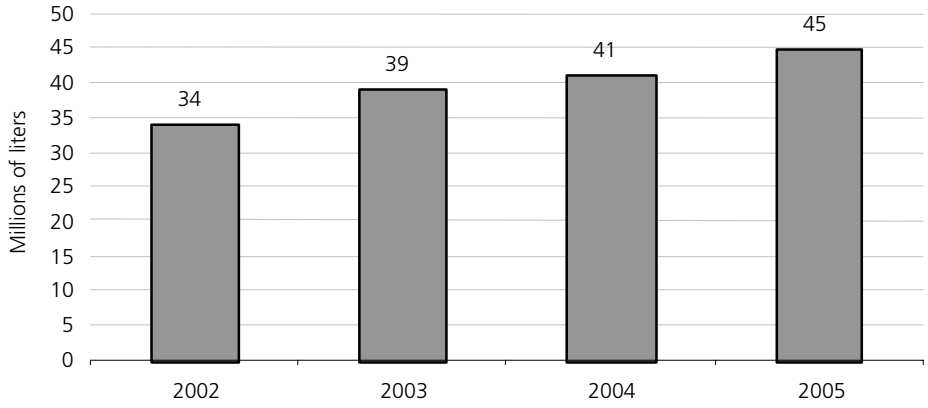
Ethanol

Despite an increase of 62.2% over the last few years in global ethanol production, from approximately 28 million cubic meters in 2000 to approximately 46 million cubic meters in 2005, the ethanol market is in its early stages of development. Approximately 75% of all ethanol consumed globally is used as fuel.

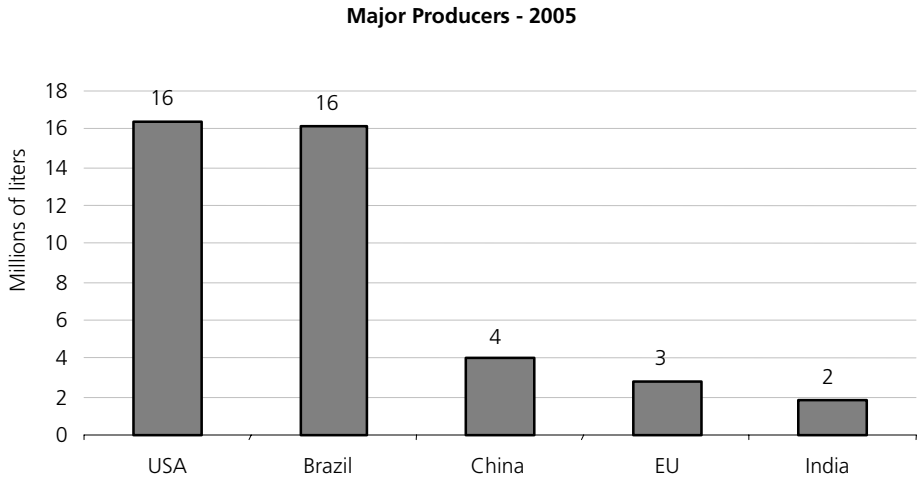
Ethanol is a cleaner fuel than gasoline. It is a clean and biodegradable fuel, and its manufacturing and burning are not believed to increase the greenhouse effect. Ethanol's high oxygen content reduces carbon monoxide emission levels as compared to the carbon monoxide levels emitted from the burning of gasoline, according to the U.S. Environmental Protection Agency. Ethanol blends also reduce emissions of hydrocarbons, a major contributor to the depletion of the ozone layer. As an octane enhancer, ethanol can also cut emissions of cancer-causing benzene and butadiene. Environmental concerns and initiatives are raising awareness of the need to reduce world consumption of fossil-based fuels and adopt cleaner fuels, such as ethanol. One example is the Kyoto Protocol, an agreement on global warming reached in 1997 by the United Nations Conference on Climate Change in Kyoto, Japan that became effective on February 16, 2005. Under the Kyoto Protocol, major industrial nations have pledged to reduce their emissions of carbon dioxide and five other greenhouse gases between 2008 and 2012. A total of 165 countries have ratified the agreement. Global initiatives like the Kyoto Protocol are expected to increase the demand for ethanol over the next years.

Currently, the U.S. and Brazil are the principal producers and consumers of ethanol. Most ethanol produced in the U.S. is made from corn, while in Brazil it comes from sugarcane. The following charts illustrate the evolution of ethanol production and the world's main ethanol producers in 2005.

Global Ethanol Production



Source: F.O.Licht.

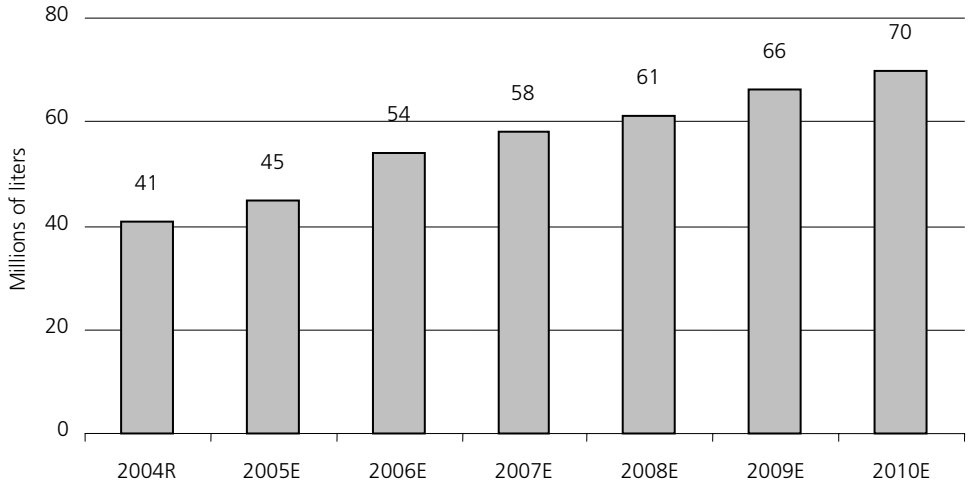


Source: F.O.Licht.

Although the ethanol industry is also regulated and protected in several countries, we expect our future access to the international ethanol markets to increase with the greater use of ethanol as an additive to gasoline over the last years (especially due to high oil prices), its additional support for environmental benefits and Brazil's competitive advantages in ethanol production.

As illustrated in the following chart, we believe that the broader adoption of cleaner and renewable fuels worldwide may increase ethanol demand by a total of 30 thousand cubic meters by 2010. However, we cannot assure you that the demand for ethanol will increase as illustrated in the following chart.

Projected Demand for Global Ethanol Production



Source: F.O.Licht.

U.S. Ethanol Industry

Ethanol is currently marketed across the United States as a fuel additive that reduces vehicle emissions as part of federal and state clean fuel programs. Ethanol is also marketed as an octane enhancer to improve vehicle performance and reduce engine knock.

Two programs in the U.S. federal Clean Air Act, the Winter Oxyfuel Program and the Reformulated Gasoline Program require the use of oxygenated gasoline in areas with certain levels of air pollution. Due to their availability and cost, ethanol and MTBE are the two primary additives currently used to meet the federal Clean Air Act's oxygenate requirements. However, in recent years, there has been growing public concern about MTBE contamination of water supplies as a result of leaks from underground gasoline storage tanks and other releases into the environment. These concerns have resulted in 25 states banning or significantly limiting the use of MTBE and switching to the use of ethanol. MTBE is expected to be banned or significantly limited in many other states, which is likely to increase the demand for ethanol in the United States.

In addition, federal energy legislation, the Energy Policy Act of 2005, was signed into law by President George W. Bush on August 8, 2005. The Energy Policy Act of 2005 implemented a Renewable Fuel Standard, or RFS, that established minimum nationwide levels of renewable fuels (ethanol, biodiesel or any other liquid fuel produced from biomass or biogas) to be included in gasoline, increasing to 7.5 billion gallons (approximately 28.0 thousand cubic meters) of RFS mandated usage by 2012. Ethanol would likely account for the largest share of renewable fuels produced and consumed under the RFS.

Ethanol used as gasoline additive in other countries

Some countries already use ethanol as a gasoline additive or an alternative fuel. Several countries have authorized the use of, or are planning to use, ethanol as an alternative fuel source. These programs have the purpose of decreasing harmful emissions and the dependence on petroleum derivatives. The following countries are developing these programs:

- E.U.: mixture is optional;
- China: 10% mixture in 9 provinces;
- Japan: 3% mixture is allowed. A mandatory mixture is under evaluation; and
- Other countries implementing a mixture: India, Thailand, Colombia and Canada.

Moreover, delegations from several countries, such as South Africa and Nigeria, have visited Brazil to learn more about the ethanol production and flex-fuel vehicles technology. Some countries have stated that they have plans to use ethanol as a fuel or gasoline additive.

Emission Credits and Trading

Pursuant to the Kyoto Protocol, signatory nations are required to reduce their greenhouse gas emissions by 5% from 2008 to 2012, compared to emission levels in 1990. Signatory nations will have the option of engaging in emissions trading if they are not in compliance with Kyoto Protocol emissions levels. The emissions trading option enables a country to purchase Assigned Amount Units (emission credits), or AAUs, from another country that has excess unused AAUs. The purchasing country can then use the AAUs to meet its climate mitigation objectives. According to a World Bank report, in 2005, approximately 374 million of tons of emission credits were traded at, on average, U.S.$7.23 per ton, corresponding to a total amount of U.S.$2.7 billion. This amount represents a threefold increase in emissions, and in tons, and a fivefold increase in dollars compared to the previous year. During the first quarter of 2006, the average price was U.S.$11.45 per ton.

It is early to make estimates about the AAUs market because it is a new market that has not fully developed. However, the longer-term prospects for this market appear to be favorable. The World Bank has expressed its willingness to conduct auctions to sell AAUs. Therefore, sellers and buyers will be able to directly trade their credits.

Sugar and ethanol companies that generate excessive electric power may qualify for AAUs if their excessive electric power can be used in the interconnected power grid.

Revenue generated from the sale of emission credits may be insignificant when compared to total revenue. However, considering that the investment necessary to obtain such credits is low, this revenue may be helpful in boosting margins.

BUSINESS

Overview

We are one of the largest producers of sugar and ethanol in Brazil. We purchase, cultivate, harvest and crush sugarcane – the main raw material used in our sugar and ethanol operations. We believe that:

- we are the second largest crusher of sugarcane in Brazil, having crushed 9.7 million tons of sugarcane during the 2005/2006 harvest, and Brazil is the largest crusher of sugarcane in the world;
- we are the second largest ethanol producer in Brazil, having produced 440.0 thousand cubic meters during the 2005/2006 harvest; and
- we are the fifth largest sugar producer in Brazil, having produced 597.3 thousand tons of sugar during the 2005/2006 harvest.

We cultivate and harvest sugarcane on land with a total area of 84,500 hectares (approximately 219,000 acres). We lease approximately 45,300 hectares (or 53.6%) of this total area from third parties (with whom we have long-standing relationships and some of whom are our shareholders or other related parties (representing 40,000 hectares, or approximately 85.3% of our total leased lands) under renewable contracts that generally have approximately six-year terms. We own the remaining 41,800 hectares (or 47.1%) of the total area on which we cultivate and harvest sugarcane. We also purchase sugarcane from third party suppliers to whom we generally provide harvesting and planting services (the cost of which we offset against the purchase price we pay for this sugarcane). These purchases represented approximately 30.7% of the total sugarcane that we crushed during the 2005/2006 harvest.

We currently conduct our sugar and ethanol operations through our two mills, Iracema and São Martinho, which are located in the state of São Paulo, approximately 163 kilometers and 320 kilometers, respectively, from the city of São Paulo, and 235 kilometers and 392 kilometers, respectively, from the port of Santos. We believe that our São Martinho mill:

- was the largest sugarcane crushing mill in Brazil during the 2005/2006 harvest, having achieved the following world sugarcane-crushing records for a single sugarcane mill during that harvest: (1) crushing 14,560 tons of sugarcane in a single eight-hour shift; (2) crushing 42,526 tons of sugarcane in a single 24-hour period; (3) crushing 1.2 million tons of sugarcane in a single calendar month; and (4) crushing 7.1 million tons of sugarcane during the entire harvest;
- has an average capacity to produce 3,000 tons of sugar daily (assuming that 60% of the mill's production capacity is used to produce sugar and the remaining production capacity is used to produce ethanol); and
- produces a daily average of 2.0 thousand cubic meters of ethanol.

We have begun construction of a third mill, Boa Vista, in the city of Quirinópolis in the state of Goiás, which we expect will begin operating in the 2008/2009 harvest with an initial estimated annual sugarcane crushing capacity of 1.7 million tons and annual ethanol production capacity of 94.6 thousand cubic meters. We currently intend to increase the annual sugarcane crushing capacity and the annual ethanol production capacity of this mill to 3.0 million tons and 286.9 thousand cubic meters, respectively, by the 2010/2011 harvest and may further increase the production capacity of this mill thereafter. We anticipate that this additional mill will initially produce only hydrous ethanol, which is used primarily as fuel for vehicles that exclusively run on ethanol, or for flex-fuel vehicles, which are vehicles that can operate using gasoline or ethanol (or any mixture of both), and for industrial purposes. Our estimated capital expenditures to complete construction of this mill by the 2008/2009 harvest will total R$282.9 million (which is in addition to the R$60.1 million that we have already invested through December 2006).

On January 4, 2007, BNDES authorized loans to our company up to an aggregate amount of R$248.9 million, a portion of the proceeds of which we intend to use for a variety of purposes related to the construction and development of our Boa Vista mill. This loan, however, remains subject to the negotiation and execution of definitive loan documentation. Accordingly, we cannot confirm when or whether we will receive this loan from BNDES.

We currently market and sell all of the sugar and ethanol produced by our Iracema and São Martinho mills, both domestically and for export, through Copersucar. Copersucar was founded in 1959 to provide marketing, sales, logistical and other services to its member companies. During the 2005/2006 harvest, Copersucar had 29 members that produce sugar and ethanol in the states of São Paulo, Minas Gerais and Paraná, which collectively crushed 57.0 million tons of sugarcane. Copersucar also owns and operates port and warehouse facilities at the Port of Santos in the state of São Paulo, from which it exports sugar and ethanol products manufactured by its members. During fiscal year 2006, the sugar and ethanol that we delivered to Copersucar represented approximately 17.9% and 16.5%, respectively, of Copersucar's total sales volumes (measured in tons and liters, respectively). We believe that our membership in Copersucar provides us with economies of scale resulting in competitive advantages, including: (i) lower sales costs; (ii) integrated logistics; (iii) a broad marketing and distribution network; and (iv) lower financing costs.

Our Main Products

Sugar

We are able to produce several types of raw sugar. Over the last three fiscal years, our main sugar product has been VVHP (or very, very high polarization) sugar, which is a type of sugar that is the trade standard in the international sugar market. Copersucar exports approximately 70.0% of the total sugar produced by its members to customers in 11 countries (predominantly sugar processing companies) located primarily in Asia and Africa. In Brazil, Copersucar sells our sugar products to sugar processing companies, wholesale distributors and food and beverage manufacturers. We delivered 597.3 thousand tons of sugar to Copersucar during the 2005/2006 harvest, resulting in R$339.5 million, or 42.8%, of our net revenue in fiscal year 2006 (which figure includes 29.7 thousand tons of sugar that we delivered to Copersucar during the 2004/2005 harvest and that was sold in fiscal year 2006).

Ethanol

We produce and sell both hydrous and anhydrous ethanol, as well as industrial alcohol that is used mainly to produce paint, cosmetics and alcoholic beverages. Anhydrous ethanol, which is used as a gasoline additive, was the most common form of ethanol consumed in Brazil until recently. However, sales of hydrous ethanol (which is used as fuel for flex-fuel and pure ethanol vehicles) have increased significantly during the last three years as sales of flex-fuel vehicles have grown from approximately 48,200 vehicles in 2003 to approximately 1.0 million vehicles during the nine months ended September 30, 2006, representing approximately 72.1% of overall new car sales in Brazil during such period. Copersucar sells the majority of its ethanol to fuel distribution companies in Brazil and exports the remaining amount to customers located in eight countries. We delivered 440.0 thousand cubic meters of ethanol to Copersucar during the 2005/2006 harvest, resulting in R$419.2 million, or 52.8%, of our net revenue in fiscal year 2006 (which figure includes 39.0 thousand cubic meters of ethanol that we delivered to Copersucar during the 2004/2005 harvest and that was sold in fiscal year 2006).

Other Products

We also produce RNA, a flavor enhancer and raw material that is used in the pharmaceutical and food industries, through our wholly-owned subsidiary, Omtek. We sell all of the RNA that we produce to Mitsubishi through a long-term contract that we entered into in 1992. In addition, we produce yeast, fusel oil (which is used as a solvent and in the manufacture of explosives and pure amyl alcohol) and bagasse (the pulp that remains after the juice is extracted from sugarcane) as by-products of our production of sugar and ethanol. We sell yeast and fusel oil directly to customers in Brazil, use bagasse to self-generate all of the steam

and electricity that we need to operate our mills and sell excess bagasse to customers (primarily orange juice manufacturers) in Brazil for their generation of electricity and steam.

Brazil's Competitive Advantages in the Production of Sugarcane, Sugar and Ethanol

We believe that Brazilian producers of sugar and ethanol, including us, enjoy competitive advantages over sugar and ethanol producers in other countries due to the following factors:

Production scale and strong growth capacity. Brazil is the largest sugarcane, sugar and ethanol producer in the world. The sugar and ethanol industry accounted for approximately 1.8% of Brazil's gross domestic product and 6.5% of Brazil's agricultural gross domestic product in 2005. During the 2005/2006 harvest, Brazil produced:

- 386.6 million tons of sugarcane;
- 27.9 million tons of sugar, representing approximately 19% of global production, including sugar produced with sugar beet; and
- 15.9 million cubic meters of ethanol, representing approximately 35.5% of global production.

Brazil is also the largest sugar exporter in the world, with a total of 19.1 million tons of sugar (Raw Value) exported during the 2005/2006 harvest, representing approximately 38.7% of global exports.

Brazil has a vast territory and favorable climate, which results in a large supply of land available for sugarcane production. Sugarcane in Brazil is grown in the Center-South and North-Northeast regions, permitting Brazil to harvest sugarcane twice annually (between April and November in the Center-South region of Brazil and between September and March in the North-Northeastern region of Brazil). Only 4.1% of Brazil's agricultural land, or 6.2 million hectares, is currently used for sugarcane production, so Brazil should be able to expand its production capacity significantly depending on market conditions and the suitability of available land for sugarcane cultivation. Brazil's favorable growing conditions also permit sugarcane to be harvested five times before requiring re-planting, compared to (i) India, where, on average, sugarcane must be re-planted every two harvests, and (ii) the United States and other countries that harvest sugar beet, which has one annual crop and must be re-planted every year, as well as requiring crop rotations that range between three and five years.

Low-cost producer. Brazil is the lowest cost producer of sugar in the world due to its extremely favorable climate and soil, as well as technological improvements that it has developed in the production of sugar and ethanol. These technological improvements have resulted in longer harvesting cycles, higher sugarcane yield per hectare and increased sucrose content from crushed sugarcane, which has improved sugar output. Sugar production costs in Brazil are significantly lower than the world's other major sugar producers, including India, China, the United States, the United Kingdom, France and Germany. For example, during the 2004/2005 harvest, average production costs per ton of sugar in each of these countries were 93%, 76%, 138% (sugarcane)/181% (sugar beet), 187%, 205% and 296% higher, respectively, than the average cost of sugar produced in the Center-South region of Brazil.

Strong domestic demand. Brazil consumed approximately 9.7 million tons of sugar during the 2005/2006 harvest and is one of the world's largest sugar consuming markets. Sugar consumption in Brazil has continued to grow principally as a result of higher consumption of processed food products made with sugar. In addition, since the mid-1970s, the Brazilian government has promoted the use of ethanol as an alternative fuel, including through regulations requiring a compulsory mixture of ethanol (currently 23.0%) with gasoline. The introduction of flex-fuel vehicles in Brazil that can run on either gasoline or ethanol (or a combination of both), has increased ethanol demand. We believe that sales of flex-fuel vehicles, and related demand for hydrous ethanol, will likely continue to increase in Brazil significantly as older vehicles are replaced with newer models.

Our Strengths

Technological innovation and highly mechanized agro-industrial complex. We regularly seek to implement technological innovations in our planting, harvesting and manufacturing processes, which has greatly improved our productivity and reduced our operating costs in recent years. During the 2005/2006 harvest, we harvested approximately 70% of the sugarcane that we crushed using mechanized harvesters, which we operate 24-hours per day, seven days per week throughout the harvesting season. We are the most mechanized sugar and ethanol producer in Brazil and were the first major Brazilian sugar company to develop and use mechanized planting equipment. We have developed and implemented numerous technological improvements for our mechanized planting and harvesting equipment, which has significantly improved our productivity levels. As a result of these technological improvements, we have:

- decreased the number of mechanized harvesters that we use at our São Martinho mill by 20.8%, from 48 during the 1995/1996 harvest to 38 during the 2005/2006 harvest, while at the same time increasing the average amount of sugarcane harvested by each harvester by 100.1%, from 72.9 tons during the 1995/1996 harvest to 145.9 tons during the 2005/2006 harvest, which has substantially increased our productivity;

- increased our agricultural productivity to an average of 91.2 tons of sugarcane per hectare harvested during the 2005/2006 harvest, 10.1% higher than the average (82.8 tons) in the Center-South region of Brazil for this harvest;

- significantly reduced our need to burn our sugarcane crops. Burning is necessary prior to manual harvesting and is required by law to be phased out gradually by 2021. As we have invested substantially in mechanized harvesting equipment, we expect that our capital expenditures related to mechanization will be lower than the capital expenditures of certain of our competitors going forward;

- reduced our related operating costs and our number of workplace accidents, as mechanical harvesting is more labor intensive than mechanical harvesting; and

- been pioneers in the implementation of a SAP integrated management system in the Brazilian agribusiness industry. Through our SAP system, as entries are made for sales production and payments, corresponding journal entries are automatically posted. In addition, SAP provides us with access to standardized "best-practice" processes relating to financial accounting, controls, human resources, materials management and production planning, which we believe assists us in reducing our operating costs and provides us with a competitive advantage.

We believe that our productivity levels will continue to improve as a result of our continued investment in mechanization and other technological improvements. We plan to increase significantly our use of mechanized harvesters at our Iracema mill (as 39.5% of the sugarcane that it crushed during the 2005/2006 harvest was harvested with mechanized harvesters, compared to 85.8% of the sugarcane crushed by our São Martinho mill). We have planned our Boa Vista mill (which we anticipate will begin operating during the 2008/2009 harvest) to be highly automated, with centralized control that will allow us to operate it with fewer employees than our other mills. In addition, we expect that most of the planting and all of the harvesting for our Boa Vista mill will be mechanized.

Expansive lands strategically located in the Center-South region of Brazil and close to our mills. We cultivate and harvest sugarcane on land with a total area of 88,600 hectares (approximately 219,000 acres). We lease approximately 46,900 hectares (or 52.9%) of this total area from third parties (with whom we generally have long-standing relationships and some of whom are our shareholders or other related parties (representing 40,000 hectares, or approximately 85.3% of our total leased lands), which we refer to collectively as our partners) under renewable contracts that generally have approximately six-year terms. We own the remaining 41,800 hectares (or 47.1%) of the total area on which we cultivate and harvest sugarcane. We also purchase sugarcane from third party suppliers to whom we generally provide harvesting and planting services (the cost of which we offset against the purchase price we pay for this sugarcane). These purchases represented approximately 30.7% of the total sugarcane that we crushed during the 2005/2006 harvest.

The land on which we cultivate and harvest sugarcane benefits from favorable natural conditions in the Center-South region of Brazil, in which approximately 87% of Brazilian sugarcane was produced during the 2005/2006 harvest. Our expansive owned and leased lands are also strategically located within an average of 24 kilometers from our mills. This close proximity, coupled with our high level of mechanization, (i) reduces our transportation costs and (ii) allows us to begin processing our sugarcane within an average of nine hours from the time that it is harvested (as compared to an estimated average for the Center-South region of 36 to 48 hours), which enables us to maximize the extraction of sugar from the harvested sugarcane (as harvested sugarcane begins to lose its sugar content over time) and increase our productivity.

Our excellent logistical facilities lower our operating costs. Our mills are located in close proximity to railroad lines and Copersucar's port terminals and warehouses, thus decreasing delivery time, increasing operating efficiencies, reducing logistics costs and facilitating responses to shifts in demand. Our two mills, Iracema and São Martinho, are located in the state of São Paulo, approximately 163 kilometers and 320 kilometers, respectively, from the city of São Paulo, and 235 kilometers and 392 kilometers, respectively, from the port of Santos. We recently adapted the storage facilities at our São Martinho mill to allow us to store sugar in bulk (rather than in bags), which we believe will decrease significantly our storage costs and will facilitate exports of sugar, which is exported in bulk. Due to (i) our close proximity to Copersucar's port facilities (compared to other members) and (ii) the investments that we have made in our logistical and warehousing facilities (which we assign to Copersucar for its use), Copersucar reduced the selling expenses allocated to our company by R$4.6 million and R$5.0 million in fiscal years 2006 and 2005, respectively.

Financial strength and steady cash flow from operations. Our steady cash flow from operations and financial strength enable us to access financing sources on favorable terms and conditions to implement our business growth strategy. We recorded EBITDA of R$220.9 million, R$164.2 million and R$89.4 million, and an EBITDA margin of 27.8%, 25.3% and 17.3%, during fiscal years 2006, 2005 and 2004, respectively. As of April 30, 2006, our net debt totaled R$158.5 million (R$124.2 million of which consisted of PESA obligations), equivalent to approximately 0.7 times our EBITDA during fiscal year 2006. As a result of our capital expenditures that have significantly increased the level of mechanization of our Iracema mill and the ongoing construction of our Boa Vista mill, which will be highly automated, we believe that we have low operating costs that will us to continue to increase our cash flow from operations and improve our financial strength.

Experienced and professional management team. Our senior management has significant experience and knowledge in the sugar and ethanol industries and in our production and operations and has been employed by us for more than 10 years, and our controlling shareholders have more than 40 years of experience in the sugar and ethanol industry. Our management team and our other professionals are highly trained, and we have a results-oriented corporate culture that is focused on reducing operating costs and increasing revenues. We utilize human resource management tools that focus on the integration and motivation of our management team and other professionals to help maximize their effectiveness.

Membership in Copersucar. We are a member of Copersucar, which is:

- the cooperative entity that is the largest collective grower and processor of sugarcane in the world, the members of which collectively crushed 56.8 million tons of sugarcane during the 2005/2006 harvest;
- the cooperative entity that had the highest collective sales volume of sugar in Brazil, having sold 3.3 million tons of sugar during fiscal year 2006 (among the highest domestic sales volume in the world);
- the cooperative entity that had the highest collective export sales volume of sugar in the world, having exported approximately 2.4 million tons of sugar during fiscal year 2006 (representing approximately 5% of total worldwide sugar exports);
- the cooperative entity that had the highest collective sales volume of ethanol in Brazil, having sold 2,700 thousand cubic meters of ethanol during fiscal year 2006 (the second highest domestic sales volume in the world); and
- the cooperative entity that had the highest collective export sales volume of ethanol in the world, having exported 535.0 thousand cubic meters of ethanol during fiscal year 2006.

Copersucar's leading market position in terms of crushing and sales volume, large scale of operations, extensive port and warehouse facilities and solid credit rating give Copersucar a competitive advantage that enables it to lower its selling expenses, as it sells approximately 80% of its members' sugar products directly to end-users without using trading companies as intermediaries, and provide its members, including our company, with integrated logistics and access to a broad marketing and distribution network.

Our Strategy

Our strategy is to be one of the lowest cost sugar and ethanol producers in Brazil and one of the largest in the world, as well as one of the leading companies in the world in mechanized planting and harvesting of sugarcane and in automated production of sugar and ethanol, with a professional management team and a focus on developing additional value-added sugar and ethanol products. To achieve these goals, we intend to build on our competitive strengths to maintain steady and sustained profitable growth and to continue to create value for our shareholders. The main components of this strategy are to:

Grow organically and through strategic acquisitions or partnerships and new projects. To capitalize on the growing demand for ethanol both in Brazil and globally, and as we are currently operating at close to our maximum production capacity at our existing facilities, we have begun construction of a third mill, Boa Vista, in the city of Quirinópolis in the state of Goiás, which we anticipate will begin operating during the 2008/2009 harvest. We anticipate that this additional mill will be dedicated initially solely to the production of hydrous ethanol, which is used as fuel for flex-fuel vehicles.

In constructing our Boa Vista mill, we are building on the model of our existing operating facilities, leveraging our facility designs, incorporating our technological improvements and adding a production facility at a strategic location near expansive sugarcane plantations. Our Boa Vista mill will be located close to the Paranaíba River, which interconnects to the river port of São Simão in the state of Goiás, where we expect to transport our ethanol products via the Tietê-Paraná river system.

We plan to continue to expand through this and other potential new projects in the future. We also closely monitor the Brazilian sugar and ethanol industries and may pursue selective acquisitions in Brazil that present opportunities to increase economies of scale, operating synergies and productivity gains. Currently, we are analyzing the potential acquisition of a sugar mill in Brazil, possibly together with our controlling shareholders. We currently plan to submit a bid to purchase this mill in a private auction at the end of January 2007. We also expect that our new Boa Vista mill, when constructed and operating, will generate approximately 41 megawatts of electricity in excess of our internal needs, which electricity we plan to sell to third parties at market rates. As this electricity will be generated by burning bagasse and the electricity generated from bagasse is a clean, renewable energy source that complements Brazil's predominantly hydroelectric energy generation, we expect that these electricity sales will improve our profitability, as bagasse is a by-product of our production of sugar and ethanol that we produce without any incremental cost. We also plan to sell the excess Assigned Amount shares (AAUs, or carbon emission credits) generated by this process to companies in countries that are not in compliance with the Kyoto Protocol emission levels.

Continue to reduce our operating costs and increase our operating efficiencies. We intend to continue to focus on improving the efficiency of our operations through additional investments in technology, including agricultural, industrial and logistical processes and information technology. As part of this effort, we intend to increase the level of mechanization of our Iracema mill. In addition, we have planned our Boa Vista mill to be highly automated, with centralized control that will allow us to operate with relatively fewer employees, and expect that the majority of the planting and all of the harvesting for our Boa Vista mill will be mechanized. We also plan to use technology to continue to improve further our management information and internal control systems, which should help to facilitate and accelerate our decision-making capabilities, while maintaining tight controls.

Expand our participation in the international sugar and ethanol markets. We intend to use our existing production flexibility and our new Boa Vista mill to take advantage of additional export opportunities that we believe will emerge over the medium- to long-term from the liberalization of trade and import restrictions that currently limit our access to certain large sugar and ethanol markets, and the growing use of ethanol as an alternative, renewable and clean fuel, including as a gasoline additive.

History

In 1938, we acquired Usina Iracema Ltda. to produce and sell sugar, ethanol and their byproducts, and to develop the Brazilian sugarcane industry. On June 26, 1943, Usina Iracema Ltda. converted to a corporation and changed its name to Companhia Industrial e Agrícola Ometto. On March 9, 1950, our controlling shareholders began to expand their operations in the sugar and ethanol industries through the acquisition of Companhia Agrícola Fazenda São Martinho (of which we acquired 11.4% of the share capital).

On November 23, 1973, we, Companhia Agrícola Fazenda São Martinho and third parties created Agropecuária Cachimbo S.A., or Cachimbo, to engage in urban and rural development projects and for cattle- and crop-raising activities. On October 24, 1977, Companhia Agrícola Fazenda São Martinho changed its name to Usina São Martinho S.A – Açúcar e Álcool. On June 1, 1984, we created Agropecuária Vale do Corumbataí S.A., or Corumbataí, together with other shareholders to expand our activities in the cattle raising industry, explore mineral resources and engage in residential development projects.

On February 1, 1989, we, together with Morro Azul Participações S.A., created Omtek to diversify our portfolio of products. In partnership with Kirin Mitsubishi, we constructed a plant to produce RNA, which is a high value-added product derived from the molasses and sold to Mitsubishi. In 1994, Morro Azul Participações S.A. assigned all of its equity interest in Omtek to us.

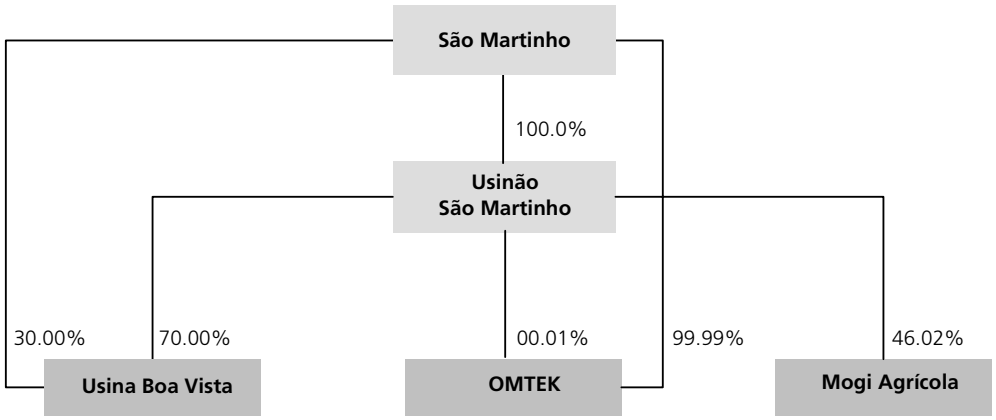
On June 30, 1996, we, together with Usina São Martinho S.A – Açúcar e Álcool and Agropecuária Monte Sereno S.A., created Monte Sereno Agrícola S.A., or Monte Sereno, to undertake cattle-raising, crop-raising and reforestation activities. As a result of the restructuring of the ownership of Usina São Martinho S.A – Açúcar e Álcool., we obtained 11.4% of its total share capital on November 28, 1997, and it changed its name to Usina São Martinho S.A. On September 1, 1998, we, together with other shareholders, created Boa Vista Agrícola e Pecuária Ltda. to expand our cattle- and crop-raising activities. Usina São Martinho S.A. created Vale do Mogi, a Luxembourg company, on April 27, 1989 to expand our group's international activities. On May 15, 2002, we increased our interest in Monte Sereno to 39.7% of its total share capital, and Usina São Martinho S.A. acquired 37.8% of Monte Sereno's share capital from Agropecuária Monte Sereno S.A. On June 7, 2002, we transferred 99.9% of our equity interest in Boa Vista Agrícola e Pecuária Ltda. to Usina São Martinho S.A.

On November 13, 2003, we, together with Usina São Martinho S.A., created Agropecuária Caieira do Norte S.A., or Agropecuária Caieira, to expand our cattle- and crop-raising activities. On July 15, 2004, we and Usina São Martinho S.A. transferred certain mining rights in the state of São Paulo to Boa Vista Agrícola e Pecuária Ltda. On July 21, 2005, we and Usina São Martinho S.A. created Usina Boa Vista S.A. to expand and develop our activities in the sugar and ethanol industries, as well as to co-generate electricity. Usina Boa Vista S.A. will directly own and operate our Boa Vista mill, which we expect will become operational during the 2008/2009 harvest. On October 24, 2005, we transferred our real estate development and marketing activities to Boa Vista Agrícola e Pecuária Ltda. We transferred additional properties to this company in March 2006.

On April 30, 2006 (retroactively effective as of March 31, 2006 for accounting purposes), we and Usina São Martinho S.A. effected the Spin-Off of our interests in Cachimbo, Corumbataí, Monte Sereno, Vale do Mogi, Boa Vista Agrícola e Pecuária Ltda. and Agropecuária Caieira. We increased our direct and indirect ownership in Mogi Agrícola to 30.7% as of May 5, 2006 and 46.0% of Mogi Agrícola as of May 17, 2006 (as a result of a loan that Usina São Martinho S.A. made to Agrotin Agropecuária e Participações Ltda. in an aggregate amount of R$7.1 million, which loan matures in May 2008 and is secured by a pledge of 2,039,056 common shares of Mogi Agrícola (representing 15.2% of its total share capital)). We have accounted for this loan as an acquisition as we have the right to vote the pledged shares during the term of the loan agreement and expect that the loan will be repaid with these shares, and we jointly control this company through a shareholders' agreement.

On September 28, 2006, Usina São Martinho S.A. became our wholly-owned subsidiary as a result of the São Martinho Capital Contribution, and we changed our name to São Martinho S.A.

Our current corporate structure is set forth below.



Operations

Sugarcane

Sugarcane is the main raw material used in the production of sugar and ethanol. It is a tropical grass that grows best in locations with stable warm temperatures and high humidity. The climate and topography of the Center-South region of Brazil is ideal for the cultivation of sugarcane. The Center-South region of Brazil accounts for approximately 85% of Brazil's sugarcane production.

During the 2005/2006 harvest, we cultivated sugarcane in an area equal to 88.6 thousand hectares, distributed as follows:

- 43.1 thousand hectares, approximately 48.6% of the cultivated area, through long-term agricultural partnership agreements;
- 3.8 thousand hectares, approximately 4.2% of the cultivated area, through long-term land leases; and
- 41.8 thousand hectares, approximately 47.1% of the cultivated area, through land owned by our company.

As of October 31, 2006, we had a total of 305 agricultural partnership agreements and 47 land lease contracts, generally with a six-year term, renewable by agreement of both parties. Under these contracts, our partners or lessors lease us land on which we cultivate sugarcane. In return, we make payments to them based upon a percentage of the harvested sugarcane. We calculate this payment based on the number of ATRs in the harvested sugarcane (in accordance with the CONSECANA system) and average market prices in the state of São Paulo (determined by CEPEA/ESALQ). See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Operating Results—Our Cost of Goods Sold."

We also purchase sugarcane directly from over 650 independent sugarcane growers under contracts that we renegotiate on an annual basis. We generally enter into two types of contracts with these growers, in which: (i) the grower harvests and delivers sugarcane to us; or (ii) the grower plants the sugarcane, and we buy the unharvested sugarcane at a discount and harvest and transport it to our mills. Most of our contracts with growers require us to harvest and transport the sugarcane, which we believe is advantageous for both parties, as the grower incurs fewer costs, and we are able to harvest and deliver the sugarcane to our mills promptly. We generally have long-term relationships with sugarcane growers and schedule regular visits to our mills and offer training programs and other courses to these growers, including in respect of pest control. We also consult with our sugarcane growers to determine which sugarcane varieties they should plant.

The price that we pay our suppliers is based on the total amount of sugar content in the delivered sugarcane. On delivery of the purchased sugarcane, we test the sugarcane to determine its ATR content, which is used to determine the price of the sugarcane. The results of these tests are audited by a cooperative of sugarcane growers. After the price for the sugarcane is determined, we pay 80% of the price on delivery of the sugarcane and the remaining 20% in monthly installments from January to April of the following calendar year. Prices are based on the monthly price indicators published by CONSECANA and adjusted to reflect subsequent price fluctuations during the harvest in a final report publish in April of each year (March commencing in March 2007).

During the 2005/2006 harvest, we harvested approximately 69.2%, or 6.7 million tons, of sugarcane that we crushed (46.1% from our own land or partnerships and 53.9% from leased land), and we purchased approximately 30.8%, or 3.6 million tons, of such sugarcane from third-party growers. The following table compares the total amount of sugarcane grown on land we owned or leased with the amount we purchased from third parties during the last four harvests.

	Processed Sugarcane *(in millions of tons)* Harvest			
	2006/2007	**2005/2006**	**2004/2005**	**2003/2004**
Sugarcane harvested from owned/ leased land (including from partners)	6.2	6.7	6.5	6.1
Sugarcane purchased from third parties	3.1	3.0	3.0	2.6
Total	9.3	9.7	9.5	8.8

Sugarcane Harvest Cycle

Historically, the annual sugarcane harvesting cycle in the Center-South region of Brazil began in May and ended in November of each year. As a result of a recent trend in the Center-South region of Brazil to commence the harvest in April of each year, our 2006/2007 harvest ended in October 2006, and thereafter, our subsequent harvests will commence on April 1 of each calendar year and end in October of that year. Sugarcane is ready for harvest when the crop's sucrose content reaches its peak, usually after a one year cycle, except for the first harvest of sugarcane, usually planted between January and April.

We plant several types of sugarcane seed in two periods of the year. The first period starts in January and lasts approximately four months, while the second period starts in September and lasts approximately three months. After the first harvest, a sugarcane field can be harvested annually for four or more years. After this period, the sugarcane must be re-planted, as the productivity (as measured by ATR content) of the sugarcane decreases after each harvest. Our investments in crop renovation and the use of modern planting, harvesting, loading and transportation practices has resulted in and made possible an average crop-life of 5.4 years over the last few years. We carefully monitor crop-life and plan to continue to invest to further increase our crop-life.

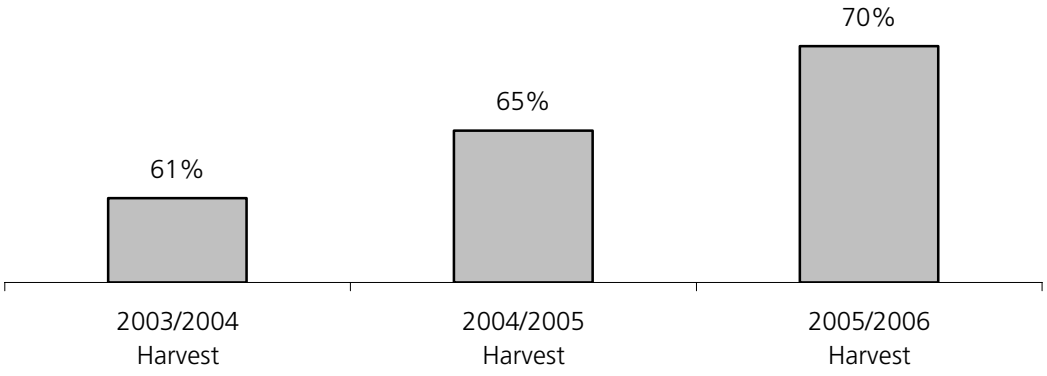
Most of our sugarcane is harvested mechanically, without burning. Prior to re-planting a new crop, we destroy the existing sugarcane roots. Mills, generally, replant about 20% of their sugarcane crop annually. As a result of our use of technology, we only replanted approximately 15% of the planted sugarcane in our last harvest.

We believe that we are the most mechanized sugar and ethanol producer in Brazil and were the first major Brazilian sugar company to develop and use mechanized planting equipment. We have developed and implemented numerous technological improvements for our mechanized planting and harvesting equipment, which has significantly improved our productivity levels, and we are a global reference in mechanical harvesting of unburned sugarcane. During the 2005/2006 harvest, we harvested approximately 70% of the sugarcane that we crushed (including sugarcane purchased from third parties) mechanically, without burning. Excluding sugarcane purchased from third parties, approximately 77% of the sugarcane crushed by the Company was harvested mechanically, without burning (88% in the São Martinho mill and 50% in the Iracema mill) and only 23% was harvested manually.

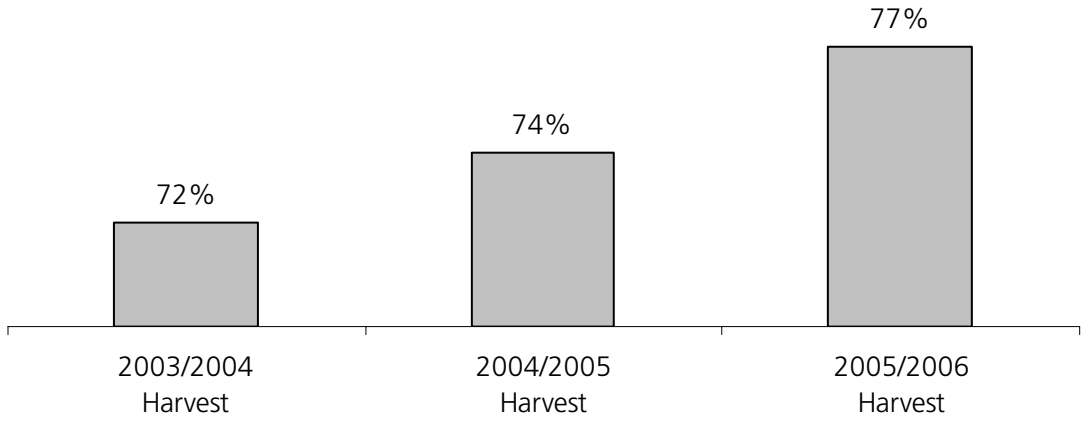
Mechanized harvesting does not require burning prior to harvesting, significantly reducing environmental damage and labor accidents, compared to the manual harvesting. In addition, the leaves that remain after sugarcane has been harvested mechanically form a protective cover over the crop, reducing evaporation and aiding in pest and disease control. This protective cover of leaves decomposes into organic material over time, which increases the fertility of the soil. We have developed the mechanical harvesting machinery, equipment and techniques that we use today based on more than 20 years of research and investments. Mechanical harvesting is more time efficient and has lower production costs compared to manual harvesting.

The following tables compare the percentage of sugarcane mechanically harvested over the last three harvests on our owned/leased land and our owned/leased land plus sugarcane purchased from third parties.

Percentage of Sugarcane Harvested Mechanically on Owned/Leased Land and Purchased From Third Parties



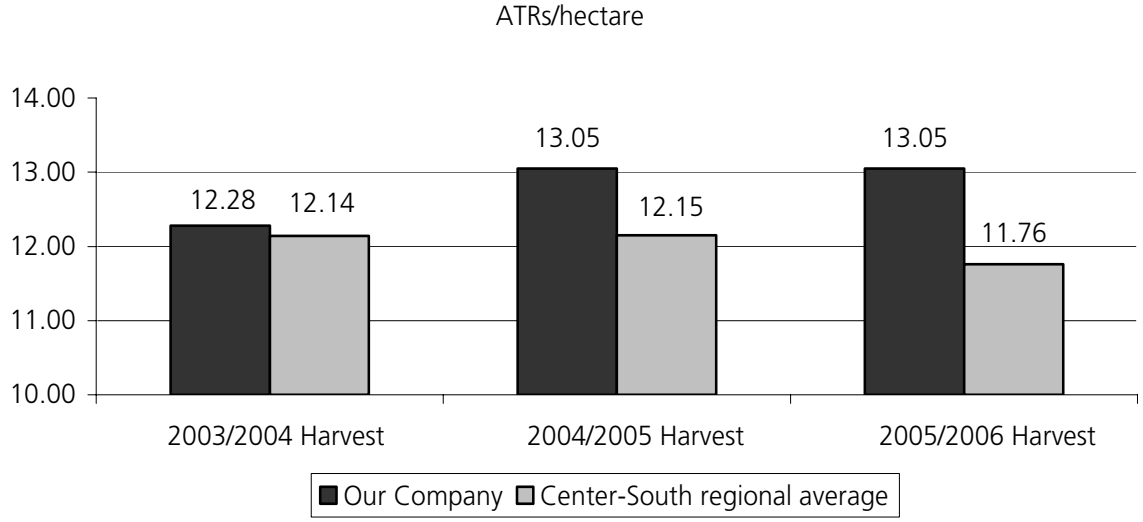
Percentage of Sugarcane Harvested Mechanically on Owned/Leased Land



Due to our investments in new mechanized planting technologies we planted approximately 15% of sugarcane crop mechanically during the 2005/2006 harvest.

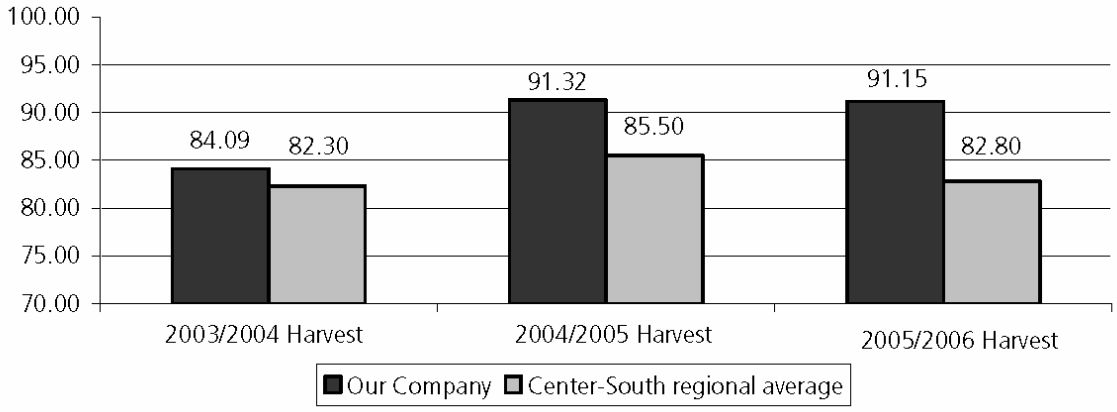
Sugarcane yield is an important productivity measure for our harvesting operations. Geographical factors, such as soil composition, topography and climate, as well as some agricultural techniques that we implement and the seed varieties we plant, are directly responsible for our high sugarcane yield. During the 2005/2006 harvest, we averaged 91.2 tons of sugarcane per hectare, while the Center-South regional average was 82.8 tons per hectare.

The following charts compare our productivity (measured in ATRs per hectare and tons of sugar per hectare) with the average for the Center-South region of Brazil.



Sources: Our company and UNICA.

During the 2006/2007 harvest, we harvested 13.1 ATRs per hectare on our land and leased land. Productivity data for the Center-South region for this harvest are not yet available.



Sources: Our company and UNICA.

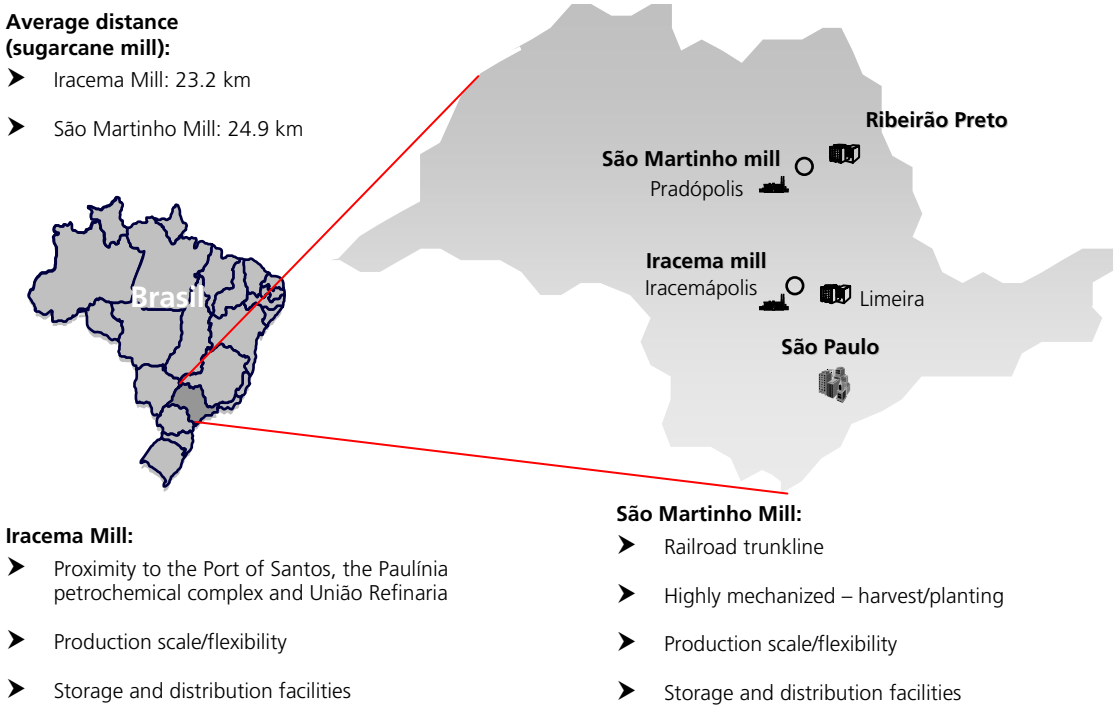
During the 2006/2007 harvest, we harvested an average of 87.3 tons of sugarcane per hectare on our land and leased land. Productivity data for the Center-South region for the 2006/2007 harvest is not yet available.

After the sugarcane is harvested, it is loaded onto trucks and transported to one of our two mills for weighing, analysis and processing.

In the current harvest, the average distance from the fields on which our sugarcane is harvested to our mills is 23.2 kilometers (or 14.4 miles) for the Iracema mill and 24.9 kilometers (or 15.6 miles) for the São Martinho mill. The proximity of our mills to the land on which we cultivate sugarcane reduces our transportation costs, and enables us to process the sugarcane within approximately nine hours after harvesting and maximizing sucrose recovery, as the sucrose content of cut sugarcane decreases over time. We believe that the average processing time for sugarcane after harvesting in the Center-South region of Brazil is from 36 to 48 hours.

Our Mills

The following map sets forth the location and competitive advantages of our mills.



We have the capacity to crush 10.0 million tons of sugarcane per harvest (7.5 million tons at our São Martinho and 2.8 million tons at our Iracema mill). We face competition from other nearby sugarcane mills in accessing new land on which to cultivate sugarcane. However, we believe that we can continue to increase our production volumes by increasing our productivity (measured in ATRs per hectare) or by acquiring sugarcane mills located near our existing mills.

Our mills are able to produce sugar and ethanol, and accordingly, we can adjust our production (within certain capacity limits that generally vary between 40% and 60%) between sugar and ethanol, as well as among different types of sugar and ethanol, to take advantage of more favorable market demand and prices at given points in time. During the 2006/2007 harvest, we produced 677.9 thousand tons of sugar, 211.9 thousand cubic meters of anhydrous ethanol and 181.7 thousand cubic meters of hydrous ethanol.

The following table sets forth the types of products that we make at each of our mills, the production capacity of each of our mills and our production volumes for the periods indicated.

Name	Products	Daily Average of Crushing and Production Capacity	For the Six Months Ended October 31, 2006(1)	For the Fiscal Year Ended April 30, 2006	2005	2004
São Martinho Mill						
	Sugarcane(2)	38.4	6,735.1	7,133.3	6,779.3	6,099.7
	Sugar(2)	3.0	499.7	443.2	462.9	427.7
	Anhydrous Ethanol(3)	1.8	148.6	247.0	198.3	228.5
	Hydrous Ethanol(3)	1.8	137.7	73.2	87.3	40.9
	Number of days in harvest	–	184	214	219	201
Iracema Mill						
	Sugarcane(2)	20.0	2,541.3	2,605.9	2,711.9	2,663.3
	Sugar(2)	1.5	178.2	154.1	173.3	171.6
	Anhydrous Ethanol(3)	0.9	63.2	63.6	83.4	93.0
	Hydrous Ethanol(3)	1.1	44.0	56.2	26.0	34.7
	Number of days in harvest	–	174	163	183	163
Omtek						
	RNA(4)	1.6	–	381.4	283.7	296.6
	Number of days in harvest	–	–	296	198	225
Combined Total						
	Sugarcane(2)	58.4	9,276.3	9,739.2	9,491.2	8,763.0
	Sugar(2)	4.5	677.9	597.3	636.2	599.4
	Anhydrous Ethanol(3)	2.7	211.9	310.6	281.7	321.5
	Hydrous Ethanol(3)	2.9	181.7	129.3	113.3	75.6
	RNA	1.6	n/a	381.4	283.7	296.6

(1) Data as of and for the six months ended October 31, 2006 includes our total sugar and ethanol production results for the 2006/2007 harvest, which ended in October 2006.
(2) In thousands of tons (Raw Value).
(3) In thousand cubic meters.
(4) In thousands of tons.

The São Martinho mill has achieved the following world sugarcane-crushing records for a single sugarcane mill:

- crushing 14,560 tons of sugarcane in a single eight-hour shift during the 2005/2006 harvest;
- crushing 42,526 tons of sugarcane in a single 24-hour period during the 2005/2006 harvest;
- crushing 1.2 million tons of sugarcane in a single calendar month during the 2005/2006 harvest; and
- crushing 7.1 million tons of sugarcane during an entire harvest 2006/2007.

We also achieved a world record by mechanically harvesting 952 tons of unburned sugarcane per harvester per day during the 2006/2007 harvest. During the 2006/2007 harvest, we did not have any scheduled maintenance stoppages and did not otherwise shutdown our production facilities, including as a result of a shortage of sugarcane supply.

We are currently renovating our Iracema mill, including by replacing its two sugarcane crushers for a single crusher with the same crushing capacity, which should also allow us to extend the period of time that we can crush sugarcane during a particular harvest. We expect to complete these renovations by the beginning of the 2007/2008 harvest. We expect that these improvements will enhance our operational performance and reduce our maintenance and other costs. These steps are part of our strategy to adjust our operations to increasing demand for our products and to increase the mechanization of sugarcane harvesting activities for sugarcane processed by our Iracema mill.

According to a study conducted by UNICA, our São Martinho mill ranked first in sugarcane crushing capacity, second in the amount of land cultivated by sugarcane and first in ethanol production capacity in the Center-South region of Brazil during the 2005/2006 harvest.

The following table sets forth the storage capacity of each of our mills during the 2005/2006 harvest.

Mills and Products	Storage Capacity
Iracema Mill	
Sugar(1)	67.5
Ethanol(2)	143.0
São Martinho Mill	
Sugar(1)	220.0
Ethanol(2)	227.0
Combined Total	
Sugar(1)	287.5
Ethanol(2)	370.0

(1) In thousands of tons (Raw Value).
(2) In thousand cubic meters.

Boa Vista Mill

To capitalize on the growing demand for ethanol both in Brazil and globally, and as we are currently operating at close to our maximum production capacity at our two existing mills, we have begun construction of a third mill, Boa Vista, in the city of Quirinópolis in the state of Goiás. We anticipate that we will begin operating this mill during the 2008/2009 harvest with an initial estimated annual sugarcane crushing capacity of 1.7 million tons and annual ethanol production capacity of 94.6 thousand cubic meters. We currently intend to increase the annual sugarcane crushing capacity and the annual ethanol production capacity of this mill to 3.0 million tons and 286.9 thousand cubic meters, respectively, by the 2010/2011 harvest, and may further increase the production capacity of this mill thereafter. We anticipate that this additional mill will initially produce only hydrous ethanol, which is used primarily as fuel for vehicles that exclusively run on ethanol or for flex-fuel vehicles, and for industrial purposes. As we expand the crushing capacity of our Boa Vista mill, we may build a sugar production plant in addition to the ethanol processing facility at the mill.

We are constructing our Boa Vista mill based on the most advanced agricultural and industrial designs and procedures, with the goal of maximizing sucrose content and the extraction of sugarcane juice. We plan to install two steam boilers with a capacity to generate 62.0 Mwh of energy, sufficient to crush 3.0 million tons of sugarcane annually. These boilers will produce up to 250.0 tons of steam per hour, at a pressure of 67 kilograms per square centimeter and a temperature of 515 degrees Celsius. As we plan to use 21.0 Mwh of energy annually to operate our Boa Vista mill once it commences operations, we may sell the remaining 41.0 Mwh of energy to third parties. In an energy auction held by the Brazilian government on October 10, 2006, we (through Usina Boa Vista) won the right to sell and supply excess electricity generated from our Boa Vista mill. Pursuant to the terms of this agreement, we are allowed to sell approximately 96,360 MWh annually at an average price of R$139.10 per MWh commencing with the 2010/2011 harvest for a period of 15 years.

We have planned our Boa Vista mill to be highly automated, with centralized control that will allow us to operate with relatively fewer employees, and we expect that the majority of the planting and all of the harvesting for our Boa Vista mill will be mechanized, without burning sugarcane. We are also planning an irrigation system that will transport water from abundant nearby water sources to our sugarcane fields and mitigate the risk of dry weather conditions. Our Boa Vista mill will be located close to the Paranaíba River, which interconnects to the river port of São Simão in the state of Goiás, where we expect to transport our ethanol products via the Tietê-Paraná river system. As Goiás is centrally located in Brazil, we will have the ability to distribute our products to several different markets in Brazil.

To supply our Boa Vista mill with sugarcane, we plan to cultivate sugarcane on land that we will lease from third parties, providing 50% of our sugarcane requirements, and purchase the remaining 50% of these requirements from sugarcane growers.

We have invested R$97.5 million in new machinery and equipment for our Boa Vista mill to date. On October 7, 2005, the Secretary of Industry and Commerce of the State of Goias allowed Usina Boa Vista S.A. to use ICMS tax credits in an aggregate amount of R$597.3 million to finance its operations over a 180-month period, assuming that our Boa Vista mill is producing ethanol during this entire period. On January 4, 2007, BNDES authorized loans to our company up to an aggregate amount of R$248.9 million, a portion of the proceeds of which we intend to use for a variety of purposes related to the construction and development of our Boa Vista mill. This loan, however, remains subject to the negotiation and execution of definitive loan documentation. Accordingly, we cannot confirm when or whether we will receive the proceeds of this loan from BNDES.

We are currently negotiating with a third party regarding a potential investment in the Boa Vista mill (including a possible in-kind investment).

As of December 2006, we had obtained all necessary environmental licenses from environmental authorities in the state of Goiás to construct the Boa Vista mill and co-generate electricity for the Boa Vista mill.

Our Main Products

The following table sets forth a breakdown of our sales volume and net sales revenue by product and market for the fiscal years ended.

	Year ended April 30,								
	2006			2005			2004		
	Volume Sold(1)	Net Sales Revenue		Volume Sold(1)	Net Sales Revenue		Volume Sold(1)	Net Sales Revenue	
		(million of *reais*)	(%)		(million of *reais*)	(%)		(million of *reais*)	(%)
Domestic net sales									
Sugar	209.0	124.5	15.7	226.0	127.7	19.7	261.0	141.5	27.3
Anhydrous ethanol	312.0	294.2	37.1	244.0	190.5	29.4	246.0	145.5	28.1
Hydrous ethanol	81.0	68.4	8.6	92.0	63.9	9.9	64.0	30.9	6.0
Others	–	20.5	2.6	–	18.7	2.9	–	15.7	3.0
Total domestic net sales	–	507.6	64.0	–	400.8	61.8	–	333.6	64.4
Export net sales									
Sugar	416.0	215.0	27.1	368.0	185.0	28.5	337.0	151.7	29.3
Anhydrous ethanol	32.0	22.7	2.9	54.0	33.1	5.1	16.0	11.6	2.2
Hydrous ethanol	53.0	33.9	4.3	24.0	16.7	2.6	11.0	7.0	1.4
Total export net sales	–	271.6	34.2	–	234.8	36.2	–	170.3	32.9
RNA	343.0	14.0	1.8	273.0	12.6	1.9	297.0	14.1	2.7
Net sales revenue	–	793.2	100.0	–	648.2	100.0	–	518.0	100.0

(1) Sugar volumes are measured in thousands of tons (Raw Value), ethanol volumes are measured in thousand cubic meters and RNA volumes are measured in tons.

Sugar

We produce several types of raw sugar. Over the last three fiscal years, our main sugar product has been VVHP sugar, which is a type of sugar that is the trade standard in the international sugar market. VVHP is a sugar with 99.0% to 99.6% purity (polarization). VVHP sugar is similar to sugar traded in major commodities exchanges, including through the standard NY 11 contract. Most of the VVHP sugar we produce is exported by Copersucar in bulk to be refined at its final destination. A small amount is sold by Copersucar in the domestic market.

The VVHP sugar we produce is different from the VHP (very high polarization) sugar produced by other Brazilian mills, which is the type of raw sugar most frequently exported from Brazil, as VVHP sugar requires more advanced technology to produce. However, VHP has a higher sucrose content than the typical raw sugar negotiated based on the NY 11 price, and, as of July 1, 2006, is commanding a premium of 4.05% over the raw sugar price negotiated based on the NY 11 price.

Ethanol

We produce hydrous and anhydrous fuel ethanol. Consumption of hydrous ethanol, which is used directly as fuel, has been increasing due to an increased demand for flex-fuel vehicles in Brazil since 2003. Sales of hydrous and anhydrous ethanol represented approximately 24.4%, or R$102.3 million, and 75.6%, or R$316.9 million, respectively, of our total net sales revenue from ethanol during fiscal year 2006.

We also produce high quality hydrous industrial ethanol, types H1 and H2, and anhydrous industrial ethanol, types A1 and A2, based on Copersucar classifications. Hydrous industrial ethanol is exported mainly to Korea and Japan. Anhydrous industrial ethanol, which is used in the production of paints, cosmetics and alcoholic beverages, is exported mainly to Sweden.

Sales and Distribution

Copersucar sells and distributes the sugar and ethanol products of its members on an exclusive basis, and accordingly, sells all of the sugar and ethanol products of our São Martinho and Iracema mills. Copersucar chooses the best time to sell the products of its members based on market conditions. In general, Copersucar takes delivery of the products at the warehouses and storage facilities of its members, sells these products, deducts marketing, selling and administrative expenses from the proceeds of these sales and credits the remainder to the relevant members' account.

During fiscal years 2006, 2005 and 2004, sales and credits allocated to us by Copersucar accounted for approximately 95.5%, 94.9% and 94.1%, respectively of our gross sales revenue. The costs and expenses allocated to us by Copersucar represented 42.0% of the total operating costs that we incurred during fiscal year 2006 (53.9% during fiscal year 2005 and 59.0% during fiscal year 2004, respectively).

As our products are fungible with similar products of other Copersucar members, Copersucar sells our products together with similar products of its other members and pays each member the same average price per ton for these products, irrespective of when during a particular harvesting season each member delivered its products to Copersucar and subject to appropriate credit given for quality and logistical differentials.

Copersucar credits its members using a measure known as the "Unicop," which is a reference value that corresponds to the average price of a 50-kilogram sack of sugar during a particular period of measurement. The value of the Unicop for a particular harvest is based on the production mix of Copersucar's members and the sales mix between domestic and export sales. Therefore, our net sales revenue reflects Copersucar's sales mix and our production mix. See "—Copersucar."

Sugar

During the 2005/2006 harvest, 0.9 million tons of sugar, or 28.5% of all of the sugar sold by Copersucar, was sold domestically, and Copersucar exported 2.4 million tons of sugar, or 71.5% of all sugar sold by it.

In most domestic sales, the final customer is responsible for arranging for shipment of the sugar products, and payment is due approximately 28 days after billing.

Copersucar exports packaged white sugar (its principal export product) free-on-board (FOB) primarily through trading companies. With respect to white sugar, Copersucar operates throughout its supply chain, from the mill to the final client, including road and railroad transportation, loading terminal operation at its own port and shipping services (through Cost Insurance Freight sales (CIF)). Copersucar sells approximately 80% of the raw sugar in bulk that it receives from its members (including our company) directly to the final customer, FOB or CIF, without using trading companies or other intermediaries. Copersucar enters into short-term and long-term export contracts, and payment of the sales price is generally supported by a letter of credit.

During the year ended April 30, 2006, 63.3% of our net sales revenue from sugar sales was derived from exports (R$215.0 million). 45.0% of all sugar exported by Copersucar during the year ended April 30, 2006 was sold to the Arab Emirates, 20.0% to Saudi Arabia, 10.0% to Canada and the remaining 25.0% to other countries.

Ethanol

During the 2005/2006 harvest, 2.2 million cubic meters of ethanol, or 80.0% of all the ethanol sold by Copersucar, were sold domestically, and Copersucar exported 0.5 million cubic meters of ethanol, or 20% of all the ethanol sold by it.

Most domestic ethanol sales are made by Copersucar through annual supply contracts or in the spot market, with payment due in cash in 15 days. From time to time, ethanol is traded in the Futures and Commodities Exchange.

In the international market, Copersucar sells directly or through trading houses. Sales are made free on board, or FOB (where Copersucar pays for transportation of the goods to the port of shipment, plus loading costs, and the buyer pays freight, insurance, unloading costs and transportation from the port of destination to its facilities), or cost, insurance and freight, or CIF (where the selling price includes the cost of the goods, the freight or transport costs and also the cost of marine insurance). Recently, a sales program was developed to sell directly from inventories stored-in-advance at the final destination.

During fiscal year 2006, 86.5% of our net sales revenue from ethanol sales was derived from domestic sales (R$362.6 million). The remaining balance of our ethanol production was exported to Japan and South Korea (30.0%), India (12.3%), Sweden (3.5%), the U.S. (1.7%) and other countries (17.5%).

Prices

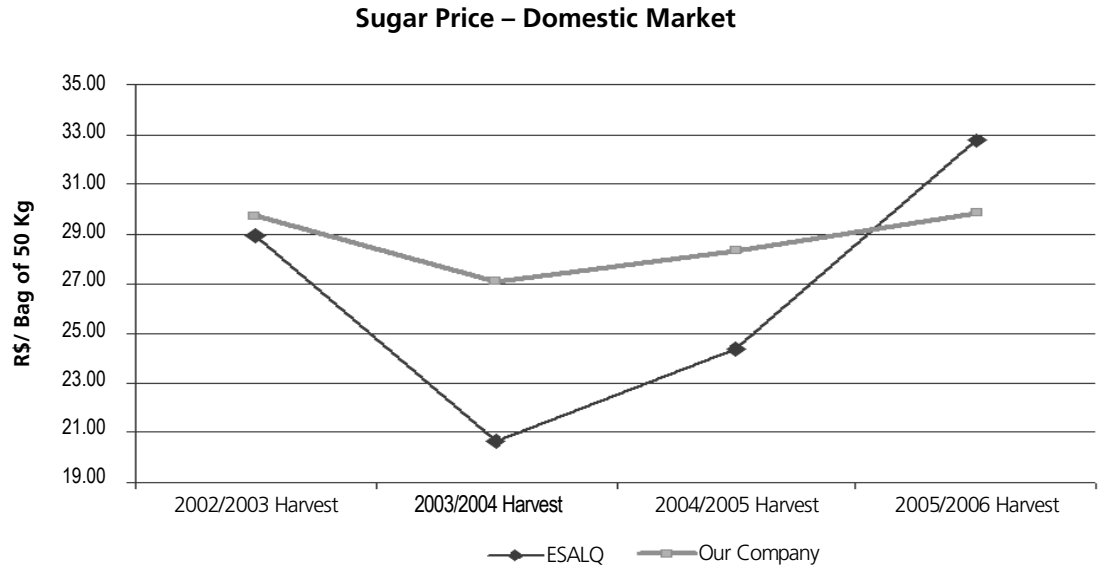
Sugar

Prices for our sugar products for export are set in accordance with international market prices. Prices for raw sugar are established in accordance with NY 11 futures contracts. Prices for refined sugar are established in accordance with the Lon 5 futures contract, traded on the London International Financial Futures and Options Exchange. Prices for sugar we sell in Brazil are set in accordance with domestic market prices, using an index calculated by ESALQ, the sugar futures market of the BM&F, and NY11 futures contracts. Spot market prices are fixed daily.

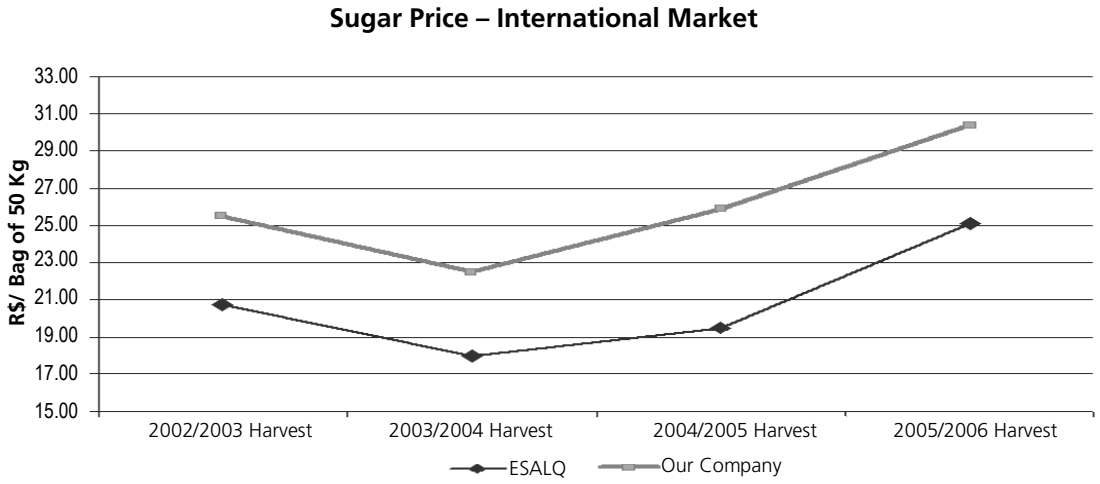
All export sales are made with payment due on delivery, with prices based on NY 11 futures contracts.

For more information on average sales prices and sales revenue from the sale of our sugar by Copersucar in the domestic and international markets over the last three years, see “Management’s Discussion and Analysis of the Financial Condition and Results of Operations.”

The following chart compares sugar prices determined by CEPEA/ESALQ and the sugar prices that Copersucar obtained during the periods indicated. CEPEA/ESALQ prices are based exclusively on sales of type 2 sugar, which has a higher added value, whereas during the 2005/2006 harvest, Copersucar sold a larger volume of lower value added type 3 and type 4 sugar.



Source: CEPEA.



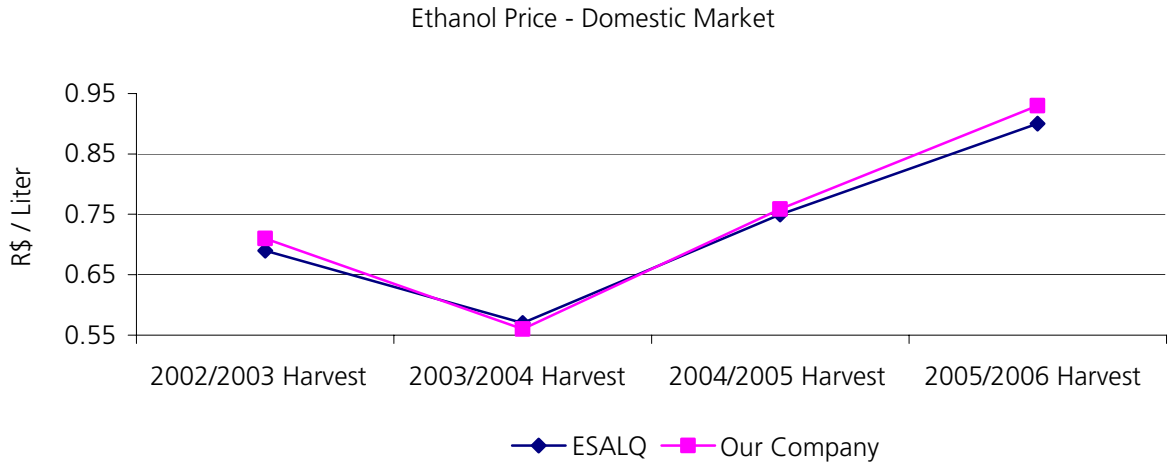
Source: CEPEA.

Ethanol

The price of ethanol in Brazil is determined by the market using indexes from ESALQ and BM&F. Daily prices are used as a reference for pricing spot transactions. Most export sales are made with payment due on delivery, with prices based on daily prices. Copersucar enters into short-term and long-term sales contracts, and payment of the sales price is generally supported by a letter of credit.

Currently, the ethanol export market is not significant. Export prices are determined based on supply and demand and on the export price of sugar. In May 2004, the New York Board of Trade began trading a futures contract for ethanol, known as the World Ethanol Contract. This contract currently has no liquidity. We believe that in the future, this contract will improve liquidity in the international ethanol market.

The following chart compares ethanol prices determined by CEPEA/ESALQ and the ethanol prices that Copersucar obtained during the periods indicated.



Source: CEPEA.

Customers

We currently deliver all of the sugar and ethanol that we produce to Copersucar. Copersucar has a wide variety of clients both in Brazil and abroad.

Sugar

In Brazil, Copersucar operates exclusively in the wholesale and industrial segment (with an estimated 30% market share). Most of Copersucar's Brazilian sugar clients are manufacturers of medicine, soft drinks, candy and chocolate, dairy products, cookies, powdered chocolate, jellies, juices and teas. Copersucar also sells sugar for refining and packaging. The soft drink market represents the largest segment, and constitutes approximately 20.0% of industrial sales. Currently, Copersucar has approximately 150 active clients in its domestic portfolio, 60 of which are parties to short-term contracts that generally represent approximately 50.0% of its total domestic sales volumes.

As most of Copersucar's domestic sugar sales are made in the wholesale market, its losses related to payment defaults are very low.

In the export market, Copersucar's clients are primarily major sugar refineries, which consume a significant amount of its sugar products. Copersucar exports sugar primarily to Africa, the Middle East, Russia and Canada.

For the year ended April 30, 2006, Copersucar's largest buyer represented approximately 20% of its total sales revenue from total sugar sales.

Ethanol

Copersucar's ethanol portfolio in Brazil consists of approximately 80 clients. Anhydrous ethanol represents the largest segment in the Brazilian market, representing over 40% of Copersucar's total net sales revenue from total ethanol sales. Copersucar sells ethanol directly to major fuel distributors in Brazil that are affiliated with the Brazilian Fuel and Lubricants Distribution Companies' Union (*Sindicato Nacional das Empresas Distribuidoras de Combustíveis e Lubrificantes*), and to smaller distributors. Copersucar also sells ethanol in Brazil to chemical and solvent manufacturers.

Copersucar is one of the world's largest ethanol exporters, operating primarily in the industrial and fuel segments. During fiscal year 2006, Copersucar's first and second largest ethanol clients represented 10.0% and 7.0% of its net sales revenue from total ethanol sales, respectively. Copersucar exports ethanol to the United States, the Caribbean, India, Japan, South Korea and Nigeria.

Although ethanol is sold primarily in Brazil, we believe that the ethanol export market has strong growth potential. We believe that the global trend toward the adoption of cleaner and renewable sources of energy and alternative fuel sources and the increasing use of flex-fuel vehicles will increase demand for ethanol. Increased global demand and use of ethanol as a fuel or gasoline additive may significantly increase demand for our exports.

For more information regarding Copersucar, see "—Copersucar."

Other Products and Activities

Sugarcane byproducts are biodegradable and not harmful to the environment. They are an important alternative energy source.

Bagasse and Co-Generation of Electricity

Sugarcane is composed of water, fibers, sucrose and other sugars and minerals. In the milling process, we separate water, sugar and minerals from the fibers, or bagasse. Sugarcane bagasse is an important sugarcane byproduct and used as fuel for the boilers in our mills. Sugarcane bagasse is burned and heats the water in the boilers to high temperatures, and the resulting vapor is used to produce sugar and ethanol. Part of the vapor is also canalized for a turbo-generator that produces electricity.

Currently, both our mills are self-sufficient during the harvest, generating all of the energy they consume. We sell excess bagasse as fuel for the production of steam and electricity to several companies, including orange juice producers, which are our major buyers.

Our total installed electricity generation capacity is 33MWh, most of which we use in our industrial operations. We are planning to install two steam boilers at our Boa Vista mill with an initial capacity to generate 62.0 Mwh of energy, sufficient to crush 3.0 million tons of sugarcane annually. We plan to increase the capacity of these boilers to 100.0 MWh, which is expected to generate approximately 70 mega-watts of electricity in excess of our internal needs, and which we may to sell to third parties at market rates. See "—Boa Vista Mill."

The main advantages of energy generated by burning sugarcane bagasse are set forth below:

- it is clean and renewable energy;
- it complements hydraulic energy (the main source of Brazilian energy), and it is generated during the harvest when water reservoirs levels are lower;
- there is a short period of time required to start operations; and
- a relatively small investment in transmission lines is required, as our mills are located close to consumer centers.

Energy generation has potential for growth, and we intend to make the necessary investments in all our mills when sufficient demand arises. Projected economic growth rates for Brazil suggest that investments in electric energy generation will be required as demand for electricity increases further. The Brazilian government has indicated that it plans to encourage the generation of electric energy from sugarcane bagasse.

Vinasse

Vinasse is the liquid that results from ethanol production after distillation. Vinasse is sprayed on the sugarcane fields to fertilize and irrigate them, which is equivalent to 15 millimeters of rain. Vinasse is rich in potassium and organic matter and, when applied on our crops, reduces the use of commercial fertilizers and increases the productivity of our sugarcane fields.

Filter Cake

Filter cake is also a sub-product from processing sugarcane. It is rich in phosphorous and nitrogen. In our mills, filter cake is turned into an organic material through controlled fermentation. This organic fertilizer is used in the planting and rejuvenation of sugarcane, significantly reducing our use of commercial fertilizers.

Yeast

We obtain yeast from the alcoholic fermentation of sugarcane juice. It has high protein and vitamin B contents and is widely used in the composition of animal and certain human foods. We currently sell yeast directly to customers in Brazil.

Ribonucleic Acid (RNA)

RNA production requires high technology, and therefore, RNA is a high value-added product. RNA is used in the pharmaceutical industry as a raw material and in the food industry as a flavor enhancer. Its main ingredient is molasses, a byproduct of sugar production.

OMTEK, which is integrated into our Iracema mill, produced approximately 381 tons of RNA and sold RNA at approximately US$20 thousand per ton during the 2005/2006 harvest. Our total production is exported to Mitsubishi Corporation in Japan.

Carbon Credits

The sale of carbon credits is only possible for mills that generate electricity for sale to third parties. Currently, neither our São Martinho mill nor our Iracema mill is eligible to sell carbon credits. However, we expect that our new Boa Vista mill to generate excess electricity that we will sell to third parties, thereby qualifying us to sell AAUs.

Copersucar

Copersucar is a private cooperative that was established in 1959 by 10 sugarcane mills in the state of São Paulo. Copersucar sells all of the sugar and ethanol products of and on behalf of its members. During the 2005/2006 harvest, Copersucar had 29 member sugarcane mills, which crush sugarcane and produce sugar and ethanol in the states of São Paulo, Minas Gerais and Paraná. Copersucar also had 91 associates, most of whom are controlling shareholders or directors and officers of one of the companies with one or more of their sugarcane mills as a member of Copersucar.

Copersucar's main activity is marketing and selling sugar and ethanol products on behalf of its members. All members of Copersucar are required to deliver all of the sugar and ethanol that they produce to Copersucar, and Copersucar issues a receipt showing the type and volume of products that were delivered. Copersucar sells the products that its members deliver to it at the time and for prices that it deems appropriate. Decisions regarding the production mix of each member are made prior to each planting season in consultation with Copersucar, which provides its members with market forecasts.

Copersucar's members store their sugar and ethanol products in storage tanks and warehouses that they are required to assign to Copersucar at no cost or obligation under a unilateral contract known as a *comodato*. Each member also pledges to Copersucar a portion of these credits payable to it by Copersucar as collateral for the member's delivery obligations. Although the production process requires approximately seven months (from harvest to finished products), Copersucar generally sells its members' products over an up to 12-month period reflecting the seasonality of inventory. By the end of November of each year, sugar and ethanol inventories generally correspond to 50% of total production.

As established in Copersucar's bylaws, the revenue generated from the sale of sugar and ethanol is reduced by administrative and selling expenses incurred by Copersucar and then allocated by Copersucar to each member in proportion to the amount of each sugar and ethanol product that such member delivered to Copersucar, independent of the quantity of products physically removed from each member's storage facilities, as most of the sugar and ethanol products produced by the members of Copesucar are fungible. In calculating the amount of credits to be allocated to each of its members, Copersucar adjusts the amount of such credits up or down based on the quality of the member's logistical facilities and production mix, based on criteria determined prior to every harvest by Copersucar's board of directors.

Copersucar issues detailed monthly reports specifying the amount of revenue and selling and other expenses allocated by Copersucar to each member, including the quantity of inventory (for accounting purposes) sold. Copersucar publishes audited annual financial statements for the fiscal year ended April 30 of each year.

Copersucar credits its members using a measure known as the "Unicop," which is a reference value that corresponds to the average price of a 50-kilogram sack of sugar during a particular period of measurement. During the 2006/2007 harvest, one liter of hydrous ethanol corresponded to 0.02937 Unicops, and one liter of anhydrous ethanol corresponded to 0.03172 Unicops, net of taxes.

Copersucar also offers a credit line to its members, corresponding to 80% of the member's accounts receivable owed to each member by Copesucar. Copersucar also limits to amount of indebtedness that any of its members may incur from it to 40% of the member's estimated total revenue for a particular fiscal year.

Copersucar does not record gains or losses with respect to the activities that it performs for its members. However, Copersucar does record gains and losses related to other ancillary services that it provides, such as port services, the results of which it apportions among its members. To facilitate its exports, Copersucar operates a sugar loading terminal and warehouses at the ports of Santos and Paranaguá, thereby offering its members enhanced loading options, lower costs and increased competitiveness.

In addition to marketing and selling sugar and ethanol for its members, Copersucar also enters into hedging transactions to protect its members against fluctuations in international sugar prices through Copersucar Trading AVV.

Copersucar's corporate structure consists of a board of directors, an advisory board, a fiscal council, an administrative committee, an audit and risk management committee and a board of executive officers. Currently, we have three shareholders that are members of Copersucar's board of directors (one of whom serves as its vice-chairman), two of our shareholders are members of Copersucar's administrative committee and one of our shareholders is a member of Copersucar's advisory board. One of our executive officers is also a member of Copersucar's fiscal council. All decisions of Copersucar's boards and committees are made based on unanimous vote.

Copersucar is:

- the cooperative entity that is the largest collective grower and processor of sugarcane in the world, the members of which collectively crushed 56.8 million tons of sugarcane during the 2005/2006 harvest;
- the cooperative entity that had the highest collective sales volume of sugar in Brazil, having sold 3.3 million tons of sugar during fiscal year 2006 (among the highest domestic sales volume in the world);
- the cooperative entity that had the highest collective export sales volume of sugar in the world, having exported approximately 2.4 million tons of sugar during fiscal year 2006 (representing approximately 5% of total worldwide sugar exports);
- the cooperative entity that had the highest collective sales volume of ethanol in Brazil, having sold 2,700 thousand cubic meters of ethanol during fiscal year 2006 (the second highest domestic sales volume in the world); and
- the cooperative entity that had the highest collective export sales volume of ethanol in the world, having exported 535.0 thousand cubic meters of ethanol during fiscal year 2006.

During fiscal year 2006, the sugar and ethanol that we delivered to Copersucar represented approximately 17.9% and 16.5%, respectively, of Copersucar's total sales volumes.

Operating Cost Structure

Our operating cost structure can be divided into costs that are linked to prices of our products and costs that are not so linked. Two of our principal cost components, raw materials and agricultural partnership agreements and land leases (which together account for approximately 34.7% of our combined operating costs and expenses) are linked to the prices of our products. As the cost of sugarcane and payments under our agricultural partnership agreements and land leases are linked to the wholesale prices of our products, we are protected from the effects of volatility in these costs on our results of operations. In addition, another relevant portion of our costs are represented by agricultural and industrial inputs, some of which are imported and which are also subject to price fluctuations primarily as a result of exchange rate variations. As the majority of our net sales revenue is derived from exports, a portion of the fluctuations related to these inputs is offset by similar fluctuations in our domestic and international prices, which in practice helps to eliminate the influence of this cost volatility on our results of operations.

Competition

The sugar and ethanol industry in Brazil has undergone great changes, beginning in 1990 when the Brazilian government liberalized sugar exports and peaking in 1999 when the Brazilian government deregulated sugar and ethanol prices. The sugar and ethanol industry in Brazil has experienced increased consolidation through mergers and acquisitions over the last several years. Most of these mergers and acquisitions involved companies and facilities located in the Center-South region of Brazil, one of the world's most productive sugar producing regions.

Despite this recent wave of consolidations, this industry remains highly fragmented with approximately 320 mills in operation. 29 groups in the Center-South region own 90 of these mills. We are one of Brazil's largest producers of sugar and ethanol. During the 2005/2006 harvest, we ranked second in sugarcane crushed, having crushed 9.7 million tons of sugarcane.

Due to distance and high logistical costs, we face little competition from sugarcane, sugar and ethanol producers located in the North-Northeast regions of Brazil.

The following table sets forth the number of mills, the amount of sugarcane crushed and the quantities of sugar and ethanol produced by us and our main Brazilian competitors during the 2005/2006 harvest.

	Number of Mills	Crushed Sugarcane (millions of tons)	Sugar Production (millions of tons)	Ethanol Production (thousand of cubic meters)
Cosan	17	34.7	2,926.2	1,128.1
Our company	2	9.7	597.3	439.9
Vale do Rosário	3	9.6	640.9	395.7
Zillo Group	3	7.9	489.8	379.0
Oscar Figueiredo	3	7.6	720.2	184.6
Guarani	3	6.9	726.0	139.5
Biaggi	3	6.7	265.3	402.8
Santa Elisa	2	6.6	372.3	334.7
Carlos Lyra	2	5.8	593.6	130.4
Santa Terezinha	4	5.3	569.1	100.4
José Pessoa	7	5.1	223.8	265.7

Source: UNICA.

We also face competition from international sugar producers. In addition, we face strong competition in highly regulated and protected markets, such as the U.S. and E.U. In addition, we face competition from alternative and artificial sweeteners, such as aspartame, saccharine and HFCS, with the exception of sugar byproducts, such as sucralose.

Intellectual Property

Trademarks

We have 12 trademarks registered with the National Intellectual Property Institute (INPI), along with seven pending trademark registration requests. Our main trademarks are: (i) São Martinho; (ii) Monte Sereno (which although we spun-off in connection with the Spin-Off, we retained ownership of this trademark); (iii) USM; (iv) Maxprotein; and (v) Protein Max. We have requested extensions of these trademarks from INPI. In addition, we have requested trademarks for São Martinho, SMG Agro Industrial, OMTEK and CIAO–Companhia Industrial e Agrícola Ometto.

We have challenged trademark requests from third-parties for the following trademarks: Mass Protein; USM; São Martinho; and K Komtekct. These challenges are currently being analyzed by INPI.

Patents

We have one patent registered with INPI for the "thermophilic anaerobic digestion of fluids," which is effective until October 10, 2014.

Research and Development

Harvest Monitoring

Since 1998, we have used software specially developed by third party consultants to monitor our harvests. This software includes a data base that stores detailed information regarding soil, climate, sugarcane variety and handling of each sugarcane field. Coupled with artificial intelligence, this software allows us to simulate the effects of changes in several variables on our production and assist us in maximizing our ATRs per hectare. We are one of the founding members of the Sugarcane Technology Center (*Centro de Tecnologia Canavieira – CTC*), or the CTC. With the help of the CTC, we also use satellite monitoring technology that helps us with harvest estimates.

Technology Center and other Technological Partnerships

Our engineers and technicians use the CTC to research and develop new technologies for our agricultural, logistical and industrial activities. The CTC also helps in the development of new sugarcane varieties. The CTC is a worldwide reference in technology for the sugarcane industry.

In partnership with the CTC, we have developed mechanized planting and harvesting equipment, as well as several technological developments to improve the overall production of sugarcane.

The CTC is funded by contributions made from its members. Contributions are based on the relative size of each member and are invested in research projects that are approved by a technical committee and the board of directors of CTC. All associates have preferential rights to acquire any products developed through this research. During fiscal year 2006, we contributed R$1.6 million to CTC, primarily to fund research related to new sugarcane varieties under different soil and climate conditions in the five principal sugarcane growing regions of the state of São Paulo.

We also entered into a partnership agreement with the Federal University of São Carlos – Campus (*Universidade Federal de São Carlos – UFSCAR)* and the Agronomical Institute of Campinas (*Instituto Agronômico de Campinas)*, or IAC, to develop new sugarcane varieties. We also analyze and develop different fertilizers, taking into account different soil types, to facilitate and enhance the growth of sugarcane. We share this technology with our sugarcane suppliers to enable them to improve the yields and quality of their sugarcane. We currently recycle all of our industrial and agricultural waste. We use our recycled waste as an alternative to replace and/or supplement our use of mineral fertilizers and commercial herbicides and to improve sugarcane growth and control pests and diseases. The leaves that remain after the sugarcane has been harvested mechanically form a protective cover over the crop, reducing evaporation and aiding in weed, pest and disease control. This protective cover of leaves as well as residue that remains decomposes into organic material over time, which increases the fertility of the soil. We also spray our sugarcane fields with vinasse, which serves as an organic fertilizer.

We analyze the chemical properties of our soil periodically. The work of our soils lab is reviewed periodically by the IAC. Based on this analysis, we identify needs for soil correction and crop treatment.

We also use natural predators to control pests and diseases in our sugarcane fields. These biological pest and disease control techniques are developed in two of our laboratories. In one of them, we breed a fungus (*beauveria bassiana*) that causes disease in various insects, including the sugarcane weevil, and another fungus (*metarhizium anisopliae)*, which works as a biological insecticide to control pests, including the sugarcane root spittlebug. In another laboratory, we breed wasps (*cotesia flavipes*) to control the sugarcane borer. These two laboratories are organized to meet the demands of our mills.

Governmental Regulations

The sugar and ethanol industries were heavily regulated by the Brazilian government until 1999. Prices of sugarcane, ethanol and sugar were established in accordance with federal law, and their production was controlled through centralized harvest plans established by the Brazilian government. In 1975, the Brazilian government implemented the Pro-Ethanol (*Pró-Álcool*) program, which created incentives for the production of ethanol-fueled vehicles and established ethanol prices.

The deregulation of the sugar and ethanol industries began with the promulgation of Brazil's Federal Constitution in 1988. In 1989, producers were authorized to directly export sugarcane under governmental supervision. In 1990, the federal government dissolved the Sugar and Ethanol Institute, an agency that controlled several aspects of sugar production and sales, including the preparation of harvest plans and the establishment of prices. In 1996, the government's harvest plans ceased to be compulsory and were used only for indicative purposes. In August 1997, the federal government created the Sugar and Ethanol Interministerial Council, which required that all gasoline sold must

be mixed with 20% to 25% anhydrous ethanol (currently 23%). From 1995 to 1999, government control of the prices of sugar and ethanol was gradually released, and sugar was permitted to be exported freely. The full deregulation of sugarcane prices occurred on February 1, 1999.

The sugar and ethanol industries are currently virtually unregulated, except for regulations regarding sugarcane burning, certain other environmental regulations and the mandatory mixture of anhydrous in all gasoline sold in Brazil. The imposition of price controls, any reduction in the mandatory percentage of ethanol required to be added to gasoline or any other change in the Brazilian government policy towards ethanol use could have a material adverse effect on our business. See "Risk Factors—Certain Factors Relating to Our Business and Industries—Government policies and regulations affecting the agricultural sector and related industries could adversely affect us."

Environmental Rules and Regulations

Scenario

We are subject to Brazilian federal, state and local laws and regulations governing the discharge of effluents and gas emissions into the environment, the handling and disposal of industrial waste, the preservation of wildlife in protected areas or otherwise relating to the protection of the environment.

Environmental Responsibility

In 1998, the Brazilian government enacted an environmental crimes law that imposes administrative and criminal penalties on corporations and individuals that commit environmental violations. Individuals (including corporate officers and directors) may be imprisoned for up to five years for environmental crimes. In the criminal sphere, penalties against corporations include fines, community service and certain other restrictions, including the cancellation of credit lines with governmental entities. At the administrative level, corporations found to be violating environmental laws may be fined up to R$50 million, an amount which may be doubled or tripled in the event of recidivism. Corporations may also have their operations suspended, be barred from entering into certain types of government contracts and lose certain tax benefits and incentives. Additionally, at the civil level, offenders may be required to repair or indemnify environmental damages they cause, as well as damages caused by third-party subcontractors.

Soil and ground water contamination was detected around fuel installations at our São Martinho plant during the 2005/2006 harvest. We invested R$460 thousand during the 2005/2006 harvest and in the beginning of the 2006/2007 harvest to remediate the contamination, and are awaiting final approval of this clean-up from *Companhia de Tecnologia de Saneamento Ambiental—CETESB*, or CETESB, the state pollution control and remediation agency.

Environmental Licensing

The Brazilian National Environmental Policy (*Política Nacional do Meio Ambiente)* requires that an environmental license to be obtained prior to engaging in any potentially polluting or environmentally damaging activities. We are required to obtain (and must maintain) environmental licenses to install and operate our sugarcane mills.

Except for activities that are subject to IBAMA's jurisdiction, Brazilian states have the authority to grant environmental licenses and to enforce environmental regulations and restrictions. The licensing authority for our activities in the state of São Paulo is CETESB, which has granted environmental licenses to us in respect of our São Martinho and Iracema mills. We have obtained all material environmental and other licenses, permits and authorizations that are required by our mills, and all such licenses, permits and authorizations are in full force and effect.

To obtain environmental licenses for activities that may have a significant impact on the environment, an environmental impact study and an environmental impact report are required. Parties requesting such study or report may be required to invest at least 0.5% of the total cost of the project in conservation areas to compensate for any environmental damage.

Permanent Preservation Areas

The Brazilian Forestry Code does not permit any type of land use in certain protected rural areas, including areas bordering streams and rivers and hill tops. Activities may only be undertaken in these areas, known as permanent preservation areas (APP), if they are determined to be in the public interest or not to adversely affect the environment. During fiscal years 2005 and 2004, we implemented a reforestation project on our land bordering streams and rivers, and we estimate that we planted more than 450 thousand trees in this APP. We do not undertake any activities in areas of our land that are located in APPs.

Legal Forestry Reserve

The Brazilian Forestry Code obligates us to maintain and register a legal forestry reserve in each of our rural landholdings covering at least 20% of the total area of such land, excluding APPs. In those properties where our legal forestry reserve does not meet the legal minimum, we are permitted under Provisional Measure No. 2166-67/01 to perform gradual reforestation of at least 1/10 of the total legal forestry reserve area every three years until 100% of the legal forestry reserve is restored or to offset non-contiguous land against the reserve requirement, including land that is jointly-owned in the form of a condominium, other land owned in the same hydrological region of the state, leased land that is subject to a preservation easement or servitude or ownership interests (quotas) purchased in preservation areas expressly created for this purpose. However, these alternatives may be adopted only if pre-approved by state regulatory authorities.

We are subject to similar restrictions in the State of Goiás, where our Boa Vista mill is expected to begin operations during the 2008/2009 harvest.

Our approved legal forestry reserve currently corresponds to 1.1% of our rural properties. Approximately 4.5% of our land is also made up of undeveloped forests, fields and others areas that we do not use to cultivate sugarcane. We believe that we may use these areas to offset the legal forestry reserve requirement. In September 2006, we (through Usina Boa Vista) acquired 574.3 hectares (or 1,419.1 acres) of land in the city of Quirinópolis, State of Goiás, 478.6 hectares of which we intend to designate as a legal forestry reserve.

In 2003, the attorney general of the state of São Paulo filed suit against us, seeking to enforce compliance with the legal forest reserve requirement on land that we own in and around Riberão Preto. We lost these proceedings in the first instance and as a result were ordered to constitute a legal forest reserve and were barred from benefiting from certain governmental tax incentives and from obtaining financing with government-owned financial institutions until we comply with this ruling. We appealed this decision to the Superior Court of São Paulo, which appeal remains pending. If we lose this suit, our results of operations or financial condition could be materially adversely affected. See "—Legal and Administrative Proceedings—Environmental Proceedings."

Conservation Units

Brazilian federal, state and local governments may also create environmental reserves, known as conservation units, in which permissible activity is restricted, such as national parks and environmental protection areas (*areas de proteção ambiental*), or APAs. There are no APAs in our areas.

Burning of Sugarcane

Law No. 11,241, of the State of São Paulo, dated September 19, 2002, requires the gradual reduction of sugarcane burning in the state of São Paulo. In areas that are suitable for the replacement of manual harvesting by mechanical harvesting of sugarcane, the law requires the reduction of the burning of sugarcane as follows: 20% of the harvested area in the first year (2002); 30% of the harvested area by the fifth year (2006); 50% of the harvested area by the tenth year (2011); 80% of the harvested area by the fifteenth year (2016); and 100% of the harvested area by the twentieth year (2021). In areas that, for technical reasons, do not allow for the replacement of manual harvesting by mechanical harvesting, the sugarcane burning must be reduced as follows: 10% of the harvested area by the tenth year (2011); 20% of the harvested area by the fifteenth year (2016); 30% of the harvested area by the twentieth year; 50% of the harvested area by the twenty-fifth year (2026); and 100% of the harvested area by the thirtieth year (2031).

Law No. 11,241 also prohibits sugarcane to be burned within (1) one kilometer of the border of urban areas, (2) 25 meters of telecommunication towers and (3) 15 meters of electrical transmission and distribution lines or state and federal road and railways. Law No. 11,241 requires sugarcane producers to give prior notice of their burning of sugarcane to the State Department for the Protection of Natural Resources (*Departamento Estadual de Proteção de Recursos Naturais*), or DEPRN, and to the owners of lands surrounding the area where the sugarcane will be burned.

Our highly mechanized harvest has allowed us to accelerate our compliance with the burning reduction targets established by the state of São Paulo. During the 2005/2006 harvest, 70% of our sugarcane was harvested mechanically, and only 30% of the sugarcane that we harvest was burned, as certified by the DEPRN. Accordingly, we do not believe that we will encounter any significant difficulties in eliminating our burning of sugarcane in full within the time frame by the state of São Paulo.

Plant, Property and Equipment

Our headquarters are located in the city of Pradópolis, state of São Paulo, and our principal executive offices are located in the city of São Paulo. Our properties consist primarily of sugarcane, sugar and ethanol production facilities and land on which we cultivate sugarcane. We also lease land on which we cultivate sugarcane.

The charts in "—Our Mills" show the primary products, annual production capacity and historical annual production of each of our mills. We believe that all of our production facilities are in good operating condition. As of October 31, 2006, our consolidated net book value of our property, plant and equipment was R$1,200.0 million, R$800.9 million of which consisted of land.

We have pledged approximately 70% of our properties (in an aggregate amount of R$142.8 million as of October 31, 2006) as security for the payment of our outstanding loans and other obligations.

Human Resources

As of October 31, 2006, we had 6,481 permanent employees and 331 temporary employees (who were contracted for the harvest). We hire new employees throughout the year, and offer our employees training to allow them to develop two skills: one for use during the harvest and the other for use between harvests.

We believe that we maintain a good relationship with our employees and the labor unions that represent them. We have only experienced a partial slowdown of our activities in July 2006 and July 2004 at our facilities located in Guariba and Leme, São Paulo, respectively. The slowdown in July 2006 lasted for seven days and involved approximately 900 workers from our facilities located in Guariba. These slowdowns, however, did not significantly affect us.

The collective bargaining agreements to which we are party have a one-year term and are subject to annual renewal at the end of each April (including annual salary adjustments) and are subject to changes in Brazilian law, especially minimum wage laws.

Benefits

We offer our employees (depending on their job description) a benefit package, including: (i) medical assistance; (ii) dental assistance; (iii) meal vouchers; (iv) a quantity of basic food staples, known as a *cesta básica*, established by the Brazilian government to feed a family of four for one month; (v) prescription drug discounts; (vi) hospitalization and out-patient care services for work related accidents; (vii) group life insurance; (viii) health insurance; (ix) sports hydration drinks; (x) transportation; (xi) flu vaccines; (xii) exercise facilities; (xiv) annual bonus equal to one month's salary; (xv) additional assistance for medical and dental exams and treatments not covered by health insurance; (xvi) salary advances; (xvii) powdered milk for children from 0 to 3 years old; (xviii) school supplies for children; and (xix) assistance for children with special needs.

Training Programs

In addition, we offer our employees several technical, behavioral and corporate training programs. We also provide scholarships and have created an incentive program, in partnership with city councils, to encourage our employees to continue their education by returning to school.

Social Programs

We support the following social programs:

"Cristo-Rei Community Center" (*Centro Social Comunitário Cristo Rei*) – in partnership with BNDES, this center is located in the City of Guairá and has been working for over 30 years with children and teenagers who are at risk. The center provides meals and has sports facilities and a computer workshop.

"ARIL – Child Rehabilitation Association of Limeira" *(Associação de Reabilitação Infantil Limeirense*) – this institution works with mentally and physically disabled people. Our company pays for the treatment of our employees' children who need special treatment and assists handicapped children in the community.

"*Telesalas"* – a partnership with the city council of Iracemápolis to create offsite educational facilities. In 2002, Fundação Bradesco became a partner of this partnership and, in 2003, the city council of Limeira became part of this project. Four offsite learning centers were built in Iracemápolis, two for grammar to middle school and two for high school, totaling 160 places for children of our employees and other community members. In Limeira, there are two offsite learning centers, totaling 80 places. We donated the buildings used by these facilities, as well as the equipment that they use. We also pay the teachers' salaries.

"City Theatre" *(Teatro na Cidade)* – this project brings culture to the communities in which our company operates. Between 2004 and 2006, more than 13,000 people, students and citizens from Iracemápolis, Pradópolis and Barinas benefited from this project. The project was created in accordance with the Federal Law for Culture Incentives (*Lei Federal de Incentivo à Cultura (Lei Rouanet)*).

"Young Entrepreneur Program" (*Programa Jovem Empreendedor*) – developed in partnership with the Institute for the Development of Limeira (IDELI) (*Instituto de Desenvolvimento de Limeira*) and Junior Achievement. Our company sponsors 30 students to attend the João Ometto State School (*Escola Estadual João Ometto*) each year, with the objective of encouraging entrepreneurism. Our employees volunteer as monitors and supervisors in this project.

"Projov" and "Patrulheiros" – developed in partnership with the Association for the Assistance and Protection of Minors in Pradópolis (AAPMP - *Associação de Amparo e Proteção ao Menor de Pradópolis*) and the Association of Mother Patrols of Iracemápolis (AOMP – *Associação Oficina Mãe Patrulheiros de Iracemápolis*), we hire 16 to 18 year-old teenagers to provide in administrative services. These teenagers may later be permanently hired by our company through a selection process up to one year after their 19th birthday.

Insurance

As of October 31, 2006, we had insurance covering (1) the vehicles used by our officers and directors, with all risks coverage and (2) other vehicles and buses, with collision coverage and third party coverage. These insurance policies have coverage limits of between R$40,000 and R$600,000, including coverage of damage to the chassis when applicable. We also have insurance covering our (1) real property and their contents, including furniture, equipment, machinery, raw materials and inventory stored therein and (2) agricultural machinery and related civil liabilities arising from the operation thereof. These insurance policies have coverage limits of up to R$213.9 million. We also maintain separate insurance policies that covers our tractors and mechanized harvesters, up to a limit of R$46.3 million. We do not have insurance that covers our planted sugarcane prior to harvesting.

We do not anticipate having any difficulties in renewing any of our insurance policies and believe that our insurance coverage is reasonable in amount and consistent with industry standards applicable to sugar and ethanol companies operating in Brazil.

Legal and Administrative Proceedings

We are engaged in several legal proceedings, including tax, labor, civil, environmental and other proceedings, for which we have established provisions in an aggregate amount of R$88.8 million and have made judicial deposits in an aggregate amount of R$21.6 million as of October 31, 2006. In addition, there are currently certain legal proceedings pending in which we are involved for which we have not established provisions. If any of these proceedings is decided adversely to us, our results of operations or financial condition could be materially adversely affected.

Tax Proceedings

As of October 31, 2006, we were involved in 122 judicial and administrative tax proceedings. We are plaintiffs in 70 of these proceedings. We have assessed our estimated exposure in respect of these proceedings as approximately R$104.0 million (based on lawsuits for which we classify our risk of loss as probable or possible). As of October 31, 2006, we have established provisions in an aggregate amount of R$42.8 million, R$3.1 million of which we have deposited with the court.

Compensation of Tax Losses. Brazilian federal tax authorities filed three lawsuits against us, claiming that we offset more than 30% of our net income in 1997 and 1998 with corporate income tax (*Imposto de Renda da Pessoa Jurídica* – IRPJ) credits (in an aggregate amount of R$10.1 million and R$19.1 million, respectively) and social contribution tax credits (in an aggregate amount of R$8.4 million). Although we have obtained a preliminary injunction that has suspended the effectiveness of these suits, we believe that it is likely that we will lose these suits.

Social Security Proceedings. The National Social Security Institute (*Instituto Nacional do Seguro Social*), or INSS, has filed four claims against us, seeking to collect social security taxes related to fiscal year 1997. Amounts paid were calculated based on Law No. 8.212/92, rather than Law No. 8,870/94, which established that agricultural workers' social security contributions would be based on the value of agricultural products, although urban workers' social security contributions would continue to be calculated based on salary amounts, and was ruled unconstitutional by the Brazilian Supreme Court in 1997. Based on this ruling, the federal tax authorities issued tax deficiency notices requiring us to

pay the difference between the salary amounts paid to agricultural employees and the value of gross revenue from sales of agricultural products, in an aggregate amount of R$28.1 million as of October 31, 2006. On September 15, 2003, Law No. 10,736 extinguished all debts of agricultural companies in favor of the National Social Security Institute based upon Law No. 8,870. However, as we believe that it is possible that we will prevail in these suits, we have not established a provision in respect of the same.

Tax on Distribution of Goods and Services - ICMS. The government of São Paulo filed tax proceedings against us for the payment of ICMS related to sales of goods not incorporated to our fixed assets; improper charging of ICMS from other companies and improper book-entry without the corresponding entry of goods in the company; alleged transfer of credits to Copersucar; and monetary adjustment registered in the ICMS Bookkeeping Registry (*Livro de Registro de Apuração de ICMS*). As of October 31, 2006, the aggregate amount corresponds to R$10.9 million. Based on the advice of our legal counsel, we believe a favorable ruling is possible.

Labor Proceedings

As of October 31, 2006, our total estimated exposure for labor proceedings was R$44.1 million. The following table shows the breakdown of these lawsuits.

	No. of Lawsuits	Estimated Exposure (in millions of *reais*)	Average Exposure per Lawsuit (in thousands of *reais*)
Our company	208	2.3	10.8
Usina São Martinho S.A.	1,123	41.8	37.3
Total	1,331	44.1	33.1

We calculated our total exposure based on our experience in similar lawsuits in the past. Accordingly, we have established provisions in the full amount of our total estimated exposure.

Civil Proceedings

As of October 31, 2006, we were engaged in 139 civil proceedings in the state courts, nine as plaintiffs and the remaining 128 as defendants.

Our total estimated exposure in these proceedings was R$7.2 million, and we have established a provision as of October 31, 2006 in an aggregate amount of R$1.9 million in respect of certain of these suits that we believe that we will lose. Claims against us in these suits include (i) compensatory and punitive damages for work-related illnesses and accidents; (ii) damages for breach of real estate purchase and sale agreements; and (iii) reimbursement of amounts not paid under group life insurance policies of employees and associates.

Environmental Proceedings

We are party to several administrative and judicial proceedings regarding our burning of sugarcane, which is part of the sugarcane harvesting process and the legal forestry reserve.

Lawsuits regarding the burning of sugarcane are based on different interpretations of the laws and regulations of this activity. São Paulo State Law No. 10,547, enacted on May 2, 2000, required companies to obtain prior authorization from the secretary for the environment (*Secretaria de Estado do Meio Ambiente*) or its designated agency to burn sugarcane. In order to implement this legislation, a state decree was required to be enacted, which did not occur until 2001. Nevertheless, the secretary of the environment interpreted the law as enforceable from the date of its enactment in May 2000 and imposed fines against all entities, including our company, that burned sugarcane without prior

authorization during the period between the enactment of State Law No. 10,547 and the implementing decree. Accordingly, as of October 31, 2006, we were party to 121 judicial proceedings (including 27 civil lawsuits to suspend sugarcane burning and 64 tax proceedings) and 26 administrative proceedings seeking the payment of fines in an aggregate amount of R$12.0 million. Some of these suits involve claims against us for fires set by third parties, whether accidentally or intentionally by arson. We believe that we will prevail in these proceedings and therefore, have not established a provision in respect of these proceedings. Currently, all matters regarding sugarcane burning in the state of São Paulo are governed by State Law No. 11,241/02. See "—Environmental Rules and Regulations."

As to issues regarding legal forestry reserves, the civil class action 018/2003, of the judiciary district of Riberão Preto, obliged us to constitute legal forestry reserve, suspended incentives and tax benefits given by public officials and banned credit lines until we comply with the ruling. We have appealed the ruling and are currently awaiting decision from the Superior Court of São Paulo. For more information regarding legal forestry reserves, see "—Environmental Rules and Regulations" in this section.

Other Proceedings

As of October 31, 2006, we were defendants in two civil lawsuits regarding the compulsory payment of up to 2% of our sugar and ethanol production to the Social Assistance Plan (*Plano de Assistência Social*), or PAS, established by the Ethanol and Sugar Institute (*Instituto do Álcool e do Açúcar*, or IAA), created by Law No. 4,870/1965. As we are not required to use PAS resources, we also believe that we are not required to contribute to PAS. We prevailed in one of these lawsuits, although the favorable decision may be appealed by the government. The other lawsuit remains pending. We believe that we will prevail in this litigation.

MANAGEMENT

Our board of directors (*Conselho de Administração)*, and our board of executive officers (*diretoria*) are responsible for the operation of our business. We are subject to the *Novo Mercado* rules, through the *Novo Mercado* Participation Agreement, executed on January 18, 2007 and our bylaws. Nevertheless, our controlling shareholders have the overall power to control us, including the power to establish our management policy. See "Principal and Selling Shareholders."

Board of Directors

Our board of directors consists of seven members, one of which is independent for purposes of the *Novo Mercado* rules. Our board of directors is a decision-making body responsible for, among other things, determining our business policies and guidelines, including our long term strategies and performance goals. Our board of directors also elects and supervises our executive officers and monitors the implementation of policies and guidelines established from time to time by our board of directors. Under Brazilian Corporation Law, our board of directors is also responsible for hiring our independent auditors.

In accordance with the rules of the *Novo Mercado,* the members of our board of directors are elected at general shareholders' meetings for a two-year terms and are eligible for reelection. The current members of our board of directors were elected at an extraordinary shareholders' meeting held on November 24, 2006, and their terms expire on March 31, 2008. Members of our board of directors are subject to removal at any time at a general shareholders' meeting.

Our board of directors ordinarily meets once a month and extraordinarily when a meeting is called by the chairman or any other members of our board of directors. The decisions of our board of directors require a quorum of a majority of the directors and are taken by majority vote. If the vote is tied, then a new meeting of the board of directors will be convened at which all directors must be present.

The following table lists the current members of our board of directors:

Name	Age	Position Held
Luiz Antônio Cera Ometto	71	Chairman
João Guilherme Sabino Ometto	66	Vice-Chairman
Nelson Ometto	75	Director
Murilo César Lemos dos Santos Passos	59	Director
Homero Corrêa de Arruda Filho	65	Director
Marcelo Campos Ometto	45	Director
Luiz Olavo Baptista	68	Director

The members of our board of directors and board of executive officers are not entitled to compensation if they are removed from their position, except for any payments due in respect of their services prior to their date of removal. We intend to implement a stock option plan for the members of our board of executive officers.

The following is a summary of the business experience and principal outside business interests of the current members of our board of directors.

Luiz Antonio Cera Ometto. Mr. Luiz Ometto is currently chairman of our board of directors and of the board of directors of Usina São Martinho S.A. He is also the chief executive officer of Santa Cruz S.A. – Açúcar e Álcool, Agro Pecuária Boa Vista S.A., Agropecuária Vale do Corumbataí, Luiz Ometto Participações S.A. and Companhia Agrícola Debelma, and an executive officer of Agropecuária

Cachimbo. Mr. Luiz Ometto was a former member of the board of directors of Copersucar and served as chairman of the board of directors of Cia. União dos Refinadores. He holds a bachelor's degree in agronomy from the University of São Paulo – Piracicaba. Mr. Luiz Ometto is the brother of Mr. Nelson Ometto, the uncle of Mr. Marcelo Ometto and the cousin of Mr. João Ometto. The business address of Mr. Luiz Ometto is Fazenda Santa Cruz, Américo Braziliense, Brazil, 14820-000.

João Guilherme Sabino Ometto. Mr. João Ometto is currently our chief executive officer and vice-chairman of our board of directors and chief executive officer of Usina São Martinho S.A. He also serves as deputy chairman of the board of directors of Omtek and Mogi Agrícola, and occupies executive positions in several business and industry associations. Before joining our company, Mr. Sabino Ometto held several positions in other companies in the sugar and ethanol industry, including as chief executive officer of Copersucar from 1991 to 1997, of which he is currently a member of the advisory board through 2009, and chief executive officer of UNICA from 1998 to 2000. Mr. João Ometto holds a bachelor's degree in mechanical engineering from the University of São Paulo – São Carlos. He is the cousin of Mr. Luiz Ometto. The business address of Mr. Sabino Ometto is Usina Iracema, Iracemópolis, Brazil.

Nelson Ometto. Mr. Nelson Ometto is currently a member of our board of directors. He is also a member of the board of directors of Copersucar, Usina São Martinho S.A. and Omtek. Mr. Ometto has extensive experience in the agricultural industry and was our managing director and an executive officer of Usina São Martinho. Mr. Ometto holds a bachelor's degree in industrial engineering, with a specialization in chemistry, from Mackenzie University. Mr. Nelson Ometto is the brother of Mr. Luiz Ometto and the cousin of Mr. Marcelo Ometto. The business address of Mr. Nelson Ometto is Usina Iracema, Iracemópolis, Brazil.

Murilo César Lemos dos Santos Passos. Mr. Passos is currently a member of our board of directors and of the board of directors of Usina São Martinho S.A. With over thirty years experience, he has been the managing director of Suzano Bahia Sul Papel e Celulose since 2001. Mr. Passos has held offices in several other companies, including Companhia Vale do Rio Doce, Celulose Nipo-Brasileira S.A. and Bahia Sul Celulose S.A. Mr. Passos holds a bachelor's degree in chemical engineering from the Federal University of Rio de Janeiro. The business address of Mr. Passos is Rua Melo Moraes FIlho, 264, Jardim Guedala, São Paulo, Brazil.

Homero Corrêa de Arruda Filho. Mr. Arruda Filho is our vice president. He has many years of experience in the sugar and ethanol industries and has served in several companies, among them as vice president of UNICA from 1997 to 2000 and managing director of Usina São Martinho. Mr. Arruda Filho holds a bachelor's degree in agronomy, with a specialization in plant nutrition, from the University of São Paulo – Piracicaba, and a bachelor's degree in business administration from the Business Administration University in Ribeirão Preto. Mr. Arruda Filho is married to the cousin of Mr. Marcelo Ometto and Mr. Nelson Ometto. The business address of Mr. Arruda Filho is Fazenda São Martinho, Pradópolis, Brazil.

Marcelo Campos Ometto. Mr. Marcelo Ometto is a member of our board of directors. He is also the agro-industrial officer of Usina São Martinho S.A. and the chief executive officer of Dimas Ometto Participações S.A. With extensive experience in the agricultural industry, he has served in many positions in Usina São Martinho S.A. and in other companies in the industry. Mr. Campos holds a bachelor's degree in business administration from the Business Administration University in Ribeirão Preto and completed several post-graduate courses in the area. Mr. Marcelo Ometto is the cousin of Mr. Nelson Ometto and the nephew of Mr. Luiz Ometto. The business address of Mr. Marcelo Ometto is Fazenda São Martinho, Pradópolis, Brazil.

Luiz Olavo Baptista. Mr. Baptista is a member of our board of directors and the senior partner of the L.O. Baptista Advogados. He has been a member of the board of appeals of the WTO since 2001 and a member of the International Arbitration Tribunal and of the Commission on International Trade

Practices of the International Chamber of Commerce since 1999. He has also served as an arbitrator for Mercosul since 1993. Mr. Baptista is a member of the board of directors of Vallourec S/A and a professor of International Trade Law. Mr. Baptista holds a doctorate's degree in international law from *Université Paris II* in France. The business address of Mr. Baptista is Avenida Paulista, 1294, 8th floor, São Paulo, Brazil.

Board of Executive Officers

Our executive officers are our legal representatives and are primarily responsible for managing our day-to-day operations and implementing general policies and guidelines set forth by our shareholders' meeting and our board of directors.

In accordance with the Brazilian Corporation Law, our executive officers must reside in Brazil, but they do not need to be shareholders of our company. No more than one-third of the positions of our board of directors may be fulfilled by the members of our board of executive officers.

Our executive officers are elected by our board of directors for one-year terms. Our board of directors may remove any executive officer from office at any time with or without a cause. The board of directors are responsible for determining the role of each of our executive officers.

Our bylaws require that our board of executive officers consists of a chief executive officer and between two and six additional executive officers, each responsible for a specific area of business. Positions may be held cumulatively, if permitted by our board of directors. Our board of executive officers currently consists of six members, all of whom were elected at a shareholders' meeting held on September 28, 2006, until the date of the shareholders' meeting to deliberate on our financial statements for the fiscal year ending March 31, 2007.

The following table lists the current members of our board of executive officers:

Name	Age	Position
João Guilherme Sabino Ometto	66	Chief Executive Officer
Homero Corrêa de Arruda Filho	65	Vice President
Ericson Aparecido Marino	64	Agri-Industrial Managing Director
Roberto Pupulin	54	Agricultural Officer
João Carvalho do Val	60	Chief Financial Officer and Investor Relations Officer
Nelson Marinelli	63	Administrative Officer

The following is a summary of the business experience and principal outside business interests of the current members of our board of executive officers that are not also members of our board of directors.

Roberto Pupulin. Mr. Pupulin has worked for our group for over 40 years. Since 2005, he has been our agri-industrial officer and the industrial officer of Omtek. Mr. Pupulin holds bachelors' degree in industrial chemistry and business administration from the University of Ribeirão Preto – UNAERP, and an MBA in finance from the Fundação Getúlio Vargas in Ribeirão Preto. The business address of Mr. Pupulin is Usina Iracema, Iracemópolis, Brazil.

Ericson Aparecido Marino. Mr. Marino has been the agri-industrial managing director of our company, Usina São Martinho S.A. and Omtek since 2002. He also serves as the vice president of Usina Boa Vista. He has also served as an executive officer of Grupo Votorantim Norte-Nordeste and a production manager of Grupo Cosan, among others. Mr. Marino holds a bachelor's degree in agronomy and a specialization in agricultural engineering from the University of São Paulo – Piracicaba. The business address of Mr. Marino is Usina Iracema, Iracemópolis, Brazil.

João Carvalho do Val. Mr. Carvalho has been our chief financial officer and director of investors relations, and the chief financial officer of Usina São Martinho S.A., Omtek and Usina Boa Vista since 2000. With extensive experience in the area, he served as managing director of João Ometto Participações S.A. from 1975 to 2005. Mr. Carvalho holds a bachelor's degree in mechanical engineering and an MBA from the University of São Paulo. The business address of Mr. Carvalho is Rua Geraldo Flausino Gomes, 61- 13º andar, São Paulo, Brazil.

Nelson Marinelli. Mr. Marinelli serves as the administrative officer for our company, Usina São Martinho S.A. and Omtek. He is also chief executive officer of Usina Boa Vista and has broad experience as a teacher and business consultant to several private companies. Mr. Marinelli holds a bachelor's degree in business administration from the University of Ribeirão Preto – UNAERP. The business address of Mr. Marinelli is Fazenda São Martinho, Pradópilos, Brazil.

Fiscal Council

Under Brazilian Corporation Law, the fiscal council (*conselho fiscal*) is a corporate body independent from the management of the company and its external auditors. The primary responsibility of the fiscal council is to review management's activities and the company's financial statements and to report its findings to the shareholders.

The fiscal council cannot include members of our board of directors or board of executive officers, or employees of, any company that we control or that is under our common control with our company, or spouses or relatives of any member of that company's management. In addition, each member of the fiscal council is entitled to receive as compensation an amount equal to at least 10% of the average amount paid to each executive officer, excluding benefits, allowances and share ownership.

The fiscal council is not a permanent body, and, whenever installed, must consist of three members, with an equal number of alternates. Under Brazilian Corporation Law, a fiscal council may be established at a shareholders' meeting upon the request of the shareholders who, in the aggregate, hold at least 2% of our share capital, as provided by the CVM Instruction No. 324, of January 19, 2000. As we have one majority shareholder or a group of controlling shareholders, shareholders holding at least 10% of our shares would have the right to elect one member to the fiscal council and his alternate. The remaining shareholders would have the right to elect one member in addition to the total members elected by the minority shareholders. We currently do not maintain a fiscal council.

Compensation

In accordance with our bylaws, our shareholders are responsible for establishing the aggregate compensation we pay to the members of our board of directors and of board of executive officers. If the compensation is globally determined, our board of directors is responsible for distributing amount among its members and the members of the board of executive officers.

In fiscal year 2006, the aggregate annual paid to the members of our board of directors and members of our board of executive officers was, approximately, R$2.0 million. For the current fiscal year, the aggregate compensation paid to the members of our board of directors and members of our board of executive officers will not exceed R$5.6 million. We also offer the members of our board of directors and our board of executive officers health insurance, workers' compensation, life insurance (in an aggregate amount of R$0.2 million, the cost of which is paid for in full by our company), a company car and a driver (for our chief executive officer only).

PRINCIPAL AND SELLING SHAREHOLDERS

As of the date of this offering memorandum, our share capital is comprised of 100,000,000 common shares, all registered and without par value. Each of our common shares entitles its holder to one vote at an annual or extraordinary shareholders' meeting (*assembléia geral ordinária ou extraordinária*). The chairman of our board of directors, Mr. Luiz Antônio Cera Ometto and his family, including the vice chairman of our board of directors and our chief executive officer, Mr. João Guilherme Sabino Ometto, and a member of our board of directors, Mr. Nelson Ometto, directly and indirectly own 88.8% of our common shares. The following table sets forth information concerning the ownership of our common shares as of the date of this offering memorandum and after giving effect to the offering by each person who owns more than 5% of our share capital and the selling shareholders (as a group).

	Prior to the Offering		After the Offering(2)	
Shareholders	**Number of Shares**	**%**	**Number of Shares**	**%**
Luiz Ometto Participações S.A. (1)	28,511,894	28.5	28,511,894	25.9
João Ometto Participações S.A. (1)	28,511,900	28.5	28,511,900	25.9
Nelson Ometto Participações S.A. (1)	12,159,718	12.2	12,159,718	11.0
Selling shareholders (as a group)	17,363,386	17.4	9,179,386	8.3

(1) 99.9% of the capital of these companies is owned by the shareholder after whom each such company was named, all of whom are members of our board of directors.
(2) Does not give effect to the exercise of the over-allotment option.

We have no management or employee option plans or management or employee options outstanding.

Set forth below is a list of the selling shareholders participating in the offering and the total number of shares owned and to be sold by such selling shareholders.

Selling Shareholder	**Total Shares Owned**	**Total Shares to be Sold(1)**
Mariangela Ometto Rolim	3,422,750	1,000,000
Francisco Pazelli Ometto	3,301,908	476,000
Orlando Correa da Silva Ometto	2,284,074	1,284,000
Eduardo Correa da Silva Ometto	2,284,074	1,284,000
Otávio Correa da Silva Ometto	2,284,074	1,284,000
Odila Ometto Lotufo	2,284,074	1,284,000
Luiz Olavo Baptista	1,678,912	678,900
Norma Mello Rossetti	1,678,912	678,900
Agenor Cunha Pavan	142,894	71,400
Thiago Cunha Pavan	142,894	71,400
Adriana Cunha Pavan	142,894	71,400
Total	17,363,386	8,184,000

(1) Does not give effect to the exercise of the over-allotment option.

Mogi Agrícola Shareholders' Agreement

In anticipation of the merger of Mogi Ltda. with and into Nova São José Ltda. on March 1, 2004 (which then changed its name to Mogi Agrícola S.A.), Usina São Martinho S.A., Marcelo Campos Ometto, Arthur Selegatto and Sattin S.A.–Administração e Participações, or Sattin, entered into a shareholders agreement in respect of their ownership interests in Mogi Agrícola on December 15, 2003 (as amended). This shareholders agreement provides that:

- each shareholder has a right of first refusal and an option to purchase any shares that another shareholder intends to sell to a third party;

- if Usina São Martinho S.A. receives an offer from an interested third party to purchase its shares in Mogi Agrícola, it can transfer all or part of its shares to such third party without first offering them to the other shareholders of Mogi Agrícola if Usina São Martinho and the third-party purchaser enter into an agricultural partnership agreement, a land lease agreement or a sugarcane supply agreement with a 20-year term;

- if Usina São Martinho S.A. decides to sell its Mogi Agrícola shares, Mr. Marcelo Campos Ometto shall have the right to exercise his purchase option in respect of these shares before any other shareholder of Mogi Agrícola;

- if Mr. Marcelo Campos Ometto decides to sell his Mogi Agrícola shares, Usina São Martinho S.A. shall have the right to exercise its purchase option in respect of these shares before any other shareholder of Mogi Agrícola;

- Mr. Marcelo Campos Ometto and Sattin have the right to convert any common shares purchased by a third party into non-voting preferred shares;

- if the third party purchaser later sells its shares in Mogi Agrícola, Usina São Martinho S.A. shall have the right to exercise its purchase option in respect of these shares before any other shareholder of Mogi Agrícola, which shall be reconverted to common shares at its option; and

- if Usina São Martinho S.A. does not exercise its purchase option in respect of shares sold by the third-party purchaser, Mr. Marcelo Campos Ometto will have the right to purchase these shares, and (if Mr. Marcelo Campos Ometto does not exercise his purchase option) then Sattin can exercise its purchase option.

RELATED PARTY TRANSACTIONS

We engage in related party transactions with certain of our affiliates, some of which are of a recurring nature. The current balance of these transactions refers exclusively to transactions with our controlled companies. Financial information with respect to certain material related party transactions is set forth in note 9 of our audited financial statements as of and for the six months ended October 31, 2006 and 2005 and note 7 of our consolidated financial statements as of and for the years ended April 30, 2006, 2005 and 2004 included elsewhere in this offering memorandum. The following summarizes the material transactions we engaged in with our principal affiliates during the period from May 1, 2004 through October 31, 2006.

Transactions with Shareholders

From time to time, we have entered into loan agreements with our shareholders. As of April 30, 2005, the outstanding balance of these loans totaled R$3.7 million. However, we repaid these loans in full as of April 30, 2006.

We lease agricultural land and purchase sugarcane from certain of our shareholders on market terms under agricultural partnership agreements and land lease agreements. As of October 31, 2006, we were party to 35 agricultural partnership agreements, 34 sugarcane supply agreements and six land lease agreements. These agreements are on terms equivalent to those we enter into with third parties. Under the agricultural partnership agreement and land lease agreements, we are required to pay the cash equivalent equal to the price of a portion of the sugarcane that we harvest on this land. The cash price to be paid for sugarcane under all of these arrangements is calculated in accordance with certain regulations of CONSECANA.

In addition to these recurring transactions, on September 28, 2006, our controlling shareholders contributed all of the remaining share capital of Usina São Martinho S.A. to our company as part of the São Martinho Capital Contribution.

Recurring Transactions with Subsidiaries

We enter into interest-bearing loan agreements with our subsidiaries. In accordance with Brazilian GAAP, we do not account for these funds received from or lent to our subsidiaries in our consolidated financial statements. As of October 31, 2006, we had outstanding related party debt in an aggregate amount of R$11.3 million, accruing interest at 100% of CDI per year, and outstanding related party receivables in an aggregate amount of R$4.4 million, which also accrue interest at 100% of the CDI per year.

R$10.0 million of our outstanding related party debt as of October 31, 2006 related to a loan that we incurred from Usina São Martinho S.A. on February 1, 2006 payable, which we paid in full on December 31, 2006.

Our outstanding related party receivables primarily relate to two loans that we made to Omtek, in an aggregate principal amount of R$3.0 million. Omtek repaid both of these loans in full on December 31, 2006.

Usina São Martinho S.A. has received the following loans from Omtek:

- a loan in an aggregate amount of R$7.1 million, accruing interest at 6.55% per annum and which matures in January 2007.
- a loan in an aggregate amount of R$6.9 million, accruing interest at 6.55% per annum and which matures in January 2007; and
- a loan in an aggregate amount of R$3.0 million, accruing interest at 100% of CDI, which Usina São Martinho S.A. paid in full in December 2006.

DESCRIPTION OF SHARE CAPITAL

Set forth below is a summary of certain significant provisions of our bylaws, Brazilian Corporation Law and the rules and regulations of the CVM and the Novo Mercado. This description does not purport to be complete and is qualified by reference to our bylaws, Brazilian Corporation Law and the rules and regulations of the CVM and the Novo Mercado. In Brazil, bylaws (estatuto social) are the principal governing document of a corporation (sociedade por ações). As long as our shares are listed on the Novo Mercado, we may not issue preferred shares. In order to delist from the Novo Mercado, we must conduct a public offering for the purchase of our common shares. See "—Delisting from the Novo Mercado."

General

We are currently a privately held corporation (*sociedade por ações de capital fechado*) incorporated under the laws of Brazil. After the approval by the CVM of our listing as a public company and the registration statement for our public offering in Brazil, we will be a publicly held corporation (*sociedade por ações de capital aberto*). After the CVM and the BOVESPA approve the registration statement for this offering, and after the public announcement of this offering in Brazil, our shares will be eligible for trading in the *Novo Mercado* segment of the BOVESPA, and the listing rules of the *Novo Mercado* and some provisions of our bylaws will become enforceable against us.

Share Capital

As of the date of this offering memorandum, our capital stock was comprised of 100,000,000 common shares, all of which were fully subscribed and paid in. Our share capital was R$100.0 million. In accordance with our bylaws, our board of directors may increase our share capital up to the limit of our authorized capital, which is R$113.0 million, by issuing common shares without seeking specific shareholder approval. On November 24, 2006, our board of directors approved the issuance of our commons shares in connection with this offering. Our shareholders must approve any capital increase above that amount at a shareholders' meeting.

Corporate Purpose

In accordance with article 3 of our bylaws, our corporate purpose is to:

- process sugarcane that we cultivate or purchase from suppliers, manufacture and sell sugar, ethanol and its byproducts and cogenerate power;
- agribusiness;
- import and export assets, products and raw materials; and
- hold equity interests in other companies.

Rights of Common Shares

Under the Brazilian Corporation Law and our bylaws, each of our common shares entitles its holder to one vote at an annual extraordinary shareholders' meeting. In accordance with our bylaws and the terms of our agreement to participate in the *Novo Mercado*, holders of our common shares are entitled to dividends or other distributions made in respect of our common shares in proportion to their ownership of our outstanding shares. See "—Payment of Dividends and Interest Attributable to Shareholders' Equity" for a more complete description of payment of dividends and other distributions on our

common shares. In addition, upon our liquidation, holders of our common shares are entitled to a return of capital in proportion to their share of our net shareholder's equity, after the payment of our liabilities. Holders of our common shares are not obligated to subscribe to future capital increases; however, they are entitled to preemptive rights to subscribe to new shares as provided by Brazilian Corporation Law.

Meetings of Shareholders

Pursuant to Brazilian Corporation Law, our shareholders are generally empowered at our shareholders' meetings to take any action relating to our corporate purposes and to pass resolutions that they deem necessary. Shareholders at our annual shareholders' meeting have the exclusive right to approve our financial statements and to determine the allocation of our net profits and the distribution of dividends with respect to the fiscal year that most recently ended. The election of the members of our board of directors typically takes place at the annual shareholders' meeting. Members of our fiscal council may be elected at any shareholders' meeting.

An extraordinary shareholders' meeting may be held concurrently with the annual shareholders' meeting and at other times during the year. The following actions, among others, may be taken only at a shareholders' meeting:

- amendment of our by-laws;
- election and dismissal, at any time, of the members of our board of directors and of our fiscal council;
- approval of management accounts and our audited financial statements;
- authorization of issuance of debentures, except as established in Brazilian Corporation Law;
- granting of share bonuses;
- approval of share splits;
- approval of stock option plans or the subscription of shares by our management and employees and by management and employees of our subsidiaries;
- suspension of the rights of a shareholder who has violated Brazilian Corporation Law or our bylaws;
- acceptance or rejection of the valuation of in-kind contributions offered by a shareholder in consideration for issuance of shares of our share capital;
- approval of our transformation, merger, incorporation, spin-off or any dissolution or liquidation, and the appointment and dismissal of a liquidator and review of the reports prepared by the liquidators;
- authorization to petition for bankruptcy or file a request for judicial or extra-judicial recovery;
- authorization to amortize and/or redeem our shares;
- reduction of the percentage of mandatory dividends;
- participation in a centralized group of companies;
- change in our core business or corporate purpose;
- approval of the cancellation of any voluntary liquidation;

- approval to delist from the *Novo Mercado* and the BOVESPA;
- selection of a financial institution from a list submitted by our board of directors in case of a mandatory tender offer; and
- settlement of failure in our bylaws, provided the provisions of the Brazilian Corporation Law are followed.

According to Brazilian Corporation Law, neither a company's bylaws, nor actions taken at a shareholder's meeting may deprive a shareholder of any of the following rights:

- to participate in the distribution of profits;
- to participate equally and ratably in any remaining residual assets in the event of the Company's liquidation;
- preemptive rights in the event of subscription of shares, convertible debentures or warrants, except in some specific circumstances under Brazilian law described in "—Preemptive Rights";
- to inspect and monitor, in accordance with Brazilian Corporation Law, the company's management and business; and
- to withdraw from the company in the cases specified in Brazilian Corporation Law, which are described in "—Withdrawal Rights."

Quorum

As a general rule, the Brazilian Corporation Law provides that the quorum for our shareholders' meetings consists of shareholders representing at least 25.0% of our issued and outstanding voting capital on the first call and, if that quorum is not reached, any percentage on the second call. If our shareholders meet to amend our bylaws, a supermajority quorum of shareholders representing at least two-thirds of our issued and outstanding voting capital shall be required on the first call, and any percentage will be sufficient on the second call.

In most cases, the affirmative vote of shareholders representing at least the majority of our issued and outstanding common shares present in person or represented by proxy at a shareholders' meeting is required to ratify any proposed action, and abstentions are not taken into account. However, the affirmative vote of shareholders representing not less than one-half of our issued and outstanding common shares is required to, among other measures:

- reduce the amount of mandatory dividends to be distributed to our shareholders;
- change our corporate purpose;
- merge or consolidate our company into another company;
- spin-off of our assets or liabilities;
- approve our participation in a group of companies;
- approve the cancellation of our liquidation;
- approve our dissolution; and
- approve the merger of all of our shares into another Brazilian company.

As long as we are listed on the *Novo Mercado,* we may not issue preferred shares or founder's shares, and in order to delist from the *Novo Mercado* and register for trading outside the *Novo Mercado,* our controlling shareholder must conduct a public offering for the purchase of the common shares of other shareholders. See "—Delisting from the *Novo Mercado.*"

Notice of our Shareholders' Meeting

According to the Brazilian Corporation Law, notice of each of our shareholders' meetings must be published at least three times in the *Diário Oficial do Estado de São Paulo,* the official newspaper of the State of São Paulo, and in another widely circulated newspaper, currently the Brazilian newspaper *Gazeta Mercantil*. The first notice must be published no later than 15 days before the date of the meeting on the first call (unless the meeting will deliberate concerning a going private transaction, in which case notice must be published no later than 30 days before the date of the meeting), and no later than eight days before the date of the meeting on second call. In certain circumstances, the CVM, at the request of any shareholder and our company, may require that the first notice be published not later than 30 days prior to the meeting.

Location of our Shareholders' Meeting

Our shareholders' meetings take place at our headquarters at Fazenda São Martinho in Pradópolis, São Paulo. The Brazilian Corporation Law allows our shareholders to hold meetings in another location in the event of *force majeure,* provided that the meetings are held in the City of São Paulo and the relevant notice includes a clear indication of the place where the meeting will occur.

Who May Call Our Shareholders' Meetings

Our board of directors may call a shareholders' meetings, but it may also be called by:

- any shareholder, if our board of directors fail to call a shareholders' meeting within 60 days after the date they were required to do so under the Brazilian Corporation Law;
- shareholders holding at least 5.0% of our share capital, if our directors fail to call a meeting within eight days after receipt of a justified request to call the meeting by those shareholders indicating the proposed agenda;
- shareholders holding at least 5.0% of our shares if our directors fail to call a meeting within eight days after receipt of a request to call the meeting for the creation of the fiscal council; and
- our fiscal council, if one is created, if the board of directors fails to call an annual shareholders' meeting. The fiscal council may also call a special shareholders' meeting if it believes that there are important or urgent matters to be addressed.

Conditions of Admission

Shareholders attending a shareholders' meeting must deliver proof of their status as shareholders and proof that they hold our shares they intend to vote at least two days prior to the shareholders' meeting.

A shareholder may be represented at a shareholders' meeting by a proxy appointed less than a year before the meeting, which proxy must be a shareholder, a corporate officer, a lawyer or a financial institution. An investment fund shareholder must be represented by its investment fund officer or a proxy.

Board of Directors

According to our bylaws, our board of directors must consist of seven members, at least 20% of which must be independent. Pursuant to Brazilian Corporation Law, shareholders bound by voting agreements representing more than 50% of voting shares will be entitled to appoint the same number of members appointed by the remaining shareholders plus one, regardless of the number of board members specified in our bylaws. Brazilian Corporation Law and applicable CVM regulations allow cumulative voting for directors at the request of at least 10% of our company share capital. Should this occur, each share will be granted as many votes as there are seats on the board, and each shareholder will have the option to cast his or her votes for one or more candidates.

Under CVM Instruction No. 282, of June 26, 1998, the minimum percentage of voting shares required for cumulative vote in publicly-held companies may be decreased, depending on the amount of share capital. The current amount of our share capital allows shareholders representing 6% of our share capital to require that cumulative voting be used to elect the members of our board of directors.

If there is no request for cumulative voting, directors are elected by a majority of our common shares present in person or represented by proxy at a shareholders' meeting, except that any shareholders that, individually or in the aggregate, hold at least 10% of the common shares have the right to elect one director and alternate. The members of our board of directors are elected at the annual shareholders' meeting for a period of 2 years.

Brazilian Corporation Law requires that each director own at least one share of our company. There is no mandatory retirement age for directors.

The Rules of the *Novo Mercado* define as "independent" any member of the board of directors who: (i) has no connection to us except for ownership of our shares; (ii) is not our controlling shareholder or the spouse or direct relative of any of our controlling shareholders and is not, and has not been over the last three years, connected to any company linked to our controlling shareholder (except due to relations with public schools or research institutions); (iii) has not been an employee or officer of us, our controlling shareholder or a company controlled by us over the last three years; (iv) was not a direct or indirect supplier or purchaser of products and/or services provided by us; (v) was not an employee or director of any company or entity that is offering or demanding products and services from us; and (vii) did not receive other form of remuneration from us, other than compensation paid to directors (cash dividends excluded).

Transactions in Which Directors Have a Conflict of Interest

The Brazilian Corporation Law prohibits a director from:

- performing any act of generosity using corporate assets to the detriment of the corporation;
- by virtue of his or her position, receiving any type of direct or indirect personal advantage from third parties without authorization in the bylaws or from a shareholders' meeting;
- borrowing money or property from us or using our property, services or credits for the director's own benefit, for the benefit of a company in which the director has an interest or of a third party, without the prior approval of the shareholders' meeting or our board of directors;
- taking part in any corporate transaction in which he or she has an interest that conflicts with an interest of the corporation, or in the decisions made by other directors on the matter;
- using, for the directors own benefit or for the benefit of third parties, commercial opportunities made known to them by virtue of their position with our company;

- failing to exercise or protect our rights or, for the purposes of obtaining benefits of their own or third parties, missing business opportunities for us; and

- purchasing, for resale, assets or rights known to be of interest to us or necessary for our activities, or that we may intend to acquire.

Annual compensation for our board of directors is determined by our shareholders at the annual shareholders' meeting.

Allocation of Net Income and Distribution of Dividends

Calculation of Distributable Amount

At each annual shareholders' meeting, the board of directors is required to recommend how to allocate our net profits for the preceding fiscal year. This allocation is subject to deliberation by our shareholders. The Brazilian Corporation Law defines "net profits" for any fiscal year as net income after income and social contribution taxes for that fiscal year, net of any accumulated losses from prior fiscal years and any amounts allocated to employees' and management's participation in our net profits in such fiscal year.

In accordance with the Brazilian Corporation Law, our bylaws provide that an amount, known as the distributable amount, equal to 25.0% of our net profits, as further reduced by amounts allocated to our profit reserve and contingency reserves (if any), and increased by any reversals of the profits reserves (except for amounts allocated to our legal reserve and statutory reserve (if any)) and reserve for contingencies (if any) should be available for dividend distributions or payment of interest on capital in any particular year, which correspond to the mandatory dividends. Our calculation of net profits and allocations to reserves for any fiscal year are determined on the basis of our unconsolidated financial statements prepared in accordance with the Brazilian Corporation Law.

Reserve Accounts

As of October 31, 2006, we had a legal reserve in an aggregate amount of R$1.7 million and a revaluation reserve in an aggregate amount of R$779.7 million. In accordance with Brazilian Corporation Law, companies customarily establish two reserve accounts: a reserve for profits and a capital reserve.

Profit Reserves. Profit reserves include a legal reserve, an unrealized profit reserve, a contingency reserve, a retained profits reserve, a statutory reserve and a special reserve for non-distributed mandatory dividends.

Legal Reserve. We are required to maintain a legal reserve, to which we allocate 5% of our net profits for each fiscal year until the amount of our legal reserve equals 20% of our paid in capital. However, we are not required to make any allocations to our legal reserve in a fiscal year in which our legal reserve, together with our capital reserves, exceeds 30% of our share capital. Net losses, if any, may be discounted from the legal reserve. The amount to be allocated to our legal reserve must be approved at the annual shareholders' meeting and can be used to absorb losses or increase our total capital. Therefore, the resources of the legal reserve are unavailable for the payment of dividends.

Unrealized Profit Reserve. Under the Brazilian Corporation Law, if the amount of the mandatory dividends distributable exceeds the "declared portion" of net profit for any particular year, the exceeding amount may be allocated to the unrealized profit reserve. Under the Brazilian Corporation Law, the declared portion of net profit is the amount by which our net profit exceeds the sum of (i) our net positive results, if any, from the equity method of accounting and (ii) the profit, gain or income obtained on transactions liquidate after the end of the following fiscal year. The profits registered in the unrealized profits reserve whenever declared and provided it has not been absorbed by losses of subsequent fiscal years, shall be added to the first dividend paid thereafter.

Contingency Reserve. Under the Brazilian Corporation Law, a portion of our net profits may be allocated to a contingency reserve for any anticipated loss that is deemed probable in future years. Any amount so allocated in a previous year shall be reversed in the fiscal year in which the loss had been anticipated if the loss does not occur as projected or charged off if the anticipated loss occurs.

Retained Profits Reserves. Under the Brazilian Corporation Law, the general shareholders' meeting may resolve to retain a portion of our net profits for the fiscal year, as provisioned in the capital budget that was previously approved by the meeting.

Revaluation Reserve. Any increase/decrease of assets (land, machinery and equipment), as a result of cost updating, up to the limit of its market value.

Capital Reserve. The capital reserve consists of: (a) the amount received by shareholders that exceeds the amount of the share capital, including the proceeds from the conversion into common shares of debentures or founders' shares; (b) the proceeds from the sale of founders' shares and warrants; (c) any premium received from the issue of debentures; and (d) donations and investment subsidies. Amounts allocated to our capital reserve are unavailable for the payment of distributions and are not taken into consideration for purposes of the mandatory distributable amount.

Payment of Dividends and Interest Attributable to Shareholders' Equity

The bylaws of a Brazilian company must specify a minimum percentage of profit available for distribution, which must be paid to shareholders as mandatory dividends, which are also payable as interest attributable to shareholders' equity. Our mandatory dividend percentage is 25% of our net profits after adjustments in accordance with Brazilian Corporation Law.

While we are required under Brazilian Corporation Law to pay a mandatory dividend each year, we may suspend the mandatory distribution if our management reports to our annual shareholders' meeting that the distribution is incompatible with our financial condition. Our fiscal council, if in operation, must review any suspension of mandatory dividends. In addition, our management would be required to submit a report to the CVM setting out the reasons for any suspension of dividends. Net profits not distributed, by virtue of a suspension are allocated to a special reserve and, if they are not absorbed by any subsequent losses, are required to be distributed as dividends, as soon as the financial condition of our company would permit their distribution. By decision of our board of directors, the mandatory distribution may be made in the form of interest attributable to shareholders' equity, which we may deduct when calculating our income tax and social contribution.

Dividends. We are required by Brazilian Corporation Law and our bylaws, to hold an annual shareholders' meeting no later than the fourth month following the end of each fiscal year at which, among other things, the shareholders must vote to declare an annual dividend. The annual dividend is calculated based on our unconsolidated audited financial statements prepared for the immediately preceding financial year.

Any holder of shares on the date on which the dividend is declared is entitled to receive dividends. Under Brazilian Corporation Law, dividends are generally required to be paid within 60 days of the declaration date, unless the shareholders' resolution establishes another date of payment, which, in any case, must occur before the end of the fiscal year in which the dividend is declared.

Our bylaws do not require that we index the amount of any dividend payment to inflation.

Each shareholder has a three-year period from the date of payment of dividends to claim dividends or interest payments paid with respect to its shares, after which the aggregate amount of any unclaimed dividends or interest payments with respect to its shares legally reverts to us.

Our board of directors may declare interim dividends to be deducted from the accrued profits recorded or the realized profits in our annual or semi-annual financial statements. In addition, our board of directors may decide to pay dividends from our net income based on an interim balance sheet, prepared as of the last working day of the month, within the limitations of applicable law. The interim dividends paid in any fiscal semester may not exceed the amounts accounted for in capital reserves. Any payment of interim dividends may be set off against the amount of mandatory distributions relating to the net profit earned in the year in which the interim dividends were paid.

Interest Attributable to Shareholders' Equity. Since January 1, 1996, Brazilian companies are permitted to pay interest to shareholders and treat those payments as a deductible expense for purposes of calculating Brazilian income tax and since 1998, for the purpose of social contribution tax. The amount of the deduction is limited to the greater of (1) 50% of net profit (after deduction of social contribution and before payment of any interest or any deduction for income taxes) relating to the period to which the payment is made and (2) 50% of our accumulated profits. The rate applied in calculating interest attributable to shareholders' equity cannot exceed the TJLP (*Taxa de Juros de Longo Prazo*), the Brazilian long-term interest rate, for the applicable period. The amount distributed to our shareholders as interest attributable to shareholders' equity, net of any income tax, may be included as part of the mandatory distribution. In accordance with applicable law, we are required to pay to shareholders an amount sufficient to ensure that the net amount they receive in respect of interest attributable to shareholders' equity, after payment of any applicable withholding tax, plus the amount of declared dividends is at least equivalent to the mandatory dividend amount.

Dividend Policy

The Brazilian Corporation Law and our bylaws require that we distribute annually to our shareholders a mandatory dividend of at least 25% of our net income.

We distributed dividends for fiscal years 2005, 2004, 2003, 2002 and 2001 in aggregate amounts of R$7.4 million, R$7.0 million, R$6.6 million, R$6.0 million and R$1.9 million, respectively.

Prior to the São Martinho Capital Contribution, our shareholders at a general shareholders' meeting held on September 28, 2006 approved the declaration of dividends in an aggregate amount of R$17.9 million in respect of fiscal year 2006 (R$4.4 million of which represented minimum dividends and R$13.5 million of which represented retaired earnings).

Withdrawal Rights

Shareholders who dissent from certain actions approved by our shareholders in a shareholders' meeting have the right to withdraw from our company and to receive the economic value of their shares.

According to Brazilian Corporation Law, a shareholder's withdrawal rights may be exercised in the following circumstances, among others:

- a spin-off (as described below);
- a reduction in the percentage of mandatory dividends;
- a change in our core business or corporate purpose;
- a merger with, or consolidation into, another company;
- our participation in a centralized group of companies, as defined in Brazilian Corporation Law; and
- the acquisition by us of the control of any company if the acquisition price exceeds the limits established in Brazilian Corporation Law.

However, under Brazilian Corporation Law, a spin-off will not trigger withdrawal rights unless, as a result:

- there is a change in our core business (or corporate purpose), except if the equity is spun off to a company whose primarily activities are consistent with our corporate purpose;
- there is a reduction in the percentage of our mandatory dividends; our
- we join a centralized group of companies, as defined in the Brazilian Corporation Law.

In cases where we merge with another company in circumstances in which we are not the surviving company; or participate in a centralized group of companies (as defined in the Brazilian Corporation Law), our shareholders will not be entitled to withdraw if our shares (1) are "liquid", which means that they are part of the BOVESPA Index or another traded stock exchange index, as defined by the CVM, and (2) are widely held, such that our controlling shareholders and their affiliates jointly hold less than 50% of our shares.

The right to withdraw expires 30 days after publication of the minutes of the relevant shareholders' meeting. We are entitled to reconsider any action giving rise to withdrawal rights for 10 days after the expiration of this period if we determine that the redemption of shares of dissenting shareholders would jeopardize our financial stability.

Any shareholder that exercises withdrawal rights is entitled to receive book value for its shares, based on our most recently audited balance sheet approved by our shareholders. If the resolution giving rise to the withdrawal rights is made more than 60 days after the date of our most recent balance sheet, a shareholder may request that its shares be valued in accordance with a new balance sheet dated no more than 60 days prior to the date of the resolution. In this case, we are obligated to pay 80% of the book value of our shares according to our most recent balance sheet approved by our shareholders, and the balance must be paid within 120 days after the date of the resolution of the shareholders' meeting that gave rise to the withdrawal rights.

Redemption

According to Brazilian Corporation Law, we may redeem our shares, if approved by shareholders representing at least 50% of our outstanding shares at an extraordinary shareholders' meeting. If all of our shares are not redeemed, the shares to be redeemed will be chosen through lots. If the value of the shares to be redeemed will be based on the economic value of our company, then the discounted cash flow method shall be used to value these shares.

Registration of Our Shares

Our common shares will be held in book-entry form with Banco Bradesco S.A., which will act as the custodian for our shares. Transfer of our shares will be carried out by means of book entry by Banco Bradesco S.A., which requires presentation of a written order of the transferor or a judicial authorization or order to effect such transfers.

Preemptive Rights

Except as described below, our shareholders have a general preemptive right to subscribe for shares in any capital increase according to the proportion of their shareholdings, except in the event of the grant or exercise of an option to acquire our shares or the conversion of debentures into our shares. The exercise of the preemptive right is permitted during a period of at least 30 days following the publication of notice of the capital increase, and the right may be transferred or otherwise disposed of for value. However, under Brazilian Corporation Law and our bylaws, our board of directors may exclude preemptive rights or reduce the exercise period with respect to the issuance of new shares, debentures convertible into our

shares and warrants up to the limit of our authorized share capital, if the distribution of those shares is effected through a stock exchange, through a public offering or through an exchange of shares in a public offering the purpose of which is to acquire control of another company.

Protection Against Hostile Takeover Attempts and Mechanism to Prevent Shareholder Concentration

Our bylaws contain provisions that have the effect of: (i) hindering takeover attempts of our company by requiring prior negotiation with our current controlling shareholders; and (ii) avoiding concentration of our common shares in the hands of a small group of investors and facilitating the maintenance of a widely-dispersed shareholder base. Accordingly, any shareholder (except our current controlling shareholders and certain other investors who may become our shareholders through certain transactions set forth in our by-laws) who holds equal to or greater than 10% of our outstanding shares must make a public offer to purchase all of our remaining shares at fair market value within 30 days of the date that this 10% threshold was first met. Fair market value must be assessed by an internationally known independent valuation firm with substantial experience in appraising listed companies, which shall be appointed by our shareholders at a shareholders' meeting from among a list of three qualified firms selected by our board of directors, in accordance with our bylaws. The permitted valuation methodologies include net book value, market capitalization, the discounted cash flow method, multiple comparisons, historical share prices or other methodologies approved by the CVM and in accordance with the Brazilian Corporation Law.

Restriction on Certain Transactions by Controlling Shareholders, Directors and Officers

Our controlling shareholders, members of our board of directors, executive officers and members of our fiscal council (if we eventually constitute a fiscal council) who are considered insiders under Brazilian securities regulations, must abstain from trading our securities under certain circumstances, including derivatives based on our securities, as follows:

- before the public disclosure of any material act or fact with respect to our business;
- if we intend to merge with another company, consolidate, spin-off all or part of our assets or reorganize;
- during the 15-day period prior to the disclosure of our quarterly and annual financial statements; or
- with respect to our controlling shareholders, members of our board of directors and executive officers, in the event of the acquisition or sale of our shares by us or the acquisition or sale of our shares by any of our controlled or affiliated companies or any other company under common control.

Restriction on Certain Transactions Outside our Corporate Purpose

Brazilian Corporation Law forbids us from extending or granting any financing, security interests or guarantees of any kind to third parties in connection with transactions that are outside the scope of our corporate purpose.

Arbitration

Any disputes or controversies involving our company, our controlling shareholders, our management or the members of our fiscal council (if we eventually constitute a fiscal council) and relating to the listing rules of the *Novo Mercado*, our bylaws, Brazilian Corporation Law, the rules published by the CMN, the CVM, the Central Bank and the BOVESPA regulations, and other rules applicable to the Brazilian capital markets in general, must be submitted to arbitration conducted in accordance with the Rules of the Market Arbitration Chamber established by the BOVESPA.

Going Private Process

We may become a private company if we or our controlling shareholders conduct a public offering for the acquisition of all our outstanding shares, subject to the following conditions:

- the price offered must be the fair value of our shares, as determined in accordance with a methodology approved by the CVM; and
- shareholders holding more than two-thirds of our outstanding shares must have expressly agreed to our decision to become a private company or accepted the offer to purchase; provided that for such purposes, outstanding shares refers only to those shares for which holders have expressly agreed to our decision to become a private company or accepted the offer to purchase.

According to the regulations of the *Novo Mercado* and our bylaws, the minimum price for the shares in the public offering to acquire the outstanding shares for the purposes of delisting must correspond to the economic value of those shares based on the discounted cash flow method, as determined in a valuation report prepared by a specialized and independent company of recognized experience, which will be chosen at a shareholders' meeting from a list of institutions presented by our board of directors. The selection of the institution requires the affirmative vote of a majority of our outstanding shares without counting blank votes. The minimum quorum for this shareholders' meeting is 20% for the first meeting convened, and if a minimum quorum is not obtained during such first meeting, then there is no minimum quorum requirement for any subsequent meetings. All of the expenses and costs incurred in connection with the preparation of the valuation report must be paid by the controlling shareholders.

Shareholders holding at least 10% of our outstanding shares may require our management to review the price offered for our shares, in which case our board of directors is required to call an extraordinary shareholders' meeting to determine whether to perform another valuation using the same or a different valuation method. This request must be made within 15 days following the disclosure of the price to be paid for our shares in the public offering. The shareholders who make such request as well as those who vote in its favor, must reimburse us for any costs involved in preparing the new valuation, if the new valuation price is not higher than the original valuation price. If the new valuation price is higher than the original valuation price, the public offering must be made at the higher price.

Delisting from the *Novo Mercado*

At any time, we may delist our shares from the *Novo Mercado,* provided that shareholders representing the majority of our voting share capital approve the action and that we give at least 30 days written notice to the BOVESPA. The notice must specify if the delisting will occur because the securities will be traded in a segment of BOVESPA other than the *Novo Mercado,* or because we are delisting from the BOVESPA generally. Our delisting from the *Novo Mercado* will not result in the loss of our registration as a public company on the BOVESPA.

If we delist from the *Novo Mercado,* in order for our shares to be tradable outside the *Novo Mercado,* our controlling shareholder must conduct a public offering for the acquisition of our outstanding shares within 90 days as of the delisting from the *Novo Mercado*, at a price per share equivalent to the economic value of those shares based on the discounted cash flow method, as determined in a valuation report prepared by a specialized and independent company of recognized experience, which will be chosen at a shareholders' meeting from a list of institutions presented by our board of directors. The selection of the institution requires the affirmative vote of a majority of our outstanding shares without counting blank votes. All the expenses and costs incurred in connection with the preparation of the valuation report must be paid by the controlling shareholders.

If our delisting from the *Novo Mercado* occurs as a result of our decision to go private, our controlling shareholders must follow the procedure applicable to going private. If we delist from the

Novo Mercado as a result of a corporate reorganization, in which the surviving company is not listed in the *Novo Mercado,* our controlling shareholders must, within 120 days following the date of the shareholders' meeting that approved the reorganization, conduct a public offering for the acquisition of the outstanding shares, at the economic value of these shares.

In the event of a change of our shareholding control within 12 months following our delisting from the *Novo Mercado,* the selling controlling shareholders and the acquirer must offer to acquire the remaining shares for the same price and terms offered to the selling controlling shareholders, adjusted for inflation. If our shares are delisted from the *Novo Mercado,* we will not be permitted to have shares listed on the *Novo Mercado* for a period of two years after the delisting date, unless there is a change in control in our company after this delisting.

Tag Along Rights

According to our bylaws, the sale of control by means of a single transaction or successive transactions, is subject to a condition subsequent, as the acquirer must agree to offer to purchase all shares of any remaining shareholders on the same terms and conditions granted to our controlling shareholders, within the time specified under Brazilian Corporation Law and the listing rules of the *Novo Mercado*.

The public offering is also mandatory when:

- there is an assignment for consideration of share subscription rights or other rights relating to securities convertible into our shares which ultimately results in the sale of our control;
- if our controlling shareholder is a company, the shareholding control of such company is transferred; and
- when an existing shareholder becomes a controlling shareholder, by means of entering into a private agreement for the purchase of our shares. In this case, the acquiring shareholder must effect the public offer for the acquisition of our remaining shares on the same terms and conditions applicable to the selling controlling shareholder and is required to indemnify those shares were bought on the BOVESPA within the six-month period preceding the date of sale of control. The amount of such indemnification is the difference between the amount paid for our shares of the selling controlling shareholder and the amount paid by investors in BOVESPA transactions, adjusted by the IGP-M.

The purchaser, if necessary, must take all actions required to maintain at least 25% of our shares in the market within six months.

We will not register (1) any transfer of our shares to any shareholder that upon such transfer will acquire control of our company or (2) any shareholders' agreement that relates to the exercise of control, unless in each case the controlling shareholder or the group of controlling shareholders executes a controlling shareholder's agreement as set forth in the listing rules of the *Novo Mercado* and in our by-laws.

Purchases of Our Shares by Our Company

Our bylaws entitle our board of directors to approve the acquisition of our shares or the issuance of options for the sale and purchase of our shares. The decision to acquire our shares or maintain the acquired shares in treasury or to cancel them may not, among other actions:

- result in a reduction of our share capital;
- require the use of resources greater than our retained earnings or reserves recorded in our most recent financial statements;

- create, directly or indirectly, any artificial demand, supply or share price condition, or use any unfair practice as a result of any action or omission; or
- be used to purchase shares held by our controlling shareholder.

We cannot hold in treasury more than 10% of our total outstanding shares, including our shares held by our subsidiaries and affiliates.

Any acquisition of our shares by our company must be made on the BOVESPA, rather than in a private transaction, unless prior approval for the acquisition is obtained from the CVM. We also may purchase our own shares for the purpose of going private. Moreover, we may acquire or issue put or call options related to our shares.

As of the date of this offering memorandum, we had no treasury shares.

Disclosure Requirements

Once we become a publicly held corporation, we will be subject to the reporting requirements established by Brazilian Corporation Law and the CVM. Also, as a result of our listing on the *Novo Mercado,* we will also be required to meet the information requirements set forth in the rules of the *Novo Mercado*.

Disclosure of Information

Brazilian securities regulations require publicly held corporations to furnish the CVM and BOVESPA with periodic information that includes our annual financial statements, quarterly financial statements, quarterly management reports and reports of our independent auditors. Brazilian securities regulations also require our company to file any shareholders' agreements and notices and minutes of shareholders' meetings with the CVM.

In addition to the disclosure requirements imposed by the CVM and Brazilian Corporation Law, we also must observe the following additional disclosure requirements:

- no later than six months following our listing on the *Novo Mercado,* we must disclose consolidated financial statements after the end of each quarter (except the last quarter of each year) and at the end of our fiscal year, including a cash flow statement which must indicate, at a minimum, the changes in our cash and cash equivalents, divided into operational, finance and investment cash flows;
- in the second year following our listing on the *Novo Mercado* we must, no later than four months after the end of the fiscal year: (1) release our annual financial statements in accordance with U.S. GAAP or IFRS in *reais* or U.S. dollars, which must be published in their entirety, in the English language, together with the management's reports, the explanatory notes which include our net revenue and shareholders' equity calculated at the end of such fiscal year, prepared in accordance with Brazilian GAAP as well as any dividend proposal and our independent auditors' report; or (2) publish, in the English language, the full financial statements, management reports and explanatory notes, prepared in accordance with Brazilian Corporation Law, accompanied by an additional explanatory note regarding the reconciliation of year-end results and shareholders' equity calculated in accordance with Brazilian GAAP and the U.S. GAAP or IFRS, as the case may be, which must include the main differences between the accounting principles used and by the independent auditors' report; and
- no more than 15 days following the term established by law for the publication of quarterly financial information, we must: (1) disclose, in its entirety, our quarterly financial information translated into the English language or (2) disclose our financial statements and consolidated financial statements in accordance with U.S. GAAP or IFRS, accompanied by the independent auditors' report.

Quarterly Information

In its quarterly financial information, in addition to the information pursuant to applicable legislation, our company as a listed company on the *Novo Mercado,* must also disclose:

(1) our consolidated balance sheet, consolidated income statement, and commentary on our consolidated performance, if we are obliged to disclose consolidated financial statements at year-end;

(2) any direct or indirect ownership interest exceeding five percent of our share capital, looking through to any ultimate beneficial owners;

(3) the number and characteristics of our shares held directly or indirectly by our controlling shareholders, members of our board of directors, our board of executive officers and our fiscal council;

(4) changes in the numbers of shares held by the controlling shareholders, members of our board of directors, our board of executive officers and our fiscal council, as to the number of shares held by them, in the immediately preceding 12 months;

(5) our cash flow statement, which must be included in our explanatory notes;

(6) the number of free float shares, and their percentage in relation to the total number of issued shares; and.

(7) the existence of an arbitration clause.

The information referred to in items (2), (3), (4), (5) and (7) shall be included in the Section "Other Relevant Information" in our quarterly reports, and the information referred to in items (3), (4) and (7) shall be included in the Section "Other Information Considered Important for a Better Understanding of the Company" in our annual reports.

We must attach to our quarterly reports a limited review report prepared by our independent auditors based in methodology approved by the CVM.

Disclosure of Trading by our Controlling Shareholders, Directors, Executive Officers or Members of our Fiscal Council

Brazilian securities regulations require our controlling shareholders, our management, members of our board of directors, our executive officers and members of our fiscal council, if constituted, and any other technical or consultative body to disclose to us, for our release to the CVM and to the BOVESPA, the number and type of shares issued by us, our subsidiaries and companies under our control that are listed, including derivative securities, that are held by each of them or by persons related to them, as well as any changes in their respective monthly ownership. Information regarding the acquisition of any shares must be provided to the CVM and to the BOVESPA within a period of 10 days of the end of the month in which these securities were traded. This information must contain:

- the name and qualification of the person providing the information;
- amount, price, type, and class and other characteristics of our shares or securities traded; and
- acquisition method (private transaction or stock exchange transaction).

If there are no changes in monthly positions, we also will advise the CVM and BOVESPA.

According to Brazilian securities regulation, if any of our shareholders or any other person or entity, individually or in a group of persons or entities sharing similar interests, increases participation in our

share capital by more than 5%, such person or entity must disclose to us, to the CVM and to the BOVESPA, the following information:

- name and qualification of the person providing the information;
- amount, price, type, and class and other characteristics of our shares or securities traded;
- acquisition method (private transaction or stock exchange transaction);
- the reasons and purpose for the transaction;
- information regarding any agreement relating to the exercise of voting rights or the purchase and sale of our securities; and
- the average price on the BOVESPA of the shares acquired during the 90-day period preceding the transaction.

Disclosure of Material Developments

According to Law No. 6,385, of December 7, 1976 and subsequent amendments, and the rules published by the CVM, we must disclose any material development related to our business to the CVM and to the BOVESPA and must publish a notice of the material development. A development is deemed to be material if it impacts the price of our securities, the decision of investors to trade in our securities or the decision of investors to exercise any rights as holders of any of our securities.

Under special circumstances, we may request confidential treatment of certain material developments from the CVM, when our management believes that public disclosure could result in adverse consequences for our company.

Trading on Stock Exchanges

After the CVM and the BOVESPA approve the registration statement for this offering, and after the public announcement of this offering in Brazil, our shares will be eligible for trading in the *Novo Mercado* segment of the BOVESPA, which is a non-profit entity owned by its member brokerage firms. Trading on the BOVESPA is carried out by member brokerage firms. The CVM and the BOVESPA have discretionary authority to suspend trading in shares of a particular issuer under certain circumstances.

Settlement of transactions on the BOVESPA occurs three business days after the trade date. Delivery of and payment for shares is made through the facilities of an independent clearinghouse. The clearinghouse for BOVESPA is the CBLC. The CBLC is the central counterparty for transactions effected on the BOVESPA, carrying-out multi-party settlement for financial obligations and securities transfers. Under the regulations of the CBLC, financial settlement is carried out through the Reserve Transfer System (*Sistema de Transferência de Reservas*) of the Central Bank. The settlement of trades of shares is carried out in the custodial system of the CBLC. All deliveries against final payment are irrevocable.

Public Meeting with Analysts

According to the rules of the *Novo Mercado,* at least once a year we are required to hold a public meeting with analysts and any other interested parties to disclose information concerning our relevant economic and financial situation, projects and prospects.

Annual Calendar

According to the rules of the *Novo Mercado,* we and our directors and executive officers must send to the BOVESPA and disclose to the public, by no later than the end of January of each year, an annual calendar setting forth our scheduled corporate events, including the scheduled events, the date and

time of such scheduled events, the date that notice is to be published and the date of remittance of the relevant document to the BOVESPA. Any changes to a previously disclosed annual calendar must be sent to the BOVESPA and disclosed to the public immediately.

Related Party Agreements

According to the rules of the *Novo Mercado*, we must send to the BOVESPA and disclose information regarding any and all agreements executed between us and our subsidiaries, affiliates, members of our board of directors and board of executive officers and controlling shareholders, or between us and companies controlled by or affiliated with the members of our board of directors and our board of executive officers, as well as agreements between us and other companies with which any of such parties make up one group, whether, in one single agreement or in successive agreements, with or without the same purpose, in any period during a year, where the amount involved in such agreement is equal to or greater than R$0.2 million or is equal to or greater than 1% of our shareholders' equity, whichever is the greater.

This disclosed information shall describe the purpose of the agreement, its term of duration, amount involved, and early termination conditions, as well as any influence that the agreement could have on our management or the operation of our business. For more information, see "Principal and Selling Shareholders" and "Related Party Transactions."

TRADING, SETTLEMENT AND CLEARANCE

General

We have applied to list and trade our common shares on the BOVESPA under the symbol "SMTO3." We expect our common shares to begin trading on the *Novo Mercado* segment of the BOVESPA on or about February 12, 2007. The BOVESPA will be our only trading market.

On January 18, 2007, we agreed to comply with heightened corporate governance and disclosure requirements established by the BOVESPA in order to qualify for a differentiated listing qualification as a company admitted to the *Novo Mercado*.

In 2000, the BOVESPA introduced three special listing segments, known as Level 1 and 2 of Differentiated Corporate Governance Practices and the *Novo Mercado*, aimed at fostering a secondary market for securities issued by Brazilian companies with securities listed on the BOVESPA, by prompting such companies to follow good corporate governance practices. The listing segments were designed for the trading of shares issued by companies voluntarily undertaking to abide by corporate governance practices and disclosure requirements in addition to those already imposed by Brazilian law. These rules generally increase shareholders' rights and improve the quality of information provided to shareholders.

To become a company within *Novo Mercado*, we agreed, among other things, to:

- issue voting shares only;
- ensure that shares representing 25% of our total capital are effectively available for trading;
- adopt offering procedures that favor widespread ownership of shares whenever making a public offering;
- comply with minimum quarterly disclosure standards and improvements in quarterly financial statements, including quarterly consolidated financial statements and limited audit revision;
- follow stricter disclosure policies with respect to transactions made by our controlling shareholder, directors and officers involving securities issued by us;
- submit any existing shareholders' agreements and stock option plan to BOVESPA;
- make a schedule of corporate events available to the shareholders and submit it to BOVESPA;
- disclose and periodically update a listing of any related party transactions;
- ensure that the same conditions provided to our controlling shareholder in the transfer of our company's control are extended to all of our shareholders (*i.e.*, tag-along rights);
- have a board of directors comprised of at least five members with a one-year term of office;
- prepare our financial statements in English, including cash flow statements, in accordance with international financial standards, such as U.S. GAAP or IFRS;
- adhere exclusively to the rules of the BOVESPA arbitration panel for conflict resolution between investors, management and *Novo Mercado* companies;
- hold public meetings with financial analysts to present our financial statements; and
- conduct a tender offer at a minimum price to be established based upon an independent appraisal if we ever decide to delist from *Novo Mercado*.

TAXATION

The following discussion addresses the principal Brazilian and U.S federal income tax considerations of acquiring, holding and disposing of the common shares.

U.S. Federal Income Taxation

The following summary describes the principal U.S. federal income tax consequences relating to the acquisition, holding and disposition of the common shares. This summary only applies to common shares held as capital assets and does not discuss all the tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as:

- financial institutions;
- insurance companies;
- tax-exempt organizations;
- real estate investment trusts;
- regulated investment companies;
- grantor trusts;
- persons that have a functional currency other than the U.S. dollar;
- persons that will own a common shares through partnerships or other pass through entities;
- persons who own 10% or more, by vote, of our common shares for U.S. federal income tax purposes;
- dealers or traders in securities or currencies;
- certain former citizens or long-term residents of the United States; or
- persons that will hold the common shares as a position in a "straddle" or as a part of a "hedging", "conversion" or other risk reduction transaction for U.S. federal income tax purposes.

Moreover, this description does not address the U.S. federal estate and gift tax or alternative minimum tax consequences of the acquisition, ownership or retirement of common shares. Each prospective purchaser should consult its tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, holding and disposing of common shares.

This description is based on the U.S. Internal Revenue Code of 1986, as amended (the "Code"), existing, proposed and temporary U.S. Treasury Regulations and judicial and administrative interpretations thereof, in each case as in effect and available on the date hereof. All of the foregoing are subject to change (possibly with retroactive effect) or differing interpretations which could affect the tax consequences described herein.

For purposes of this summary, a "U.S. Holder" is a beneficial owner of the common shares who for U.S. federal income tax purposes is:

- an individual citizen or resident of the United States;
- a corporation created or organized in or under the laws of the United States or any political subdivision thereof (including the District of Columbia);

- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if such trust validly elects to be treated as a U.S. person for U.S. federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over its administration and (2) one or more U.S. persons have the authority to control all of the substantial decisions of such trust.

A Non-U.S. Holder is a beneficial owner of common shares that is neither a U.S. Holder nor a partnership (or other entity that is treated as a partnership for U.S. federal income tax purposes).

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds the common shares, the tax treatment of a partner in such partnership will generally depend on the status of the partner and on the activities of the partnership. Such a partner or partnership considering the acquisition of common shares should consult its own tax advisor as to its tax consequences.

Persons considering the purchase of the common shares should consult their own tax advisors with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdictions.

U.S. Internal Revenue Service Circular 230 Disclosure

Pursuant to U.S. Internal Revenue Service Circular 230, we hereby inform you that the description set forth herein with respect to U.S. federal tax issues was not intended or written to be used, and such description cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on the taxpayer under the U.S. Internal Revenue Code. Such description was written to support the marketing of the common shares. Each taxpayer should seek advice based on their particular circumstances from an independent tax advisor.

Distributions

Subject to the discussion below under "—Passive foreign investment company considerations", the gross amount of any distribution made to you under the common shares, before reduction for any Brazilian taxes, including withholding taxes attributable to interest on equity, withheld therefrom, will be includible in income on the day on which the dividends are actually or constructively received by a U.S. Holder as dividend income to the extent such distributions are paid out of the current or accumulated earnings and profits of our company as determined under U.S. federal income tax principles.

Under current law, dividends received before January 1, 2011 by non-corporate United States investors on common shares of certain foreign corporations may be subject to U.S. federal income tax at lower rates than other types of ordinary income if certain conditions are met. Currently, we do not believe that dividends that we will pay on the common shares meet these conditions.

Dividends paid to U.S. Holders in *reais* will be includable in income in a U.S. dollar amount based on the exchange rate in effect on the date of receipt whether or not converted into U.S. dollars at that time. Assuming the payment is not converted at that time, the U.S. Holder will have a tax basis in *reais* equal to that U.S. dollar amount, which will be used to measure gain or loss from subsequent changes in exchange rates. Any gain or loss that a U.S. Holder recognizes on a subsequent conversion of *reais* into U.S. dollars (or other disposition) generally will be U.S. source ordinary income or loss. If dividends received in *reais* are converted into U.S. dollars on the day they are received, the U.S. Holder generally will not be required to recognize foreign currency gain or loss in respect of the dividend income.

Dividends paid to non-corporate U.S. Holders will not be eligible for the dividends received deduction generally allowed to corporate U.S. Holders. Subject to the discussion below under "—Passive foreign investment company considerations", to the extent, if any, that the amount of any distribution by our company exceeds our current and accumulated earnings and profits as determined under U.S. federal

income tax principles, it will be treated first as a tax-free return of the U.S. Holder's adjusted tax basis in the common shares and thereafter as capital gain. We do not maintain calculations of our earnings and profits under U.S. federal income tax principles. Therefore, U.S. holders should expect that distributions by our company generally will be treated as dividends for U.S. federal income tax purposes.

Dividends on the common shares received by a U.S. Holder will generally be treated as foreign source income for U.S. foreign tax credit purposes. Subject to limitations under U.S. federal income tax law concerning credits or deductions for foreign taxes and certain exceptions for short-term and hedged positions, a Brazilian withholding tax imposed on dividends would be treated as a foreign income tax eligible for credit against a U.S. Holder's U.S. federal income tax liability (or at a U.S. Holder's election, may be deducted in computing taxable income if the U.S. Holder has elected to deduct all foreign income taxes for the taxable year). The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific "baskets" of income. For this purpose, for taxable years beginning before January 1, 2007, the dividends on the common shares should generally constitute "passive income", or in the case of certain U.S. Holders, "financial services income", and, for taxable years beginning after December 31, 2006, the dividends should generally constitute "passive category income", or in the case of certain U.S. Holders, "general category income."

The rules with respect to foreign tax credits are complex, and U.S. Holders are urged to consult their own tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

Subject to the discussion below under "—Backup withholding tax and information reporting requirements", a Non-U.S. Holder of common shares generally will not be subject to U.S. federal income or withholding tax on dividends received on the common shares, unless such income is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States.

Sale or exchange of common shares

Subject to the discussion below under "—Passive foreign investment company considerations", a U.S. Holder generally will recognize gain or loss on the sale or exchange of the common shares equal to the difference between the amount realized (including the gross amount of the proceeds before the deduction of any Brazilian tax) on such sale or exchange and the U.S. Holder's adjusted tax basis in the common shares. The initial tax basis of the common shares to a U.S. Holder will be the purchase price determined on the date of purchase. Subject to the discussion below under "—Passive foreign investment company considerations", such gain or loss will be capital gain or loss. In the case of a non-corporate U.S. Holder, the maximum marginal U.S. federal income tax rate applicable to such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. Holder's holding period for such common shares exceeds one year (i.e., such gain is long-term capital gain). Gain or loss, if any, recognized by a U.S. Holder generally will be treated as U.S. source gain or loss, as the case may be. The deductibility of capital losses is subject to limitations under the Code.

A U.S. Holder that receives *reais* upon a sale or other disposition of the common stock will realize an amount equal to the U.S. dollar value of the *reais* on the date of sale or other disposition (or in the case of cash basis and if election made, an accrual basis taxpayers, on the settlement date). A U.S. Holder will have a tax basis in the *reais* received equal to that U.S. dollar amount. Any gain or loss realized by a U.S. Holder on a subsequent conversion of *reais* into U.S. dollars (or other disposition) generally will be U.S. source ordinary income or loss.

If any gain from the sale or exchange of common shares is subject to Brazilian tax, U.S. Holders may not be able to credit such taxes against their U.S. federal income tax liability under the U.S. foreign tax credit limitations of the Code since such gain generally would be United States source income, unless such tax can be credited (subject to applicable limitations) against tax due on other income treated as derived from foreign sources.

Subject to the discussion below under "—Backup withholding tax and information reporting requirements", a Non-U.S. Holder of the common shares generally will not be subject to U.S. federal income or withholding tax on any gain realized on the sale or exchange of such common shares unless:

- such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States; or
- in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale or exchange and certain other conditions are met.

Foreign Tax Credit for Brazilian Taxes

Except for Brazilian tax covered in the Section "Distributions", all other taxes covered in the "Brazilian Tax" Section (below) will not be creditable against U.S. federal income taxes.

Passive foreign investment company considerations

A non-U.S. corporation will be classified as a "passive foreign investment company", or a PFIC, for U.S. federal income tax purposes in any taxable year in which, after applying certain lookthrough rules, either (1) at least 75 percent of its gross income is "passive income" or (2) at least 50 percent of the average value of its gross assets is attributable to assets that produce "passive income" or are held for the production of "passive income." Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions.

Based on certain estimates of our gross income and gross assets and the nature of our business, we believe that we will not be classified as a PFIC for our taxable year ended April 30, 2006. Our status in future years will depend on our assets and activities in those years. We have no reason to believe that our assets or activities will change in a manner that would cause our company to be classified as a PFIC in its 2007 taxable year or in the future, but there can be no assurance that we will not be considered a PFIC for any taxable year. If we were a PFIC, a U.S. Holder of common shares generally would be subject to imputed interest charges and other disadvantageous tax treatment with respect to any gain from the sale or exchange of, and certain distributions with respect to, the common shares.

If we were a PFIC, a U.S. Holder of common shares could make a variety of elections that may alleviate certain of the tax consequences referred to above, and one of these elections may be made retroactively. However, it is expected that the conditions necessary for making certain of such elections will not apply in the case of the common shares. U.S. Holders should consult their own tax advisors regarding the tax consequences that would arise if we were treated as a PFIC.

Backup withholding tax and information reporting requirements

U.S. backup withholding tax and information reporting requirements generally apply to certain payments to certain non-corporate holders. Information reporting generally will apply to the distributions on, and to proceeds from the sale or redemption of, common shares made within the United States or by a U.S. payor or U.S. middleman to a holder of common shares, other than an exempt recipient, including a corporation, a payee that is not a U.S. person that provides an appropriate certification and certain other persons. A payor will be required to withhold backup withholding tax from any distributions on, or the proceeds from the sale or redemption of, common shares within the United States or by a U.S. payor or U.S. middleman to a holder, other than an exempt recipient, if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, such backup withholding tax requirements. The backup withholding tax rate is 28% for taxable years through 2010.

Backup withholding is not an additional tax. A U.S. Holder generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed such holder's U.S. federal income tax liability by filing a refund claim with the IRS. A U.S. Holder will be entitled to credit any amounts withheld under the backup withholding rules against your U.S. federal income tax liability provided the required information is furnished to the IRS in a timely manner.

The above summary is not intended to constitute a complete analysis of all U.S. federal income tax consequences relating to the ownership of common shares. Prospective purchasers of common shares should consult their own tax advisors concerning the tax consequences of their particular situations.

Brazilian Taxation

The following discussion summarizes the principal Brazilian tax consequences of the acquisition, ownership and disposition of our common shares by a holder that is not domiciled in Brazil for purposes of Brazilian taxation ("Non-Brazilian Holder"). This discussion is based on Brazilian law as currently in effect. Any change in applicable law may change the consequences described below.

The tax consequences described below do not take into account the effects of any tax treaties or reciprocity of tax treatment entered into by Brazil and other countries. The discussion also does not address any tax consequences under the tax laws of any state or locality of Brazil.

The description below is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, exchange, ownership and disposition of our common shares. Prospective purchasers of common shares are advised to consult their own tax advisors with respect to an investment in shares in light of their particular investment circumstances.

Income Tax

Dividends

Dividends paid by a Brazilian company, such as ourselves, including stock dividends and other dividends paid to a Non-Resident Holder are currently not subject to withholding income tax in Brazil, to the extent that such amounts are related to profits generated as of January 1, 1996.

Interest Attributable to Shareholders' Equity

Law No. 9,249, dated December 26, 1995, as amended, allows a Brazilian corporation, such as us, to make distributions to shareholders of interest on net equity and treat those payments as a deductible expense for purposes of calculating Brazilian corporate income tax and social contribution on profits as well, as far as the limits described below are observed. These distributions may be paid in cash. For tax purposes this interest is limited to the daily pro rata variation of the Brazilian long-term interest rate (TJLP), as determined by the Central Bank from time to time, and the amount of the deduction may not exceed the greater of:

- 50% of net income (after social contribution on profits and before the provision for corporate income tax and the amounts attributable to shareholders as net interest on equity) related to the period in respect of which the payment is made; and
- 50% of the sum of retained profits and profit reserves as of the date of the beginning of the period in respect of which the payment is made.

Payment of interest to a Non-Resident Holder is subject to withholding income tax at the rate of 15%, or 25% if the Non-Resident Holder is domiciled in a Tax Haven - that is, a country or location that does not impose income tax or where the maximum income tax rate is lower than 20% or where the laws of that country or location impose restrictions on the disclosure of shareholding composition or the ownership of the investment ("Tax-Haven Residents"). These payments may be included, at their net value, as part of any mandatory dividend. To the extent payment of interest on net equity is so included, the corporation is required to distribute to shareholders an additional amount to ensure that the net amount received by them, after payment of the applicable withholding income tax, is at least equal to the mandatory dividend.

Capital Gains

Gains related to disposition or sale of assets located in Brazil, such as the common shares, are subject to income tax in Brazil, regardless of whether the sale or the disposition is made by the Non-Resident Holder to a resident or person domiciled in Brazil or not.

As a general rule, gains realized as a result of a disposition transaction of common shares are the positive difference between the amount realized on the sale or exchange of the security and its acquisition cost. There is a controversy regarding the currency that should be considered for the purposes of determining the acquisition cost of the investment in Brazil. In sum, the controversy refers to whether the acquisition cost shall be determined based on the amount in foreign currency or the amount in local currency registered with the Brazilian Central Bank.

For purposes of taxation of gains earned in a sale or disposition of shares, two situations should be considered:

- gains earned by Non-Resident Holders registered under Resolution No. 2,689, other than Tax-Haven Residents, are not subject to income tax (unless the sale takes place outside a Brazilian stock exchange, in which case the gains are subject to a 15% income tax); and

- gains earned by Non-Resident Holders who invest in Brazil through any means other than under Resolution No. 2,689 ("Non-Registered Investors") and Tax-Haven Residents registered under Resolution No. 2,689.

In this last situation, gains derived from the sale of the common shares on the Brazilian stock exchange by Non-Registered Investors and Tax-Haven Investors are subject to income tax at a rate of 15%. The sale or disposal of common shares will also be subject to withholding income tax at a rate of 0.005% and may be offset by any possible income tax due on the capital gain. Furthermore, a sale of shares outside a Brazilian stock exchange will be subject to income tax at a rate of 15% or, in case of Tax Haven Residents, 25%.

In the case of redemption of securities or capital reduction by a Brazilian corporation, such as ourselves, the positive difference between the amount effectively received by the Non-Resident Holder and the corresponding acquisition cost is treated, for tax purposes, as capital gain derived from sale or exchange of common shares not carried out on a Brazilian stock exchange market, and is therefore subject to income tax at the rate of 15% or 25% (in case of Tax-Haven Residents), as the case may be.

Tax on Financial Transactions ("IOF Tax")

The Tax on Financial Transactions (*Imposto Sobre Operações Financeiras*, known as the IOF), is a tax on foreign exchange, securities, credit and insurance transactions. The IOF rate may be changed by an Executive Decree (rather than a law). In addition, the IOF rate is not subject to the ex-post-facto principle, which provides that laws increasing the rate of or creating new taxes will only come into effect as of the latter of (i) the first day of the year following their publication, or (ii) 90 days after their publication. A statute increasing the IOF rate will therefore take effect from its publication date.

With regard to foreign exchange transactions, in spite of the maximum permitted IOF rate being 25% the remittance or receipt of amounts are presently subject to a 0% tax rate. The only exceptions apply to foreign exchange transactions in connection with loans with a minimum average term not exceeding 90 days, which are subject to the IOF at a 5% rate, as well as foreign exchange transactions for the acquisition of goods or services outside Brazil with credit cards, in which case the rate is 2% of the amount of the transaction.

The IOF tax may be also levied on issuances of bonds or securities, including transactions carried out on Brazilian stock, futures or commodities exchanges. The rate of the IOF tax with respect to many securities transactions is currently 0 percent, although certain transactions may be subject to specific rates. The minister of finance, however, has the legal authority to increase the rate to a maximum of 1.5% per day of the amount of the taxed transaction, during the period the investor holds the securities, up to the amount equal to the gain made on the transaction and only from the date of its increase or creation.

IOF is also assessed on transactions with terms of less than 30 days consisting of the sale, assignment, repurchase or renewal of fixed-income investments or the redemption of shares of investment funds or investment pools. The maximum rate of IOF payable in such cases is 1% per day, up to the amount equal to the gain made on the transaction, and decreases with the length of the transaction, reaching zero for transactions with maturities of at least 30 days, except that the rate for the following types of transactions is currently 0%:

- transactions carried out by financial institutions and other institutions chartered by the Central Bank as principals;
- transactions carried out by mutual funds or investment pools themselves;
- transactions carried out in the equity markets, including those performed in stock, futures and commodities exchanges and similar entities;
- redemptions of shares in equity funds; and
- transactions carried out by governmental entities, political parties and worker's syndicates.

Temporary Contribution on Financial Transactions ("CPMF Tax")

As general rule, transactions carried out by a holder of securities in Brazil that result in the transfer of *reais* from an account maintained by such holder (or its custodian) with a Brazilian financial institution may be subject to the CPMF tax, at the rate of 0.38%. Although the CPMF will be in effect until December 31, 2007, no assurance can be given that such term will not be postponed.

Currently, the funds transferred for the acquisition of shares on a Brazilian stock exchange and the remittance abroad of the proceeds earned from the disposition of stock in Brazil by means of a currency exchange transaction are exempted from the CPMF tax.

In addition, according to Section 4 of Law No. 11.312, dated June 27, 2006, the CPMF rate is reduced to zero percent on withdrawals from bank accounts used to acquire common shares in a public offering out of the stock exchange, provided that (i) the public offering is registered with the CVM and (ii) the issuer is listed on the Brazilian stock exchange.

When applicable, the CPMF Tax must be withheld from the amounts transferred from such account and must be collected in favor of the Brazilian government by the financial institution that carries out the relevant financial transaction.

Other Brazilian Taxes

There are no Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of common shares by a non-resident holder except for gift and inheritance taxes imposed by some Brazilian states on gifts or bequests by Non-Resident Holder to individuals or entities domiciled or residing within such states. There are no Brazilian stamp, issue, registration, or similar taxes or duties payable by holders of common shares.

PLAN OF DISTRIBUTION

Under the terms of an underwriting agreement dated February 8, 2007, Banco UBS Pactual S.A. has agreed with us and the selling shareholders to place the numbers of shares set forth below:

Name	Number of shares
Banco UBS Pactual S.A.	18,420,870

Banco UBS Pactual S.A. will act as global coordinator and sole bookrunner and UBS Securities LLC will act as placement agent on behalf of Banco UBS Pactual S.A. in connection with the placement of the shares sold to investors outside Brazil. Deutsche Bank S.A. – Banco Alemão and BB Banco de Investimentos S.A. will act as co-managers (*coordenadores contratados*) in Brazil in connection with the placement of the shares in this offering. Deutsche Bank Securities, Inc. and Banco do Brasil Securities LLC will act as agents on behalf of Deutsche Bank S.A. – Banco Alemão and BB Banco de Investimentos S.A., respectively, in connection with the placement of the shares sold to investors outside Brazil.

The underwriting agreement provides that the obligation of the Brazilian underwriter to place the shares is subject to, among other conditions, the delivery of certain legal opinions by our and their legal counsel and comfort letters from our auditors. The underwriting agreement also provides that, if any of the common shares are not placed, the Brazilian underwriter is obligated to purchase them on a firm commitment basis on the settlement date, subject to certain conditions and exceptions. The shares will initially be offered by the Brazilian underwriter and the placement agent at the price to be indicated on the cover page of the final offering memorandum. We and the selling shareholders have also entered into a placement facilitation agreement with the placement agent relating to the placement of our shares outside Brazil, which contains conditions for the placement of the common shares by the placement agent similar to those of the underwriting agreement.

We have granted Banco UBS Pactual S.A. an option, exercisable within 30 days after the date of this offering memorandum to place up an aggregate of 2,763,130 additional shares, representing 15% of the shares initially offered, to cover over-allotments. The option, if exercised, will be at the price per share indicated on the cover page of the final offering memorandum, less the underwriting discount.

Pursuant to applicable CVM regulations, we and the selling shareholders may, with the consent of the Brazilian underwriter, increase the total amount of shares in this offering by up to 20% of the shares initially offered hereby (excluding shares that may be sold pursuant to the over-allotment option).

Pursuant to the underwriting agreement and the placement facilitation agreement, we and the selling shareholders have agreed to indemnify the Brazilian underwriter, the placement agent and each of their directors and officers and any person who controls the underwriter or placement agent against certain liabilities, including liabilities under the Securities Act if we are unable to provide this indemnification, we will contribute to payments the Brazilian underwriter, the placement agent and each of their directors and officers and any person who controls the Brazilian underwriter or the placement agent may be required to make in respect thereof.

We and the selling shareholders have also been advised by the Brazilian underwriter that it proposes to place the shares initially to persons in the United States whom the placement agent reasonably believes to be "qualified institutional buyers" as defined under Rule 144A, in transactions exempt from registration under the Securities Act, and to non-U.S. persons in transactions meeting the requirements of Regulation S under the Securities Act.

Plan of distribution

The shares have not been registered under the Securities Act and will be subject to significant resale restrictions. See "Transfer Restrictions." Until 40 days after the announcement of commencement of this offering, an offer or sale of shares within the United States by a broker-dealer, whether or not it is participating in this offering, may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A.

The following table shows the per share offering price, underwriting discount to be paid by us and the selling shareholders to the Brazilian underwriter and proceeds, before expenses, to the us and the selling shareholders. This information is presented assuming either no exercise or exercise in full of the over-allotment option.

	Per share	Without over-allotment option	With over-allotment option
Offering price	R$20.00	R$368,417,400	R$423,680,000
Underwriting discount	R$ 0.74	R$ 13,557,760	R$ 15,591,424
Proceeds, before expenses, to us	R$19.26	R$197,203,064	R$250,432,000
Proceeds, before expenses, to the selling shareholders	R$19.26	R$157,656,576	R$157,656,576

The expenses and the underwriting discount will be paid entirely and proportionally by the selling shareholders and us.

We have requested that our shares be approved for listing and trading on the Novo Mercado segment of the BOVESPA under the symbol "SMT03."

The Brazilian underwriter has informed us and the selling shareholders that the price at which the shares will be offered will be based primarily on the demand they encounter at various price levels in the course of the bookbuilding process.

In connection with this offering, Banco UBS Pactual S.A., acting through UBS Pactual Corretora de Títulos e Valores Mobiliários S.A., or any person acting on its behalf, may engage in transactions that stabilize, maintain or otherwise affect the price of the shares, and the stabilization agent has agreed to engage in stabilization activity for a period of up to 30 days after the date of the *Anúncio de Início* (announcement of commencement of the offering). Specifically, the stabilization agent may over-allot in connection with the offering, creating a syndicate short position. In addition, the stabilization agent may bid for, and purchase, shares in the open market to cover syndicate short positions or stabilize the price of the shares. Any of these activities may stabilize or maintain the market price of the shares above independent market levels or may delay a decline in the market price of the shares. The stabilization agent is not required to perform these activities every day and may end in advance any of these activities. Reports of stabilization activity are required to be furnished to the CVM. Such stabilization activity shall be in compliance with all laws, regulations and rules.

In addition to the placement of the shares pursuant to this offering and a mandate letter for the analysis of a potential acquisition by us in Brazil, the Brazilian underwriter, the placement agent or their affiliates have from time to time in the past provided, and currently provide us, with customary banking services. In the future, the Brazilian underwriter, the placement agent or their affiliates may provide us with financial advisory services, including investment banking and other services necessary for our activities.

The shares may be offered outside of Brazil only to investors registered with the CVM and acting through custody accounts managed by local agents pursuant to CVM Instruction No. 325, dated January 27, 2000, and Resolution No. 2,689 of the Brazilian National Monetary Council, as amended.

Plan of distribution

Other than with respect to this offering on the Novo Mercado segment of the BOVESPA, no action has been or will be taken in any country or jurisdiction by us, the selling shareholders, the Brazilian underwriter and the placement agent that would permit a public offering of the common shares, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this offering memorandum comes are required by us, the selling shareholders, the Brazilian underwriter and the placement agent to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver common shares or have their possession or distribute such offering material, in all cases at their own expense.

Shares eligible for future sale

To induce the Brazilian underwriter and the placement agent that will participate in the offering of the shares to continue their efforts in connection with the offering, by countersigning this agreement, we, our controlling shareholders, the selling shareholders, our directors and officers have agreed that, subject to certain exceptions, will not, during the 180-day period begining February 8, 2007 (the "Lock-up Period"), offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares or securities convertible into or exchangeable or exercisable for any shares, enter into a transaction which would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of the shares, whether any such aforementioned transaction is to be settled by delivery of the shares or such other securities, in cash or otherwise, or publicly disclose the intention to make any such offer, sale, pledge or disposition, or to enter into any such transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of the placement agent. In addition, we, our controlling shareholders, the selling shareholders, our directors and officers agree that, without the prior written consent of the placement agent, we and such controlling shareholders, selling shareholders, directors and officers will not, during the Lock-Up Period, make any demand for or exercise any right with respect to, the registration of any shares or any security convertible into or exercisable or exchangeable for the shares.

Under the listing rules of the *Novo Mercado* segment of the BOVESPA, neither our controlling shareholders, the selling shareholders nor our directors and executive officers may not sell or offer to sell our common shares, or derivatives linked to those shares, during the first six months after the common shares begin trading on the *Novo Mercado* segment. After this initial period of six months, our controlling shareholders, the selling shareholders and our directors and executive officers may not sell or offer to sell more than 40% of the shares that they hold, or derivatives linked to those shares, for an additional six months.

We cannot assure you that the placement agent will not waive these lock-up obligations or the *Novo Mercado* regulations will not change, in which cases these common shares would become eligible for sale earlier.

We cannot predict the effect, if any, that future sales of the common shares, or the availability of such common shares for future sale, will have on the market price of the common shares prevailing from time to time or on our ability to raise capital in the future. Sales of substantial amounts of common shares in the public market, or the perception that such sales could occur, could adversely affect the prevailing market price of the common shares and our ability to sell shares in the future at a time and at a price that we deem appropriate.

TRANSFER RESTRICTIONS

Because of the following restrictions, investors are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of our shares.

United States

Our shares have not been registered under the Securities Act. They may not be offered or sold within the United States except:

- in compliance with the registration requirements of the Securities Act and all applicable securities laws in the states of the United States; or
- pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and any applicable securities laws of the states of the United States.

Accordingly, our shares are being offered and sold only:

- inside the United States to qualified institutional buyers, as defined in Rule 144A under the Securities Act; and
- outside the United States in accordance with Rule 903 under the Securities Act.

In addition, purchasers of our shares may not be able to exercise the preemptive rights relating to the shares unless an exemption from the registration requirements of the Securities Act is available or a registration statement under the Securities Act is effective with respect to those rights. We are not obligated to file a registration statement with respect to the shares relating to these preemptive rights, and we may not file such a registration statement.

Each purchaser of our shares in the United States will be deemed to have agreed not to deposit such shares into an unrestricted American depositary receipt facility for as long as those shares are "restricted securities" within the meaning of Rule 144A under the Securities Act and also to have represented and agreed as follows:

1. It understands and acknowledges that the shares have not been registered under the Securities Act or any other applicable securities law, are being offered in transactions not requiring registration under the Securities Act or any other securities law, and, unless so registered, may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the Securities Act, or any other applicable securities law, pursuant to an exemption from registration or in a transaction not subject to registration. **Neither we nor the selling shareholders make any representation as to the availability of the exemption provided by Rule 144 under the Securities Act for resales of our shares.**
2. It understands that the shares (to the extent they are in certified form in the future), unless otherwise determined in accordance with applicable law, will bear a legend substantially to the following effect:

THIS SHARE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE US SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFF-SHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THIS SHARE.

3. It is not an affiliate (as defined in Rule 144 under the Securities Act) of us or acting on our behalf and it is either:

- a qualified institutional buyer as defined under Rule 144A, or QIB, and is aware that any sale of the shares to it will be in reliance on an exemption from the Securities Act. Such acquisition will be for its own account or for the account of another QIB; or

- a person who, at the time the buy order for the shares was originated, was outside the United States and was not a US person (and was not purchasing for the account or benefit of a US person) within the meaning of Regulation S under the Securities Act.

4. If it is a purchaser in a sale that occurs outside the United States within the meaning of Regulation S under the Securities Act, it agrees that until the expiration of a 40-day "distribution compliance" period within the meaning of Rule 903 of Regulation S under the Securities Act, no offer or sale of the shares shall be made by it to a US person or for the account or benefit of a US person within the meaning of Rule 902(k) of the Securities Act except to a QIB and in compliance with the applicable selling restrictions.

5. Pursuant to Brazilian Resolution No. 2,689, transfers of shares, including by or between residents of jurisdictions outside Brazil, may be effected only in Brazil. See "Market Information."

6. Neither we, the selling shareholders, the Brazilian underwriter, the placement agent nor any person representing us or them have made any representation to it with respect to us or the offering or sale of any shares, other than the information contained in this offering memorandum, which has been delivered to it and upon which it is relying in making its investment decision with respect to the shares. It acknowledges that no representation or warranty is made by the Brazilian underwriter or the placement agent as to the accuracy or completeness of such materials. It has had access to such financial and other information concerning us and the shares as it has deemed necessary in connection with its decision to purchase the shares, including an opportunity to ask questions of and request information from us and the Brazilian underwriter or the placement agent.

7. It acknowledges that we, the selling shareholder, the Brazilian underwriter and the placement agent and our and their respective counsel will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that, if any of the acknowledgments, representations or warranties deemed to have been made by its purchase of shares are no longer accurate, it shall notify us and the Brazilian underwriter. In the event that it is acquiring any shares as a fiduciary or agent for one or more investment accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account. In the event that

an agent or representative of the purchaser is making any acknowledgment, representation or agreement on behalf of the purchaser, such agent or representative represents that it is duly authorized to execute the subscription agreement on behalf of the purchaser and has confirmed the foregoing acknowledgments, representations and agreements with the purchaser.

Offers and Sales in Canada

This offering memorandum is not, and under no circumstance is to be construed as, an advertisement or a public offering of the shares in Canada or any province or territory thereof. Any offer or sale of the shares in Canada will be made only pursuant to an exemption from the requirements to file a prospectus with the relevant Canadian securities regulators and only by a dealer properly registered under applicable provincial securities laws or, alternatively, pursuant to an exemption from the dealer registration requirement in the relevant province or territory of Canada in which such offer or sale is made.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date) our shares will not be offered to the public in that Relevant Member State prior to the publication of a prospectus in relation to our shares which has been approved by the competent authority in that Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that, with effect from and including the Relevant Implementation Date, our shares may be offered to the public in that Member State at any time:

- to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than 43,000,000 and (iii) an annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts; or
- in any other circumstances which do not require the publication by us of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression "our shares may be offered to the public" in relation to any of our shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and our shares to be offered so as to enable an investor to decide to purchase our shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

The EEA selling restriction is in addition to any other selling restrictions set out below.

United Kingdom

Our shares may not be offered or sold and will not be offered or sold to any persons in the United Kingdom other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses and in compliance with all applicable provisions of the Financial Services and Markets Act 2000, or FSMA, with respect to anything done in relation to our shares in, from or otherwise involving the United Kingdom. In addition, the Brazilian underwriter has only communicated or caused to be communicated

and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of our shares in circumstances in which Section 21(1) of the FSMA does not apply to us. Without limitation to the other restrictions referred to herein, this offering memorandum is directed only at: (1) persons outside the United Kingdom; (2) persons having professional experience in matters relating to investments who fall within the definition of "investment professionals" in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005; or (3) high net worth bodies corporate, unincorporated associations and partnerships and trustees of high value trusts as described in Article 49(2) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. Without limitation to the other restrictions referred to herein, any investment or investment activity to which this offering memorandum relates is available only to, and will be engaged in only with, such persons, and persons within the United Kingdom who receive this communication (other than persons who fall within (2) or (3) above) should not rely or act upon this communication.

Germany

The shares will not be offered, sold or publicly promoted or advertised in the Federal Republic of Germany other than in compliance with the German Securities Prospectus Act (*Gesetz über die Erstellung, Billigung und Veröffentlichung des Prospekts, der beim öffentlicken Angebot von Wertpapieren oder bei der Zulassung von Wertpapieren zum Handel an einem organisierten Markt zu veröffenlichen ist – Wertpapierprospektgesetz*) as of 22 June 2005, effective as of 1 July 2005, as amended, or any other laws and regulations applicable in the Federal Republic of Germany governing the issue, offering and sale of securities. No selling prospectus (*Verkaufsprospeckt*) within the meaning of the German Securities Selling Prospectus Act has been or will be registered within the Financial Supervisory Authority of the Federal Republic of Germany or otherwise published in Germany.

The Netherlands

The placement agent (a) is a professional market party (or PMP) within the meaning of Section 1(e) of the Exemption Regulation of 26 June 2002 in respect of the Act on the Supervision of the Credit System 1992 (*Vrijstellingsregeling Wet toezicht kredietwezen* 1992), as amended from time to time (or Exemption Regulation), where applicable read in conjunction with the policy rules of the Dutch Central Bank (*de Nederlandsche Bank N.V.*) on key concepts of market access and enforcement of the Act on the Supervision of the Credit System 1992 (*Wet towzicht kredietwezen* 1992) published on 29 December 2004 (*Beleidsregel 2005 kernbegrippen markttoetreding en handhaving Wtk* 1992) (or Policy Rules), and Section 2 of the Policy Rules, as amended, supplemented and restated from time to time and (b) has offered or sold and will offer or sell, directly or indirectly, as part of the initial distribution or at any time thereafter, the shares exclusively (i) to PMPs as reasonably identified by the issuer on the closing date, provided that the shares have a denomination of 100,000 (or the equivalent in other currency) and shall upon their issuance be included in a clearing institution that is established in an EU Member State, the United States of America, Japan, Australia, Canada or Switzerland; so that it can reasonably be expected that the agents will transfer the shares exclusively to other PMPs.

Regulation of Foreign Investment

Investors residing outside Brazil, including institutional investors, are authorized to purchase equity instruments, including our common shares, on the Brazilian stock exchange, provided that they comply with the registration requirements set forth in Resolution No. 2,689 of the National Monetary Council, which we refer to as Resolution No. 2,689, and CVM Instruction No. 325.

With certain limited exceptions, Resolution No. 2,689 investors (1) are permitted to carry out any type of transaction in the Brazilian capital markets involving a security traded on a stock, future or organized over-the-counter market but (2) may not transfer the ownership of investments made under

Resolution No. 2,689 to other non-Brazilian holders through private transactions. Investments and remittances outside Brazil of gains, dividends, profits or other payments under our common shares are made through the commercial rate exchange market.

In order to become a Resolution No. 2,689 investor, an investor residing outside Brazil must:

- appoint at least one representative in Brazil that will be responsible for complying with registration and reporting requirements and reporting procedures with the Central Bank and the CVM. If the representative is an individual or a non-financial company, the investor must also appoint an institution duly authorized by the Central Bank that will be jointly and severally liable for the representative's obligations;
- complete the appropriate foreign investor registration form;
- register as a foreign investor with the CVM;
- register the foreign investment with the Central Bank;
- appoint a tax representative in Brazil; and
- obtain a taxpayer identification number from the Brazilian federal tax authorities.

Securities and other financial assets held by foreign investors pursuant to Resolution No. 2,689 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or the CVM. In addition, securities trading by foreign investors is generally restricted to transactions involving securities listed on the BOVESPA or traded in organized over-the-counter markets licensed by the CVM.

LEGAL MATTERS

Machado, Meyer, Sendacz e Ópice Advogados, Brazilian counsel to our company and the selling shareholders, will pass on the validity of our shares. White & Case LLP, U.S. counsel to our company and the selling shareholders, will pass on the validity of our shares. Tozzini, Freire, Teixeira e Silva Advogados and Skadden, Arps, Meagher & Flom LLP will pass on certain Brazilian and U.S. legal matters, respectively, for the Brazilian underwriter and the placement agent.

INDEPENDENT AUDITORS

Our financial statements (1) as of and for the six months ended October 31, 2006 and 2005 and (2) as of and for the fiscal years ended April 30, 2006, 2005 and 2004, and the financial statements of Usina São Martinho S.A. as of and for the fiscal years ended April 30, 2006, 2005 and 2004, included elsewhere in this offering memorandum, have been audited by Deloitte Touche Tohmatsu Auditores Independentes, independent public accountants, as stated in their reports appearing herein.

ENFORCEMENT OF JUDGMENTS

We are incorporated under the laws of Brazil. Substantially all of our assets and the selling shareholders' assets are located in Brazil, and all of our directors and officers named in this offering memorandum reside in Brazil. As a result, you may not be able to effect service of process upon us, the selling shareholders or our directors and officers within the United States or to enforce against us, the selling shareholders or our directors and officers, judgments obtained in the United States or other jurisdictions outside Brazil to the extent such actions are predicated upon civil liability provisions of the dual securities laws of the United States.

We have been advised by Machado, Meyer, Sendacz e Ópice Advogados, our Brazilian counsel, that subject to specific requirements described below, final conclusive judgments of U.S. courts or other courts outside Brazil for civil liabilities based upon the U.S. federal securities laws may be enforced in Brazil. A judgment against us, the selling shareholders or our directors and officers obtained in the U.S. or other jurisdictions outside Brazil would be enforceable in Brazil, without reconsideration of the merits, upon confirmation of that judgment by the Brazilian Superior Court of Justice. Such confirmation would occur if the foreign judgement:

- fulfills all formalities required for its enforceability under the laws of the United States/of the country where the foreign judgment is granted;
- is issued by a competent court after (i) due service of process on us, or (ii) sufficient evidence of our absence has been given as required under the applicable laws;
- is final and therefore not subject to appeals;
- is for the payment of a certain sum;
- is authenticated by a Brazilian consular office in the United States and is accompanied by a sworn translation into Portuguese; and
- is not contrary to Brazilian national sovereignty, public policy and "good morals" (as set forth in Brazilian laws).

We have further been advised by Machado, Meyer, Sendacz e Ópice Advogados that (i) original actions may be brought in connection with this offering memorandum predicated solely on the United States federal securities laws in Brazilian courts and that Brazilian courts may enforce liabilities in such actions against us, the selling shareholders, our directors, officers and certain of our advisors named herein subject to Brazilian public policy and national sovereignty, and (ii) the ability of a judgment creditor to satisfy a judgment by attaching certain assets of the defendant is limited by provision of Brazilian laws.

A plaintiff, whether Brazilian or non-Brazilian, who resides outside Brazil during the course of litigation in Brazil must provide a bond to guarantee court costs and legal fees if the plaintiff owns no real property in Brazil. The bond must have a value sufficient to satisfy the payment of court fees and defendant's attorney fees, as determined by a Brazilian judge. This requirement does not apply to the enforcement of foreign judgments which have been duly confirmed by the Brazilian Superior Court of Justice. Notwithstanding the foregoing, no assurance can be given that confirmation of any judgment will be obtained, or that the process described above can be conducted in a timely manner.

GENERAL INFORMATION

On November 24, 2006, we authorized the offering of our shares as set forth in this offering memorandum and the Brazilian prospectus.

We file annual and current reports and other information with the CVM. Copies of our latest audited consolidated and unconsolidated annual financial statements and unaudited consolidated and unconsolidated quarterly financial statements, if any, may be obtained, and copies of other information that we file, including our by-laws (*estatuto social*), may be obtained free of charge on our website at http://www.saomartinho.ind.br. We will also make available upon request all annual and current reports and other information that we file with the CVM. However, none of the information on our site, including the reports and other information filed with the CVM, is incorporated by reference in this offering memorandum.

Except as disclosed herein, there has been no material adverse change in our financial position since October 31, 2006, the date of our latest audited financial statements included in this offering memorandum.

(This page intentionally left blank)

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Audited Consolidated Financial Statements – São Martinho S.A.

Independent Auditors' Report F-3
Individual and Consolidated Balance Sheets as of October 31, 2006 and April 30, 2006 ..... F-4
Individual and Consolidated Statements of Operations for the six months ended October 31, 2006 and 2005 ..... F-5
Individual and Consolidated Statements of Shareholders' Equity for the six months ended October 31, 2006 and 2005 ..... F-6
Individual and Consolidated Statements of Changes in Financial Position for the six months ended October 31, 2006 and 2005 ..... F-7
Notes to Individual and Consolidated Financial Statements as of October 31, 2006 and 2005 ..... F-8

Audited Consolidated Financial Statements – Companhia Industrial e Agrícola Ometto (Currently known as São Martinho S.A.)

Independent Auditors' Report F-47
Individual and Consolidated Balance Sheets as of April 30, 2006, 2005 and 2004 ..... F-48
Individual and Consolidated Statements of Income for the years ended April 30, 2006, 2005 and 2004 ..... F-49
Individual and Consolidated Statements of Shareholders' Equity for the years ended April 30, 2006, 2005 and 2004 ..... F-50
Individual and Consolidated Statements of Changes in Financial Position for the years ended April 30, 2006, 2005 and 2004 ..... F-51
Notes to the Individual and Consolidated Financial Statements as of April 30, 2006, 2005 and 2004 ..... F-52

Audited Consolidated Financial Statements – Usina São Martinho S.A.

Independent Auditors' Report F-84
Individual and Consolidated Balance Sheets as of April 30, 2006, 2005 and 2004 ..... F-85
Individual and Consolidated Statements of Income for the years ended April 30, 2006, 2005 and 2004 ..... F-86
Individual and Consolidated Statements of Shareholders' Equity for the years ended April 30, 2006, 2005 and 2004 ..... F-87
Individual and Consolidated Statements of Changes in Financial Position for the years ended April 30, 2006, 2005 and 2004 ..... F-88
Notes to the Individual and Consolidated Financial Statements as of April 30, 2006, 2005 and 2004 ..... F-89

(Convenience Translation into English
from the Original Previously Issued in Portuguese)

São Martinho S.A.

Financial Statements for the Six-Month Period Ended
October 31, 2006 and Independent Auditors' Report

Deloitte Touche Tohmatsu Auditores Independentes

Deloitte Touche Tohmatsu
Av. Dr. José Bonifácio Coutinho
Nogueira, 150 - 5° Andar - Sala 502
13091-611 - Campinas - SP
Brasil

Telefone: (19) 3707-3000
Fac-símile: (19) 3707-3001
www.deloitte.com.br

(Convenience Translation into English from the Original Previously Issued in Portuguese)

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of
São Martinho S.A.
Pradópolis - SP

1. We have audited the accompanying individual (Company) and consolidated balance sheets of São Martinho S.A. (formerly Companhia Industrial e Agrícola Ometto) (the "Company") as of October 31, 2006 and April 30, 2006, and the related statements of income, changes in shareholders' equity (Company), and changes in financial position for the six-month periods ended October 31, 2006, and 2005, all expressed in Brazilian reais and prepared under the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.

2. Our audits were conducted in accordance with auditing standards in Brazil and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Company and its subsidiaries, (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed, and (c) evaluating the significant accounting practices and estimates adopted by Management, as well as the presentation of the financial statements taken as a whole.

3. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the individual (Company) and consolidated financial positions of São Martinho S.A. and subsidiaries as of October 31, 2006 and April 30, 2006, and the results of their operations, the changes in shareholders' equity (Company), and the changes in their financial positions for the six-month periods ended October 31, 2006 and 2005, in conformity with Brazilian accounting practices.

4. As mentioned in note 2.1, the financial statements referred to in paragraph 1, originally issued on November 28, 2006, are being restated by the Company to meet the Brazilian Securities Commission's (CVM) requirements for publicly-traded company registration and public offering of shares. The notes to the financial statements and the matters whose disclosure was improved to meet said requirements are detailed in note 2.1.

5. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

Campinas, November 28, 2006 (except for the matters described in note 2.1, as to which the date is January 12, 2007)

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

José Carlos Amadi
Engagement Partner

(Convenience Translation into English from the Original Previously Issued in Portuguese)

SÃO MARTINHO S.A.

BALANCE SHEETS AS OF OCTOBER 31, 2006 AND APRIL 30, 2006
(In thousands of Brazilian reais - R$)

	Company		Consolidated	
ASSETS	10/31/06	04/30/2006	10/31/06	04/30/2006
CURRENT ASSETS				
Cash and banks	10,012	853	43,576	1,053
Temporary cash investments	2,525	19,676	26,781	35,705
Receivables from Copersucar	11,168	8,562	54,017	12,722
Inventories	104,409	36,298	355,165	50,587
Recoverable taxes	5,023	3,214	18,352	9,356
Other assets	2,302	1,755	13,138	4,963
	135,439	70,358	511,029	114,386
LONG-TERM ASSETS				
Intercompany receivables	4,439	1,673	-	-
Deferred income and social contribution taxe	30,940	30,514	72,986	36,170
Other assets	2,186	1,389	4,731	1,708
	37,565	33,576	77,717	37,878
PERMANENT ASSETS				
Investments	717,164	91,198	144	60
Property, plant and equipment	368,041	384,882	1,214,303	492,040
Deferred charges	-	-	2,452	218
	1,085,205	476,080	1,216,899	492,318
TOTAL ASSETS	1,258,209	580,014	1,805,645	644,582

	Company		Consolidated	
LIABILITIES AND SHAREHOLDERS' EQUITY	10/31/06	04/30/2006	10/31/06	04/30/2006
CURRENT LIABILITIES				
Loans and financing	43,836	24,090	102,059	34,544
Trade accounts payable	18,981	9,225	69,131	13,661
Payables to Copersucar	814	670	2,243	796
Payroll and related taxes	9,350	5,096	31,543	7,048
Taxes payable	3,069	405	5,971	739
Intercompany payables	11,303	9,767	-	8,725
Dividends payable	12,362	1,254	14,893	1,644
Advances	11,100	-	11,100	-
Other liabilities	125	143	802	47
	110,940	50,650	237,742	67,204
LONG-TERM LIABILITIES				
Loans and financing	66,899	66,826	194,115	80,479
Payables to Copersucar	57,474	57,007	206,402	73,754
Deferred income and social contribution taxes	37,747	38,528	117,070	48,750
Provision for contingencies	4,217	3,608	67,223	10,621
Other liabilities	-	67	2,161	446
	166,337	166,036	586,971	214,050
SHAREHOLDERS' EQUITY				
Capital	100,000	2,786	100,000	2,786
Legal reserve	1,729	1,729	1,729	1,729
Revaluation reserve	779,659	306,807	779,659	306,807
Retained earnings	99,544	52,006	99,544	52,006
	980,932	363,328	980,932	363,328
TOTAL LIABILITIES AND SHAREHOLDERS' EQUI	1,258,209	580,014	1,805,645	644,582

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

USINA SÃO MARTINHO S.A.

STATEMENTS OF OPERATIONS FOR THE SIX-MONTH PERIODS
ENDED OCTOBER 31, 2006 AND 2005
(In thousands of Brazilian reais - R$, except earnings per share)

	Company		Consolidated	
	10/31/2006	10/31/2005	10/31/2006	10/31/2005
GROSS SALES	128,183	105,840	505,328	140,546
DEDUCTIONS FROM GROSS SALES	(10,492)	(9,202)	(42,416)	(11,669)
NET SALES	117,691	96,638	462,912	128,877
COST OF SALES	(82,268)	(79,109)	(291,943)	(101,970)
GROSS PROFIT	35,423	17,529	170,969	26,907
Operating (expenses) income:				
Selling expenses	(6,616)	(5,159)	(31,592)	(7,277)
General and administrative expenses	(12,175)	(10,157)	(43,421)	(13,426)
Management fees	(1,616)	(1,034)	(4,015)	(1,414)
Equity in subsidiaries	50,589	2,619	-	-
Other operating income, net	162	328	818	355
	30,344	(13,403)	(78,210)	(21,762)
Income from operations before financial items	65,767	4,126	92,759	5,145
Financial income (expenses):				
Financial income	10,337	3,949	38,169	5,962
Financial expenses	(14,251)	(10,582)	(44,303)	(13,250)
Monetary and exchange gains	2,972	1,320	13,669	3,582
Monetary and exchange losses	(2,759)	(1,300)	(13,080)	(2,231)
	(3,701)	(6,613)	(5,545)	(5,937)
Income (loss) from operations	62,066	(2,487)	87,214	(792)
Nonoperating income	867	654	1,259	633
Income (loss) before income and social contribution taxes and income (loss) from spun-off net assets	62,933	(1,833)	88,473	(159)
Income and social contribution taxes - current	(5,504)	-	(28,409)	(1,198)
Income and social contribution taxes - deferred	1,207	1,023	(1,428)	767
	(4,297)	1,023	(29,837)	(431)
Net income from spun-off assets and liabilities	-	8,744	-	8,524
Net income	58,636	7,934	58,636	7,934
Earnings per share at the end of the six-month period (in Brazilian reais – R$)	1.17	0.23		

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

SÃO MARTINHO S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (COMPANY)
FOR THE SIX-MONTH PERIODS ENDED OCTOBER 31, 2006 AND 2005
(In thousands of Brazilian reais - R$)

	Capital	Legal reserve	Revaluation reserves			Retained earnings	Total
			Own	In subsidiaries	Total		
BALANCE AS OF APRIL 30, 2005	20,267	1,729	247,832	66,495	314,327	26,540	362,863
Dividends paid						(1,689)	(1,689)
Realization of revaluation reserve			(3,164)	(777)	(3,941)	3,941	-
Net income						7,934	7,934
BALANCE AS OF OCTOBER 31, 2005	20,267	1,729	244,668	65,718	310,386	36,726	369,108
BALANCE AS OF APRIL 30, 2006	2,786	1,729	242,485	64,322	306,807	52,006	363,328
Capital increase with retained earnings (note 14)	3,346					(3,346)	-
Increase in capital and reserves by merger of shares (note 14	93,868			478,693	478,693		572,561
Realization of revaluation reserve			(1,275)	(4,566)	(5,841)	5,841	-
Dividends paid						(13,593)	(13,593)
Net income						58,636	58,636
BALANCE AS OF OCTOBER 31, 2006	100,000	1,729	241,210	538,449	779,659	99,544	980,932

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

SÃO MARTINHO S.A.

STATEMENTS OF CHANGES IN FINANCIAL POSITION FOR THE SIX-MONTH PERIODS ENDED OCTOBER 31, 2006 AND 2005
(In thousands of Brazilian reais - R$)

	Company		Consolidated	
	10/31/2006	10/31/2005	10/31/2006	10/31/2005
SOURCES OF FUNDS				
From operations:				
Net income	58,636	7,934	58,636	7,934
Items not affecting working capital:				
Provision for contingencies	738	474	2,217	808
Equity in subsidiaries	(50,589)	(2,619)	-	-
Income (loss) from spun-off assets and liabilities without effect on working capital	-	(8,744)	-	(8,524)
Net book value of permanent assets written off	121	1,534	163	1,569
Depreciation and amortization	35,458	38,266	107,657	46,450
Charges on long-term assets and liabilities	758	(1,712)	3,380	(3,783)
Deferred income and social contribution taxes	(1,207)	(390)	1,428	(450)
Adjusted net income	43,915	34,743	173,481	44,004
Other sources:				
Decrease in long-term assets, net	-	-	-	4,994
Decrease in spun-off assets and liabilities, net	-	2,085	-	2,085
Increase in long-term liabilities, net	-	8,409	5,600	3,978
Impact of increase in Usina São Martinho's consolidation percentage to 100% in working capital	-	-	147,194	-
Dividends received	-	471	-	-
Total sources	43,915	45,708	326,275	55,061
USES OF FUNDS				
In long-term assets	3,510	446	707	-
In permanent assets:				
Investments	2,816	30	-	-
Property, plant and equipment	18,738	15,218	84,306	19,049
Deferred charges	-	-	1,564	56
Decrease in long-term liabilities, net	467	-	-	-
Dividends paid	13,593	1,689	13,593	1,689
Total uses	39,124	17,383	100,170	20,794
INCREASE IN WORKING CAPITAL	4,791	28,325	226,105	34,267
REPRESENTED BY:				
Current assets				
At end of year	135,439	123,141	511,029	169,812
At beginning of year	70,358	68,282	114,386	100,020
	65,081	54,859	396,643	69,792
Current liabilities				
At end of year	110,940	80,152	237,742	104,441
At beginning of year	50,650	53,618	67,204	68,916
	60,290	26,534	170,538	35,525
INCREASE IN WORKING CAPITAL	4,791	28,325	226,105	34,267

The accompanying notes are an integral part of these financial statements.

1. OPERATIONS

1.1. Operations

São Martinho S.A. (the "Company") and its subsidiaries are primarily engaged in planting sugarcane and manufacturing and selling sugar, alcohol and other sugarcane byproducts; cattle raising and agricultural exploitation; import and export of goods, products and raw material, and holding of equity interest in other companies.

Approximately 73% (65% in the consolidated) of the sugarcane used in the manufacture of products is obtained from the Company's crops, shareholders, related companies and agricultural partnerships, and 27% (35% in the consolidated) is obtained from third-party suppliers.

Currently, the Company is upgrading its industrial structure, by means of adapting its two mills and operating with a single better optimized mill, capable of assuring the same processing capacity per crop, through the prolongation of the milling period, which will provide better operating performance and costs reduction, especially those associated with maintenance. In the agricultural area, we highlight the processes of fitting the harvest period to the new industrial demand and the intensified mechanical harvesting, as well as the change in the sugarcane variety profile and improved pest control to combat Sphenophorus, aimed at increasing productivity.

Sugarcane planting demands a 18-month period for maturing and for the beginning of the harvest, which generally takes place between April and November, during which sugar and alcohol are produced. The sale of the production is made throughout the course of the year and, thus, the Company's revenues are not subject to seasonality.

In the Extraordinary Shareholders' Meeting held on September 28, 2006, shareholders approved the change of the fiscal year end date from April 30 to March 31 of each year, according to the initiative adopted by COPERSUCAR and the trend of advancing the start and the end of the sugarcane crop. Therefore, the fiscal year in progress will end on March 31, 2007 and will cover eleven months

In the Extraordinary Shareholders' Meeting held on September 28, 2006, shareholders approved the change of the company name from Companhia Industrial e Agrícola Ometto to São Martinho S.A..

1.2. Association with COPERSUCAR

The Company and its subsidiary Usina São Martinho S.A. are associated with the Cooperativa de Produtores de Cana, Açúcar e Álcool do Estado de São Paulo Ltda. - COPERSUCAR (Cooperative of Sugarcane, Sugar and Alcohol Producers of the State of São Paulo) [also called the "Cooperative"], whose cooperative by-laws signed by the parties require the Company to make 100% of its production of sugar and alcohol available to COPERSUCAR.

The production made available physically remains at the Company's and Usina São Martinho's warehouses, whose rights of use are granted to COPERSUCAR on a commodatum basis without payment. The Agro-industrial Directors of the Company and of Usina São Martinho S.A. are the trustees of inventories physically stored in their warehouses. The removal of the production due to its sale by COPERSUCAR is carried out according to the logistics established by the Cooperative.

As established in COPERSUCAR's by-laws, revenue from the sale of these products and expenses incurred due to the Cooperative's operations are allocated by COPERSUCAR to each cooperative member, proportionally to the respective products made available, regardless the physical amount removed from the cooperative member's warehouses. Revenues allocated to each cooperative member are increased or decreased due to quality and logistic differentials, established by COPERSUCAR's Board of Directors in each crop. As stated in its annual financial statements, COPERSUCAR uses the accrual basis to allocate revenues and expenses to its cooperative members in conformity with Brazilian accounting practices and Regulatory Opinion nº. 66, issued by the CST (Coordination of the Tax System) on September 5, 1986.

The amounts of revenues and expenses calculated by COPERSUCAR upon the apportionment for each cooperative member, including the inventory amounts to be allocated to cost of sales, are reported monthly by COPERSUCAR to its cooperative members in specific and detailed reports according to the nature of the event. The total amount is recorded in accounting books and presented in the Cooperative's financial statements, which are audited by independent auditors, ending April 30 of each year, and starting 2007, ending March 31 of each year.

For the six-month periods ended October 31, 2006 and 2005, revenues from transactions with COPERSUCAR accounted for approximately 95% and 92%, respectively, of the Company's individual revenue. In the consolidated, these transactions represented 95% and 91% for the six-month periods ended October 31, 2006 and 2005, respectively, according to the amounts shown below:

	Company		Consolidated	
	10/31/2006	10/31/2005	10/31/2006	10/31/2005
Sugar sales	60,333	47,174	256,797	62,612
Alcohol sales	57,948	51,392	229,911	66,597
Export adjustments	(1,748)	(1,165)	(6,588)	(1,507)
Total sales derived from COPERSUCAR	116,533	97,401	480,120	127,702
Sodium salt	–	–	7,005	6,337
Other sales	11,650	8,439	18,203	6,507
Total gross sales	128,183	105,840	505,328	140,546

Export adjustments refer to the results of settlement of commodity future contracts used by the Cooperative to minimize exposure to commodity risk on sugar exports. These amounts are recorded by the cooperative members based on their proportionate share.

Selling and administrative expenses arising from the Cooperative allocations accounted for 49% (49% in October 2005) of operating expenses recorded by the Company, and 57% in the consolidated (55% in October 2005). These expenses include expenses on the sale process, logistics and distribution, port and administrative expenses.

The Cooperative also provides its cooperative members with operating and economic guidance, in addition to the reciprocal use of administrative, technological, financial and legal services.

The Company's officers and shareholders participate in COPERSUCAR's management, holding two positions on the Board of Directors, one position on the Advisory Board and one position on the Administrative Committee, whose terms of office expire in 2009, and one position on the Fiscal Council, whose term of office expires in 2007.

1.3. Partial spin-off of assets and liabilities

On March 31, 2006, the Company and its jointly-owned subsidiary Usina São Martinho S.A. completed a spin-off of certain assets and liabilities not related to the planting of sugarcane and production of sugar and alcohol, which were transferred to affiliates. The spin-off was approved by the Extraordinary Shareholders' Meetings of both companies, held on April 30, 2006.

The balances of revenues, expenses and the related tax effects arising from spun off assets and liabilities for the six-month period ended October 31, 2005 are presented in specific lines of the individual and consolidated statements of income, for the segregation of the other balances representing the planting of sugarcane and the production of sugar and alcohol, and to allow for comparative analysis of the Company's operations for that six-month period, exempt from these effects.

Net income from spun-off assets and liabilities presented in the Company's statement of income for the six-month period ended October 31, 2005 is net of R$658 related to Income and Social Contribution Taxes (R$658 in the consolidated).

In the six-month period ended October 31, 2005, the main impacts of spun-off assets and liabilities (Company and consolidated) on income arise from equity gains in subsidiaries of R$7,466, and net gain on the sale of properties of R$1,389.

1.4. Increase in ownership interest in the indirect jointly-owned subsidiary Mogi Agrícola S.A.

On May 5, 2006, the jointly-owned subsidiary Usina São Martinho S.A. acquired 2,039,057 common shares from a Mogi Agrícola S.A. shareholder for R$7,233, increasing its ownership interest in that subsidiary to 30.86%. In addition to this acquisition, on May 17, 2006, Usina São Martinho S.A. granted an intercompany loan of R$7,116, payable in 24 months, to the same shareholder, which still holds 2,039,056 common shares (corresponding to 15.16% of total capital) of Mogi Agrícola S.A. This loan is subject to monetary actualization corresponding to the income distributed by Mogi Agrícola S.A. on any account during the period in which the loan is in effect. Usina São Martinho S.A. will also exercise the voting right arising from the shares held by this shareholder during the loan period. In view of the strategic interest of Usina São Martinho S.A. in Mogi Agrícola S.A.'s operations and the possibility that this loan may be settled through the delivery of 2,039,056 shares of Mogi Agrícola S.A. to Usina São Martinho S.A., according to the agreement between the parties, Usina São Martinho S.A. recorded this transaction as an acquisition, increasing its ownership interest in Mogi Agrícola S.A. to 46.02%. There was no amendment to the shareholders' agreement of Mogi Agrícola S.A. arising from these transactions, and Mogi Agrícola S.A. continued to be a jointly-owned subsidiary of Usina São Martinho S.A. These transactions resulted in a negative goodwill of R$358 on the investment in Mogi Agrícola S.A. by Usina São Martinho S.A., calculated based on Mogi Agrícola S.A.'s financial statements as of April 30, 2006, conformed to the accounting practices of the parent company, as mentioned in note 2(e).

1.5. Merger of shares of Usina São Martinho S.A. into the Company

In the Extraordinary Shareholders' Meeting held on September 28, 2006, the shareholders of Usina São Martinho S.A. approved the merger of all its shares into the Company, based on Usina São Martinho S.A.'s financial statements as of April 30, 2006. This operation was approved by the shareholders in the Extraordinary Shareholders' Meeting held on the same date. The ratio of exchange of Usina São Martinho's shares for the Company's shares among shareholders was determined through a business valuation of both companies by an independent specialized firm. After this merger, Usina São Martinho

S.A. became a wholly-owned subsidiary of the Company. As provided for in the share merger agreement, the Company recorded the income of Usina São Martinho S.A. as equity in subsidiaries, beginning May 1, 200. This share merger operation was recorded at book values by the Company

2. PRESENTATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING PRACTICES

2.1. Presentation of financial statements

The individual (Company) and consolidated financial statements have been prepared in accordance with Brazilian accounting practices. As the current financial statements comprise interim periods – the first six-month period of the year initiated on May 1, 2006, the balance sheet is presented on a comparative basis between October 31, 2006 and April 30, 2006. The statements of income, changes in shareholders' equity (Company), and changes in financial position are presented on a comparative basis between the six-month periods ended October 31, 2006 and 2005.

These financial statements were originally issued on November 28, 2006. After their issuance, the Company's management included the financial statements in the process of application for listing and public offering with the Brazilian Securities Commission (CVM), as mentioned in note 23. Due to the analysis of said application, the CVM issued Official Letter CVM/SER/SEP/001/2007, dated January 10, 2007, requesting the improvement of the information included in the Notes to the Financial Statements listed below, which was considered in this restatement. Following is a summary of the information that was improved and added to the Notes to the Financial Statements:

- Note 10 – Investments: balances, transactions, conditions and guarantees provided between the Company and subsidiaries.

- Note 11 – Property, Plant and Equipment: depreciation and write-off of revaluation and treatment for realization of revaluation for purposes of mandatory minimum dividends.

- Note 12 – Loans and Financing: detail of payment dates, currencies and specification of assets given as guarantee.

- Note 15 – Shareholders' Equity: procedures for allocation of income and capital reserves at the year-end.

- Note 16 – Profit Sharing: detail of targets agreed with employees.

- Note 19 – Contingencies: detail of courts and previous decisions on cases under dispute and Management's evaluation of final outcome of these cases.

- Note 21 – Insurance: detail of insured assets.

- Note 13 – Trade Accounts Payable and Note 21 – Management Fees were included in these financial statements. The inclusion of said Notes changed the prior numbering beginning at Note 13. Note 23 – Subsequent Events was supplemented to reflect the resolutions passed by the Extraordinary Shareholders' Meeting held on January 12, 2007.

2.2. Significant Accounting Practices

The significant accounting practices adopted in the preparation of the financial statements are as follows:

(a) Results of operations: The Company's results are recorded on the accrual basis. Income earned and expenses incurred on cooperative member transactions and in support and management activities informed by COPERSUCAR are recorded in results of operations based on monthly allocations, defined according to the Company's production in relation to other cooperatives, in conformity with CST Regulatory Opinion nº. 66, of September 5, 1986, and the accrual basis.

(b) Temporary cash investments: Stated at cost plus income earned through the balance sheet dates, which does not exceed fair value.

(c) Trade accounts receivable: Recorded based on information received from COPERSUCAR. Represents the net balance receivable by the Company based on its proportional share of the Cooperative's income and expenses, and advances received on future sales. The expense related to the allowance for doubtful accounts is transferred to cooperative members proportionally when recognized by the Cooperative.

(d) Inventories: Stated at average acquisition or production cost, which does not exceed the respective replacement and/or realizable value. Costs incurred on maintenance of sugarcane crops are stated as crop treatment under the caption sugarcane – crops and are recorded at cost (results of operations) upon the harvest of said crop.

(e) Investments: Significant investments in subsidiaries and jointly-owned subsidiaries are accounted for under the equity method, based on the financial statements prepared as of the Company's financial statements. In order to conform the accounting practices of the jointly-owned subsidiary to the parent company's for purposes of calculation of equity in subsidiaries and consolidation, an adjustment to the financial statements of Mogi Agrícola S.A. related to the revaluation of land at values as of April 30, 2003 was made. Investment in cooperative is stated at cost less a provision to reflect the reimbursement amount stipulated in the by-laws.

(f) Property, plant and equipment: Land, buildings, industrial equipment and facilities are stated at cost of acquisition or construction plus revaluation at values as of April 30, 2003. Other property, plant and equipment items are stated at cost of acquisition or construction. Depreciation is calculated under the straight-line method, based on the estimated useful lives of the assets, at the following annual rates, defined in the revaluation report, when applicable: buildings and premises – 5.88%; industrial equipment and facilities – 13.27%; vehicles – 20.0%; agricultural machinery and implements – 25.0% and other property, plant and equipment – 13.67%. Depreciation of costs to grow sugarcane crops is calculated under the straight-line method, considering an average estimated useful life of five years, after the beginning of cutting, based on the proportion of production to date in relation to total estimated production. Maintenance costs that result in the extension of the useful life of property plant and equipment are capitalized. Maintenance costs that do not extend the useful life of the assets are recognized as expenses when incurred. Asset items, that are useful during one harvest period, are capitalized when acquired or replaced, and the respective depreciation is charged to operations during the subsequent harvest period.

(g) Deferred charges: In the Company's consolidated financial statements , deferred charges represent costs relating to the implementation of an integrated management system in the subsidiary Usina São Martinho S.A., and the amortization is calculated under the straight-line method, considering an estimated useful life of 5 years; and by costs incurred on the construction of the industrial plant of the indirect subsidiary Usina Boa Vista S.A., which is still in the preoperating stage, whose amortization will be calculated when the plant starts its regular operations, under the straight-line method, based on a rate to be timely defined according to the estimated time of the future benefit.

(h) Receivables and payables: Assets and liabilities subject to monetary and exchange variations are actualized through the balance sheet date. These variations are recorded in results of operations of operations.

(i) Income and social contribution taxes: Provisions for income and social contribution taxes are calculated based on book income, adjusted by permanent additions and deductions at the rates of 15% plus a 10% surtax for income exceeding R$240 for income tax, and at the rate of 9% for social contribution tax. Income and social contribution taxes on temporary differences, on the revaluation of property, plant and equipment and tax loss carryforwards are recognized in the financial statements as long-term deferred assets and liabilities, complying with the provisions of IBRACON Accounting Standard and Procedure (NPC) nº. 25.

(j) Use of estimates: The preparation of financial statements in conformity with Brazilian accounting practices requires the Company's and subsidiaries' Management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Major estimates related to the financial statements refer to the allowance for investment losses, provision for contingencies, amortization, depreciation, and deferred taxes.

(k) Earnings per share: Calculated based on the number of shares outstanding at the balance sheet date.

3. CONSOLIDATION CRITERIA

The consolidated balance sheets as of October 31, 2006 and April 30, 2006, and the consolidated statements of income and changes in financial position for the six-month periods ended October 31, 2006 and 2005 follow the proportion of interest in effect at the respective dates and the applicable proportional consolidation criteria, according to CVM (Brazilian Securities Commission) Instruction nº. 247 provisions. The consolidated balances include the following subsidiaries:

Company	Main activities
Usina São Martinho S.A. – 11.40% interest in capital as of April 30, 2006 and October 31, 2005, and 100% as of October 31, 2006.	Processing of sugarcane, own production and production acquired from third parties, manufacture and sale of sugar, alcohol and their byproducts, agricultural exploitation and cattle raising, import and export of goods, products and raw material, and holding of equity interests in other companies.
Usina Boa Vista S.A. - 30% interest in capital in all periods presented (100% through Usina São Martinho S.A. as of October 31, 2006).	Processing of sugarcane, own production and production acquired from third parties, manufacture and sale of sugar, alcohol and their byproducts, agricultural exploitation and cattle raising, import and export of goods, products and raw material, and holding of equity interests in other companies.
Omtek Indústria e Comércio Ltda. – 99.99% interest in capital in all periods presented.	Processing and sale of sodium salt in the foreign market. The operating cycle is the same as the parent company's, which is the responsible for supply, under specific conditions, of sugarcane molasses, steam and electric power, inputs necessary for the company's production.

As of April 30, 2006 and October 31, 2005, Usina São Martinho S.A. was a jointly-owned subsidiary since no shareholder individually had ownership control over the company on those dates, as established in paragraph 1, article 32 of CVM (Brazilian Securities and Exchange Commission) Instruction nº. 247. The respective consolidations, on those dates, observed the equity proportion of 11.40% by the Company in the capital of that company.

In view of the merger of shares mentioned in note 1.5, the equity changes of Usina São Martinho S.A. occurred starting May 1, 2006 were recorded in the Company's financial statements as equity in subsidiaries, and the respective consolidation considered the new equity interest of 100%. This fact must be considered in the comparative analysis of the consolidated financial statements.

The financial statements of Usina São Martinho S.A. are consolidated prior to the consolidation by the Company, using accounting practices and consolidation criteria consistent with those used by the Company. The main captions of the consolidated financial statements of this wholly-owned subsidiary (jointly-owned subsidiary as of April 30, 2006, and October 31, 2005) present the following consolidated balances:

	10/31/2006	04/30/2006
Current assets	358,622	239,367
Long-term assets	63,675	58,139
Permanent assets	817,996	845,870
Total assets	1,240,293	1,143,376
Current liabilities	130,437	83,111
Long-term liabilities	412,898	410,856
Minority interest	–	3,183
Shareholders' equity	696,958	646,226
Total liabilities	1,240,293	1,143,376

	Six- month period ended 10/31/2006	Six-month period ended 10/31/2005
Gross sales	379,030	278,696
Operating expenses	(55,004)	(45,131)
Income from operations	75,952	31,163
Net income	50,731	18,735

The consolidation of Usina São Martinho S.A. includes the following subsidiaries:

- Usina Boa Vista S.A. – 70% interest in capital. Usina São Martinho S.A. fully consolidates Usina Boa Vista S.A, stating in a separate caption of its consolidated financial statements the 30% minority interest of São Martinho S.A. The main captions of the financial statements of this indirect subsidiary are as follow:

	10/31/2006	04/30/2006
Current assets	3,928	87
Long-term assets	450	–
Permanent assets	37,988	10,730
Total assets	42,366	10,817
Current liabilities	3,671	61
Long-term liabilities	6,347	–
Advance for future capital increase	12,348	143
Shareholders' equity	20,000	10,613
Total liabilities	42,366	10,817

Usina Boa Vista S.A. is in the preoperating stage, and the control of its common shares is held by Usina São Martinho S.A. The consolidation of this subsidiary by the Company follows the proportion of 30% interest in capital. With the purpose of capturing the totality of its interest, both directly (30%) and indirectly (70%), in Usina Boa Vista S.A., as part of the Company's financial statement consolidation process, the respective investment balance is eliminated against the minority interest presented in the liabilities of the consolidated financial statements of Usina São Martinho S.A..

- Mogi Agrícola S.A. – 46.02% interest in capital (15.7% as of April 30, 2006) – see note 1.4. Mogi Agrícola S.A. is engaged in agricultural exploitation and in holding equity interests, as partner or shareholder, in the capital of other companies. Usina São Martinho S.A. is the parent company of this company jointly with other shareholders due to an agreement between them. The main captions of the financial statements of this jointly-owned subsidiary present the following balances:

	10/31/2006	04/30/2006
Current assets	86	85
Long-term assets	1,757	323
Permanent assets	13,319	13,341
Total assets	15,162	13,749
Current liabilities	58	61
Shareholders' equity	15,104	13,688
Total liabilities	15,162	13,749

	Six-month period ended 10/31/2006	Six-month period ended 10/31/2005
Income from leased land	1,801	1,160
Operating expenses	(383)	(203)
Income from operations	1,418	957
Net income	1,417	956

In order to conform the accounting practices of this jointly-owned subsidiary to the parent company's for purposes of calculation of equity in subsidiaries and consolidation, an adjustment to the financial statements of Mogi Agrícola S.A. related to the revaluation of land at values as of April 30, 2003 was made. As of October 31, 2006 and April 30, 2006, property, plant and equipment and shareholders' equity balances presented above were increased by R$34,815.

The summary of the financial statements of Omtek Indústria e Comércio Ltda., direct subsidiary of the Company, is as follows:

	10/31/2006	04/30/2006
Current assets	13,002	16,724
Long-term assets	420	461
Permanent assets	7,296	8,119
Total assets	20,718	25,304
Current liabilities	5,522	9,817
Long-term liabilities	1,030	1,179
Shareholders' equity	14,166	14,308
Total liabilities	20,718	25,304

	Six-month period ended 10/31/2006	Six- month period ended 10/31/2005
Gross sales	7,010	6,587
Operating expenses	(475)	(1,110)
Income (loss) from operations	(214)	761
Net income (loss)	(141)	483

As mentioned in note 1.3., the spin-off of assets and liabilities not related to sugarcane planting and sugar and alcohol production operations, which occurred on March 31, 2006, included investments then held by the Company in the following companies: Monte Sereno Agrícola Ltda. (39.72% interest in capital as of October 31, 2005), Agropecuária Caieira do Norte S.A. (39.72% interest as of October 31, 2005) and Agropecuária do Cachimbo S.A. (15.03% interest in capital as of October 31, 2005). In view of the spin-off, these companies were not consolidated into the Company's statement of income for the six-month period ended October 31, 2005. The balance related to equity in subsidiaries arising from these investments is summarized and presented in a specific account "net income from spun-off assets and liabilities" in the individual (Company) and consolidated statements of income for the six-month period ended October 31, 2005.

In addition, the following main consolidation procedures have been adopted:

a) elimination of interests in the subsidiaries' shareholders' equity;

b) elimination of the investment balance and equity in subsidiaries;

c) elimination of intercompany balances and transactions and unrealized profits arising from intercompany transactions;

d) Reclassification of negative goodwill in indirect subsidiaries to long-term liabilities – other.

4. CASH AND BANKS

The cash and banks balance includes deposits in bank accounts available for immediate use. This balance presents significant amounts due to the normal flow of the Company's and subsidiaries' operations and the use of such cash to pay commitments at the beginning of the month subsequent to the financial statement closing.

5. TEMPORARY CASH INVESTMENTS

		Company	
Type	**Yield**	**10/31/2006**	**04/30/2006**
Repurchase agreements	100% of the CDI variation	984	12,597
Debenture repurchase agreements	100.1% of the CDI variation – weighted average rate	1,541	3,058
Other	100.7% of the CDI variation	–	4,021
Total		2,525	19,676

		Consolidated	
Type	**Yield**	**10/31/2006**	**04/30/2006**
Repurchase agreements	100% of the CDI variation	5,986	19,259
Debenture repurchase agreements	100.81% of the CDI variation	15,007	3,781
Bank certificates of deposit	101.17% of the CDI variation – weighted average rate	4,038	1,043
Collection account	US dollar variation + 85% of the daily LIBOR	1,750	7,373
Other	100.7% of the CDI variation	–	4,249
Total		26,781	35,705

Repurchase and debenture repurchase agreement represent fixed-rate investments backed by government securities, with commitment of repurchase by the financial institution and yield as specified above, regardless of the variation on the yield of the securities acquired.

The temporary cash investment in the "Collection Account" type was made as a guarantee of payment of the "PPE – Export Prepayment" loan with maturity scheduled for January 2007.

All other investments may be redeemed within 30 days, without loss of yield.

6. RECEIVABLES FROM COPERSUCAR

Receivables from COPERSUCAR are similar to a current account, including amounts receivable from allocations related to the sale of products and amounts deductible due to allocations of expenses and advances. The amount of advances received that exceeds cooperatives members' right arising from the allocation of revenues and expenses is subject to interest at rates corresponding to 100% of daily variation of the DI (Interbank Deposit rate) disclosed by Câmara de Custódia e Liquidação - CETIP (Clearinghouse for the Custody and Financial Settlement of Securities), representing the average funding by COPERSUCAR. Other components of this account are not subject to interest.

The average collection periods are as follows:

- 15 days for the sale of alcohol in the domestic market;
- 25 days for the sale of alcohol in the foreign market;
- 28 days for the sale of sugar in the domestic market;
- 45 days for the sale of sugar in the foreign market;

As of October 31, 2006, the collection profile above results in an average turnover of 30 days for these receivables.

The allocated operating expenses are set off against amounts receivable on a monthly basis.

COPERSUCAR passes on to cooperative members expenses resulting from allowances for possible losses on end customers, in view of its management of the credit granting and collection processes. The Company did not identify the need to record an allowance for doubtful accounts in addition to the amounts passed on to the Cooperative. Historically, the amounts receivable from COPERSUCAR do not present losses.

7. INVENTORIES

	Company	
	10/31/2006	04/30/2006
Finished products held by Copersucar:		
Sugar and Alcohol	82,940	1,981
Sugarcane – crop treatment	13,092	29,760
Advances – advance purchase of sugarcane	735	529
Inputs, indirect materials, for maintenance and other	7,642	4,028
	104,409	36,298

	Consolidated	
	10/31/2006	04/30/2006
Finished products held by Copersucar:		
Sugar and Alcohol	265,026	4,532
Sodium salt	3,875	2,055
Sugarcane – crop treatment	43,550	35,801
Advances – advance purchase of sugarcane	23,137	2,277
Inputs, indirect materials, for maintenance and other	19,577	5,922
	355,165	50,587

As the Company's production is immediately made available to COPERSUCAR and the distribution to customers by the Cooperative is not necessarily linked to sales proportionally attributed to the Company, the amount of sugar and alcohol held in inventory that is physically kept by the Company differs from the quantity that represents the balance of inventories. As of October 31, 2006, the Company and its subsidiary Usina São Martinho S.A. safeguarded sugar and alcohol inventories in the approximate amounts of R$92,572 (R$280,720 in the consolidated) and of R$3,331 (R$3,508 in the consolidated) as of 30 April, 2006, stated at average production cost. The Company is responsible for the risk of safeguarding inventories made available to COPERSUCAR that are stored in its facilities. This risk is mitigated by contracting insurance, as described in note 20.

8. RECOVERABLE TAXES

Recoverable taxes as of October 31, 2006 and April 30, 2006 are as follows

	Company	
	10/31/2006	04/30/2006
COFINS (tax on revenue)	2,999	1,795
ICMS (state VAT) on purchases of property, plant and equipment	1,110	845
PIS (tax on revenue)	648	400
ICMS	84	20
Other	182	154
	5,023	3,214

	Consolidated	
	31/10/2006	30/04/2006
COFINS (tax on revenue)	4,457	2,502
ICMS (state VAT)	4,371	4,150
IRPJ (corporate income tax)	3,831	373
ICMS on purchases of property, plant and equipment	2,168	974
CSLL (social contribution tax)	1,537	175
PIS (tax on revenue)	1,022	927
Other	966	255
	18,352	9,356

The balances of recoverable taxes arise from commercial transactions and prepayments. These balances are considered realizable by Management in the normal course of the Company's and subsidiaries' operations.

9. INTERCOMPANY BALANCES AND TRANSACTIONS

a) Company and consolidated balances:

	Company			
	10/31/2006		04/30/2006	
	Long-term assets	Current liabilities	Long-term assets	Current liabilities
Of subsidiaries:				
Usina São Martinho S.A.	326	11,303	390	9,767
OMTEK Ind. e Com. Ltda.	408	–	1,283	–
Usina Boa Vista S.A.	3,705	–	–	–
Subtotal	4,439	11,303	1,673	9,767
Of shareholders, arising from purchase of sugarcane (trade accounts payable)	–	801	–	128
	4,439	12,104	1,673	9,895

	Consolidated	
	10/31/2006	04/30/2006
	Current liabilities	Current liabilities
Of subsidiary and indirect subsidiary:		
Usina São Martinho S.A.	–	8,687
Usina Boa Vista S.A.	–	38
Subtotal	–	8,725
Of shareholders, arising from purchase of sugarcane (trade accounts payable)	4,216	252
	4,216	8,977

Intercompany balances refer to loan agreements maturing every December 31, which may be extended for an additional year. The loan is subject to charges equivalent to 100% of the CDI variation.

All long-term intercompany balances are estimated to be settled in a maximum of 24 months. Sugarcane purchases from shareholders are conducted under market conditions similar to those conducted with third parties.

(b) Parent Company transactions

	10/31/2006			10/31/2005	
	Financial income	Financial expense and cost	Sales revenue	Financial expense and cost	Sales revenue
Usina São Martinho S.A.	–	651	3,684	938	4
OMTEK Ind. e Com. Ltda.	99	–	3,830	84	3,420
Shareholders	–	–	–	110	–
Sugarcane purchase from shareholders	–	1,559	–	805	–
	99	2,210	7,514	1,937	3,424

Intercompany transactions refer to revenues and expenses related to charges on loans agreements, revenue from sale of molasses, electric power and steam to Omtek Indústria e Comércio Ltda., and sugarcane purchases from shareholders.

The consolidated amounts of sugarcane purchase from shareholders in the six-month periods ended October 31, 2006 and 2005 were R$6,674 and R$1,161, respectively.

10. INVESTMENTS

	10/31/2006			
	Usina São Martinho S.A.	Usina Boa Vista S.A.	OMTEK Indústria e Comércio Ltda.	Total
a) In subsidiaries:				
Shares held (thousands)	23,500	6,000	5,598	
Ownership interest	100.00%	30.00%	99.99%	
Capital	16,868	20,000	5,598	
Shareholders' equity	696,863	20,000	14,166	
Net income (loss)	50,516	–	(141)	
Changes in investments:				
Balances as of April 30, 2006	73,666	3,184	14,307	91,157
Increase due to merger of shares (Note 1.5)	572,561	–	–	572,561
Capital increase	–	2,816	–	2,816
Equity in subsidiaries	50,730	–	(141)	50,589
Balances as of October 31, 2006	696,957	6,000	14,166	717,123
b) Other investments				41
Total investments				717,164

	04/30/2006			
	Usina São Martinho S.A.	Usina Boa Vista S.A.	OMTEK Indústria e Comércio Ltda.	Total
a) In subsidiaries:				
Shares held (thousands)	2,679	6,000	5,598	
Ownership interest	11.40%	30.00%	99.99%	
Capital	16,868	20,000	5,598	
Shareholders' equity	646,227	10,612	14,124	
Net income (loss)	60,105	–	(74)	
Changes in investments:				
Balances as of April 30, 2005	70,119	–	14,381	84,500
Dividends	(862)	–	–	(862)
Capital increase	–	3,184	–	3,184
Capital loss due to spin-off	(2,443)	–	–	(2,443)
Equity in subsidiaries for the six-month period ended October 31, 2005	2,136	–	484	2,619
Equity in subsidiaries for the six-month period ended April 30, 2006	4,716	–	(557)	4,159
Balances as of April 30, 2006	73,666	3,184	14,307	91,157
b) Other investments				41
Total investments				91,198

As described in Note 9, receivables and payables between the Company and subsidiaries and indirect subsidiary are as follows:

	10/31/2006		04/30/2006	
	Long-term assets	Current liabilities	Long-term assets	Current liabilities
Usina São Martinho S.A.	326	11,303	390	9,767
OMTEK Ind. e Com. Ltda.	408	–	1,283	–
Usina Boa Vista S.A.	3,705	–	–	–
	4,439	11,303	1,673	9,767

Income and expenses resulting from transactions between the Company and its subsidiaries are as follows:

	10/31/2006			10/31/2005	
	Financial income	Financial expense and costs	Sales revenue	Financial expense and costs	Sales revenue
Usina São Martinho S.A.	–	651	3,684	938	4
OMTEK Ind. e Com. Ltda.	99	–	3,830	84	3,420
	99	651	7,514	1,022	3,424

The balances with subsidiaries and indirect subsidiary refer to loan agreements maturing on December 31 of each year, renewable for another year, subject to interest equivalent to 100% of the CDI (interbank deposit rate). Loans do not have guarantees.

There are no mutual equity interests in each other between the Company and direct and indirect subsidiaries.

The guarantees provided between the Company and its subsidiaries consist of assets pledged to third parties. The balance as of October 31, 2006 is as follows:

Usina São Martinho S.A.:

- 3,520 ha of land used to grow sugarcane, with revalued book value of R$60,313, as guarantee for lawsuits and loans of São Martinho S.A..
- Industrial equipment with revalued book value of R$28,036, as guarantee for loans of Omtek Ind. Com. Ltda..

São Martinho S.A.:

- Industrial equipment with revalued book value of R$13,041, as guarantee for loans of Omtek Ind. Com. Ltda..

11. PROPERTY, PLANT AND EQUIPMENT

	Company				
	10/31/2006				04/30/2006
	Cost	Revaluation	Accumulated depreciation	Net	Net
Land	20,301	219,430	–	239,731	239,889
Buildings and premises	9,067	7,349	5,791	10,625	11,048
Industrial equipment and facilities	33,186	46,889	57,865	22,210	41,854
Vehicles	18,029	–	13,153	4,876	5,323
Agricultural machinery and implements	37,731	–	22,525	15,206	12,901
Sugarcane crops	73,433	–	22,056	51,377	55,556
Other	10,329	391	5,250	5,470	6,564
Construction in progress	18,546	–	–	18,546	11,747
Total	220,622	274,059	126,640	368,041	384,882

	Consolidated				
	10/31/2006				04/30/2006
	Cost	Revaluation	Accumulated depreciation	Net	Net
Land	91,032	709,897	–	800,929	304,862
Buildings and premises	54,560	48,785	50,946	52,399	17,265
Industrial equipment and facilities	120,480	196,931	214,706	102,705	60,839
Vehicles	43,540	–	33,776	9,764	5,494
Agricultural machinery and implements	108,485	–	70,460	38,025	15,357
Sugarcane crops	222,305	–	68,061	154,244	67,540
Other	39,680	2,678	21,724	20,634	7,484
Construction in progress	35,603	–	–	35,603	13,199
Total	715,685	958,291	459,673	1,214,303	492,040

In the six-month period ended October 31, 2006, the Company invested the amount of R$6,700 (R$6,078 in the six-month period ended October 31, 2005), to grow and/or renew sugarcane crops, of which R$26,847 (R$7,432 in the six-month period ended October 31, 2005) in the consolidated.

As of October 31, 2006, the Company's balance of construction in progress refers to the boiler soot treatment system and the industrial structure optimization process, mentioned in note 1. This process involves the deactivation of one of the two mills now in operation and the adaptation of the remaining mill to increase its capacity. The mill to be deactivated will be subject to sale at a total price of R$13,650, of which R$11,100 was the subject of the advance recorded in current liabilities. As of October 31, 2006, the referred mill, whose net book value net of depreciation is approximately R$2,777, remained classified in property, plant and equipment, and was depreciated since it contributed to the Company's production and revenue generation. In the consolidated, the balance of construction in progress also includes improvements to the industrial plant of the subsidiary Usina São Martinho S.A. related to the adjustment of the fermentation process, bulk storage in the sugar warehouse and improvements to sugar granularity and temperature, in addition to the construction works of the industrial plant of the indirect subsidiary Usina Boa Vista S.A..

The Company's and subsidiary Usina São Martinho's sugar warehouses and alcohol tanks are granted on a commodatum basis to COPERSUCAR, without payment, to store the production when it is made available to be sold by the Cooperative.

Due to some loans and financing of the Company and its subsidiaries, as of October 31, 2006, approximately R$125,000 of fixed asset items were pledged as collateral to creditors. These items are mostly represented by industrial equipment and facilities, and agricultural machinery and implements. Additionally, the amount of R$131,666 (R$330,288 in the consolidated) in land was pledged as collateral of securitized rural credits, recorded in current and long-term liabilities.

As described in note 3, in addition to the revaluation recorded in 1997 , the Company, its wholly-owned subsidiary Usina São Martinho S/A and the subsidiary Omtek Indústria e Comércio Ltda. recorded, as of April 30, 2003, revaluation of land, buildings, industrial equipment and facilities, based on reports prepared by independent experts. In addition, according to the procedures adopted by the Company, when the indirect jointly-owned subsidiary Mogi Agrícola S.A. was established, on December 23, 2004, its land was revalued for equity in subsidiaries and consolidation purposes. The revaluation reserve classified into shareholders' equity and resulting from revaluations is realized by depreciation or write-off of revalued assets and the realized amount is added to net income for the year for purposes of determination of mandatory minimum dividends.

The revaluation amounts of property, plant and equipment, net of depreciation and gross of deferred charges, in the consolidated, as of October 31, 2006 and April 30, 2006, were R$853,700 and R$324,739, respectively, of which R$605,052 and R$72,618, respectively, arising from subsidiaries. The variations in these amounts between the periods presented are due to changes in the consolidation percentages of the financial statements of the subsidiary Usina São Martinho S.A..

Depreciation and write-offs of revaluation that impacted net income for the six-month periods ended October 31, 2006 and 2005 totaled R$8,788 and R$5,931, respectively, net of amounts allocated to inventories and gross of taxes, in consolidated.

The Company and its subsidiaries did not capitalize financial charges in the periods presented, due to the immateriality of the respective amounts.

12. LOANS AND FINANCING

				Company	
Type	**Charges**	**Guarantees**	**Maturity**	**10/31/2006**	**04/30/2006**
In local currency:					
Securitized rural credits	IGP-M (General market price index) paid annually	(a)	Annual installments with final maturity between September 2018 and July 2020	41,766	43,265
Rural credit	Fixed-rate weighted average interest of 8.75% p.a. paid on the final maturities of the agreements	(b)	Single installment maturing between August 2006 and March 2007	18,386	7,691
Automatic Finame / BNDES loan	Quarterly TJLP (Long-term interest rate) + weighted average interest of 5.75% p.a. paid monthly	(c)	Monthly installments with final maturity between September 2006 and January 2011	21,968	20,649
Automatic Finame / BNDES loan	Fixed-rate weighted average interest of 11.14% p.a. paid monthly	(d)	Monthly installments with final maturity between February 2007 and July 2011	17,448	18,595
Working capital	Fixed-rate interest of 16.57% p.a. paid on the final maturity of the agreement	–	Single installment maturing between April 2007 and May 2007	5,106	386
Working capital	Fixed-rate interest of 12.99% p.a. paid on the final maturity of the agreement	–	Single installment maturing in July 2007	5,335	–
Other securitized credits	Fixed-rate interest of 22.24% p.a. paid on the final maturity of the agreement	(e)	Single installment maturing in July 2006	85	88
In foreign currency:					
Automatic Finame / BNDES loan	Currency basket (dollar, euro and yen) + fixed-rate weighted average interest of 5.65% p.a. paid monthly	(c)	Monthly installments with final maturity between May 2007 and March 2009	641	242
Total				110,735	90,916
Current liabilities				43,836	24,090
Long-term liabilities				66,899	66,826

				Consolidated	
Type	**Charges**	**Guarantees**	**Maturity**	**10/31/2006**	**04/30/2006**
In local currency:					
Securitized rural credits	IGP-M (General market price index) paid annually	(a) and (f)	Annual installments with final maturity between September 2018 and July 2020	118,742	52,492
Rural credit	Fixed-rate weighted average interest of 8.98% p.a. paid on the final maturities of the agreements	(b) and (g)	Single installment maturing between August 2006 and March 2007	39,527	7,780
Automatic Finame / BNDES loan	Quarterly TJLP (Long-term interest rate) + weighted average interest of 5.32% p.a. paid monthly	(c), (h), (j) and (k)	Monthly installments with final maturity between September 2006 and January 2011	45,846	23,054
Automatic Finame / BNDES loan	Fixed-rate weighted average interest of 12.01% p.a. paid monthly	(d), (i) and (j)	Monthly installments with final maturity between February 2007 and July 2011	54,502	21,987
Working capital	Interest of 16.56% p.a. paid on the final maturity of the agreement	–	Single installment maturing between April 2007 and May 2007	15,716	474
Working capital	TR+ Interest of 12.99% p.a. paid on the final maturity of the agreement	–	Single installment with final maturity in July 2007	5,335	–
Other securitized credits	Fixed-rate interest of 22.24% p.a. on the final maturity of the agreement	(e)	Single installment maturing in July 2006	85	88
In foreign currency:					
Automatic Finame / BNDES loan	Currency basket (dollar, euro and yen) + fixed rate of 5.8% p.a. paid monthly	(c) and (h)	Monthly installments with final maturity between May 2007 and March 2009	1,532	267
PPE – Export Prepayment	US dollar variation + 6.55% p.a. paid semiannually	(l)	Semiannual installments maturing between January 2006 and January 2007	3,932	7,663
Commercial papers	US dollar variation + 9% p.a. paid semiannually	-	Single installment maturing in July 2011	10,957	1,218
Total				296,174	115,023
Current liabilities				102,059	34,544
Long-term liabilities				194,115	80,479

	Description of guarantees pledged in contracting loans and financing, as of October 31, 2006	Book or contractual value
(a)	Mortgage – 8,476.19 ha of land	113,695
(b)	Agricultural lien (sugarcane)	10,061
(c)	Liens on industrial equipment	7,458
	Liens on agricultural equipment	21,725
	Promissory note	13,835
	Mortgage – 1,997.61 ha of land	38,532
(d)	Liens on industrial equipment	3,501
	Liens on agricultural equipment	23,386
	Promissory note	3,981
	Mortgage – 664.20 ha of land	11,351
(e)	Mortgage – 78.53 ha of land	1,224
(f)	Mortgage – 9,647.42 ha of land	152,095
(g)	Promissory note	2,340
(h)	Liens on industrial equipment	150
	Liens on agricultural equipment	15,225
	Promissory note	3,821
	Mortgage – 1,944.79 ha of land	37,610
	Agricultural lien (sugarcane)	5,940
(i)	Liens on industrial equipment	12,242
	Liens on agricultural equipment	33,084
	Promissory note	10,300
	Mortgage – 837.54 ha of land	14,313
(j)	Liens on industrial equipment	7,608
	Promissory note	7,608
(k)	Liens on industrial equipment	450
(l)	"Collection Account" cash investment	1,750

ha: hectares.

The land given as guarantee for loans and financing consists of land for growing sugarcane.

The individual (Company) and consolidated long-term portions for the six-month period ended October 31, 2006 have the following maturities per twelve-month period ended October 31 of each year:

	10/31/2006	
	Company	**Consolidated**
From 11/01/07 to 10/31/08	15,910	41,332
From 11/01/08 to 10/31/09	13,051	34,781
From 11/01/09 to 10/31/10	7,775	21,833
From 11/01/10 to 10/31/11	3,928	22,570
From 11/01/11 to 10/31/12	3,136	9,112
From 11/01/12 to 10/31/21	23,099	64,487
	66,899	194,115

The individual (Company) and consolidated long-term portions for the year ended April 30, 2006 have the following maturities per year ended April 30 of each year:

	04/30/2006	
	Company	**Consolidated**
From 05/01/07 to 04/30/08	13,133	15,325
From 05/01/08 to 04/30/09	11,837	13,825
From 05/01/09 to 04/30/10	9,307	10,813
From 05/01/10 to 04/30/11	4,333	5,182
From 05/01/11 to 04/30/12	3,017	4,868
From 05/01/12 to 04/30/21	25,199	30,466
	66,826	80,479

Based on Central Bank of Brazil Resolution No. 2471/98 and other current legal provisions, in 1998, 1999 and 2000 the Company and its subsidiary Usina São Martinho S.A. securitized debts with financial institutions, by means of the acquisition, in the secondary market, of CTNs (National Treasury Certificates), as collateral for the payment of the principal. The securitized financing will be automatically settled on their maturity dates upon the redemption of the CTNs, which are under the custody of the creditor financial institutions. Said certificates are non-negotiable and are exclusively intended for paying this debt. The Company's and its subsidiary Usina São Martinho's disbursement during the 20 years in which this securitization is effective is limited to the annual payment of amounts equivalent to variable percentages between 3.9% and 4.96% per year on the securitized amount monetarily adjusted based on the IGP-M through the annual payment date. This obligation was recorded in the individual (Company) and consolidated financial statements as of October 31 and April 30, 2006 according to the amount of these future disbursements. The balance of this obligation is subject to adjustment based on the IGP-M variation.

13. TRADE ACCOUNTS PAYABLE

	Company	
	10/31/2006	04/30/2006
Sugarcane	10,243	1,579
Materials, services and other	8,738	7,646
	18,981	9,225

	Consolidated	
	10/31/2006	04/30/2006
Sugarcane	47,255	3,425
Materials, services and other	21,876	10,236
	69,131	13,661

The sugarcane crop period, between April and November of each year on average, has a direct impact on the balance payable to sugarcane suppliers and providers of cutting, loading and transportation services.

14. PAYABLES TO COPERSUCAR

COPERSUCAR provides funds to its cooperative members for financing their operations, through bills of exchange. The Cooperative's funds come from the following sources:

(a) Funds obtained by the Cooperative in the market and transferred to cooperative members with short-term maturity.

(b) The Cooperative's temporary cash surplus arising from injunctions in lawsuits claiming the suspension of liabilities. This cash surplus is related to provisions for contingencies recorded by the Cooperative in long-term liabilities. Accordingly, the Company also records these liabilities in long-term liabilities. However, in case of unfavorable outcome in lawsuits in which the Cooperative obtained an injunction, the Company will be required to disburse the amount that was transferred within 120 days. The main amounts included in these liabilities arise from the IPI (federal VAT) challenged in court by the Cooperative as to the constitutionality and lawfulness of the requirement of the tax, and are represented by R$15,069 as of October 31, 2006 and R$15,137 as of April 30, 2006 (R$56,122 and R$19,838 in the consolidated, respectively).

The Company's payables to COPERSUCAR are as follows:

	Company	
	10/31/2006	04/30/2006
Exchange bill – Updated based on 103.35% of the CDI variation	1,855	1,726
Exchange bill – Updated based on SELIC variation	29,939	30,118
Exchange bill – Onlending of funds not subject to charges	19,392	18,420
Exchange bill – Updated based on TJLP variation	7,102	7,413
Total	58,288	57,677
Current liabilities	814	670
Long-term liabilities	57,474	57,007

	Consolidated	
	10/31/2006	04/30/2006
Exchange bill – Updated based on 103.35% of the CDI variation	6,742	2,244
Exchange bill – Updated based on SELIC variation	110,746	39,336
Exchange bill – Onlending of funds not subject to charges	70,621	23,959
Exchange bill – Updated based on TJLP variation	20,536	9,011
Total	208,645	74,550
Current liabilities	2,243	796
Long-term liabilities	206,402	73,754

All obligations of the Company and its wholly-owned subsidiary Usina São Martinho S.A. with COPERSUCAR are guaranteed by directors' collateral signatures. Exchange bill amounts that exceed the indebtedness limit established in the Cooperative agreement are additionally collateralized by bank guarantees. Considering the indebtedness limits in each period, it was not necessary to issue bank guarantees for the six-month period ended October 31, 2006 and for the year ended April 30, 2006.

15. SHAREHOLDERS' EQUITY

(a) Capital

Capital is represented by 50,000,000 registered common shares (34,069,870 shares as of April 30, 2006) without par value.

The Annual and Extraordinary Shareholders' Meeting, held on September 28, 2006, approved the allocation of R$3,346 from the retained earnings account for capital increase. In this same Meeting, the shareholders approved a capital increase of R$93,868 and an increase in the revaluation reserve in the amount of R$478,693 due to the merger of shares of Usina São Martinho S.A. mentioned in note 1.5.

(b) Dividends

Dividends paid in the six-month periods ended October 31, 2006 and 2005, in the amounts of R$13,593 and R$1,689, respectively, were paid from the retained earnings account. The balance of dividends payable, recorded in current liabilities as of October 31, 2006, is as follows:

	10/31/06	
	Company	Consolidated
Balance of mandatory minimum dividends related to the year ended April 30, 2006	1,044	3,575
Balance of dividends paid from the retained earnings account after April 30, 2006 (Annual and Extraordinary Shareholders' Meeting of September 28, 2006)	11,318	11,318
	12,362	14,893

Under the by-laws, shareholders are entitled to minimum dividends of 6% of net income, after the recognition of the legal reserve and realization of the revaluation reserve. In connection with the matter described in note 22, the Company's shareholders approved, at the Extraordinary Shareholders' Meeting held on November 24, 2006, an amendment to the by-laws to include the increase in the mandatory minimum dividend to 25% of net income for the year, adjusted according to the terms of paragraph 202 of Law 6404/76.

(c) Allocation of income and capital reserves

The allocation of net income for the year and retained earnings and other capital reserves is proposed by Management and resolved by the shareholders at the Annual Shareholders' Meeting after the close of each year, based on the capital budget and requirements of the Brazilian Corporate Law.

16. PROFIT SHARING PROGRAM

In conformity with the Collective Labor Agreements made with the employees' unions, the Company and its subsidiaries introduced a profit sharing program based on operating and financial targets previously agreed upon with the employees.

The operating and financial indicators agreed upon between the Company and its subsidiaries and employees, through labor unions representing them, are related to the following: (i) use of industrial plant time (productivity); (ii) total industrial losses; (iii) agricultural productivity; (iv) actual vs. budget indicator; (v) occupational accident; (vi) shared service customer satisfaction; (vii) accounting closing deadline; (viii) economic gains on changes of processes and respective quality; (ix) profile of existing debt; (x) financial performance measured especially by indebtedness level and quality; (xi) efficiency in use of financing in budgeted invetsments; and (xii) quality of analyses and presentations to the market. These indicators are segregated for specific application in the departments involved, which are divided, for purposes of this program, into the agribusiness, shared service center and corporate areas.

The profit sharing as of October 31, 2006, recorded as operating costs or expenses in the consolidated income for the six-month period was R$7,429 (R$2,438 as of October 31, 2005).

17. INCOME AND SOCIAL CONTRIBUTION TAXES

a) Deferred income and social contribution taxes are as follows:

	Company		Consolidated	
	10/31/2006	04/30/2006	10/31/2006	04/30/2006
ASSETS				
Income tax loss carryforwards	18,307	20,028	27,952	22,219
Social contribution tax loss carryforwards	7,249	7,870	12,278	8,844
Provision for contingencies	1,719	1,495	17,904	3,306
Securitized financing	–	–	4,951	629
Other	3,665	1,121	9,901	1,172
Deferred income and social contribution tax assets	30,940	30,514	72,986	36,170
LIABILITIES				
Revaluation of assets	(9,725)	(10,321)	(50,724)	(16,231)
Accelerated depreciation incentive	(21,978)	(22,615)	(60,318)	(26,921)
Securitized financing	(6,044)	(5,592)	(6,044)	(5,592)
Other	–	–	16	(6)
Deferred income and social contribution tax liabilities	(37,747)	(38,528)	(117,070)	(48,750)

Prevailing tax legislation allows tax losses to be carried forward indefinitely to be offset against future taxable income up to a limit of 30% of annual taxable income, without monetary adjustment or interest. Deferred tax credits arising from tax loss carryforwards are recognized based on the Company's and its subsidiaries' projections of taxable income, which support the recovery of the tax credits in accordance with applicable accounting practices. On a conservative basis, the Company classifies all deferred tax credits into long-term assets.

The recovery of these credits as indicated by the projections of taxable income approved by Management is estimated as shown below:

Company:

Year	2006	2007	2008	2009	2010	2011 and thereafter
Estimated realization	2,791	5,555	3,929	3,398	3,211	12,056

Consolidated:

Year	2006	2007	2008	2009	2010	2011 and thereafter
Estimated realization	7,180	19,751	13,939	6,584	5,532	20,000

Deferred income and social contribution tax liabilities are realized principally through the depreciation and write-off of fixed assets that gave rise to them. The realization of this liability is estimated at the average rate of 18% per year, in view of the depreciation rates of the respective property, plant and equipment items. In addition, the period for settlement of securitized loans with maturity through 2021 impacts the period for recovery of deferred income and social contribution tax assets.

b) Reconciliation of income and social contribution taxes - Income and social contribution tax expenses are reconciled to effective rates, as shown below:

Company:	10/31/2006		10/31/2005	
	Income tax	Social contribution tax	Income tax	Social contribution tax
Income (loss) before income and social contribution taxes and income (loss) from spun-off net assets	62.933	62.933	(1.833)	(1.833)
Statutory rates - %	25%	9%	25%	9%
Income and social contribution tax expenses	15.733	5.664	(458)	(165)
Reconciliation to effective rate:				
Permanent differences				
Equity in subsidiaries	(12.593)	(4.534)	(655)	(236)
Realization of revaluation reserve for land sold	29	11	343	123
Other nondeductible expenses	3	6	18	7
PAT (Workers' Meal Program)	(22)	–	–	–
Income and social contribution tax expenses	3.150	1.147	(752)	(271)
Income and social contribution tax expenses	4.297		(1.023)	

Consolidated:	10/31/2006		10/31/2005	
	Income tax	Social contribution tax	Income tax	Social contribution tax
Income (loss) before income and social contribution taxes and income (loss) from spun-off net assets	88,473	88,473	(159)	(159)
Statutory rates - %	25%	9%	25%	9%
Income and social contribution tax expenses	22,118	7,962	(40)	(14)
Reconciliation to effective rate:				
Permanent differences				
Realization of revaluation reserve for land sold	30	11	343	123
Other nondeductible items (nontaxable)	(37)	(4)	20	6
PAT (Workers' Meal Program)	(243)	–	(7)	–
Income and social contribution tax expenses	21,868	7,969	316	115
Income and social contribution tax expenses	29,837		431	

18. COMMITMENTS

18.1. Land for legal reserve and permanent preservation areas

The Company and its subsidiaries have uncultivated areas covered by preserved native vegetation or in process of reforestation intended to assure the ecological balance of the environment. Such tracts of land are permanent preservation areas and the so called "legal reserve" areas, pursuant to applicable environmental legislation.

Permanent preservation areas (for example, riverbank forests and hillsides) are observed at the time of cultivation of sugarcane and the Company and its subsidiaries do not cultivate the land on these areas.

The obligation to abandon currently cultivated areas for legal reserve purposes has been discussed at political and judicial levels, for which reason environmental authorities have not yet performed decisive inspections. The Company and its subsidiaries own land registered as legal reserve in an area smaller than the minimum percentage set by law.

The Company and its wholly-owned subsidiary Usina São Martinho S.A. are discussing this matter in court and the risk of loss on the lawsuits is assessed as possible.

The Company and its subsidiaries are evaluating legal alternatives for meeting this legal requirement, in the time limit set by legislation of 30 years from 1990 at the rate of 10% for each 3-year period. The amounts to be invested to meet this requirement, the manner in which it will be met and the time required for completion cannot be determined at this time.

Investments in preservation areas, when made, are recorded under "property, plant and equipment".

18.2. Sugarcane purchase agreements

The Company and its wholly-owned subsidiary Usina São Martinho S.A. entered into agreements for purchase of sugarcane produced in third parties' rural properties, in the amount of approximately 263,000 tons (1,085,000 tons – consolidated). The amount to be disbursed for these purchases will be determined at the end of each crop at the price per ton of sugarcane established by the model of the Conselho dos Produtores de Cana-de-açúcar, Açúcar e Álcool do Estado de São Paulo - CONSECANA (Council of Sugarcane, Sugar and Alcohol Producers of the State of São Paulo). This commitment for the average price for the 2006/2007 crop of R$50.73 (R$45.99 – consolidated) per ton of sugarcane totals approximately R$13,358 (R$49,913 – consolidated).

18.3. Lease transactions

The wholly-owned subsidiary Usina São Martinho S.A. entered into an operating lease agreement for IT equipment and software, with final maturity in January 2007. The installments of these agreements, recorded in consolidated income for the six-month period ended October 31, 2006, were R$165 (R$165 as of October 31, 2005). These lease agreements are collateralized by the financed assets.

19. PROVISION FOR CONTINGENCIES

Income and social contribution tax calculations and tax returns, and other taxes and payroll charges, are open to review by tax authorities for varying periods according to the date of payment or filing of tax returns.

The Company and its subsidiaries are parties to tax, civil and labor lawsuits in different courts. Provisions for contingencies are determined by Management, based on legal counsel's assessment, for probable losses and are stated at monetarily adjusted amounts. The provision for contingencies recorded is composed of:

	Company				
	04/30/2006	Additions	Uses	Monetary adjustment	10/31/2006
Tax	5,093	–	–	60	5,153
Civil	188	–	–	7	195
Labor	1,666	537	(82)	134	2,255
	6,947	537	(82)	201	7,603
(-) Escrow deposits	(3,339)	(47)	–	–	(3,386)
Total	3,608	490	(82)	201	4,217

	Consolidated				
	04/30/2006	Additions	Uses	Monetary adjustment	10/31/2006
Tax	9,317	32,829	(200)	829	42,775
Civil	386	1.530	–	7	1,923
Labor	6,376	39,435	(4,350)	2,627	44,088
	16,079	73,794	(4,550)	3,463	88,786
(-) Escrow deposits	(5,458)	(19,115)	3,431	(421)	(21,563)
Total	10,621	54,679	(1,119)	3,042	67,223

The additions to the consolidated provision for contingencies and consolidated escrow deposits in the six-month period ended October 31, 2006 are impacted by R$70,967 and R$16,455, respectively, in view of the merger of all shares of Usina São Martinho S.A., mentioned in note 1.5.

As of October 31, 2006, the nature of the main lawsuits, which were assessed by Management as probable loss based on the legal counsel's opinion and which, therefore, were included in the above provisions, is as follows (Company and consolidated):

a) Tax lawsuits:

(i) Monetary adjustment of untimely used ICMS (VAT) credit: The State Finance Department issued a tax delinquency notice and a fine for purposes of collection of ICMS (state VAT) for March 1993. Supported by a lawsuit, the Company monetarily updated the untimely used ICMS credits on purchases of electricity, diesel, secondary materials and telecommunications services. The total amount involved is R$2,608 (Company and consolidated).

(ii) Offset of tax loss carryforwards: Federal tax authorities filed a tax collection proceeding to collect the IRPJ (corporate income tax) for 1997, when the wholly-owned subsidiary Usina São Martinho S.A., supported by a lawsuit, offset tax losses determined from 1992 to 1996 without complying with the 30% limit required by Law no. 8,981/95. The total amount involved in this lawsuit is R$10,095 in the consolidated.

(iii) Offset of tax loss carryforwards of merged company: Federal tax authorities filed a tax collection proceeding to collect the IRPJ for the period from October 1997 to March 1998, which was not paid by the company merged into the wholly-owned subsidiary Usina São Martinho S.A. due to the offset of tax losses incurred between 1992 and 1994 without complying with the 30% limit required by Law no. 8,981/95.The total amount involved is R$19,082 in the consolidated.

(iv) Social contribution tax loss carryforwards: Federal tax authorities filed a tax collection proceeding to collect the CSL (social contribution on net profit) for 1997, which was not paid due to the offset of social contribution tax loss carryforwards determined from 1992 to 1996. The total amount involved is R$8,445 in the consolidated.

(v) Other tax lawsuits involving:: (i) INSS (social security contribution) at 2.6% for the period from November 1990 to November 1991; (ii) contribution to SENAR (National Rural Learning Service) for the period from November 1992 to September 1997; (iii) SAT (Occupational Accident Insurance) for the period from February 1993 to April 1994; (iv) social security contribution to rural employees for the period from May to July 1994; (v) PIS (tax on revenue) basis for the period from December 2000 to November 2002; (vi) COFINS (tax on revenue) basis for the period from August 2001 to March 2003; and (vii) FGTS (severance pay fund) and surtax on termination fine for the period from November 2001 to December 2002. The total amount involved is R$2,545 (Company and consolidated).

b) Civil lawsuits:

The Company and its subsidiaries have a provision for 19 civil lawsuits in which they are defendants, involving: (i) indemnity for property damage and pain and suffering for occupational illness and accidents; (ii) indemnity for property damage and pain and suffering for traffic accidents; (iii) rescission of residential land sale agreements; and (iv) public civil actions for sugarcane burning These lawsuits total R$195 – Company (R$1,923 – consolidated), adjusted through October 31, 2006.

c) Labor lawsuits:

The Company and its subsidiaries have a provision for contingencies for labor lawsuits in which they are defendants, involving claims for:: ((i) overtime; (ii) commute hours; (iii) indemnity for elimination of lunch break; (iv) hazardous duty premium and health hazard premium; (v) refund of payroll deductions such as union confederation dues, union dues, etc.; (vi) night shift premium; and (vii) continuity of employment relationship with the consequent payment of 13th salary and vacation pay plus 1/3 vacation bonus. These lawsuits total R$2,255 – Company (R$44,088 – consolidated), adjusted through October 31, 2006.

The Company and its subsidiaries are parties to tax and civil lawsuits in several courts that were assessed by Management, based on the legal counsel's opinion, as possible loss. No provision has been recorded for these lawsuits in the accounting books. The nature and the amount of these lawsuits are as follows:

a) Tax lawsuits:

The Company and its subsidiaries are defendants in 44 other administrative and judicial tax proceedings related to payment of taxes involving the following: (i) social security contribution basis; (ii) administrative proceedings for offset of federal taxes against credits of IPI (federal VAT), IRPJ (corporate income tax) and PIS (tax on revenue) not approved by the Federal Revenue Service; (iii) IRPJ on investment losses; (iv) monetary adjustment of untimely used ICMS (state VAT) credits; (v) ITR (rural land tax); (vi) contribution to Funrural (rural worker assistance fund); (vii) ISSQN (service tax); (viii) salary premium for education; (ix) ICMS credit on fixed assets; (x) IRPJ on balance sheet monetary adjustment; (xi) union dues to the São Paulo State Regional Pharmacy Council; and (xii) PIS (tax on revenue). These proceedings total approximately R$43,065 – Company (R$61,224 – consolidated).

b) Civil lawsuits:

The Company and its subsidiaries are defendants in 178 other lawsuits involving: (i) indemnity for property damage and pain and suffering for occupational illness and accidents; (ii) indemnity for property damage and pain and suffering for traffic accidents; (iii) indemnity for nonpayment of group life insurance policies of employees; (iv) review of residential land sale agreements; (v) rectification of area and property register; (vi) disclosure of documents; (vii) mining survey license; and (viii) administrative and judicial environmental proceedings related principally to sugarcane mulch burning, which is part of the sugarcane harvest process and are based principally on different interpretations of laws and regulations applicable to the activity. These proceedings total approximately R$12,952 – Company (R$16,910 – consolidated).

The Company and its subsidiaries are parties to other tax and civil lawsuits, which are at various court levels and were classified by Management, based on the legal counsel's evaluation, as risk of possible loss and, accordingly, no provision has been recorded in the accounting books. The nature and amount of these lawsuits are as follows:

Tax lawsuits:

Nature	No. of lawsuits	Court				Total
		Administrative	Trial court	Lower court	Higher court	
(i) Social security	5	-	28,127	-	-	28,127
(ii) ICMS	1	-	-	10,908	-	10,908
(iii) Funrural	3	-	-	33	5,931	5,964
(iv) Income tax - negative balance	5	3,265	1,946	156	-	5,366
(v) Offset of PIS credits	2	2,914	-	1,292	-	4,206
(vi) Income tax on investment losses	2	-	-	1,396	-	1,396
(vii) Offset of federal taxes	5	860	130	1,083	-	2,074
(viii) Other tax law suits	21	928	60	2,196	-	3,184
Total	44	7,967	30,263	17,063	5,931	61,225

(i) *Social security contribution.* The National Institute of Social Security (INSS) filed four tax collection actions against the Company seeking collection of the social security contribution for 1997, since the amounts were determined according to Law No. 8212/92 and not according to Law No. 8870/94. At present, such tax collection actions are suspended because of an injunction intended to assure the Company's right not to pay the social security contribution according to Regulatory Guidance No. 7/97 and Service Order No. 157/97, alleging that the principles of legal security, equal treatment, contribution capacity, among others, were violated. The total amount of the tax collection actions is R$28,127. The case was not judged by the higher courts and are unresolved in the federal regional courts. There are favorable precedents (Injunction Appeal No. 98.05.39590-1 – 1st Panel of the Federal Regional Court of the 5th Region and Bill of Review No. 1998.01.00.043888-1 – 2nd Panel of the Federal Regional Court of the 1st Region) and unfavorable precedents (Injunction Appeal No. 94.03.047472-6 – 2nd Panel of the Federal Regional Court of the 3rd Region). On the other hand, Law No. 10,736, of September 15, 2003, was published, permitting remission of social security debts for the period from April 1994 to April 1997, relating to the payment of this social security contribution by agribusiness companies based on Law No. 8870/94; however, the INSS understood that the remission would not apply to the total amount of the debt, despite the classification of the social security debts under tax collection actions into Law No. 10,736/2003. Thus, as the remission of said social security debts will depend on an analysis of the special features of the concrete case, the Company's legal counsel understands that a favorable outcome in these cases is possible.

(ii) *ICMS (state VAT).* The State Finance Department filed a tax collection action against the Company seeking collection of ICMS, relating to credits considered undue that are derived from merged companies, unfounded recording, transfer of credits to Coopersucar in a hypothesis not set forth in CAT (Coordinating Committee of the Tax Administration Board) Administrative Rule No. 33/87, and also relating to the monetary adjustment of untimely used credits. The action was judged invalid by the trial court with regard to the untimely used credits. At present, the action is in the São Paulo State Court of Justice in view of the appeal filed by the Company against the unfavorable portion of the judgment. The amount involved is R$10,908. There is no established case law for the matters of the tax collection. The Company's legal counsel understands that a favorable outcome is possible.

(iii) *Funrural (rural worker assistance fund)*. The National Institute of Social Security (INSS) filed three tax collection actions against the subsidiary Usina São Martinho S.A., seeking collection of the Funrural contribution on the sale of the production acquired from suppliers for the periods from October 1991 to August 2001, based on Law No. 8212/91. The thesis discussed is that there was not sufficient legislation for the collection of this contribution, since Supplementary Law No. 11/71 was not considered by the Federal Constitution enacted in 1988 and, even if it had been considered, it would have been revoked by article 138 of Law No. 8213/91. Currently, two tax collection actions are in the Higher Courts due to an appeal against the unfavorable decision by the appelate court and a tax collection action in the appeal stage. The amount involved is R$5,964. There is no established case law for the matters of the tax collection. The Company's legal counsel understands that a favorable outcome is possible.

(iv) *Income tax – negative balance*. Usina São Martinho S.A. filed a request for refund with requests for offset of credits arising from negative balance of income tax of the merged company Usina São Martinho S.A. – Açúcar e Álcool for the year 1996, as stated in the Income Tax Return filed in 1997, against IRRF (withholding income tax), Cofins (tax on revenue), PIS (tax on revenue) and third parties' debts. For the determination of the negative balance for 1996, the IRRF on cash investments in 1993 and 1994 was offset. The Federal Revenue Service did not approve the offsets since it understood that the procedure adopted has no legal basis. Although there is an administrative appeal filed with the Board of Tax Appeals, the federal tax authorities filed four tax collection actions for the collection of these debts, which are suspended because of appeals. The adjusted amount of these actions is R$5,366. There is no established case law for the matters of this tax collection. The Company's legal counsel understands that a favorable outcome is possible.

(v) *Offset of PIS Credits*. In view of Federal Senate Resolution No. 49, of October 9, 1995, which suspended Decree-laws No. 2445 and No. 2449, both of 1998, Usina São Martinho S.A. filed a request for refund and offset of the amounts paid according to said decrees and that exceeded the amounts due according to Supplementary Law No. 7/70. The Federal Revenue Service did not approve the offsets made under the allegation that the right to refund had expired. Although there is an administrative appeal in the Board of Tax Appeals, the federal tax authorities filed two tax collection actions for the collection of these debts, which are suspended because of the bringing of motions. The adjusted amount of this action is R$4,206. There are unfavorable precedents at the administrative level and favorable precedents at the judicial level. The Company's legal counsel understands that a favorable outcome is possible.

(vi) *Income Tax on Investment Losses*. The Federal Revenue Service filed two tax collection actions against the merged company Usina São Martinho S.A. – Açúcar e Álcool seeking collection of corporate income tax (IRPJ) for the period from 1987 to 1991 (tax years 1986 to 1990) on the provision for investment losses arising from the interest in Coopersucar, based on article 32 and paragraphs of Decree law No. 1598/77. At present, the tax collection actions are in the higher court due to appeals filed against the unfavorable decision by the trial court. The adjusted amount of these actions is R$1,396. There is no established case law for the matters of the present tax collection actions. The Company's legal counsel understands that a favorable outcome is possible.

(vii) *Offset of federal taxes*. The Federal Revenue Service sent several collection notices to São Martinho S.A. seeking collection of several federal taxes of the Company and third parties that were offset by the Company against credits arising from: (a) IPI (federal VAT) on purchases of raw material, intermediate products and packaging materials until December 31, 1998 and used in the Company's industrial process, based on article 82, item I, Decree No. 87,981/82 and Regulatory Instruction No. 114/88 of the Federal Revenue Service; (b) overpayment of Finsocial (tax on revenue) on gross revenue at the rates established by article 9 of Law No. 7689/88, article 7 of Law 7894/89 and article 1 of Law 8147/90, which were subsequently declared unconstitutional; (c) negative balances of income tax arising from withholding income tax on cash investments, determined in tax years 1997, 1998 and 1999, which were offset against ITR (rural land tax) payable and gave rise to three tax collection actions. Against these collections the Company filed an annulment action to assure its right to offset. The collections are suspended by escrow deposits. The adjusted amount of these actions is R$2,074. There is no established case law for the matters of the present tax collection. The Company's legal counsel understands that a favorable outcome is possible.

(viii) Other Tax Lawsuits. Refer to several administrative and judicial collection proceedings filed by the INSS, federal, state and municipal tax authorities and professional organizations related, respectively, to differences in payroll taxes of rural workers and independent contractors, other offsets of federal taxes, ICMS (state VAT) on puchase of fixed assets, differences in ISS (municipal service tax) and payment of dues to the Regional Pharmacy Council of the State of São Paulo. The adjusted amount of these proceedings is R$3,184. There is no established case law for the matters of the present tax collection actions. The Company's legal counsel understands that a favorable outcome is possible.

Civil Lawsuits:

	Nature	No. of lawsuits	Court				Total
			Administrative	Trial court	Lower court	Higher court	
(i)	*Environmental*	106	1,690,227.20	4,909,801.36	5,270,255.60	1,621,982.01	13,492,266.17
(ii)	*Civil*						
(a)	Indemnity for occupational illness and	33	-	1,581,280.00	560,000.00	-	2,141,280.00
(b)	Indemnity for property damage and pain and suffering	11	-	885,066.67	289,818.88	-	1,174,885.55
(c)	Review of agreements	20	-	9,549.92	29,236.57	-	38,786.49
(d)	Rectification of area and property register	1	-	-	-	-	-
(e)	Disclosure of documents	2	-	-	-	-	-
(f)	Mining survey license	5	-	63,314.45	-	-	63,314.45
		178	1,690,227.20	7,449,012.40	6,149,311.05	1,621,982.01	16,910,532.66

(i) *Environmental*. The Company is a party to several administrative and judicial proceedings relating principally to sugarcane burning. Regarding sugarcane burning, the matters arise from different interpretations of the applicable laws and regulations, although they can be divided into two groups: (i) burning upon tacit authorization of the state government, in view of the inaction in the regulation of Law No. 10,547, of May 2, 2000, since this Law determined tacit authorization in the absence of action on authorization requests filed more than 15 days ago; and (ii) burning from fire caused by third parties, accidential fire or arson, in areas operated by the Company or its subsidiaries or areas of suppliers. The adjusted amount of these proceedings is R$13,492. There is no established case law for the matters of the present proceedings. The Company's legal counsel understands that a favorable outcome is possible, considering the special features of each case.

(ii) The Company and its subsidiaries are defendants in 72 other lawsuits involving the following matters: (a) indemnity for occupational illness and accidents; (b) indemnity for property damage and pain and suffering; (c) review of agreements; (d) rectification of area and property register; (e) disclosure of documents; and (f) mining survey license. These lawsuits total approximately R$3,418. There is no established case law for the matters discussed in these lawsuits. The Company's legal counsel understands that a favorable outcome is possible, considering the special features of each case.

The Management of the Company and its subsidiaries, based on the legal counsel's opinion, understands that there are no significant risks not covered by sufficient provisions in their financial statements or that might result in a significant impact on future results.

20. FINANCIAL INSTRUMENTS

20.1. General considerations of risk management

Financial instruments are stated in the balance sheet at cost plus related income and expenses. Financial instruments consist of temporary cash investments, trade accounts receivable and onlendings from COPERSUCAR, and loans and financing, and related charges are presented in the respective notes to the financial statements.

Since the responsibility for sale of the sugar and alcohol produced by the Company and its subsidiary Usina São Martinho S.A. lies with COPERSUCAR, the risk management policy that guarantees the protection of cooperative members against fluctuations in exchange rates or prices of their products is the responsibility of the Cooperative, which enters into hedge contracts in the futures market for commodities and exchange rates. COPERSUCAR has a Risk Management Committee formed by 3 members of the respective Board of Directors, which determines the strategy of these operations. Gains or losses on hedge transactions conducted by COPERSUCAR are passed through to the cooperative members according to monthly apportionments.

20.2. Temporary cash investments

Consist principally of repurchase agreements backed by government securities and CDBs (bank certificates of deposit) indexed to the CDI (interbank deposit rate), with high liquidity and trading on the market.

20.3. Concentration of credit risk

The credit risk is small due to the diversification of the customer portfolio and the risk control procedures of COPERSUCAR. Historically, the Company has not recorded the pass-through of significant losses on the Cooperative's trade accounts receivable.

20.4. Loans and financing and payables to COPERSUCAR

Loans and financing are represented by rural credit, financing from the BNDES and short-term working capital loans and are subject to market interest rates. Long-term loans and financing as of October 30, 2006, if stated at present value calculated at the annual interest rate of 13%, would amount to R$41,539 (R$119,607 – consolidated).

Payables to COPERSUCAR refer to funds obtained by the Cooperative at more attractive interest rates from those that would be obtained by cooperative members and cash surplus with low interest rate or free of interest. Such payables as of October 31, 2006, if stated at present value calculated at the annual interest rate of 13%, would amount to R$44,797 (R$160,702 – consolidated).

21. MANAGEMENT FEES

In the six-month periods ended October 31, 2006 and 2005, respectively, the Company paid R$1,616 and R$1,034 (R$4,015 and R$1,414, consolidated) for management fees. These amounts consist principally of the compensation of the executive board and board of directors and respective payroll charges.

22. INSURANCE COVERAGE

It is Company's and its subsidiaries' policy to maintain insurance coverage for assets subject to risks, such as industrial equipment and inventories, safekept by them as depositary, in an amount considered sufficient by Management to cover potential losses, according to the nature of the operations and the risk guidance from specialized consultants. Insurance coverage as of October 31, 2006 is as follows:

Policy No.	Coverage	Effective period	Coverage amount
4092884	Fire and risks of industrial machinery breakdown	June 2006 to May 2007	125,000
1501304750	Bus	December 2005 to December 2006	26,000
413100	Farm machinery	November 2005 to November 2006	7,314
3269948/9/51	Farm machinery	January 2006 to January 2007	3,600
102700/8225	Farm machinery	August 2006 to September 2007	3,660
3310307744	Vehicles	June 2006 to June 2007	581
3202051	Farm machinery	February 2006 to February 2007	700
6671	Vehicles and bus	June 2006 to June 2007	164,875
4000649	Fire and risks of industrial machinery breakdown	June 2006 to May 2007	75,200
102696/7/8124	Farm machinery	August 2006 to September 2007	16,330
413099	Farm machinery	November 2005 to November 2006	8,825
3269947	Farm machinery	January 2006 to January 2007	3,072
96000637	Fire	September 2006 to September 2007	750
292226	Vehicles	June 2006 to June 2007	521
13300670/1/2	Vehicles	May 2006 to May 2007	290
4093759	Fire and risks of industrial machinery breakdown	June 2006 to May 2007	12,500
372363	Vehicles	July 2006 to July 2007	7,407
102860/4306	Farm machinery	August 2006 to August 2007	3,171
142765	Fire	September 2006 to September 2007	450

23. SUBSEQUENT EVENTS

In the Extraordinary Shareholders' Meeting held on November 24, 2006, the Company's shareholders approved the proposal to list the Company's shares on the Bolsa de Valores de São Paulo -BOVESPA (São Paulo Stock Exchange), with the Company entering BOVESPA New Market ("Novo Mercado"), as well as to authorize the Company's Executive Board to take all actions necessary to implement these resolutions, including changes to the composition of the Board of Directors and to the bylaws, as required by the applicable standards.

At the same Extraordinary Shareholders' Meeting, the shareholders approved the split of the Company's shares in the proportion of one (1) new common share to each one (1) common share existing on November 1, 2006, without change in the capital, and approved the amendment to the bylaws in order to meet the rules provided for adhesion to the New Market. Among these amendments, the resolution covers increase in the mandatory minimum dividend to 25% of net income for the year, adjusted according to the terms of paragraph 202 of Law 6,404/76.

At the Extraordinary Shareholders' Meeting held on January 12, 2007, the shareholders approved the new wording of the Company's by-laws to meet the requirements of the CVM and Bovespa (São Paulo Stock Exchange) for publicly-traded company registration, public offering of shares, listing of shares with Bovespa and adoption of the New Market Regulation.

24. COMBINED FINANCIAL STATEMENTS

In view of the relevance of the merger of shares of Usina São Martinho S.A. into the Company mentioned in note 1.5 and of the fact that the Company and Usina São Martinho S.A. were under common management and control before this merger of shares, the Company decided to present combined balance sheets as of April 30, 2006 and combined statements of income for the six-month period ended October 31, 2005, considering all operations of the Company and Usina São Martinho S.A. and their subsidiaries. This information is presented to provide the financial statement readers with a broader view of the Company's operations considering the merger of shares. The consolidated balance sheet and consolidated statement of income as of October 31, 2006 already represent the Company' total operations after the merger of shares, which is the reason why combined financial statements for this base date and period are not required.

The balance sheet and statement of income are referred to as "combined" because, as of April 30, 2006 and October 31, 2005, the Company was not yet the controlling shareholder of Usina São Martinho S.A. Therefore, said financial statements cannot be referred to as "consolidated". The combination procedures adopted in preparing said financial statements are the all usual consolidation criteria.

The combined balance sheet and combined statement of income include the accounts of the following companies, in the proportions stated, with applicable eliminations:

- 100% of assets, liabilities, revenues, costs and expenses of São Martinho S.A., Usina São Martinho S.A., Omtek Indústria e Comércio Ltda. and Usina Boa Vista S.A..

- 15.7% of assets, liabilities, revenues, costs and expenses of Mogi Agrícola S.A..

With the purpose of providing information that allows to assess the relevance of the merger of shares of Usina São Martinho S.A. into the Company, the combined balances are shown among those arising from the consolidated financial statements of the Company and of Usina São Martinho S.A., the applicable eliminations and the combined ending balances.

The eliminations presented consist of the balances existing and transactions conducted between the companies, as well as the portion corresponding to the 11.4% interest that the Company previously held in Usina São Martinho S.A., used for purposes of consolidation of its financial statements through April 30, 2006, according to the rules provided for in CVM (Brazilian Securities and Exchange Commission) Instruction n°. 247.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

SÃO MARTINHO S.A.

COMBINED BALANCE SHEET AS OF APRIL 30, 2006

(In thousands of Brazilian reais – R$)

	Consolidated					Consolidated			
ASSETS	São Martinho S.A.	Usina São Martinho S.A.	Eliminations	Combined	LIABILITIES AND SHAREHOLDERS' EQUITY	São Martinho S.A.	Usina São Martinho S.A.	Eliminations	Combined
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and banks	1,053	1,327	(174)	2,206	Loans and financing	34,544	23,429	(2,671)	55,302
Temporary cash investments	35,705	74,048	(8,441)	101,312	Trade accounts payable	13,661	35,693	(4,083)	45,271
Receivables from Copersucar	12,722	36,487	(4,159)	45,050	Payables to Copersucar	796	1,106	(126)	1,776
Inventories	50,587	103,962	(11,851)	142,698	Payroll and related taxes	7,048	14,224	(1,621)	19,651
Recoverable taxes	9,356	4,181	(477)	13,060	Taxes payable	739	2,922	(308)	3,353
Other assets	4,963	19,362	(2,241)	22,084	Intercompany payables	8,725	53	(8,726)	52
	114,386	239,367	(27,343)	326,410	Dividends payable	1,644	3,426	(454)	4,616
					Other liabilities	47	2,258	(292)	2,013
LONG-TERM ASSETS						67,204	83,111	(18,281)	132,034
Intercompany receivables	-	9,768	(9,768)	-					
Deferred income and social contribution taxes	36,170	46,132	(5,259)	77,043	LONG-TERM LIABILITIES				
Other assets	1,708	2,239	(255)	3,692	Loans and financing	80,479	119,109	(13,578)	186,010
	37,878	58,139	(15,282)	80,735	Payables to Copersucar	73,754	146,914	(16,747)	203,921
					Deferred income and social contribution taxes	48,750	80,077	(9,128)	119,699
PERMANENT ASSETS					Provision for contingencies	10,621	61,526	(7,014)	65,133
Investments	60	93	(11)	142	Other liabilities	446	3,230	(368)	3,308
Property, plant and equipment	492,040	844,874	(99,048)	1,237,866		214,050	410,856	(46,835)	578,071
Deferred charges	218	903	(218)	903					
	492,318	845,870	(99,277)	1,238,911	MINORITY INTEREST	-	3,183	(3,183)	-
					SHAREHOLDERS' EQUITY				
					Capital	2,786	16,868	(1,923)	17,731
					Capital reserve	-	131	(15)	116
					Legal reserve	1,729	4,781	(545)	5,965
					Revaluation reserve	306,807	540,282	(61,589)	785,500
					Retained earnings	52,006	84,164	(9,531)	126,639
						363,328	646,226	(73,603)	935,951
TOTAL ASSETS	644,582	1,143,376	(141,902)	1,646,056	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	644,582	1,143,376	(141,902)	1,646,056

(Convenience Translation into English from the Original Previously Issued in Portuguese)

SÃO MARTINHO S.A.

COMBINED STATEMENT OF OPERATIONS FOR THE SIX-MONTH PERIOD ENDED OCTOBER 31, 2005
(In thousands of Brazilian reais - R$)

	Consolidated			
	São Martinho S.A.	Usina São Martinho S.A.	Eliminations	Combined
GROSS SALES	140,546	278,696	(31,769)	387,473
DEDUCTIONS FROM GROSS SALES	(11,669)	(21,635)	2,466	(30,838)
NET SALES	128,877	257,061	(29,303)	356,635
COST OF SALES	(101,970)	(171,683)	19,570	(254,083)
GROSS PROFIT	26,907	85,378	(9,733)	102,552
Operating (expenses) income:				
Selling expenses	(7,277)	(18,583)	2,118	(23,742)
General and administrative expenses	(13,426)	(24,920)	2,841	(35,505)
Management fees	(1,414)	(2,022)	230	(3,206)
Other operating income, net	355	62	(7)	410
	(21,762)	(45,463)	5,182	(62,043)
Income from operations before financial items	5,145	39,915	(4,551)	40,509
Financial income (expenses):				
Financial income	5,962	9,360	(1,067)	14,255
Financial expenses	(13,250)	(19,967)	2,276	(30,941)
Monetary and exchange gains	3,582	3,477	(396)	6,663
Monetary and exchange losses	(2,231)	(1,710)	195	(3,746)
	(5,937)	(8,840)	1,008	(13,769)
Income (loss) from operations	(792)	31,075	(3,543)	26,740
Nonoperating income	633	7	-	640
Income (loss) before income and social contribution taxes and income (loss) from spun-off net assets	(159)	31,082	(3,543)	27,380
Income and social contribution taxes - current	(1,198)	(8,213)	936	(8,475)
Income and social contribution taxes - deferred	767	(2,298)	262	(1,269)
	(431)	(10,511)	1,198	(9,744)
Net income from spun-off assets and liabilities	8,524	(1,924)	218	6,818
Net income	7,934	18,647	(2,127)	24,454

(Convenience Translation into English from the Original Previously Issued in Portuguese)

Companhia Industrial e Agrícola Ometto

Financial Statements for the Years Ended April 30, 2006, 2005 and 2004 and Independent Auditors' Report

Deloitte Touche Tohmatsu Auditores Independentes

Deloitte Touche Tohmatsu
Av. Dr. José Bonifácio Coutinho
Nogueira, 150 - 5° Andar - Sala 502
13091-611 - Campinas - SP
Brasil

Telefone: (19) 3707-3000
Fac-símile: (19) 3707-3001
www.deloitte.com.br

(Convenience Translation into English from the Original Previously Issued in Portuguese)

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of Companhia Industrial e Agrícola Ometto

Iracemápolis – SP

1. We have audited the accompanying individual (Company) and consolidated balance sheets of Companhia Industrial e Agrícola Ometto (the "Company") as of April 30, 2006, 2005 and 2004, and the related statements of operations, changes in shareholders' equity (Company), and changes in financial position for the years then ended, all expressed in Brazilian reais and prepared under the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.

2. Our audits were conducted in accordance with auditing standards in Brazil and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Company and its subsidiaries, (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed, and (c) evaluating the significant accounting practices and estimates adopted by Management, as well as the presentation of the financial statements taken as a whole.

3. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the individual (Company) and consolidated financial positions of Companhia Industrial e Agrícola Ometto and subsidiaries as of April 30, 2006, 2005 and 2004, and the results of their operations, the changes in shareholders' equity (Company), and the changes in their financial positions for the years then ended in conformity with Brazilian accounting practices.

4. As mentioned in note 2.1, the Management of the Company and its subsidiaries decided to restate the financial statements for the years ended April 30, 2005 and 2004, with the purpose of: (a) conforming them to the accounting practices that best reflect their financial positions and the results of their operations; (b) complying with standards of the Federal Accounting Council (CFC) and the Brazilian Institute of Independent Auditors (IBRACON), mainly those related to the revaluation of property, plant and equipment; and (c) including the consolidated financial statements.

5. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

Campinas, September 18, 2006

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

José Carlos Amadi
Engagement Partner

(Convenience Translation into English from the Original Previously Issued in Portuguese)

COMPANHIA INDUSTRIAL E AGRÍCOLA OMETTO

BALANCE SHEETS AS OF APRIL 30, 2006, 2005 AND 2004
(In thousands of Brazilian reais - R$)

	Company			Consolidated				Company			Consolidated		
ASSETS	2006	2005	2004	2006	2005	2004	LIABILITIES AND SHAREHOLDERS' EQUITY	2006	2005	2004	2006	2005	2004
CURRENT ASSETS							CURRENT LIABILITIES						
Cash and banks	853	4,899	4,589	1,053	6,653	24,757	Loans and financing	24,090	10,058	12,153	34,544	21,747	21,157
Temporary cash investments	19,676	11,307	5,004	35,705	19,014	10,795	Trade accounts payable	9,225	15,123	7,396	13,661	19,328	9,771
Receivables from Copersucar	8,562	9,639	17,298	12,722	12,665	21,500	Payables to Copersucar	670	4,776	17,735	796	6,229	24,307
Inventories	36,298	37,852	34,093	50,587	52,028	43,875	Payroll and related taxes	5,096	4,035	2,893	7,048	5,528	4,363
Recoverable taxes	3,214	2,687	2,563	9,356	6,382	7,267	Taxes payable	405	2,340	1,790	739	2,699	1,951
Other assets	2,145	1,898	3,634	4,963	3,278	7,777	Intercompany payables	9,767	16,538	3,482	8,725	12,289	3,309
	70,748	68,282	67,181	114,386	100,020	115,971	Dividends payable	1,254	567	-	1,644	567	-
							Other liabilities	143	181	41	47	529	420
LONG-TERM ASSETS								50,650	53,618	45,490	67,204	68,916	65,278
Intercompany receivables	1,283	8	2,270	-	10,523	2,168	LONG-TERM LIABILITIES						
Deferred income and social contribution taxes	30,514	37,240	35,891	36,170	43,514	44,011	Loans and financing	66,826	60,136	60,713	80,479	82,812	96,927
Other assets	1,389	1,210	727	1,708	2,006	2,058	Payables to Copersucar	57,007	55,198	53,164	73,754	71,229	67,680
	33,186	38,458	38,888	37,878	56,043	48,237	Deferred income and social contribution taxes	38,528	37,907	35,137	48,750	48,206	46,181
							Provision for contingencies	3,608	2,511	3,070	10,621	8,329	8,575
PERMANENT ASSETS							Other liabilities	67	-	2	446	621	873
Investments	91,198	84,540	78,433	60	60	60		166,036	155,752	152,086	214,050	211,197	220,236
Property, plant and equipment	384,882	370,152	359,744	492,040	473,410	465,199							
Deferred charges	-	-	-	218	6	4	SPUN-OFF LIABILITIES	-	2,321	2,544	-	2,321	2,548
	476,080	454,692	438,177	492,318	473,476	465,263							
							SHAREHOLDERS' EQUITY						
SPUN-OFF ASSETS	-	13,122	12,079	-	15,758	14,796	Capital	2,786	20,267	20,267	2,786	20,267	20,267
							Legal reserve	1,729	1,729	1,231	1,729	1,729	1,231
							Revaluation reserve	306,807	314,327	321,627	306,807	314,327	321,627
							Retained earnings	52,006	26,540	13,080	52,006	26,540	13,080
								363,328	362,863	356,205	363,328	362,863	356,205
TOTAL ASSETS	580,014	574,554	556,325	644,582	645,297	644,267	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	580,014	574,554	556,325	644,582	645,297	644,267

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

COMPANHIA INDUSTRIAL E AGRÍCOLA OMETTO

STATEMENTS OF OPERATIONS FOR THE YEARS ENDED APRIL 30, 2006, 2005 AND 2004
(In thousands of Brazilian reais - R$)

	Company			Consolidated		
	2006	2005	2004	2006	2005	2004
GROSS SALES	234,455	198,653	170,415	314,059	265,588	224,757
DEDUCTIONS	(24,451)	(19,586)	(17,383)	(31,589)	(25,537)	(21,731)
NET SALES	210,004	179,067	153,032	282,470	240,051	203,026
COST OF SALES	(156,356)	(130,808)	(112,972)	(206,576)	(170,363)	(147,456)
GROSS PROFIT	53,648	48,259	40,060	75,894	69,688	55,570
Operating (expenses) income:						
Selling expenses	(7,709)	(13,122)	(15,320)	(11,201)	(17,829)	(20,137)
General and administrative expenses	(19,569)	(17,902)	(20,562)	(26,842)	(24,426)	(26,555)
Management fees	(2,034)	(2,046)	(2,027)	(2,794)	(2,759)	(2,691)
Equity in subsidiary and jointly-owned subsidiaries	6,778	6,846	(1,718)	-	-	-
Other operating (expenses) income, net	533	899	297	583	921	(38)
	(22,001)	(25,325)	(39,330)	(40,254)	(44,093)	(49,421)
Income from operations before financial items	31,647	22,934	730	35,640	25,595	6,149
Financial income (expenses):						
Financial income	11,869	9,267	10,506	16,537	14,144	12,544
Financial expenses	(22,686)	(21,743)	(19,254)	(28,699)	(28,959)	(24,587)
Monetary and exchange gains	3,446	2,538	2,064	5,962	2,657	2,640
Monetary and exchange losses	(4,728)	(2,183)	(3,880)	(6,200)	960	(5,470)
	(12,099)	(12,121)	(10,564)	(12,400)	(11,198)	(14,873)
Income (loss) from operations	19,548	10,813	(9,834)	23,240	14,397	(8,724)
Nonoperating income (expenses)	179	(192)	(103)	301	(69)	(843)
Income (loss) before income and social contribution taxes and income (loss) from spun-off net assets	19,727	10,621	(9,937)	23,541	14,328	(9,567)
Income and social contribution taxes – current	(32)	7	949	(3,067)	(2,418)	202
Income and social contribution taxes – deferred	(7,069)	(1,421)	1,784	(7,610)	(2,522)	2,320
	(7,101)	(1,414)	2,733	(10,677)	(4,940)	2,522
Net income from spun-off assets and liabilities	8,262	746	816	8,024	565	657
Net income (loss)	20,888	9,953	(6,388)	20,888	9,953	(6,388)
Earnings (loss) per share at end of year – (in R$)	0.61	0.29	(0.19)	0.61	0.29	(0.19)

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

COMPANHIA INDUSTRIAL E AGRÍCOLA OMETTO

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (COMPANY)
FOR THE YEARS ENDED APRIL 30, 2006, 2005 AND 2004
(In thousands of Brazilian reais - R$)

	Capital	Legal reserve	Revaluation reserves			Retained earnings	Total
			Company	In subsidiaries	Total		
BALANCES AS OF APRIL 30, 2003	20,267	1,231	258,298	71,497	329,795	13,597	364,890
Dividends paid from retained earnings						(2,920)	(2,920)
Additional revaluation reserve				623	623		623
Realization of revaluation reserve			(5,025)	(3,766)	(8,791)	8,791	-
Net loss						(6,388)	(6,388)
BALANCES AS OF APRIL 30, 2004	20,267	1,231	253,273	68,354	321,627	13,080	356,205
Dividends paid from retained earnings						(2,727)	(2,727)
Realization of revaluation reserve			(5,441)	(1,859)	(7,300)	7,300	-
Net income						9,953	9,953
Proposed allocation of net income:							
- Legal reserve		498				(498)	-
- Proposed dividends						(568)	(568)
BALANCES AS OF APRIL 30, 2005	20,267	1,729	247,832	66,495	314,327	26,540	362,863
Capital reduction due to spin-off (see note 1.3.)	(17,481)						(17,481)
Realization of revaluation reserve			(5,348)	(2,172)	(7,520)	7,520	-
Dividends paid from retained earnings						(1,689)	(1,689)
Net income						20,888	20,888
Proposed allocation of net income:							
- Proposed dividends						(1,253)	(1,253)
BALANCES AS OF APRIL 30, 2006	2,786	1,729	242,484	64,323	306,807	52,006	363,328

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

COMPANHIA INDUSTRIAL E AGRÍCOLA OMETTO

STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED APRIL 30, 2006, 2005 AND 2004
(In thousands of Brazilian reais - R$)

	Company			Consolidated		
	2006	2005	2004	2006	2005	2004
SOURCES OF FUNDS						
From operations						
Net income (loss)	20,888	9,953	(6,388)	20,888	9,953	(6,388)
Items not affecting working capital:						
Provision for contingencies	1,389	327	137	2,200	314	152
Equity in subsidiary and jointly-owned subsidiaries	(6,778)	(6,846)	1,718	-	-	-
Allowance for investment losses	-	-	-	-	-	356
Loss from spun-off assets and liabilities without effect on working capital	(8,262)	(746)	(816)	(8,024)	(565)	(657)
Net book value of permanent assets written off	224	501	255	373	518	2,569
Depreciation and amortization	26,719	22,478	21,406	34,683	29,758	27,976
Charges on long-term assets and liabilities	(3,028)	3,699	2,037	(3,250)	4,296	3,815
Deferred income and social contribution taxes	7,069	1,421	(1,784)	7,610	2,522	(2,320)
Decrease in investment share due to spin-off	2,443	-	-	-	-	-
Adjusted net income	40,664	30,787	16,565	54,480	46,796	25,503
Other sources:						
Decrease in long-term assets, net	8,700	1,818	-	23,063	-	1,386
Decrease in spun-off assets and liabilities, net	1,582	-	542	3,980	-	-
Increase in long-term liabilities, net	11,269	-	28,399	1,238	-	52,878
Dividends received	861	739	372	-	-	-
Total sources	63,076	33,344	45,878	82,761	46,796	79,767
USES OF FUNDS						
In long-term assets	9,843	-	29	9,843	6,205	-
In spun-off assets and liabilities, net	-	520	-	-	624	843
In permanent assets:						
Investments	3,184	-	-	-	-	597
Property, plant and equipment	41,673	33,387	27,814	53,654	38,486	34,006
Deferred charges	-	-	-	244	3	-
Decrease in long-term liabilities, net	-	3,169	-	-	17,772	-
Dividends paid	1,689	2,727	2,920	1,689	2,727	2,920
Proposed dividends	1,253	568	-	1,253	568	-
Total uses	57,642	40,371	30,763	66,683	66,385	38,366
INCREASE (DECREASE) IN WORKING CAPITAL	5,434	(7,027)	15,115	16,078	(19,589)	41,401
REPRESENTED BY:						
Current assets						
At end of year	70,748	68,282	67,181	114,386	100,020	115,971
At beginning of year	68,282	67,181	56,577	100,020	115,971	74,202
	2,466	1,101	10,604	14,366	(15,951)	41,769
Current liabilities						
At end of year	50,650	53,618	45,490	67,204	68,916	65,278
At beginning of year	53,618	45,490	50,001	68,916	65,278	64,910
	(2,968)	8,128	(4,511)	(1,712)	3,638	368
INCREASE (DECREASE) IN WORKING CAPITAL	5,434	(7,027)	15,115	16,078	(19,589)	41,401

The accompanying notes are an integral part of these financial statements.

1. OPERATIONS

1.1. Operations

The Company is primarily engaged in planting sugarcane and manufacturing and selling sugar, alcohol and other sugarcane byproducts; cattle raising and agricultural exploitation; import and export of goods, products and raw material, and holding of equity interest in other companies.

Approximately 75% of the sugarcane used in the manufacture of products is obtained from the Company's crops, shareholders, related companies and agricultural partnerships, and 25% is obtained from third-party suppliers.

Sugarcane planting demands a 18-month period for maturing and for the beginning of the harvest, which generally takes place between April and November of each year, during which sugar and alcohol are produced. The sale of the production is made throughout the course of the year and, thus, the Company's revenues are not subject to seasonality.

1.2. Association with COPERSUCAR

The Company is associated with the Cooperativa de Produtores de Cana, Açúcar e Álcool do Estado de São Paulo Ltda. – COPERSUCAR (Cooperative of Sugarcane, Sugar and Alcohol Producers of the State of São Paulo) [also called the "Cooperative"], whose cooperative by-laws signed by the parties require the Company to make 100% of its production of sugar and alcohol available to COPERSUCAR.

The production made available physically remains at the Company's warehouses, whose rights of use are granted to COPERSUCAR. The Company's Agroindustrial Director is the trustee of inventories physically stored in its warehouses. The removal of the production due to its sale by COPERSUCAR is carried out according to the logistics established by the Cooperative.

As established in COPERSUCAR's by-laws, revenue from the sale of these products and expenses incurred due to the Cooperative's operations are allocated by COPERSUCAR to each cooperative member, proportionally to the respective products made available, regardless the physical amount removed from the cooperative member's warehouses. Revenues allocated to each cooperative member are increased or decreased due to quality and logistic differentials, established by COPERSUCAR's Board of Directors in each crop. COPERSUCAR uses the accrual basis to allocate revenues and expenses to its cooperative members in conformity with Brazilian accounting practices and Regulatory Opinion n°. 66, issued by the CST (Coordination of the Taxation System) on September 5, 1986.

The amounts of revenues and expenses calculated by COPERSUCAR upon the apportionment for each cooperative member, including the inventory amounts to be written off against cost of sales, are reported in specific and detailed reports according to the nature of the event. The total amount is recorded in accounting books and presented in the Cooperative's financial statements, which are audited by independent auditors, ending April 30 of each year.

For the year ended April 30, 2006, revenues from transactions with COPERSUCAR accounted for approximately 94% of the Company's revenue (95% in 2005 and 2004), according to the amounts showed below:

	Company			Consolidated		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
Sugar sales	106,048	95,477	92,302	140,649	124,689	118,527
Alcohol sales	124,592	94,884	68,726	163,792	122,520	85,686
Export adjustments	(9,791)	(1,585)	–	(12,985)	(2,056)	–
Total sales derived from COPERSUCAR	220,849	188,776	161,028	291,456	245,153	204,213
Sodium salt				13,959	12,602	14,140
Other sales	13,606	9,877	9,387	8,644	7,833	6,404
Total gross sales	**234,455**	**198,653**	**170,415**	**314,059**	**265,588**	**224,757**

Export adjustments refer to the results of settlement of commodity future contracts used by the Cooperative to minimize exposure to commodity risk on sugar exports. These amounts are recorded by cooperative members based on their proportionate share.

Selling and administrative expenses arising from the Cooperative allocations accounted for 60% of operating expenses recorded by the Company (59% in 2005 and 61% in 2004). These expenses include expenses on the sale process, logistics and distribution, port and administrative expenses.

The Cooperative also provides its cooperative members with operating and economic guidance, in addition to the reciprocal use of administrative, technological, financial and legal services.

The Company's officers and shareholders participate in COPERSUCAR's management, holding two positions on the Board of Directors, one position on the Advisory Board and one position on the Administrative Committee, whose terms of office expire in 2009, and one position on the Fiscal Council, whose term of office expires in 2007.

1.3. Partial spin-off of assets and liabilities

On March 31, 2006, the Company completed a spin-off of certain assets and liabilities not related to the planting of sugarcane and production of sugar and alcohol, which were transferred to an affiliate. The spin-off was approved by the Extraordinary Shareholders' Meeting held on April 30, 2006.

The summary of spun-off assets and liabilities, according to the book value appraisal report as of March 31, 2006 issued by independent appraisers, is presented below:

	Spun-off net assets
	03/31/2006
Current assets	49
Long-term assets	
Loans	
Agropecuária do Cachimbo S.A.	617
Imobiliária Paramirim S.A.	755
Monte Sereno Agrícola Ltda.	799
Compulsory deposits – Eletrobrás	154
Receivables from the sale of lots of the "Lagoa Nova" real estate project	6,745
	9,070
Permanent assets	
Investments in related companies accounted for under the equity method	
Agropecuária do Cachimbo S.A.	2,015
Agropecuária Vale do Corumbataí S.A.	3,039
Boa Vista Agrícola e Pecuária Ltda.	8,599
Goodwill on the acquisition of investment in related company	
Agropecuária Vale do Corumbataí S.A.	15
Other investments	98
Property, plant and equipment	701
	14,467
Total assets	**23,586**
Current liabilities	
Provision for shareholders' deficit of investees	
Monte Sereno Agrícola Ltda.	(47)
Agropecuária Caieira do Norte S.A.	(2)
Long-term liabilities	
Loans	
Boa Vista Agrícola e Pecuária Ltda.	(3,485)
PIS and COFINS (taxes on revenue) on the sale of real properties	(404)
Deferred income and social contribution taxes on the sale of real properties receivable	(2,167)
	(6,056)
Total liabilities	(6,105)
Total spun-off net assets	17,481

As of April 30, 2005 and 2004, the balances of assets and liabilities composing the spun-off net assets, in addition to revenues, expenses and the related tax effects for the years ended April 30, 2006, 2005 and 2004, are presented in specific lines of the individual and consolidated financial statements for the segregation of other balances representing the planting of sugarcane and the production of sugar and alcohol, and to allow for comparative analysis with the Company's activities of prior years, exempt from these effects.

Net income (loss) arising from spun-off assets and liabilities presented in the statement of operations is net of R$732, R$149 and (R$194), of Income and Social Contribution taxes, for the years ended April 30, 2006, 2005 and 2004, respectively.

In the year ended April 30, 2006, the largest impacts on the result arising from spun-off assets and liabilities derive from equity gains in subsidiaries of R$6,770 and net gain on the sale of real properties of R$1,346.

2. PRESENTATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING PRACTICES

2.1. Restatement of previously issued financial statements

The financial statements of the Company, the jointly-owned subsidiary Usina São Martinho S.A and the subsidiary OMTEK Indústria e Comércio Ltda. for the years ended April 30, 2005 and 2004, originally published on August 16, 2005, have been restated. The Management of the Company, of Usina São Martinho S.A. and OMTEK Indústria e Comércio Ltda. voluntarily decided to restate these financial statements with the purpose of: (a) conforming them to the accounting practices that best reflect their financial positions and the results of their operations; (b) complying with the standards of the Federal Accounting Council (CFC) and the Brazilian Institute of Independent Auditors (IBRACON), mainly those related to the revaluation of property, plant and equipment; and (c) including the consolidated financial statements.

The reconciliation between the Company's shareholders' equity and net income (loss) previously disclosed and the balances included in the restated financial statements is as follows:

	Net income (loss)		Shareholders' equity	
	2005	2004	2005	2004
Balances previously disclosed	12,758	2,387	137,515	128,075
Revaluation of the Company's and subsidiaries' assets recorded in 2003	(7,651)	(7,434)	250,062	257,713
Securitized financing	4,062	2,587	15,100	11,038
Provision for contingencies	(327)	(241)	(3,275)	(2,948)
Effects arising from change of accounting practice related to recognition of revenue from sale of lots to accrual basis	–	(6,004)	(6,004)	(6,004)
Other	(198)	(924)	(3,453)	(3,278)
Income and social contribution taxes – current and deferred	1,309	3,241	(27,082)	(28,391)
Restated balances	9,953	(6,388)	362,863	356,205

Additionally, the Company reversed the capitalization of the revaluation reserve performed in 1997, in the amount of R$75,733, returning the respective amount to the revaluation reserve account, without changing the number of shares. This reversal does not affect the Company's resultof operations or total shareholders' equity.

The accounting books were reopened to record the aforementioned adjustments. The reopening of accounting books for the years ended April 30, 2005 and 2004 was approved by the Extraordinary Shareholders' Meeting held on June 24, 2006.

The aforementioned adjustments will be discussed by the Company's shareholders in an Extraordinary Shareholders' Meeting scheduled for September 28, 2006.

2.2. Significant accounting practices

The financial statements have been prepared in accordance with Brazilian accounting practices. The significant accounting practices adopted in the preparation of the financial statements are as follows:

(a) Results of operations: The Company's results are recorded on the accrual basis. Income earned and expenses incurred on cooperative member transactions and in support and management activities informed by COPERSUCAR are recorded in results of operations based on monthly allocations, defined according to the Company's production in relation to other cooperative members, in conformity with CST Regulatory Opinion nº. 66, of September 5, 1986, and the accrual basis.

(b) Temporary cash investments: Stated at cost plus income earned through the balance sheet dates, which does not exceed market value.

(c) Trade accounts receivable: Recorded based on information received from COPERSUCAR. Represents the net balance receivable by the Company based on its proportional share of the Cooperative's income and expenses, and of advances received on future sales. The expense related to the allowance for doubtful accounts is transferred to cooperative members proportionally when recognized by the Cooperative.

(d) Inventories: Stated at average acquisition or production cost, which does not exceed the respective replacement and/or realizable value. Costs incurred on maintenance of sugarcane crops are stated as crop treatment under the caption sugarcane – crops and are recorded at cost (results of operations) upon the harvest of said crop.

(e) Investments: Significant investments in subsidiaries and jointly-owned subsidiaries are accounted for under the equity method, based on the financial statements as of the same date of the Company's financial statements. Investment in cooperative is stated at cost less a provision to reflect the reimbursement amount stipulated in the by-laws.

(f) Property, plant and equipment: Land, buildings, industrial equipment and facilities are stated at cost of acquisition or construction plus revaluation at values as of April 30, 2003. Other property, plant and equipment items are stated at cost of acquisition or construction. Depreciation is calculated under the straight-line method, based on the estimated useful lives of the assets, at the following annual rates, defined in the revaluation report, when applicable: buildings and improvements – 7.67%; industrial machinery, equipment and facilities – 15.54%; vehicles – 20%; agricultural machinery and implements – 25% and other – 15.03%. Depreciation of costs to grow sugarcane crops is calculated under the straight-line method, considering an estimated useful life of five years, after the beginning of cutting, based on the proportion of production to date in relation to total estimated production. Maintenance costs that result in the extension of the useful life of property, plant and equipment are capitalized. Maintenance costs that do not extend the useful life of the assets are recognized as expenses when incurred. Asset items, that are useful only during one harvest period, are capitalized when acquired or replaced, and the respective depreciation is charged to operations during the subsequent harvest period.

(g) Deferred charges: In the Company's consolidated financial statements, deferred charges represent costs relating to the implementation of an integrated management system in the jointly-owned subsidiary Usina São Martinho S.A., and the amortization is calculated under the straight-line method, considering an estimated useful life of 5 years; and by costs incurred on the construction of the industrial plant of the indirect subsidiary Usina Boa Vista S.A., which is still in the preoperating stage, whose amortization will be calculated under the straight-line method when the plant starts its regular operations, based on a rate to be timely defined according to the estimated time of the future benefit.

(h) Receivables and payables: Assets and liabilities subject to monetary and exchange variations are actualized through the balance sheet date. These variations are recorded in results of operations.

(i) Income and social contribution taxes: Provisions for income and social contribution taxes are calculated based on book income, adjusted by permanent additions and deductions at the rates of 15% plus a 10% surtax for income exceeding R$240 for income tax, and at the rate of 9% for social contribution tax. Income and social contribution taxes on temporary differences, on the revaluation of property, plant and equipment and tax loss carryforwards are recognized in the financial statements as deferred debits and credits, and are classified in the balance sheets as long-term assets and liabilities, complying with the provisions of IBRACON Accounting Standard and Procedure (NPC) nº. 25.

(j) Use of estimates: The preparation of financial statements in conformity with Brazilian accounting practices requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Main estimates related to the financial statements refer to the allowance for investment losses, provision for contingencies, amortization and depreciation.

(k) Earnings (loss) per share: Calculated based on the number of shares outstanding at the balance sheet date.

3. CONSOLIDATION CRITERIA

The consolidated financial statements as of April 30, 2006, 2005 and 2004 include the following subsidiary and jointly-owned subsidiaries:

Company	Main activities
Usina São Martinho S.A. ("USM") – jointly-owned subsidiary with 11.40% interest in capital	Processing of sugarcane, own production and production acquired from third parties, manufacture and sale of sugar, alcohol and their byproducts, agricultural exploitation and cattle raising, import and export of goods, products and raw material, and holding of equity interest in other companies.
Usina Boa Vista S.A. ("Boa Vista") – 30% interest in capital	Processing of sugarcane, own production and production acquired from third parties, manufacture and sale of sugar, alcohol and their byproducts, agricultural exploitation and cattle raising, import and export of goods, products and raw material, and holding of equity interest in other companies.
OMTEK Indústria e Comércio Ltda. ("OMTEK") – subsidiary with 99.99% interest in capital	Processing and sale of ribonucleic acid (Sodium salt) in the foreign market. The operating cycle is the same as the parent company's, which is responsible for the supply, under specific conditions, of sugarcane molasses, steam and electric power, inputs necessary for the company's production.

Usina São Martinho S.A. is a jointly-owned subsidiary since no shareholder individually has ownership control over the company, as established in paragraph 1, article 32 of CVM (Brazilian Securities Exchange Commission) Instruction nº. 247, of March 27, 2006. The respective consolidation observes the proportion of the Company's interest in that company. The financial statements of Usina São Martinho S.A. are consolidated prior to the consolidation by the Company, using accounting practices and consolidation criteria consistent with those used by the Company. The main captions of the consolidated financial statements of this jointly-owned subsidiary present the following balances:

	2006	2005	2004
Current assets	239,367	183,542	164,277
Long-term assets	58,139	70,728	81,358
Permanent assets	845,870	824,499	841,405
Spun-off assets	–	23,125	23,838
Total assets	1,143,376	1,101,894	1,110,878
Current liabilities	83,111	93,719	124,111
Long-term liabilities	410,856	393,069	394,262
Minority interest	3,183	–	–
Spun-off liabilities	–	–	33
Shareholders' equity	646,226	615,106	592,472
Total liabilities	1,143,376	1,101,894	1,110,878
Gross sales	639,014	512,810	393,612
Operating expenses	(109,841)	(119,040)	(124,035)
Income (loss) from operations	92,714	45,284	(15,405)
Net income (loss)	60,104	29,117	(21,697)

The consolidation of Usina São Martinho S.A. includes the following subsidiaries:

- Usina Boa Vista S.A. – 70% interest in capital. Usina São Martinho S.A. fully consolidates Usina Boa Vista S.A., stating the 30% interest of Companhia Industrial e Agrícola Ometto in a separate caption of its consolidated financial statements. The main captions of the financial statements of this indirect subsidiary present the following balances:

	2006
Current assets	87
Permanent assets	10,730
Total	10,817
Current liabilities	61
Advance for future capital increase	143
Shareholders' equity	10,613
Total	10,817

- Mogi Agrícola S.A. – 15.7% interest in capital. This company is engaged in agricultural exploitation and in holding equity interest, as partner or shareholder, in other companies' capital. Usina São Martinho S.A. is the parent company of this company jointly with other shareholders due to an agreement entered into between them. The main captions of the financial statements of this jointly-owned subsidiary present the following balances:

	2006	2005	2004
Current assets	85	190	43
Long-term assets	323	–	–
Permanent assets	13,341	13,392	13,488
Total assets	13,749	13,582	13,491
Current liabilities	61	16	14
Shareholders' equity	13,688	13,566	13,477
Total liabilities	13,749	13,582	13,491
Income from leased land	2,879	2,171	636
Operating expenses	(417)	(400)	(55)
Income from operations	2,462	1,771	581
Net income	2,433	1,771	581

Usina Boa Vista S.A. is in the preoperating stage, and the control of its common shares, as mentioned above, is held by Usina São Martinho S.A. The consolidation of this investment observes the proportion of the Company's interest in that company. The Company recognizes this proportional consolidation due to the proportional consolidation on the financial statements of Usina São Martinho S.A. and to allow for the elimination of the respective investment balance, as well as of the minority interest represented by its own interest, in its consolidated financial statements.

On March 31, 2006, as mentioned in note 1, the Company performed a spin-off of its investments in thefollowing companies: Monte Sereno Agrícola Ltda. (39.72% interest in capital in 2005 and 2004), Agropecuária Caieira do Norte S.A. (39.72% interest in capital in 2005 and 2004) and Agropecuária do Cachimbo S.A. (15.03% interest in capital in 2005 and 2004). Thus, these companies were not consolidated in the Company's financial statements as of April 30, 2006. The balances of these investments and the respective results related to equity in subsidiary and jointly-owned subsidiaries are summarized and presented in a specific group in the consolidated balance sheets and statements of operations, respectively, for the years ended April 2006, 2005 and 2004.

The following main consolidation procedures have been adopted:

a) elimination of interests in the subsidiaries' shareholders' equity;

b) elimination of the investment balance and equity in subsidiary and jointly-owned subsidiaries;

c) elimination of intercompany balances and transactions and unrealized profits arising from intercompany transactions.

4. TEMPORARY CASH INVESTMENTS

		Company		
Type	**Yield**	**2006**	**2005**	**2004**
Repurchase agreements	100% of the CDI (Interbank deposit rate)	12,597	3,021	–
Debenture repurchase agreements	100.1% of the CDI	3,058	3,055	3,012
Bank certificates of deposit	100.4% of the CDI – weighted average rate	–	5,044	1,320
Other	100.7% of the CDI	4,021	187	672
		19,676	11,307	5,004

		Consolidated		
Type	**Yield**	**2006**	**2005**	**2004**
Repurchase agreements	100% of the CDI	19,259	3,193	–
Debenture repurchase agreements	100.2% of the CDI	3,781	3,331	8,029
Bank certificates of deposit	100% of the CDI – weighted average rate	1,043	6,534	2,086
Collection account	US dollar variation + 85% of the daily LIBOR	7,373	5,735	–
Other	100.7% of the CDI	4,249	221	680
		35,705	19,014	10,795

Repurchase and debenture repurchase agreement represent fixed-income investments backed by government securities, ensuring fixed-rate yield as specified above, regardless of the variation on the yield of the securities acquired.

All investments may be redeemed within 30 days, without loss of yield.

5. RECEIVABLES FROM COPERSUCAR

Receivables from COPERSUCAR are similar to a current account, including amounts receivable from allocations related to the sale of products and amounts deductible due to allocations of expenses and advances. The amount of advances received that exceeds cooperative members' right arising from the allocation of revenues and expenses is subject to interest at rates corresponding to 100% of the daily variation of the DI (Interbank Deposit rate) disclosed by CETIP (Clearinghouse for the Custody and Financial Settlement of Securities), in 2006, 2005 and 2004, representing the average funding by COPERSUCAR. Other components of this account are not subject to interest.

The average collection periods are as follows:

- 17 days for the sale of alcohol in the domestic market;
- 25 days for the sale of alcohol in the foreign market;
- 33 days for the sale of sugar in the domestic market;
- 45 days for the sale of sugar in the foreign market;

As of April 30, 2006, the collection profile above results in an expected average turnover of 38 days for these receivables.

The allocated operating expenses are set off against amounts receivable on a monthly basis.

The Company did not identify the need to record an allowance for doubtful accounts since this allowance is estimated and recorded by COPERSUCAR, which is the entity that sells the products to end customers. Historically, the amounts receivable from COPERSUCAR do not present losses.

6. INVENTORIES

	Consolidated		
	2006	**2005**	**2004**
Finished products held by Copersucar:			
Sugar and Alcohol	1,981	10,194	7,877
Sugarcane – crop	29,760	21,918	20,785
Advances – advance purchase of sugarcane	529	1,390	1,386
Inputs, indirect materials, for maintenance and other	4,028	4,350	4,045
	36,298	37,852	34,093

	Consolidated		
	2006	**2005**	**2004**
Finished products held by Copersucar:			
Sugar and Alcohol	4,532	14,420	10,110
Sodium salt	2,055	876	–
Sugarcane – crop	35,801	27,168	25,881
Advances – advance purchase of sugarcane	2,277	3,168	2,345
Inputs, indirect materials, for maintenance and other	5,922	6,396	5,539
	50,587	52,028	43,875

As the Company's production is immediately made available to COPERSUCAR and the distribution to customers by the Cooperative is not necessarily linked to sales proportionally attributed to the Company, the amount of sugar and alcohol held in inventory that is physically kept by the Company differs from the quantity that represents the balance of inventories. As of April 30, 2006, the Company safeguarded sugar and alcohol inventories in the approximate amounts of R$3,331 and R$9,295, as of April 30, 2006 and 2005, respectively, whereas as of April 30, 2004, the Company did not safeguard any inventories, which were stated at average production cost (R$3,508, R$12,803 and R$2,257 as of April 30, 2006, 2005 and 2004, in the consolidated, respectively). The Company is responsible for the risk of safeguarding inventories made available to COPERSUCAR that are stored in its facilities.

7. INTERCOMPANY BALANCES AND TRANSACTIONS

a) Company and consolidated balances:

	Company					
	2006		2005		2004	
	Long-term assets	Current liabilities	Long-term assets	Current liabilities	Long-term assets	Current liabilities
Of subsidiary and jointly-owned subsidiary:						
Usina São Martinho S.A.	–	9,767	–	9,712	2,259	190
OMTEK Ind. e Com. Ltda.	1,283	–	8	3,156	11	151
Shareholders	–	–	–	3,670	–	3,141
Subtotal	1,283	9,767	8	16,538	2,270	3,482
Of shareholders, arising from purchase of sugarcane	–	128	–	319	–	200
	1,283	9,895	8	16,857	2,270	3,682

	Consolidated				
	2006	2005		2004	
	Current liabilities	Long-term assets	Current liabilities	Long-term assets	Current liabilities
Of subsidiary and jointly-owned subsidiary:					
Usina São Martinho S.A.	8,687	10,523	8,603	2,002	169
Usina Boa Vista S.A.	38	–	–	–	–
OMTEK Ind. e Com. Ltda.	–	–	15	166	–
Shareholders	–	–	3,671	–	3,140
Subtotal	8,725	10,523	12,289	2,168	3,309
Of shareholders, arising from purchase of sugarcane	252	–	494	–	285
	8,977	10,523	12,783	2,168	3,594

Intercompany balances refer to loan agreements maturing every December 31, which may be extended for an additional year, subject to charges equivalent to 100% of the CDI variation.

All long-term intercompany balances are estimated to be settled in a maximum of 24 months. Sugarcane purchases from shareholders are conducted under market conditions similar to those conducted with third parties.

b) Parent Company transactions

	2006			2005			2004		
	Financial income	Financial expense and cost	Sales revenue	Financial income	Financial expense and cost	Sales revenue	Financial income	Financial expense and costs	Sales revenue
Usina São Martinho S.A.	–	1,633	–	39	727	–	142	–	–
OMTEK Ind. e Com. Ltda.	34	84	7,776	–	61	4,351	401	38	4,672
Shareholders	–	111	–	–	531	–	–	535	–
Sugarcane purchase from shareholders	–	1,243	–	–	796	–	–	790	–
	34	3,071	7,776	39	2,115	4,351	543	1,363	4,672

Intercompany transactions refer to revenues and expenses related to charges on loans agreements, revenue from sale of molasses, electric power and steam to OMTEK Ind. e Com. Ltda. and sugarcane purchases from shareholders.

8. INVESTMENTS

	2006			
	Usina São Martinho S.A.	Usina Boa Vista S.A.	OMTEK Indústria e Comércio Ltda.	Total
a) In subsidiary and jointly-owned subsidiaries				
Shares held (thousands)	2,679	6,000	5,598	
Ownership interest	11.40%	30.00%	99.99%	
Capital	16,868	20,000	5,598	
Shareholders' equity	646,227	10,612	14,124	
Net income (loss)	60,105	–	(74)	
Changes in investments:				
Balance at beginning of year	70,119	–	14,381	84,500
Dividends	(862)	–	–	(862)
Increase due to new investments	–	3,184	–	3,184
Capital loss due to spin-off	(2,443)	–	–	(2,443)
Equity in subsidiary and jointly-owned subsidiaries	6,852	–	(74)	6,778
Balance at end of year	73,666	3,184	14,307	91,157
b) Other investments				41
Total investments				91,198

	2005		
	Usina São Martinho S.A.	OMTEK Indústria e Comércio Ltda.	Total
a) In subsidiary and jointly-owned subsidiary:			
Shares held (thousands)	2,679	5,598	
Ownership interest	11.40%	99.99%	
Capital	38,295	5,598	
Shareholders' equity	615,106	14,197	
Net income	29,116	3,527	
Changes in investments:			
Balance at beginning of year	67,539	10,854	78,393
Dividends	(739)	–	(739)
Equity in subsidiary and jointly-owned subsidiary	3,319	3,527	6,846
Balance at end of year	70,119	14,381	84,500
b) Other investments			40
Total investments			84,540

	2004		
	Usina São Martinho S.A.	OMTEK Indústria e Comércio Ltda.	Total
a) In subsidiary and jointly-owned subsidiary:			
Shares held (thousands)	2,679	5,996	
Ownership interest	11.40%	99.99%	
Capital	38,295	5,598	
Shareholders' equity	592,472	10,671	
Net income (loss)	(21,697)	755	
Changes in Investments:			
Balance at beginning of year	70,384	10,099	80,483
Dividends	(372)	–	(372)
Equity in subsidiary and jointly-owned subsidiary	(2,473)	755	(1,718)
Balance at end of year	67,539	10,854	78,393
b) Other investments			40
Total investments			78,433

9. PROPERTY, PLANT AND EQUIPMENT

	Company					
	2006				2005	2004
	Cost	Revaluation	Accumulated depreciation	Net	Net	Net
Land	20,339	219,550	–	239,889	240,149	239,461
Buildings and premises	9,033	7,349	5,334	11,048	11,962	12,865
Industrial equipment and facilities	32,297	46,888	37,331	41,854	48,064	54,050
Vehicles	17,703		12,380	5,323	2,168	1,046
Agricultural machinery and implements	32,992	–	20,091	12,901	12,334	7,773
Sugarcane crops	73,868	–	18,312	55,556	45,433	37,404
Other	11,156	391	4,983	6,564	4,220	2,544
Construction in progress	11,747	–	–	11,747	5,822	4,601
Total	209,135	274,178	98,431	384,882	370,152	359,744

	Consolidated					
	2006				2005	2004
	Cost	Revaluation	Accumulated depreciation	Net	Net	Net
Land	30,517	274,345	–	304,862	301,298	300,610
Buildings and premises	16,917	12,072	11,724	17,265	18,436	19,998
Industrial equipment and facilities	46,465	68,777	54,403	60,839	69,058	78,262
Vehicles	20,195	–	14,701	5,494	2,291	1,181
Agricultural machinery and implements	40,473	–	25,116	15,357	13,462	9,108
Sugarcane crops	91,212	–	23,672	67,540	56,110	47,320
Other	13,734	651	6,901	7,484	5,293	3,500
Construction in progress	13,199	–	–	13,199	7,462	5,220
Total	272,712	355,845	136,517	492,040	473,410	465,199

In the year ended April 30, 2006, the Company invested the amount of R$19,709 (R$15,649 in 2005 and R$15,323 in 2004), to grow and/or renew sugarcane crops, of which R$23,550 (R$18,610 in 2005 and R$18,802 in 2004) in the consolidated.

In 2006, the Company's balance of construction in progress refers to the adaptation of the gristmill and the fertigation system. In the jointly-owned subsidiary Usina São Martinho S.A., it refers especially to improvements in its industrial plant related to bulk production and adaptation of fermentation.

The Company's sugar warehouses and alcohol tanks are granted on a commodatum basis to COPERSUCAR, without payment, to store the production when it is made available to be sold by the Cooperative.

Due to some loans and financing of the Company and its subsidiaries, approximately R$83,569 of fixed assets items are pledged as collateral, and are mostly represented by industrial equipment and facilities and agricultural machinery and implements. Additionally, the amount of R$153,929 (R$197,152 in the consolidated) in land was pledged as collateral of securitized rural credits.

In addition to the revaluation recorded in 1997, based on an appraisal report issued by independent appraisers, the Company, the jointly-owned subsidiary Usina São Martinho S.A. and the subsidiary Omtek Indústria e Comércio Ltda. recorded, as of April 30, 2003, revaluation of land, buildings, industrial equipment and facilities, in the following amounts:

Property, plant and equipment items	Company	Subsidiary and jointly-owned subsidiary
Revalued amount:		
Land	244,076	61,824
Buildings	11,995	5,148
Industrial equipment and facilities	59,279	25,409
Total	315,350	92,381
Book value plus the revaluation previously recorded	116,702	26,503
Revaluation recorded in 2003	198,648	65,878

According to the procedures adopted by the Company, when the indirect jointly-owned subsidiary Mogi Agrícola S.A. was established, on December 23, 2004, its land was revalued and this revaluation was recorded by the Company as a supplementary reserve in subsidiary in the amount of R$623.

The revaluations were included in the property, plant and equipment balance with a credit to revaluation reserve in the Company's shareholders' equity, Company and in subsidiaries, net of provision for deferred income and social contribution taxes calculated on the revaluation portion subject to depreciation, whose original amounts of R$24,233, Company, and R$34,622, Consolidated, were recorded in long-term liabilities, under the caption "Deferred Income and Social Contribution Taxes". Said deferred income and social contribution taxes are realized according to the depreciation or write-off of revalued assets. The amount of revalued assets started to be depreciated according to the remaining useful life estimated by the revaluation report (see note 2 – item f).

Residual values net of taxes of the revaluation of the Company's and affiliates' property, plant and equipment as of April 30, 2006, 2005 and 2004 were R$323,038, R$334,529 and R$345,674, respectively, of which R$76,403, R$73,527 and R$70,233, respectively, arising from subsidiaries, which make up the revaluation reserve balance, Company and in subsidiaries, in shareholders' equity.

10. LOANS AND FINANCING

				Company		
Type	**Charges**	**Guarantees**	**Maturity**	**2006**	**2005**	**2004**
In local currency:						
Securitized rural credits	IGP-M (General Market Price Index)	(a)	September 2018 to July 2020	43,265	46,766	46,171
Rural credit	Fixed-rate weighted average interest of 8.75% p.a.	(b)	August 2006 to March 2007	7,691	–	–
Automatic Finame (National Equipment Financing Authority) / BNDES (National Bank for Economic and Social Development) loan	TJLP (Long-term interest rate) + weighted average interest of 5.31% p.a.	(c) and (e)	June 2006 to January 2011	20,649	13,930	15,727
Automatic Finame / BNDES loan	Fixed-rate weighted average interest of 12.17% p.a.	(d) and (f)	February 2007 to March 2011	18,595	8,746	6,727
Working capital	Fixed-rate interest of 21.27% p.a.	–	July 2006	386	–	3,469
Other securitized credits	Variation of the basket of grains + 3% p.a.	(g)	October 2025	88	92	95
In foreign currency:						
Working capital	US dollar variation + 4.9% p.a.	–	May 2005	–	182	–
Currency derivative contracts	US dollar variation limited to the rate of R$2.61	–	July 2005	–	36	–
Automatic Finame / BNDES loan	Currency basket + fixed-rate weighted average interest of 5.8% p.a.	(e)	May 2008	242	442	677
Total				90,916	70,194	72,866
Current liabilities				24,090	10,058	12,153
Long-term liabilities				66,826	60,136	60,713

				Consolidated		
Type	**Charges**	**Guarantees**	**Maturity**	**2006**	**2005**	**2004**
In local currency:						
Securitized rural credits	IGP–M (General Market Price Index)	(a) and (h)	September 2018 to July 2020	52,492	56,757	56,133
Rural credit	Fixed–rate average weighted interest of 8.75% p.a.	(b)	August 2006 to March 2007	7,780	–	880
Automatic Finame/ BNDES loan	TJLP + weighted average interest of 5.31% p.a.	(c), (e) and (i)	June 2006 to March 2011	23,054	17,165	19,615
Automatic Finame/ BNDES loan	Fixed–rate weighted average interest of 12.15% p.a.	(d), (f) and (j)	February 2007 to March 2011	21,987	9,694	7,997
Working capital	Interest of 21.27% p.a.	–	July 2006	474	–	3,469
Other securitized credits	Variation of the basket of grains + 3% p.a.	(g)	October 2025	88	92	95
In foreign currency:						
Prepayment	US dollar variation + 6.55% p.a.	–	January 2007	7,663	18,567	27,419
Working capital	US dollar variation + 4.9% p.a.	–	May 2005	–	268	–
Currency derivative contracts	US dollar variation	–	July 2005	–	48	–
Automatic Finame/ BNDES loan	Currency basket + fixed rate of 5.8% p.a.	(e) and (k)	May 2007 to May 2008	267	493	760
Commercial paper	US dollar variation + 9% p.a.	–	July 2011	1,218	1,475	1,716
Total				115,023	104,559	118,084
Current liabilities				34,544	21,747	21,157
Long–term liabilities				80,479	82,812	96,927

	Description of guarantees pledged in contracting loans and financing as of April 30, 2006	Book or contractual value
(a)	Mortgage – 8,565.02 ha of land	115,167
	Shareholders' collateral signature	
(b)	Agricultural lien (sugarcane)	5,061
	Shareholders' collateral signature	
(c)	Liens on industrial equipment	5,479
	Liens on agricultural equipment	1,851
	Promissory note	4,831
	Shareholders' collateral signature	
(d)	Liens on industrial equipment	1,877
	Liens on agricultural equipment	17,822
	Promissory note	3,059
	Mortgage – 664.20 ha of land	11,351
	Shareholders' collateral signature	
(e)	Liens on agricultural equipment	11,431
	Promissory note	6,254
	Mortgage – 1,997.61 ha of land	35,278
	Mortgage – 385.44 ha of land	6,432
	Shareholders' collateral signature	
(f)	Liens on agricultural equipment	5,422
	Shareholders' collateral signature	
(g)	Mortgage – 78.53 ha of land	1,224
	Shareholders' collateral signature	
(h)	Mortgage – 1,100 ha of land	17,342
(i)	Liens on industrial and agricultural equipment	722
	Promissory note	436
	Mortgage – 305.87 ha of land	5,402
	Agricultural lien (sugarcane)	677
	Shareholders' collateral signature	
(j)	Liens on agricultural equipment	3,718
	Promissory note	592
	Mortgage – 95.48 ha of land	1,632
	Shareholders' collateral signature	
(k)	Promissory note	104
	Shareholders' collateral signature	

As of April 30 of each year, the long-term portions mature as follows:

	Company			Consolidated		
	2006	2005	2004	2006	2005	2004
2006	–	–	8,138	–	–	20,644
2007	–	8,695	7,271	–	19,488	19,481
2008	13,133	8,133	6,720	15,325	9,679	8,198
2009	11,837	6,850	5,605	13,825	8,195	6,884
2010	9,307	4,894	3,722	10,813	5,788	4,561
2011	4,333	3,049	2,827	5,182	3,716	3,450
2012	3,017	3,049	2,826	4,868	5,158	5,128
2013 to 2021	25,199	25,466	23,604	30,466	30,788	28,581
	66,826	60,136	60,713	80,479	82,812	96,927

Based on Central Bank of Brazil Resolution nº. 2471/98 and other current legal provisions, in 1998, 1999 and 2000 the Company securitized debts with financial institutions, by means of the acquisition, in the secondary market, of CTNs (National Treasury Certificates), as collateral for the payment of the principal. The securitized financing will be automatically settled on their maturity dates upon the redemption of the CTNs acquired by the Company, which are under the custody of the creditor financial institutions. Said certificates are non-negotiable and are exclusively intended for paying this debt. The Company's disbursement during the 20 years in which this securitization is effective is limited to the annual payment of amounts equivalent to variable percentages between 3.9% and 4.96% per year on the securitized amount adjusted based on the IGP-M through the annual payment date. This obligation was recorded in the financial statements as of April 30, 2006, 2005 and 2004 according to the amount of these future disbursements. The balance of this obligation is subject to adjustment based on the IGP-M variation. This obligation is collaterized by land in the approximate amount of R$153,929 (R$197,152 in the consolidated).

11. PAYABLES TO COPERSUCAR

Payables to COPERSUCAR are basically represented by:

(a) Funds obtained by the Cooperative in the market and transferred to cooperative members with short-term maturity.

(b) Temporary cash surplus arising from injunctions in lawsuits claiming the suspension of liabilities. This cash surplus is related to provisions for contingencies recorded by the Cooperative in long-term liabilities. Accordingly, the Company also records these liabilities in long-term liabilities. However, in case of unfavorable outcome in lawsuits in which the Cooperative obtained an injunction, the Company will be required to disburse the amount that was transferred within 120 days. The main amounts included in these liabilities arise from the IPI (federal VAT) challenged in court by the Cooperative as to the constitutionality and lawfulness of the requirement of the tax, and are represented by R$15,137 in 2006, R$13,998 in 2005 and R$1,827 in 2004 (R$2,170, R$18,327 and R$19,838 in the consolidated, respectively).

This balance is composed of:

	Company		
	2006	**2005**	**2004**
Advances on exchange contracts – Restated by exchange variation, plus interest of 3.52% p.a.	–	4,170	16,586
Exchange bill – Variation of 103.35% of the CDI	1,726	2,175	–
Exchange bill – Variation of the SELIC (Central Bank overnight rate)	30,118	27,994	25,490
Exchange bill – Onlending of funds not subject to charges	18,420	17,814	19,669
Exchange bill – TJLP variation + 5.5% p.a.	–		1,101
Exchange bill – TR (a managed prime rate) variation + 0.5% p.a.	–	2,875	2,652
Exchange bill – TJLP variation	7,413	4,946	5,401
Total	57,677	59,974	70,899
Current liabilities	670	4,776	17,735
Long-term liabilities	57,007	55,198	53,164

	Consolidated		
	2006	**2005**	**2004**
Advances on exchange contracts – Restated by exchange variation, plus interest of 3.52% p.a	–	5,510	22,903
Exchange bill – Variation of 103.35% of the CDI	2,244	2,828	–
Exchange bill – SELIC variation	39,336	36,491	32,602
Exchange bill – Onlending of funds not subject to charges	23,959	23,122	25,313
Exchange bill – TJLP variation + 5.5% p.a.	–	–	1,381
Exchange bill – TR variation + 0.5% p.a.	–	3,633	3,351
Exchange bill – TJLP variation	9,011	5,874	6,437
Total	74,550	77,458	91,987
Current liabilities	796	6,229	24,307
Long–term liabilities	73,754	71,229	67,680

All obligations of the Company and its jointly-owned subsidiary Usina São Martinho S.A. with COPERSUCAR are collaterized by directors' signatures. Exchange bill amounts that exceed the indebtedness limit established in the Cooperative agreement are additionally collaterized by bank guarantees. Considering the indebtedness limits in each year, it was necessary to issue bank guarantees only for the year ended April 30, 2004, in the amount of R$20,517 (R$25,657 in the consolidated).

12. SHAREHOLDERS' EQUITY

Capital is represented by 34,069,870 registered common shares without par value.

As described in note 2, the Extraordinary Shareholders' Meeting to be held on September 28, 2006 will decide on the approval of the reversal of the capitalization of the revaluation reserve performed in 1997, in the amount of R$75,733, returning the respective amount to the revaluation reserve account, without changing the number of shares.

As mentioned in note 1, the Extraordinary Shareholders' Meeting held on April 30, 2006 approved the partial spin-off of the Company, transferring the spun-off assets to an affiliate, which resulted in a capital reduction of R$17,481.

Under the by-laws, shareholders are entitled to minimum dividends of 6% of net income for the year, after the recognition of the legal reserve.

Dividends proposed by the Company's management, available at the Annual Shareholders' Meeting, were calculated as follows:

Description	2006	2005
Net income for the year	20,888	9,953
(–) Recognition of legal reserve (5%)	–	498
Computation base for recognition of dividends	20,888	9,455
Minimum dividends under the by–laws	1,253	568
Supplementary dividends	–	1,689
Total dividends	1,253	2,275
Total dividends per share – R$	0.0368	0.0668

Dividends in the years ended April 30, 2005 and 2004, in the amounts of R$2,727 and R$2,920, respectively, were paid from retained earnings.

As of April 30, 2006, the allocation of the retained earnings balance will be defined by the Shareholders' Meeting that will approve the financial statements. Dividends paid in the year ended April 30, 2004 are attributable to retained earnings through the balance sheet date of the prior year.

As of April 30, 2006, the allocation of the legal reserve balance exceeding the legal limit of 20% of capital for capital increase will be decided by the Shareholders' Meeting that will approve the financial statements.

13. PROFIT SHARING PROGRAM

In conformity with the Collective Labor Agreements with the employees' unions, the Company and its subsidiaries introduced a profit sharing program based on operating and financial targets previously agreed upon with the employees. The profit sharing for 2006, recorded as operating costs or expenses, was R$3,447 – consolidated (R$1,015 in 2005 and R$2,091 in 2004).

14. INCOME AND SOCIAL CONTRIBUTION TAXES

a) Deferred income and social contribution taxes as of April 30 are as follows:

	Company			Consolidated		
	2006	2005	2004	2006	2005	2004
Assets						
Income tax loss carryforwards	20,028	25,119	23,750	22,219	27,857	27,443
Social contribution tax loss carryforwards	7,870	9,735	9,242	8,844	10,906	10,771
Provision for contingencies	1,495	1,113	1,002	3,306	2,598	2,790
Securitized financing	–	–	–	629	801	987
Other	1,121	1,273	1,897	1,172	1,352	2,020
Deferred income and social contribution tax assets	30,514	37,240	35,891	36,170	43,514	44,011
Liabilities						
Revaluation reserve	(10,321)	(13,170)	(15,998)	(16,231)	(20,202)	(24,047)
Accelerated depreciation incentive	(22,615)	(19,434)	(15,217)	(26,921)	(22,533)	(17,779)
Securitized financing	(5,592)	(5,130)	(3,749)	(5,592)	(5,130)	(3,749)
Other		(173)	(173)	(6)	(341)	(606)
Deferred income and social contribution tax liabilities	(38,528)	(37,907)	(35,137)	(48,750)	(48,206)	(46,181)
Total assets (liabilities) – net	(8,014)	(667)	754	(12,580)	(4,692)	(2,170)

Prevailing tax legislation allows tax losses to be carried forward indefinitely to be offset against future taxable income up to a limit of 30% of annual taxable income, without monetary adjustment. Deferred tax credits arising from tax loss carryforwards are recognized based on the Company's projections of taxable income, which support the recovery of the tax credits in accordance with applicable accounting practices. On a conservative basis, the Company classifies all deferred tax credits into long-term.

The recovery of these credits as indicated by the projections of taxable income approved by Management (in consolidated, determined also by the maturity date of securitized loans) is estimated as shown below:

Company:

Year	2006	2007	2008	2009	2010	2011 and thereafter
Estimated realization	3,920	4,000	3,929	3,398	3,211	12,056

Consolidated:

Year	2006	2007	2008	2009	2010	2011 and thereafter
Estimated realization	5,291	5,243	5,049	3,752	3,476	13,359

Deferred income and social contribution tax liabilities are realized principally through the depreciation and write-off of fixed assets that gave rise to them.

b) Reconciliation of income and social contribution taxes – Income and social contribution tax expenses are reconciled to effective rates, as shown below:

Company:	2006		2005		2004	
	Income tax	Social contribution tax	Income tax	Social contribution tax	Income tax	Social contribution tax
Income before income and social contribution taxes and income (loss) from spun–off net assets	19,727	19,727	10,621	10,621	(9,937)	(9,937)
Statutory rates	25%	9%	25%	9%	25%	9%
Income and social contribution tax expenses at statutory rates	(4,932)	(1,775)	(2,655)	(956)	2,484	894
Reconciliation to effective rate:						
Permanent differences						
Equity in subsidiary and jointly–owned subsidiaries	1,695	610	1,712	616	(430)	(155)
Capital loss in jointly–owned subsidiary due to spin–off	(611)	(220)	–	–	–	–
Realization of revaluation reserve for land sold	(369)	(133)	(34)	(12)	–	–
Other nondeductible expenses	(36)	(13)	(62)	(23)	(44)	(16)
PAT (Workers' Meal Program)	29	–	–	–	–	–
Loss of tax loss carryforwards due to spin–off	(967)	(379)	–	–	–	–
Income and social contribution tax expenses	(5,191)	(1,910)	(1,039)	(375)	2,010	723
Income and social contribution tax expenses	(7,101)		(1,414)		2,733	
Income before income and social contribution taxes and income (loss) from spun–off net assets	23,541	23,541	14,328	14,328	(9,567)	(9,567)
Statutory rates	25%	9%	25%	9%	25%	9%
Income and social contribution tax expenses at statutory rates	(5,885)	(2,119)	(3,582)	(1,290)	2,392	861
Reconciliation to effective rate:						
Permanent differences						
Capital loss in jointly–owned subsidiary due to spin–off	(611)	(220)	–	–	–	–
Realization of revaluation reserve for land sold	(371)	(134)	(34)	(12)	(391)	(141)
Loss of goodwill in indirect affiliated company	–	–	–	–	(89)	(32)
Other nondeductible expenses	(36)	(11)	(26)	(8)	(69)	(24)
PAT (Workers' Meal Program)	70	–	8	–	5	–
Tax–incentive donations – Rouanet Law and Children's Funds	36	–	4	–	10	–
Loss of tax loss carryforwards due to spin–off	(998)	(398)	–	–	–	–
Income and social contribution tax expenses	(7,795)	(2,882)	(3,630)	(1,310)	1,858	664
Income and social contribution tax expenses	(10,677)		(4,940)		2,522	

15. COMMITMENTS

15.1. Legal reserve and permanent preservation areas

The Company has uncultivated areas covered by preserved native vegetation or in process of reforestation intended to assure the ecological balance of the environment. Such tracts of land are permanent preservation areas and legal reserve areas.

Permanent preservation areas (for example, riverbank forests and hillsides) are observed at the time of cultivation of sugarcane and the Company does not cultivate the land on these areas.

The obligation to abandon currently cultivated areas for legal reserve purposes has been discussed at political and judicial levels, for which reason environmental authorities have not yet performed decisive inspections. The Company and its jointly-owned subsidiaries own land registered as legal reserve in an area smaller than the minimum percentage set by law.

The jointly-owned subsidiary Usina São Martinho S.A. is discussing this matter in court and the risk of loss on the lawsuits is assessed as possible.

The Company and its jointly-owned subsidiaries are evaluating legal alternatives for meeting this legal requirement, in the time limit set by legislation of 30 years from 1990 at the rate of 10% for each 3-year period. The amounts to be invested to meet this requirement, the manner in which it will be met and the time required for completion cannot be determined at this time.

Investments in preservation areas, when made, are recorded under “property, plant and equipment”.

15.2. Sugarcane purchase agreements

The Company and its jointly-owned subsidiary entered into agreements for purchase of sugarcane produced in third parties’ rural properties, in the amount of approximately 260,000 tons (356,000 tons – consolidated). The amount to be disbursed for these purchases will be determined at the end of each crop at the price per ton of sugarcane established by the model of the Conselho dos Produtores de Cana-de-açúcar, Açúcar e Álcool do Estado de São Paulo – CONSECANA (São Paulo State Sugarcane, Sugar and Alcohol Producer Council). This commitment for the average price for the 2005/2006 crop of R$45.05 (R$42.97 – consolidated) per ton of sugarcane totals approximately R$11,698 (R$15,297 – consolidated).

15.3. Lease transactions

The jointly-owned subsidiary Usina São Martinho S.A. entered into an operating lease agreement for IT equipment and software, with final maturity in January 2007. The installments of these agreements, recorded in consolidated income for the year ended April 30, 2006, were R$38 (R$38 in 2005 and R$9 in 2004). These lease agreements are collateralized by the financed assets.

16. PROVISION FOR CONTINGENCIES

Income and social contribution tax calculations and tax returns, and other taxes and payroll charges, are open to review by tax authorities for varying periods according to the date of payment or filing of tax returns.

The Company and its subsidiaries are parties to tax, civil and labor lawsuits in different courts. Provisions for contingencies are determined by Management, based on legal counsel's assessment, for probable losses and are stated at adjusted amounts. The Provision for contingencies recorded is composed of:

	Company					
	2004	2005	Additions	Uses	Monetary adjustment	2006
Tax	4,849	5,093	–	–	–	5,093
Civil	201	172	–	–	16	188
Labor	443	555	1,297	(262)	76	1,666
	5,493	5,820	1,297	(262)	92	6,947
(–) Escrow deposits	(2,423)	(3,309)	(86)	60	(4)	(3,339)
Total	3,070	2,511	1,211	(202)	88	3,608

	Consolidated					
	2004	2005	Additions	Uses	Monetary adjustment	2006
Tax	8,522	9,010	–	–	307	9,317
Civil	331	341	–	–	45	386
Labor	4,712	4,527	2,448	(1,217)	618	6,376
	13,565	13,878	2,448	(1.217)	970	16,079
(–) Escrow deposits	(4,990)	(5,549)	(601)	789	(97)	(5,458)
Total	8,575	8,329	1,847	(428)	873	10,621

As of April 30, 2006, the nature of the main lawsuits, which were assessed by Management as probable loss based on the legal counsel's opinion and which, therefore, were included in the above provisions, is as follows (Company and consolidated):

a) Tax lawsuits:

(i) Monetary adjustment of untimely used ICMS (VAT) credit: The State Finance Department issued a fine and tax delinquency notice for purposes of collection of ICMS (state VAT) for March 1993. Supported by a lawsuit, the Company monetarily adjusted the untimely used ICMS credits on purchases of electricity, diesel, secondary materials and telecommunications services. The total amount involved is R$2,548 (Company and consolidated).

(ii) Offset of tax loss carryforwards: Federal tax authorities filed a tax collection proceeding to collect the IRPJ (corporate income tax) for 1997, when the Company, supported by a lawsuit, offset tax losses determined from 1992 to 1996 without complying with the 30% limit required by Law no. 8981/95. The total amount involved is R$1,132 (consolidated).

(iii) Offset of tax loss carryforwards of merged company: Federal tax authorities filed a tax collection proceeding to collect the IRPJ for the period from October 1997 to March 1998, which was not paid by the company merged into the Company due to the offset of tax losses incurred between 1992 and 1994 without complying with the 30% limit required by Law No. 8981/95. The total amount involved is R$2,146 (consolidated).

(iv) Social contribution tax loss carryforwards: Federal tax authorities filed a tax collection proceeding to collect the CSL (social contribution on net profit) for 1997, which was not paid due to the offset of social contribution tax loss carryforwards determined from 1992 to 1996. The total amount involved is R$946 (consolidated).

(v) Other tax lawsuits (Company) involving: (i) INSS (social security contribution) at 2.6% for the period from November 1990 to November 1991; (ii) contribution to SENAR (National Rural Learning Service) for the period from November 1992 to September 1997; (iii) SAT (Occupational Accident Insurance) for the period from February 1993 to April 1994; (iv) social security contribution to rural employees for the period from May to July 1994; (v) PIS (tax on revenue) basis for the period from December 2000 to November 2002; (vi) COFINS (tax on revenue) basis for the period from August 2001 to March 2003; and (vii) FGTS (severance pay fund) and surtax on termination fine for the period from November 2001 to December 2002. The total amount involved is R$2,545 (Company and consolidated).

b) Civil lawsuits:

The Company has a provision for 19 civil lawsuits in which it is a defendant, involving: (i) indemnity for property damage and pain and suffering for occupational illness and accidents; (ii) indemnity for property damage and pain and suffering for traffic accidents; (iii) rescission of residential land sale agreement; and (iv) public civil actions for sugarcane burning. These lawsuits total R$188 – Company (R$386 – consolidated), adjusted through April 30, 2006.

c) Labor lawsuits:

The Company has a provision for contingencies for labor lawsuits in which it is a defendant, involving claims for: (i) overtime; (ii) commute hours; (iii) indemnity for elimination of lunch break; (iv) hazardous duty premium and health hazard premium; (v) refund of payroll deductions such as union confederation dues, union dues, etc.; (vi) night shift premium; and (vii) continuity of employment relationship with the consequent payment of 13th salary and vacation pay plus 1/3 vacation bonus. These lawsuits total R$1,666 –Company (R$6,376 – consolidated), adjusted through April 30, 2006.

The Company and its subsidiaries are parties to tax and civil lawsuits in several courts that were assessed by Management, based on the legal counsel's opinion, as possible loss. No provision has been recorded for these lawsuits in the accounting books. The nature and the amount of these lawsuits are as follows:

Tax lawsuits:

The Company and its subsidiaries are defendants in 45 other administrative and judicial tax proceedings related to payment of taxes involving the following: (i) social security contribution basis; (ii) administrative proceedings for offset of federal taxes against credits of IPI (federal VAT), IRPJ (corporate income tax) and PIS (tax on revenue) not approved by the Federal Revenue Service; (iii)

IRPJ on investment losses; (iv) monetary adjustment of untimely used ICMS (state VAT) credits; (v) ITR (rural land tax); (vi) contribution to Funrural (rural worker assistance fund); (vii) ISSQN (service tax); (viii) salary premium for education; (ix) ICMS credit on fixed assets; (x) IRPJ on balance sheet monetary adjustment; (xi) union dues to the São Paulo State Regional Pharmacy Council; and (xii) PIS (tax on revenue). These proceedings total approximately R$42,585 – Company (R$44,670 – consolidated).

Civil lawsuits:

The Company and its subsidiaries are defendants in 163 other lawsuits involving: (i) indemnity for property damage and pain and suffering for occupational illness and accidents; (ii) indemnity for property damage and pain and suffering for traffic accidents; (iii) indemnity for nonpayment of group life insurance policies of employees; (iv) review of residential land sale agreements; (iv) rectification of area and property register; (vi) disclosure of documents; (vii) mining survey license; and (viii) administrative and judicial environmental proceedings related principally to sugarcane mulch burning, which is part of the sugarcane harvest process and are based principally on different interpretations of laws and regulations applicable to the activity. These proceedings total approximately R$11,728 – Company (R$12,162 – consolidated)

17. FINANCIAL INSTRUMENTS

17.1. General considerations of risk management

Financial instruments are stated in the balance sheet at cost plus related income and expenses. Financial instruments consist of temporary cash investments, trade accounts receivable and onlendings from COPERSUCAR, taxes in installments and loans and financing, and related charges are presented in the respective notes to the financial statements.

Since the responsibility for sale of the sugar and alcohol produced by the Company lies with COPERSUCAR, the risk management policy that guarantees the protection of cooperative members against fluctuations in exchange rates or prices of their products is the responsibility of the Cooperative, which enters into hedge contracts in the futures market for commodities and exchange rates. COPERSUCAR has a Risk Management Committee formed by 3 members of the respective Board of Directors. Gains or losses on hedge transactions conducted by COPERSUCAR are passed through to the cooperative members according to monthly apportionments.

17.2. Temporary cash investments

Consist principally of repurchase agreements backed by government securities and CDBs (bank certificates of deposit) indexed to the CDI (interbank deposit rate), with high liquidity and trading on the market.

17.3. Concentration of credit risk

The credit risk is small due to the diversification of the customer portfolio and the risk control procedures of COPERSUCAR. Historically, the Company has not recorded the pass-through of significant losses on the Cooperative's trade accounts receivable.

17.4. Loans and financing and payables to COPERSUCAR

Loans and financing are represented by rural credit, financing from the BNDES and short-term working capital loans and are subject to market interest rates. Long-term loans and financing as of April 30, 2006, if stated at present value calculated at the annual interest rate of 13%, would amount to R$39,668 (R$47,444 – consolidated).

Payables to COPERSUCAR refer to funds obtained by the Cooperative at more attractive interest rates and cash surplus with low interest rate or free of interest. Such payables as of April 30, 2006, if stated at present value calculated at the annual interest rate of 13%, would amount to R$44,415 (R$57,443 – consolidated).

18. INSURANCE COVERAGE

It is Company's and its subsidiaries' policy to maintain insurance coverage for the industrial equipment and inventories safekept by them as trustee, in an amount considered sufficient to cover potential losses, according to the nature of the operations and the risk guidance from specialized consultants.

19. SUBSEQUENT EVENTS

19.1. Change of fiscal year end and company name

At the Extraordinary Shareholders' Meeting scheduled for September 28, 2006, the change of the fiscal year end to March 31 of each year will be submitted for the appreciation of the shareholders, according to the initiative adopted by COPERSUCAR and the start and end of the sugarcane crop. Therefore, the next fiscal year ending March 31, 2007 will be of 11 months.

Another resolution to be submitted to the same Extraordinary Shareholders' Meeting for approval is the change of the company name to São Martinho S.A..

19.2. Increase in ownership interest in the jointly-owned subsidiary Mogi Agrícola S.A.

On May 5, 2006, Usina São Martinho S.A. acquired 2,039,057 shares in Mogi Agrícola S.A. for R$7,233, increasing its ownership interest in the jointly-owned subsidiary to 30.86%. There was no amendment to the shareholders' agreement of Mogi Agrícola S.A. arising from said acquisition, and Mogi Agrícola S.A. continued to be a jointly-owned subsidiary of Usina São Martinho S.A..

19.3. Merger of shares of Usina São Martinho S.A. into the Company

At the Extraordinary Shareholders' Meeting called for September 28, 2006, the merger of all shares of Usina São Martinho into the Company will be submitted to Usina São Martinho's shareholders for approval. This operation will also be submitted to the Company's Extraordinary Shareholders' Meeting called for the same date. The ratio of exchange of Usina São Martinho's shares for the Company's shares will be determined through a business valuation of both companies by a specialized firm. After this merger, the Company will be the only parent company of Usina São Martinho S.A..

In view of the significance of this operation for the Company, shown below are the combined balance sheets and statements of operations for the years ended April 30, 2006, 2005 and 2004, considering all operations of the Company and Usina São Martinho and their subsidiaries. Such information is presented to provide the financial statement readers a broader view of how the Company's operations would have been had said merger of shares occurred on May 1st., 2004.

The balance sheets and statements of operations are referred to as "combined" because, as of April 30, 2006, 2005 and 2004, the Company was not yet the parent company of Usina São Martinho S.A. Therefore, said financial statements cannot be referred to as "consolidated". The combination procedures adopted in preparing said financial statements are the usual consolidation criteria.

The combined balance sheets and statements of operations include the accounts of the following companies, in the proportions stated, with applicable eliminations, for all the reported years:

- 100% of assets, liabilities, revenues, costs and expenses of Companhia Industrial e Agrícola Ometto, Usina São Martinho S.A., Omtek Indústria e Comércio Ltda. and Usina Boa Vista S.A..

- 15.7% of assets, liabilities, revenues, costs and expenses of Mogi Agrícola S.A..

(Convenience Translation into English from the Original Previously Issued in Portuguese)

COMPANHIA INDUSTRIAL E AGRÍCOLA OMETTO

COMBINED BALANCE SHEETS AS OF APRIL 30, 2006, 2005 AND 2004
(In thousands of Brazilian reais - R$)

	Combined				Combined		
ASSETS	2006	2005	2004	LIABILITIES AND SHAREHOLDERS' EQUITY	2006	2005	2004
CURRENT ASSETS				CURRENT LIABILITIES			
Cash and banks	2,206	19,085	32,966	Loans and financing	55,302	37,124	47,706
Temporary cash investments	101,312	34,342	16,869	Trade accounts payable	45,271	49,009	25,833
Receivables from Copersucar	45,050	36,188	54,156	Payables to Copersucar	1,776	17,521	75,386
Inventories	142,698	149,807	116,495	Payroll and related taxes	19,651	15,755	14,457
Recoverable taxes	13,060	8,426	14,245	Taxes payable	3,353	4,717	3,732
Other current assets	22,084	14,586	26,622	Intercompany payables	52	3,706	3,141
	326,410	262,434	261,353	Dividends payable	4,616	2,038	-
				Other current liabilities	2,013	2,954	2,650
LONG-TERM ASSETS					132,034	132,824	172,905
Intercompany receivables	-	-	-				
Deferred taxes	77,043	92,174	106,250	LONG-TERM LIABILITIES			
Other long-term assets	3,692	7,611	11,902	Loans and financing	186,010	186,779	210,300
	80,735	99,785	118,152	Payables to Copersucar	203,921	195,825	180,501
				Deferred taxes	119,699	117,937	119,823
PERMANENT ASSETS				Provision for contingencies	65,133	53,553	51,358
Investments	142	142	142	Other long-term liabilities	3,308	5,362	7,572
Property, plant and equipment	1,237,866	1,203,792	1,210,573		578,071	559,456	569,554
Deferred charges	903	52	37				
	1,238,911	1,203,986	1,210,752	SPUN-OFF LIABILITIES	-	2,321	2,577
SPUN-OFF ASSETS	-	36,247	35,917	SHAREHOLDERS' EQUITY			
				Capital	17,731	54,197	54,197
				Capital reserve	116	116	116
				Legal reserve	5,965	3,303	1,514
				Revaluation reserve	785,500	806,372	825,398
				Retained earnings	126,639	43,863	(87)
					935,951	907,851	881,138
TOTAL ASSETS	1,646,056	1,602,452	1,626,174	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,646,056	1,602,452	1,626,174

(Convenience Translation into English from the Original Previously Issued in Portuguese)

COMPANHIA INDUSTRIAL E AGRÍCOLA OMETTO

COMBINED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED APRIL 30, 2006, 2005 AND 2004
(In thousands of Brazilian reais - R$)

	Combined		
	2006	2005	2004
GROSS SALES	880,232	719,943	573,501
DEDUCTIONS	(87,055)	(71,772)	(55,516)
NET SALES	793,177	648,171	517,985
COST OF SALES	(537,817)	(432,890)	(366,168)
GROSS PROFIT	255,360	215,281	151,817
Operating (expenses) income:			
Selling expenses	(38,344)	(54,419)	(57,575)
General and administrative expenses	(78,059)	(69,274)	(66,981)
Management fees	(6,389)	(6,096)	(5,761)
Other operating (expenses) income, net	971	1,092	(2,638)
	(121,821)	(128,697)	(132,955)
Income from operations before financial items	133,539	86,584	18,862
Financial income (expenses):			
Financial income	41,973	34,652	31,552
Financial expenses	(68,591)	(73,889)	(65,277)
Monetary and exchange gains	14,822	8,272	7,115
Monetary and exchange losses	(16,357)	(1,099)	(14,625)
	(28,153)	(32,064)	(41,235)
Income (loss) from operations	105,386	54,520	(22,373)
Nonoperating income (expenses)	1,515	905	(6,596)
Income (loss) before income and social contribution taxes and income (loss) from spun-off net assets	106,901	55,425	(28,969)
Income and social contribution taxes – current	(22,145)	(6,647)	(977)
Income and social contribution taxes – deferred	(16,616)	(12,189)	4,917
	(38,761)	(18,836)	3,940
Net income before income (loss) from spun-off net assets	68,140	36,589	(25,029)
Income (loss) from spun-off net assets	6,168	(837)	(582)
	-	-	-
Net income	74,308	35,752	(25,611)
Earnings (loss) per share at end of year – (in R$)	2.18	1.05	(0.75)

(Convenience Translation into English from the Original Previously Issued in Portuguese)

Usina São Martinho S.A.

Financial Statements for the Years Ended April 30, 2006, 2005 and 2004 and Independent Auditors' Report

Deloitte Touche Tohmatsu Auditores Independentes

Deloitte.

Deloitte Touche Tohmatsu
Av. Dr. José Bonifácio Coutinho
Nogueira, 150 - 5° Andar - Sala 502
13091-611 - Campinas - SP
Brasil

Telefone: (19) 3707-3000
Fac-símile: (19) 3707-3001
www.deloitte.com.br

(Convenience Translation into English from the Original Previously Issued in Portuguese)

INDEPENDENT AUDITORS' REPORT To the Shareholders and Management of
Usina São Martinho S.A.
Pradópolis - SP

1. We have audited the accompanying individual (Company) and consolidated balance sheets of Usina São Martinho S.A (the "Company") as of April 30, 2006, 2005 and 2004, and the related statements of operations, changes in shareholders' equity (Company), and changes in financial position for the years then ended, all expressed in Brazilian reais and prepared under the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.

2. Our audits were conducted in accordance with auditing standards in Brazil and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Company and its subsidiaries, (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed, and (c) evaluating the significant accounting practices and estimates adopted by Management, as well as the presentation of the financial statements taken as a whole.

3. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the individual (Company) and consolidated financial positions of Usina São Martinho S.A. and subsidiaries as of April 30, 2006, 2005 and 2004, and the results of their operations, the changes in shareholders' equity (Company), and the changes in their financial positions for the years then ended in conformity with Brazilian accounting practices.

4. As mentioned in note 2.1, the Company's management decided to restate the financial statements for the years ended April 30, 2005 and 2004, with the purpose of: (a) conforming them to the accounting practices that best reflect its financial position and the results of its operations; (b) complying with the standards of the Federal Accounting Council (CFC) and the Brazilian Institute of Independent Auditors (IBRACON), mainly those related to the revaluation of property, plant and equipment; and (c) including the consolidated financial statements.

5. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

Campinas, September 18, 2006

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

José Carlos Amadi
Engagement Partner

(Convenience Translation into English from the Original Previously Issued in Portuguese)

USINA SÃO MARTINHO S.A.

BALANCE SHEETS AS OF APRIL 30, 2006, 2005 AND 2004
(In thousands of Brazilian reais - R$)

	Company			Consolidated				Company			Consolidated		
ASSETS	2006	2005	2004	2006	2005	2004	LIABILITIES AND SHAREHOLDERS' EQUITY	2006	2005	2004	2006	2005	2004
CURRENT ASSETS							CURRENT LIABILITIES						
Cash and banks	1,241	14,030	9,262	1,327	14,032	9,265	Loans and financing	23,429	17,355	29,965	23,429	17,355	29,965
Temporary cash investments	74,048	17,300	6,855	74,048	17,300	6,855	Trade accounts payable	35,715	33,526	18,129	35,693	33,503	18,125
Receivables from Copersucar	36,487	26,550	36,858	36,487	26,550	36,858	Payables to Copersucar	1,106	12,745	57,651	1,106	12,745	57,651
Inventories	103,962	110,359	81,963	103,962	110,359	81,963	Payroll and related taxes	14,224	11,543	11,393	14,224	11,543	11,393
Recoverable taxes	4,181	2,307	7,876	4,181	2,307	7,876	Taxes payable	2,882	2,275	2,007	2,922	2,278	2,010
Receivables from sale of land	2,503	5,708	9,390	2,503	5,708	9,390	Intercompany payables	60	11,904	2,452	53	11,899	2,451
Other assets	16,857	7,055	11,880	16,859	7,055	11,880	Dividends payable	3,426	1,660	-	3,426	1,660	-
	239,279	183,309	164,084	239,367	183,311	164,087	Other liabilities	2,258	2,736	2,516	2,258	2,736	2,516
								83,100	93,744	124,113	83,111	93,719	124,111
LONG-TERM ASSETS													
Intercompany receivables	9,910	9,712	190	9,768	9,712	190	LONG-TERM LIABILITIES						
Deferred income and social contribution taxes	46,132	54,921	70,247	46,132	54,921	70,247	Loans and financing	119,109	117,344	127,960	119,109	117,344	127,960
Receivables from sale of land	108	3,433	6,289	108	3,433	6,289	Payables to Copersucar	146,914	140,627	127,337	146,914	140,627	127,337
Other assets	2,131	2,893	4,822	2,131	2,893	4,822	Deferred income and social contribution taxes	80,077	78,703	83,117	80,077	78,703	83,117
	58,281	70,959	81,548	58,139	70,959	81,548	Provision for contingencies	61,526	51,043	48,287	61,526	51,043	48,287
							Other liabilities	3,230	5,352	7,561	3,230	5,352	7,561
PERMANENT ASSETS								410,856	393,069	394,262	410,856	393,069	394,262
Investments	15,136	7,689	7,675	93	93	93							
Property, plant and equipment	827,016	816,785	833,698	844,874	824,354	841,275	SPUN-OFF LIABILITIES	-	-	33	-	-	33
Deferred charges	470	52	37	903	52	37							
	842,622	824,526	841,410	845,870	824,499	841,405	MINORITY INTEREST	-	-	-	3,183	-	-
SPUN-OFF ASSETS	-	23,125	23,838	-	23,125	23,838	SHAREHOLDERS' EQUITY						
							Capital	16,868	38,295	38,295	16,868	38,295	38,295
							Capital reserve	131	131	131	131	131	131
							Legal reserve	4,781	1,776	320	4,781	1,776	320
							Revaluation reserve	540,282	555,352	568,587	540,282	555,352	568,587
							Retained earnings (accumulated deficit)	84,164	19,552	(14,861)	84,164	19,552	(14,861)
								646,226	615,106	592,472	646,226	615,106	592,472
TOTAL ASSETS	1,140,182	1,101,919	1,110,880	1,143,376	1,101,894	1,110,878	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	1,140,182	1,101,919	1,110,880	1,143,376	1,101,894	1,110,878

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

USINA SÃO MARTINHO S.A.

STATEMENTS OF OPERATIONS FOR THE YEARS ENDED APRIL 30, 2006, 2005 AND 2004
(In thousands of Brazilian reais – R$, except per share data)

	Company			Consolidated		
	2006	2005	2004	2006	2005	2004
GROSS SALES	639,014	512,810	393,612	639,014	512,810	393,612
DEDUCTIONS	(62,602)	(52,183)	(38,132)	(62,602)	(52,183)	(38,132)
NET SALES	576,412	460,627	355,480	576,412	460,627	355,480
COST OF SALES	(374,308)	(296,644)	(246,951)	(373,857)	(296,303)	(246,850)
GROSS PROFIT	202,104	163,983	108,529	202,555	164,324	108,630
Operating (expenses) income:						
Selling expenses	(30,635)	(41,297)	(42,255)	(30,635)	(41,297)	(42,255)
General and administrative expenses	(57,741)	(50,555)	(45,618)	(57,806)	(50,618)	(45,627)
Management fees	(4,058)	(3,766)	(3,465)	(4,058)	(3,766)	(3,465)
Equity in subsidiary and jointly-owned subsidiary	382	278	(3,033)	-	-	-
Other operating (expenses) income, net	438	193	190	438	193	(2,934)
	(91,614)	(95,147)	(94,181)	(92,061)	(95,488)	(94,281)
Income from operations before financial items	110,490	68,836	14,348	110,494	68,836	14,349
Financial income (expenses):						
Financial income	31,594	23,146	21,453	31,594	23,146	21,453
Financial expenses	(47,910)	(50,711)	(45,925)	(47,910)	(50,711)	(45,925)
Monetary and exchange gains	10,000	6,337	5,051	10,000	6,337	5,051
Monetary and exchange losses	(11,464)	(2,324)	(10,333)	(11,464)	(2,324)	(10,333)
	(17,780)	(23,552)	(29,754)	(17,780)	(23,552)	(29,754)
Income (loss) from operations	92,710	45,284	(15,406)	92,714	45,284	(15,405)
Nonoperating income (expenses)	1,183	1,099	(6,493)	1,183	1,099	(6,493)
Income (loss) before income and social contribution taxes and income (loss) from spun-off net assets	93,893	46,383	(21,899)	93,897	46,383	(21,898)
Income and social contribution taxes – current	(21,531)	(4,772)	(1,331)	(21,535)	(4,772)	(1,331)
Income and social contribution taxes – deferred	(10,163)	(10,912)	2,931	(10,163)	(10,912)	2,931
	(31,694)	(15,684)	1,600	(31,698)	(15,684)	1,600
Net income from spun-off assets and liabilities	(2,095)	(1,582)	(1,398)	(2,095)	(1,582)	(1,398)
Net income (loss)	60,104	29,117	(21,697)	60,104	29,117	(21,696)
Earnings (loss) per share at end of year – (in R$)	2.56	1.24	(0.92)	2.56	1.24	(0.92)

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

USINA SÃO MARTINHO S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (COMPANY)
FOR THE YEARS ENDED APRIL 30, 2006, 2005 AND 2004
(In thousands of Brazilian reais - R$)

	Capital	Capital reserve	Legal reserve	Revaluation reserve			Retained earnings (accumulated deficit)	Total
				Company	In subsidiaries	Total		
BALANCES AS OF APRIL 30, 2003	38,295	131	320	590,669	-	590,669	(17,445)	611,970
Revaluation reserve in subsidiary and jointly-owned subsidiary					5,466	5,466		5,466
Realization of revaluation reserve				(27,548)		(27,548)	27,548	-
Dividends paid (see note 12)							(3,267)	(3,267)
Net loss							(21,697)	(21,697)
BALANCES AS OF APRIL 30, 2004	38,295	131	320	563,121	5,466	568,587	(14,861)	592,472
Realization of revaluation reserve				(13,235)		(13,235)	13,235	-
Dividends paid (see note 12)							(4,823)	(4,823)
Net income							29,117	29,117
Proposed allocation of net income:								
Legal reserve			1,456				(1,456)	-
Proposed dividends							(1,660)	(1,660)
BALANCES AS OF APRIL 30, 2005	38,295	131	1,776	549,886	5,466	555,352	19,552	615,106
Capital reduction due to spin-off (see note 1.3)	(21,427)							(21,427)
Realization of revaluation reserve, net of taxes				(15,070)		(15,070)	15,070	-
Dividends paid from retained earnings							(4,131)	(4,131)
Net income							60,104	60,104
Proposed allocation of net income:								
Legal reserve			3,005				(3,005)	-
Proposed dividends							(3,426)	(3,426)
BALANCES AS OF APRIL 30, 2006	16,868	131	4,781	534,816	5,466	540,282	84,164	646,226

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

USINA SÃO MARTINHO S.A.

STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED APRIL 30, 2006, 2005 AND 2004
(In thousands of Brazilian reais - R$)

	Company			Consolidated		
	2006	2005	2004	2006	2005	2004
SOURCES OF FUNDS						
From operations:						
Net income (loss)	60,104	29,117	(21,697)	60,104	29,117	(21,696)
Items not affecting working capital:						
Provision for contingencies	17,790	(115)	130	17,790	(115)	130
Equity in subsidiary and jointly-owned subsidiary	(382)	(278)	3,033	-	-	-
Allowance for investment losses	-	-	-	-	-	3,124
Income (loss) from spun-off assets and liabilities without effect on working capital	1,698	680	(10,789)	1,698	680	(10,789)
Net book value of permanent assets written off	931	82	20,299	931	82	20,299
Depreciation and amortization	59,362	53,978	47,952	59,371	53,986	47,952
Charges on long-term liabilities	4,309	9,325	10,126	4,309	9,325	10,126
Deferred income and social contribution taxes	10,163	10,912	(2,931)	10,163	10,912	(2,931)
Adjusted net income	153,975	103,701	46,123	154,366	103,987	46,215
Other sources:						
Decrease in long-term assets, net	3,889	-	10,797	4,030	-	10,797
Increase in long-term liabilities, net	-	-	43,921	-	-	43,921
Minority interest	-	-	-	3,183	-	-
Dividends received	363	264	87	-	-	-
Total sources	158,227	103,965	100,928	161,579	103,987	100,933
USES OF FUNDS						
In long-term assets	-	4,737	-	-	4,737	-
In permanent assets:						
Investments	7,428	-	5,236	-	-	5,236
Property, plant and equipment	70,243	37,137	50,799	80,541	37,137	50,799
Deferred charges	699	25	-	1,131	25	-
Decrease in long-term liabilities, net	5,686	5,989	-	5,686	5,989	-
Dividends paid	4,131	4,823	3,267	4,131	4,823	3,267
Proposed dividends	3,426	1,660	-	3,426	1,660	-
Total uses	91,613	54,371	59,302	94,915	54,371	59,302
INCREASE IN WORKING CAPITAL	66,614	49,594	41,626	66,664	49,616	41,631
REPRESENTED BY:						
Current assets						
At end of year	239,279	183,309	164,084	239,367	183,311	164,087
At beginning of year	183,309	164,084	120,101	183,311	164,087	120,101
	55,970	19,225	43,983	56,056	19,224	43,986
Current liabilities						
At end of year	83,100	93,744	124,113	83,111	93,719	124,111
At beginning of year	93,744	124,113	121,756	93,719	124,111	121,756
	(10,644)	(30,369)	2,357	(10,608)	(30,392)	2,355
INCREASE IN WORKING CAPITAL	66,614	49,594	41,626	66,664	49,616	41,631

The accompanying notes are an integral part of these financial statements.

1. OPERATIONS

1.1. Operations

The Company is primarily engaged in planting sugarcane and manufacturing and selling sugar, alcohol and other sugarcane byproducts; cattle raising and agricultural exploitation; import and export of goods, products and raw material, and holding of equity interests in other companies.

Approximately 67% of the sugarcane used in the manufacture of products is obtained from the Company's crops, shareholders, related companies and agricultural partnerships, and 33% is obtained from third-party suppliers.

Sugarcane planting demands a 18-month period for maturing and for the beginning of the harvest, which generally takes place between April and November of each year, during which sugar and alcohol are produced. The sale of the production is made throughout the course of the year and, thus, the Company's revenues are not subject to seasonality.

1.2. Association with COPERSUCAR

The Company is associated with the Cooperativa de Produtores de Cana, Açúcar e Álcool do Estado de São Paulo Ltda. (Cooperative of Sugarcane, Sugar and Alcohol Producers of the State of São Paulo) - COPERSUCAR [also called the "Cooperative"], whose cooperative by-laws signed by the parties require the Company to make 100% of its production of sugar and alcohol available to COPERSUCAR.

The production made available physically remains at the Company's warehouses, whose rights of use are granted to COPERSUCAR. The Company's Agroindustrial Director is the trustee of inventories stored in its warehouses. The removal of the production due to its sale by COPERSUCAR is carried out according to the logistics established by the Cooperative.

As established in COPERSUCAR's by-laws, revenue from the sale of these products and expenses incurred due to the Cooperative's operations are allocated by COPERSUCAR to each cooperative member, proportionally to the respective products made available, regardless the physical amount removed from the cooperative member's warehouses. Revenues allocated to each cooperative member are increased or decreased due to quality and logistic differentials, established by COPERSUCAR's Board of Directors in each crop. COPERSUCAR uses the accrual basis to allocate revenues and expenses to its cooperative members in conformity with Brazilian accounting practices and Regulatory Opinion No. 66, issued by the CST (Coordination of the Taxation System) on September 5, 1986.

The amounts of revenues and expenses calculated by COPERSUCAR upon the apportionment for each cooperative member, including the inventory amounts to be written off against cost of sales, are reported in specific and detailed reports according to the nature of the event. The total amount is recorded in accounting books and presented in the Cooperative's financial statements, which are audited by independent auditors, ending April 30 of each year.

For the year ended April 30, 2006, revenues from transactions with COPERSUCAR accounted for approximately 97% of the Company's revenue (96% in 2005 and 96.2% in 2004), according to the amounts showed below:

	2006	2005	2004
Sugar sales	303,540	256,276	230,067
Alcohol sales	343,884	242,439	148,781
Export adjustments	(28,024)	(4,133)	–
Total sales derived from COPERSUCAR	619,400	494,582	378,848
Other sales	19,614	18,228	14,764
Total gross sales	639,014	512,810	393,612

Export adjustments refer to the results of settlement of commodity future contracts used by the Cooperative to minimize exposure to commodity risk on sugar exports. These amounts are recorded by cooperative members based on their proportionate share.

Selling and administrative expenses arising from the Cooperative allocations accounted for 43% of operating expenses recorded by the Company (52% in 2005 and 50% in 2004). These expenses include expenses on the sale process, logistics and distribution, port and administrative expenses.

The Cooperative also provides its cooperative members with operating and economic guidance, in addition to the reciprocal use of administrative, technological, financial and legal services.

The Company's officers and shareholders participate in COPERSUCAR's management, holding two positions on the Board of Directors, one position on the Advisory Board and one position on the Administrative Committee, whose terms of office expire in 2009, and one position on the Fiscal Council, whose term of office expires in 2007.

1.3. Partial spin-off of assets and liabilities

On March 31, 2006, the Company completed a spin-off of certain assets and liabilities not related to the planting of sugarcane and production of sugar and alcohol, which were transferred to an affiliate. The spin-off was approved by the Extraordinary Shareholders' Meeting held on April 30, 2006.

The summary of spun-off assets and liabilities, according to the book value appraisal report as of March 31, 2006 issued by independent appraisers, is presented below:

	Spun-off net assets
	03/31/2006
Current assets	9
Long-term assets	1,733
Permanent assets	
Investment in related company accounted for under the equity method:	
Vale do Mogi S.A.	15,778
Investments in related companies accounted for under the historical acquisition cost:	
Agropecuária do Cachimbo S.A.	3,734
Boa Vista Agrícola e Pecuária Ltda.	6
Other investments	203
Property, plant and equipment	10
	19,730
Total assets	21,473
Current liabilities	
Provision for shareholders' deficit of investees	
Monte Sereno Agrícola Ltda.	(44)
Agropecuária Caieira do Norte S.A.	(2)
Total liabilities	(46)
Total spun-off net assets	21,427

As of April 30, 2005 and 2004, the balances of assets and liabilities composing the spun-off net assets, in addition to revenues, expenses and the related tax effects for the years ended April 30, 2006, 2005 and 2004, are presented in specific lines of the individual and consolidated financial statements for the segregation of other balances representing the planting of sugarcane and the production of sugar and alcohol, and to allow for comparative analysis with the Company's activities of prior years, exempt from these effects.

Net income arising from spun-off assets and liabilities is net of R$19, R$17 and R$10, of Income and Social Contribution taxes, for the years ended April 30, 2006, 2005 and 2004, respectively.

2. PRESENTATION OF FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING PRACTICES

2.1. Restatement of previously issued financial statements

The Company's financial statements for the years ended April 30, 2005 and 2004, originally published on August 16, 2005, have been restated. The Company's management voluntarily decided to restate these financial statements with the purpose of: (a) conforming them to the accounting practices that best reflect its financial position and the results of its operations; (b) complying with the standards of the Federal Accounting Council (CFC) and the Brazilian Institute of Independent Auditors (IBRACON), mainly those related to the revaluation of property, plant and equipment; and (c) including the consolidated financial statements.

The reconciliation between the Company's shareholders' equity and net income (loss) previously disclosed and the balances included in the restated financial statements is as follows:

	Net income (loss)		Shareholders' equity	
	2005	2004	2005	2004
Balances previously disclosed	23,624	470	217,060	199,579
Revaluation of the Company's and subsidiaries' assets recorded in 2003	(19,617)	(30,960)	480,197	499,814
Securitized rural credits	4,798	2,829	(20,668)	(25,467)
Provision for contingencies	22,321	3,031	(35,076)	(57,397)
Other	814	(2,246)	(2,346)	(2,819)
Income and social contribution taxes – current and deferred	(2,823)	5,179	(24,061)	(21,238)
Restated balances	29,117	(21,697)	615,106	592,472

Additionally, the Company reversed the capitalization of the revaluation reserve performed in 1997, in the amount of R$117,705, returning the respective amount to the revaluation reserve account, without changing the number of shares. This adjustment does not affect the Company's result of operations or total shareholders' equity.

The accounting books were reopened to record the aforementioned adjustments. The reopening of accounting books for the years ended April 30, 2005 and 2004 was approved by the Extraordinary Shareholders' Meeting held on June 24, 2006.

The aforementioned adjustments will be discussed by the Company's shareholders in an Extraordinary Shareholders' Meeting scheduled for September 28, 2006.

2.2. Significant accounting practices

The financial statements have been prepared in accordance with Brazilian accounting practices. The significant accounting practices adopted in the preparation of the financial statements are as follows:

(a) Results of operations: The Company's results are recorded on the accrual basis. Income earned and expenses incurred on cooperative member transactions and in support and management activities informed by COPERSUCAR are recorded in results of operations based on monthly allocations, defined according to the Company's production in relation to other cooperative members, in conformity with CST Regulatory Opinion No. 66, of September 5, 1986, and the accrual basis.

(b) Temporary cash investments: Stated at cost plus income earned through the balance sheet dates, which does not exceed market value.

(c) Trade accounts receivable: Recorded based on information received from COPERSUCAR. Represents the net balance receivable by the Company based on its proportional share of the Cooperative's income and expenses, and advances received on future sales. The expense related to the allowance for doubtful accounts is transferred to cooperative members proportionally when recognized by the Cooperative.

(d) Inventories: Stated at average acquisition or production cost, which does not exceed the respective replacement and/or realizable value. Costs incurred on maintenance of sugarcane crops are stated as crop treatment under the caption sugarcane – crops and are recorded at cost (results of operations) upon the harvest of said crop.

(e) Investments: Significant investments in subsidiaries and jointly-owned subsidiaries are accounted for under the equity method, based on the financial statements as of the same date of the Company's financial statements. In order to conform with accounting practices of the jointly-owned subsidiary to the parent company's for purposes of calculation of equity in subsidiary and jointly-owned subsidiary and consolidation, an adjustment to the financial statements of Mogi Agrícola S.A. related to the revaluation of land at values as of April 30, 2003 was made. Investment in cooperative is stated at cost less a provision to reflect the reimbursement amount stipulated in the by-laws.

(f) Property, plant and equipment: Land, buildings, industrial equipment and facilities are stated at cost of acquisition or construction plus revaluation at values as of April 30, 2003. Other property, plant and equipment items are stated at cost of acquisition or construction. Depreciation is calculated under the straight-line method, based on the estimated useful lives of the assets, at the following annual rates, defined in the revaluation report, when applicable: buildings and improvements – 8.57%; industrial machinery, equipment and facilities – 12.79%; vehicles – 20%; agricultural machinery and implements – 25% and other – 14.72%. Depreciation of costs to grow sugarcane crops is calculated under the straight-line method, considering an estimated useful life of five years, after the beginning of cutting, based on the proportion of production to date in relation to total estimated production. Maintenance costs that result in the extension of the useful life of property, plant and equipment are capitalized. Maintenance costs that do not extend the useful life of the assets are recognized as expenses when incurred. Asset items that are useful only during one harvest period are capitalized when acquired or replaced, and the respective depreciation are charged to operations during the subsequent harvest period.

(g) Deferred charges: In the Company's individual financial statements, deferred charges represent costs relating to the implementation of an integrated management system, and the amortization is calculated under the straight-line method, considering an estimated useful life of 5 years. In the consolidated financial statements, deferred charges represent costs incurred on the construction of the industrial plant of the subsidiary Usina Boa Vista S.A., which is still in the preoperating stage. Amortization will be calculated when the plant starts its regular operations, under the straight-line method, based on a rate to be timely defined according to the estimated time of the future benefit.

(h) Receivables and payables: Assets and liabilities subject to monetary and exchange variations are actualized through the balance sheet date. These variations are recorded in results of operations.

(i) Income and social contribution taxes: Provisions for income and social contribution taxes are calculated based on book income, adjusted by permanent additions and deductions at the rates of 15% plus a 10% surtax for income exceeding R$240 for income tax, and at the rate of 9% for social contribution tax. Income and social contribution taxes on temporary differences, on the revaluation of property, plant and equipment and tax loss carryforwards are recognized in the financial statements as deferred debits and credits, and are classified in the balance sheets as long-term assets and liabilities, complying with the provisions of IBRACON Accounting Standard and Procedure (NPC) No. 25.

(j) Use of estimates: The preparation of financial statements in conformity with Brazilian accounting practices requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Main estimates related to the financial statements refer to the allowance for investment losses, provision for contingencies, amortization and depreciation.

(k) Earnings (loss) per share: Calculated based on the number of shares outstanding at the balance sheet date.

3. CONSOLIDATION CRITERIA

The consolidated financial statements as of April 30, 2006, 2005 and 2004 include the following subsidiary and jointly-owned subsidiary:

Company	Main activities
Usina Boa Vista S.A. ("Boa Vista") – subsidiary with 70% interest in capital	Processing of sugarcane, own production and production acquired from third parties, manufacture and sale of sugar, alcohol and their byproducts, agricultural exploitation and cattle raising, import and export of goods, products and raw material, and holding of equity interests in other companies.
Mogi Agrícola S.A. ("Mogi Agrícola") – jointly-owned subsidiary with 15.7% interest in capital	Agricultural exploitation and holding of equity interests, as partner or shareholder, in other companies.

Mogi Agrícola S.A. is a jointly-owned subsidiary due to the agreement between its shareholders. The respective consolidation considers the Company's interest in that company, whose main captions of the financial statements are as follows:

	2006	2005	2004
ASSETS			
Current assets	85	190	43
Long-term assets	323	–	–
Permanent assets	13,341	13,392	13,488
Total	13,749	13,582	13,491
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities	61	16	14
Shareholders' equity	13,688	13,566	13,477
Total	13,749	13,582	13,491
STATEMENTS OF OPERATIONS			
Income from leased land	2,879	2,171	636
Operating expenses	(417)	(400)	(55)
Income from operations	2,462	1,771	581
Net income	2,433	1,771	581

Usina Boa Vista S.A. is in the preoperating stage. Full consolidation is applied since the Company holds its controlling common shares, and the minority interest is stated in a separate caption of the consolidated financial statements according to the other shareholders' interest in its capital, which is 30%. The main captions of the financial statements of this subsidiary are as follows:

	2006
ASSETS	
Current assets	87
Permanent assets	10,730
Total	10,817
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities	61
Advance for future capital increase	143
Shareholders' equity	10,613
Total	10,817

The following main consolidation procedures have been adopted:

a) elimination of interests in the subsidiaries' shareholders' equity;

b) elimination of the investment balance and equity in subsidiary and jointly-owned subsidiary; and

c) elimination of intercompany balances and transactions and unrealized profits arising from intercompany transactions.

4. TEMPORARY CASH INVESTMENTS

		Company and Consolidated		
Type	**Yield**	**2006**	**2005**	**2004**
Repurchase agreements	100% of the CDI	56,550	1,511	–
Bank certificates of deposit	100% of the CDI	9,151	13,071	6,717
Debenture repurchase agreements	100.5% of the CDI	6,338	2,425	60
Other	100.7% of the CDI	2,009	293	78
Total		74,048	17,300	6,855

Repurchase and debenture repurchase agreement represent fixed-income investments backed by government securities, ensuring fixed-rate yield as specified above, regardless of the variation on the yield of the securities acquired.

All investments may be redeemed within 30 days, without loss of yield.

5. RECEIVABLES FROM COPERSUCAR

Receivables from COPERSUCAR are similar to a current account, including amounts receivable from allocations related to the sale of products and amounts deductible due to allocations of expenses and advances. The amount of advances received that exceeds cooperative members' right arising from the allocation of revenues and expenses is subject to interest at rates corresponding to 100% of the daily variation of the DI (Interbank Deposit rate) disclosed by CETIP (Clearinghouse for the Custody and Financial Settlement of Securities), in 2006, 2005 and 2004, representing the average funding by COPERSUCAR. Other components of this account are not subject to interest.

The average collection periods are as follows:

- 17 days for the sale of alcohol in the domestic market;
- 25 days for the sale of alcohol in the foreign market;
- 33 days for the sale of sugar in the domestic market; and
- 45 days for the sale of sugar in the foreign market.

As of April 30, 2006, the collection profile above results in an expected average turnover of 38 days for these receivables.

The allocated operating expenses are set off against amounts receivable on a monthly basis.

The Company did not identify the need to record an allowance for doubtful accounts since this allowance is estimated and recorded by COPERSUCAR, which is the entity that sells the products to end customers. Historically, the amounts receivable from COPERSUCAR do not present losses.

6. RECEIVABLES FROM SALE OF LAND (CURRENT AND LONG-TERM)

Receivables from sale of land are partly realizable through the delivery of sugarcane by debtors, and the amounts are valued by the ATR (Total Recoverable Sugar) factor, according to price standards defined by the Council of Sugarcane, Sugar and Alcohol Producers of the State of São Paulo – CONSECANA, and partly in cash, adjusted by 98% of the CDI (interbank deposit rate) variation, except the amounts receivable from municipal governments, which are not subject to interest and, as of April 30, 2006, are equivalent to approximately R$116.

Expected receivables are as follows:

	Company and Consolidated		
	2006	2005	2004
2006	–	–	4,941
2007	–	3,433	1,348
2008 to 2015	108	–	–
Total long-term portion	108	3,433	6,289
Current portion	2,503	5,708	9,390
Total	2,611	9,141	15,679

7. INVENTORIES

	Company and Consolidated		
	2006	2005	2004
Finished products held by Copersucar:			
Sugar and Alcohol	22,379	37,074	19,588
Sugarcane – crop	52,997	46,056	44,707
Advances – advance purchase of sugarcane	15,331	15,600	8,407
Inputs, indirect materials, for maintenance and other	13,255	11,629	9,261
	103,962	110,359	81,963

As the Company's production is immediately made available to COPERSUCAR and the distribution to customers by the Cooperative is not necessarily linked to sales proportionally attributed to the Company, the amount of sugar and alcohol held in inventory that is physically kept by the Company differs from the quantity that represents the balance of inventories. As of April 30, 2006, the Company safeguarded sugar and alcohol inventories in the approximate amount of R$1,550 (R$11,721 in 2005 and R$19,796 in 2004), stated at average production cost. The Company is responsible for the risk of safeguarding inventories made available to COPERSUCAR that are stored in its facilities.

8. INTERCOMPANY BALANCES AND TRANSACTIONS

a) Company and consolidated balances:

	COMPANY					
	2006		2005		2004	
	Long-term assets	Current liabilities	Long-term assets	Current liabilities	Long-term assets	Current liabilities
Of subsidiary and jointly-owned subsidiary:						
Mogi Agrícola S/A	–	60	–	27	–	5
Usina Boa Vista S/A	142					
Of shareholders:						
Companhia Industrial e Agrícola Ometto	9,768	–	9,712	–	190	2,259
Of affiliate:						
OMTEK Indústria e Comércio Ltda.	–	–	–	11,877	–	188
Subtotal	9,910	60	9,712	11,904	190	2,452
Of shareholders, arising from purchase of sugarcane	–	1,092	–	1,531	–	744
	9,910	1,152	9,712	13,435	190	3,196

	CONSOLIDATED					
	2006		2005		2004	
	Long-term assets	Current liabilities	Long-term assets	Current liabilities	Long-term assets	Current liabilities
Of jointly-owned subsidiary:						
Mogi Agrícola S/A	–	53	–	22	–	4
Of shareholder:						
Companhia Industrial e Agrícola Ometto	9,768	–	9,712	–	190	2,259
Of affiliate:						
OMTEK Indústria e Comércio Ltda.	–	–	–	11,877	–	188
Subtotal	9,768	53	9,712	11,899	190	2,451
Of shareholders, arising from purchase of sugarcane	–	1,092	–	1,531	–	744
	9,768	1,145	9,712	13,430	190	3,195

Intercompany balances refer to loan agreements maturing every December 31, which may be extended for an additional year. The loan is subject to charges equivalent to 100% of the CDI variation.

The balance with the jointly-owned subsidiary Mogi Agrícola S/A refers to interim dividends, which are not subject to charges.

The balance with the subsidiary Usina Boa Vista S/A refers to advance for future capital increase, which is not subject to charges.

All long-term intercompany balances are estimated to be settled in a maximum of 24 months. Sugarcane purchases from shareholders are conducted under market conditions similar to those conducted with third parties.

b) Parent Company transactions

	2006		2005		2004
	Financial income	Financial expense and cost	Financial income	Financial expense and cost	Financial expense and cost
Companhia Industrial e Agrícola Ometto	1,633	–	727	39	142
OMTEK Indústria e Comércio Ltda.	–	1,110	–	2,000	–
Sugarcane purchase from shareholders	–	4,525	–	3,328	2,929
	1,633	5,635	727	5,367	3,091

9. INVESTMENTS

	2006		
	Usina Boa Vista Ltda.	Mogi Agrícola S.A.	Total
a) In subsidiary and jointly-owned subsidiary:			
Shares held (thousands)	14,000	2,111	
Ownership interest	70.00%	15.70%	
Capital	20,000	13,448	
Shareholders' equity	10,612	13,687	
Adjustment for conformity of accounting practice (revaluation of land)	–	34,815	
Adjusted shareholders' equity	10,612	48,502	
Net income	–	2,433	
Changes in investments:			
Balance at beginning of year	–	7,596	7,596
Dividends	–	(363)	(363)
Increase due to capital subscription	7,428		7,428
Equity in subsidiary and jointly-owned subsidiary	–	382	382
Balance at end of year	7,428	7,615	15,043
b) Other investments			93
Total investments			15,136

	2005
	Mogi Agrícola S.A.
a) In jointly-owned subsidiary:	
Shares held (in thousands)	2,111
Ownership interest	15.70%
Capital	13,448
Shareholders' equity	13,566
Adjustment for conformity of accounting practice (revaluation of land)	34,815
Adjusted shareholders' equity	48,381
Net income	1,771
Changes in investments:	
Balance at beginning of year	7,582
Dividends	(264)
Equity in jointly-owned subsidiary	278
Balance at end of year	7,596
b) Other investments	93
Total investments	7,689

	2004		
	Mogi Agrícola Ltda.	Mogi Agrícola S.A.	Total
a) In subsidiaries:			
Shares held (in thousands)	–	2,111	
Ownership interest	–	15.70%	
Capital	–	13,448	
Shareholders' equity	–	13,477	
Adjustment for conformity of accounting practice (revaluation of land)	–	34,815	
Adjusted shareholders' equity	–	48,292	
Net income	–	581	
Changes in investments:			
Increase (decrease) due to merger	(2,111)	2,111	–
Adjustment for conformity of accounting practice (revaluation of land)	–	5,466	5,466
Dividends	–	(86)	(86)
Increase due to new investments	5,235	–	5,235
Equity in subsidiaries	(3,124)	91	(3,033)
Balance at end of year	–	7,582	7,582
b) Other investments			93
Total investments			7,675

The jointly-owned subsidiary Mogi Agrícola S.A. was established on December 23, 2004 by means of merger of net assets transferred from the investee Mogi Agrícola Ltda., whose operations were interrupted on that date. Thus, the income arising from equity in subsidiaries on the loss of Mogi Agrícola Ltda., in the amount of R$3,124, calculated through December 23, 2004, classified as equity in subsidiaries in the statement of operations of the parent company, was reclassified to other operating expenses in the consolidated, since this is basically an allowance for investment losses.

10. PROPERTY, PLANT AND EQUIPMENT

	Company					
	2006				2005	2004
	Cost	Revaluation	Accumulated depreciation	Net	Net	Net
Land	55,296	468,712	–	524,008	524,035	524,035
Buildings and premises	41,596	41,436	(40,258)	42,774	43,916	48,582
Industrial equipment and facilities	79,212	144,647	(110,775)	113,084	129,340	150,199
Vehicles	21,293	–	(20,337)	956	933	988
Agricultural machinery and implements	65,629	–	(44,083)	21,546	9,886	11,711
Sugarcane crops	151,680	–	(47,017)	104,663	93,660	86,985
Other	20,654	2,288	(15,695)	7,247	8,756	7,849
Construction in progress	12,738	–	–	12,738	6,259	3,349
Total	448,098	657,083	(278,165)	827,016	816,785	833,698

	Consolidated					
	2006				2005	2004
	Cost	Revaluation	Accumulated depreciation	Net	Net	Net
Land	65,658	475,949	–	541,607	531,559	531,559
Buildings and premises	41,864	41,436	(40,489)	42,811	43,961	48,635
Industrial equipment and facilities	79,212	144,647	(110,775)	113,084	129,340	150,199
Vehicles	21,374	–	(20,337)	1,037	933	988
Agricultural machinery and implements	65,629	–	(44,083)	21,546	9,886	11,711
Sugarcane crops	151,821	–	(47,017)	104,804	93,660	86,985
Other	20,654	2,288	(15,695)	7,247	8,756	7,849
Construction in progress	12,738	–	–	12,738	6,259	3,349
Total	458,950	664,320	(278,396)	844,874	824,354	841,275

In the year ended April 30, 2006, the Company invested the amount of R$33,696 (R$25,973 in 2005 and R$30,519 in 2004) to grow and/or renew sugarcane crops.

In 2006, the balance of construction in progress refers especially to improvements in its industrial plant related to bulk production and adaptation of fermentation.

The Company's sugar warehouses and alcohol tanks are granted on a commodatum basis to COPERSUCAR, without payment, to store the production when it is made available to be sold by the Cooperative.

Due to some loans and financing of the Company, approximately R$43,972 of fixed assets items are pledged as collateral, and are mostly represented by industrial equipment and facilities and agricultural machinery and implements. Additionally, the amount of R$28,038 related to industrial equipment was pledged as collateral for the affiliate's loan. Approximately R$379,186 (Company and consolidated) in land was pledged as collateral of securitized rural credits.

In addition to the revaluation recorded in 1997, based on an appraisal report issued by independent appraisers, the Company recorded, as of April 30, 2003, revaluation of land, buildings, industrial equipment and facilities, in the following amounts:

Property, plant and equipment items	Company
Revalued amount:	
Land	537,465
Buildings	45,156
Industrial equipment and facilities	157,326
Total	739,947
Book value plus the revaluation previously recorded	214,639
Revaluation recorded in 2003	525,308

According to the procedures adopted by the Company, when the jointly-owned subsidiary Mogi Agrícola S.A. was established, on December 23, 2004, its land was revalued and this revaluation was recorded by the Company as a revaluation reserve in jointly-owned subsidiary in the amount of R$5,466.

The revaluations were included in the property, plant and equipment balance with a credit to revaluation reserve in the Company's shareholders' equity, Company and in subsidiaries, net of provision for deferred income and social contribution taxes calculated on the revaluation portion subject to depreciation, whose original amount of R$68,843, was recorded in long-term liabilities, under the caption "Deferred Income and Social Contribution Taxes". Said deferred income and social contribution taxes are realized according to the depreciation or write-off of revalued assets. The amount of revalued assets started to be depreciated according to the remaining useful life estimated by the revaluation report (see note 2 – item f).

Residual values net of taxes of the revaluation of property, plant and equipment in the consolidated, as of April 30, 2006, 2005 and 2004, were R$582,539, R$605,397 and R$625,431, respectively, of which R$5,466 arising from the jointly-owned subsidiary Mogi Agrícola S.A., which make up the revaluation reserve balance, Company and in subsidiaries, in shareholders' equity.

In the year ended April 30, 2004, due to the sale of a portion of the revalued land, the Company determined losses which were recorded in nonoperating income (expenses), and performed the realization of the respective revaluation balance recorded in its shareholders' equity.

11. LOANS AND FINANCING

				Company and Consolidated		
Type	**Charges**	**Guarantees**	**Maturity**	**2006**	**2005**	**2004**
In local currency:						
Securitized rural credits	IGP-M (General Market Price Index)	(a)	September 2018 to June 2020	80,937	87,637	87,397
Rural credit	Fixed-rate weighted average interest of 8.75% p.a.	–	August 2006	781	–	7,724
Automatic Finame (National Equipment Financing Authority)/ BNDES (National Bank for Economic and Social Development) loan	TJLP (Long-term interest rate) + weighted average interest of 5.57% p.a.	(b)	June 2006 to March 2010	19,396	24,493	28,179
Finame	Fixed-rate weighted average interest of 11.85% p.a.	(c)	May 2006 to January 2011	29,753	8,316	11,138
Working capital	Interest of 21.27% p.a.	–	June 2006	772	–	7,706
In foreign currency:						
Working capital	US dollar variation + 4.9% p.a.	–	May 2005	–	755	–
Currency derivative contracts	US dollar variation limited to the rate of R$2.61	–	July 2005	–	107	–
Automatic Finame/BNDES loan	Currency basket + fixed-rate weighted average interest of 5.8% p.a.	(d)	May 2007	218	450	726
Commercial paper	US dollar variation + 9% p.a.	–	July 2011	10,681	12,941	15,055
Total				142,538	134,699	157,925
Represented by:						
Current liabilities				23,429	17,355	29,965
Long-term liabilities				119,109	117,344	127,960

As of April 30, 2006, all loans and financing were guaranteed by shareholders' collateral signatures and by the following additional guarantees (reference to the table above):

		Book or contractual value
(a)	Mortgage - 9,649.16 ha of land	152,122
(b)	Liens on industrial and agricultural equipment	6,333
	Promissory note	3,821
	Mortgage - 2,683.09 ha of land	47,383
	Agricultural lien (sugarcane)	5,940
(c)	Liens on agricultural equipment	32,611
	Promissory note	5,189
	Mortgage - 837.54 ha of land	14,313
(d)	Promissory note	910

As of April 30 of each year, the long-term portions mature as follows:

	Company and Consolidated		
	2006	2005	2004
2006	–	–	14,562
2007	–	13,726	13,145
2008	18,572	12,931	12,356
2009	17,443	11,800	11,227
2010	13,212	7,848	7,366
2011	7,451	5,851	5,469
2012	16,236	18,507	20,193
2013 to 2021	46,195	46,681	43,642
	119,109	117,344	127,960

Based on Central Bank of Brazil Resolution No. 2471/98 and other current legal provisions, in 1998, 1999 and 2000 the Company securitized debts with financial institutions, by means of the acquisition, in the secondary market, of CTNs (National Treasury Certificates), as collateral for the payment of the principal. The securitized financing will be automatically settled on their maturity dates upon the redemption of the CTNs acquired by the Company, which are under the custody of the creditor financial institutions. Said certificates are non-negotiable and are exclusively intended for paying this debt. The Company's disbursement during the 20 years in which this securitization is effective is limited to the annual payment of amounts equivalent to variable percentages between 3.9% and 4.96% per year on the securitized amount adjusted based on the IGP-M through the annual payment date. This obligation was recorded in the financial statements as of April 30, 2006, 2005 and 2004 according to the amount of these future disbursements. The balance of this obligation is subject to adjustment based on the IGP-M variation. This obligation is collaterized by land in the approximate amount of R$379,186 (Company and consolidated).

12. PAYABLES TO COPERSUCAR

Payables to COPERSUCAR are basically represented by:

(a) Funds obtained by the Cooperative in the market and transferred to cooperative members with short-term maturity.

(b) Temporary cash surplus arising from injunctions in lawsuits claiming the suspension of liabilities. This cash surplus is related to reserves for contingencies recorded by the Cooperative in long-term liabilities. Accordingly, the Company also records these liabilities in long-term liabilities. However, in case of unfavorable outcome in lawsuits in which the Cooperative obtained an injunction, the Company will be required to disburse the amount that was transferred within 120 days. The main amounts included in these liabilities arise from the IPI (federal VAT) challenged in court by the Cooperative as to the constitutionality and lawfulness of the requirement of the tax, and are represented by R$41,237 in 2006, R$37,979 in 2005 and R$3,015 in 2004.

This balance is composed of:

	2006	2005	2004
Advances on exchange contracts – Restated by exchange variation, plus interest of 3.52% p.a	–	11,748	55,409
Exchange bill – Variation of 103.35% of the CDI	4,546	5,730	
Exchange bill – Variation of the SELIC (Central Bank overnight rate)	80,863	74,534	62,380
Exchange bill – Onlending of funds not subject to charges	48,590	46,566	49,509
Exchange bill – TJLP variation + interest of 5.5% p.a.	–	–	2,459
Exchange bill – TR (a managed prime rate) variation + 0.5% p.a.	–	6,652	6,136
Exchange bill – TJLP variation	14,021	8,142	9,095
Total	148,020	153,372	184,988
Current liabilities	1,106	12,745	57,651
Long-term liabilities	146,914	140,627	127,337

All obligations with COPERSUCAR are guaranteed by directors' collateral signatures. Exchange bill amounts that exceed the indebtedness limit established in the Cooperative agreement are additionally collaterized by bank guarantees. Considering the indebtedness limits in each year, it was necessary to issue bank guarantees only for the year ended April 30, 2004, in the amount of R$45,092.

13. SHAREHOLDERS' EQUITY

Capital is represented by 23,500,000 registered common shares without par value.

As described in note 2, the Extraordinary Shareholders' Meeting to be held on September 28, 2006 will decide on the approval of the reversal of the capitalization of the revaluation reserve performed in 1997, in the amount of R$117,705, returning the respective amount to the revaluation reserve account, without changing the number of shares.

As mentioned in note 1, the Extraordinary Shareholders' Meeting held on April 30, 2006 approved the partial spin-off of the Company, transferring the spun-off assets to an affiliate, which resulted in a capital reduction of R$21,247.

Under the by-laws, shareholders are entitled to minimum dividends of 6% of net income for the year, after the recognition of the legal reserve.

Dividends proposed by the Company's management, available at the Annual Shareholders' Meeting, were calculated as follows:

Description	2006	2005
Net income for the year	60,104	29,117
(-) Recognition of legal reserve (5%)	(3,005)	(1,456)
Computation basis for recognition of dividends	57,099	27,661
Minimum dividends under the by-laws	3,426	1,660
Supplementary dividends, paid in the year	–	4,131
Total dividends, paid and proposed	3,426	5,791
Total dividends per share – R$	0.1458	0.2464

Dividends paid in the years ended April 30, 2004 and 2005, in the amounts of R$3,267 and R$4,823, respectively, were approved before the decision of restating the financial statements mentioned in note 2.1. and recognizing the effects of the respective adjustments, although not changing their nature.

As of April 30, 2006, the allocation of the retained earnings balance will be defined by the Shareholders' Meeting, that will approve the financial statements.

14. PROFIT SHARING PROGRAM

In conformity with the Collective Labor Agreements with the employees' unions, the Company and its subsidiaries introduced a profit sharing program based on operating and financial targets previously agreed upon with the employees. The profit sharing for 2006, recorded as operating costs or expenses, was R$6,456 – consolidated (R$3,386 in 2005 and R$6,280 in 2004).

15. INCOME AND SOCIAL CONTRIBUTION TAXES

(a) Deferred income and social contribution taxes as of April 30 are as follows:

	Company and Consolidated		
	2006	2005	2004
Assets			
Income tax loss carryforwards	16,737	24,011	32,341
Social contribution tax loss carryforwards	7,577	10,273	12,689
Provision for contingencies	15,884	13,028	16,059
Securitized financing	5,514	7,028	8,864
Other	420	581	294
Deferred income and social contribution tax assets	46,132	54,921	70,247
Liabilities			
Revaluation reserve	(42,257)	(50,045)	(56,844)
Accelerated depreciation incentive	(37,768)	(27,185)	(22,470)
Other	(52)	(1,473)	(3,803)
Deferred income and social contribution tax liabilities	(80,077)	(78,703)	(83,117)
Total liabilities – net	(33,945)	(23,782)	(12,870)

Prevailing tax legislation allows tax losses to be carried forward indefinitely to be offset against future taxable income up to a limit of 30% of annual taxable income, without monetary adjustment. Deferred tax credits arising from tax loss carryforwards are recognized based on the Company's projections of taxable income, which support the recovery of the tax credits in accordance with applicable accounting practices. On a conservative basis, the Company classifies all deferred tax credits into long-term.

The recovery of all deferred tax credits as indicated by the projections of taxable income approved by Management and by the maturity date of securitized loans is as shown below:

Year	2006	2007	2008	2009	2010	2011 and thereafter
Estimated realization	12,030	10,902	9,828	3,107	2,321	7,944

Deferred income and social contribution tax liabilities are realized principally through the depreciation and write-off of fixed assets that gave rise to them.

(b) Reconciliation of income and social contribution taxes – Income and social contribution tax expenses are reconciled to effective rates, as shown below:

Company and Consolidated:	2006		2005		2004	
	Income tax	Social contribution tax	Income tax	Social contribution tax	Income tax	Social contribution tax
Income (loss) before income and social contribution taxes and income (loss) from spun-off net assets, net of the respective income and social contribution taxes.....	93,893	93,893	46,383	46,383	(21,899)	(21,899)
Statutory rates - %	25%	9%	25%	9%	25%	9%
Income and social contribution tax (expense) credit at statutory rates	(23,473)	(8,450)	(11,596)	(4,174)	5,475	1,971
Reconciliation to effective rate:						
Permanent differences						
Equity in subsidiary and jointly-owned subsidiary	95	34	69	25	(758)	(273)
Realization of revaluation reserve for land sold	(21)	(8)	–	–	(3,431)	(1,234)
Other nondeductible expenses.....	(78)	(28)	(89)	(32)	(206)	(74)
PAT (Workers' Meal Program).....	359	–	74	–	42	–
Tax–incentive donations – Rouanet Law and Children's Funds	315	–	39	–	88	–
Loss of tax loss carryforwards due to spin-off.....	(267)	(172)	–	–	–	–
Income and social contribution tax expenses....	(23,070)	(8,624)	(11,503)	(4,181)	1,210	390
Income and social contribution tax expenses....	(31,694)		(15,684)		1,600	

16. COMMITMENTS

16.1. Legal reserve and permanent preservation areas

The Company and its jointly-owned subsidiary have uncultivated areas covered by preserved native vegetation or in process of reforestation intended to assure the ecological balance of the environment. Such tracts of land are permanent preservation areas and legal reserve areas.

Permanent preservation areas (for example, riverbank forests and hillsides) are observed at the time of cultivation of sugarcane and the Company does not cultivate the land on these areas.

The obligation to abandon currently cultivated areas for legal reserve purposes has been discussed at political and judicial levels, for which reason environmental authorities have not yet performed decisive inspections. The Company and its joint-owned subsidiary own land registered as legal reserve in an area smaller than the minimum percentage set by law.

The Company is discussing this matter in court and the risk of loss on the lawsuits is assessed as possible.

The Company and its jointly-owned subsidiary are evaluating legal alternatives for meeting this legal requirement, in the time limit set by legislation of 30 years from 1990 at the rate of 10% for each 3-year period. The amounts to be invested to meet this requirement, the manner in which it will be met and the time required for completion cannot be determined at this time.

Investments in preservation areas, when made, are recorded under “property, plant and equipment”.

16.2. Sugarcane purchase agreements

The Company entered into agreements for purchase of sugarcane produced in third parties’ rural properties, in the amount of approximately 845,000 tons to be delivered between 2006 and 2018. The amount to be disbursed for these purchases will be determined at the end of each crop at the price per ton of sugarcane established by the model of the Conselho dos Produtores de Cana-de-açúcar, Açúcar e Álcool do Estado de São Paulo (Council of Sugarcane, Sugar and Alcohol Producers of the State of São Paulo) - CONSECANA. This commitment for the average price for the 2005/2006 crop of R$37.35 per ton of sugarcane totals approximately R$31,572.

16.3. Lease transactions

The Company entered into an operating lease agreement for IT equipment and software, with final maturity in January 2007. The installments of this agreement, recorded in income for the year ended April 30, 2006 (Company and consolidated), were R$330 (R$330 in 2005 and R$82 in 2004). These lease agreements are collateralized by the financed assets.

17. PROVISION FOR CONTINGENCIES

Income and social contribution tax calculations and tax returns, and other taxes and payroll charges, are open to review by tax authorities for varying periods according to the date of payment or filing of tax returns.

The Company and its subsidiaries are parties to tax, civil and labor lawsuits in different courts. Reserves for contingencies are determined by Management, based on legal counsel's assessment, for probable losses and are stated at adjusted amounts. The provision for contingencies recorded is composed of:

	Company and Consolidated					
	2004	2005	Additions	Uses	Monetary adjustment	2006
Tax	32,221	34,360	–	–	2,693	37,053
Civil	1,141	1,482	–	–	246	1,728
Labor	37,440	34,845	10,100	(8,378)	4,751	41,318
	70,802	70,687	10,100	(8,378)	7,690	80,099
(-) Escrow deposits	(22,515)	(19,644)	(4,515)	5,586	–	(18,573)
Total	48,287	51,043	5,585	(2,792)	7,690	61,526

The nature of the main lawsuits, which were assessed by Management as probable loss based on the legal counsel's opinion and which, therefore, were included in the above reserves, is as follows:

a) Tax lawsuits:

(i) Offset of tax loss carryforwards: Federal tax authorities filed a tax collection proceeding to collect the IRPJ (corporate income tax) for 1997, when the Company, supported by a lawsuit, offset tax losses determined from 1992 to 1996 without complying with the 30% limit required by Law No. 8981/95. As of April 30, 2006, the total amount involved in this lawsuit is R$9,926.

(ii) Offset of tax loss carryforwards of merged company: Federal tax authorities filed a tax collection proceeding to collect the IRPJ for the period from October 1997 to March 1998, which was not paid by the company merged into the Company due to the offset of tax losses incurred between 1992 and 1994 without complying with the 30% limit required by Law No. 8981/95. As of April 30, 2006, the total amount involved is R$18,826.

(iii) Social Contribution Tax Loss Carryforwards: Federal tax authorities filed a tax collection proceeding to collect the CSL (social contribution on net profit) for 1997, which was not paid due to the offset of social contribution tax loss carryforwards determined from 1992 to 1996. As of April 30, 2006, the total amount involved is R$8,301.

b) Civil lawsuits:

The Company has a reserve for 12 civil lawsuits in which it is a defendant, involving: (i) indemnity for property damage and pain and suffering for occupational illness and accidents; (ii) indemnity for property damage and pain and suffering for traffic accidents; and (iii) public civil actions for sugarcane burning. These lawsuits total R$1,728, adjusted through April 30, 2006.

c) Labor lawsuits:

The Company has a provision for contingencies for labor lawsuits in which it is a defendant, involving claims for: (i) overtime; (ii) commute hours; (iii) indemnity for elimination of lunch break; (iv) hazardous duty premium and health hazard premium; (v) continuity of employment relationship with the consequent payment of 13th salary and vacation pay plus 1/3 vacation bonus; (vi) refund of payroll deductions such as union confederation dues, union dues, etc. and (vi) night shift premium. These lawsuits total R$41,318, adjusted through April 30, 2006.

The Company and its subsidiaries are parties to tax and civil lawsuits in several courts that were assessed by Management, based on the legal counsel's opinion, as possible loss. No reserve has been recorded for these lawsuits in the accounting books. The nature and the amount of these lawsuits are as follows:

a) Tax lawsuits:

The Company is a defendant in 23 other administrative and judicial tax proceedings related to payment of taxes involving the following: (i) contribution to Funrural (rural worker assistance fund); (ii) administrative proceedings for offset of federal taxes against credits of IRPJ (corporate income tax) and PIS (tax on revenue) not approved by the Federal Revenue Service; (iii) IRPJ on investment losses; (iv) ITR (rural land tax); (v) ISSQN (service tax); (vi) salary premium for education; (vii) ICMS credit on fixed assets; (viii) IRPJ on balance sheet monetary adjustment; and (ix) union dues to the São Paulo State Regional Pharmacy Council. As of April 30, 2006, these proceedings total approximately R$18,287.

b) Civil lawsuits:

The Company is a defendant in 55 other lawsuits involving: (i) indemnity for property damage and pain and suffering for occupational illness and accidents; (ii) indemnity for property damage and pain and suffering for traffic accidents; (iii) indemnity for nonpayment of group life insurance policies of employees; (iv) rectification of area and property register; (v) disclosure of documents; and (vi) administrative and judicial environmental proceedings related principally to sugarcane mulch burning, which is part of the sugarcane harvest process and are based principally on different interpretations of laws and regulations applicable to the activity. As of April 30, 2006, these proceedings total approximately R$3,806.

18. FINANCIAL INSTRUMENTS

18.1. General considerations of risk management

Financial instruments are stated in the balance sheet at cost plus related income and expenses. Financial instruments consist of temporary cash investments, trade accounts receivable and onlendings from COPERSUCAR, taxes in installments and loans and financing, and related charges are presented in the respective notes to the financial statements.

Since the responsibility for sale of the sugar and alcohol produced by the Company lies with COPERSUCAR, the risk management policy that guarantees the protection of cooperative members against fluctuations in exchange rates or prices of their products is the responsibility of the Cooperative, which enters into hedge contracts in the futures market for commodities and exchange rates. COPERSUCAR has a Risk Management Committee formed by 3 members of the respective Board of Directors. Gains or losses on hedge transactions conducted by COPERSUCAR are passed through to the cooperative members according to monthly apportionments.

18.2. Temporary cash investments

Consist principally of repurchase agreements backed by government securities and CDBs (bank certificates of deposit) indexed to the CDI (interbank deposit rate), with high liquidity and trading on the market.

18.3. Concentration of credit risk

The credit risk is small due to the diversification of the customer portfolio and the risk control procedures of COPERSUCAR. Historically, the pass-through of losses on the Cooperative's trade accounts receivable has not been significant.

18.4. Loans and financing and payables to COPERSUCAR

Loans and financing are represented by rural credit, financing from the BNDES and short-term working capital loans and are subject to market interest rates. Long-term loans and financing as of April 30, 2006, if stated at present value calculated at the annual interest rate of 13%, would amount to R$67,626 (Company and consolidated).

Payables to COPERSUCAR refer to funds obtained by the Cooperative at more attractive interest rates and cash surplus with low interest rate or free of interest. Such payables as of April 30, 2006, if stated at present value calculated at the annual interest rate of 13%, would amount to R$114,285 (Company and consolidated).

19. INSURANCE COVERAGE

It is Company's policy to maintain insurance coverage for vehicles, buildings and their contents, industrial and agricultural equipment and inventories safekept by it as trustee, in an amount considered sufficient to cover potential losses, according to the nature of the operations and the risk guidance from specialized consultants.

20. SUBSEQUENT EVENTS

20.1. Merger of shares of the Company into Companhia Industrial e Agrícola Ometto

At the Extraordinary Shareholders' Meeting scheduled for September 28, 2006, the Company's shareholders will approve the merger of all its shares by the shareholder Companhia Industrial e Agrícola Ometto. The ratio of exchange of the Company's shares for Companhia Industrial e Agrícola Ometto's shares will be determined through a business valuation of both companies by a specialized firm. After this merger, Companhia Industrial e Agrícola Ometto will be the only parent company of the Company.

20.2. Change of fiscal year end

At the Extraordinary Shareholders' Meeting called for September 28, 2006, the change of the fiscal year end to March 31 of each year will also be submitted for the appreciation of the shareholders, according to the initiative adopted by COPERSUCAR and the start and end of the sugarcane crop. Therefore, the next fiscal year ending March 31, 2007 will be of 11 months.

20.3. Increase in ownership interest in the jointly-owned subsidiary Mogi Agrícola S.A.

On May 5, 2006, the Company acquired from Agrotin Agropecuária e Participações 2,039,057 shares issued by Mogi Agrícola S.A. for R$7,233, increasing its ownership interest in the jointly-owned subsidiary to 30.86%. There was no amendment to the shareholders' agreement of Mogi Agrícola S.A. arising from said acquisition, and Mogi Agrícola S.A. continued to be a jointly-owned subsidiary.

São Martinho