

*(Convenience Translation into English from the
Original Previously Issued in Portuguese)*

São Martinho S.A.

*Interim Financial Statements for the
Quarter Ended June 30, 2008 and
Independent Accountants'
Review Report*

Deloitte Touche Tohmatsu Auditores Independentes

(Convenience Translation into English from the Original Previously Issued in Portuguese)

INDEPENDENT ACCOUNTANTS' SPECIAL REVIEW REPORT

To the Shareholders and Management of

São Martinho S.A.

Pradópolis - SP

1. We have reviewed the accounting information included in the accompanying interim financial statements of São Martinho S.A. (the "Company") and subsidiaries, for the quarter ended June 30, 2008, consisting of the individual (Company) and consolidated balance sheets, the related statements of operations and cash flows, the performance report and the related notes, prepared under the responsibility of the Company's management.
2. Our review was conducted in accordance with specific standards established by the Brazilian Institute of Independent Auditors (IBRACON), together with the Brazilian Federal Accounting Council (CFC), and consisted, principally, of: (a) inquiries of and discussions with certain officials of the Company and its subsidiaries who have responsibility for accounting, financial and operating matters about the criteria adopted in the preparation of the interim financial statements; and (b) review of the information and subsequent events that have, or might have had, material effects on the financial position and results of operations of the Company and its subsidiaries.
3. Based on our review, we are not aware of any material modifications that should be made to the accounting information included in the interim financial statements referred to in paragraph 1 for them to be in conformity with standards established by the Brazilian Securities and Exchange Commission (CVM), specifically applicable to the preparation of the interim financial statements, including CVM Instruction No. 469, of May 2, 2008.
4. As mentioned in note 2.2, on December 28, 2007, Law No. 11,638 was enacted, altering, revoking and adding new provisions to Law No. 6,404/76 (Brazilian Corporate Law). This Law is effective for fiscal years beginning on or after January 1, 2008 and introduced changes in Brazilian accounting practices. Although this Law has already become effective, certain changes introduced by it are subject to regulation by regulatory agencies before being fully applied by companies. Accordingly, during this transition phase, CVM, through the Instruction No. 469/08, has permitted companies not to apply all the provisions of Law No. 11,638/07 in the preparation of the interim financial statements. Thus, the accounting information contained in the interim financial statements for the quarter ended June 30, 2008 have been prepared in conformity with specific instructions of the CVM and do not include all the changes in accounting practices introduced by Law No. 11,638/07. The information related to prior periods, presented for comparison purposes, has been restated to include the retrospective changes in the accounting practices introduced in 2008.
5. The accompanying interim financial statements have been translated into English for the convenience of readers outside Brazil.

Campinas, August 8, 2008

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

José Carlos Amadi
Engagement Partner

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SÃO MARTINHO S.A.

BALANCE SHEETS AS OF JUNE 30 AND MARCH 31, 2008

(In thousands of Brazilian reais - R\$)

ASSETS	Note	Company		Consolidated		LIABILITIES AND SHAREHOLDERS' EQUITY	Note	Company		Consolidated	
		06/30/08	03/31/08	06/30/08	03/31/08			06/30/08	03/31/08	06/30/08	03/31/08
CURRENT ASSETS						CURRENT LIABILITIES					
Cash and banks	4	297	357	42,228	14,320	Loans and financing	16	73,972	31,786	353,241	144,761
Temporary cash investments	5	271	20,200	6,623	58,214	Derivative instruments	8	1,299	-	5,084	-
Receivables	6	7,323	-	41,876	-	Trade accounts payable	17	19,579	11,367	80,410	55,705
Receivables from Copersucar	7	-	34,715	-	94,225	Payables to Copersucar	18	-	21,120	-	77,446
Derivative instruments	8	779	-	8,326	-	Payroll and related charges		8,126	5,019	35,309	23,158
Inventories	9	60,414	38,273	261,125	173,625	Taxes payable		2,610	3,397	9,152	9,970
Recoverable taxes	10	13,532	13,182	39,744	42,006	Related parties	11	19	269	113	153
Other assets		2,245	3,449	11,436	15,350	Other liabilities		919	144	4,700	1,620
		84,861	110,176	411,358	397,740			106,524	73,102	488,009	312,813
NONCURRENT ASSETS						NONCURRENT LIABILITIES					
Long-term assets:						Long-term liabilities:					
Related parties	11	144,740	100,451	136	208	Loans and financing	16	46,102	48,792	389,296	409,637
Assets held for sale		-	-	28,875	31,649	Payables to Copersucar	18	62,652	61,693	235,610	232,056
Deferred income and social contribution taxes	21	38,872	34,256	100,407	95,397	Taxes in installments		9,088	9,136	9,088	9,136
Other assets		3,138	3,410	30,709	25,162	Deferred income and social contribution taxes	21	61,261	62,371	216,863	224,683
Investments:						Provision for contingencies	22	7,976	7,071	71,066	70,165
In subsidiaries and affiliates	12.1	1,051,439	1,064,912	-	-	Other liabilities		2,683	-	4,158	1,557
Other investments		3,430	40	3,547	167			189,762	189,063	926,081	947,234
Property, plant and equipment		594,028	597,728	2,394,811	2,292,158						
Intangible assets	12.2 and 14	115	135	37,891	39,006	MINORITY INTEREST		-	-	7,611	7,611
Deferred charges	15	22	22	36,702	35,136						
		1,835,784	1,800,954	2,633,078	2,518,883	SHAREHOLDERS' EQUITY	19				
						Capital		360,000	360,000	360,000	360,000
						Revaluation reserves		1,152,430	1,161,846	1,152,430	1,161,846
						Legal reserve		5,079	5,079	5,079	5,079
						Capital budget reserve		97,656	97,656	97,656	97,656
						Retained earnings		9,194	24,384	7,570	24,384
								1,624,359	1,648,965	1,622,735	1,648,965
TOTAL ASSETS		1,920,645	1,911,130	3,044,436	2,916,623	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,920,645	1,911,130	3,044,436	2,916,623

The accompanying notes are an integral part of these interim financial statements.

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SÃO MARTINHO S.A.

STATEMENTS OF OPERATIONS FOR THE QUARTERS

ENDED JUNE 30, 2008 AND 2007

(In thousands of Brazilian reais - R\$, except per share data)

	Note	Company		Consolidated	
		06/30/08	06/30/07	06/30/08	06/30/07
		Quarter	Quarter	Quarter	Quarter
GROSS SALES		20,612	39,023	103,410	189,805
DEDUCTIONS		(2,476)	(3,172)	(11,354)	(15,242)
NET SALES		18,136	35,851	92,056	174,563
COST OF SALES		(25,681)	(41,648)	(93,392)	(158,426)
GROSS PROFIT (LOSS)		(7,545)	(5,797)	(1,336)	16,137
Operating (expenses) income:					
Selling expenses		(18)	(2,722)	(2,870)	(13,904)
General and administrative expenses		(5,248)	(4,584)	(22,474)	(22,659)
Management fees		(1,274)	(1,131)	(1,795)	(1,903)
Equity in subsidiaries		(13,473)	(5,588)	-	-
Other operating income (expenses), net		209	80	(1,667)	(169)
		(19,804)	(13,945)	(28,806)	(38,635)
Loss from operations before financial income (expenses)		(27,349)	(19,742)	(30,142)	(22,498)
Financial income (expenses)					
Financial income		1,801	11,064	4,052	25,681
Financial expenses		(5,308)	(6,314)	(16,494)	(21,295)
Monetary and exchange gains		227	495	1,951	2,511
Monetary and exchange losses		(6)	(492)	(660)	(2,038)
		(3,286)	4,753	(11,151)	4,859
Loss from operations		(30,635)	(14,989)	(41,293)	(17,639)
Nonoperating income		304	337	1,684	418
Loss before income and social contribution taxes		(30,331)	(14,652)	(39,609)	(17,221)
Income and social contribution taxes - deferred	21	5,725	3,060	13,379	5,629
		5,725	3,060	13,379	5,629
Net loss		(24,606)	(11,592)	(26,230)	(11,592)
Loss per share at end of period		(0.22)	(0.10)		

The accompanying notes are an integral part of these interim financial statements.

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SÃO MARTINHO S.A

NOTAS EXPLICATIVAS ÀS INFORMAÇÕES TRIMESTRAIS PARA O TRIMESTRE
FINDO EM 30 DE JUNHO DE 2008

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

1. OPERATIONS

1.1. Operações

São Martinho S.A. (the “Company”) and its subsidiaries are primarily engaged in planting sugarcane and manufacturing and selling sugar, alcohol and other sugarcane by-products; cattle raising and agricultural production; import and export of goods, products and raw material, and holding of equity interest in other companies.

Approximately 68% (62% - Consolidated) of the sugarcane used in the manufacture of products derives from the Company’s own plantations, shareholders, related parties and agricultural partnerships, and the remaining 32% (38% - consolidated), from third-party suppliers.

Sugarcane planting demands an 18-month period for maturing and for the beginning of the harvest, which generally takes place between April and December, when sugar and alcohol are produced. The sale of the production is made throughout the year and is not subject to seasonal variations but only to normal market variations in demand and supply.

1.2. Withdrawal from Copersucar

Up to March 31, 2008, the Company, its direct subsidiary Usina São Martinho S.A. and the jointly-owned indirect subsidiary Usina Santa Luíza S.A., were 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 bylaws signed by the parties required the Companies to make available immediately and definitively to Copersucar their total production of sugar and alcohol.

On February 25, 2008, the Company, its direct subsidiary Usina São Martinho S.A. and the jointly-owned indirect subsidiary Usina Santa Luíza S.A. announced that their Boards of Directors approved a request for their withdrawal from the cooperative. The termination of membership occurred according to the terms of Copersucar bylaws at the end of the 2007/2008 crop and is intended to focus the Companies’ production on higher value added products and is part of different commercial strategies.

The terms and conditions of the termination of membership were negotiated through the settlement or assumption of commitments to the Cooperative or to third parties for which the Cooperative is jointly liable, arising until the date of the termination, even if the conclusion of the commitments surpasses that date. The Company, its direct subsidiary Usina São Martinho S.A. and the jointly-owned indirect subsidiary Usina Santa Luíza S.A. have the right to a proportional share of the outcome of indemnification actions filed by Copersucar, even if they are concluded after the date of the termination.

The Company, its direct subsidiary Usina São Martinho S.A. and the jointly-owned indirect subsidiary Usina Santa Luíza S.A. assumed the liability for a share proportionate to their volume of operations during the period in which they were members of the cooperative in respect of tax lawsuits filed by Copersucar, as specified in note 22.

After the termination of membership, the sale of the sugar and alcohol production and the consequent management of credit risks are made by the Company and its subsidiaries.

The production made available to Copersucar remained physically at the Company's and its subsidiaries' warehouses, which were lent for use by Copersucar without paying for it. The Agribusiness Directors of the Companies remained as depositaries of the inventories stored in the warehouses. The production sold was removed by Copersucar according to its logistics.

As established in Copersucar's bylaws, 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 products made available, regardless the physical amount removed from the cooperative member's warehouses. 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 to 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, on a monthly basis.

1.3. Acquisition of companies followed by spin-off and merger of the jointly-owned indirect subsidiary Etanol Participações S.A.

On April 12, 2007, Etanol Participações S.A., a holding company composed of the subsidiary Usina São Martinho S.A., together with Cosan S.A. Indústria e Comércio and Santa Cruz S.A. Açúcar e Alcool, with interests of 41.67%, 33.33% and 25.00%, respectively, acquired Usina Santa Luíza S.A, whose management is shared by them, with a board of directors and an executive board composed of representatives of each shareholder. The acquisition value of Usina Santa Luíza S.A. was R\$ 184,080. Etanol Participações S.A. also acquired Agropecuária Aquidaban S.A. from the shareholders of Usina Santa Luíza S.A., for R\$ 61,360.

In order to achieve one of the objectives of said acquisition, related to gaining operating and administrative synergies, on December 10, 2007 the shareholders of Etanol Participações S.A. announced their decision to absorb the operations of the jointly-owned indirect subsidiaries Usina Santa Luiza S.A. and Agropecuária Aquidaban S.A. The activities of said subsidiaries will be developed directly by the shareholders, according to their interest in the capital of Etanol Participações S.A., beginning the 2008/2009 crop.

On December 21, 2007, the subsidiary Usina São Martinho S.A. and the other shareholders of Etanol Participações S.A. resolved to conduct a full spin-off of the assets and liabilities of Etanol Participações S.A., which were transferred to Usina Santa Luiza S.A. and Agropecuária Aquidaban S.A. Such spin-off followed by merger was approved by the Extraordinary Shareholders' Meetings held on December 21, 2007. The spun-off and merged net assets, according to the book value appraisal report issued by independent experts, were R\$ 226,948 as of October 31, 2007.

The Extraordinary Shareholders' Meeting held on April 14, 2008 approved the merger of the indirect jointly-owned subsidiary Agropecuária Aquidaban S.A. by the indirect jointly-owned subsidiary Usina Santa Luiza S.A. Subsequently, shareholders decided on the partial spin-off of Usina Santa Luiza S.A. whose net assets were merged by the subsidiary Usina São Martinho S.A. and other Usina Santa Luiza S.A.'s shareholders, based on their respective ownership interests. The spun-off net assets at book value, as determined by an independent appraisal report, totaled R\$225,138 as of March 31, 2008.

2. PREPARATION AND PRESENTATION OF INTERIM FINANCIAL STATEMENTS

2.1. Presentation of interim financial statements

The Company's and consolidated interim financial statements have been prepared and are presented in conformity with standards established by the Brazilian Securities and Exchange Commission (CVM) and "Novo Mercado" (New Market) listing requirements set forth by São Paulo Stock Exchange (BOVESPA) and do not include all the disclosures required by Brazilian accounting practices for full financial statements.

Assets and liabilities are recorded as current according to the payment or realization estimate for the next twelve months. Assets and liabilities expected to be realized in more than twelve months are stated as noncurrent. Monetary assets and liabilities denominated in foreign currencies were converted into Brazilian reais at the exchange rate in effect on the balance sheet date. Currency translation differences are recognized in the statement of operations.

The preparation of interim financial statements in conformity with CVM standards requires the Management of the Company and its subsidiaries to make estimates based on objective and subjective factors to record certain transactions 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 provision for inventory losses at realizable value, allowance for investment losses, reserve for contingencies, amortization, depreciation, and deferred taxes.

The results of operations for the three-month period ended June 30, 2008 may not necessarily be indicative that profits may be expected for the year ending March 31, 2009.

2.2. Amendment to Brazilian Corporate Law - Law No. 11638/07

On December 28, 2007, Law No. 11638 was enacted, altering, revoking and adding new provisions to the Brazilian Corporate Law, especially with respect to Chapter XV, Fiscal Year and Financial Statements. This Law is effective for fiscal years beginning on or after January 1, 2008 and updates the Brazilian Corporate Law so as to enable the convergence of Brazilian accounting practices with international accounting standards (IFRS) and allow the Brazilian Securities Commission (CVM) to issue new accounting standards and procedures, in conformity with such international accounting standards.

In view of the changes recently introduced by Law 11638/07, some of the new accounting practices introduced are still subject to regulation by regulatory agencies before being applied. Accordingly, although the Company has already reflected in the financial statements as of June 30, 2008 the known effects arising from the adoption of the provisions in said Law, as required by CVM Instruction No. 469/08 (articles 3, 4, 7, 8, 10, 11, 12, 13 and 14), other changes or adjustments might arise from the regulation of such changes by regulatory agencies.

The effect disclosed in the financial statements as of June 30, 2008 refers to the requirement that certain long-term assets and liabilities and, if material, certain short-term assets, be adjusted at present value.

In view of the above, the Company made certain adjustments and reclassifications in balance sheet amounts as of March 31, 2008 and statement of income for the three-month period ended June 30, 2007 to allow comparability of interim financial statements, as detailed in note 24.

3. CONSOLIDATION CRITERIA

The consolidated financial statements as of June 30, 2008 and March 31, 2008, and the related consolidated statements of operations for the quarters ended June 30, 2008 and 2007 consider the percentage of ownership interest in subsidiaries in effect on the respective dates and the applicable proportionate consolidation criteria. The consolidated balances include the following subsidiaries:

<u>Company</u>	<u>Main activities</u>
Usina São Martinho S.A. – 100% interest as of June 30, 2008 and March 31, 2008.	Sugarcane processing; own production and production acquired from third parties; manufacture and sale of sugar, alcohol and their by-products; agricultural production 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. - 27% interest as of June 30, 2008 and March 31, 2008 (90% including the interest of Usina São Martinho S.A.).	Sugarcane processing; own production and production acquired from third parties; manufacture and sale of sugar, alcohol and their by-products; agricultural production and cattle raising; import and export of goods, products and raw material; and holding of equity interests in other companies.
Omtex Indústria e Comércio Ltda. – 99.99% interest for all reported periods (100% including the interest of Usina São Martinho S.A.).	Sodium salt processing and sale in the foreign market. The operating cycle is the same as the parent company's, which is responsible for supplying (under specific conditions) raw material represented by sugarcane molasses, steam and electric power, inputs necessary for the company's production.

The interim 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 consolidation of Usina São Martinho includes the following subsidiaries:

- Usina Boa Vista S.A. - 63% interest. Usina São Martinho S.A. fully consolidates Usina Boa Vista S.A, stating in a separate caption of its consolidated interim financial statements the 37% minority interest.
- Mogi Agrícola S.A. - 46.02% interest. Mogi Agrícola S.A. is engaged in agricultural production and holding equity interests in other companies. Usina São Martinho S.A. is the parent company of Mogi Agrícola S.A. jointly with other shareholders under an agreement between them.
- Usina Santa Luiza S.A. – 41.67% interest as of June 30, 2008 and March 31, 2008. Usina São Martinho S.A. is the parent company of Usina Santa Luiza S.A. jointly with other shareholders under an agreement between them.

In addition, the main consolidation procedures adopted were as follows:

- a) Elimination of interests in shareholders' equity of subsidiaries;
- b) Elimination of investments and equity in subsidiaries;
- c) Elimination of intercompany balances and unrealized profits arising from intercompany transactions;
- d) Reclassification of negative goodwill on indirect subsidiaries to long-term liabilities – other and goodwill on indirect subsidiaries to a specific caption under investments.
- e) Minority interest was reported separately in the consolidated interim financial statements.

4. CASH AND BANKS

Include deposits in bank accounts available for immediate use. These balances reflect amounts resulting from the normal flow of operations of the Company and its subsidiaries and the use of such cash to pay commitments at the beginning of the month subsequent to the closing of the interim financial statements.

5. TEMPORARY CASH INVESTMENTS

<u>Type</u>	<u>Yield</u>	<u>Company</u>	
		<u>06/30/2008</u>	<u>03/31/2008</u>
CDB (bank certificates of deposit)	101.32% of the CDI variation – weighted average rate	-	13,282
Debenture repurchase agreements	101.16% of the CDI variation – weighted average rate	-	6,918
Debenture repurchase agreements	101.3% of the CDI variation – weighted average rate	<u>271</u>	<u>-</u>
Total		<u>271</u>	<u>20,200</u>
<u>Type</u>	<u>Yield</u>	<u>Consolidated</u>	
		<u>06/30/2008</u>	<u>03/31/2008</u>
Repurchase agreements	100.2% of the CDI variation	387	-
Variable-income investment funds	102% of the CDI variation	2,903	385
Debenture repurchase agreements	100.62% of the CDI variation – weighted average rate	-	22,488
CDB (bank certificates of deposit)	101.32% of the CDI variation – weighted average rate	-	34,376
CDB (bank certificates of deposit)	101.15% of the CDI variation – weighted average rate	714	-
Interest-bearing account	US dollar variation + weighted average rate of 2.72%	1,373	965
Debenture repurchase agreements	101.44% of the CDI variation – weighted average rate	<u>1,246</u>	<u>-</u>
Total		<u>6,623</u>	<u>58,214</u>

Repurchase and debenture repurchase agreements represent fixed-rate investments backed by government securities, ensuring fixed-rate yield as specified above, regardless of the variation in the yield of the securities acquired.

All other investments may be redeemed within 30 days, without loss of yield.

6. RECEIVABLES

Trade accounts receivables are comprised as follows:

	06/30/2008	
	<u>Company</u>	<u>Consolidated</u>
Domestic customers	7,323	37,472
Foreign customers	-	4,404
	<u>7,323</u>	<u>41,876</u>

For the quarter ended June 30, 2008, Management did not identify the need to recognize an allowance for doubtful accounts.

The aging list of trade accounts receivable is as follows:

	06/30/2008	
	<u>Company</u>	<u>Consolidated</u>
Past due:		
up to 30 days	275	4,056
from 31 to 60 days	244	520
over 60 days	41	57
Current:		
Up to 30 days	5,963	33,276
from 31 to 60 days	227	1,341
from 61 to 90 days	73	664
from 91 to 180 days	498	1,498
Over 180 days	<u>2</u>	<u>464</u>
Total	<u>7,323</u>	<u>41,876</u>

The average collection period for trade accounts receivable is 32 days (39 days – consolidated). The balance of receivables with maturity over 60 days refers basically to amounts receivable for plantation services provided to third parties, which will be received during the crop in which the respective sugarcane maturation occurs.

7. RECEIVABLES FROM COPERSUCAR

Receivables from Copersucar are similar to a current account, including amounts receivable for apportionment of sales of products and amounts deductible for apportionment of expenses and advances. The advances received that exceed the cooperative members' right arising from the apportionment of revenues and expenses are subject to interest equivalent to 100% of the daily DI (interbank deposit rate) disclosed by 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.

Average collection periods are as follows:

- 15 days for alcohol sales in the domestic market;
- 21 days for alcohol sales in the foreign market;
- 32 days for sugar sales in the domestic market;
- 25 days for sugar sales in the foreign market.

The above collection profile results in an expected average turnover of 22 days for these receivables as of March 31, 2008.

The apportioned operating expenses were offset against amounts receivable on a monthly basis.

Copersucar passes on to the Company, its direct subsidiary Usina São Martinho S.A. and the jointly-owned indirect subsidiary Usina Santa Luíza S.A. any expenses arising from provisions for losses on end customers, in view of its management of the credit granting and collection processes. The Company identified no need to record an allowance for doubtful accounts in addition to the amounts passed on by Copersucar. Historically, receivables from COPERSUCAR have not presented material losses.

8. DERIVATIVE INSTRUMENTS

	06/30/2008	
	<u>Company</u>	<u>Consolidated</u>
<u>In assets:</u>		
Margin deposit	-	1,912
Option premiums	477	477
Unrealized gain (loss)	<u>302</u>	<u>5,937</u>
	<u>779</u>	<u>8,326</u>
<u>In liabilities:</u>		
Credit facilities	733	733
Option premiums	566	3,136
Unrealized gain (loss)	<u>-</u>	<u>1,215</u>
	<u>1,299</u>	<u>5,084</u>

Margin deposits refer to coverage of the initial margins established by the stock exchange in which contracts are entered into, for outstanding contracts, and net remittances related to daily adjustments resulting from fluctuations in contract prices in the future and options market.

Unrealized gains classified in current assets refer to losses on derivative transactions conducted in the stock exchange in which contracts were entered into, valued on a monthly basis at fair value and recognized in income when hedged sugar is physically shipped. Unrealized losses classified in current liabilities refer to gains on derivative transactions conducted in the same stock exchange, valued on a monthly basis at fair value and recognized in income when hedged sugar is physically shipped.

Financing agreements are denominated in foreign currency and adjusted based on Libor plus interest of 3% per year.

Premiums paid/received for options purchased/sold are classified in current assets/liabilities and are valued on a monthly basis at fair value and recognized in income when hedged sugar is physically shipped.

9. INVENTORIES

	Company	
	06/30/2008	03/31/2008
Finished products and work in process	24,978	-
Sugarcane – crop treatment	27,988	28,276
Advances – purchase of sugarcane	1,640	3,694
Inputs, indirect materials, maintenance materials and other	10,694	6,303
Provision for inventory losses at realizable value	(4,886)	-
	<u>60,414</u>	<u>38,273</u>
	Consolidated	
	06/30/2008	03/31/2008
Finished products and work in process	83,129	4,551
Sodium salt	3,544	6,139
Sugarcane – crop treatment	102,394	103,480
Advances – purchase of sugarcane	30,705	25,498
Inputs, indirect materials, maintenance materials and other	53,840	35,523
Provision for inventory losses at realizable value	(12,487)	(1,566)
	<u>261,125</u>	<u>173,625</u>

For the Company and its subsidiary Usina São Martinho S.A., the negotiation of their withdrawal from Copersucar as of March 31, 2008 comprised the early sale of the whole sugar and alcohol inventory existing at that date at the average price in effect in March 2008. The inventory related to the jointly-owned indirect subsidiary Usina Santa Luiza S.A. was sold to the Cooperative in April 2008.

As the production of the Company and its subsidiary Usina São Martinho S.A. and its jointly-owned indirect subsidiary Usina Santa Luzia S.A. until 2007/2008 crop was immediately made available to Copersucar and the distribution to customers by the Cooperative is not necessarily linked to sales proportionally attributed to the companies, and, considering that a significant portion of the inventory existing on March 31, 2008 was sold, as mentioned in the preceding paragraph, because of the withdrawal of the Company, the subsidiary Usina São Martinho S.A. and the jointly-owned indirect subsidiary Usina Santa Luiza S.A., the amount of sugar and alcohol inventory that is physically kept by the Companies differs from the book balance of inventories. As of March 31, 2008, the Company physically kept sugar and alcohol inventories in the amounts of R\$ 30,604 (R\$ 39,897 - Consolidated), stated at average production cost, the ownership of which was fully transferred to Copersucar during the quarter ended June 30, 2008. The Company and its subsidiaries were responsible for the physical safekeeping of inventories made available to COPERSUCAR that were stored in their facilities until the delivery of the inventories related to the 2007/2008 crop, according to the termination of membership agreement. The risk associated to the physical safekeeping of the alcohol made available to COPERSUCAR was mitigated through the purchase of insurance coverage, whose costs were charged to the Company and its subsidiaries

To secure the payment of part of the obligations assumed at the time of the withdrawal from Copersucar, as mentioned in note 1.2, the Company has pledged in favor of Copersucar 8,907,711 liters of fuel alcohol (25,756,738 liters - Consolidated).

10. RECOVERABLE TAXES

Recoverable taxes as of June 30, 2008 and March 31, 2008 are as follows:

	Company	
	06/30/2008	03/31/08
COFINS (tax on revenue), including credits arising from purchases of property, plant and equipment items	6,591	6,175
IRPJ (corporate income tax)	3,041	3,022
ICMS (state VAT) including credits arising from purchases of property, plant and equipment items	1,727	1,678
PIS (tax on revenue), including credits arising from purchases of property, plant and equipment items	1,434	1,343
CSLL (social contribution tax)	53	106
Other	686	858
	<u>13,532</u>	<u>13,182</u>
	Consolidated	
	06/30/2008	03/31/08
COFINS (tax on revenue), including credits arising from purchases of property, plant and equipment items	11,454	10,237
ICMS (state VAT) including credits arising from purchases of property, plant and equipment items	16,651	13,949
IRPJ (corporate income tax)	7,213	9,371
CSLL (social contribution tax)	2,182	3,399
PIS (tax on revenue), including credits arising from purchases of property, plant and equipment items	2,766	2,486
Other	2,586	2,564
	<u>42,852</u>	<u>42,006</u>
Current assets	<u>39,744</u>	<u>42,006</u>
Other long-term assets	<u>3,108</u>	<u>-</u>

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.

11. RELATED-PARTY TRANSACTIONS

a) Company and consolidated balances:

	Company			
	06/30/2008		03/31/2008	
	Long-term assets	Current liabilities	Long-term assets	Current liabilities
Of subsidiaries:				
Usina São Martinho S.A.	146	-	40	269
Omtex Ind. e Com. Ltda.	2,805	19	2,511	-
Usina Boa Vista S.A.	<u>141,789</u>	<u>-</u>	<u>97,900</u>	<u>-</u>
Subtotal	144,740	19	100,451	269
Of shareholders, arising from purchase of sugarcane (trade accounts payable)	<u>-</u>	<u>-</u>	<u>-</u>	<u>579</u>
	<u>144,740</u>	<u>19</u>	<u>100,451</u>	<u>848</u>

	Consolidated			
	06/30/2008		03/31/2008	
	Long-term assets	Current liabilities	Long-term assets	Current liabilities
Of subsidiary and indirect subsidiary:				
Mogi Agrícola S.A.	1	113	1	93
Agropecuária Aquidaban S.A.	-	-	-	57
Usina Santa Luiza S.A.	<u>21</u>	<u>-</u>	<u>9</u>	<u>3</u>
Subtotal	22	113	10	153
Of shareholders, arising from leased land (other noncurrent assets)	114	-	198	-
Of shareholders, arising from purchase of sugarcane (trade accounts payable)		<u>3.263</u>		<u>1.209</u>
	<u>136</u>	<u>3.376</u>	<u>208</u>	<u>1.362</u>

The balances with subsidiaries and indirect subsidiary refer to advance for future capital increase, loan agreements maturing every December 31, extendable for one additional year, subject to charges equivalent to 100% of the CDI (interbank deposit rate) variation, and other intercompany transactions.

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 applicable to third parties.

b) Company's transactions

	06/30/2008 (quarter)			06/30/2007 (quarter)		
	Financial income	Financial and administrative expenses and cost	Sales revenue	Financial income	Financial and administrative expenses and cost	Sales revenue
Usina São Martinho S.A.	-	-	-	-	147	160
Omtex Ind. e Com. Ltda.	-	-	293	107	-	1,169
Usina Boa Vista S.A.	1,098	-	-	-	-	-
Rental of properties from shareholders	-	17	-	-	17	-
Purchase of sugarcane from shareholders	<u>-</u>	<u>196</u>	<u>-</u>	<u>-</u>	<u>278</u>	<u>-</u>
	<u>1,098</u>	<u>213</u>	<u>293</u>	<u>107</u>	<u>442</u>	<u>1,329</u>

Intercompany transactions refer to revenues and expenses related to charges on loans agreements, revenues and expenses related to revenue from sale of molasses, electric power and steam to Omtex Indústria e Comércio Ltda., rental of properties and purchase of sugarcane from shareholders.

The consolidated amounts of sugarcane purchases from shareholders for the quarters ended June 30, 2008 and 2007 were R\$ 1,741 and R\$ 2,959, respectively.

12. INVESTMENTS

Investments in subsidiaries are as follows:

12.1. Subsidiaries

	06/30/2008			
	Usina São Martinho S.A.	Usina Boa Vista S.A	Omtex Indústria e Comércio Ltda.	Total
In subsidiaries:				
Shares held (thousands)	23,500	71,726	5,598	-
Ownership interest	100%	27%	99.99%	-
Capital	60,000	71,726	13,925	-
Shareholders' equity	1,009,544	76,111	21,346	-
Net loss (3 months)	(12,669)	-	(804)	-
Changes in investments:				
Balances as of March 31, 2008	1,022,213	20,550	22,149	1,026,938
Equity in subsidiaries	<u>(12,669)</u>	<u>-</u>	<u>(804)</u>	<u>(13,473)</u>
Balances as of June 30, 2008	<u>1,009,544</u>	<u>20,550</u>	<u>21,345</u>	<u>1,051,439</u>
	03/31/2008			
	Usina São Martinho S.A.	Usina Boa Vista S.A	Omtex Indústria e Comércio Ltda.	Total
In subsidiaries:				
Shares held (thousands)	23,500	71,726	5,598	-
Ownership interest	100%	27%	99.99%	-
Capital	60,000	71,726	13,925	-
Shareholders' equity	1,022,213	76,111	22,149	-
Net loss (12 months)	(25,660)	-	(3,238)	-
Changes in investments:				
Balances as of March 31, 2007	989,327	20,550	17,061	1,026,938
Prior years adjustment due to change in accounting practices (note 24)	<u>15,414</u>	<u>-</u>	<u>-</u>	<u>15,414</u>
Merger of shares and capital increase	43,132	-	8,326	51,458
Equity in subsidiaries	<u>(25,660)</u>	<u>-</u>	<u>(3,238)</u>	<u>(28,898)</u>
Balances as of March 31, 2008	<u>1,022,213</u>	<u>20,550</u>	<u>22,149</u>	<u>1,064,912</u>

There are no reciprocal interests between the Company and direct and indirect subsidiaries.

12.2. Goodwill, spin-off and merger of Etanol Participações S.A.

As mentioned in note 1.3, on April 12, 2007 the jointly-owned indirect subsidiary Etanol Participações S.A. acquired interest in Usina Santa Luiza S.A. and in Agropecuária Aquidaban S.A. for R\$ 184,080 and R\$ 61,360, respectively, recording total goodwill in the amount of R\$ 210,117, of which R\$ 154,013 refers to the acquisition of Usina Santa Luiza S.A. and R\$ 56,104 refers to the acquisition of Agropecuária Aquidaban S.A., based on the financial statements of the acquired companies as of March 31, 2007.

Due to the discontinuance of operating activities of indirect jointly-owned subsidiaries Usina Santa Luíza S.A. and Agropecuária Aquidaban S.A. and the partial spin-off of assets and liabilities of Etanol Participações S.A., which were transferred to Usina Santa Luíza S.A. and Agropecuária Aquidaban S.A., the ownership interests of Etanol Participações S.A. in Usina Santa Luíza S.A. and Agropecuária Aquidaban S.A. were eliminated, and shares in Usina Santa Luíza S.A. and Agropecuária Aquidaban S.A. formerly held by Etanol Participações S.A. were assigned to its shareholders. As mentioned in note 1.3., the Extraordinary Shareholders' Meeting held on April 14, 2008 approved the merger of the indirect jointly-owned subsidiary Agropecuária Aquidaban S.A. by the indirect jointly-owned subsidiary Usina Santa Luíza S.A.

Due to such decisions, the distribution of the goodwill paid by Etanol Participações S.A. on the acquisition of the above-mentioned subsidiaries between appreciation of assets and future profitability has been revised and the provisions of CVM Instructions No. 319, of December 3, 1999, and No. 349, of March 6, 2001, were applied in the consolidation process of Usina São Martinho S.A.

Such revision was based on an independent experts' appraisal report, taking into consideration the absorption of the operations of the subsidiaries by the controlling shareholders and the sale of a significant portion of their fixed assets. The portion of assets held for sale was classified in the consolidated balance sheet into a specific caption in current assets, at historical cost plus respective goodwill, whose sum represent the estimated realizable value, as determined in a report issued by independent appraisers. The property, plant and equipment items that will not be sold remain classified under a specific caption at the historical cost plus respective goodwill. The remaining goodwill was classified as future profitability, net of the related tax benefit, and is supported by a business appraisal report under the new operational assumption established in December 2007.

The portion of goodwill based upon future profitability will be amortized over a period not in excess of 10 years, according to the expected return on investment as set forth in the independent experts' report, following the new operational framework of the investment. The gross amortized amount attributable to the subsidiary Usina São Martinho S.A. as of June 30, 2008 was R\$ 1,618. As a result of the merger of Usina Santa Luíza S.A.'s spun-off net assets by the subsidiary Usina São Martinho S.A. on April 14, 2008, as mentioned in note 1.3, this portion of goodwill related to future earnings was classified under intangible assets caption. For comparison purposes, the Company also reclassified this portion of goodwill to intangible assets in the balance sheet as of March 31, 2008.

The goodwill allocated as appreciation of assets will be amortized upon the depreciation or disposal of the assets. The goodwill related to the assets held for sale will be amortized upon the realization of such assets. The tax benefit arising from the goodwill related to the future profitability will be amortized according to its utilization in tax calculations.

After the above-mentioned events and amortization and write-off of assets sold, goodwill as of March 31, 2008 is as follows:

	<u>Goodwill</u>	<u>Accumulated amortization /write-off</u>	<u>Net 06/30/08</u>	<u>Net 03/31/08</u>
Future profitability (intangible assets)	39,688	(2,065)	37,623	38,691
Appreciation of assets held for sale	27,228	(4,811)	22,417	25,000
Appreciation of fixed assets	187	-	187	187
Tax benefit related to the portion of future profitability (Deferred taxes)	<u>20,446</u>	<u>(1,064)</u>	<u>19,382</u>	<u>19,932</u>
Total	<u>87,549</u>	<u>(7,940)</u>	<u>79,609</u>	<u>83,810</u>

13. PROPERTY, PLANT AND EQUIPMENT

	<u>Company</u>				
	<u>06/30/2008</u>			<u>03/31/2008</u>	
	<u>Cost</u>	<u>Revaluation</u>	<u>Accumulated Depreciation</u>	<u>Net</u>	<u>Net</u>
Land	20,852	293,200	-	314,052	314,052
Buildings and premisses	12,668	11,084	(5,119)	18,633	19,006
Industrial equipment and facilities	62,768	88,478	(41,588)	109,658	107,973
Vehicles	9,919	8,551	(4,702)	13,768	13,071
Agricultural machinery and implements	28,795	21,477	(13,847)	36,425	33,209
Sugarcane crops	117,422	-	(39,141)	78,281	78,451
Other	11,005	-	(4,154)	6,851	18,784
Construction in progress	<u>16,360</u>	<u>-</u>	<u>-</u>	<u>16,360</u>	<u>13,182</u>
Total	<u>279,789</u>	<u>422,790</u>	<u>(108,551)</u>	<u>594,028</u>	<u>597,728</u>

	<u>Consolidated</u>				
	<u>06/30/2008</u>			<u>03/31/2008</u>	
	<u>Cost</u>	<u>Revaluation</u>	<u>Accumulated Depreciation</u>	<u>Net</u>	<u>Net</u>
Land	98,956	905,281	-	1,004,237	998,072
Buildings and premisses	150,078	47,642	(13,264)	184,456	68,003
Industrial equipment and facilities	380,099	340,304	(168,843)	551,560	341,414
Vehicles	44,152	30,283	(19,491)	54,944	54,167
Agricultural machinery and implements	125,978	70,212	(49,054)	147,136	137,146
Sugarcane crops	465,388	-	(126,414)	338,974	312,078
Other	63,691	-	(20,680)	43,011	103,553
Construction in progress	<u>70,493</u>	<u>-</u>	<u>-</u>	<u>70,493</u>	<u>277,727</u>
Total	<u>1,398,835</u>	<u>1,393,722</u>	<u>(397,746)</u>	<u>2,394,811</u>	<u>2,292,158</u>

In the quarter ended June 30, 2008, the Company invested the amount of R\$ 3,892 (R\$ 3,967 in the quarter ended June 30, 2007) to grow and/or renew sugarcane crops, and the consolidated balance is R\$ 35,791 (R\$ 32,205 in the quarter ended June 30, 2007).

As of June 30, 2008, the Company's balance of construction in progress refers to boiler soot treatment system, fermentation process, adjustment of the vinasse application process and improvements of the plant. The consolidated balance of construction in progress also includes improvements of the plant of the subsidiary Usina São Martinho S.A. related to improvements of the fermentation process, improvements of the sugar granularity and temperature, improvements of the electricity self-sufficiency system, in addition to construction works of the plant of the indirect subsidiary Usina Boa Vista S.A.

Due to some loans and financing agreements entered into by the Company and its subsidiaries, as of June 30, 2008, R\$ 379,602 of fixed asset items were pledged as collateral for certain loans and financing of the Company and its subsidiaries. These items are mostly represented by industrial equipment and facilities, and agricultural machinery and implements. In addition, the amount of R\$ 177,190 (R\$ 474,267 - Consolidated) in land was pledged as collateral for securitized rural credits, recorded in current and long-term liabilities.

As of June 30, 2008, 4,390 ha used for sugarcane plantation by the subsidiary Usina São Martinho S.A., at the revalued book value of R\$ 89,837, is pledged as collateral for lawsuits and loans of the Company.

Goodwill mentioned in note 12.2 related to the appreciation of assets was included in "Revaluation" column under Land group, impacting only on consolidated balances, in the amount of R\$ 187 as of March 31, 2008. As mentioned in note 1.3, as of March 31, 2008, the goodwill related to the appreciation of assets originating from the jointly-owned subsidiary Usina Santa Luiza S.A.'s spun-off net assets was absorbed by the subsidiary Usina São Martinho S.A. and distributed among the respective asset groups.

To update the revaluation recorded in April 2003, in conformity with the frequency established by the Pronouncement of the Brazilian Institute of Independent Auditors (IBRACON), as of March 31, 2007, the Company, its subsidiary Usina São Martinho S.A. (including respective subsidiaries) and the subsidiary Omtex Indústria e Comércio Ltda. recorded a revaluation of land, buildings, industrial equipment and facilities, based on appraisal reports issued by independent experts.

From March 31, 2007, revalued assets began to be depreciated based upon their estimated remaining useful life specified in the revaluation report at the following weighted average rates, when applicable:

<u>Property, plant and equipment</u>	<u>Annual depreciation rates</u>	
	<u>Company</u>	<u>Consolidated</u>
Land	-	-
Buildings and premises	8.00%	9.37%
Industrial equipment and facilities	12.14%	12.87%
Vehicles	23.56%	24.45%
Agricultural machinery and implements	12.62%	12.52%

The revaluation amounts, net of depreciation and gross of deferred charges, as of June 30, 2008 and March 31, 2008, were R\$ 398,906 and R\$ 404,138, respectively (R\$ 1,303,910 and R\$ 1,323,186 - Consolidated).

Depreciation and write-offs of revaluation which impacted the results for the quarters ended June 30, 2008 and 2007 totaled R\$ 14,266 and R\$ 18,223, respectively, net of amounts allocated to inventories and gross of taxes, in consolidated.

The Company and its subsidiaries capitalized financial charges in the amount of R\$ 11,212 in the quarter ended June 30, 2008 (Consolidated).

14. INTANGIBLE ASSETS

	<u>Company</u>		<u>Consolidated</u>	
	<u>06/30/08</u>	<u>03/31/08</u>	<u>06/30/08</u>	<u>03/31/08</u>
Goodwill	-	-	39,688	39,688
Accumulated amortization	-	-	(2,822)	(997)
Software	1,833	1,833	3,027	2,985
Accumulated depreciation	<u>(1,718)</u>	<u>(1,698)</u>	<u>(2,759)</u>	<u>(2,670)</u>
	<u>115</u>	<u>135</u>	<u>37,891</u>	<u>39,006</u>

The goodwill related to future earnings derives from the jointly-owned subsidiary Usina Santa Luiza S.A., as mentioned in note 12.2, which was merged by the subsidiary Usina São Martinho S.A., as mentioned in note 1.3. For comparison purposes, the Company also reclassified this portion of goodwill, formerly classified under Investments – Goodwill, to intangible assets in the balance sheet as of March 31, 2008.

15. DEFERRED CHARGES

	<u>Company</u>		<u>Consolidated</u>	
	<u>06/30/08</u>	<u>03/31/08</u>	<u>06/30/08</u>	<u>03/31/08</u>
Preoperating expenses	-	-	28,598	22,399
Financial charges	-	-	7,097	11,434
Other	<u>22</u>	<u>22</u>	<u>1,007</u>	<u>1,303</u>
	<u>22</u>	<u>22</u>	<u>36,702</u>	<u>35,136</u>

In the consolidated balance, deferred charges are represented primarily 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 operations, under the straight-line method, based on a rate to be timely defined according to the estimated time of the future benefit.

16. LOANS AND FINANCING

Type	Charges	Maturity	Company	
			06/30/08	03/31/08
In local currency:				
Securitized rural credits	IGP-M (general market price index) paid annually	Annual installments with final maturity between September 2018 and June 2020	28,045	28,141
Rural credit	Fixed-rate weighted average interest of 6.75% p.a. paid on final maturity of contracts	Single installment with final maturity in July 2008	9,849	1,254
Finame / BNDES loan	Quarterly TJLP (long-term interest rate) + weighted average interest of 3.56% p.a. paid monthly	Monthly installments with final maturity between July 2008 and June 2012	28,332	31,548
Finame / BNDES loan	Fixed-rate weighted average interest of 11.9% p.a. paid monthly	Monthly installments with final maturity between July 2008 and October 2011	9,462	11,151
Rural credit	Fixed-rate interest of 9.99% p.a. + monetary adjustment of TR (managed prime rate) paid on final maturity of contract	Single installment with maturity in April 2009	16,379	-
Working capital	Fixed-rate interest of 19.28% p.a. paid on final maturity of contract	Single installment with maturity in March 2009	4,150	-
Other securitized credits	Fixed-rate interest of 3% p.a. paid annually paid on final maturity of contract	Single installment with maturity in October 2025	82	82
Working capital	Fixed-rate weighted average interest of 1.04% p.a. + Variation of 100% of CDI OVER CETIP (average rate for interbank loans for one day registered with CETIP) paid on final maturities of contracts	Single installment with final maturity between October 2008 and December 2008	23,283	7,693
Lease	Fixed-rate interest of 7.08% p.a. paid monthly	Monthly installments with final maturity between July 2008 and April 2013	69	77
In foreign currency:				
Finame / BNDES automatic loan	Currency basket (Dollar, Euro and Yen) + weighted average interest of 11.28% p.a. paid monthly	Monthly installments with final maturities between January 2008 and March 2009	423	632
Total			120,074	80,578
Current liabilities			73,972	31,786
Long-term liabilities			46,102	48,792

Type	Charges	Maturity	Consolidado	
			06/30/08	03/31/08
In local currency:				
Securitized rural credits	IGP-M (general market price index) paid annually	Annual installments with final maturity between September 2018 and June 2020	81,739	82,736
Rural credit	Fixed-rate weighted average interest of 6.99% p.a. paid on final maturity of contracts	Single installment with final maturity between July 2008 and October 2009	81,982	54,904
Rural credit	Fixed-rate interest of 9.99% p.a. + monetary adjustment of TR (managed prime rate) paid on final maturity of contract	Single installment with maturity in November 2008 and April 2009	27,633	7,270
Rural credit	Fixed-rate weighted average interest of 6.17% p.a. + Variation of 100% of CDI OVER CETIP (average rate for interbank loans for one day registered with CETIP) paid on final maturities of contracts	Single installment with final maturity in October 2008	15,463	-
Finame / BNDES automatic loan	Quarterly TJLP (long-term interest rate) + weighted average interest of 2.37% p.a. paid monthly	Monthly installments with final maturity between July 2008 and March 2015	292,211	300,892
Finame / BNDES automatic loan	Fixed-rate weighted average interest of 11.67% p.a. paid monthly	Monthly installments with final maturity between July 2008 and October 2011	41,808	48,744
Working capital	Fixed-rate interest of 19.28% p.a. paid on final maturity of contract	Single installment with maturity in March 2009	12,450	-
Other securitized credits	Fixed-rate interest of 3% p.a. paid annually	Single installment with maturity in October 2025	82	82
Working capital	Fixed-rate weighted average interest of 1% p.a. + Variation of 101.04% of CDI OVER CETIP (average rate for interbank loans for one day registered with CETIP) paid on final maturities of contracts	Single installment with final maturity between November 2008 and December 2008	123,415	36,361
Lease	Fixed-rate interest of 7.48% p.a. paid monthly	Monthly installments with final maturity between July 2008 and April 2013	996	1,120
In foreign currency:				
Finame / BNDES automatic loan	Currency basket (Dollar, Euro and Yen) + fixed-rate interest of 7.63% p.a. paid monthly	Monthly installments with final maturities between July 2008 and March 2012	20,047	22,289
ACC (Advances on Foreign Exchange Contracts)	Weighted average interest of 4% p.a. + USD variation paid on thw maturity date.	Monthly installments with final maturities between August 2008 and November 2008	44,711	-
Total			742,537	554,398

Current liabilities	353,241	144,761
Long-term liabilities	389,296	409,637

Loans and financing are guaranteed by mortgages, liens on property, plant and equipment, including land (see note 13), promissory notes, cash investments and liens on agricultural and industrial equipment. The land offered as collateral for loans and financing refers to sugarcane plantation areas.

Long-term loans (Company and Consolidated) have the following maturities:

	30/06/2008	
	<u>Company</u>	<u>Consolidated</u>
From 7/01/09 to 6/30/10	14,525	94,514
From 7/01/10 to 6/30/11	9,122	67,555
From 7/01/11 to 6/30/12	5,645	58,514
From 7/01/12 to 6/30/13	3,145	49,678
From 7/01/13 to 6/30/14	2,496	47,620
From 7/01/14 to 6/30/26	<u>11,169</u>	<u>71,415</u>
	<u>46,102</u>	<u>389,296</u>

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 of CTNs (National Treasury Certificates) in the secondary market, as collateral for the payment of the principal. The securitized financing will be automatically settled on the 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 (general market price index) through the annual payment date. This obligation was recorded in the individual and consolidated interim financial statements as of June 30, 2008 and March 31, 2008 according to the amount of these future disbursements adjusted to present value, as mentioned in note 24.

17. TRADE ACCOUNTS PAYABLE

	<u>Company</u>	
	<u>06/30/2008</u>	<u>03/31/2008</u>
Sugarcane	3,798	3,481
Materials, services and other	<u>15,781</u>	<u>7,886</u>
	<u>19,579</u>	<u>11,367</u>
	<u>Consolidated</u>	
	<u>06/30/2008</u>	<u>03/31/2008</u>
Sugarcane	23,879	12,218
Materials, services and other	<u>56,531</u>	<u>43,487</u>
	<u>80,410</u>	<u>55,705</u>

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.

18. PAYABLES TO COPERSUCAR

Copersucar provided funds to its cooperative members through bills of exchange for the purpose of financing their operations. 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 provision 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 may be required to disburse, within 120 days, the amount that was transferred to it. The main amounts included in these liabilities arise from the IPI (federal VAT) whose constitutionality and legality is challenged in court by the Cooperative, and are represented by R\$ 13,804 as of June 30, 2008 and R\$ 13,614 as of March 31, 2008 (R\$ 54,944 and R\$ 54,185 - Consolidated, respectively).

The Company's payables to Copersucar are as follows:

	<u>Company</u>	
	<u>06/30/2008</u>	<u>03/31/2008</u>
Exchange bill - Updated based on 103.35% of the CDI (interbank deposit rate) variation	-	1,088
Exchange bill - Updated from 105% to 105.5% of the CDI variation	-	7,741
Exchange bill - Updated based on 92% of the CDI variation	-	12,582
Exchange bill - Updated based on SELIC (Central Bank overnight rate)	36,922	27,503
Exchange bill - Onlending not subject to charges	17,661	25,269
Exchange bill - Updated based on TJLP (long-term interest rate)	5,759	5,980
Exchange bill - Updated based on the US dollar variation + interest of 5.65% p.a.	<u>2,310</u>	<u>2,650</u>
Total	<u>62,652</u>	<u>82,813</u>
Current liabilities	-	21,120
Long-term liabilities	62,652	61,693

	<u>Consolidated</u>	
	<u>06/30/2008</u>	<u>03/31/2008</u>
Exchange bill - Updated based on 103.35% of the CDI variation		4,219
Exchange bill - Updated from 105% to 105.5% of the CDI variation		25,803
Exchange bill - Updated based on 92% of the CDI variation		48,976
Exchange bill - Updated based on SELIC (Central Bank overnight rate)	137,919	105,384
Exchange bill - Onlending not subject to charges	72,179	96,062
Exchange bill - Updated based on TJLP (long-term interest rate)	17,409	19,760
Exchange bill - Updated based on the US dollar variation + interest of 5.65% p.a.	<u>8,103</u>	<u>9,298</u>
Total	<u>235,610</u>	<u>309,502</u>
Current liabilities	-	77,446
Long-term liabilities	235,610	232,056

Pursuant to the terms of the withdrawal from Copersucar, as mentioned in note 1.2, from the date of the withdrawal from the Cooperative, the Company, its subsidiary Usina São Martinho S.A. and its jointly-owned indirect subsidiary Usina Santa Luiza S.A. will remain liable for the obligations recorded under the caption “Payables to Copersucar” in long-term liabilities, without any change in maturity dates, until the matters that gave rise to these obligations and are under judicial dispute handled by the Cooperative’s attorneys are finally and definitively judged by court. Such obligations are collateralized by bank guarantees in the amount of R\$ 36,077 (R\$ 140,188 - Consolidated).

19. SHAREHOLDERS’ EQUITY

(a) Capital

As of June 30, 2008 and March 31, 2008, the capital stock is divided into 113,000,00 registered common shares, without par value.

(b) Dividends and retained earnings

Shareholders are entitled to receive a minimum dividend of 25% on net income for the year, after the recognition of the legal reserve.

Following is a summary of changes in retained earnings and total shareholders’ equity for the quarter ended June 30, 2008:

	<u>Accumulated deficit</u>	<u>Shareholders’ equity</u>
<u>As of March 31, 2008:</u>	-	1,624,581
Realization of revaluation reserve	9,416	
Prior years adjustment due to change in accounting practices (*)	24,384	24,384
Loss for the quarter	<u>(24,606)</u>	<u>(24,606)</u>
<u>As of June 30, 2008:</u>	<u>9,194</u>	<u>1,624,359</u>

(*) Adjustment to present value, see note 24.

(c) Approval of the financial statements for the year ended March 31, 2008 and allocation of retained earnings

At the Annual Shareholders Meeting held on July 31, 2008, shareholders approved the financial statements for the year ended March 31, 2008 and the transfer of retained earnings as of March 31, 2008, after the realization of the revaluation reserve, to capital budget reserve to face investments forecasted for the coming years, as per the Capital Budget also discussed by such Annual Shareholders Meeting, in conformity with Corporate Law. This approval did not consider the effects of the adjustment arising from changes in accounting practices, as mentioned in notes 2.2 and 24, since this event refers to the year ending March 31, 2009.

(d) Reconciliation of Company's and consolidated income for the quarter and shareholders' equity

06/30/08

Shareholder's equity	
Company's shareholders' equity	1,624,359
Interest on loan agreements allocated to Usina Boa Vista S.A.'s deferred charges	<u>(1,624)</u>
Consolidated shareholders' equity	<u>1,622,735</u>
Net income (loss)	
Company's net loss	(24,606)
Interest on loan agreements allocated to Usina Boa Vista S.A.'s deferred charges	<u>(1,624)</u>
Consolidated loss	<u>(26,230)</u>

20. PROFIT SHARING PROGRAM

In conformity with the Collective Bargaining Agreements with labor unions, in May 1998 the Company and its subsidiaries introduced a profit sharing program based on operational and financial targets previously agreed upon with the employees.

The operational 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 investments; 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 June 30, 2008, recorded as operating costs or expenses in the consolidated statement of income for the quarter was R\$ 1,627 (R\$ 2,113 as of June 30, 2007).

21. INCOME AND SOCIAL CONTRIBUTION TAXES

a) Deferred income and social contribution taxes are as follows

	Company		Consolidated	
	06/30/08	03/31/08	06/30/08	03/31/08
<u>Assets</u>				
Income tax loss carryforwards	23,862	21,986	35,750	32,181
Social contribution tax loss carryforwards	9,212	8,537	15,053	13,768
Provision for contingencies	3,248	2,929	22,134	21,221
Financiamientos securitizados	-	-	2,130	2,860
Income and social contribution taxes on goodwill absorbed	-	-	19,708	19,932
Other	<u>2,550</u>	<u>804</u>	<u>5,632</u>	<u>5,435</u>
Deferred income and social contribution tax assets	<u>38,872</u>	<u>34,256</u>	<u>100,407</u>	<u>95,397</u>
<u>Liabilities</u>				
Revaluation of assets	(27,161)	(28,468)	(128,458)	(133,302)
Accelerated depreciation	(21,385)	(21,781)	(67,758)	(71,158)
Securitized financing	(8,312)	(7,639)	(8,312)	(7,639)
Adjustment to present value	(4,381)	(4,461)	(12,313)	(12,562)
Other	<u>(22)</u>	<u>(22)</u>	<u>(22)</u>	<u>(22)</u>
Deferred income and social contribution tax liabilities	<u>(61,261)</u>	<u>(62,371)</u>	<u>(216,863)</u>	<u>(224,683)</u>

The recovery of these credits as indicated by the projections of taxable income approved by Management on June 16, 2008 is estimated as shown below:

Company:

<u>Twelve-month periods ended</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014 and thereafter</u>
<u>March 31</u>						
Estimated realization	2,409	5,348	4,797	4,726	5,388	16,114

Consolidated:

<u>Twelve-month periods ended</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014 and thereafter</u>
<u>March 31</u>						
Estimated realization	20,006	16,193	12,811	12,737	13,343	25,317

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 13% per year, according to 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.

The offset of tax loss carryforwards is limited up to 30% of annual taxable income, without monetary adjustment or interest. Deferred tax credits arising from tax loss carryforwards are recognized based on projections of result of the Company and its subsidiaries, 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.

- b) Reconciliation of income and social contribution taxes - Income and social contribution tax expenses are reconciled to effective rates, as shown below:

<u>Controladora:</u>	<u>06/30/2008 – quarter</u>		<u>06/30/2007 – quarter</u>	
	Income	Social contribution	Income	Social contribution
	<u>Tax</u>	<u>tax</u>	<u>tax</u>	<u>tax</u>
Income (loss) before income and social contribution taxes	(30,331)	(30,331)	(14,652)	(14,652)
Statutory rates - %	<u>25%</u>	<u>9%</u>	<u>25%</u>	<u>9%</u>
Income and social contribution taxes at statutory rates	7,583	2,730	3,663	1,319
Reconciliation to effective rate:				
<u>Permanent differences</u>				
Equity in subsidiaries	(3,368)	(1,213)	(1,362)	(490)
Other nondeductible expenses	(5)	(2)	(51)	(19)
Income and social contribution tax (expenses) credit	<u>4,210</u>	<u>1,515</u>	<u>2,250</u>	<u>810</u>
Income and social contribution tax (expenses) credit	<u>5,725</u>		<u>3,060</u>	

<u>Consolidado:</u>	<u>06/30/2008 – quarter</u>		<u>06/30/2007 – quarter</u>	
	Income	Social contribution	Income	Social contribution
	<u>tax</u>	<u>tax</u>	<u>tax</u>	<u>tax</u>
Income (loss) before income and social contribution taxes	(39,609)	(39,609)	(17,221)	(17,221)
Statutory rates - %	<u>25%</u>	<u>9%</u>	<u>25%</u>	<u>9%</u>
Income and social contribution taxes at statutory rates	9,902	3,565	4,305	1,550
Reconciliation to effective rate:				
<u>Permanent differences</u>				
Other nondeductible expenses	(64)	(24)	(166)	(60)
Income and social contribution tax (expenses) credit	<u>9,838</u>	<u>3,541</u>	<u>4,139</u>	<u>1,490</u>
Income and social contribution tax (expenses) credit	<u>13,379</u>		<u>5,629</u>	

22. PROVISION FOR CONTINGENCIES

Income and social contribution tax calculations, as well as tax returns and other taxes and payroll charges, are subject 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				
	<u>03/31/2008</u>	<u>Additions</u>	<u>Uses/reversals</u>	<u>Monetary adjustment</u>	<u>06/30/2008</u>
Tax	2,968	536	-	10	3,514
Civil	3,985	162	(4)	50	4,193
Labor	<u>3,825</u>	<u>432</u>	<u>(422)</u>	<u>177</u>	<u>4,012</u>
	10,778	1,130	(426)	237	11,719
(-) Escrow deposits	<u>(3,707)</u>	<u>(29)</u>	<u>-</u>	<u>(7)</u>	<u>(3,743)</u>
Total	<u>7,071</u>	<u>1,101</u>	<u>(426)</u>	<u>230</u>	<u>7,976</u>

	Consolidated				
	<u>03/31/2008</u>	<u>Additions</u>	<u>Uses/reversals</u>	<u>Monetary adjustment</u>	<u>06/30/2008</u>
Tax	44,163	617	-	390	45,170
Civil	5,822	495	(378)	109	6,048
Labor	<u>48,030</u>	<u>4,137</u>	<u>(4,141)</u>	<u>2,007</u>	<u>50,033</u>
	98,015	5,249	(4,519)	2,500	101,251
(-) Escrow deposits	<u>(27,850)</u>	<u>(3,015)</u>	<u>1,068</u>	<u>(388)</u>	<u>(30,185)</u>
Total	<u>70,165</u>	<u>2,234</u>	<u>(3,451)</u>	<u>2,113</u>	<u>71,066</u>

As of June 30, 2008, the nature of the main lawsuits 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) Offset of tax loss carryforwards: Federal tax authorities filed a tax collection action to collect the IRPJ (corporate income tax) for 1997, when the 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. 8981/95. The total amount involved in this lawsuit is R\$ 10,775 (Consolidated).

- (ii) Offset of tax loss carryforwards of merged company: Federal tax authorities filed a tax collection action to collect the IRPJ for the period from October 1997 to March 1998, which was not paid by the company merged into the 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. 8981/95. The total amount involved is R\$ 20,366 (Consolidated).
- (iii) Social contribution tax loss carryforwards: Federal tax authorities filed a tax collection action against Usina São Martinho S.A. to collect the CSLL (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\$ 9,011 (Consolidated).
- (iv) Social security contribution on fringe benefits: The National Institute of Social Security (INSS) issued a tax debt assessment notice (NFLD) against the Company for collecting social security contribution on benefits paid to management and employees and classified by the tax authority as fringe benefits. The debts relate to the period from January 1999 to March 2006. A provision was recorded for the period from January 2001 to March 2006 in the amount of R\$ 801 (Company and consolidated), which corresponds to the portion assessed as probable risk.
- (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 for 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; (vii) FGTS (severance pay fund) and surtax on termination fine for the period from November 2001 to December 2002; and (viii) INSS (social security contribution) related to profit sharing paid to employees for the period from January to August 2001; (ix) IPI (federal VAT) deemed credit on materials used in the production process in the period from the 2nd quarter of 2000 to the 1st quarter of 2002 (x) social contribution tax on salary in kind (housing). The total amount involved is R\$ 2,177 (R\$3, 599 - Consolidated).

The Company and its subsidiaries retained various attorneys to represent them in tax lawsuits whose legal fees are subject to lawsuits' outcome. Legal fees for lawsuits whose risk of loss was assessed as possible or remote correspond to R\$ 536 – Company (R\$ 618 - consolidated).

b) Civil lawsuits:

The Company and its subsidiaries have provisions for 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 and tax foreclosure for sugarcane burning; (v) public civil actions for formation of legal reserve. These lawsuits total R\$ 4,193 (R\$ 6,048 – Consolidated).

c) Labor lawsuits:

The Company and its subsidiaries have provisions 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; (vii) continuity of employment relationship with the consequent payment of 13th salary and vacation pay plus 1/3 vacation bonus. These lawsuits total R\$ 4,012 (R\$ 50,033 – Consolidated).

The Company and its subsidiaries are parties to several judicial and administrative proceedings involving tax and civil matters that were assessed by Management, based on the legal counsel's opinion, as possible loss. No provision has been recorded for these proceedings in the accounting books. The nature and the amount of these lawsuits are as follows:

Tax proceedings:

<u>Consolidated</u>		Number of proceedings	<u>Stage</u>				<u>Total</u>
<u>Subject</u>			Administ.	Trial court	Lower court	Higher court	
(i) Social security contribution Funrural (<i>rural worker</i>	18	44,051	30,887	-	-	-	74,938
(ii) <i>assistance fund</i>)	3	-	-	35	6,295	-	6,330
(iii) Negative balance of income tax (IRPJ)	7	3,535	1,864	723	-	-	6,122
(iv) Offset of credits – PIS (tax on revenue)	2	3,198	-	1,450	-	-	4,648
(v) Income tax on investment losses	2	-	-	1,486	-	-	1,486
(vi) Offset of federal taxes	6	1,101	802	1,218	-	-	3,121
(vii) Other tax proceedings	<u>44</u>	<u>1,986</u>	<u>137</u>	<u>1,903</u>	<u>-</u>	<u>-</u>	<u>4,026</u>
	<u>82</u>	<u>53,871</u>	<u>33,690</u>	<u>6,815</u>	<u>6,295</u>	<u>-</u>	<u>100,671</u>

(i) *Social security contribution*

- a) 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 and contribution capacity, among others, were violated. The total amount of the tax collection actions is R\$ 30,887. The case was not judged by the higher courts and is 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. 10736 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. 10736/2003. Thus, as the remission of said social security debts will depend on an analysis of the peculiarities of the case, the Company's legal counsel understands that an unfavorable outcome is possible.
- b) The National Institute of Social Security (INSS) filed a tax debt assessment notice (NFLD) against the Company seeking to collect the social security contribution due by agribusiness companies for the period from November 2001 to April 2002, as a result of the amounts being determined based on Law No. 8212/91, without taking into consideration the changes introduced by Law No. 10256/2001. The tax debt assessment notice also seeks the collection of contributions for the period from November 2001 to March 2006 (interrupted), upon the delivery of the production to Copersucar for subsequent sale and not upon the recognition of revenue based on Regulatory Opinions CST No 77/76 and No. 66/86, in relation to the total gross revenue earned based on Regulatory Instruction MPS/SRP No 03/2004. A tax debt assessment notice (NFLD) was also issued against the subsidiary Usina São Martinho S.A. seeking to collect social security contribution on revenues from exports made through Copersucar. The total amount involved in these proceedings is R\$ 31,337. The payment requirement is suspended as a result of an administrative appeal filed by the Company based on the understanding that revenues from exports to foreign markets, made through Copersucar, are exempt from social security contribution, based on article 149, paragraph 1 of the Federal Constitution. The Company further believes that the taxable event is the sale of the production and not the delivery of the production to the Cooperative. The Company and its subsidiary Usina São Martinho S.A. are discussing in court the tax immunity of revenues from exports to foreign markets through the Cooperative. The success of this discussion will depend on an analysis of the peculiarities of the case and the Company's legal counsel understands that an unfavorable outcome is possible.

- c) The National Institute of Social Security (INSS) filed a tax debt assessment notice (NFLD) against the Company to collect payment of the contributions not withheld or withheld in lower amounts than required by legislation applicable to companies that contract services, corresponding to 11% of the gross value of the invoice, as set forth in article 31 of Law No. 8212/91, with wording of Law No. 9711/98. The total amount involved in this proceeding is R\$ 9,315. The tax debt assessment notice is suspended as a result of the administrative appeal filed by the Company. The success in this case will depend on an analysis of the peculiarities of the case and the Company's legal counsel understands that an unfavorable outcome is possible.
- d) The National Institute of Social Security (INSS) filed five tax delinquency notices against the Company for noncompliance with the accessory obligations established by Law No. 8212/91. The debts relate to the period from January 1999 to March 2006. The total amount involved in these proceedings is R\$ 2,315. The tax debt assessment notices are suspended as a result of the administrative appeal filed by the Company. The success in this case will depend on an analysis of the peculiarities of the case and the Company's legal counsel understands that an unfavorable outcome is possible.
- e) The National Institute of Social Security (INSS) filed a tax debt assessment notice (NFLD) against the Company seeking to collect the social security contribution on benefits paid to management and employees and classified by the tax authority as fringe benefits. The debts relate to the period from January 1999 to March 2006. Based on the opinion of its legal counsel, the Company understands that for the amount of R\$ 500, relating to the period from January 1999 to December 2000, the INSS's right to collect the tax has already expired, since the social security contributions are of a tax nature and are, therefore, subject to the prescriptive period established by Law No. 5172/66. The tax debt assessment notice is suspended as a result of the administrative appeal filed by the Company. The success in this case will depend on an analysis of the peculiarities of the case and the Company's legal counsel understands that an unfavorable outcome is possible for this period.
- f) The National Institute of Social Security (INSS) filed a tax debt assessment notice (NFLD) and a tax delinquency notice against the Company to collect differences in the social security contributions on employees' compensation that are intended to finance premiums paid for environmental risks in the workplace. Based on the legal counsel's opinion, the Company understands that, for the amount of R\$584 relating to the period prior to January 1, 2001, the INSS's right to collect the payment has already expired, since the social security contributions are of a tax nature and are, therefore, subject to the prescriptive period established by Law No. 5172/66. The tax debt assessment notice is suspended as a result of an escrow deposit made. The success in this case will depend on an analysis of the peculiarities of the case and the Company's legal counsel understands that an unfavorable outcome is possible for this period.

- (ii) *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 appellate court and a tax collection action is in the appeal stage. The amount involved is R\$ 6,330. There is no established case law for the matters of the tax collection. The Company's legal counsel understands that an unfavorable outcome is possible.
- (iii) *Negative balance of income tax (IRPJ)*. The Company and its subsidiaries filed requests for offset of credits derived from prior years' negative balance of income tax, against IRRF (withholding income tax), Cofins (tax on revenue), PIS (tax on revenue) and third parties' debts. The Federal Revenue Service did not approve the offsets since it understood that the procedure adopted has no legal basis or because of the difference in the amount stated in the Income Tax Returns. Although there is an administrative appeal filed with the Board of Tax Appeals, the federal tax authorities filed tax collection actions for the collection of these debts, which are suspended because of appeals. The amount involved in these actions is R\$ 6,122. There is no established case law for the matters of this tax collection. The success in this case will depend on an analysis of the peculiarities of the case and the Company's legal counsel understands that an unfavorable outcome is possible.
- (iv) *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 these actions is R\$ 4,648. There are unfavorable precedents at the administrative level and favorable precedents at the judicial level. The Company's legal counsel understands that an unfavorable outcome is possible.

- (v) *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 Alcool seeking the collection of IRPJ (corporate income tax) for the period from 1987 to 1991 (tax years 1986 to 1990) on the provision for investment losses arising from the interest in Copersucar, 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\$ 1,486. There is no established case law for the matters of the present tax collection actions. The Company's legal counsel understands that an unfavorable outcome is possible.
- (vi) *Offset of federal taxes.* The Federal Revenue Service sent several collection notices to the Company and its subsidiary seeking collection of several federal taxes of the Company and its subsidiary and third parties that were offset by the Companies 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. 87981/82 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 No. 7894/89 and article 1 of Law No. 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 and its subsidiary filed an annulment action to assure their right to offset. The collections are suspended as a result of escrow deposits made. The adjusted amount of these actions is R\$ 3,121. There is no established case law for the matters of the present tax collection. The Company's legal counsel understands that an unfavorable outcome is possible.
- (vii) *Other Tax Proceedings.* Refer to several administrative and judicial collection proceedings filed by the INSS, federal, state and municipal tax authorities and are related, respectively, to differences in payroll taxes of rural workers and self-employed, other offsets of federal taxes, differences in ITR (rural land tax), ICMS (state VAT) on purchase of fixed assets, and differences in ISS (municipal service tax) and road conservation tax. The adjusted amount of these proceedings is R\$ 4,026. There is no established case law for the matters of the present tax collection actions. The Company's and subsidiaries' legal counsel understands that an unfavorable outcome is possible, considering the peculiarities of each case.

Civil Proceedings:

Consolidated: Subject	Number of proceedings	Stage				Total
		Administ.	Trial court	Lower court	Higher court	
(i) <i>Environmental</i>	111	1,155	5,200	3,264	747	10,366
(ii) <i>Civil</i>						
a) Indemnities for occupational disease and accidents	26	-	2,679	204	-	2,883
b) Contract revisions	15	-	2	29	-	31
Rectification of area and real estate registration	1	-	-	-	-	-
c) Permits for obtaining Mining						
d) Research license	5	-	-	-	-	-
	<u>158</u>	<u>1,155</u>	<u>7,881</u>	<u>3,497</u>	<u>747</u>	<u>13,280</u>

- (i) *Environmental.* The Company and its subsidiaries are party to several administrative and judicial proceedings relating principally to sugarcane burning and legal reserve. 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 since, according to Law No. 10547, of May 2, 2000, the absence of a response to authorization requests filed for more than 15 days implies tacit authorization; and (ii) burning from fire caused by third parties, accidental fire or arson, in areas operated by the Company or its subsidiaries or areas of suppliers. The adjusted amount of these proceedings is R\$ 10,366. The proceedings related to legal reserve are commented in note 18.1 – Commitments of the Financial Statements for the Years Ended March 31, 2008. There is no established case law for the matters of the present proceedings. The Company's and subsidiaries' legal counsel understands that an unfavorable outcome is possible, considering the peculiarities of each case.
- (ii) The Company and its subsidiaries are defendants in other 47 lawsuits in various courts, involving the following matters: (a) indemnity for occupational illness and accidents and indemnity for property damage and pain and suffering; (b) contract revisions; (c) rectification of area and property registration; and (d) mining research license. These lawsuits total approximately R\$ 2,914. There is no established case law for the matters discussed in these lawsuits. The Company's legal counsel understands that an unfavorable outcome is possible, considering the peculiarities of each case.

Additionally, pursuant to the terms of the withdrawal from Copersucar, as mentioned in note 1.2, the Company, its subsidiary Usina São Martinho S.A. and its jointly-owned indirect subsidiary Usina Santa Luiza S.A. will remain liable for the payment of any obligations, proportionate to their interest in Copersucar in each crop, which may result from tax infraction notices in the monetarily adjusted amount of R\$ 32,726 (calculated proportionately to the Company's and its subsidiaries' interest in Cooperativa), issued against Copersucar by the tax authorities of the States of Paraná, Minas Gerais and São Paulo, or new tax infraction notices of the same nature that may arise or that relate to periods in which the Company and its subsidiaries were cooperative members, with respect to ICMS (state VAT) levied on fuel and industrial alcohol sales made by Copersucar until March 31, 2008, as a principal taxpayer or substitute taxpayer. The legal counsel believes that an unfavorable outcome is possible. Copersucar believes that it has solid arguments for contesting the fines imposed by the state tax authorities.

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.

23. FINANCIAL INSTRUMENTS

23.1. General considerations of risk management

Since Copersucar had the responsibility to sell the sugar and alcohol produced by the Company and its subsidiary Usina São Martinho S.A. until March 31, 2008, the risk management policy - guaranteeing protection of cooperative members against fluctuations in exchange rates or prices of their products - was the responsibility of the Cooperative, which entered into hedge contracts in the futures market for commodities and exchange rates. Gains or losses on hedge transactions and other financial instruments conducted by Copersucar are passed through to the cooperative members according to monthly apportionments.

The market risk management policies adopted by the Company and its subsidiaries are intended to protect them against volatility in prices of commodities and exchange rates, by means of financial instruments that are contracted based on definition of strategies, implementation of control systems and establishment of currency risk, interest and price limits.

Financial instruments are contracted solely for hedge purposes. In the quarter ended June 30, 2008, the Company recorded loss of R\$ 476 on financial instrument transactions, whereas in the consolidated balance a gain of R\$ 1,039 was accounted for. Both loss and gain were recorded as financial income (expenses).

23.2. Price risk

The Company enters into derivative transactions to mitigate its exposure to fluctuations in the price of sugar in the international market. Derivative transactions allow to ensure a minimum average profit for future production. The Company actively manages derivative instruments, and these transactions are monitored on an ongoing basis so that adjustments to goals and strategies may be made in response to market conditions, and operates mainly in the futures and options market of New York Stock Exchange – Nybot.

As of June 30, 2008, 149,149 tonnes of sugar in the consolidated were hedged by financial instruments, at an average price of ¢/lb 13.32, maturing from October 2008 to July 2009.

23.3. Exchange rate risk

The Company enters into derivative transactions to mitigate the its exposure to fluctuations in exchange rates on export revenues. The combination of currency and commodities price derivative transactions allow to ensure a minimum average profit for future production. The Company actively manages derivative instruments, and these transactions are monitored on an ongoing basis so that adjustments to goals and strategies may be made in response to market conditions.

As of June 30, 2008, US\$ 4,000 thousand in the consolidated were hedged by financial instruments, at an average price of R\$/US\$ 1.73, maturing in July 2008.

23.4. Temporary cash investments

Temporary cash investments consist principally of repurchase agreements backed by government securities and CDBs (bank certificates of deposit) and fixed-income funds indexed to the CDI (interbank deposit rate), with high liquidity and trading on the market.

24. COMPLIANCE WITH LAW No. 11638/07

As required by Law No. 11638/07 and CVM Instruction 469/07, the Company's and its subsidiaries' long-term assets and liabilities, and material short-term assets were valued and adjusted to present value, where applicable, based on the methodology under which the discounted amount, realization dates (assets) and payment (liabilities) are known, and discount rates that reflect the Company's best estimate, considering the money value over time and market rates adopted, were used.

Due to the adoption of the approach above, the Company made adjustments to the balance sheet as of March 31, 2008 as well as in the results of operations for the quarter ended June 30, 2007, presented for comparison purposes. The following accounts were adjusted:

	Company			Consolidated		
	03/31/08 (Prior to Law No. 11638)	Adjustmen ts	03/31/08 (After Law No. 11638)	03/31/08 (Prior to Law No. 11638)	Adjustm ents	03/31/08 (After Law No. 11638)
Current assets	110,176	-	110,176	397,740	-	397,740
Noncurrent assets	<u>1,785,228</u>	<u>15,726</u>	(a) <u>1,800,954</u>	<u>2,518,883</u>	-	<u>2,518,883</u>
Total assets	<u>1,895,404</u>	<u>15,726</u>	<u>1,911,130</u>	<u>2,916,623</u>	-	<u>2,916,623</u>
Current liabilities	73,102	-	73,102	312,813	-	312,813
Noncurrent liabilities	197,721	(8,658)	(b) 189,063	971,618	(24,384)	(b) 947,234
Minority interest	-	-	-	7,611	-	7,611
Shareholder's equity	<u>1,624,581</u>	<u>24,384</u>	(c) <u>1,648,695</u>	<u>1,624,581</u>	<u>24,384</u>	(c) <u>1,648,965</u>
Total liabilities and shareholders' equity	<u>1,895,404</u>	<u>15,726</u>	<u>1,911,130</u>	<u>2,916,623</u>	-	<u>2,916,623</u>

	Company			Consolidated		
	06/30/07 (Prior to Law No. 11638)	Adjustmen ts	06/30/07 (After Law No. 11638)	06/30/07 (Prior to Law No. 11638)	Adjustme nts	06/30/07 (After Law No. 11638)
Gross profit (loss)	(5,797)	-	(5,797)	16,137	-	16,137
Operating expenses	<u>(13,261)</u>	<u>(684)</u>	(d) (5,797)	<u>(38,635)</u>	-	<u>(38,635)</u>
Income (loss) from operations before financial income (expenses)	(19,058)	(684)	<u>(13,945)</u>	(22,498)	-	(22,498)
Financial income (expenses)	<u>5,265</u>	<u>(512)</u>	(e) (19,742)	<u>6,408</u>	<u>(1,549)</u>	(e) <u>4,859</u>
Loss from operations	(13,793)	(1,196)	<u>4,753</u>	(16,090)	(1,549)	(17,639)
Nonoperating income	<u>337</u>	-	(14,989)	<u>418</u>	-	<u>418</u>
Income (loss) before income and social contribution taxes	(13,456)	(1,196)	<u>337</u>	(15,672)	(1,549)	(17,122)
Income and social contribution taxes	<u>2,886</u>	<u>174</u>	(f) (14,652)	<u>5,102</u>	<u>527</u>	(f) <u>5,629</u>
Net income (loss)	<u>(10,570)</u>	<u>(1,022)</u>	<u>(11,592)</u>	<u>(10,570)</u>	<u>(1,022)</u>	<u>(11,592)</u>

Adjustments made to captions:

- a) "Investments - In subsidiaries and affiliates";
- b) "Loans and financing";
- c) "Retained earnings";
- d) "Equity in subsidiaries";
- e) "Financial expenses";
- f) "Income and social contribution taxes - deferred"

Other changes introduced by CVM Instruction No. 469 have already been complied with and/or are not applicable to the Company and its subsidiaries. The Company and its subsidiaries elected to maintain their revaluation reserve.

25. SUBSEQUENT EVENTS

25.1. Change in capital of subsidiary Usina Boa Vista S.A.

On a meeting held on July 23, 2008, the Board of Directors approved an increase in the jointly-owned subsidiary Usina Boa Vista's capital in the amount of R\$ 170,274, from R\$ 71,726 to R\$ 242,000, through subscription of 170,273,733 new common shares. The contribution will be made primarily upon capitalization of the advance for future capital increase.

25.2. Incorporation of Santa Cecília Agroindustrial S.A.

As part of the process to obtain operating and administrative synergies from the acquisition of Usina Santa Luiza S.A. (note 1.3), on July 31, 2008 the subsidiary Usina São Martinho S.A. and other shareholders of that Company formed a new business named Santa Cecília Agroindustrial S.A., using a portion of Usina Santa Luiza S.A.'s spun-off net assets absorbed by its shareholders on April 14, 2008. The portion of capital related to Usina São Martinho S.A. is R\$ 20,448, representing an ownership interest of 41.67%. This Company was formed to provide alternatives to the exploitation and management of assets contributed by shareholders in this new company.

26. SUPPLEMENTAL FINANCIAL INFORMATION

In compliance with the New Market requirements and provisions of Law No. 11638/07, the Company has presented supplemental statements of cash flow (individual and consolidated) information for the quarters ended June 30, 2008 and 2007

(Convenience Translation into English from the Original Previously Issued in Portuguese)

SÃO MARTINHO S.A.

STATEMENTS OF CASH FLOWS FOR THE QUARTERS ENDED JUNE 30, 2008 AND 2007

(In thousands of Brazilian reais - R\$)

	Company		Consolidated	
	06/30/08	06/30/07	06/30/08	06/30/07
	Quarter	Quarter	Quarter	Quarter
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss)	(24,606)	(11,592)	(26,230)	(11,592)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Equity in subsidiaries	13,473	5,588	-	-
Depreciation and amortization - statements of operations	8,237	14,339	33,157	49,524
Net book value of property, plant and equipment written off	293	247	993	390
Financial charges and exchange variation on long-term intercompany balances, loans, financing, and taxes payable	4,022	2,936	17,013	11,123
Provision for contingencies	876	139	4,265	1,055
Deferred income and social contribution taxes	(5,725)	(3,060)	(13,379)	(5,629)
Adjustment to present value	220	512	710	1,549
(Increase) decrease in assets:				
Receivables	27,392	3,821	52,349	(18,565)
Inventories	(14,346)	(4,346)	(59,874)	(39,313)
Recoverable taxes	(350)	(3,159)	2,262	(8,467)
Related parties	(44,289)	(9,766)	-	-
Derivative instruments	(779)	-	(8,326)	-
Other current assets	1,204	840	3,914	234
Other noncurrent assets	272	(1,164)	(5,475)	(980)
Increase (decrease) in liabilities:				
Trade accounts payable	8,196	2,208	24,681	21,566
Payroll and related taxes	3,107	2,234	12,151	12,071
Taxes payable	(819)	(402)	(1,184)	271
Taxes in installments	(278)	-	(294)	-
Related parties	(250)	(39,220)	(40)	(27)
Derivative instruments	1,299	-	5,084	-
Provision for contingencies	(201)	(38)	(5,489)	688
Other current liabilities	775	(1,785)	3,080	(1,462)
Other noncurrent liabilities	2,683	-	2,601	159
Net cash provided by (used in) operating activities	(19,594)	(41,668)	41,969	12,595
CASH FLOWS FROM INVESTING ACTIVITIES				
Investments	(3,390)	(13,153)	(3,380)	(15)
Goodwill arising from the acquisition of Usina Santa Luiza S.A. and Agropecuária Aquidaban S.A. based on expected future earnings	-	-	-	(50,715)
Purchases of property, plant and equipment and increase in deferred charges	(12,605)	(15,317)	(161,542)	(159,700)
Net cash used in investing activities	(15,995)	(28,470)	(164,922)	(210,430)
CASH FLOWS FROM FINANCING ACTIVITIES				
Borrowings arising from the acquisition of Usina Santa Luiza S.A. and Agropecuária Aquidaban S.A.	-	-	-	18,402
Borrowings from Copersucar arising from the acquisition of Usina Santa Luiza S.A. and Agropecuária Aquidaban S.A.	-	-	-	10,304
Borrowings from third parties	45,062	5,176	210,056	74,383
Borrowings (payment) of financing - Copersucar short-term, net	(20,655)	5,114	(75,898)	21,176
Payment of financing - third parties	(8,807)	(12,154)	(34,888)	(39,425)
Net cash provided by financing activities	15,600	(1,864)	99,270	84,840
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(19,989)	(72,002)	(23,683)	(112,995)
CASH AND CASH EQUIVALENTS (including temporary cash investments)				
At beginning of year	20,557	270,474	72,534	366,964
At end of year	568	198,472	48,851	253,969
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(19,989)	(72,002)	(23,683)	(112,995)
SUPPLEMENTAL INFORMATION				
Interest paid in the period	(2,042)	(2,107)	(8,021)	(6,886)
Payments to suppliers for purchases of property, plant and equipment	3,968	2,277	15,176	4,351