

(Convenience translation into English from the original previously issued in Portuguese)

**INDEPENDÊNCIA S.A.**

**FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2008 AND 2007  
AND LIMITED REVIEW REPORT**

(Convenience translation into English from the original previously issued in Portuguese)  
**INDEPENDÊNCIA S.A.**

**FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2008 AND 2007**

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**BDO Trevisan**

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**LIMITED REVIEW REPORT**

To the Management of  
Independência S/A  
São Paulo - SP

1. We have performed a limited review of the accompanying balance sheet of Independência S/A (the "Company") as of September 30, 2008, and the related statements of operations, its cash flows and accompanying notes for the nine-month period then ended, all expressed in Brazilian reais and prepared under the responsibility of the Company's management. Our responsibility is to conduct a limited review of these financial statements, without expressing an opinion on them.
2. Except for the matters mentioned in paragraphs 3 to 5 below, our review was performed pursuant to the standards established by IBRACON – the Brazilian Institute of Independent Auditors, consisting mainly of applying procedures of analytical review of financial data and discussing and ascertaining the criteria adopted by the Company's accounting and financial departments in the preparation of the financial statements as of September 30, 2008. Considering that this review did not represent an examination pursuant to the Independent Financial Statement Auditing Standards, we are not expressing an opinion as to such financial statements.
3. As mentioned in note 3.h, the Company's management had not completed the study on the impact of the calculation of the discount to present value of assets and liabilities accounts, according to Law No. 11,638/07, in order to allow the accounting record of possible effects or disclose an estimate of possible effects on the Company's equity and income (loss) for the half-year ended September 30, 2008. The Company is also reviewing its internal control to adapt balance sheet asset and liability accounts. We were unable to apply other auditing procedures to measure these possible effects.
4. As commented in note 10, neither we nor other independent auditors audited the financial statements of Independência Guarani Sociedad Anônima, Nova Carne Indústria de Alimentos Ltda. and F1 Carnes e Derivados Ltda., controlled companies, for the period ended September 30, 2008. Therefore, we were not able to satisfy ourselves as to the carrying value of the investments in those companies at that date or the corresponding equity in their earnings (loss) for the period ended September 30, based on those controlled companies' equities.



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## LIMITED REVIEW REPORT

To the Management of  
Independência S/A  
São Paulo - SP

5. As commented in note 7, the Company, following the opinion of its legal counselors, recorded R\$184,000 thousand under the caption "Recoverable taxes" in long-term assets, with an offsetting entry to operations, for the premium credit of IPI (Federal VAT). Due to this procedure, long-term assets, income (loss) for the period and shareholders' equity are overstated by that amount.
6. Except for the effects of possible adjustments arising from the auditing procedures not applied and discussed in paragraphs 3 and 4, and the effects of the matter mentioned in paragraph 5, we are not aware of any material modification that should be made to the financial statements referred to in paragraph 1 for them to be in conformity with Brazilian accounting practices.
7. Neither us nor other independent auditors reviewed the financial statements for the 9 (nine) month period ended September 30, 2007, presented for comparative purposes, and, accordingly, we do not issue a limited review report thereon.
8. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

Ribeirão Preto, October 31, 2008.

A handwritten signature in blue ink, appearing to read 'Estefan George Haddad'.

Estefan George Haddad  
Engagement Partner  
BDO Trevisan Auditores Independentes

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**EXHIBIT 1**

**INDEPENDÊNCIA S/A**

**BALANCE SHEETS AS OF SEPTEMBER 30**

(In thousands of Brazilian reais)

<b>ASSETS</b>	<u>2008</u>	<u>2007</u> (unaudited) (reclassified)	<b>LIABILITIES</b>	<u>2.008</u>	<u>2007</u> (unaudited)
<b>CURRENT ASSETS</b>			<b>CURRENT LIABILITIES</b>		
Cash and cash equivalents	295.131	72.787	Trade accounts payable	176.426	82.252
Short-term financial investments	197.753	50.485	Loans and financing	528.377	303.159
Trade accounts receivable	199.755	207.101	Salaries and payroll charges	39.796	19.752
Inventories	188.795	132.394	Tax obligations	38.343	7.171
Other receivables	85.361	100.724	Installment payment of contributions to Rural Workers' Assistance	3.832	-
Recoverable taxes	201.683	196.914	Other accounts payable	<u>29.284</u>	<u>22.289</u>
Prepaid expenses	<u>89.592</u>	<u>18.015</u>		816.058	434.623
	<u>1.258.070</u>	<u>778.420</u>			
<b>LONG-TERM ASSETS</b>			<b>LONG-TERM LIABILITIES</b>		
Recoverable taxes	191.207	40.837	Loans and financing	1.318.993	718.497
Escrow deposits	20.603	20.127	Escrow deposits	20.285	20.064
Other accounts receivable	<u>2.348</u>	<u>6.883</u>	Deferred charges	268.646	187.018
	<u>214.158</u>	<u>67.847</u>	Installment payment of contributions to Rural Workers' Assistance	60.717	-
			Other accounts payable	<u>16.672</u>	<u>30.410</u>
				1.685.313	955.989
<b>PERMANENT ASSETS</b>			<b>SHAREHOLDERS' EQUITY</b>		
Intangible assets	105.899	105.899	Capital stock	690.295	98.788
Investments	8.633	-	Additional paid-in capital	136.978	142.726
Property, plant and equipment	1.283.743	1.045.639	Revaluation surplus	-	454.188
Deferred charges	<u>21.059</u>	<u>4.174</u>	Accumulated deficit	<u>(437.082)</u>	<u>(84.335)</u>
	<u>1.419.334</u>	<u>1.155.712</u>		390.191	611.367
<b>Total assets</b>	<u><u>2.891.562</u></u>	<u><u>2.001.979</u></u>	<b>Total liabilities</b>	<u><u>2.891.562</u></u>	<u><u>2.001.979</u></u>

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**EXHIBIT 2**

**INDEPENDENCIA S/A  
STATEMENT OF OPERATIONS FOR THE NINE-MONTH PERIOD ENDED  
SEPTEMBER 30, 2008  
(In thousands of Brazilian reais)**

	<u>2008</u>	<u>2007</u> (unaudited)
<b>GROSS SALES</b>	1.469.270	1.171.114
Sale deductions and discounts	(167.340)	(84.795)
<b>Net sales</b>	<u>1.301.930</u>	<u>1.086.319</u>
Cost of goods sold	(1.068.692)	(884.660)
<b>GROSS INCOME</b>	<u>233.238</u>	<u>201.659</u>
<b>OPERATING REVENUES (EXPENSES)</b>		
Selling expenses	(48.291)	(31.048)
Administrative and general expenses	(69.082)	(45.215)
Financial losses, net	(424.594)	(93.238)
Other operating revenues (expenses), net	95	(268)
	<u>(541.872)</u>	<u>(169.769)</u>
<b>Operating loss (income)</b>	<b>(308.634)</b>	<b>31.890</b>
Non-operating (losses) income	(2.263)	1.127
<b>(LOSS) INCOME BEFORE EXTRAORDINARY ITEMS</b>	<u><b>(310.897)</b></u>	<u><b>33.017</b></u>
Extraordinary items	112.069	-
<b>(LOSS) INCOME AFTER EXTRAORDINARY ITEMS</b>	<u><b>(198.828)</b></u>	<u><b>33.017</b></u>
Current income tax	-	(5.173)
Deferred income tax	15.553	-
Current social contribution tax	-	(2.587)
Deferred social contribution tax	5.960	-
<b>NET (LOSS) INCOME FOR THE PERIOD</b>	<u><u><b>(177.315)</b></u></u>	<u><u><b>25.257</b></u></u>

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

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**INDEPENDÊNCIA S.A.**

**STATEMENT OF CASH FLOWS FOR THE NINE-MONTH PERIOD ENDED  
SEPTEMBER 30, 2008  
(In thousands of Brazilian reais)**

	<u>09/30/08</u>
Operating activities	
Net loss	(177.315)
Noncash items	<u>(316.710)</u>
Depreciation and amortization	96.769
Deferred taxes	(33.973)
Exchange variation on financing	
EXCHANGE VARIATION - FINANCIAL REVENUES	261.638
EXCHANGE VARIATION - FINANCIAL EXPENSES	(641.144)
Changes in shareholders' equity	(212.631)
Trade accounts receivable	(36.030)
Inventories	(47.215)
Escrow deposits	(207)
Salaries and payroll charges	21.982
Trade accounts payable	77.545
Recoverable taxes and tax obligations	(195.124)
Finance charges	
INTEREST - FINANCIAL REVENUES	14.235
INTEREST - FINANCIAL EXPENSES	(59.323)
Other asset and liability accounts	<u>11.506</u>
Cash flows used in operating activities	(706.656)
Cash flows from investing activities	
Investments	(8.633)
Property, plant and equipment	(107.675)
Deferred charges	<u>(17.215)</u>
Cash flows used in investing activities	(133.523)
Cash flows from financing activities	
Loans and financing	1.251.250
Cash flows provided by financing activities	<u>1.251.250</u>
Cash flows for the 9 (nine) month period	411.071
Cash, bank accounts and short-term investments	
Ending balance	492.884
Beginning balance	<u>81.813</u>
Changes in the 9 (nine) month period	<u><u>411.071</u></u>

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

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**INDEPENDÊNCIA S.A.**

**NOTES TO THE FINANCIAL STATEMENTS AS OF SEPTEMBER 30, 2008 AND 2007**

(In thousands of Brazilian reais)

**1. OPERATIONS**

**INDEPENDÊNCIA S.A.** (the “Company”) is incorporated with 100% Brazilian capital and operates in the meat packing segment serving both foreign and domestic markets and standing out for the quality of its products and commitment to customers. The Company engages in meat packing activities, cattle slaughtering using state-of-the-art beef, both chilled or frozen, cutting techniques, in addition to sales and exports, in special to the European Market, Russia, the Middle East and Asia.

The Company also processes cattle leather and offers storage services for third parties, besides transporting and producing organic fertilizers using its own residues and producing beef jerky. **INDEPENDÊNCIA S.A.** is organized in business units that group into the following divisions - beef, leather processing, transportation, storage, and others.

**INDEPENDÊNCIA S.A.** is headquartered in the city of São Paulo, Capital, at Av. Brigadeiro Faria Lima, 1912 - 12º andar- cj. 12 D, and has production units in the States of São Paulo, Mato Grosso, Mato Grosso do Sul, Minas Gerais, Goiás and Rondônia, besides one unit in final phase of construction in Tocantins. In June 2007, a new data processing system was implemented to control all operations of the units and in July 2007 a new management center was opened where all operations of the Company are controlled.

**INDEPENDÊNCIA S.A.** has a wide industrial complex, prepared to ensure the slaughtering of 8,900 (eight thousand nine hundred) head of cattle a day, and boning lines in total compliance with the requirements of the demanding Common European Market, besides Egypt, Israel, Malaysia, Russia, among others, through factories especially equipped, aiming to satisfy the specifications of each consumer market. The Company’s leather processing capacity is of 10,000 hides/day.

Such structure is the main factor responsible for the current outstanding position among the companies of this industry, being one of the leaders in the segment of beef and leather in Brazil.

To keep this production capacity, **INDEPENDÊNCIA S.A.** has a significant number of employees, offering 10,261 direct jobs.

In June 2008 Independência S/A signed an instrument of commitment to purchase 100% of the assets of Frigorífico Guarani, located in the city of Asunción, in Paraguay. The meat packing plant has a slaughtering capacity of 500 head/day, which represents approximately 10% of Paraguay’s total slaughtering. The company was acquired for US\$14 million, with payments during 2008, 2009 and 2010.

On July 21, 2008, the Extraordinary Shareholders' Meeting approved a Spin-off Agreement in the amount of R\$24,103.

On August 6, 2008, the Company announced an agreement for the lease of a slaughtering and deboning plant in Colider – Mato Grosso do Sul, whose daily capacity is 500 head of cattle.

## **2. PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS**

The financial statements have been prepared in accordance with accounting practices set forth by Brazilian Corporate Law (Law No. 6,404/76 and its amendments).

## **3. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES**

The significant accounting practices adopted to prepare these financial statements are as follows:

### **a. Accounting estimates:**

The preparation of financial statements in accordance with Brazilian accounting practices requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. These estimates and assumptions, when applicable, include the definition of the useful lives of property, plant, and equipment, the recognition of an allowance for doubtful accounts, of inventories, of deferred income tax assets and of a provision for contingencies and the valuation of inventories and derivatives.

Transaction settlement involving those estimates might result in different values from estimates, due to the inherent inaccuracy of the process.

### **b. Recognition of the effects of inflation and exchange variation**

The effects of inflation and exchange variation are recognized by indexing assets and liabilities to inflation and exchange rates and recording corresponding entries to financial revenue and expense accounts.

### **c. Results of operations**

Revenues and expenses are recognized under the accrual basis and consider:

- Earnings, charges and effects of monetary variations, calculated at statutory rates or indexes applied to the Company's assets and liabilities.
- The effects of asset adjustments to market or realizable value, when applicable.

### **d. Current and long-term assets and liabilities**

Assets are stated at realizable values and liabilities at known or estimated values, plus related earnings, charges and monetary variations, when applicable.

Inventories of finished goods, work in process, raw materials and other supplies are stated at the average acquisition or production cost, which is lower than replacement or realizable values. The cost of finished goods and work in process includes raw materials, labor, production, transportation and storage expenses related to the purchase and production of inventories. Normal production losses are recorded as part of the production cost of the respective month; normal losses are recorded directly in operations as cost of goods sold.

e. Permanent assets

Stated at historical cost, combined with the following aspects:

- *Intangible assets*

Investment goodwill is stated at the disbursement value, amortized in 10 (ten) years.

- *Property, plant and equipment*

Property, plant and equipment were revalued in December 2006 and September and December 2007, according to appraisal reports issued by engineers. The respective deferred federal taxes were also recognized and are being utilized as the respective revalued assets are realized.

Depreciation of property, plant and equipment items is calculated under the straight-line method at the rates mentioned in note 11, considering the estimated useful lives of the assets.

- *Deferred charges*

These are the amounts and expenses recognized as cost. Amortization is computed under the straight line method over up to ten years.

f. Foreign currency transactions

Foreign-currency transactions are translated into Brazilian reais at the exchange rate prevailing at the date of the transaction. Assets or liabilities denominated in foreign currency are translated into Brazilian reais at the exchange rate prevailing at the balance sheet date. Exchange variations are recognized in operations as they occur.

Starting on June 30, 2006, the Company implemented an integrated management system between the Financial and Accounting Departments to control contracts and settlement of foreign currency transactions, which began being recognized under the accrual basis, in conformity with the provisions of the Brazilian Corporate Law.

g. Income and social contribution taxes

Taxes are calculated and recorded based on taxable income at current rates, as legally stipulated.

Deferred tax liabilities, including deferred income and social contributions taxes, were recognized on the revaluation surplus.

h. New legislation

On December 28, 2007 Law No. 11,638/07, which modified certain provisions of Law No. 6,404/76 (Brazilian Corporate Law) took effect beginning January 1, 2008.

The new law determines that the accounting standards issued by CVM (Brazilian Securities and Exchange Commission) must be in line with the international accounting standards.

The management of the Company point out the issues below which, in their opinion, may produce effects on the financial statements for the year ending December 31, 2008:

- Permanent assets – A new subgroup of accounts called “Intangible assets” will be created in permanent assets, in which intangible assets will be recorded, including goodwill from acquisitions; and deferred assets will be restricted to pre-operating expenses and additional restructuring costs.
- Shareholders’ equity – will have a new subgroup of accounts called “Mark-to-Market Adjustments”, under which the following will be recorded: fluctuations resulting from the valuation of certain financial instruments; exchange fluctuations of corporate investments abroad whose subsidiary is characterized as an entity independent from the parent company in Brazil; exchange fluctuations on transactions conducted for hedging an investment abroad; exchange fluctuations resulting from the translation of the financial statements of a subsidiary abroad, whose functional currency is different from that of the controlling company.
- Financial instruments are classified as: “trading”, “held-to-maturity” and “available for sale”, and will be valued at cost, plus yield, or at market value, due to their classification.
- Assets and liabilities resulting from long-term transactions, or short-term transactions if the effects are material, will be discounted to present value.
- Periodical analyses will be performed to verify the level of recovery of the amounts recorded in property, plant and equipment - intangible assets and deferred charges.

- For acquisition, merger or spin-off transactions carried out among non-related parties, involving the actual transfer of control, all assets and liabilities must be valued and recorded at market value.
- Tax incentives will no longer be classified as capital reserve, but will be part of the results of operations. The portion of net income subject to this tax benefit may be allocated to the "Tax incentive reserve", which will be created. This reserve may be deducted from the calculation base of mandatory dividends.
- Assets resulting from operations involving transfer of benefits, control and risk, regardless of transfer of ownership, will be recorded in property, plant and equipment.

In the 9 (nine) month period ended September 30, 2008 the Company did not discount assets and liabilities to present value.

The Company is evaluating other possible impacts of the changes introduced by the new law, which will be recognized by December 31, 2008 and is also performing an administrative review of its internal controls, comprising the grouping of assets and liabilities to adapt them to Law No. 11,638/07 and full compliance with Brazilian accounting practices. To that end, it is reconciling accounts right from their formation to be absolutely sure about the origins and compositions of balances and checking them against non-accounting controls.

i. Financial statements for the 9 (nine) month period ended September 30, 2007

Certain reclassifications have been made in the financial statements for the 9 (nine) month period ended September 30, 2007, when applicable, for comparison purposes.

#### 4. SHORT-TERM INVESTMENTS

	<u>09/30/08</u>	<u>09/30/07</u>
Fixed-income securities	50,964	5,841
Fixed-income funds	<u>146,789</u>	<u>44,644</u>
	<u>197,753</u>	<u>50,485</u>

## 5. TRADE ACCOUNTS RECEIVABLE

	<u>09/30/08</u>	<u>09/30/07</u>
Trade accounts receivable – domestic market	110,727	52,824
Trade accounts receivable – foreign market	91,251	155,875
Advances on exchange contracts	(1,812)	(1,023)
Allowance for doubtful accounts	(411)	(575)
	<u>199,755</u>	<u>207,101</u>

## 6. INVENTORIES

	<u>09/30/08</u>	<u>09/30/07</u>
Finished goods	130,713	117,292
Raw material	40,594	4,134
Stockroom	17,488	10,968
	<u>188,795</u>	<u>132,394</u>

## 7. RECOVERABLE TAXES

	<u>09/30/08</u>	<u>09/30/07</u>
Federal VAT (IPI) – deemed credit	69	43
Federal VAT (IPI) – deemed credit (1)	184,000	-
State VAT (ICMS)	130,574	136,256
Withholding Income Tax (IRRF)	144	2,503
Corporate Income Tax (IRPJ) available for offset	-	641
Social contribution tax available for offset	-	232
PIS (tax on sales) available for offset	21,169	15,985
COFINS (tax on sales) available for offset	56,934	78,300
INSS (social security contribution) available for offset	-	3,791
Total	<u>392,889</u>	<u>237,751</u>
Current	201,683	196,914
Long-term	<u>191,207</u>	<u>40,837</u>

(1) Following the opinion of its legal counselors the Company recorded the amount of R\$184,000, for the IPI (Federal VAT) premium credit established by the Federal Government in 1969 through Decree No. 491 to encourage exports. Article 1 of this decree established that producers and exporters of manufactured goods would be entitled to a tax credit resulting from sales of these products abroad as a refund for taxes paid domestically. Therefore, the benefit should be deducted from the IPI levied in domestic market transactions.

## 8. OTHER RECEIVABLES

	<u>09/30/08</u>	<u>09/30/07</u>
Sundry advances	81,295	98,536
Other accounts receivable	<u>4,066</u>	<u>2,188</u>
	<u>85,361</u>	<u>100,724</u>

Sundry advances refer to services and acquisition of goods that will be rendered and delivered throughout the year. Most of that amount corresponds to advances to cattle suppliers, aiming to guarantee the number of animals to slaughter over the next months.

## 9. INTANGIBLE ASSETS

	<u>09/30/08</u>	<u>09/30/07</u> (reclassified)
Goodwill on acquisition of investments	<u>105,899</u>	<u>105,899</u>
	<u>105,899</u>	<u>105,899</u>

## 10. INVESTMENTS

	<u>09/30/08</u>	<u>09/30/07</u>
Nova Carne Indústria de Alimentos Ltda.	8,556	-
F1 Carnes e Derivados Ltda	<u>77</u>	-
	<u>8,633</u>	-

## 11. PROPERTY, PLANT AND EQUIPMENT

			<u>09/30/08</u>	<u>09/30/07</u>
	Annual depreciation rates	Restated cost	Accumulated depreciation	
			Net	Net
Buildings	4%	332,602	(26,110)	242,858
Machinery and equipment	10%	749,503	(105,343)	517,904
Furniture and fixtures	10%	17,227	(7,748)	5,237
Facilities	10%	15,993	(14,286)	7,868
Vehicles	20%	246,923	(101,598)	112,915
Software and hardware	20%	15,283	(15,152)	6,563
Improvements	4%	17,339	(245)	21,218
Plots of land		64,564		74,139
Construction in progress		94,013		56,928
Telephone lines		14		4
Planting in progress		764		5
		<u>1,554,225</u>	<u>(270,482)</u>	<u>1,283,743</u>
				<u>1,045,639</u>

In September and December 2007, the Company revalued 'Buildings' and 'Machinery and Equipment' of the Units in Cajamar, Santana do Parnaíba, Nova Andradina, Senador

Canedo, Rolim de Moura, Colorado D'Oeste, Janaúba, Anastácio, Presidente Venceslau, Pires do Rio and Campo Grande in accordance with reports issued by specialized companies. The value of appreciation determined was R\$ 631,344, which net of taxes, corresponds to an appreciation of R\$ 416,687, as demonstrated below:

On the amount of R\$631,344, corresponding to the appreciation, the respective taxes, in the total amount of R\$214,657, of which R\$157,836 was Corporate Income Tax – IRPJ, and R\$56,821 was Social Contribution Tax – CSLL were levied. The revaluation was recorded with a corresponding entry to a specific account in shareholders' equity and was incorporated into capital stock, net of taxes, which are recorded, according to current legislation, in long-term liabilities and are being realized according to Law.

## 12. LOANS AND FINANCING

Types	Index	Rates (p.a.)	09/30/08	09/30/07
Advance on exchange contracts	US\$ TJLP (long-term interest rate)	6.50%	236,117	158,146 112,491
BNDES – National Equipment Financing Authority (FINAME)	Fixed	3.50%	104,265	
Working capital	Fixed	15.00%	230,502	26,942
Lease	Fixed	16.80%	13,150	6,684
Prepayment	US\$	Libor + 2.0%	236,489	303,641
Bonds	US\$	9.875%	1,026,847	413,752
Total			<u>1,847,370</u>	<u>1,021,656</u>
Current liabilities			528,377	303,159
Long-term liabilities			<u>1,318,993</u>	<u>718,497</u>

In 2007 and 2008, the Company continued with its strategy of obtaining foreign financing and extending payment terms. New anticipated payment of exports were negotiated, corresponding to US\$150.0 million, of which US\$100 million for a period of 3 years with a 12-month grace term. The average rate was Libor + 1.75% per annum. On January 31, 2007, the Company issued bonds in the international market corresponding to US\$225,000,000.00 for a 10-year period. On May 15, 2008 the Company issued new bonds in the international market corresponding to US\$300,000,000.00 for a 7-year period.

Finame and lease loans and financing are guaranteed by a chattel mortgage on financed property, plant and equipment items. The other types are guaranteed by directors' collateral signatures.

The long-term portions mature as follows:

	<u>09/30/08</u>	<u>09/30/07</u>
2008	-	59,307
2009	31,332	142,379
2010	125,603	75,386
2011	33,369	22,937
2012	22,031	4,735
2013	79,810	-
2014	-	-
2015	586,770	-
2016	-	-
2017	440,078	413,753
	<u>1,318,993</u>	<u>718,497</u>

### 13. DEFERRED TAXES

	<u>09/30/08</u>	<u>09/30/07</u>
Income tax on revalued assets	197,816	137,470
Social contribution tax on revalued assets	70,830	49,548
Total	<u>268,646</u>	<u>187,018</u>

Deferred taxes were recognized on the amounts of revaluation and will be considered in the determination of taxable income as revalued assets are realized.

### 14. FINANCIAL INSTRUMENTS - DERIVATIVES

**INDEPENDÊNCIA S.A.** operates in foreign countries and is exposed to market risks arising from foreign exchange fluctuations and variation of the prices of its products in both domestic and international markets.

Therefore, management uses derivatives contracted under futures, options and swap agreements to hedge its assets and liabilities.

In view of the policies and practices established for derivative transactions, management considers the occurrence of non-measurable risks improbable.

#### a) Overview

The Company is exposed to market risks related to exchange and interest rate fluctuations of a nature considered normal to its business. In order to minimize these risks, the Company has policies and procedures to minimize these exposures and may use hedging instruments.

The Company's policies consist mainly of the following: Monitoring levels of exposure to each market risk; measuring these risks; setting limits for making decisions and using hedging mechanisms, always aiming at protecting the foreign exchange exposure of its debts, cash flows and interest rates.

The Company does not conduct leveraged transactions with derivatives and does not have investments backed by risk/and/or leveraged transactions.

**b) Exchange rate risk management**

Exchange rate risk consists of the risk of foreign exchange fluctuations which may cause the Company to incur losses, leading to a reduction in the values of assets or an increase in the values of liabilities. The Company’s main current exchange rate exposure relates to the US dollar fluctuation against the Brazilian real.

Given that Independência is an export company the purpose of its hedging transactions is to protect foreign receivables from a drop in US dollar rates against the Brazilian real. The strategy the Company adopts to that end is the sale of future US dollars in amounts not higher than 50% of the Company’s monthly exports.

**c) Interest rate risk management**

Interest rate risk refers to the Company’s risk of incurring economic losses due to negative changes in interest rates. This exposure basically refers to changes in market interest rates which affect the Company’s assets and liabilities indexed to the TJLP (long-term interest rate), LIBOR or CDI (interbank deposit rate).

In order to reduce debt service costs, the Company continually monitors market interest rates to assess the need to enter into new derivative contracts to hedge its operations against the risk of fluctuations of these rates. To date, the Company has found no need to enter into derivative contracts to hedge its operations against those risks.

**d) Outstanding foreign currency and derivatives position**

As of September 30, 2008, outstanding foreign currency assets and liabilities are as follows:

	<u>09/30/08</u>
<b>Assets:</b>	
Foreign currency accounts receivable	91,251
<b>Liabilities:</b>	
Advances on exchange contracts - ACC	236,117
Prepayment	236,489
Bonds	1,026,847

As of September 30, 2008, outstanding derivatives are as follows:

**QUALITATIVE AND QUANTITATIVE INFORMATION ABOUT DERIVATIVES**

**Base date: 30/09/2008**

Description	Notional amount		Fair value		Accumulated effect – current period	
	Quarter		Quarter		Amounts	
	Current	Prior	Current	Prior	Receivable	Payable

Futures Contracts	-	-	-	-	-	-
Purchase commitments	-	-	-	-	-	-
Sale commitments	44,029	36,372	44,029	36,372	-	52,696
Options contract:						
Call holder	-	-	-	-	-	-
Put holder	-	-	-	-	-	-
Call seller	-	-	-	-	-	-
Put seller	-	-	-	-	-	-
Swap contracts	-	-	-	-	-	-
Gain	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Forward contracts	-	-	-	-	-	-
Long position	-	-	-	-	-	-
Short position	-	-	-	-	-	-

**Statement of Independência's Sensitivity Analysis – Cash effect  
(UNAUDITED)**

Transaction	Risk	Scenario		
		Optimistic	Possible	Pessimistic
Sale commitments	US dollar rise	1.90	2.10	2.50

Results for sale commitments

Amount in US\$ thousand	Average parity	Maturity	Income (loss)		
			1,90	2,10	2,50
23,000	1.7693	Cct/08	-3,005	-7,605	-16,805
23,000	1.7450	Nov/08	-3,565	-8,165	-17,365
23,000	1.7450	Dec/08	-3,565	-8,165	-17,365
23,000	1.7239	Jan/09	-4,050	-8,650	-17,850
23,000	1.7239	Feb/09	-4,050	-8,650	-17,850
23,000	1.7239	Mar/09	-4,050	-8,650	-17,850
23,000	1.7239	Apr/09	-4,050	-8,650	-17,850
23,000	1.7239	May/09	-4,050	-8,650	-17,850
23,000	1.7239	Jun/09	-4,050	-8,650	-17,850
23,000	1.7239	Jul/09	-4,050	-8,650	-17,850
5,000	1.6850	Aug/09	-1,075	-2,075	-4,075

The Company entered into derivative contracts not for speculative purposes, but to minimize the effects of changes in foreign exchange rates on the settlement of its foreign-currency assets, represented by export contracts.

Management understands that the results obtained with derivative transactions are in line with the risk management strategy adopted by the Company and are offset by converting export contracts using the highest exchange rate.

## 15. SHAREHOLDERS' EQUITY

### a. Capital stock

Subscribed and paid-in capital stock as of September 30, 2008 totals R\$690,295 (as of September 30, 2007, R\$98,916) and comprises 69,151,854 shares (as of September 30, 2007, 7,701,466).

## 16. EXTRAORDINARY ITEMS

The Company separately recorded in the statement of operations the caption "Extraordinary items", the amounts referring to the recognition of IPI Premium Credits, and Funrural installment payment, as well as the reversal of certain amounts from that fund, as presented below:

Description	09/30/08
Adjustment referring to the recognition of IPI Premium Credit	184,000
Adjustment referring to the recognition of expenses on Funrural contingencies and installment payment	(64,549)
Adjustment referring to the reversal of amounts paid as Funrural installment payment	<u>(7,382)</u>
Net income	<u>112,069</u>

## 17. INSURANCE COVERAGE (UNAUDITED)

It is the Company's policy to insure its property, plant and equipment and inventories at risk, for amounts deemed sufficient to cover possible casualties. All this is done taking into consideration the nature of its activities and the insurance advisors' opinion. As of September 30, 2008, the Company had insurance coverage for the property, plant and equipment assets and inventories, valid up to March 2009.

## 18. INCOME AND SOCIAL CONTRIBUTION TAXES

Income and social contribution taxes were calculated considering current rates, pursuant to prevailing legislation.

Income and social contribution tax calculations and returns are open to review and final assessment by tax authorities for varying statutory periods in relation to the payment or filing date.

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