

(A free translation of the original report in Portuguese  
on financial statements prepared in accordance with  
accounting practices adopted in Brazil)

**Instituto Terra**  
**Financial Statements at**  
**December 31, 2002 and 2001**  
**and Report of Independent Auditors**

(A free translation of the original opinion in Portuguese expressed on financial statements prepared in accordance with accounting practices adopted in Brazil)

## **Report of Independent Auditors**

May 30, 2003

To the Management  
Instituto Terra

- 1 We have audited the accompanying balance sheet of Instituto Terra as of December 31, 2002 and the related statements of surplus, of changes in net worth and of changes in financial position for the year then ended. These financial statements are the responsibility of the Institution's management. Our responsibility is to express an opinion on these financial statements.
- 2 We conducted our audit in accordance with approved Brazilian auditing standards, which require that we perform the audit to obtain reasonable assurance about whether the financial statements are fairly presented in all material respects. Accordingly, our work included, among other procedures: (a) planning our audit taking into consideration the significance of balances, the volume of transactions and the accounting and internal control systems of the Institution, (b) examining, on a test basis, evidence and records supporting the amounts and disclosures in the financial statements, and (c) assessing the accounting principles used and significant estimates made by the Institution's management, as well as evaluating the overall financial statement presentation.
- 3 In our opinion, the financial statements audited by us present fairly, in all material respects, the financial position of Instituto Terra at December 31, 2002, and the surplus, changes in net worth and changes in financial position for the year then ended, in accordance with the accounting practices adopted in Brazil.
- 4 The financial statements as of and for the year ended December 31, 2001, presented for comparative purposes, were not audited by independent auditors. Consequently, our opinion does not relate to these financial statements.

PricewaterhouseCoopers  
Auditores Independentes  
CRC-SP-000160/O-5 "F" MG

Luiz Márcio Malzone  
Partner  
Contador CRC-RJ-031.376/O-2-S-MG

# Instituto Terra

(A free translation of the original in Portuguese prepared in accordance with accounting practices adopted in Brazil)

## Balance Sheet at December 31

In thousands of reais

Assets	<u>2002</u>	<u>2001</u> (Unaudited)	Liabilities and net equity	<u>2002</u>	<u>2001</u> (Unaudited)
<b>Current assets</b>			<b>Current liabilities</b>		
Cash and banks	95	11	Projects	187	
Financial investments	505	330	Projects to be completed (Note 4)	158	
Projects to be completed (Note 4)	<u>158</u>	<u>          </u>	Social and labor charges	84	51
	<u>758</u>	<u>341</u>	Contract retentions	28	
			Other	<u>82</u>	<u>          </u>
<b>Fixed assets</b>				<u>539</u>	<u>51</u>
Property and equipment	1,935	975	<b>Net equity</b>	<u>2,154</u>	<u>1,265</u>
	<u>          </u>	<u>          </u>			
<b>Total assets</b>	<u>2,693</u>	<u>1,316</u>	<b>Total liabilities and net equity</b>	<u>2,693</u>	<u>1,316</u>

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

# Instituto Terra

## Statement of Surplus Years Ended December 31 In thousands of reais

(A free translation of the original in Portuguese prepared in accordance with accounting practices adopted in Brazil)

	<u>2002</u>	<u>2001</u> (Unaudited)
<b>Operating revenue</b>		
Donations	1,420	1,262
Agreements	559	194
Other	95	1
	<u>2,074</u>	<u>1,457</u>
<b>Operating (expenses) income</b>		
Operating (Note 7)	(187)	(109)
Administrative		
Salaries	(374)	(182)
Social charges	(141)	(63)
Third-party services	(117)	(41)
General expenses	(190)	(70)
Depreciation	(66)	
Financial, net	24	29
	<u>(1,051)</u>	<u>(436)</u>
<b>Surplus for the year transferred to net equity</b>	<u><u>1,023</u></u>	<u><u>1,021</u></u>

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

## Instituto Terra

### Statement of Changes in Net equity Years Ended December 31 In thousands of reais

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<b>At January 1, 2001 (Unaudited)</b>	244
Surplus transferred to net equity	<u>1,021</u>
<b>At December 31, 2001 (Unaudited)</b>	1,265
Prior year adjustments (Note 9)	(134)
Surplus transferred to net equity	<u>1,023</u>
<b>At December 31, 2002</b>	<u><u>2,154</u></u>

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

**Instituto Terra****Statement of Changes in Financial Position  
Years Ended December 31  
In thousands of reais**

(A free translation of the original in Portuguese prepared in accordance with accounting practices adopted in Brazil)

	<u>2002</u>	<u>2001</u> (Unaudited)
<b>Financial resources were provided by:</b>		
Operations		
Surplus for the year	1,023	1,021
Expense not affecting working capital		
Depreciation	<u>66</u>	
<b>Total funds provided</b>	<u>1,089</u>	<u>1,021</u>
<b>Financial resources were used for:</b>		
Property and equipment	1,026	857
Prior year adjustments	<u>134</u>	
<b>Total funds used</b>	<u>1,160</u>	<u>857</u>
<b>Increase (decrease) in working capital</b>	<u>(71)</u>	<u>164</u>
<b>Current assets</b>		
At the end of the year	758	341
At the beginning of the year	<u>341</u>	<u>132</u>
	<u>417</u>	<u>209</u>
<b>Current liabilities</b>		
At the end of the year	539	51
At the beginning of the year	<u>51</u>	<u>6</u>
	<u>488</u>	<u>45</u>
<b>Increase (decrease) in working capital</b>	<u>(71)</u>	<u>164</u>

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

(A free translation of the original notes in Portuguese to financial statements prepared in accordance with accounting practices adopted in Brazil)

## **Instituto Terra**

### **Notes to the Financial Statements at December 31, 2002 and 2001**

**All amounts in thousands of reais unless otherwise indicated**

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#### **1 Operations**

Instituto Terra is a civil, non-profit association, which was formed in 1998. It is located at the Bulcão Farm in the municipality of Aimorés in the State of Minas Gerais.

The Institution manages the Bulcão Farm in order to promote an environmental recovery process associated with educational activities, creating a management model to be copied on Vale do Rio Doce's properties and other Atlantic Forest regions.

The farm with an area of 676 hectares, was recognized as a Private Natural Heritage Reserve (RPPN) by a Government Decree (IEF/MG Ordinance 81) dated October 7, 1998. It is the first RPPN created in a degraded area of Brazil's Atlantic Forest (*Mata Atlântica*).

On December 17, 1999, Instituto Terra was declared a public utility by the City Council of Aimorés through Law 1613/99, and became exempt from municipal taxes while complying with its statutory objectives.

The main objective of the projects developed by Instituto Terra is to potentialize transformation towards a model of sustainable development in the Rio Doce Basin region. Sustainable development is understood to be the betterment of a community's quality of life, by respecting the capacity to support the ecosystems, involving the three basic aspects of sustainability: economic, social and environmental.

Activities include the conservation and recuperation of the Atlantic Forest biodiversity, strengthening rural education and health, community organization, searching for agro ecological alternatives for production and the generation of employment, as well as to develop knowledge and transfer technologies that will train small rural producer organizations, community leaders and technicians of public and private companies.

Since the start of activities and up to 2002, the Institution has recuperated 175 hectares of degraded areas, planting 470 thousand native Atlantic Forest tree seedlings. Currently, its structure comprises a nursery with a production capacity of approximately one million tree seedlings, and is financially supported by the Alliance for the Atlantic Forest Conservation (SOS Mata Atlântica Foundation and Conservation International do Brazil) and the Ministry of Environment, who ensure the production of seedlings necessary for planting in the whole farm area and to meet the demands of current recuperation projects.

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## **Instituto Terra**

### **Notes to the Financial Statements at December 31, 2002 and 2001**

**All amounts in thousands of reais unless otherwise indicated**

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#### **2 Significant Accounting Practices**

##### **(a) Determination of surplus**

Donations are recognized when received, and are used to defray the cost of activities developed by the Institution. Expenses are recorded on the accrual basis of accounting.

##### **(b) Financial investments**

Financial investments are stated at cost plus earnings accrued.

##### **(c) Property and equipment**

Property and equipment are stated at cost, and depreciation is calculated on the straight-line method at the annual rates described in Note 5, which take into consideration the useful lives of the assets.

##### **(d) Projects to be completed**

In this group of accounts, the Institute classifies amounts received relating to projects that are not for its own use but for which it is responsible for management and for the rendering of accounts on the applications of the funds. Also, at the end of a project execution, the agent that transferred the funds must decide whether the assets originating from the application of these funds are to be donated or not.

##### **(e) Other current assets and liabilities**

These assets and liabilities are stated at realizable amounts and include, when applicable, monetary variations and accrued earnings or charges.

##### **(f) Donations of services**

Donations received in the form of the rendering of services are not recorded in the books of account and do not generate an effect on the net worth shown in the financial statements.

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## **Instituto Terra**

### **Notes to the Financial Statements at December 31, 2002 and 2001**

**All amounts in thousands of reais unless otherwise indicated**

#### **3 Financial Investments**

	<u>2002</u>	<u>2001</u> <b>(Unaudited)</b>
Not restricted	<u>342</u>	<u>64</u>
Restricted to projects		
Fundo Brasileiro para a Biodiversidade	67	266
PD/A Projetos Demonstrativos	46	
Conservation International	<u>50</u>	<u>          </u>
	<u>163</u>	<u>266</u>
	<u>505</u>	<u>330</u>

Financial investments restricted to projects relate to those funds that must be invested strictly within the scope of the respective project agreements.

#### **4 Projects to be Completed**

The balances relate to funds received in connection with agreements with the Brazilian Ministry of Environment that are to be used to construct and maintain the forest nursery. The funds received totaling R\$ 200 had been fully liberated up to December 31, 2002, and the Institution had already applied R\$ 177, R\$ 124 on construction costs and R\$ 53 for the maintenance of the nursery.

The amount (R\$ 34) not yet applied in the project at December 31, 2002 was applied in a specific financial investment. The amount recorded at December 31, 2002 is composed by this financial investments and the construction costs of the forest nursery (R\$ 124).

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## Instituto Terra

### Notes to the Financial Statements at December 31, 2002 and 2001

All amounts in thousands of reais unless otherwise indicated

#### 5 Property and Equipment

		<b>2002</b>			<b>2001</b> (Unaudited)
	<b>Annual depreciation rate - %</b>	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net</b>	<b>Net</b>
Buildings	4	1,561	(48)	1,513	
Machines and equipment	10	161	(24)	137	57
Furniture and fixtures	10	135	(2)	133	10
Forestry nursery	10	18	(2)	16	
Construction in progress		136		136	908
		2,011	(76)	1,935	975

Construction in progress basically refers to expenditure on the construction buildings.

# Instituto Terra

## Notes to the Financial Statements at December 31, 2002 and 2001

All amounts in thousands of reais unless otherwise indicated

### 6 Projects

Represent funds received based on institutional agreements for application in projects and for specific expenditures. These amounts will be recognized in the results for the year (revenue) when used, i.e., when the projected expenditures are effectively spent. The agreement with the Ministry of Environment is not contemplated in the table below (see Note 4).

<u>Description</u>	<u>Funds liberated</u>	<u>Funds used</u>	<u>Funds to be used</u>	<u>Funds receivable</u>	<u>Total of project</u>
<b>Fundo Brasileiro para a Biodiversidade (FUNBIO)</b>					
In year 2002	313	(382)	61	245	1,194
Up to 2001	<u>636</u>	<u>(506)</u>	<u>130</u>	<u>558</u>	<u>1,194</u>
	<u>949</u>	<u>(888)</u>	<u>191</u>	<u>803</u>	<u>2,388</u>
<b>Conservation International (CI)</b>					
In year 2002	<u>50</u>		<u>50</u>	<u>50</u>	<u>100</u>
<b>PD/A (Projetos Demonstrativos)</b>					
In year 2002	200	(124)	76	231	498
Up to 2001	<u>67</u>	<u>(67)</u>		<u>431</u>	<u>498</u>
	<u>267</u>	<u>(191)</u>	<u>76</u>	<u>662</u>	<u>996</u>
	<u>1,266</u>	<u>(1,079)</u>	<u>317</u>	<u>1,515</u>	<u>3,484</u>
<b>Total</b>					
In year 2002	563	(506)	187	526	1,792
Up to 2001	<u>703</u>	<u>(573)</u>	<u>130</u>	<u>989</u>	<u>1,692</u>
	<u>1,266</u>	<u>(1,079)</u>	<u>317</u>	<u>1,515</u>	<u>3,484</u>

## Instituto Terra

### Notes to the Financial Statements at December 31, 2002 and 2001

All amounts in thousands of reais unless otherwise indicated

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#### 7 Operating Expenses

These expenses refer to maintenance and forest planting activities, amounting to R\$ 105 (2001 - R\$ 109), and the maintenance of the nursery, amounting to R\$ 82.

#### 8 Prior Year Adjustments

	<u>2002</u>
Advances received for projects recorded in excess in 2001	(105)
Provision for vacation pay not recognized	(20)
Other	<u>(9)</u>
	<u><u>(134)</u></u>

#### 9 Other Information

In accordance with current legislation, the company's fiscal and accounting books are subject to review and possible additional assessment by the fiscal authorities during various prescriptive periods.

Instituto Terra is a non-profit organization exempted from paying income tax and the social contribution, according to the terms of article 195, paragraph 7 of the Federal Constitution.

Exempt institutions must comply with determined legal requirements, which are being observed by the Institution.

# Instituto Terra

## Notes to the Financial Statements at December 31, 2002 and 2001

All amounts in thousands of reais unless otherwise indicated

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### 10 Executive Officers

The executive officers of Instituto Terra are:

Sebastião Ribeiro Salgado Júnior	President
Lélia Deluiz Wanick Salgado	Vice-President
Célio Murilo de Carvalho Valle	Education Director
Roberto Messias Franco	Cultural and Institutional Relations Director
Renato Moraes de Jesus	Environmental Actions Director
Paulo Henrique Wanick Mattos	Administrative and Financial Director
Celso Luiz Marques	General Secretary

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