



Instituto Terra

Financial statements
December 31, 2005 and 2004

(With independent auditors' report thereon)

(A translation of the original report in Portuguese as published in Brazil containing financial statements prepared in accordance with accounting practices adopted in Brazil)



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Independent auditors' report

To
The Counsel of Directors and Management
Instituto Terra
Aimorés - MG

We have examined the accompanying balance sheet of Instituto Terra (the "Entity" or the "Instituto") as of December 31, 2005 and the related statements of surplus (deficit), changes in equity and changes in financial position for the year then ended, which are the responsibility of its management. Our responsibility is to express an opinion on these financial statements.

Our examination were conducted in accordance with auditing standards generally accepted in Brazil and included: (a) planning of the audit work, considering the materiality of the balances, the volume of transactions and the accounting systems and internal accounting controls of the Instituto; (b) verification, on a test basis, of the evidence and records which support the amounts and accounting information disclosed; and (c) evaluation of the most significant accounting policies and estimates adopted by Entity management, as well as the presentation of the financial statements taken as a whole.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of Instituto Terra as of December 31, 2005, and the surplus (deficit) of its operations, changes in its equity and changes in its financial position for the year then ended, in conformity with accounting practices adopted in Brazil.

The financial statements of Instituto Terra for the year ended December 31, 2004 were examined by other independent auditors, who issued an unqualified opinion, dated January 10, 2006

October 25, 2006

KPMG Auditores Independentes
CRC 2SP014428/O-6

Daniel Antônio Cabral de Vasconcelos
Accountant CRCMG059164/O-3

Instituto Terra

Balance Sheets at December 31

(A free translation of the original report in Portuguese)

In thousands of reais

Assets	2005	2004
Current assets		
Cash and banks (note 4)	100	10
Financial investments (note 4)	587	765
Investments in projects (note 6b)	574	136
Other accounts receivable	120	43
	<u>1,381</u>	<u>954</u>
Fixed assets		
Property and equipment (note 5)	<u>2,615</u>	<u>2,601</u>
Total Assets	<u><u>3,996</u></u>	<u><u>3,555</u></u>
Liabilities and net equity		
Current Liabilities		
Social and labor charges	228	111
Projects to be completed (note 6b)	818	721
Funds from projects (note 6b)	17	26
Other accounts payable	39	10
	<u>1,102</u>	<u>868</u>
Net equity		
Donations and subsidies	1,578	1,477
Accumulated surplus	<u>1,316</u>	<u>1,210</u>
	<u>2,894</u>	<u>2,687</u>
Total liabilities and net equity	<u><u>3,996</u></u>	<u><u>3,555</u></u>

See the accompanying notes to the financial statements.

Instituto Terra

Statements of Surplus (Deficit) Years Ended December 31

(A free translation of the original report in Portuguese)

In thousand of reais

	<u>2005</u>	<u>2004</u>
Operating revenue		
Donations	727	733
Projects (restricted)	530	512
Projects (not restricted)	499	369
Others	30	138
	<u>1,786</u>	<u>1,752</u>
Operating revenue (expenses)		
Operating		
Reforestation	(429)	(564)
Nursery	(106)	(233)
Education and culture	(273)	(210)
Outsourced services applied in projects	(248)	(234)
Administrative	(624)	(405)
Depreciation	(175)	(143)
Financial, net	86	44
	<u>(1,769)</u>	<u>(1,745)</u>
Surplus for the year	<u>17</u>	<u>7</u>

See the accompanying notes to the financial statements.

Instituto Terra

Statements of Changes in Net Equity Years Ended December 31

(A free translation of the original report in Portuguese)

In thousand of reais

	<u>Donations and subsidies</u>	<u>Acumulated surplus</u>	<u>Total net equity</u>
At December 31, 2003	805	1,203	2,008
Equity donations for the year	672	-	672
Surplus transferred to net equity	<u>-</u>	<u>7</u>	<u>7</u>
At December, 2004	1,477	1,210	2,687
Equity donations for the year	101	-	101
Prior year adjustment	-	89	89
Surplus transferred to net equity	<u>-</u>	<u>17</u>	<u>17</u>
At December 31, 2005	<u>1,578</u>	<u>1,316</u>	<u>2,894</u>

See the accompanying notes to the financial statements.

Instituto Terra

Statements of Changes in Financial Position Years Ended December 31

(A free translation of the original report in Portuguese)

In thousand of reais

	<u>2005</u>	<u>2004</u>
Financial resources were provided by		
Operations		
Surplus for the year	17	7
Expenses not affecting working capital		
Depreciation	175	143
Financial resources provided by operations	192	150
Prior year adjustments	89	-
Equity donations for the year	101	672
Total funds provided	<u>382</u>	<u>822</u>
Financial resources were used for		
Property and equipment	189	730
Total funds used	<u>189</u>	<u>730</u>
Increase in working capital	<u><u>193</u></u>	<u><u>92</u></u>
Changes in working capital		
Current assets		
At the end of the year	1,381	954
At the beginning of the year	954	1,129
	427	(175)
Current liabilities		
At the end of the year	1,102	868
At the beginning of the year	868	1,135
	234	(267)
Increase in working capital	<u><u>193</u></u>	<u><u>92</u></u>

See the accompanying notes to the financial statements.

Instituto Terra

Notes to the Financial Statements at December 31, 2005 and 2004

(A free translation of the original report in Portuguese)

In thousands of reais

1. Operations

Instituto Terra is a nonprofit civil association, founded in 1998, with its headquarters on Fazenda Bulcão, located in the Municipality of Aimorés, in the State of Minas Gerais, which was transferred on a free lease to Instituto Terra, for an indeterminate period of time, through a Private Instrument of Free Lease, dated July 4, 2000, by its owners, Mr. Sebastião Ribeiro Salgado Júnior and Mrs. Lélia Deluiz Wanick Salgado, the creators and founding partners for life of Instituto Terra.

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 Instituto manages the Bulcão Farm in order to foster ecologically sustainable social development through environmental recuperation, conservation and use. Accordingly, the Institute has been operating in three areas: environmental recuperation, environmental education and promotion of sustainable rural development.

2. Presentation of the Financial Statements

The financial statements have been prepared in conformity with the accounting practices adopted in Brazil.

3. Significant Accounting Policies

(a) Contributions and donations

(a.1) Contributions and donations with no fixed destiny (unrestricted)

Contributions and donations with no fixed destiny are those for which the donator does not stipulate specific conditions to be complied with by the entity. These donations are recorded directly in the Statement of Surplus (Deficit) for the year.

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In thousands of reais

(a.2) Donations with a fixed destiny (restricted)

Donations with a fixed destiny are those for which the donator stipulates specific conditions to be complied with by the entity. The donations and respective investments are recorded in the Statement of Surplus (Deficit) when the donator of the funds formally confirms that the aforementioned obligations have been fulfilled by the Instituto Terra.

(a.3) Equity contributions and donations

Equity contributions and donations are those received exclusively for the acquisition and/or construction of permanent assets and are recorded directly in net equity as Donations and subsidies.

(b) Determination of surplus

Revenues and expenses are recorded on the accrual basis. Revenues from donations to defray costs are recorded in the statement of surplus (deficit) when received and are used to defray the cost of activities developed by the Instituto Terra.

(c) Accounting estimates

The preparation of the financial statements in accordance with accounting practices adopted in Brazil requires that management uses its judgment in determining and recording accounting estimates. Significant assets and liabilities subject to these estimates and assumptions include the residual value of property and contingencies. The settlement of transactions involving these estimates may result in significantly different amounts due to the lack of precision inherent to the process of their determination. The Instituto Terra reviews the estimates and assumptions at least once a year.

(d) Financial Investments

The financial investments are stated at cost of acquisition, plus earnings accrued up to the balance sheet date.

(e) Investments in projects

Investments in projects are donations earmarked for projects that have not yet been submitted for approval by the donator.

(f) Property and equipment

Property and equipment are stated at cost, and depreciation is calculated according to the straight-line method at the annual rates described in Note 5.

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In thousands of reais

(g) Projects to be completed

The balance in projects to be completed corresponds to amounts earmarked for projects released by the donators but which at the balance sheet date had not yet been applied in the respective projects and/or that were applied but had not been submitted for approval by the donator.

(h) Funds from projects

Amount referring to the surplus funds from projects executed and which, at the request of the donator, will remain with the Instituto Terra to be applied in a new project to be defined jointly with the donator.

(i) Other current assets and liabilities

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

(j) Donations of services

The donations received in the form of services are not recorded in the accounting books and do not generate an effect on the net equity shown in the financial statements.

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In thousands of reais

4. Cash and banks and financial investments

	2005			2004
	Cash and Banks	Financial Investments	Total	Total
Not restricted	51	375	426	79
Restricted				
Santa Fe College	8	9	17	26
PD/A MMA – Projects Statements	-	-	-	5
International Finance Corporation – IFC – Pedagogical Curriculum	-	-	-	40
Conservation International – CI	7	25	32	72
Critical Ecosystem Partnership Fund - CEPF/CI	5	63	68	35
Brazilian Service for Supporting Micro and Small Companies - SEBRAE	-	-	-	103
State Institute of Forests of Minas Gerais - IEF/ITTO	28	68	95	-
United Nations Educational, Scientific and Cultural Organization - UNESCO	1	47	48	-
Municipality of Rome	-	-	-	415
Total restricted	49	212	261	696
	100	587	687	775

Financial investments identified with projects refer to those funds that must be invested in the project in accordance with the respective project agreements.

At December 31, 2005 and 2004, the Institute's financial investments were represented by short-term fixed-income marketable securities.

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In thousands of reais

5. Property and Equipment

	Annual depreciation rate - %	2005			2004
		Cost	Accumulated depreciation	Net	Net
Buildings	4	2,351	(280)	2,071	2,059
Machinery and equipment	10	294	(112)	182	221
Furniture and fixtures	10	231	(62)	169	179
Forest nursery	10	175	(54)	121	140
Work in progress (buildings)		70		70	
Trademarks and patents		2		2	2
		<u>3,123</u>	<u>(508)</u>	<u>2,615</u>	<u>2,601</u>

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 the projected expenditures are effectively made (projects that are not restricted), or when the project accounts are approved by the donators (restricted projects).

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In thousands of reais

(a) Movement of project funds

Entity	Term	Total funds receivable	Balance at December 31, 2003	Funds received and earnings	Funds used	Balance at December 31, 2005
Brazilian Services to support micro and small business companies – SEBRAE/MG	October, 2005	370	103	107	210	-
Conservation International - CI	December, 2006	100	72	8	48	32
Projects - Statements - PD/A – Ministry of Environment	July, 2005	498	5	-	5	-
International Finance Corporation – IFC	December, 2006	85	40	1	41	-
Critical Ecosystem Partnership Fund - CEPF	July, 2006	455	35	213	179	68
Municipality of Rome	September, 2005	1,464	415	26	441	-
Instituto Estadual de Florestas de Minas Gerais - IEF	July, 2007	316	-	97	1	96
Emilia Romagna	December, 2005	553	-	90	90	-
UNESCO	December, 2006	100	-	52	4	48
Santa Fe College	December, 2005	153	26	146	155	17
Municipality of Vitória	December, 2005	31		31	31	-
		4,125	696	624	1,205	261

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In thousand of reais

1(b) Reconciliation of the balance for the projects	2005
Balance for the projects at the beginning of the year	262
Santa Fé College (i)	(17)
	<hr/> 245
 Social projects in progress (ii)	
International Finance Corporation - IFC	82
Conservation International - CI	42
Critical Ecosystem Partnership Fund - CEPF/CI	45
Municipality of Rome	313
Instituto Estadual de Florestas de Minas Gerais – IEF	2
Emilia Romagna	87
UNESCO	3
SEBRAE/MG	-
	<hr/> 574
	<hr/> 818
	<hr/> <hr/>

- (i) This amount relates to the surplus financial funds from the project carried out in 2005. At the request of the Institution the amount will be retained by the Institution until there is a new formal project. It is recorded as “Funds from projects” (current liabilities)
- (ii) Amounts recorded in the accounting but not yet approved. When the recorded amounts are approved, they will be transferred to the statement of surplus (deficit).

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In thousand of reais

(c) Allocation of funds used

	<u>2005</u>
Funds used in the project	<u>(1,205)</u>
Allocation of funds	
Revenue from projects	530
Equity donations (assets)	101
Amounts applied in projects	<u>574</u>
	<u>1,205</u>

7. Prior year adjustments

They refer, basically, to the impact in 2004 of the change in accounting criteria for recognizing income from donations for unrestricted projects.

8. Tax matters

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

Exempt institutions must comply with certain legal requirements, which are being observed by the Institute.

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Instituto Terra

Executive Officers

The executive officers of Instituto Terra are:

Sebastião Ribeiro Salgado Júnior
Lélia Deluiz Wanick Salgado
Célio Murilo de Carvalho Valle
Roberto Messias Franco
Renato Moraes de Jesus
Paulo Henrique Wanick Mattos
Celso Luiz Marques

President
Vice - President
Education Director
Cultural and Institutional Relations Director
Environmental Actions Director
Administrative and Financial Director
General Secretary