



Instituto Terra

**Financial statements
December 31, 2006 and 2005**

(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)***



Instituto Terra

Financial statements

December 31, 2006 and 2005

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Independent auditors' report

To
Board of Directors and Managers
Instituto Terra
Aimorés - MG

We have examined the balance sheets of Instituto Terra as of December 31, 2006 and 2005, and the related statements of surplus (deficit), changes in equity and changes in financial position for the financial years then ended, which are the responsibility of its management. Our responsibility is to express an opinion on these financial statements.

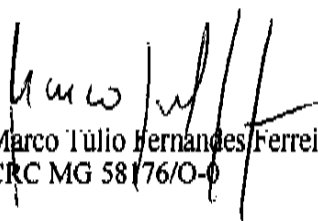
Our examinations were conducted in accordance with auditing standards applicable in Brazil and included: (a) planning of the audit, considering the materiality of the balances, the volume of transactions and the Institute's accounting and internal control systems, (b) verification on a test basis of the evidence and records that support the amounts and accounting information disclosed and (c) evaluation of the most significant accounting policies and estimates adopted by the Institute's 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, 2006 and 2005, and the surplus (deficit) of its operations, changes in its equity and changes in its financial position for the financial years then ended, in conformity with accounting practices adopted in Brazil.

May 20, 2007

Original report in Portuguese signed by

KPMG Auditores Independentes
CRC SP014428/O-6-F-MG


Marco Túlio Fernandes Ferreira
CRC MG 5876/O-0

Instituto Terra

Balance sheets

Years ended December 31, 2006 and 2005

(In thousands of Reais)

Assets	2006	2005
Current		
Cash and cash equivalents (note 4)	251	687
Amounts invested in projects (note 6b)	764	574
Amounts Receivable from Instituto Estadual de Florestas - IEF	133	-
Other accounts receivable	16	120
	<u>1,164</u>	<u>1,381</u>
Permanent assets		
Property, Plant and Equipment (note 5)	<u>2,665</u>	<u>2,615</u>
Total assets	<u>3,829</u>	<u>3,996</u>
Liabilities and equity	2006	2005
Current		
Social and labor obligations	224	228
Agreements executable (note 6b)	924	818
Project funds (note 6b)	-	17
Other accounts payable	66	39
	<u>1,214</u>	<u>1,102</u>
Equity		
Donations and subsidies	1,680	1,578
Accumulated surplus	935	1,316
	<u>2,615</u>	<u>2,894</u>
Total liabilities and equity	<u>3,829</u>	<u>3,996</u>

See the accompanying notes to the financial statements.

Instituto Terra

Statements of surplus (deficit)

(In thousands of Reals)

	<u>2006</u>	<u>2005</u>
Operating revenue		
Donations	1,306	727
Conditional agreements	788	530
Unconditional agreements	234	499
Other	41	30
	<u>2,369</u>	<u>1,786</u>
Operating revenue (expenses)		
Operating		
Environmental recuperation	(897)	(429)
Nursery	(173)	(106)
Education and culture	(702)	(273)
Outsourced services used in projects	(211)	(248)
Administrative	(619)	(624)
Depreciation	(174)	(175)
Net financial expenses	26	86
	<u>(2,750)</u>	<u>(1,769)</u>
Surplus (deficit) for the year	<u>(381)</u>	<u>17</u>

See the accompanying notes to the financial statements.

Instituto Terra

Statements of changes in equity

(In thousands of Reais)

	<u>Donations and subsidies</u>	<u>Accumulate d surplus</u>	<u>Total equity</u>
At December 31, 2004	1,477	1,210	2,687
Equity donations in the year	101	-	101
Prior year adjustments (note 8)	-	89	89
Surplus incorporated to equity	-	17	17
At December 31, 2005	1,578	1,316	2,894
Equity donations in the year	102	-	102
Deficit incorporated to equity	-	(381)	(381)
At December 31, 2006	1,680	935	2,615

See the accompanying notes to the financial statements.

Instituto Terra

Statements of changes in financial position

(In thousands of Reals)

	<u>2006</u>	<u>2005</u>
Sources of funds		
Operations		
Surplus (deficit) for the year	(381)	17
Expense not affecting working capital		
Depreciation	174	175
Resources from (applied in) operations	(207)	192
Prior year adjustments	-	89
Equity donations in the year	102	101
Total sources	<u>(105)</u>	<u>382</u>
Application of funds		
Property, plant and equipment	224	189
Total funds applied	<u>224</u>	<u>189</u>
(Decrease) increase in working capital	<u>(329)</u>	<u>193</u>
Changes in working capital		
Current assets		
At end of year	1,164	1,381
At beginning of year	1,381	954
	(217)	427
Current liabilities		
At end of year	1,214	1,102
At beginning of year	1,102	868
	112	234
(Decrease) increase in working capital	<u>(329)</u>	<u>193</u>

See the accompanying notes to the financial statements.

Instituto Terra

Notes to the financial statements

Years ended December 31, 2006 and 2005

(In thousands of Reais)

1 Operations

Instituto Terra is a civil not-for-profit association that was founded in 1998. The institute is headquartered at Fazenda Bulcão, in Aimorés in Minas Gerais state. The *fazenda* (farm) has been leased to Instituto Terra for an indefinite term, under a private lease agreement dated July 04, 2000, by its owners Sebastião Ribeiro Salgado Júnior and Lélia Deluiz Wanick Salgado, the creators and lifelong founding partners of Instituto Terra.

Occupying an area of 676 hectares, Fazenda Bulcão was recognized as a private natural heritage reserve (RPPN) by IEF/MG Ordinance 081 enacted on October 07, 1998 and is the first RPPN to have been created in a degraded area of the Brazilian Atlantic Forest.

On December 17, 1999 Instituto Terra was declared to be a public utility by the municipal government of Aimorés by way of Law 1,613/99, exempting it from municipal taxes while pursuing its statutory objective.

Fazenda Bulcão is managed by Instituto Terra for the purpose of fostering ecologically sustainable social development by recovering, conserving and correctly using natural resources. Instituto Terra operates in three areas: environmental recovery, environmental education and the encouragement of sustainable rural development.

2 Presentation of the financial statements

The financial statements were prepared in accordance with accounting practices adopted in Brazil.

Instituto Terra

Notes to the financial statements

(In thousands of Reals)

3 Main accounting practices

(a) Contributions and donations

(a.1) Unconditional contributions and donations

Unconditional contributions and donations are those where the donator does not stipulate specific terms the entity should comply with. The donations are directly recorded in the statements of income for the year.

(a.2) Conditional donations

Conditional contributions and donations are those where the donator stipulates specific terms the entity should comply with. The donations and respective applications are recorded in the statement of income when the fund donator formally confirms that the Institute has performed the aforementioned obligations.

(a.3) Equity contributions and donations

The equity contributions and donations are those received exclusively to acquire and/or build permanent assets and are directly classified in the equity, under Donations and subsidies.

(b) Statement of (deficit) surplus

Income and expenses are recognized on the accrual basis. The revenue donated is recognized in the statement of income upon receipt and is provided to pay for the social activities conducted by the Institute.

(c) Critical accounting estimates

The preparation of the financial statements in accordance with accounting practices adopted in Brazil requires that management use its judgment in determining and recording accounting estimates. Significant assets and liabilities subject to these estimates and assumptions include the residual value of property, plant and equipment and contingent risks. 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 Institute reviews the estimates and assumptions at least once a year.

Instituto Terra

Notes to the financial statements

(In thousands of Reais)

(d) Interest-earning bank deposits

Interest-earning bank deposits are recorded at acquisition cost plus income accrued up to the balance sheet date.

(e) Amounts invested in projects

Refers to investment of conditional donations that have not yet been submitted for approval by the donator.

(f) Property, Plant and Equipment

Property, plant and equipment are recorded at the cost of acquisition, formation or construction. Depreciation is calculated using the straight-line method at rates described in Note 5, which take into account the estimated useful lives of the assets.

(g) Agreements executable

The balance in agreements executable refers to amounts conditioned to projects released by the donators, but which at the balance sheet date had not yet been invested in the respective projects and/or had been invested but had not been submitted to the donator's approval.

(h) Project funds

Amount refers to the surplus funds of executed projects which at the request of the donator can remain in the Institute's possession for use in new projects to be determined in conjunction with the donator.

(i) Other current assets and liabilities

Presented at the realizable amount, including earnings and monetary variations obtained, when applicable.

Instituto Terra

Notes to the financial statements

(In thousands of Reals)

(j) Donations in the form of services

Donations received in the form of services are not recorded and do not affect the financial statements.

4 Cash and cash equivalents

	<u>Cash and banks</u>	<u>Interest- earning bank deposits</u>	<u>2006 Total</u>	<u>2005 Total</u>
Unconditional	<u>117</u>	<u>102</u>	<u>219</u>	<u>426</u>
Conditional				
College of Santa Fe	-	-	-	17
Conservation International - CI	2	20	22	32
Critical Ecosystem Partnership Fund - CEPF/CI	-	-	-	68
Instituto Estadual de Florestas de MG - IEF/ITTO	-	-	-	96
United Nations Educational, Scientific and Cultural Organization - UNESCO	-	-	-	48
Provincia di Roma	<u>8</u>	<u>2</u>	<u>10</u>	-
Total conditional	<u>10</u>	<u>22</u>	<u>32</u>	<u>261</u>
	<u>127</u>	<u>124</u>	<u>251</u>	<u>687</u>

The balance of conditional interest-earning bank deposits refers to funds to be invested strictly according to the respective agreements.

As of December 31, 2006 and 2005, the Institute's interest-earning bank deposits referred to short-term, fixed-income securities.

Instituto Terra

Notes to the financial statements

(In thousands of Reais)

5 Property, Plant and Equipment

		2006		2005
	Annual depreciation rates%	Cost	Accumulated depreciation	Net
Buildings	4	2,487	(378)	2,109
Machinery and equipment	10	382	(161)	221
Furniture and fixtures	10	197	(72)	125
Forest nursery	10	175	(71)	104
Buildings under construction		104		104
Trademarks and Patents		2	-	2
		<u>3,347</u>	<u>(682)</u>	<u>2,665</u>

6 Agreements executable

Refers to amounts received from institutional agreements intended for investment in specific project and expenses. These amounts will be recognized against the statement of income for the year (revenue), according to the use of the funds, i.e. when the project expenses are effectively incurred (unconditional projects) or when the donators approve the accounts (conditional projects).

Instituto Terra

Notes to the financial statements

(In thousands of Reals)

(a) Changes in agreement funds

Entity	Deadline	Agreement total	Balance at December 31, 2005	Released funds and earnings	Funds used	Balance at December 31, 2006
Serviço Brasileiro de Apoio às Micro e Pequenas Empresas - SEBRAE/MG	December 2006	173	-	101	101	-
Conservação Internacional - CI	December 2006	100	32	76	86	22
Critical Ecosystem Partnership Fund - CEPF/CI	July 2006	385	68	154	222	-
Provincia di Roma	September 2005	1,384	-	574	564	10
Instituto Estadual de Florestas de Minas Gerais - IEF	July 2007	404	96	298	282	112 (i)
Demonstrative project of Instituto Estadual de Florestas de Minas Gerais - IEF/PD	May 2009	532	-	50	34	16 (i)
United Nations Educational, Scientific and Cultural Organization - UNESCO	December 2006	100	48	14	62	-
College of Santa Fé	December 2006	139	17	158	175	-
		3,217	261	1,425	1,526	160

(i) Amounts not in Instituto Terra's bank account due to the contractual clause inserted by the sponsor, which stipulates that at the end of the year any unused amounts should be returned to the sponsor, which undertakes to return them to the Instituto Terra the following year. The amounts and the balance of earnings obtained on interest-earning bank deposits of funds conditioned to these projects (amount to R\$ 133 thousand) are recorded in the item "Amounts Receivable from Instituto Estadual de Florestas - IEF" (current assets).

Instituto Terra

Notes to the financial statements

(In thousands of Reais)

	<u>2006</u>	<u>2005</u>
(b) Reconciliation of agreements' balance		
Balance of agreements at beginning of year	160	261
College Santa Fé (i)	-	(17)
	<u>160</u>	<u>244</u>
Social projects in progress (ii)		
International Finance Corporation - IFC	85	82
Conservation International - CI	-	42
Critical Ecosystem Partnership Fund - CEPF/CI	-	45
Província di Roma	454	313
Instituto Estadual de Florestas de Minas Gerais – IEF	180	2
Projeto Demonstrativo do Instituto Estadual de Florestas de Minas Gerais – IEF/PD	34	-
Emilia Romagna	-	87
United Nations Educational, Scientific and Cultural Organization - UNESCO	11	3
	<u>764</u>	<u>574</u>
	<u>924</u>	<u>818</u>

- (i) Amount refers to surplus funds of the project conducted in 2005. At the Institution's request, the amount remained in the Institute's possession until it was used in the 2006 project. The amount is recorded in 2005 under "Project funds" (current liabilities).
- (ii) Amounts pending accounting, recorded in the item "Amounts invested in projects" (assets).

Instituto Terra

Notes to the financial statements

(In thousands of Reals)

(c) Appropriation of funds used

	<u>2006</u>	<u>2005</u>
Funds used in the project	<u>(1,526)</u>	<u>(1,205)</u>
Appropriation of funds		
Agreement revenue	788	530
Equity donations (equity)	102	101
Amounts invested in projects	764	574
Accounts receivable from sponsor (iii)	<u>(128)</u>	
	<u>1,526</u>	<u>1,205</u>

(iii) Amounts received from the sponsor Instituto Estadual de Florestas - IEF, which pursuant to the contractual clause are returned to the sponsor at the end of the year, which undertakes to return them to Instituto Terra in 2007.

7 Tax matters

A not-for-profit entity, Instituto Terra is exempt from income and social contribution taxes, pursuant to article 195 (7) of the Federal Constitution.

Exempt institutions are required to meet certain legal requirements, which the Institute has been meeting.

8 Prior-year adjustments

The amount recorded in 2005 mainly refers to the impact generated in the 2004 financial year by changing the accounting criteria for recognizing donation revenue, in the case of unconditional projects.

* * *

Instituto Terra

Board of Directors

Instituto Terra's Board of Directors is comprised of the following members:

Lélia Deluiz Wanick Salgado	Chairwoman
Sebastião Ribeiro Salgado Júnior	Deputy Chairman
Mauro Leite Teixeira	Director of Education
Roberto Messias Franco	Cultural and Investor Relations Director
Clayton Ferreira Lino	Director of Environmental Actions
Paulo Henrique Wanick Mattos	Administrative Director
Raquel Pittella Cançado	Financial Director
Tomas Alvim	Communications Director
Celso Luiz Marques	Secretary General