



**INSTITUTO TERRA**

**FINANCIAL STATEMENTS FOR THE YEARS ENDING AT  
DECEMBER 31, 2007 AND DECEMBER 31, 2006**

**(With independent auditors' report thereon)**

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



**INSTITUTO TERRA**

**FINANCIAL STATEMENTS FOR THE YEARS ENDING AT  
DECEMBER 31, 2007 AND DECEMBER 31, 2006**

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## INDEPENDENT AUDITORS' REPORT

To  
Board of Directors and Managers  
Instituto Terra  
Aimorés - MG

- 1 We have examined the balance sheets of Instituto Terra, as of December 31, and the related statements of surplus (déficit), 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.
- 2 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 evidences 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.
- 3 In our opinion, the financial statements mentioned in paragraph 1 present fairly, in all material respects, the equity and financial position of Instituto Terra as of December 31, 2007, the surplus (deficit) of its operation, changes in its equity and changes in its financial position for the financial year then ended, in conformity with accounting practices adopted in Brazil.
- 4 The examination of financial statements for the financial year ended as of December 31, 2006, used herewithin for comparisons, was conducted under responsibility of other independent auditors, whose report, dated at May 20, 2007, expressed no unqualified opinion.

Vitória, June 06, 2008.

  
Wladimir Firme Zanotti

Accountant CRC 1ES007326/O-5

BAKER TILLY BRASIL-ES Auditores Independentes Ltda.

CRC 2ES000289/O-5

## CHART 1

### Instituto Terra

#### Balance Sheets

Years ended December 31, 2007 and 2006

(In thousands of Reais)

<b>Assets</b>	<b>2007</b>	<b>2006</b>
<b>Current</b>		
Cash and cash equivalents (note 4)	368	251
Amounts invested in Projects (note 6b)	836	764
Amounts receivable from Instituto Estadual de Florestas IEF	-	133
Other accounts receivable	6	16
	<u>1.210</u>	<u>1.164</u>
<b>Permanent Assets</b>		
Property, Plant and Equipment (note 5)	<u>2.518</u>	<u>2.665</u>
<b>Total Assets</b>	<u><b>3.728</b></u>	<u><b>3.829</b></u>
<b>Liabilities and Equity</b>	<b>2007</b>	<b>2006</b>
<b>Current</b>		
Social and labor obligations	219	224
Agreements executable (note 6b)	1.096	924
Other accounts payable	14	66
	<u>1.329</u>	<u>1.214</u>
<b>Equity</b>		
Donations and Subsidies	1.680	1.680
Accumulated surplus	719	935
	<u>2.399</u>	<u>2.615</u>
<b>Total liabilities and equity</b>	<u><b>3.728</b></u>	<u><b>3.829</b></u>

See the accompanying notes to the financial statements.

## CHART 2

### Instituto Terra

#### Balance Sheets

Years ended December 31, 2007 and 2006

(In thousands of Reais)

	<u>2007</u>	<u>2006</u>
<b>Operating revenue</b>		
Donations	780	1.306
Conditional agreements	1.723	788
Unconditional agreements	-	234
Other	10	41
	<u>2.513</u>	<u>2.369</u>
<b>Operating revenue (expenses)</b>		
Operating		
Environmental recuperation	(749)	(897)
Nursery	(469)	(173)
Education and culture	(559)	(702)
Capture of funds used for projects	(308)	(211)
Administrative	(462)	(619)
Depreciation	(182)	(174)
Net financial expenses	(13)	26
	<u>(2.742)</u>	<u>(2.750)</u>
<b>Surplus (deficit) for the year</b>	<u>(229)</u>	<u>(381)</u>

See the accompanying notes to the financial statements.

### CHART 3

#### Instituto Terra

#### Balance Sheets

Years ended December 31, 2007 and 2006

(In thousands of Reais)

	<u>Donations and subsides</u>	<u>Accumulated surplus</u>	<u>Total equity</u>
<b>At december 31, 2005</b>	<b>1.578</b>	<b>1.316</b>	<b>2.894</b>
Equity donations in the year	102	-	102
Deficit incorporated to equity	<u>-</u>	<u>(381)</u>	<u>(381)</u>
<b>At december 31, 2006</b>	<b><u>1.680</u></b>	<b><u>935</u></b>	<b><u>2.615</u></b>
Prior year adjustment	-	13	13
Deficit incorporated to equity	<u>-</u>	<u>(229)</u>	<u>(229)</u>
<b>At december 31, 2007</b>	<b><u>1.680</u></b>	<b><u>719</u></b>	<b><u>2.399</u></b>

See the accompanying notes to the financial statements.

## CHART 4

### Instituto Terra

#### Balance Sheets

Years ended December 31, 2007 and 2006

(In thousands of Reais)

	<u>2007</u>	<u>2006</u>
<b>Source of funds</b>		
Operations		
Surplus (deficit) for the year	(229)	(381)
Expenses not affecting working capital		
Depreciation	182	174
Resources from (applied in) operations	<b>(47)</b>	<b>(207)</b>
Prior year adjustments	13	
Equity donations in the year		102
<b>Total sources</b>	<u>(34)</u>	<u>(105)</u>
<b>Application of funds</b>		
Property, plant and equipment	35	224
<b>Total funds applied</b>	<u>35</u>	<u>224</u>
<b>(Decrease) increase in working capital</b>	<b><u>(69)</u></b>	<b><u>(329)</u></b>
<b>Changes in working capital</b>		
Current assets		
At end of year	1.210	1.164
At beginning of year	1.164	1.381
	46	(217)
Current liabilities		
At end of year	1.329	1.214
At beginning of year	1.214	1.102
	115	112
<b>(Decrease) increase in working capital</b>	<b><u>(69)</u></b>	<b><u>(329)</u></b>

See the accompanying notes to the financial statements.

## **INSTITUTO TERRA**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDING AT DECEMBER 31, 2007 AND DECEMBER 31, 2006**

*(In thousands of Reais)*

#### **1 Operations**

Instituto Terra is a civil not-for-profit association, founded in 1998. The Institute's headquarters is at Fazenda Bulcão (*Bulcão Farm*), in Aimorés, Minas Gerais State. The 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 (PNHR) by IEF/MG Ordinance 081 enacted on October 7, 1998 and is the first PNHR 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 objectives.

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 according to accounting practices adopted in Brazil.





## **INSTITUTO TERRA**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDING AT DECEMBER 31, 2007 AND DECEMBER 31, 2006**

*(In thousands of Reais)*

#### **3 Main accounting practices**

##### **(a) Contributions and donations**

###### **(a.1) Unconditional contributions and donations**

Unconditional contributions and donations are those in which 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 in which 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 uses its judgement 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

## **INSTITUTO TERRA**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDING AT DECEMBER 31, 2007 AND DECEMBER 31, 2006**

*(In thousands of Reais)*

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.

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

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

#### **(i) Donations in the form of services**

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

## INSTITUTO TERRA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDING AT DECEMBER 31, 2007 AND DECEMBER 31, 2006

(In thousands of Reais)

#### 4 Cash and cash equivalents

			2007	2006
	Cash and Banks	Interest- earning bank deposits	Total	Total
Uncondicional	105	3	108	219
Condicional				
College of Santa Fe	12		12	
Conservation International - CI	1	15	16	22
Projeto Demonstrativo do Instituto Estadual de Florestas de MG - IEF-PD	92	20	112	
Natura Cosméticos S.A.		29	29	
Instituto Estadual de Florestas de Minas Gerais e Secretaria de Estado do Meio Ambiente e Desenvolvimento Sustentável - IEF/SEMAD	5	45	50	
Fundo Nacional do Meio Ambiente - FNMA	1	40	41	
Provincia di Roma				10
	<u>111</u>	<u>149</u>	<u>260</u>	<u>32</u>
	<u>216</u>	<u>152</u>	<u>368</u>	<u>251</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, 2007 and 2006, the Institute's interest-earning bank deposits referred to short-term fixed-income securities.

## INSTITUTO TERRA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDING AT DECEMBER 31, 2007 AND DECEMBER 31, 2006

(In thousands of Reais)

#### 5 Property, Plant and Equipment

			2007	2006
	Annual Depreciation Rates - %	Cost	Accumulated Depreciation	Net
			Net	Net
Buildings	4	2.599	(479)	2.120
Machinery and Equipment	10	392	(203)	189
Furniture and Fixtures	10	197	(91)	106
Forest nursery	10	175	(89)	86
Vehicles	20	8	(1)	7
Softwares	20	2		2
Buildings under construction		4		4
Trademarks and Patents		4		4
		<u>3.381</u>	<u>(863)</u>	<u>2.518</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 FOR THE YEARS ENDING AT DECEMBER 31, 2007 AND DECEMBER 31, 2006

(In thousands of Reais)

#### (a) Changes in Agreements Funds

Entity	Agreement Total	Balance in 2006	Released Funds and Earnings	Funds Used	Balance in 2007
Serviço Brasileiro de Apoio às Micro e Pequenas Empresas – SEBRAE/MG	131		116	116	
Conservation International – CI	100	22	1	7	16
Província di Roma	1.384	10	277	287	-
Instituto Estadual de Florestas de Minas Gerais – IEF	404	112		112	
Projeto Demonstrativo do Instituto Estadual de Florestas de Minas Gerais – IEF/PD	532	16	236	140	112
Natura Cosméticos S.A.	40		42	13	29
Instituto Estadual de Florestas de Minas Gerais e Secretaria de Estado do Meio Ambiente e Desenvolvimento Sustentável - IEF/SEMAD	1.097		66	16	50
Gobiernu Del Principau D'Asturies	255		258	258	
Gobiernu Del Principau D'Asturies - Centro Avançado	748		379	379	
Fundo Nacional do Meio Ambiente – FNMA	497		150	109	41
College of Santa Fe	142		142	130	12
	<b>5.330</b>	<b>160</b>	<b>1.667</b>	<b>1.567</b>	<b>260</b>

## INSTITUTO TERRA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDING AT DECEMBER 31, 2007 AND DECEMBER 31, 2006

(In thousands of Reais)

	2007	2006
<b>(b) Reconciliation of agreements' balance</b>		
Balance of agreements at December 31	260	160
<b>Social Projects in progress (i)</b>		
International Finance Corporation – IFC		85
Conservation International – CI	5	
Provincia di Roma	277	454
Instituto Estadual de Florestas de Minas Gerais – IEF		180
Projeto Demonstrativo do Instituto Estadual de Florestas de Minas Gerais - IEF/PD	173	34
Fundo Nacional do Meio Ambiente – FNMA	107	
Serviço Brasileiro de Apoio às Micro e Pequenas Empresas - SEBRAE/MG	116	
College of Santa Fé	131	
Natura Cosméticos S.A.	12	
Instituto Estadual de Florestas de Minas Gerais e Secretaria de Estado do Meio Ambiente e Desenvolvimento Sustentável - IEF/SEMAD	15	
United Nations Educational, Scientific and Cultural Organization – UNESCO		11
	836	764
	1.096	924

(i) Amounts pending accounting, recorded in the item "Amounts invested in projects" (assets).

## INSTITUTO TERRA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDING AT DECEMBER 31, 2007 AND DECEMBER 31, 2006

(In thousands of Reais)

#### (c) Appropriation of funds used

	<u>2007</u>	<u>2006</u>
Funds used in the project	<u>(1.567)</u>	<u>(1.526)</u>
Appropriation of funds		
Agreement revenue	1.723	788
Revenue of amounts received in prior years (ii)	(1.018)	
Equity donations (equity)		102
Leased assets	26	
Amounts invested in projects	836	764
Accounts receivable from Sponsor (iii)		<u>(128)</u>
	<u>1.567</u>	<u>1.526</u>

(ii) Amounts received in prior years, first recorded in the item "Agreements executable", recognized in the statement of income upon approval of the accounts.

(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 2007 refers to the register of suppliers and rescissions, duplicated in 2006.

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## **INSTITUTO TERRA**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDING AT DECEMBER 31, 2007 AND DECEMBER 31, 2006**

*(In thousands of Reais)*

#### **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	Financial and Administrative Director
Tomas Alvim	Communications Director
Celso Luiz Marques	Secretary General