



INSTITUTO TERRA

FINANCIAL STATEMENTS FOR THE YEARS ENDING AT
DECEMBER 31, 2008 AND DECEMBER 31, 2007

(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 FOR THE YEARS ENDING AT
DECEMBER 31, 2008 AND DECEMBER 31, 2007

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INDEPENDENT AUDITORS' OPINION

To
The Board of Directors and Managers
Instituto Terra
Aimorés - MG

- 1 We have examined the balance sheets of Instituto Terra, as of December 31, 2008 and 2007, and the related statements of surplus (deficit), changes in equity and cash flow for the financial years then ended, which have been elaborated under 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 test basis of the evidences and records that support the amounts and accounting information disclosed; and (c) evaluation of the most significant accounting practices 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 above do indeed adequately represent, in all relevant aspects, the equity and financial position of Instituto Terra as of December 31, 2008 and 2007, the surplus (deficit) of its operation, changes in its equity and cash flow for the financial years then ended, in conformity with accounting practices adopted in Brazil.

Vitória, November 18, 2009.



Wladimir Firme Zanotti
Sócio-Contador CRC 1ES007326/O-5
BAKER TILLY BRASIL-ES
Auditores Independentes
CRC 2ES000289/O-5

CHART 1

INSTITUTO TERRA

BALANCE SHEET FOR YEARS ENDING AT DECEMBER 31, 2008 AND 2007
(In thousand of Reais)

Asset	At December 31, 2008	At December 31, 2007	Liability	At December 31, 2008	At December 31, 2007
Current			Current		
Cash and equivalents (note 4)	1.653	368	Social and labor obligations	266	219
Amount invested in projects (note 6(b))	1.418	836	Agreements executable (note 6(b))	3.123	1.096
Other receivables	-	6	Other payables	97	14
	<u>3.071</u>	<u>1.210</u>		<u>3.486</u>	<u>1.329</u>
Non-current			Non-current		
Property, plant, and equipment (note 5)	2.463	2.518	Donations and subventions	22	-
				<u>22</u>	<u>-</u>
			Equity		
			Donations and subventions	1.680	1.680
			Accumulated surplus	346	719
				<u>2.026</u>	<u>2.399</u>
Total Asset	<u>5.534</u>	<u>3.728</u>	Total liability and equity	<u>5.534</u>	<u>3.728</u>

The explanatory notes are integral part of financial statements

CHART 2

INSTITUTO TERRA

STATEMENTS OF SURPLUS (DEFICIT) FOR YEARS ENDING DECEMBER 31, 2008 AND 2007 (In thousand of Reais)

	At December 31, 2008	At December 31, 2007
Operating revenue		
Donations	157	780
Conditional agreements	1.264	1.723
Others	84	10
	<u>1.505</u>	<u>2.513</u>
Operating revenue (expenses)		
Operating		
Environmental recuperations	(296)	(749)
Nursery	(459)	(469)
Education and Culture	(199)	(559)
Capture of funds used for projects	(256)	(308)
Administrative	(478)	(462)
Depreciation	(189)	(182)
Net financial expenses	(1)	(13)
	<u>(1.878)</u>	<u>(2.742)</u>
	<u>(373)</u>	<u>(229)</u>

The explanatory notes are integral part of financial statements

CHART 3

INSTITUTO TERRA

STATEMENTS OF CHANGES IN EQUITY (In thousand of Reais)

	<u>Donations and Subventions</u>	<u>Accumulated Surplus</u>	<u>Total equity</u>
At December 31, 2006	<u>1.680</u>	<u>935</u>	<u>2.615</u>
Prior year adjustment	-	13	13
Deficit incorporated to equity	<u>-</u>	<u>(229)</u>	<u>(229)</u>
At December 31, 2007	<u>1.680</u>	<u>719</u>	<u>2.399</u>
Deficit incorporated to equity	<u>-</u>	<u>(373)</u>	<u>(373)</u>
At December 31, 2008	<u>1.680</u>	<u>346</u>	<u>2.026</u>

The explanatory notes are integral part of financial statements

CHART 4

INSTITUTO TERRA

STATEMENTS OF CASH FLOW FOR YEARS ENDING DECEMBER 31, 2008 AND 2007 (In thousands of Reais)

	At December 31, 2008	At December 31, 2007
Operational Activities		
Surplus (deficit) for the ending year	(373)	(229)
Surplus (deficit) not affecting working capital		
Depreciation and amortization	189	182
Prior year adjustment		13
Net adjusted profit	<u>(184)</u>	<u>(34)</u>
Asset (increase) deduction		
Amount invested in Projects	(582)	(72)
Receivable accounts		133
Other receivable accounts	6	10
Liability increase (deduction)		
Social and labor obligations	47	(5)
Agreements executable	2.027	172
Donations and subventions	22	
Other liabilities	83	(52)
Cash flow generated by operational activities	<u>1.419</u>	<u>152</u>
Investment Activities		
Acquisition of permanent asset	(134)	(35)
Cash flow generated by investment activities	<u>(134)</u>	<u>(35)</u>
Total cash flow generated by activities	<u><u>1.285</u></u>	<u><u>117</u></u>
Cash at beginning of the year	368	251
Cash at end of the year	<u>1.653</u>	<u>368</u>
Net increase of cash	<u><u>1.285</u></u>	<u><u>117</u></u>

The explanatory notes are integral part of financial statements

INSTITUTO TERRA

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS ON DECEMBER 31, 2008 AND 2007 (In thousands of Reais)

1 OPERATIONAL CONTEXT

Instituto Terra is a civil not-for-profit association, founded in 1998, headquartered at Bulcão Farm, in Aimorés, State of Minas Gerais. The Farm has been leased to Instituto Terra, for an indefinite term, under a Private Lease Agreement, dated July 4, 2000, by its owners, Mr. Sebastião Ribeiro Salgado Júnior and Mrs. Lélia Deluiz Wanick Salgado, the creators and lifelong founding partners of Instituto Terra.

Occupying an area of 676 hectares, the Bulcão Farm has been 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.

The Bulcão Farm is managed by Instituto Terra for the purpose of fostering ecologically sustainable social development by recovering, conserving, and correctly using natural resources. Following this purpose, Instituto Terra has been operating in three areas: environmental recovery, environmental education, and the encouragement of sustainable rural development.

2 FINANCIAL STATEMENTS PRESENTATION

The financial statements were prepared according to accounting practices adopted in Brazil.

3 MAIN ACCOUNTING PRACTICES

(a) Contributions and Donations

(a.1) Unconditional contributions and donations

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

(a.2) Conditional donations

Conditional contributions and donations are those for which donor stipulates specific terms the entity should comply with. Donations and respective applications are recorded in the statement of income upon donor formal confirmation that the Institute has performed the aforementioned obligations.

INSTITUTO TERRA

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS ON DECEMBER 31, 2008 AND 2007 (In thousands of Reais)

(a.3) Equity contributions and donations

Equity contributions and donations are those received exclusively to acquire and/or build permanent assets and are classified in the fixed asset and the non-current liability (under Donations and subventions). The creditor account will keep on being recognized in the statement of income at the same ratio of such assets decrease, through depreciation.

(b) Statement of (deficit) surplus

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

(c) Critical accounting estimates

The preparation of 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 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

These are investments of conditional donations which 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, and it takes 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 had not yet been invested in the respective projects and/or had been invested but had not been submitted to the donator's approval, at balance sheet date.

INSTITUTO TERRA

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS ON DECEMBER 31, 2008 AND 2007 (In thousands of Reais)

(h) Other current assets and liabilities

Presented at the realized 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.

4 CASH AND EQUIVALENTS

			2008	2007
	Cash and Banks	Interest-earning bank deposits	Total	Total
Unconditional	18	13	31	108
Conditional				
College of Santa Fe	3		3	12
Conservation International – CI		16	16	16
Projeto Demonstrativo do Instituto Estadual de Florestas de MG - IEF-PD		158	158	112
Serviço Brasileiro de Apoio às Micro e Pequenas Empresas - SEBRAE/MG	15		15	
Natura Cosméticos S.A.				29
Instituto Estadual de Florestas de Minas Gerais e Secretaria de Estado do Meio Ambiente e Desenvolvimento Sustentável - IEF/SEMAD	3	287	290	50
Fundo Nacional do Meio Ambiente – FNMA	1	112	113	41
Vale	1	836	837	
Fundo de Recuperação, Proteção e Desenvolvimento Sustentável das Bacias Hidrográficas do Estado de Minas Gerais –FHIDRO	31	120	151	
Provincia di Roma		39	39	
Conditional donations balance	54	1.568	1.622	260
General donations balance	72	1.581	1.653	368

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

As of December 31, 2008 and 2007, the Institute's interest-earning bank deposits referred to short-term fixed-income securities.

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EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
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(In thousands of Reais)

5 PROPERTY, PLANT, AND EQUIPMENT

	Annual Depreciation Rates - %	2008			2007	
		Cost	Accumulated Depreciation	Net	Cost	Net
Buildings	4	2.608	(584)	2.024	2.120	
Machinery and Equipment	10	438	(250)	188	189	
Furniture and Fixture	10	197	(111)	86	106	
Forest Nursery	10	175	(106)	69	86	
Vehicles	20	8	(2)	6	7	
Softwares	20	4	(1)	3	2	
Buildings under Construction		83		83	4	
Trademarks and Patents		4		4	4	
		<u>3.517</u>	<u>(1.054)</u>	<u>2.463</u>	<u>2.518</u>	

6 AGREEMENTS EXECUTABLE

These are amounts received from institutional agreements intended for investment in specific projects and expenses (conditional projects). Such amounts will be recognized against the surplus (deficit) for the year, according to the use of the funds, i.e., upon project expenses effective incurrance, or upon accounts approval by the respective donators, when required.

(a) Changes in Agreements Funds

Entity	Agreement Total	Balance in 2007	Released Funds and Earnings	Funds Used	Balance in 2008
Serviço Brasileiro de Apoio às Micro e Pequenas Empresas - SEBRAE/MG	100		102	87	15
Conservation International - CI	100	16			16
Provincia di Roma	1.384		214	175	39
Samarco Mineração S/A	1.406		233	233	
Projeto Demonstrativo do Instituto Estadual de Florestas de Minas Gerais - IEF/PD	532	112	176	130	158
Natura Cosméticos S.A.	40	29		29	
Instituto Estadual de Florestas de Minas Gerais e Secretaria de Estado do Meio Ambiente e Desenvolvimento Sustentável - IEF/SEMAD	1.097	50	466	226	290
Gobiernu Del Principau D'Asturies	223		224	224	
Gobiernu Del Principau D'Asturies - Centro Avançado	354		359	359	
Fundo Nacional do Meio Ambiente - FNMA	497	41	117	45	113
Vale - Construção Alojamento	950		985	148	837
FHIDRO - Fundo de Recuperação, Proteção e Desenvolvimento Sustentável das Bacias Hidrográficas do Estado de Minas Gerais	1.904		438	287	151

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Entity	Agrment Total	Balance in 2007	Released Funds and Earnings	Funds Used	Balance in 2008
Illy Caffè SpA	424		339	339	
SEAG/ES - Secretaria da Agricultura, Abastecimento, Aquicultura e Pesca do Estado do Espírito Santo	140		140	140	
Yves Rocher S.A.	272		136	136	
College of Santa Fe	36	12	36	45	3
	<u>9.459</u>	<u>260</u>	<u>3.965</u>	<u>2.603</u>	<u>1.622</u>

(b) Reconciliation of agreements balance

	2008	2007
Balance of conditional agreements at December 31	1.622	260
Social projects in progress (i)		
Serviço Brasileiro de Apoio às Micro e Pequenas Empresas - SEBRAE/MG	87	116
Conservation International – CI	6	5
Provincia di Roma		277
Projeto Demonstrativo do Instituto Estadual de Florestas de Minas Gerais – IEF/PD	18	173
Natura Cosméticos S.A.	41	12
Instituto Estadual de Florestas de Minas Gerais e Secretaria de Estado do Meio Ambiente e Desenvolvimento Sustentável - IEF/SEMAD	48	15
Gobiernu Del Principau D'Asturies	223	
Gobiernu Del Principau D'Asturies - Centro Avançado	358	
Fundo Nacional do Meio Ambiente – FNMA	4	107
FHIDRO - Fundo de Recuperação, Proteção e Desenvolvimento Sustentável das Bacias Hidrográficas do Estado de Minas Gerais	40	
Illy Caffè SpA	339	
Yves Rocher S.A.	136	
Vale – Facilities Construction	91	
College of Santa Fe	27	131
Total amount invested in projects	<u>1.418</u>	<u>836</u>
Agreements funds invested in fixed assets (ii)		
Vale – Facilities Building	57	
FHIDRO – Nursery Enlargement	26	
	<u>83</u>	
	<u>3.123</u>	<u>1.096</u>

(i) Amount pending accounting, recorded under "Amounts invested in Projects" (current assets).

(ii) Amount pending accounting, recorded under "Buildings in Progress" (fixed assets).

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EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS ON DECEMBER 31, 2008 AND 2007 (In thousands of Reais)

(c) Appropriation of funds used

	<u>2008</u>	<u>2007</u>
Appropriation of funds		
Agreements revenue	1.264	1.723
Agreements financial revenue	4	
Revenue of amounts received in prior years (i)	(166)	(1.018)
Amounts invested in fixed assets building (Note 6 (b))	83	
Assets acquired in comodatum		26
Amounts invested in projects (Note 6 (b))	<u>1.418</u>	<u>836</u>
Funds used in projects	<u>2.603</u>	<u>1.567</u>

- (i) Amounts received in prior years, first recorded under "Agreements executable", recognized in the yearly surplus (deficit), upon approval of accounts.

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

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INSTITUTO TERRA

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
ON DECEMBER 31, 2008 AND 2007
(In thousands of Reais)

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

Lélia Deluiz Wanick Salgado	Chairwoman
Sebastião Ribeiro Salgado Júnior	Deputy Chairman
Marta Tristão	Director de Education
Roberto Messias Franco	Director of Culture and Investment Relations
Clayton Ferreira Lino	Director of Communications
Paulo Henrique Wanick Mattos	Director of Finance
Renato Moraes de Jesus	Director of Environmental Actions
Carlos Alberto Lessa	Director of Administration
Mauro Leite Teixeira	Director of Infrastructure and Equity
Antônio Carlos Lopes Simas	Director of Sustainability
Tomaz Benedito de Souza	Secretary General