

INSTITUTO TERRA

**FINANCIAL STATEMENTS FOR THE PERIODS ENDED AT
DECEMBER 31, 2012 AND DECEMBER 31, 2011**

INSTITUTO TERRA

FINANCIAL STATEMENTS FOR THE PERIODS ENDED AT DECEMBER 31, 2012 AND DECEMBER 31, 2011

CONTENTS

Independent Auditors' Report

Chart 1 – Balance Sheet

Chart 2 – Statement of Surplus (Deficit)

Chart 3 – Statement of Changes in Equity

Chart 4 – Statement of Cash Flow

Notes to the Financial Statements

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Board of Directors and Management
Instituto Terra
Aimorés - MG

We have examined the financial statements of Instituto Terra ("Entity"), which comprise the Balance Sheet as of December 31, 2012 and the respective Statements of Superavit (Deficit), of Changes in Net Equity, and of Cash Flow for the period ended on the mentioned date, as well as the summary of the Main Accounting Practices and other Explanatory Notes.

Administrative responsibility for the Financial Statements

The Management of the Entity is responsible for the elaboration of appropriate financial statements presentation, following accounting practices adopted in Brazil, and for internal controls defined as necessary for elaboration of financial statements free of relevant distortion, no matter whether it is caused by fraud or mistake.

Administrative responsibility for the financial statements

Our responsibility is to express an opinion on these financial statements, based on our audit, conducted according to international and Brazilian audit rules. Such rules imply that ethical requirements are fulfilled by the auditors, and that audit planning and execution aim at reasonably guaranteed relevant-distortion-free financial statements.

Audit involves selected procedures execution to obtain evidence regarding values and disclosure of financial statements. The selected procedures depend on the auditor's opinion, which includes the evaluation of relevant-distortion risks in the financial statements, no matter whether they are caused by fraud or mistake. In the process of risk evaluation, the auditor considers internal controls which are relevant for the elaboration and appropriate presentation of the Entity's financial statements, in order to decide which audit procedures are adequate for each circumstance, but not to express an opinion on the efficacy of such Entity's internal controls. Audit also includes evaluation of the suitability of the accounting practices which have been used, and the reasonability of management's accounting estimates, as well as evaluation of the financial statements presentation as a whole.

We believe the audit evidence which has been attained is sufficient and appropriate to substantiate our opinion.

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

To the Board of Directors and Management
Instituto Terra
Aimorés - MG

Opinion

In our opinion, in all relevant aspects, the above mentioned Financial Statements appropriately present Instituto Terra's financial and equity position as of December 31, 2012, the development of its operations and its cash flows for the period ended at that date, following accounting practices adopted in Brazil.

Vitória, March 28, 2013.


Wladimir Firme Zanotti
Accountant CRC 1ES007326/O-5
BAKER TILLY BRASIL-ES
Independent Auditors
CRC 2ES000289/O-5

CHART 1

INSTITUTO TERRA

BALANCE SHEET FOR THE ENDED PERIODS (In Thousands of Reais)

Asset	<u>2012</u>	<u>2011</u>	Liability	<u>2012</u>	<u>2011</u>
Current			Current		
Cash and Cash Equivalents (note 4)	762	994	Social, labor and tax obligations	425	412
Amount invested in projects (note 6b)	2.071	1.758	Executable agreements (note 6b)	2.697	2.253
Other Receivables	8	46	Other payables	19	26
Inventory	18	21		<u>3.140</u>	<u>2.691</u>
	<u>2.859</u>	<u>2.819</u>			
Non-Current			Non-Current		
Judicial Deposit (note 7)	65	-	Donations and Subventions	4	8
	<u>65</u>	<u>-</u>	Loans	135	135
			Provisions for Contingencies (note 7)	65	-
Permanent				<u>204</u>	<u>143</u>
Property, Plant and Equipment (note 5)	2.627	2.723	Equity		
Intangible	9	10	Donations and Subventions	2.301	2.301
	<u>2.636</u>	<u>2.733</u>	Accumulated Surplus (Deficit)	(85)	417
				<u>2.216</u>	<u>2.718</u>
Total Asset	<u><u>5.559</u></u>	<u><u>5.552</u></u>	Total Liability and Equity	<u><u>5.559</u></u>	<u><u>5.552</u></u>

The explanatory notes are integral part of Financial Statements.

CHART 2

INSTITUTO TERRA

STATEMENT OF SURPLUS (DEFICIT) FOR THE ENDED PERIODS (In Thousands of Reais)

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Donations	422	679
Conditional Agreements	2.506	2.204
Others	318	260
	<u>3.246</u>	<u>3.143</u>
Operating Revenues (Expenses)		
Operating		
Environmental recuperation	(1.398)	(885)
Nursery	(542)	(826)
Education and Culture	(192)	(658)
Capture of funds used for projects	(109)	(172)
Environmental enlargement	(863)	(228)
Administrative	(362)	(372)
Depreciation	(219)	(230)
Net Financial Expenses	1	16
Other expenses	(65)	-
	<u>(3.748)</u>	<u>(3.355)</u>
Deficit for the period	<u>(502)</u>	<u>(212)</u>

The explanatory notes are integral part of Financial Statements.

CHART 3

INSTITUTO TERRA

STATEMENT OF CHANGES IN EQUITY (In Thousands of Reais)

	<u>Donations and Subventions</u>	<u>Accumulated Surplus (Deficit)</u>	<u>Total Equity</u>
At December 31, 2010	<u>2.301</u>	<u>621</u>	<u>2.922</u>
Previous Period Adjustment	-	8	8
Deficit incorporated to Equity	<u>-</u>	<u>(212)</u>	<u>(212)</u>
At December 31, 2011	<u>2.301</u>	<u>417</u>	<u>2.718</u>
Deficit incorporated to Equity	<u>-</u>	<u>(502)</u>	<u>(502)</u>
At December 31, 2012	<u>2.301</u>	<u>(85)</u>	<u>2.216</u>

The explanatory notes are integral part of Financial Statements.

CHART 4

INSTITUTO TERRA

STATEMENT OF CASH FLOW FOR THE ENDED PERIODS (In Thousands of Reais)

	<u>2012</u>	<u>2011</u>
Operational Activities		
Deficit for the Period	(502)	(212)
Surplus (deficit) of items not affecting working capital:		
Depreciation and Amortization	288	238
Previous Years Adjustment	223	230
Contingencial Provision	-	8
Contingencial Provision	65	-
Adjusted Surplus (Deficit)	<u>(214)</u>	<u>26</u>
Asset (Surplus) Deficit		
Amount Invested in Projects	(313)	(797)
Other Receivables	38	508
Inventories	3	-
Judicial Deposits	(65)	-
Liability Surplus (Deficit)		
Social, Labor and Tax Obligations	13	64
Executable Agreements	444	283
Donations and Subventions	(4)	(5)
Other Liabilities	(7)	(85)
Cash Flow generated by Operational Activities	<u>(106)</u>	<u>(6)</u>
Investment Activities		
Acquisition of Permanent Asset	(126)	(80)
Cash Flow generated by Investment Activities	<u>(126)</u>	<u>(80)</u>
Total Cash Flow generated by Activities	<u>(232)</u>	<u>(86)</u>
Cash at beginning of the year	994	1.080
Cash at end of the year	762	994
Net cash increase	<u>(232)</u>	<u>(86)</u>

The explanatory notes are integral part of Financial Statements

INSTITUTO TERRA

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2012 AND DECEMBER 31, 2011 (In Thousands of Reais)

1 OPERATIONAL CONTEXT

Instituto Terra is a civil not-for-profit association, founded in 1998, headquartered at the 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.

In August 2007, the owners decided to donate the property to Instituto Terra through a Deed of Donation with Charges.

The Bulcão Farm occupies an area of 676 hectares and has been recognized as a Private Natural Heritage Reserve (PNHR) by IEF/MG Ordinance 081, enacted in October 7, 1998, and is the first PNHR to have been created in a degraded area of the Brazilian Atlantic Forest. In 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.

In 2009, Instituto Terra was given the title Advanced Post of Mata Atlantica Biosphere Reserve – the first MABR in Minas Gerais – proving that, continuously and measurably, it conducts significant actions under the three basic Biosphere Reserves functions: conservation, knowledge provision and sustainable development, according to the MAB UNESCO Program definition. It was also given the titles of State Public Interest, by the States of Minas Gerais (2005) and the State of Espírito Santo (2011), and of Federal Public Interest (2011).

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 five areas: environmental recovery, environmental education, nursery, encouragement of sustainable rural development, and applied research.

In 2011, trading activities were created aiming at the economical-financial sustainability of Instituto Terra. They involved items such as commercialization of Atlantic forest nursery and souvenirs.

INSTITUTO TERRA

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2012 AND DECEMBER 31, 2011 (In Thousands of Reais)

2 FINANCIAL STATEMENTS PRESENTATION

The Financial Statements have been prepared following Accounting practices adopted in Brazil, specifically in what concerns NBC ITG 2002, which discusses not-for-profit Entities matters, and NBC ITG 1000, which refers to Accounting for Small and Medium Sized Companies..

3 MAIN ACCOUNTING PRACTICES

(a) Contributions and Donations

(a.1) Unconditional Contributions and Donations

Unconditional contributions and donations are those for which donator does not stipulate specific terms the entity should comply with. Such donations are recorded directly in the Statements of Income for the year.

(a.2) Conditional Donations

Conditional donations are those for which donator stipulates specific terms the entity should comply with. Donations and respective applications are recorded in the Statement of Income upon fund donator formal confirmation that the Institute has performed the aforementioned obligations.

(a.3) Equity Contributions and Donations

Equity contributions and donations are those received exclusively for acquisition and/or building of permanent assets and are classified in the Fixed Asset and in the Equity (under "Donations and Subventions Fund").

(b) Recognition of Surplus (Deficit)

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

INSTITUTO TERRA

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2012 AND DECEMBER 31, 2011 (In Thousands of Reais)

(c) Critical Accounting Estimates

The preparation of Financial Statements in accordance with Accounting practices adopted in Brazil requires Management to use their opinion 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. 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 for projects which have not yet been submitted for approval by the donator.

(f) Property, Plant, and Equipment

Recorded at the cost of acquisition, formation, or construction. The depreciation is calculated using the straight-line method at rates mentioned in Note 5, and it takes into account the estimated useful lives of the assets.

(g) Executable agreements

The balance of executable agreements 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.

(h) Other Current Assets and Liabilities

They are presented at the realized amount and include monetary variations and earnings obtained, when applicable.

INSTITUTO TERRA

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2012 AND DECEMBER 31, 2011 (In Thousands of Reais)

(j) Inventories

The stock is presented at cost value of goods acquired for sale and undergo periodic inventory. The Products in the inventories are souvenirs and food.

4 CASH AND CASH EQUIVALENTS

			2012	2011
	Cash and Banks	Interest- earning Bank deposits	Total	Total
Unconditional	46	90	136	499
Conditional				
Fundo Nacional do Meio Ambiente – FNMA	-	2	2	1
Fundo de Recuperação, Proteção e Desenvolvimento Sustentável das Bacias Hidrográficas do Estado de Minas Gerais – FHIDRO	-	-	-	32
Conselho Federal Gestor do Fundo de Defesa de Companhia Espírito Santense de Saneamento – CESAN	-	4	4	13
Fundo de Recursos Hídricos – Fundágua	2	19	21	31
Banco Nacional de Desenvolvimento Econômico e Social – BNDES	-	125	125	170
Ministério Público Federal	-	46	46	27
Energest S/A	-	9	9	21
Instituto Estadual de Florestas de Minas Gerais e Secretaria de Estado do Meio Ambiente e Desenvolvimento Sustentável – IEF/SEMAD (2011)	1	61	63	200
The Nature Conservancy - TNC	-	100	100	-
Prefeitura Municipal de Colatina – PMC Asceiro II	-	34	34	-
Vale do Rido Doce – Olhos D’água	-	223	223	-
Conditional Cash and Cash Equivalents Balance	3	623	626	495
General Cash and Cash Equivalents Balance	49	713	762	994

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

At December 31, 2012 and December 31, 2011, the Institute’s interest-earning bank deposits referred to short-term fixed-income securities.

INSTITUTO TERRA

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2012 AND DECEMBER 31, 2011
(In Thousands of Reais)**

5 PROPERTY, PLANT AND EQUIPMENT

		2012	2011		
	Annual Depreciation Rates - %	Cost	Accumulated Depreciation	Net	net
Buildings	4	3.375	(1.078)	2.297	2.433
Own Facility improvement	10	65	(1)	64	-
Machinery and Equipment	10	659	(454)	205	194
Furniture and Fixture	10	262	(201)	61	79
Forrest Nursery	10	176	(175)	1	16
Vehicles	20	8	(8)	-	1
		<u>4.544</u>	<u>(1.917)</u>	<u>2.627</u>	<u>2.723</u>

6 EXECUTABLE AGREEMENTS

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, that is, upon project expenses effective incurrance, or upon accounts approval by the respective donators, when required.

(a) Changes in Agreement Funds

	Total of Agreemnt	Balance At 2011	Released Funds and Earnings	Funds Used	Balance At 2012
Samarco Mineração S/A	1.406	-	519	519	-
Fundo Nacional do Meio Ambiente – FNMA	497	1	1	-	2
Prefeitura Municipal de Aimorés	168	-	46	46	-
FHIDRO - Fundo de Recuperação, Proteção e Desenvolvimento Sustentável das Bacias Hidrográficas do Estado de Minas Gerais	1.904	32	-	32	-
Prefeitura Municipal de Colatina	133	-	79	45	34
Conselho Federal Gestor do Fundo de Defesa de Direitos Difusos – CFDD	268	-	-	-	-
Companhia Espírito Santense de Saneamento – CESAN	102	13	5	14	4
Instituto Estadual de Meio Ambiente e Recursos Hídricos –IEMA	340	-	-	-	-
Fundo de Recursos Hídricos – Fundágua	100	31	1	11	21

INSTITUTO TERRA

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2012 AND DECEMBER 31, 2011 (In Thousands of Reais)

	<u>Total of Agreemnt</u>	<u>Balance At 2011</u>	<u>Released Funds and Earnings</u>	<u>Funds Used</u>	<u>Balance At 2012</u>
Banco Nacional de Desenvolvimento Econômico e Social – BNDES	2.469	170	841	885	126
Fundação Banco do Brasil	231	-	80	80	-
Ministério Público Federal	161	27	132	114	46
Energest S/A	60	21	11	23	9
Instituto Estadual de Florestas de Minas Gerais e Secretaria de Estado do Meio Ambiente e Desenvolvimento Sustentável IEF/SEMAD (2011)	1.096	200	659	798	61
Vale do Rio Doce – Olhos D’água	1.950	-	223	-	223
The Nature Conservancy	500	-	100	-	100
Companhia Siderúrgica Nacional – CSN	180	-	180	180	-
	<u>11.565</u>	<u>495</u>	<u>2.877</u>	<u>2.747</u>	<u>626</u>

(b) Reconciliation of Agreements Balance

	<u>2012</u>	<u>2011</u>
Balance of Agreements at December 31	626	495
Social Projects in Course (i)		
Illy Café	32	-
Fundo Nacional do Meio Ambiente – FNMA	119	119
Fundo de Recuperação, Proteção e Desenvolvimento Sustentável das Bacias Hidrográficas do Estado de Minas Gerais – FHIDRO	-	113
Conselho Federal Gestor do Fundo de Defesa de Direitos Difusos – CFDD	273	273
Companhia Espírito Santense de Saneamento – CESAN	10	77
Instituto Estadual de Meio Ambiente e Recursos Hídricos – IEMA	342	345
Prefeitura Municipal de Colatina	45	-
Prefeitura Municipal de Aimorés	46	47
Banco Nacional de Desenvolvimento Econômico e Social – BNDES	370	530
Fundo de Recursos Hídricos – Fundágua	82	71
Ministério Público Federal	116	27
Fundação Banco do Brasil	-	150
Energest S/A	17	6
Instituto Estadual de Florestas de Minas Gerais e Secretaria de Estado do Meio Ambiente e Desenvolvimento Sustentável IEF/SEMAD (2011)	523	-
Companhia Siderúrgica Nacional – CSN	80	-
SINDICER	16	-
	<u>2.071</u>	<u>1.758</u>
	<u>2.697</u>	<u>2.253</u>

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

INSTITUTO TERRA

**EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2012 AND DECEMBER 31, 2011
(In Thousands of Reais)**

(c) Appropriation of Funds Used

	<u>2012</u>	<u>2011</u>
Funds used in Project (note 6(a))	<u>(2.747)</u>	<u>(3.183)</u>
Appropriation of funds		
Revenue of agreements	2.506	2.204
Financial revenues of agreements	36	46
Revenue of amounts received in previous years (i)	(1.866)	(825)
Amounts invested in fixed assets building	-	-
Amounts invested in projects	<u>2.071</u>	<u>1.758</u>
	<u>2.747</u>	<u>3.183</u>

- (i) Amounts received in previous years, first recorded under "Executable Agreements", which are recognized in the surplus (deficit) of the year, upon approval of the respective accounts.

7 JUDICIAL DEPOSITS

Management handles all legal processes development, making provisions for eventual loss, in case their legal matters counselors consider it possible to come up to unfavourable results.

	<u>Judicial Deposits</u>		<u>Provisions for contingencies</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Managing Contingencies (i)	<u>65</u>	<u>-</u>	<u>65</u>	<u>-</u>
	<u>65</u>	<u>-</u>	<u>65</u>	<u>-</u>

- (i) Refers to escrow deposit realized with the integer value of process number 0003402-14.2012.4.01.3813 in ordinary lawsuit brought by Instituto Terra against the Federal Union, aiming at the stay of collection of resources received from Fundo Nacional do Meio Ambiente (FNMA), following our disagreement from the FNMA account rendering related to Agreement number 95/2006. Our legal advisors have classified the probability of having loss as probable, so provision has been constituted.

INSTITUTO TERRA

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2012 AND DECEMBER 31, 2011 (In Thousands of Reais)

8 FISCAL ASPECTS

Instituto Terra, a not-for-profit association, is exempt from income taxes and social contributions, by way of section 195, paragraph 7, of the Federal Constitution.

The exempted institutions are obliged to fulfill certain legal requirements, which have been determined by the National Tax Code (Law 5.172/66), section 14 as follows:

"Sect. 14. The content of section c subsection IV paragraph 9 is subject to the fulfillment of the following requirements by the entities referred in it:

I – not distribute any of its equity or profits, on any ground (Writing implemented by LC 104, de 10.01.2001);

II – invest all its funds within the Brazilian territory in the maintenance of its institutional objectives;

III – keep full records of incomes and expenses in order to promote transparency of its activities.

Instituto Terra has been following all legal requirements for usufruct of income tax and social contribution exemptions. In 201, the benefit for fitting the law was approximately R\$ 353 (R\$342 in 2011) referring to income tax and social contribution.

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INSTITUTO TERRA

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2012 AND DECEMBER 31, 2011 (In Thousands of Reais)

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

Lélia Deluiz Wanick Salgado	Chairman
Sebastião Ribeiro Salgado Júnior	Deputy Chairman
José Armando de Figueiredo Campos	Director
Robson de Almeida Melo e Silva	Director
Paulo Henrique Wanick Mattos	Director
Carlos Alberto Lessa	Director
Mauro Leite Teixeira	Director
Antonio Carlos Lopes Simas	Director
Tomaz Benedito de Souza	Secretary General
Henrique Lobo Gonçalves	Director
Luiz Carlos Cardoso Vale	Director