

ISTITUTO TERRA

**FINANCIAL STATEMENTS FOR THE PERIODS ENDING ON
DECEMBER 31, 2009 AND DECEMBER 31, 2010**

INSTITUTO TERRA

FINANCIAL STATEMENTS FOR THE PERIODS ENDING ON DECEMBER 31, 2009 AND DECEMBER 31, 2010

CONTENTS

Independent Auditors' Report

Chart 1 – Balance Sheet

Chart 2 – Statements of Surplus (Deficit)

Chart 3 – Statements of Changes in Equity

Chart 4 – Statements of Cash Flow

Notes to the Financial Statements

INDEPENDENT AUDITORS' REPORT

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

We have examined the financial statements of Instituto Terra ("Entity"), which comprise the balance sheet as of December 31, 2010 and the respective income statement, changes in net equity and cash flow for the period ending 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 presentation of the financial statements, following accounting practices adopted in Brazil, and for internal controls defined as necessary for financial statements relevant-distortion-free elaboration, no matter whether it is caused by fraud or mistake.

Independent auditors' responsibility

Our responsibility is to express an opinion on these financial statements, based on our audit, which has been conducted according to international and Brazilian audit rules. These rules imply ethical requirements to be fulfilled by the auditors and audit planning and execution aiming at reasonable guarantee that the financial statements are relevant-distortion-free.

Audit involves selected procedures execution to obtain evidence regarding the values and disclosure of financial statements. The selected procedures depend on the auditor's opinion, which include the evaluation of relevant-distortion risk in the financial statements, no matter whether it is 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 appropriate for each circumstance, but not to express an opinion on the efficacy of such Entity's internal controls. Audit also includes the evaluation of the suitability of the accounting practices which have been used and the reasonability of the management's accounting estimates, as well as the 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

To the Board of Directors and Managers
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, 2010, the development of its operations and its cash flows for the period ending at that date, following the accounting practices adopted in Brazil.

Other matters

Audit of values corresponding to previous period.

Values corresponding to the period ended on December 31, 2009 used for comparison between periods, were previously audited by us, according to current audit rules on the report issue date, July 16, 2010, and it did not undergo any modification.

Vitória, May 27, 2011.



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	At December 31, 2010	At December 31, 2009	Liability	At December 31, 2010	At December 31, 2009
Current			Current		
Cash and Equivalents (Note 4)	1.080	809	Social and labor obligations	348	396
Amount invested in projects (Note 6(b))	961	2.032	Executable agreements (Note 6(b))	1.970	3.255
Advancements for Projects (Note 7)	561	-	Other payables	31	12
Other receivables	14	-		<u>2.349</u>	<u>3.663</u>
	<u>2.616</u>	<u>2.841</u>			
Non-current			Non-current		
Property, plant and equipment (Note 5)	2.883	2.919	Donations and subventions	13	17
			Loans	215	80
				<u>228</u>	<u>97</u>
			Equity		
			Donations and subventions	2.301	1.680
			Accumulated surplus	621	320
				<u>2.922</u>	<u>2.000</u>
Total Asset	<u><u>5.499</u></u>	<u><u>5.760</u></u>	Total liability and equity	<u><u>5.499</u></u>	<u><u>5.760</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)

	At December 31, 2010	At December 31, 2009
Operating revenue		
Donations	372	145
Conditional agreements	3.962	2.807
Others	76	39
	<u>4.410</u>	<u>2.991</u>
Operating revenues (expenses)		
Operating		
Environmental recuperation	(874)	(1.141)
Nursery	(985)	(762)
Education and culture	(1.476)	(330)
Capture of funds used for projects	(161)	(226)
Administrative	(404)	(351)
Depreciation	(211)	(191)
Net financial expenses	(2)	(16)
	<u>(4.113)</u>	<u>(3.017)</u>
Surplus (Deficit) for the period	<u>297</u>	<u>(26)</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>Accumultd surplus</u>	<u>Total equity</u>
At December 31, 2008	<u>1.680</u>	<u>346</u>	<u>2.026</u>
Deficit incorporated to equity	<u>-</u>	<u>(26)</u>	<u>(26)</u>
At December 31, 2009	<u>1.680</u>	<u>320</u>	<u>2.000</u>
Goods received as donation	621	-	621
Prior period adjustment	-	4	4
Surplus incorporated to equity	<u>-</u>	<u>297</u>	<u>297</u>
At December 31, 2010	<u>2.301</u>	<u>621</u>	<u>2.922</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)

	At December 31, 2010	At December 31, 2009
Operational Activities		
Surplus (deficit) for the period	297	(26)
Surplus (deficit) not affecting working capital	215	191
Depreciation and Amortization	211	191
Prior years adjustment	4	-
Adjusted surplus (deficit)	<u>512</u>	<u>165</u>
Asset (Surplus) deficit		
Amount invested in Projects	1.071	(614)
Other receivable accounts	(575)	-
Liability surplus (deficit)		
Social and labor obligations	(48)	130
Executable agreements	(1.285)	132
Donations and subventions	(4)	(5)
Other liabilities	154	(5)
Cash flow generated by operational activities	<u>(175)</u>	<u>(197)</u>
Investment Activities		
Acquisition of permanent asset	(165)	(647)
Cash flow generated by investment activities	<u>(165)</u>	<u>(647)</u>
Funding Activities		
Donations and Subventions	611	-
Cash flow generated by funding activities	<u>611</u>	<u>-</u>
Total cash flow generated by activities	<u><u>271</u></u>	<u><u>(844)</u></u>
Cash at beginning of the year	809	1.653
Cash at end of the year	<u>1.080</u>	<u>809</u>
Net cash increase	<u><u>271</u></u>	<u><u>(844)</u></u>

The explanatory notes are integral part of financial statements.

INSTITUTO TERRA

NOTES TO THE FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2010 AND DECEMBER 31, 2009

(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.

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 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 four areas: environmental recovery, environmental education, nursery, and the encouragement of sustainable rural development.

2 FINANCIAL STATEMENTS PRESENTATION

The financial statements have been prepared following 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 donator does not stipulate specific terms the entity should comply with. Donations are recorded directly in the statements of income for the year.

INSTITUTO TERRA

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010 AND DECEMBER 31, 2009 (In thousands of Reais)

(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 to acquire and/or build 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.

(c) Critical accounting estimates

The preparation of financial statements in accordance with accounting practices adopted in Brazil requires that Management uses its 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. 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 the the balance sheet date.

INSTITUTO TERRA

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010 AND DECEMBER 31, 2009 (In thousands of Reais)

(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

Are presented at the realized amount and include monetary variations and earnings 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 AS OF DECEMBER 31, 2010 AND DECEMBER 31, 2009 (In thousands of Reais)

4 CASH AND EQUIVALENTS

			2010	2009
	Cash and Banks	Interest- earning bank Deposits	Total	Total
Unconditional	27	90	117	94
Conditional				
Conservation International – CI	-	18	18	17
Projeto Demonstrativo do Instituto Estadual de Florestas de MG - IEF-PD	12	-	12	146
Instituto Estadual de Florestas de Minas Gerais e Secretaria de Estado do Meio Ambiente e Desenvolvimento Sustentável - IEF/SEMAD	28	301	329	46
Fundo Nacional do Meio Ambiente – FNMA	-	1	1	2
Cia Vale do Rio Doce - Construção Alojamento Fundo de Recuperação, Proteção e Desenvolvimento Sustentável das Bacias Hidrográficas do Estado de Minas Gerais - FHIDRO	3	87	90	32
SOS Mata Atlântica	-	-	-	7
Emilia Romagna	-	-	-	148
Prefeitura Municipal de Aimorés	12	-	12	2
Unibanco - Som na Mata	-	-	-	13
Cia Vale do Rio Doce – Terrinhas	-	-	-	141
Gobierno del Asturias	-	-	-	2
Gobierno del Asturias – CA	-	-	-	2
Samarco	68	-	68	-
Illy Caffee	-	-	-	-
Instituto Estadual de Meio Ambiente e Recursos Hídricos –IEMA	-	95	95	-
Conselho Federal Gestor do Fundo de Defesa de Direitos Difusos - CFDD	-	189	189	-
Companhia Espírito Santense de Saneamento – CESAN	-	50	50	-
Prefeitura Municipal de Colatina	1	54	55	-
Fundo de Recursos Hídricos – Fundágua	44	-	44	-
Conditional donations balance	<u>168</u>	<u>795</u>	<u>963</u>	<u>715</u>
General donations balance	<u>195</u>	<u>885</u>	<u>1.080</u>	<u>809</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, 2010 and 2009, the Institute's interest-earning bank deposits referred to short-term fixed-income securities.

INSTITUTO TERRA

**NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2010 AND DECEMBER 31, 2009
(In thousands of Reais)**

5 PROPERTY, PLANT AND EQUIPMENT

		2010		2009	
	Annual Depreciation Rates - %	Cost	Accumulated Depreciation	Net	Net
Buildings	4	3.376	(809)	2.567	2.116
Machinery and Equipment	10	525	(350)	175	156
Furniture and Fixture	10	255	(157)	98	116
Forest Nursery	10	175	(141)	34	51
Vehicles	20	8	(6)	2	4
Softwares	20	4	(2)	2	3
Buildings under Construction		-	-	-	468
Trademarks and Patents		5		5	5
		4.348	(1.465)	2.883	2.919

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 Agreements Funds

	Agreement Total	Balance In 2009	Released Funds and Earnings	Funds Used	Balance in 2010
Conservation International – CI	100	17	1	-	18
Provincia di Roma	161	-	76	76	-
Samarco Mineração S/A	1.406	-	755	687	68
Projeto Demonstrativo do Instituto Estadual de Florestas de Minas Gerais - IEF/PD	446	146	109	243	12
Instituto Estadual de Florestas de Minas Gerais e Secretaria de Estado do Meio Ambiente e Desenvolvimento Sustentável - IEF/SEMAD	1.097	46	663	380	329
Gobiernu Del Principau D'Asturies	627	4	-	4	-
Fundo Nacional do Meio Ambiente – FNMA	497	2	-	1	1

INSTITUTO TERRA

NOTES TO THE FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2010 AND DECEMBER 31, 2009

(In thousands of Reais)

	Agreemnt Total	Balance In 2009	Released Funds and Earnings	Funds Used	Balance in 2010
Cia Vale do Rio Doce - Construção					
Alojamento	950	157	1	158	-
Cia Vale do Rio Doce - Projeto Terrinhas	978	141	391	532	-
Fundação SOS Pró-Mata Atlântica	18	7	4	11	-
Prefeitura Municipal de Aimorés	168	2	46	36	12
Emilia Romagna	251	148	-	148	-
Unibanco União de Bancos Brasileiros S.A.	107	13	-	13	-
FHIDRO - Fundo de Recuperação, Proteção e Desenvolvimento Sustentável das Bacias					
Hidrográficas do Estado de Minas Gerais	1.904	32	660	602	90
Illy Caffè SpA	424	-	21	21	-
Prefeitura Municipal de Colatina	133	-	133	78	55
Conselho Federal Gestor do Fundo de Defesa de Direitos Difusos – CFDD	268	-	272	83	189
Companhia Espírito Santense de Saneamento – CESAN	102	-	57	7	50
Instituto Estadual de Meio Ambiente e Recursos Hídricos – IEMA	340	-	207	112	95
Fundo de Recursos Hídricos – Fundágua	100	-	44	-	44
	<u>10.077</u>	<u>715</u>	<u>3.440</u>	<u>3.192</u>	<u>963</u>

(b) Reconciliation of agreements balance

	2010	2009
Balance of conditional agreements at December 31	963	715
Social projects in progress (i)		
Conservation International – CI	6	6
Projeto Demonstrativo do Instituto Estadual de Florestas de Minas Gerais - IEF/PD	144	117
SOS Mata Atlântica	5	-
Instituto Estadual de Florestas de Minas Gerais e Secretaria de Estado do Meio Ambiente e Desenvolvimento Sustentável - IEF/SEMAD	119	26
Gobiernu Del Principau D'Asturies	-	645
Fundo Nacional do Meio Ambiente – FNMA	119	119
Fundo de Recuperação, Proteção e Desenvolvimento Sustentável das Bacias Hidrográficas do Estado de Minas Gerais - FHIDRO	84	145
Conselho Federal Gestor do Fundo de Defesa de Direitos Difusos - CFDD	83	-
Cia Vale do Rio Doce - Construção Alojamento	-	444
Companhia Espírito Santense de Saneamento - CESAN	7	-
Cia Vale do Rio Doce - Projeto Terrinhas	-	462
Unibanco União de Bancos Brasileiros S.A.	-	20

INSTITUTO TERRA

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010 AND DECEMBER 31, 2009 (In thousands of Reais)

	<u>2010</u>	<u>2009</u>
Instituto Estadual de Meio Ambiente e Recursos Hídricos -IEMA	113	-
Emilia Romagna	169	21
Prefeitura Municipal de Colatina	78	-
Prefeitura Municipal de Aimorés	34	27
	<u>961</u>	<u>2.032</u>
Funds invested in fixed assets (ii)		
Vale - Construção Alojamento	-	422
Fundo de Recuperação, Proteção e Desenvolvimento Sustentável das Bacias Hidrográficas do Estado de Minas Gerais - FHIDRO (Ampliação do Viveiro)	46	46
Provincia de Roma - Laboratório de Semente	-	40
	<u>46</u>	<u>508</u>
	<u>1.970</u>	<u>3.255</u>

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

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

(c) Appropriation of funds used

	<u>2010</u>	<u>2009</u>
Funds used in the project (note 6(a))	<u>(3.192)</u>	<u>(3.998)</u>
Appropriation of funds		
Agreements revenue	3.962	2.807
Agreements financial revenue	17	73
Revenue of amounts received in prior years (i)	(1.794)	(1.422)
Amounts invested in fixed assets building	46	508
Amounts invested in projects	<u>961</u>	<u>2.032</u>
	<u>3.192</u>	<u>3.998</u>

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

INSTITUTO TERRA

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010 AND DECEMBER 31, 2009 (In thousands of Reais)

7 ADVANCEMENTS FOR PROJECTS

These are advancements of amounts provided by Instituto Terra for agreed projects, which have been received at a later date, with the purpose of keeping the course of activities foreseen in the operating schedules agreed upon, at first.

In the 2010 period, the total amount recorded (R\$ 561thousand) refers to the agreement with Gobierno del Principau D'Asturies.

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 exemption. In 2010, the benefit for fitting the law was approximately R\$ 101 thousand referring to income tax and social contribution.

* * *

INSTITUTO TERRA

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2010 AND DECEMBER 31, 2009 (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
Marta Tristão	Director of Education
José Armando de Figueiredo Campos	Director of Institutional Relations
Robson de Almeida Melo e Silva	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 Sustainable Business Development
Tomaz Benedito de Souza	Secretary General