



INSTITUTO TERRA

FINANCIAL STATEMENTS FOR THE YEARS ENDING AT
DECEMBER 31, 2009 AND 2008

(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

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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, 2009 and 2008, 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 adequately represent, in all relevant aspects, the equity and financial position of Instituto Terra as of December 31, 2009 and 2008, the surplus (deficit) of its operation, the changes in its equity and cash flow for the financial years then ended, in conformity with accounting practices adopted in Brazil.

Vitória, July 16, 2010.


Wladimir Firme Zanotti
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, 2009 AND 2008 (In thousand of Reais)

	At December 31, 2009	At December 31, 2008		At December 31, 2009	At December 31, 2008
Assets			Liability		
Current			Current		
Cash and equivalents (Note 4)	809	1.653	Social and labor obligations	396	266
Amount invested in projects (Note 6(b))	2.032	1.418	Agreements executable (Note 6(b))	3.255	3.123
	<u>2.841</u>	<u>3.071</u>	Other payables	12	17
				<u>3.663</u>	<u>3.406</u>
Non-current			Non-current		
Property, plant, and equipment (Note 5)	2.919	2.463	Donations and subventions	17	22
			Loans	80	80
				<u>97</u>	<u>102</u>
			Equity		
			Donations and subventions	1.680	1.680
			Accumulated surplus	320	346
Total Assets	<u>5.760</u>	<u>5.534</u>	Total liability and equity	<u>5.760</u>	<u>5.534</u>

The explanatory notes are integral part of financial statements.

CHART 2

INSTITUTO TERRA

STATEMENTS OF SURPLUS (DEFICIT) FOR YEARS ENDING DECEMBER 31, 2009 AND 2008

(In thousand of Reais)

	At December 31, 2009	At December 31, 2008
Operating revenue		
Donations	145	157
Conditional agreements	2.807	1.264
Others	39	84
	<u>2.991</u>	<u>1.505</u>
Operating revenues (expenses)		
Operating		
Environmental recuperations	(1.141)	(296)
Nursery	(762)	(459)
Education and culture	(330)	(199)
Capture of funds used for projects	(226)	(256)
Administrative	(351)	(478)
Depreciation	(191)	(189)
Net financial expenses	(16)	(1)
	<u>(3.017)</u>	<u>(1.878)</u>
Surplus (deficit) for this period	<u>(26)</u>	<u>(373)</u>

The explanatory notes are integral part of financial statements.

CHART 3

INSTITUTO TERRA

STATEMENT OF CHANGES IN EQUITY (In thousand of Reais)

	<u>Donations and subventions</u>	<u>Accumulated surplus</u>	<u>Total equity</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>
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>

The explanatory notes are integral part of financial statements.

CHART 4

INSTITUTO TERRA

STATEMENTS OF CASH FLOW FOR YEARS ENDING DECEMBER 31, 2009 AND 2008

(In thousand of Reais)

	At December 31, 2009	At December 31, 2008
Operational Activities		
Surplus (deficit) for the ending year	(26)	(373)
Surplus (deficit) not affecting working capital		
Depreciation and amortization	191	189
Adjusted surplus (deficit)	<u>165</u>	<u>(184)</u>
Assets (increase) deduction		
Amount invested in Projects	(614)	(582)
Other receivables	-	6
Liability increase (deduction)		
Social and labor obligations	130	47
Agreements executable	132	2.027
Donations and subventions	(5)	22
Other liabilities	(5)	83
Cash flow generated by investment activities	<u>(197)</u>	<u>1.419</u>
Investment Activities		
Acquisition of permanent asset	(647)	(134)
Cash flow generated by investment activities	<u>(647)</u>	<u>(134)</u>
Total cash flow generated by activities	<u>(844)</u>	<u>1.285</u>
Cash at beginning of the year	1.653	368
Cash at end of the year	809	1.653
Net increase of cash	<u>(844)</u>	<u>1.285</u>

The explanatory notes are integral part of financial statements.

INSTITUTO TERRA

EXPLANATORY NOTES TO FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008 (In thousand of Reais)

1 OPERATIONS

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.

INSTITUTO TERRA

EXPLANATORY NOTES TO FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008 (In thousand of Reais)

(a.2) Conditional donations

Conditional donations are those for which donator stipulates specific terms the entity should comply with. Donations and their 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 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 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 Instituto.

(c) Critical financial evaluations

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 premisses include 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 Instituto 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.

INSTITUTO TERRA

EXPLANATORY NOTES TO FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008 (In thousand of Reais)

(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 donors, but which had not yet been invested in the respective projects and/or had been invested but had not been submitted to the donor's approval, at balance sheet date.

(h) Other current assets and liabilities

Presented at the realized amount, including earning 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

			2009	2008
	Cash and Banks	Interest earning bank deposits	Total	Total
Unconditional	28	66	94	31
Conditional				
College of Santa Fe	-	-	-	3
Conservation International – CI	-	17	17	16
Projeto Demonstrativo do Instituto Estadual de Florestas de MG – IEF-PD	4	142	146	158
Serviço Brasileiro de Apoio às Micro e Pequenas Empresas - SEBRAE/MG	-	-	-	15
Instituto Estadual de Florestas de Minas Gerais e Secretaria de Estado do Meio Ambiente e Desenvolvimento Sustentável - IEF/SEMAD	2	44	46	290
Fundo Nacional do Meio Ambiente - FNMA	2	-	2	113
Cia Vale do Rio Doce – Construção Alojamento	108	49	157	837
Fundo de Recuperação, Proteção e Desenvolvimento Sustentável das Bacias Hidrográficas do Estado de Minas Gerais – FHIDRO	3	29	32	151

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EXPLANATORY NOTES TO FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008
(In thousand of Reais)

	2009		2008	
	Cash and Banks	Interest earning bank deposits	Total	Total
SOS Mata Atlântica	5	2	7	-
Emilia Romagna	1	147	148	-
Prefeitura Municipal de Aimorés	-	2	2	-
Unibanco – Som na Mata	1	12	13	-
Cia Vale do Rio Doce – Terrinhas	1	140	141	-
Gobierno del Asturias	-	2	2	-
Gobierno del Asturias – CA	-	2	2	-
Provincia di Roma	-	-	-	39
Conditional donations balance	127	588	715	1.622
General donations balance	155	654	809	1.653

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

As of December 31, 2009 and 2008, the Instituto's interest earning bank deposits referred to short-term fixed income securities.

5 PROPERTY, PLANT, AND EQUIPMENT

		2009		2008	
	Annual Depreciation Rates - %	Cost	Accumulated Depreciation	Net	Net
Buildings	4	2.805	(689)	2.116	2.024
Machinery and equipment	10	456	(300)	156	188
Furniture and fixtures	10	247	(131)	116	86
Forest nursery	10	175	(124)	51	69
Vehicles	20	8	(4)	4	6
Softwares	20	4	(1)	3	3
Buildings under construction		468		468	83
Trademarks and patents		5		5	4
		4.168	(1.249)	2.919	2.463

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EXPLANATORY NOTES TO FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008 (In thousand of Reais)

6 AGREEMENTS EXECUTABLE

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

(a) Changes in Agreements Funds

	Agrment Total	Balance in 2008	Released Funds and Earnings	Funds Used	Balance in 2008
Serviço Brasileiro de Apoio às Micro e Pequenas Empresas - SEBRAE/MG	116	15	-	15	-
Conservation International – CI	100	16	1	-	17
Provincia di Roma	161	39	1	40	-
Samarco Mineração S/A	1.406	-	532	532	-
Projeto Demonstrativo do Instituto Estadual de Florestas de Minas Gerais - IEF/PD	446	158	86	98	146
Natura Cosméticos S.A.	40	-	-	-	-
Instituto Estadual de Florestas de Minas Gerais e Secretaria de Estado do Meio Ambiente e Desenvolvimento Sustentável - IEF/SEMAD	1.097	290	136	380	46
Gobiernu Del Principau D'Asturies	627	-	649	645	4
Fundo Nacional do Meio Ambiente – FNMA	497	113	4	115	2
Cia Vale do Rio Doce – Construção Alojamento	950	837	39	719	157
Cia Vale do Rio Doce – Projeto Terrinhas	978	-	602	461	141
Fundação SOS Pró-Mata Atlântica	18	-	15	8	7
Prefeitura Municipal de Aimorés	168	-	29	27	2
Consórcio Hidrelétrica de Aimorés	20	-	20	20	-
Emilia Romagna	251	-	170	22	148
Unibanco União de Bancos Brasileiros S.A.	107	-	108	95	13
FHIDRO - Fundo de Recuperação, Proteção e Desenvolvimento Sustentável das Bacias Hidrográficas do Estado de Minas Gerais	1.904	151	443	562	32
Illy Caffè SPA	424	-	22	22	-
SEAG/ES - Secretaria da Agricultura, Abastec., Aquicultura e Pesca do Estado do Espírito Santo	140	-	95	95	-
Yves Rocher S.A.	251	-	139	139	-
College of Santa Fe	36	3	-	3	-
	<u>9.737</u>	<u>1.622</u>	<u>3.091</u>	<u>3.998</u>	<u>715</u>

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EXPLANATORY NOTES TO FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008
(In thousand of Reais)

(b) Reconciliation of agreements balance

	2009	2008
Balance of conditional agreements at December 31	715	1.622
Social projects in progress (i)		
Serviço Brasileiro de Apoio às Micro e Pequenas Empresas - SEBRAE/MG	-	87
Conservation International – CI	6	6
Projeto Demonstrativo do Instituto Estadual de Florestas de Minas Gerais – IEF/PD	117	18
Natura Cosméticos S.A.	-	41
Instituto Estadual de Florestas de Minas Gerais e Secretaria de Estado do Meio Ambiente e Desenvolvimento Sustentável - IEF/SEMAD	26	48
Gobiernu Del Principau D'Asturies	645	581
Fundo Nacional do Meio Ambiente – FNMA	119	4
FHIDRO - Fundo de Recuperação, Proteção e Desenvolvimento Sustentável das Bacias Hidrográficas do Estado de Minas Gerais	145	40
Illy Caffè SPA	-	339
Yves Rocher S.A.	-	136
Cia Vale do Rio Doce – Construção Alojamento	444	91
Cia Vale do Rio Doce – Projeto Terrinhas	462	-
Unibanco União de Bancos Brasileiros S.A.	20	-
Emilia Romagna	21	-
Prefeitura Municipal de Aimorés	27	-
College of Santa Fe	0	27
Total amount invested in projects	2.032	1.418
Agreements funds invested in fixed assets (ii)		
Vale - Construção Alojamento	422	57
FHIDRO - Ampliação do Viveiro	46	26
Provincia de Roma - Laboratório de Semente	40	-
	508	83
	3.255	3.123

(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 FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008 (In thousand of Reais)

(c) Appropriation of funds used

	<u>2009</u>	<u>2008</u>
Appropriation of funds		
Agreements revenue	2.807	1.264
Agreements financial revenue	73	4
Revenue of amounts received in prior years (i)	(1.422)	(166)
Amounts in vested in fixed assets building (Note 6 (b))	508	83
Amounts invested in projects (Note 6 (b))	<u>2.032</u>	<u>1.418</u>
Funds used in projects	<u><u>3.998</u></u>	<u><u>2.603</u></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 non-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 Instituto has been meeting.

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INSTITUTO TERRA

EXPLANATORY NOTES TO FINANCIAL STATEMENTS AT DECEMBER 31, 2009 AND 2008 (In thousand 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 of 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