

INSTITUTO TERRA

**FINANCIAL STATEMENTS FOR THE PERIODS ENDED AT
DECEMBER 31, 2015 AND DECEMBER 31, 2014**

INSTITUTO TERRA

FINANCIAL STATEMENTS FOR THE PERIODS ENDED AT DECEMBER 31, 2015 AND DECEMBER 31, 2014

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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, 2015 and the respective Income Statement, 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 Entity's management is responsible for the financial statements elaboration and appropriate presentation, following accounting practices adopted in Brazil, and for internal controls defined as necessary for relevant-distortion-free financial statements elaboration, no matter whether distortion is caused by fraud or mistake.

Independent Auditor's responsibility

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 be 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 data disclosed in the 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, 2015, the development of its operations and its cash flows for the period ended at that date, following accounting practices adopted in Brazil.

Vitória, ES, March 24, 2016.

W. Marques

Wesley Cristiah Marques

Accountant CRC1ES009545/O-0 "S" MG

BAKER TILLY BRASIL - ES

Independent Auditors

CRC 2ES000289/O-5 "S" MG

CHART 1

INSTITUTO TERRA

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

Asset	2015	2014	Liability	2015	2014
Current			Current		
Cash and Cash Equivalents (Note 4)	2.121	745	Social, labor and tax obligations	389	354
Amount invested in projects (Note 6(b))	2.884	2.421	Executable agreements (Note 6(b))	3.735	3.147
Other receivables	15	14	Other payables	57	37
Inventories	103	49		4.181	3.538
	5.123	3.229			
Non-Current			Non-Current		
Judicial deposits (Note 7)	65	65	Donations and subventions	5	4
	65	65	Loans (Note 8)	135	277
			Provision for Contingencies (Note 7)	65	65
				205	346
Fixed Asset			Equity		
Property, Plant and Equipment (Note 5)	2.226	2.376	Donations and subventions	2.301	2.301
Intangible	5	6	Accumulated Surplus (Deficit)	732	(509)
	2.231	2.382		3.033	1.792
Total Assets	7.419	5.676	Total Liability and Equity	7.419	5.676

The explanatory notes are integral part of financial statements.

CHART 2

INSTITUTO TERRA

STATEMENT OF INCOME (In thousands of Reais)

	<u>2015</u>	<u>2014</u>
Operational Revenues		
Unconditional donations	2.575	786
Donations for the Olhos D'água project	94	-
Conditional agreements	894	1.028
Olhos D'água project	617	897
Others revenues, including financial revenue	519	315
	<u>4.699</u>	<u>3.027</u>
Operational Revenues (expenses)		
Operational		
Environmental recuperation	(519)	(829)
Nursery	(355)	(388)
Education and culture	(718)	(607)
Capture of funds used for projects	(159)	(134)
Environmental enlargement	(319)	(259)
Olhos D'água project	(768)	(619)
Administrative	(406)	(403)
Depreciation	(191)	(72)
Net financial expenses	(23)	(12)
	<u>(3.458)</u>	<u>(3.323)</u>
Surplus (Deficit) for the period	<u><u>1.241</u></u>	<u><u>(296)</u></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, 2013	<u>2.301</u>	<u>(213)</u>	<u>2.088</u>
Deficit incorporated to equity	<u>-</u>	<u>(296)</u>	<u>(296)</u>
At December 31, 2014	<u>2.301</u>	<u>(509)</u>	<u>1.792</u>
Surplus incorporated to equity	<u>-</u>	<u>1.241</u>	<u>1.241</u>
At December 31, 2015	<u>2.301</u>	<u>732</u>	<u>3.033</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>2015</u>	<u>2016</u>
Operational Activities		
Deficit for the period	1.241	(296)
Surplus (deficit) of items not affecting working capital:	192	81
Depreciation and Amortization	191	72
Write-offs of fixed assets	1	9
Adjusted surplus (deficit)	<u>1.433</u>	<u>(215)</u>
Asset (surplus) deficit		
Amount invested in projects	(463)	239
Other receivables	(1)	124
Inventories	(54)	(9)
Liability surplus (deficit)		
Social, Labor Obligations	35	46
Executable agreements	588	216
Donations and government subventions	1	-
Other liabilities	20	20
Cash flow generated by Operational Activities	<u>1.559</u>	<u>421</u>
Investment Activities		
Acquisition of Fixed Asset	(41)	(12)
Cash Flow generated by Investment Activities	<u>(41)</u>	<u>(12)</u>
Financial Activities		
Loans	(142)	-
Cash Flow generated by Financial Activities	<u>(142)</u>	<u>-</u>
Total Cash Flow generated by Activities	<u><u>1.376</u></u>	<u><u>409</u></u>
Cash at beginning of the period	745	336
Cash at end of the period	<u>2.121</u>	<u>745</u>
Net cash surplus	<u><u>1.376</u></u>	<u><u>409</u></u>

The explanatory notes are integral part of financial statements.

INSTITUTO TERRA

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2015 AND DECEMBER 31, 2014 (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 1,613/1999, 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 the title of Federal Public Interest (2011).

The Bulcão Farm is managed by Instituto Terra for the purpose of fostering ecologically sustainable development by recovering and conserving forrests, and correctly using natural resources. Following this purpose, Instituto Terra has been operating in five areas: ecosystemical recovery, environmental education, nursery, encouragement of sustainable rural development, environmental extension /Olhos D'água project and applied research.

In 2010 the process for the recovery of springs began, and between 2010 and 2015 it gained notoriety, which allowed the Instituto Terra to release a project that foresee the recovery of all of the springs on Vale do Rio Doce, named project "Olhos D'água". Due to the great demand, it was necessary a more effective control, highlighting it in our financial statements. Therefore, it was made a dismemberment of the revenue of agreements between unconditional and conditional, and in the expense of the Environmental extension to the project Olhos D'água in the 2014 Statement of Income to allow its comparability with the 2015 financial statements.

INSTITUTO TERRA

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2015 AND DECEMBER 31, 2014 (In thousands of Reais)

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

Although the Instituto Terra has performed nascent recovery initiatives since the year 2010 in the hydro-graphic basin of Rio Doce, the company has launched in 2015 the project Olhos D'água which aims the recovery of all the springs in 228 counties located between Minas Gerais and Espirito Santo. The initial estimate of the program is the recovery of approximately 345,000 springs by planting more than 50 million native trees in fence protected areas, the program also contributes for the installation of cespool on recovered springs and the CAR's regularization (Cadastro Ambiental Rural) of participating properties. Besides the donation revenues to projects linked to the program, the Instituto Terra has received donations from individuals and other entities willing to help the Vale do Rio Doce and its recovery as a whole without specific contractual purposes. Both contractually bound agreements and the independent donations are being applied to the project Olhos D'água.

The emission of the financial statements of the Instituto Terra was approved by Management on March, 24, 2016.

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 Statement of Income for the year.

INSTITUTO TERRA

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2015 AND DECEMBER 31, 2014 (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 for acquisition and/or building of fixed 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 Management to use their opinion in determining and recording Accounting estimates. Significant assets and liabilities subject to estimates and assumptions include the residual value of fixed assets, 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) Financial investment

Financial investments are recorded at acquisition cost plus income accrued up to the balance sheet date.

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EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2015 AND DECEMBER 31, 2014 (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) Fixed Assets

Recorded at the cost of acquisition, formation, or construction. 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 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.

(j) Inventories

Inventories are presented at cost value of goods acquired for sale, goods received as donation for the project Olhos D'água, and undergo periodic inventory. The products in the inventories are souvenirs, food and inputs for fencing the springs in rural properties.

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EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2015 AND DECEMBER 31, 2014 (In thousands of Reais)

4 CASH AND CASH EQUIVALENTS

			2015	2014
	Cash and Banks	Interest- earning Bank Deposits	Total	Total
Unconditional	13	1.238	1.251	19
Conditional				
Banco Nacional de Desenvolvimento Econômico e Social – BNDES	1	71	72	376
Ministério Público Federal	-	2	2	2
The Nature Conservancy - TNC	-	10	10	103
Prefeitura Municipal de Colatina – PMC Asceiro II	-	20	20	40
Vale – Programa Olhos D'água	-	40	40	-
SEMAD/MG - Olhos D'água	203	-	203	-
Ministério Público Estadual	4	-	4	-
Energest S/A III	-	-	-	24
Fhidro II	-	198	198	-
Fundação APERAM Acesita	2	-	2	15
Vale (Nere) (a)	19	300	319	158
Prefeitura Municipal de Aimorés	-	-	-	8
Conditional Cash and Cash Equivalents Balance	229	641	870	726
General Cash and Cash Equivalents Balance	242	1.879	2.121	745

(a) The value R\$ 19 should not be considered, for management purposes, as a project resource as it relates to costs incurred in 2015 for which there was not accountability.

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

At December 31, 2015 and December 31, 2014, 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, 2015 AND DECEMBER 31, 2014 (In thousands of Reais)

5 FIXED ASSETS

	Annual			2015	2014
	Depreciation				
	Rates			Accumulated	Net
	- %	Cost	Depreciation	Net	Net
Buildings	4	3.375	(1.364)	2.011	2.139
Own Facility Improvement	10	65	(9)	56	59
Machinery and Equipment	10	702	(568)	134	140
Furniture and Fixtures	10	267	(245)	22	34
Forrest Nursery	10	176	(176)	-	-
Vehicles	20	15	(12)	3	4
		4.600	(2.374)	2.226	2.376

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 incurrence, or upon accounts approval by the respective donators, when required.

(a) Changes in agreement funds

	Total of Agreement	Balance At 2014	Funds and earnings	Funds Used	Balance At 2015
Fundo Nacional do Meio Ambiente – FNMA	497	-	-	-	-
Prefeitura Municipal de Aimorés	150	8	-	3	-
Prefeitura Municipal de Colatina	301	41	42	62	21
Companhia Espírito Santense de Saneamento – CESAN	102	-	-	-	-
Fundo de Recursos Hídricos – Fundágua	100	-	-	-	-
Banco Nacional de Desenvolvimento Econômico e Social – BNDES	3.183	375	162	465	72
Ministério Público Federal	169	2	-	2	-
Instituto Estadual de Florestas de Minas Gerais e Secretaria de Estado do Meio Ambiente e Desenvolvimento Sustentável IEF/SEMAD (2011)	1.096	-	-	-	-
Vale – Programa Olhos D'água	1.949	-	711	671	40
The Nature Conservancy – TNC	500	104	79	173	10
Energest S/A II	52	-	-	-	-

INSTITUTO TERRA

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2015 AND DECEMBER 31, 2014 (In thousands of Reais)

	<u>Total of Agreement</u>	<u>Balance At 2014</u>	<u>Funds and earnings</u>	<u>Funds Used</u>	<u>Balance At 2015</u>
Anne Fontaine Foundation	131	-	58	115	-
Energest S/A III	50	23	-	23	-
Vale (Nere)	300	158	303	160	300
Fundação APERAM Acesita	70	15	55	68	2
Foundation Credit Agricole Suisse	244	-	125	125	-
Semad Programa Olhos D'água	5.729	-	204	-	204
MPE/ES Colatina Programa Olhos D'água	4	-	4	-	4
Semad Fhidro	781	-	240	42	198
Arcelor-Coleção Exodos	119	-	121	120	-
	<u>15.527</u>	<u>726</u>	<u>2.104</u>	<u>2.029</u>	<u>851</u>

(b) Reconciliation of Agreements Balance

	<u>2015</u>	<u>2014</u>
Balance of Agreements at December 31	851	726
Social Projects in Course (i)		
Fundo Nacional do Meio Ambiente – FNMA	119	119
Prefeitura Municipal de Aimorés	40	36
Companhia Espírito Santense de Saneamento – CESAN	0	14
Prefeitura Municipal de Colatina	87	52
Banco Nacional de Desenvolvimento Econômico e Social – BNDES	337	51
Fundo de Recursos Hídricos – Fundágua	81	81
Ministério Público Federal	175	173
Instituto Estadual de Florestas de Minas Gerais e Secretaria de Estado do Meio Ambiente e Desenvolvimento Sustentável IEF/SEMAD (2011)	832	832
Energest S/A II	11	10
Anne Fontaine Foundation	115	57
Energest S/A III	45	22
Vale (Nere)	-	146
Fundação APERAM Acesita	68	-
Vale – Programa Olhos D'água	765	711
Foundation Credit Agricole (Suisse)	125	-
Semad Fhidro	42	-
Arcelor-Coleção Exodos	18	-
The Nature Conservancy – TNC	24	117
	<u>2.884</u>	<u>2.421</u>
	<u>3.735</u>	<u>3.147</u>

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

INSTITUTO TERRA

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2015 AND DECEMBER 31, 2014 (In thousands of Reais)

(c) Appropriation of Funds Used

	<u>2015</u>	<u>2014</u>
Funds used in projects (Note 6(a))	<u>2.029</u>	<u>1.693</u>
Appropriation of funds		
Revenue of agreements	1.511	1.925
Financial revenue of agreements	79	34
Revenue of amounts received in previous years (i)	(2.445)	(2.687)
Amounts invested in projects	<u>2.884</u>	<u>2.421</u>
	<u><u>2.029</u></u>	<u><u>1.693</u></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>Provision for contingencies</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Management Contingencies (i)	<u>65</u>	<u>65</u>	<u>65</u>	<u>65</u>
	<u><u>65</u></u>	<u><u>65</u></u>	<u><u>65</u></u>	<u><u>65</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 funds received from Fundo Nacional do Meio Ambiente (FNMA), following Instituto Terra disagreement from the FNMA account rendering related to Agreement number 95/2006. The Instituto's 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, 2015 AND DECEMBER 31, 2014 (In thousands of Reais)

8 LOANS

This item refers to the total amount of R\$135, borrowed from Krenak Empreendimentos Artísticos Ltda, an entity that usually lends funds to Instituto Terra, at terms not specifically stipulated.

The amounts have been used for expenses related to the Entity's social objectives, in permanent projects which have not achieved sponsorship for recent years. The loans were and are eventually taken especially when there are delays in the release of conditional resources by the project sponsors.

9 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.

Exempted institutions are obliged to fulfill certain legal requirements, which have been determined by the National Tax Code (Law 5,172/1966), 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 to distribute any of its equity or profits, on any ground (Text implemented by Law C 104, of January 10, 2001);

II – to invest all its funds within the Brazilian territory to maintain its institutional objectives;

III – to 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.

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INSTITUTO TERRA

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2015 AND DECEMBER 31, 2014 (In thousands of Reais)

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

Lélia Deluiz Wanick Salgado	Chairwoman
Sebastião Ribeiro Salgado Júnior	Deputy Chairman
Tomaz Benedito de Souza	Secretary General
José Armando de Figueiredo Campos	Director
Robson de Almeida Melo e Silva	Director
Paulo Henrique Wanick Mattos	Director
Mauro Leite Teixeira	Director
Henrique Lobo Gonçalves	Director
Afonso Borges	Director
Carlos Alberto Roxo	Director
Tomaz Benedito de Souza	Executive Superintendent

Responsible Technician
Edna Maria Amorim de Assis
Accountant
CRC MG 095127/O-6