

(A free translation of the original report in Portuguese
on financial statements prepared in accordance with
accounting practices adopted in Brazil)

Instituto Terra
Financial Statements
December 31, 2003 and 2002
and Report of Independent Auditors

(A free translation of the original opinion in Portuguese expressed on financial statements prepared in accordance with accounting practices adopted in Brazil)

Report of Independent Auditors

July 19, 2004

To the Management
Instituto Terra

- 1 We have audited the accompanying balance sheet of Instituto Terra as of December 31, 2003 and of 2002 and the related statements of surplus, of changes in net worth and of changes in financial position for the years then ended. These financial statements are the responsibility of the Institution's management. Our responsibility is to express an opinion on these financial statements.
2. We conducted our audit in accordance with approved Brazilian auditing standards, which require that we perform the audit to obtain reasonable assurance about whether the financial statements are fairly presented in all material respects. Accordingly, our work included, among other procedures: (a) planning our audit taking into consideration the significance of balances, the volume of transactions and the accounting and internal control systems of the Institution, (b) examining, on a test basis, evidence and records supporting the amounts and disclosures in the financial statements, and (c) assessing the accounting principles used and significant estimates made by the Institution's management, as well as evaluating the overall financial statement presentation.
3. In our opinion, the financial demonstrations presented are appropriately, in all the important aspects, Instituto Terra's patrimonial and financial position on December 31, 2003 and of 2002 and the surplus, changes in net worth and changes in its financial position for the year then ended, in accordance with the accounting practices adopted in Brazil.

Vitória, July 19, 2004

PricewaterhouseCoopers
Independents Auditors
CRC 2SP000160/O-5 "F" MG

Luiz Márcio Malzone
Accountant - CRC 1RJ031376/O-2-S-MG

Instituto Terra

(A free translation of the original in Portuguese prepared in accordance with accounting practices adopted in Brazil)

Balance Sheet at December 31

In thousands of reais

Assets	2003	2002	Liabilities and net equity	2003	2002
Current assets			Current liabilities		
Cash and banks	107	95	Social and labor charges	117	84
Financial investments	998	505	Projects to be completed	904	188
Other accounts to be received	24		Projects	89	
	<u>1.129</u>	<u>600</u>	Contract retentions	20	28
			Other	5	81
Asset completed (note 5)				<u>1.135</u>	<u>381</u>
Financial investments		34	Liabilities completed (note 5)		
Property and equipment	124	124	Projects to be completed	124	158
	<u>124</u>	<u>158</u>			
Fixed assets			Net equity		
Property and equipment	2.014	1.935	Donations and e subventions	805	802
			Accumulated	1.203	1.352
				<u>2.008</u>	<u>2.154</u>
Total assets	<u>3.267</u>	<u>2.693</u>	Total liabilities and net equity	<u>3.267</u>	<u>2.693</u>

The accompanying notes are an integral part of these financial statements.

Instituto Terra

Statement of Surplus (deficit)

Years ended December 31

In thousand of reais

	<u>2003</u>	<u>2002</u>
Opening revenue		
Donations	717	1.184
Agreements	420	406
Other	<u>6</u>	<u>95</u>
	<u>1.143</u>	<u>1.685</u>
Operating (expenses) income		
Operating (Note 8)	(179)	(187)
Administrative		
Salaries	(477)	(374)
Social charges	(180)	(141)
Third-party services	(199)	(117)
General expenses	(209)	(190)
Depreciation	(115)	(66)
Financial, net	<u>67</u>	<u>24</u>
	<u>(1.292)</u>	<u>(1.051)</u>
Surplus (deficit) for the year transferred to net equity	<u>(149)</u>	<u>634</u>

The accompanying notes are an integral part of these financial statements.

Instituto Terra

Statement of Changes in Net equity

Years ended December 31

In thousands of reais

	<u>Donations and subventions</u>	<u>Surplus accumulated</u>	<u>Total of net equity</u>
At December 31, 2001 (Unaudited)	413	852	1.265
Prior year adjustments		(134)	(134)
Patrimonial donations in the year	389		389
Surplus transferred to net equity		<u>634</u>	<u>634</u>
At December 31, 2002	802	1.352	2.154
Patrimonial donations in the year	3		3
Deficit transferred to net equity		<u>(149)</u>	<u>(149)</u>
At December 31, 2003	<u>805</u>	<u>1.203</u>	<u>2.008</u>

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Instituto Terra

Statement of Changes in Financial Position Years ended December 31 In thousands of reais

	<u>2003</u>	<u>2002</u>
Financial resources were provided by:		
Operations		
Surplus (deficit) for the year	(149)	634
Expense not affecting working capital		
Depreciation	<u>115</u>	<u>66</u>
	(34)	700
Resources invested in the operations	<u>34</u>	<u> </u>
Total funds provided	<u> </u>	<u>700</u>
Financial resources were used for:		
Operations	34	
Property and equipment	191	637
Prior year adjustments		<u>134</u>
Total funds used	<u>225</u>	<u>771</u>
Decrease of working capital	<u>(225)</u>	<u>(71)</u>
Variation of working capital		
Current assets		
At the end of the year	1.129	600
At the beginning of the year	<u>600</u>	<u>341</u>
	<u>529</u>	<u>259</u>
Current liabilities		
At the end of the year	1.135	381
At the beginning of the year	<u>381</u>	<u>51</u>
	<u>754</u>	<u>330</u>
Decrease of working capital	<u>(225)</u>	<u>(71)</u>

The accompanying notes are an integral part of these financial statements.

Instituto Terra

Notes to the Financial Statements at December 31, 2003 and 2002

All amounts in thousand of reais

1 Operations

Instituto Terra is a civil, non-profit association, which was formed in 1998. It is located at the Bulcão Farm in the municipality of Aimorés in the State of Minas Gerais.

The farm with an area of 676 hectares, was recognized as a Private Natural Heritage Reserve (RPPN) by a Government Decree (IEF/MG Ordinance 81) dated October 7, 1998. It is the first RPPN created in a degraded area of Brazil's Atlantic Forest (*Mata Atlântica*).

On December 17, 1999, Instituto Terra was declared a public utility by the City Council of Aimorés through Law 1613/99, and became exempt from municipal taxes while complying with its statutory objectives.

The Institution manages the Bulcão Farm in order to promote a social eco-sustainable development through recovery, conservation and environment rational use. Thus, Instituto Terra has been acting in three working areas: environmental recovery, environmental education and promotion of rural sustainable development.

Since the start of activities and up to 2002, the Institution has recuperated 205 hectares of degraded areas, planting 601 thousand native Atlantic Forest tree seedlings, representing 30% of the farm area. Currently, its structure comprises a nursery with a production capacity of approximately 650 thousand tree seedlings, and is financially supported by the Alliance for the Atlantic Forest Conservation (SOS Mata Atlântica Foundation and Conservation International do Brazil) and the Ministry of Environment, who ensure the production of seedlings necessary for planting in the whole farm area and to meet the demands of current recuperation projects.

The activity of environmental education is promoted by CERA - Educational Center for Environmental Recovery, which since its inauguration in February 2002, assisted 2.599 students of Minas Gerais, Espírito Santo e Rio de Janeiro, through 137 courses and events.

The promotion of the rural sustainable development has been made through the community organization, search for agro-ecological alternatives of production and income generation, as well as, the knowledge development and technology transfer which will be able to give information to rural family producers, associations representatives and professionals from public and private institutions.

The accompanying notes are an integral part of these financial statements.

Instituto Terra

Notes to the Financial Statements at December 31, 2003 and 2002

All amounts in thousand of reais

2 Presentation of Financial Statements

A free translation of the original notes in Portuguese to financial statements prepared in accordance with accounting practices adopted in Brazil and with rules established by the Institute of Independent Auditors of Brazil - IBRACON.

3 Significant Accounting Practices

(a) Contributions and donations

The contributions and donations for costing are classified directly in the results accounts of the year.

The contributions and patrimonial donations, i.e., made exclusively for the acquisition and/or construction of fixed asset, are classified directly in the net equity, in Donations and Subventions.

For that reason, it was reclassified part of the revenues of previous agreements from prior years for the net equity, which were classified as revenues in those years, in the total of R\$ 805.

(b) Determination of surplus

Incomes and expenses are recorded on the accrual basis of accounting. Donations are recognized when received, and are used to defray the cost of activities developed by the Institute.

(c) Financial Investments

Financial investments are stated at cost plus earnings accrued.

(d) Property and equipments

Property and equipment are stated at cost, and depreciation is calculated on the straight-line method, at the annual rates described in Note 6.

The accompanying notes are an integral part of these financial statements.

Instituto Terra

Notes to the Financial Statements at December 31, 2003 and 2002

All amounts in thousand of reais

(e) Compensation Accounts

The Institute classifies in that group of accounts, the received values of agreements that are not of its property, being the Instituto responsible for administering them and having the commitment to provide a financial report of its investments. Also, at the end of the execution of the project the institution in charge of the money will deliberate about the donation, or not, of the originated goods of the investments of those resources.

(f) Other current assets and liabilities

These assets and liabilities are stated at realizable amounts and include, when applicable, monetary variations and accrued earnings or charges.

(g) Donations of services

Donations received in the form of the rendering of services are not recorded in the books of account and do not generate an effect on the net worth shown in the financial statements.

4 Financial Investments

	<u>2003</u>	<u>2002</u>
Not restricted	<u>94</u>	<u>342</u>
restricted to projects		
Fundo Brasileiro para a Biodiversidade - FUNBIO		67
PD/A MMA - Projetos Demonstrativos	65	46
International Finance Corporation - IFC - Aimorés Project	3	
International Finance Corporation - IFC - Pedagogical curriculum	78	
Philips do Brasil Ltda.	708	
Conservation International - CI	<u>50</u>	<u>50</u>
	<u>904</u>	<u>163</u>
	<u>998</u>	<u>505</u>

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Instituto Terra

Notes to the Financial Statements at December 31, 2003 and 2002

All amounts in thousand of reais

Financial investments restricted to projects relate to those funds that must be invested strictly within the scope of the respective project agreements.

In December 31 2003, the financial investments of Instituto were represented by financial investments.

5 Assets and liabilities completed

The balances relate to funds received in connection with agreements with the Brazilian Ministry of Environment that are to be used to construct and maintain the forest nursery. The funds received R\$ 200 had been fully liberated up to December 31, 2002, and the Institution the full amount. The Institute wrote and submitted the financial report to the Environment Ministry, being formally approved by letter 172-2004 of May, 7 2004. The remnant resource of R\$ 124 open in the asset and liability completed will be include to the results in 2004.

6 Property and Equipment

	Annual depreciation rate %			2003	2002
		Cost	Accumulated depreciation	Net	Net
Buildings	4	1.704	115	1.589	1.513
Machines and equipments	10	184	42	142	137
Furniture and fixtures	10	140	16	124	133
Nursery	10	176	19	157	16
Marks and patents		2		2	
Construction in progress					136
		<u>2.206</u>	<u>192</u>	<u>2.014</u>	<u>1.935</u>

Construction in progress basically refers to expenditures on the construction buildings.

The accompanying notes are an integral part of these financial statements.

Instituto Terra

Notes to the Financial Statements at December 31, 2003 and 2002

All amounts in thousand of reais

7 Projects

The balances relate to funds received based on institutional agreements for application in projects and for specific expenditures. These amounts will be recognized in the results for the year (revenue) when used, i.e., when projected expenditures are effectively spent.

<u>Description</u>	<u>Data</u>	<u>Total of agreement</u>	<u>Funds used in 2002</u>	<u>Funds liberated and investments</u>	<u>Funds used</u>	<u>Funds in 2003</u>
Fundo Brasileiro para a Biodiversidade - FUNBIO	September de 2003	1.194	61	260	(321)	
Conservation International - CI	November de 2005	100	51	8	(6)	53
Projetos Demonstrativos - PD/A - Ministério do Meio Ambiente	July de 2005	498	76	72	(83)	65
International Finance Corporation - IFC	April de 2004	85		92	(14)	78
Philips do Brasil Ltda.	August de 2004	697		708		708
		<u>2.574</u>	<u>188</u>	<u>1.140</u>	<u>(424)</u>	<u>904</u>

8 Operating Expenses

These expenses refer to maintenance and forest planting activities, amounting to R\$ 84 (2002 - R\$ 105) and maintenance of the nursery, amounting to R\$ 95 (2002 - R\$ 82).

9 Fiscal aspects

Instituto Terra is a non-profit organization exempted from paying income tax and the social contribution, according to the terms of article 195, paragraph 7 of Federal Constitution.

Exempt institutions must comply with determined legal requirements, which are being observed by the Institution.

The accompanying notes are an integral part of these financial statements.

Instituto Terra

Notes to the Financial Statements at December 31, 2003 and 2002

All amounts in thousand of reais

10 Board of Directors

The Board of Director of Instituto Terra is comprised by:

Sebastião Ribeiro Salgado Júnior	President
Lélia Deluiz Wanick Salgado	Vice-President
Célio Murilo de Carvalho Valle	Education Director
Roberto Messias Franco	Cultural and Institutional Relations Director
Renato Moraes de Jesus	Environmental Actions Director
Paulo Henrique Wanick Mattos	Financial and Administrative Director
Celso Luiz Marques	General Secretary

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