

(A free translation of the original in Portuguese)

**Instituto Fernand Braudel de  
Economia Mundial**

**Financial Statements at  
December 31, 2005 and 2004 and  
Report of Independent Auditors**

Rua Laplace, 96 - 10º andar  
São Paulo – SP  
04622 - 000  
Tel: 55 + 11 5561 2230  
Fax: 55 + 11 5531-6007  
E-mail: [mssps@msbrasil.com.br](mailto:mssps@msbrasil.com.br)  
Internet: [www.msbrasil.com.br](http://www.msbrasil.com.br)

(A free translation of the original in Portuguese)

## REPORT OF INDEPENDENT AUDITORS

April 27, 2.006

To the Board of Directors  
Instituto Fernand Braudel de Economia Mundial  
São Paulo - SP

1. We have audited the accompanying balance sheet of Instituto Fernand Braudel de Economia Mundial as of December 31, 2005 and 2004 and the related statements of revenues and expenses, of changes in net worth and of changes in financial position for the years then ended. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on those 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 Institute, (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 Institute's management, as well as evaluating the overall financial statement presentation.
3. In our opinion, the financials statements referred to in paragraph 1 present fairly, in all material respects, the financial position of Instituto Fernand Braudel de Economia Mundial at December 31, 2004 and 2005 and its revenues and expenses, the changes in net worth and the changes in its financial position for the year then ended in accordance with accounting practices adopted in Brazil.

**MOORE STEPHENS LIMA LUCCHESI**  
**Auditores Independentes**  
**CRC 2SP 015.045/O-0**

**Sergio Lucchesi Filho**  
**ContadorCRC – 1SP 101.025/O-0**

**Instituto Fernand Braudel de Economia Mundial**  
**Balance Sheets at December 31**  
**In reais**

(A free translation of the original in Portuguese)

<b>ASSETS</b>	<b>2.005</b>	<b>2.004</b>	<b>LIABILITIES AND NET WORTH</b>	<b>2.005</b>	<b>2.004</b>
<b>Current Assets</b>			<b>Current liabilities</b>		
Cash and cash equivalents	954,280	576,525	Labor legislation payables	53,008	42,830
Advances	30,628	8,494	Taxes payable	10,077	10,015
Taxes recoverable	2,685	2,721	Accounts payable	5,870	2,315
Books inventory	1,450	-	Advances from Sponsor	464,600	-
	<u>989,043</u>	<u>587,740</u>		<u>533,555</u>	<u>55,160</u>
<b>Permanent Assets</b>			<b>Net Worth</b>		
Fixed Assets - net	62,932	35,684	Accumulated Surplus	518,420	568,264
	<u>62,932</u>	<u>35,684</u>		<u>518,420</u>	<u>568,264</u>
	<u><u>1,051,975</u></u>	<u><u>623,424</u></u>		<u><u>1,051,975</u></u>	<u><u>623,424</u></u>

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

**Instituto Fernand Braudel de Economia Mundial**

**Statement of Revenues and Expenses  
and of Changes in Net Worth  
Years Ended December 31  
In reais**

(A free translation of the original in Portuguese)

	<b>2.005</b>	<b>2.004</b>
<b>Revenues</b>		
Sponsors	601,127	473,783
Projects	969,697	1,165,717
Other contributions	79,314	106,336
<b>Total revenues</b>	<b>1.650,138</b>	<b>1,745,836</b>
<b>Operating costs and expenses</b>		
Personnel	506,618	405,949
Third-party services	703,577	487,334
Operating and administrative	437,707	319,775
	1,647,902	1,213,058
<b>Costs and expenses for projects under Ministry of Culture incentives</b>		
<i>Projeto História da Educação</i> (The History of Education)	8,475	56,889
<i>Projeto Círculos de Leitura</i> (Reading Circles)	174	71,611
<b>Total costs and expenses</b>	<b>1,656,551</b>	<b>1,341,558</b>
Surplus (deficit) before recognition of net financial effect	(6,413)	404,278
Net financial effect	(43,431)	(17,155)
<b>Surplus (deficit) for the year</b>	<b>(49,844)</b>	<b>387,123</b>
Surplus at the beginning of the year	568,264	181,141
<b>Accumulated surplus</b>	<b>518,420</b>	<b>568,264</b>

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

**Instituto Fernand Braudel de Economia Mundial**

**Statement of Changes in Financial Position**

**Years Ended December 31**

**In reais**

(A free translation of the original in Portuguese)

	<u>2.005</u>	<u>2.004</u>
<b>FINANCIAL RESOURCES WERE PROVIDED BY</b>		
Surplus (deficit) for the year	(49,844)	387,123
Depreciation	12,336	7,907
<b>Total funds provided</b>	<u>(37,508)</u>	<u>395,030</u>
<b>FINANCIAL RESOURCES WERE USED FOR</b>		
Increase in fixed assets	<u>39,584</u>	<u>16,510</u>
<b>Total investments</b>	<u>39,584</u>	<u>16,510</u>
<b>Increase (decrease) in net working capital</b>	<u>(77,092)</u>	<u>378,520</u>
<b>Comprising:</b>		
Change in current assets	401,303	378,446
Change in current liabilities	478,395	74
<b>Increase (decrease) in net working capital</b>	<u>(77,092)</u>	<u>378,520</u>

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

## **1. Operations**

Instituto Fernand Braudel de Economia Mundial, a non-profit entity whose main activities comprise research and development in the area of social and human sciences, was founded in September 1987 by a group of economists, businessmen and professionals. The current Executive Director is responsible for managing the Institute's activities, as well as monitoring and conducting studies and research carried out by third parties under research contracts.

## **2. Presentation of the Financial Statements**

The financial statements were prepared in conformity with accounting practices adopted in Brazil.

## **3. Significant Accounting Policies**

### **a) Determination of revenues and expenses**

Revenues and expenses are determined on the accrual basis of accounting.

### **b) Current assets**

These assets are stated at realizable values including, where applicable, related earnings and monetary variations.

### **c) Permanent assets**

Fixed assets are stated at cost, less depreciation calculated based on the annual rates described in Note 5, considering the economic useful lives of the assets.

### **d) Current liabilities**

These are stated at known or estimated amounts including, where applicable, related charges and monetary variations.

**Notes to the Financial Statements  
at December 31, 2005 and 2004  
In reais**

**4. Cash and Cash Equivalents**

Details	2.005	2.004
Cash	477	497
Banks	373,053	576,028
Cash investments	580,750	-
	954,280	576,525

The balances relating to accounts maintained in Brazil and abroad are recorded in the "Banks and Cash Investments" account and we present below these balances at December 31, 2005 and 2004:

	2.005	2.004
<b>Local banks</b>		
Bradesco S/A	98,735	125,178
Bradesco S/A – Reading Circles project	239	413
Bradesco S/A – The History of Education project	306	3,176
Unibanco S/A	1,732	1,857
HSBC Bank Brasil S/A	750	245
Nossa Caixa S/A	64	90
	101,826	130,959
<b>Foreign bank</b>		
CitiGroup Global MKTS inc. (equivalent to US\$116,757.22, translated at the exchange rate of R\$ 2.323)	271,227	445,069
	373,053	576,028
<b>Cash investments</b>		
Foreign investment funds (US\$ 250.000 translated at the exchange rate of R\$ 2.323)	580,750	-
	580,750	-

The resources held in foreign bank accounts and investment funds, properly registered at the Brazilian Central Bank, comprise contributions obtained from international entities and organizations (Notes 8 and 11). The resources held in this account may only be moved by explicit authorization of the Institute's Executive Director.

Notes to the Financial Statements  
at December 31, 2005 and 2004  
In reais

**5. Fixed Assets**

Details	Depreciation rate - %	2.005			2.004
		Cost	Accumulated depreciation	Net	Net
Furniture and fixtures	10	9,330	3,481	5,849	3,273
Electronic equipment	10	3,199	2,922	277	443
Machinery and computers	20	86,100	38,224	47,876	22,784
Software and programs	20	2,029	2,029		254
Library		3,682		3,682	3,682
Telephone line usage rights		5,248		5,248	5,248
		<u>109,588</u>	<u>46,656</u>	<u>62,932</u>	<u>35,684</u>

The Institute carries out its activities on premises which are lent free of charge by FAAP-Fundação Armando Alvares Penteado.

**6. Labor Legislation Payables**

Details	2.005	2.004
Salaries	5,678	5,081
Social security contributions (INSS)	10,306	9,009
Employee severance indemnity fund (FGTS)	2,882	2,811
Provision for vacation pay and related charges	33,593	25,589
Other	549	340
	<u>53,008</u>	<u>42,830</u>

**7. Taxes Payable**

Details	2.005	2.004
Service tax (ISS)	3,193	3,143
Withholding tax (IRRF)	5,806	5,866
Social Integration Program (PIS)	621	578
Other	457	428
	<u>10,077</u>	<u>10,015</u>

**Notes to the Financial Statements  
at December 31, 2005 and 2004  
In reais**

**8. Advances from Sponsor**

Advance received from the GE Foundation, in the amount of US\$ 200,000, for the sponsorship of activities to be carried out in 2006 related to the Reading Circles and Science Academy projects (Note 11).

**9. Net Worth**

The Institute's net worth consists exclusively of accumulated surplus or deficit.

Since the Institute is a non-profit entity, no profits, dividends, benefits or stakes are distributed to its founders, sponsors and directors, in any form.

**10. Sponsors**

<b>Details</b>	<b>2.005</b>	<b>2.004</b>
Basf S/A	39,600	45,600
Brasmotor S/A	14,691	17,601
Siemens Ltda	16,232	22,912
Brascan do Brasil S/A	16,935	41,114
Klabin S/A	107,200	67,200
Philips do Brasil S/A	17,556	31,149
Banco Itaú S/A	80,000	80,000
Hospital Alemão Oswaldo Cruz	6,319	21,149
Souza Cruz S/A	18,000	15,900
Pirelli S/A	16,319	17,908
Santander Banespa	36,000	-
Natura Cosméticos S/A	50,000	-
Esteve S/A.	19,800	-
Banco ABN AMRO Real S/A.	25,000	25,000
Banco Bradesco S/A	16,039	21,150
BG do Brasil Ltda./Comgás	18,767	20,592
Cia. Brasileira de Petróleo Ipiranga	17,559	8,660
Fundação Filantrópica Safra	13,200	13,200
Other	71,910	24,648
	<u>601,127</u>	<u>473,783</u>

Notes to the Financial Statements  
at December 31, 2005 and 2004  
In reais

11. Project Revenues

Sponsors	2.005	2.004
<b>Local</b>		
Instituto Unibanco	287,791	224,099
Nestlé Brasil Ltda.	471,000	110,000
World Bank Group	24,000	-
Fundação Vitae	132,200	-
Suzano Bahia Sul Papel e Celulose	5,605	-
EDP Brasil S/A	-	44,130
Ministry of Culture	-	117,215
São Paulo State Secretariat for Culture	-	30,000
Klabin S/A.	-	25,000
	920,596	550,444
<b>Foreign – Sundry</b>	49,101	615,273
	969,697	1,165,717

The projects carried out by the Institute comply with previously prepared operating and financial plans.

We present below the main projects carried out or which are underway in 2005 and 2004:

- a) **Reading Circles:** This project is now fully consolidated and under implementation in 25 public schools located in Greater São Paulo, with the participation of 1,400 elementary and high-school students, who meet together in groups outside of school hours to read world literature classics. This project is sponsored by Instituto Unibanco and the GE Foundation in the U.S.A.
- b) **Science Academy:** In 2006, with support from the GE Foundation and Fundação Vitae, the Institute will commence a pilot project to foster scientific skills among final-year middle school and high-school students.
- c) **Access to Consumption and Social Mobility:** With support from Nestlé Brasil Ltda. quantitative and qualitative field research was carried out in four neighborhoods on the outskirts of Greater São Paulo among 1092 families, designed to analyze and measure the changes in consumption, standards of life quality and aspirations of people from C, D and E income brackets.
- d) **Democratic Institutions in Latin America:** An in-depth study, partially sponsored by the Open Society Institute in Switzerland, carried out by our executive director, which reveals that despite the expansion of democratic regimes in Latin America, institutional problems are significant and are putting future development at risk.

**Notes to the Financial Statements  
at December 31, 2005 and 2004  
In reais**

**12. Personnel Expenses**

Details	2.005	2.004
Salaries and remuneration	208,498	204,591
Vacation pay and 13 <sup>th</sup> . Salary	52,099	48,835
Transport vouchers	94,184	42,815
INSS	80,093	69,822
FGTS	32,111	23,047
Other	39,633	16,839
	506,618	405,949

**13. Third-party Services**

Details	2.005	2.004
Ngall Editoração S/C Ltda.	289,573	260,529
Luna Consultoria S/C Ltda.	139,050	91,872
PVGM Consultoria S/C Ltda.	158,350	109,579
Clio Consultoria S/C Ltda.	-	40,207
IMES – Inst. Munic. Ensino S.Caetano Sul	10,990	
Other (corporate entities and individuals)	105,614	76,666
	703,577	578,853
Amounts transferred to projects under Ministry of Culture incentive schemes.		(91,519)
	703,577	487,334

**14. Operating and Administrative Expenses**

Details	2005	2004
Communications	58,634	40,383
Publications and printed matter	56,484	9,165
Snacks and meals	42,717	40,521
Books	39,735	15,159
Multipliyng agents	33,165	13,033
Office material	32,106	26,005
Accounting fees	26,978	22,100
Lectures, courses and events	26,843	44,857
Reading Circle	26,022	7,483
Events and receptions	15,852	569
Building and equipment maintenance	13,194	11,815
Depreciation	12,336	7,907
Expense allowance – Nestlé research	12,283	-
Travel expenses	12,016	28,655
Taxi fares	11,953	9,669
Other	17,389	42,454
	437,707	319,775

Notes to the Financial Statements  
at December 31, 2005 and 2004  
In reais

15. Financial Effects

Details	2.005	2.004
<b>Exchange variation</b>		
Gain	78,904	16,647
Loss	(135,234)	(27,483)
	(56,330)	(10,836)
<b>Banking</b>		
Revenue	25,583	4,076
Expenses	(12,684)	(10,395)
	12,899	(6,319)
	(43,431)	(17,155)

Exchange variation is derived from activity in bank accounts and cash investments held abroad in U.S. dollar.

16. Cash Flows

	2.005	2.004
<b>Surplus (deficit) for the year</b>	(49,844)	387,123
Depreciation	12,336	7,907
	(37,508)	395,030
<b>Changes in:</b>		
Assets	23,548	1,968
Liabilities	478,395	(74)
	454,847	1,894
Investment in fixed assets	(39,584)	(16,510)
<b>Cash used for the year</b>	377,755	380,414
Cash and cash equivalents at the beginning of the year	576,525	196,111
Cash and cash equivalents at the end of the year	954,280	576,525

\* \* \*