

Instituto Clima e Sociedade - iCS

Financial statements December 31, 2015

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

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Independent auditors' report on financial statements

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

To the Directors and Board of Directors of
Instituto Clima e Sociedade - iCS
Rio de Janeiro - RJ

We have examined the financial statements of Instituto Clima e Sociedade - iCS ("Entity" or "iCS"), comprising the balance sheet as of December 31, 2015 and the related statements of income, comprehensive income, changes of Equity, and cash flows from May 11, 2015 (establishment date) to December 31, 2015, as well as the summary of the significant accounting practices and other explanatory notes.

Management's responsibility for the financial statements

The Entity's Management is responsible for the preparation and adequate presentation of financial statements in accordance with the accounting practices adopted in Brazil, applicable to small and medium-sized companies, and the internal controls it deemed necessary to enable the preparation of these financial statements free of material misstatements, whether due to fraud or error.

Responsibility of the independent auditors

Our responsibility is to express an opinion on these financial statements based on our auditing, conducted according to the Brazilian auditing and international auditing standards. These standards require compliance with ethical requirements by the auditors and that the audit be planned and performed for the purpose of obtaining reasonable assurance that the financial statements are free from material misstatement.

An audit involves the carrying out of procedures selected to obtain evidence respect to the amounts and disclosures presented in the financial statements. The procedures selected depend on the auditor's judgment, including an assessment of the risks of material misstatement in the financial statements, whether due to fraud or error. In this assessment of these risks, the auditor considers relevant internal controls for the preparation and adequate presentation of the Company's financial statements, in order to plan the audit procedures that are appropriate in the circumstances, but not for purposes of expressing an opinion on the effectiveness of Company's internal controls. An audit also includes evaluating the adequacy of accounting practices used and the reasonableness of accounting estimates made by management, as well as an evaluating overall presentation of the financial statements taken as a whole.



We believe that the audit evidence obtained is sufficient and appropriate to support our opinion.

Opinion

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of Instituto Clima e Sociedade as of December 31, 2015, the performance of its operations and its cash flows from May 11, 2015 (establishment date) to December 31, 2015, in accordance with the accounting practices adopted in Brazil for small and medium-sized companies.

Rio de Janeiro, July 12, 2016

KPMG Assurance Services Ltda.
CRC SP-023228/O-4 F-RJ
Original report in Portuguese signed by
Marcelo Nogueira de Andrade
Accountant CRC RJ-086312/O-6

Instituto Clima e Sociedade - iCS

CNPJ 22.428.410/0001-70

Balance sheet

December 31, 2015

(Amounts expressed in Reais)

Assets			Liabilities and Equity		
	Note	2015		Note	2015
Current assets		462,268	Current liabilities		88,412
Cash and cash equivalents	4	438,407	Accounts payable	7	805
Advances for activities	5	23,861	Tax liabilities	8	1,820
			Salaries and social security charges	9	85,787
Non-current assets		100,755			
Property, plant and equipment	6	77,300	Equity	10	474,612
Property, plant and equipment		78,518	Equity		-
Accumulated depreciation		(1,218)	Surplus for the year		474,612
Intangible assets	6	23,455			
Software		24,222			
Accumulated amortization		(767)			
Total assets		563,023	Total liabilities and net equity		563,023

See the accompanying notes to the financial statements.

Instituto Clima e Sociedade - iCS

CNPJ 22.428.410/0001-70

Statements of Income

Period from May 11, 2015 [establishment date] to December 31, 2015

(Amounts expressed in Reais)

	Note	2015
Income	11	<u>1,842,013</u>
Donations		1,797,000
Climate Works Foundation		1,797,000
Unrestricted funds		44,319
Voluntary Donations and Contributions - Legal Entities		44,319
Financial income		694
Financial income		694
Social activities	12	<u>(8,147)</u>
Program activities		<u>(8,147)</u>
Gross income		1,833,866
Operating expenses		
Personnel expenses	13	(927,587)
Services rendered	14	(206,883)
Travel and accommodation	15	(37,312)
General and administrative expenses	16	(166,820)
Tax expenses	17	(2,966)
Financial expenses	18	(15,702)
Depreciation and amortization	6	<u>(1,985)</u>
		<u>(1,359,255)</u>
Surplus for the period from may 11, 2015 to december 31, 2015		<u><u>474,612</u></u>

See the accompanying notes to the financial statements.

Instituto Clima e Sociedade - iCS

CNPJ 22.428.410/0001-70

Statements of comprehensive income

Period from May 11, 2015 [establishment date] to December 31, 2015

(Amounts expressed in Reais)

	2015
Surplus for the period from May 11, 2015 to December 31, 2015	474,612
Other comprehensive income	<u>-</u>
Comprehensive income for the period from May 11, 2015 to December 31, 2015	<u><u>474,612</u></u>

See the accompanying notes to the financial statements.

Instituto Clima e Sociedade - iCS

CNPJ 22.428.410/0001-70

Statements of changes of Equity

Period from May 11, 2015 [establishment date] to December 31, 2015

(Amounts expressed in Reais)

	Equity	Surplus / (Deficit)	Total
Balances at May 11, 2015 (date of establishment)	-	-	-
Surplus for the period from May 11, 2015 to December 31, 2015	-	474,612	474,612
Balances at December 31, 2015	-	474,612	474,612

See the accompanying notes to the financial statements.

Instituto Clima e Sociedade - iCS

CNPJ 22.428.410/0001-70

Statements of cash flows

Period from May 11, 2015 [establishment date] to December 31, 2015

(Amounts expressed in Reais)

	2015
Cash flow from operating activities	
Surplus for the period from May 11, 2015 to December 31, 2015	474,612
Adjustments for reconciliation of income or loss on cash flow from operating activities:	
Donation of fixed assets	(44,319)
Provision of vacation	85,787
Depreciation / Amortization	<u>1,985</u>
Adjusted surplus for the year	518,064
(Increase)/decrease in current assets	
(Increase)/decrease in advances	<u>(23,861)</u>
	(23,861)
Increase/(decrease) in current liabilities	
Increase in salaries and social security charges	1,820
Increase in accounts payable	805
	<u>2,625</u>
Net cash flow from operating activities	<u>496,828</u>
Cash flow from investment activities	
Acquisition of property, plant and equipment e intangible assets)	(58,421)
Net cash flow from investment activities	<u>(58,421)</u>
Increase in cash and cash equivalents	<u>438,407</u>
Opening balance of cash and cash equivalents	-
Closing balance of cash and cash equivalents	<u>438,407</u>
Increase in cash and cash equivalents	<u>438,407</u>

See the accompanying notes to the financial statements.

Notes to the financial statements

(Amounts expressed in Reais)

1 Social context

Instituto Clima e Sociedade (iCS) is a non-profit civil association under private law, located at 14 - parte, Humaitá - Rio de Janeiro - State of Rio de Janeiro, and registered with the Civil Registry of Legal Entities on May 11, 2015.

iCS is an association that fosters prosperity and low-carbon economic growth in Brazil. It is part of a network of philanthropic re-granting agents that act as catalysts of global, national and regional climate-related policies, with the aim of reducing the emission of greenhouse gases.

Pursuant to its bylaws, the aim of iCS is to foster prosperity and justice in Brazil, leading the transition to 1.5°C, providing social support for actions related to climate change, in line with environmental preservation and sustainable development principles. iCS' mission is to be recognized as a center of excellence in philanthropy for climate change in Brazil by:

- (a) Grant making: supporting and enabling organizations and projects of civil society, academy and governments;
- (b) Mobilizing Resources: engaging national and international philanthropic and other financial agents;
- (c) Convening: connecting partners and catalyzing actions across sectors.

The iCS actions focus on:

Climate Policy

Ensuring strong political participation and climate governance at the local and national levels, with the aim of planning long-term actions.

Electric Power

Stimulating initiatives in the fields of energy efficiency and renewable energy sources.

Urban Mobility

Adopting urban mobility plans that prioritize public and non-motorized transport, as well as with low carbon emission. Involving and engaging civil society and think tanks to develop innovative models for this sector, thus ensuring that sustainability prevails over isolated actions.

2 Basis of presentation

a. Statement of conformity

Financial statements have been prepared and are being presented in accordance with accounting practices adopted in Brazil applicable to small and medium-sized entities (Federal Accounting Council (CFC) Resolution 1255/09, NBC TG 1000 - Accounting for Small and Medium-sized Entities, which approved technical pronouncement PME of the Accounting Pronouncements Committee - CPC), as well as in accordance with CFC Resolution 1409/12, dated September 21, 2012, which approved ITF 2002 - Non-profit Entities, amended and consolidated as ITG 2002 (R1) on August 21, 2015.

The issue of these financial statements, which comprise the balance sheet as at December 31, 2015 and the statements of income, comprehensive income, changes of Equity and cash flows for the period from May 11, 2015 (date of establishment of the entity) to December 31, 2015, was approved by Executive Board on July 12, 2016.

b. Functional currency

The Entity management defined that its functional currency is the Real, in accordance with technical pronouncement CPC PME - Accounting for Small and Medium-sized Entities (Section 30 - Effects of Changes in Foreign Exchange Rates and Translation of Financial Statements).

Foreign currency transactions are converted into the entity's functional currency at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted into the functional currency at the exchange rate in effect at the reporting date.

Foreign exchange gains and losses on monetary assets and liabilities are recognized in the statement of income.

c. Accounting estimates

Preparation of the financial statements in accordance with accounting practices adopted in Brazil requires that Management use its judgment in determining and recording accounting estimates. Significant assets subject to these estimates and assumptions include the residual value of fixed assets. The settlement of transactions involving these estimates may result in different amounts due to the lack of precision inherent to the process of their determination. The Entity reviews the estimates and assumptions at least once a year.

d. Current assets and liabilities

Assets and liabilities are classified as current when their realization or settlement is likely to occur within the next 12 months. Otherwise, they are presented as non-current.

Stated at the known amounts or estimated, plus, when applicable, the corresponding charges and liabilities overdue.

A liability is recognized in the balance sheet when the entity has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of funds will be necessary to settle it. Liabilities include, when applicable, the related charges and monetary or foreign exchange variations incurred. Provisions are recorded considering the best estimates of the risk specific to the liability.

e. Statement of income

Income and expenses are recorded on the accrual basis. The surplus or deficit arising from the entity's operations is incorporated into its Equity only at the end of each fiscal year.

The funds were invested in the entity's institutional purposes, pursuant to its bylaws, as shown by its expenses and equity investments .

The entity's expenses are calculated based on invoices, payrolls and receipts, in compliance with the applicable legal and tax requirements.

f. Tax exemptions

Instituto Clima e Sociedade - iCS is a non-profit organization and has been exempted from income tax and social contribution pursuant to Article 15 of Law 9532/97 and it has also been exempted from other federal taxes, such as the Social Contribution on Income (COFINS) and the Social Integration Program (PIS) contributions. As disclosed in Note 21.

3 Significant accounting policies

a. Cash and cash equivalents

The entity's management takes a conservative approach to cash management, by investing available funds, when permitted by the donors, in Bank Deposit Certificates (CDBs) and securities issued by prime Brazilian financial institutions. Income from these investments is reinvested in the entity's activities, or directly in specific projects when required by the donor, and is presented separately in the statement of income. These are highly liquid investments, subject to insignificant risk of change in value.

In order to obtain a return on its available funds, the entity seeks to invest its cash in fixed-income bank products or interbank deposit interest rate (DI)-referenced funds, particularly those with low risk and daily liquidity, and may negotiate on a fixed-term basis when offered a significantly higher return. Financial investments are readily convertible into known amounts of cash and subject to immaterial risk of change in value. For this reason they were considered cash equivalents in the balance sheet and statement of cash flows.

Financial investments included in cash equivalents are classified as financial assets at fair value (see Note 19).

b. Property, plant and equipment

Property and equipment are stated at historical cost, which includes all expenditures directly attributable to the acquisition of the asset, less accumulated depreciation and any accumulated impairment losses, when applicable. Gains and losses on disposal of property, plant and equipment items are calculated by comparing the proceeds from disposal and the book value of the item, and are recorded on a net basis within "Other income" in the statement of income.

Adjustments to the recoverable value of assets and deemed cost

Despite its intention to calculate the recoverable amounts of assets in compliance with NBC T 19.41 and based on technical interpretation CPC 01 as well as attend the requirements of ICPC 10, for deemed cost calculation purposes, iCS reviewed its assets and concluded that there is no indication of impairment and that they are realizable over reasonable terms.

Depreciation

Depreciation is recognized in the statement of income on a straight-line basis, over the estimated useful life of each component of the property and equipment items. This is the method that best reflects the pattern of consumption of future economic benefits embodied in an asset. The entity understands that the depreciation rates applied are reasonably linked to the useful lives of the assets.

c. Equity

Represented by the Equity of Instituto Clima e Sociedade - iCS, plus annual surpluses or deficits, according to each case.

d. Income e Financial expenses

Financial income comprises income from investments in Interbank Deposit Certificates (CDBs). Interest income is recognized in the statement of income using the effective interest method. Financial expenses mainly comprise banking fees and foreign exchange losses, and are charged directly to the statement of income, since they are not directly attributable to the acquisition, construction or production of a qualifying asset.

e. Tax Liabilities

The entity is a non-profit organization and, in compliance with the prevailing tax legislation, is exempt from Corporate Income Tax (IRPJ) and Social Contribution on Net Income (CSLL). This tax exemption rule does not apply to income from and future capital gains on financial investments, and, in these cases, the aforementioned taxes are withheld at source.

f. Donations received

Refer to the funds received in the form of donations to support the social activities carried out by the entity. All the funds were invested in social actions, in accordance with the purposes provided for in its bylaws, and accounted for under income line items in the statement of income.

g. Expenses

- Social activities

Refer to expenses incurred to carry out the social projects developed by the entity.

- Operating activities

Refer to personnel expenses, services hired, travel and accommodation expenses, administrative expenses, as well as other expenses required for the maintenance of the entity.

4 Cash and cash equivalents

	2015
Cash and banks	501
Short Term investments*	437,906
	438,407

***Short Term investments**

Financial institution	Description	Maturity date	2015
Banco Bradesco	Invest Plus	05/16/2016	437,906
			<u>437,906</u>

Comprise cash, positive balances in current accounts, and financial investments redeemable within 90 days of the balance sheet dates, with immaterial risk of change in value and (maximum) daily return equivalent to 5% of the Interbank Deposit Certificate (CDI) rate.

5 Advances

Refer to the amounts of advances to employees and third parties and advances for activities. The balance of this group is comprised as follows:

	2015
Advances for activities	<u>23,861</u>
	<u>23,861</u>

6 Property, plant and equipment and intangible assets

Refer to the amounts of and changes in the entity's assets during the year. The entity understands that the depreciation rates applied are reasonably linked to the useful lives of the assets:

	Annual rate depreciation	Donations	Acquisitions	Write-offs	Depreciation/Amortization	Net value 12/31/2015
IT	20%	10,326	18,505	-	(683)	28,149
Furniture and fixtures	10%	20,592	11,980	-	(258)	32,314
Machinery and equipment	10%	3,714	13,400	-	(277)	16,837
Intangible assets - Software	20%	<u>-</u>	<u>24,222</u>	<u>-</u>	<u>(767)</u>	<u>23,455</u>
		<u>44,319</u>	<u>58,421</u>	<u>-</u>	<u>(1,985)</u>	<u>100,755</u>

Management has not identified changes in circumstances or signs of technological obsolescence, nor evidence that its assets may not be recoverable based on its operating and financial performance, and concluded that there was no need to record a provision for losses on its fixed assets.

7 Accounts payable

	2015
Service Providers - Individuals	305
Service Providers	<u>500</u>
	<u>805</u>

8 Tax liabilities

	2015
Tax on Services (ISS) withheld from third parties	500
National Institute of Social Security (INSS) contribution withheld from third parties	<u>1,320</u>
	<u>1,820</u>

9 Salaries and social security charges

	2015
Provision for vacation and charges	<u>85,787</u>
	<u>85,787</u>

10 Equity

a. Equity

The Entity's Equity refer to the surplus (deficits) recorded for prior years and approved by the Deliberative Council.

b. Surplus accumulated

Refers to the statement of income for the current year. After approval by the General Meeting, these amounts are incorporated into the entity's Equity, and potential positive results are reinvested in the entity's purposes, as provided for in its bylaws.

11 Income

Refer to the funds received in the form of donations to enable the carrying out of the entity's activities, voluntary donations and contributions from partners, and income from investments:

	2015
ClimateWorks Foundation	1,797,000
Voluntary Donations and Contributions - Legal Entities	44,319
Financial income	<u>694</u>
	<u>1,842,013</u>

The main sources of funds for 2015, to be invested in social and operational activities, were received from Climate Works Foundation and NAPEC - Support Center for Research and Continuing Education.

12 Social activities

Refer to expenses incurred with program activities provided for in the climate policy, electric power and urban mobility social actions.

	2015
Social donations	(5,878)
Seminars and Events	(2,269)
	<u>(8,147)</u>

13 Personnel expenses

	2015
Salaries	(567,700)
13th salary	(47,483)
Vacation	(63,311)
INSS	(184,666)
FGTS	(54,280)
PIS on Payroll	(6,785)
Health care	(140)
Transportation voucher	(3,222)
	<u>(927,587)</u>

14 Services rendered

Refer to expenses incurred with services provided by individuals and legal entities, as shown in the table below:

	2015
Services rendered by Individuals	(24,324)
Services rendered Legal entities	(182,560)
	<u>(206,883)</u>

15 Travel and accommodation

Refer to expenses incurred with air tickets, hotel bills and other travel-related expenses, such as commuting, meals and insurance, as shown in the table below:

	2015
Airline tickets	(32,348)
Daily rates and accommodation	(2,777)
Other travel expenses	(2,186)
	<u>(37,312)</u>

16 General and administrative expenses

Refer to expenditures on maintenance of the office and general activities, as presented in the table below:

	2015
Rental and condominium	(125,000)
Telephone and Internet	(4,691)
Property maintenance	(1,026)
Permanent assets	(2,755)
Office supplies	(3,811)
Cleaning products and services	(154)
Snacks and meals	(85)
Confraternization	(4,281)
Photocopies and prints	(21)
Legal, court and notary public fees	(4,120)
Mail and packages	(121)
Insurance	(21)
Delivery services and freight	(899)
Transport, parking and toll fees	(1,232)
Annual fees	(18,603)
	<u>(166,820)</u>

Rental and condominium fee expenses incurred are in accordance with the sublease contract entered into on 5/20/2015, effective for the period from 5/20/2015 to 3/19/2020.

17 Tax expenses

The amount recorded refers to Tax on Financial Transactions (IOF) levied on foreign exchange transactions resulting from donations received, Income tax (IR) on short-term investments, monetary and foreign exchange variation and bank fees.

	2015
Tax on financial operations - IOF	(2,856)
Income Tax on short-term Investments	(110)
	<u>(2,966)</u>

18 Financial expenses

The amount recorded refers to bank fees.

	2015
Bank fees	(15,702)
	<u>(15,702)</u>

19 Financial instruments

Financial risk management

Overview

The entity is exposed to the following risks arising from the use of financial instruments:

- Market risk; and
- Liquidity risk

This note presents information on the entity's exposure to each of the aforementioned risks, and the entity's objectives, policies and processes for measurement and management of risks and capital. Additional quantitative disclosures are included throughout these financial statements.

Risk management structure

The entity assesses the risks related to its financial instruments and defines appropriate and acceptable limits, considering its operations and objectives.

Market risk

Market risk is the risk that changes in market prices, such as in the interest rates of the entity's financial investments, will affect the Company's return on its investment portfolio or the value of its financial instruments. The entity manages market risks by investing in funds with a low level of market risk and low gearing, always with prime financial institutions.

Cash and cash equivalents

The cash and cash equivalent amounts presented in the table below represent the maximum credit exposure to these assets.

	2015
Cash and banks	501
Short-Term investments	437,906
	438,407

Liquidity risk

Liquidity risk is the risk that the entity will have difficulty fulfilling obligations associated with its financial liabilities that are settled in cash or other financial assets. The entity's approach to liquidity management is to ensure, to the maximum extent possible, that it will always have sufficient liquidity to honor its obligations as they fall due, under normal or stress conditions, without incurring unacceptable losses or adversely impacting the entity's reputation. The table below presents the balances of the financial assets and liabilities recognized in the entity's balance sheet:

Financial assets	Note	Rating	Book value 12/31/2015	Fair value 12/31/2015
Cash and cash equivalents	4	Fair value - Level 1	438,407	438,407
Financial Liabilities	Note	Rating	Book value 12/31/2015	Fair value 12/31/2015
Accounts payable	7	Amortized cost	805	805

Fair value hierarchy

The table above presents financial instruments recorded at fair value, using a valuation method.

The different levels were defined as follows:

- **Level 1** - Prices charged (unadjusted) in active markets for identical assets and liabilities.
- **Level 2** - Different inputs of the prices negotiated in active markets included at Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- **Level 3** - inputs for the asset or liability that are not based on observable market variables (unobservable inputs).

The entity has financial assets measured at fair value categorized as Level 1.

a. Market value of financial instruments

The carrying amounts of cash and cash equivalents (cash at banks and financial investments) and current liabilities (accounts payable) correspond to market value, since their maturity date is close to the balance sheet date.

b. Other types of financial instruments

At December 31, 2015, the entity did not have unrecorded financial instruments, and it did not carry out any derivative transactions during the year ended December 31, 2015.

20 Related parties

Directors' fees

The entity's bylaws do not provide for the compensation of the members of the Board of Directors and Fiscal. Consequently, the entity does not provide any type of compensation, advantage or benefit, either directly or indirectly, for the competences, duties or activities assigned to these members as per its bylaws.

21 Tax Exemptions

In compliance with Item 27, item “c” of ITG 2002 (R1) - Non-Profit Entities, the Entity hereby presents the list of taxes it was exempted from in the period from May 11, 2015 (date of its establishment) to December 31, 2015:

- **IRPJ** - Corporate income tax
- **CSLL** - Social contribution on net income

22 Subsequent events

Although there was no need for an adjustment in 2015, it is worth pointing out as a subsequent event the expectation for an increase in the volume of incoming donations in 2016, as well as in disbursement donations to projects.

Through the legalization of iCS, its effective operations and the establishment of long-term strategies, certain financing entities, which form part of the re-granting network, started to direct their donations to iCS, in order to allow the latter to achieve its institutional purpose.

Up to April 2016, iCS had received donations from ClimateWorks Foundation (R\$ 3,448,565) and Instituto Arapyaú de Educação e Desenvolvimento Sustentável (R\$ 1,000,000).

* * *

Ana Amelia Campos Toni
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