

Financial Statements

Instituto Clima e Sociedade

December 31, 2019
with Independent Auditor's Report

Instituto Clima e Sociedade

Financial Statements

December 31, 2019 and 2018

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A free translation from Portuguese into English of independent auditor's report on financial statements prepared in Brazilian currency in accordance with accounting policies adopted in Brazil, applicable to nonprofit organizations (ITG 2002 (R1))

Independent auditor's report on financial statements

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

Opinion

We have audited the financial statements of Instituto Clima e Sociedade ("Institute"), which comprise the statement of financial position as at December 31, 2019 and the statements of surplus (deficit), of comprehensive surplus (deficit), of changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting practices.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Instituto Clima e Sociedade as at December 31, 2019, and its financial performance and cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil, applicable to nonprofit organizations (ITG 2002 (R1)).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Institute and in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by the Brazil's National Association of State Boards of Accountancy (CFC) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting practices adopted in Brazil, applicable to nonprofit organizations (ITG 2002 (R1)), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free of material misstatement, whether due to fraud or error.



In preparing the financial statements, management is responsible for assessing the Institute's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Institute or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institute's financial reporting process.

Auditor's responsibilities for the audit of financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Institute to cease to continue as a going concern.



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- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the scope and timing of the planned audit procedures and significant audit findings, including deficiencies in internal control that we may have identified during our audit.

Rio de Janeiro, August 18, 2020.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/O-6

A handwritten signature in blue ink, appearing to read 'Diogo Afonso da Silva'.

Diogo Afonso da Silva
Accountant CRC-1RJ114783/O-8

Instituto Clima e Sociedade

Statements of financial position
December 31, 2019 and 2018
(In thousands of reais)

	Note	2019	2018
Assets			
Current assets			
Cash and cash equivalents	4	5,457	19,398
Marketable securities	5	6,701	5,298
Receivables		122	246
Donations receivable	6	28,105	17,081
Project and partnership funds	7	10,393	10,127
		<u>50,778</u>	<u>52,150</u>
Noncurrent assets			
Donations receivable	6	-	1,227
Project and partnership funds	7	440	290
Property and equipment	8	147	114
Intangible assets	8	4	9
		<u>591</u>	<u>1,640</u>
Total assets		<u><u>51,369</u></u>	<u><u>53,790</u></u>
Liabilities and equity			
Current liabilities			
Accounts payable		114	12
Tax liabilities		13	3
Labor and social liabilities	9	535	312
Funds for social projects	10	38,537	40,954
Partnership funds	11	10,393	10,127
		<u>49,592</u>	<u>51,408</u>
Noncurrent liabilities			
Funds for social projects	10	-	1,227
Partnership funds	11	440	290
		<u>440</u>	<u>1,517</u>
Equity			
Net asset value	12	865	587
Surplus for the year		472	278
		<u>1,337</u>	<u>865</u>
Total liabilities and equity		<u><u>51,369</u></u>	<u><u>53,790</u></u>

See accompanying notes.

Instituto Clima e Sociedade

Statements of surplus (deficit)
 Years ended December 31, 2019 and 2018
 (In thousands of reais)

	Note	2019	2018
Operating revenues		36,568	24,805
With restrictions		36,384	24,805
Social programs	13.1	35,986	24,477
Financial returns	13.2	397	323
Exchange gains (losses)	13.3	1	5
Without restrictions	13.4	184	-
Other revenues		184	-
Social activity cost		(29,961)	(20,647)
Program activities	14	(29,961)	(20,647)
Gross surplus (deficit)		6,607	4,158
Operating expenses		(6,135)	(3,880)
Personnel expenses	15.1	(1,942)	(1,583)
Services rendered	15.2	(1,127)	(526)
Travel and lodging	15.3	(2,169)	(908)
General and administrative expenses	15.4	(814)	(650)
Tax expenses	15.5	(45)	(182)
Depreciation and amortization	8	(38)	(31)
Surplus for the year		472	278

See accompanying notes.

Instituto Clima e Sociedade

Statements of comprehensive surplus (deficit)
Years ended December 31, 2019 and 2018
(In thousands of reais)

	<u>2019</u>	<u>2018</u>
Surplus for the year	472	278
Other comprehensive surplus (deficit)	-	-
Comprehensive surplus for the year	<u>472</u>	<u>278</u>

See accompanying notes.

Instituto Clima e Sociedade

Statements of changes in equity
Years ended December 31, 2019 and 2018
(In thousands of reais)

	Net asset value	Surplus / (deficit)	Total equity
Balances at December 31, 2017	220	367	587
Inclusion of surplus (deficit)	367	(367)	-
Surplus for 2018		278	278
Balances at December 31, 2018	587	278	865
Inclusion of surplus (deficit)	278	(278)	-
Surplus for 2019	-	472	472
Balances at December 31, 2019	865	472	1,337

See accompanying notes.

Instituto Clima e Sociedade

Statements of cash flows
 Years ended December 31, 2019 and 2018
 (In thousands of reais)

	<u>2019</u>	<u>2018</u>
Cash flow from operating activities		
Surplus for the year	472	278
Adjustments to reconcile surplus to cash flow from operating activities		
Depreciation/amortization	38	31
Adjusted surplus for the year	<u>510</u>	<u>309</u>
(Increase) decrease in assets		
Receivables	124	(129)
Increase in marketable securities	(1,403)	276
Donations receivable	(9,797)	(2,982)
Project and partnership funds	(416)	(3,797)
	<u>(11,492)</u>	<u>(6,632)</u>
Increase (decrease) in liabilities		
Labor, tax and social liabilities	233	137
Accounts payable	102	(24)
Funds for social projects	(3,644)	14,933
Increase in partnership funds	416	3,797
	<u>(2,893)</u>	<u>18,843</u>
Net cash from operating activities	<u>(13,875)</u>	<u>12,520</u>
Cash flow from investing activities		
Acquisition of property and equipment and intangible assets	(66)	(18)
Net cash from investing activities	<u>(66)</u>	<u>(18)</u>
Increase (decrease) in cash and cash equivalents	<u>(13,941)</u>	<u>12,502</u>
Opening balance of cash and cash equivalents	19,398	6,896
Closing balance of cash and cash equivalents	<u>5,457</u>	<u>19,398</u>
Increase (decrease) in cash and cash equivalents	<u>(13,941)</u>	<u>12,502</u>

See accompanying notes.

Instituto Clima e Sociedade

Notes to financial statements

December 31, 2019 and 2018

(In thousands of Brazilian reais – R\$, unless otherwise stated)

1. Operations

Instituto Clima e Sociedade (“iCS” or “Institute”) is a nonprofit civil association under private law, located at Rua General Dionísio, nº 14 - parte, Humaitá - Rio de Janeiro - RJ, and registered with the Civil Registry of Legal Entities on May 11, 2015.

iCS is a philanthropic organization that raises funds and fosters projects that contribute to the development of climate crisis solutions. It is a bridge between financiers (international and national foundations and bilateral cooperation institutions) and local partners, including civil society organizations, academia, associations and governmental entities. The Institute's activities consist of managing grants, engaging society in climate change, implementing projects and institutional capacity building of civil society organizations. In this sense, iCS and its grantees focus on four main actions:

- Producing evidence
- Promoting Advocacy
- Developing interaction areas
- Fostering knowledge and experience exchange

Mission

Strengthening the conditions for leveraging long-lasting climate change mitigation and resilience practices.

Vision

Carbon neutral Brazil with economic growth and social justice, compatible with 1.5°C.

iCS actions focus on:

Energy

Initiatives: I) Democratizing and decentralizing the electric sector; II) Encouraging new renewable energies (solar, wind and biomass); III) Promoting energy efficiency, distributed generation and the smart grid.

Low carbon economy

Initiatives: I) Generating evidence to support decision-making towards low-carbon economy; II) Re-directing investments and subsidies; III) Expand the universe of good projects.

Instituto Clima e Sociedade

Notes to financial statements (Continued)

December 31, 2019 and 2018

(In thousands of Brazilian reais - R\$, unless otherwise stated)

1. Operations (Continued)

Transport

Initiatives: I) Engaging civil society in the design, monitoring and implementation of mobility policies; II) Deepening knowledge and debate about the economy of transport; III) Exploring interfaces between air quality and health with transport policies and technologies.

Climate policy and outreach

Initiatives: Supporting organizations that make advocacy, monitor and assist Brazil in fulfilling its Nationally Determined Contribution (NDC); II) Monitoring the international climate policy; III) Engagement of more players in the climate agenda; IV) Fostering climate change to be part of the agenda of parliamentarians in the National Congress.

Land use and food systems

The objective of the new portfolio of Land Use and Food Systems is to promote actions and incentives for more sustainable land use, for improving forest management and for reducing the environmental impacts of agriculture and food. The initiatives are currently being defined.

2. Basis of presentation

a) Statement of compliance

The financial statements were prepared and are presented in accordance with accounting practices adopted in Brazil applicable to small and medium-sized enterprises (Brazil's National Association of State Boards of Accountancy (CFC) Resolution No. 1255/09, NBC TG (R1) 1000 - Accounting for Small and Medium-sized Enterprises, which approved PME technical pronouncement of the Brazilian FASB (CPC)), as well as in accordance with CFC Resolution No. 1409/12, dated September 21, 2012, which approved ITG 2002 - Nonprofit Organizations, amended and consolidated as ITG 2002 (R1) on August 21, 2015.

The Institute's management authorized the issue of the financial statements on August 18, 2020.

Instituto Clima e Sociedade

Notes to financial statements (Continued)
December 31, 2019 and 2018
(In thousands of Brazilian reais - R\$, unless otherwise stated)

2. Basis of presentation (Continued)

b) Functional and reporting currency

Institute management defined that its functional currency is the Brazilian real, according to the standards described in Technical Pronouncement CPC PME - Accounting of Small and Medium-Sized Enterprises (Section 30 - Effect of changes in exchange rates and translation of financial statements).

Transactions denominated in foreign currency, i.e., those not carried out in the functional currency, are translated at the exchange rate of each transaction date. Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the exchange rate at the closing date.

Gains and losses on exchange rate differences on monetary assets and liabilities are recognized in the statement of surplus (deficit).

3. Summary of significant accounting practices

a) Cash and cash equivalents

Cash equivalents are held by the Company for the purpose of meeting short-term cash commitments, rather than for investment or other purposes. Management considers cash equivalents a short-term investment readily convertible into a known cash amount and subject to insignificant risk of change in value. Income from these investments is reinvested in the Institute's social activities or directly in specific projects when required by the funder, and is presented separately in the statement of surplus (deficit).

b) Marketable securities

Short-term investments are classified as financial assets held for trading, presented in the statement of financial position at fair value, with the corresponding gains or losses recognized in the statement of surplus (deficit). Such classification is due to the Institute's intention to trade short-term investments should funds be needed to settle its obligations.

Instituto Clima e Sociedade

Notes to financial statements (Continued)
December 31, 2019 and 2018
(In thousands of Brazilian reais - R\$, unless otherwise stated)

3. Summary of significant accounting practices (Continued)

c) Donations receivable

These refer to agreements signed with donors whose receipt will occur in future years and are presented at their contractual value restated, when applicable, by the exchange differences for the period. At December 31, 2019 and 2018, Institute management did not record a provision for credit risk loss, because there is no expectation of non-receipt of these amounts.

d) Funds for social projects

Funds for social projects correspond to the Institute's continuing obligations to invest funds from agreements signed with donors in the portfolio of social projects to be supported by the Institute and to carry out institutional activities restated, when applicable, by the exchange differences for the period.

e) Partnership funds and project and partnership funds

These correspond to transfer obligations in future years and rights to receive rendering of accounts of these funds, as provided for in the donation agreements entered into between the Institute and its partners, which are presented at their contractual value.

f) Property and equipment

These are recorded at acquisition, buildup or construction cost less accumulated depreciation.

Depreciation is calculated under the straight-line method at rates considering the estimated economic useful lives of assets.

A property and equipment item is derecognized on disposal or when no future economic benefit is expected from its use. Gains or losses, if any, arising therefrom are the difference between the net disposal proceeds and the book value of the asset, and are classified in the statement of surplus (deficit) for the year in which the asset is incurred.

The residual value and useful life of the assets and depreciation methods are reviewed at year-end and adjusted prospectively, as applicable.

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Notes to financial statements (Continued)

December 31, 2019 and 2018

(In thousands of Brazilian reais - R\$, unless otherwise stated)

3. Summary of significant accounting practices (Continued)

g) Equity

It is represented by the net asset value of Instituto Clima e Sociedade - iCS plus annual surplus or deficit, as the case may be.

h) Revenue recognition

Operating revenue

Revenues with restrictions record the funds received from agreements and focused on social activities developed by the Institute. These are recognized as an obligation of the Institute vis-à-vis donors and are initially recorded as liabilities. These obligations are recognized in a revenue account based on the actual realization of expenses.

Unrestricted revenues record the funds from the provision of services and voluntary contributions and donations. Revenues from voluntary donations are variable, there being no agreement between the parties related to the amount to be donated, and usually vary depending on the level of assistance that the donor is willing to offer to the Institute. As such, these revenues are only recognized when their realization is certain, i.e., they are recognized only when they are received. The impossibility of recognizing these revenues on an accrual basis is due to the Institute not having prior knowledge of the amounts that will be received; therefore, these donations are recognized when they are received. Revenue is not recognized if there is a significant uncertainty as to its collection.

Finance income

Finance income covers interest income on short-term investments and effect of exchange differences arising from foreign currency transactions. Interest income is recognized in surplus (deficit) through the effective interest method.

i) Tax liabilities and exemptions

The Institute, for its purpose and objectives and to meet the requirements of current legislation, is exempt from the Corporate Income Tax (IRPJ) and Social Contribution Tax on Net Profit (CSLL). Income and capital gains earned on short-term investments that, according to the tax rule, are withheld at source are not covered by the income tax exemption.

Instituto Clima e Sociedade

Notes to financial statements (Continued)

December 31, 2019 and 2018

(In thousands of Brazilian reais - R\$, unless otherwise stated)

3. Summary of significant accounting practices (Continued)

j) Current and noncurrent assets and liabilities

Assets are recognized in the statement of financial position when their future economic benefits are likely to flow to the Institute and their cost or value can be reliably measured.

Liabilities are recognized in the statement of financial position when the Institute has a legal or constructive obligation arising from past events, the settlement of which is expected to result in an outflow of economic benefits. Due to uncertainties with respect to their timing and amount, certain liabilities are estimated as incurred and recorded by means of a provision. The provisions are recorded based on the best estimate of the risk involved.

Current and noncurrent assets are stated at the amounts through which they would be realized, considering the monetary restatements according to the contractual conditions.

Current and noncurrent liabilities are recorded in settlement amounts considering each statement of financial position date, including accrued interest and monetary restatements, based on contractual conditions.

Assets and liabilities are classified as current when assets are realizable and liabilities are payable within the following twelve months.

k) Costs and expenses

Social activity cost

Expenses for carrying out social projects that are the subject of donation agreements entered into between the Institute and the grantees.

Operating expenses

Expenses related to personnel, services rendered, travel and lodging, administrative and other expenses necessary for maintaining the Institute.

Finance costs

Finance costs mainly cover bank fee and exchange difference costs. They are appropriated to surplus (deficit) as incurred or to the extent that benefits are transferred to the Institute on an accrual basis.

Instituto Clima e Sociedade

Notes to financial statements (Continued)

December 31, 2019 and 2018

(In thousands of Brazilian reais - R\$, unless otherwise stated)

3. Summary of significant accounting practices (Continued)

l) Accounting judgments, estimates and assumptions

The preparation of the financial statements in accordance with accounting practices adopted in Brazil requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities reported in the financial statements and their accompanying notes. Significant items subject to these estimates and assumptions include the economic useful life and residual value of property and equipment, impairment of assets, among others. The use of estimates and judgments is complex and considers various future projections and assumptions; therefore, the settlement of transactions can result in different estimated values. The Institute reviews its estimates and assumptions at least annually.

4. Cash and cash equivalents

These include cash, current account balances, short-term investments and amounts in transit.

	<u>2019</u>	<u>2018</u>
Cash and banks	7	145
Short-term investments (i)	242	18,091
Amounts in transit (ii)	<u>5,208</u>	<u>1,162</u>
	<u><u>5,457</u></u>	<u><u>19,398</u></u>

(i) These are highly liquid short-term investments held at Banco Bradesco as automatic investments called Invest Plus.

(ii) Amounts in transit - donations received from international sources, whose foreign exchange contract procedures will be completed during the next fiscal year.

5. Marketable securities

	<u>2019</u>	<u>2018</u>
Short-term investments	<u>6,701</u>	<u>5,298</u>
	<u><u>6,701</u></u>	<u><u>5,298</u></u>

The Institute structured its short-term investments in first-tier institutions through investments redeemable at any time without significant variation in value and yielding between 95% and 97% of CDI (Interbank Deposit Certificate), valued daily at Cetip (Brazil's OTC Clearing House).

Instituto Clima e Sociedade

Notes to financial statements (Continued)

December 31, 2019 and 2018

(In thousands of Brazilian reais - R\$, unless otherwise stated)

5. Marketable securities (Continued)

These refer to funds that can be invested in Bank Deposit Certificates, and the finance income from such investments is reinvested in the Institute's social activities or directly in specific projects, at the funder's request.

6. Donations receivable

Funds from donations receivable for the performance of statutory activities arising from agreements are recognized in assets, matched against Institute's liability with donors and/or partners. These liabilities are recognized in surplus (deficit) accounts in accordance with the realization of expenses established in the agreement signed.

The amounts related to the donations of international funds are translated into Brazilian reais using the exchange rates on the effective dates of the agreements, incorporating the foreign exchange differences up to the statement of financial position closing date.

The transfer of funds by the donor is subject to verification of the activities performed, which is carried out through periodic rendering of accounts and by presenting the audited financial statements.

The balance of this group is broken down as follows:

Description	2019	2018
Donations receivable - current assets	28,105	17,081
Donations receivable - noncurrent assets	-	1,227
	28,105	18,308

Description	Agreement	2019	2018
Donations receivable - current assets			
The Children's Investment Fund Foundation - CIFF (i)	1606-01318	-	5,811
Climateworks Foundation - CWF (ii)	17-1077	562	2,677
Climateworks Foundation - CWF (ii)	19-1482	81	-
European Climate Foundation - ECF (iii)	1811-58910	-	44
European Climate Foundation - ECF (iii)	1805-02101	-	107
European Climate Foundation - ECF (iii)	19-02-02567	40	-
FILE Foundation (iv)	FF-GAO- 0041	2,821	-
IKEA Foundation (v)	G-1808-01174	9,672	-
Mott Foundation(vi)	G-20183267	403	-
Oak Foundation (vii)	OCAT 17-645	775	775
Oak Foundation (vii)	18-593	6,979	6,979
Oak Foundation (vii)	OFIL 19-079	2,040	-
Smart Energy (viii)	-	702	688
The Willian and Flora Hewlett Foundation (ix)	2019-9939	4,030	-
		28,105	17,081

Instituto Clima e Sociedade

Notes to financial statements (Continued)

December 31, 2019 and 2018

(In thousands of Brazilian reais - R\$, unless otherwise stated)

6. Donations receivable (Continued)

Description	Agreement	2019	2018
Donations receivable - current assets			
Climateworks Foundation - CWF (ii)	17-1077	-	539
Smart Energy (vi)	-	-	688
		-	1,227

Donations receivable are in the respective currencies and amounts shown below:

- (i) CIFF – Agreement in dollars of US\$ 1,500 in 2019.
- (ii) CWF - Agreement in dollars of US\$ 415 in 2018, US\$ 276 in 2019 and US\$ 139 and US\$ 20 in 2020.
- (iii) ECF – Agreement in Euro of EUR\$ 10 and 27 in 2019 and 10 in 2020
- (iv) FILE - Agreement in dollars of US\$ 300 in 2019 and US\$ 700 in 2020.
- (v) IKEA - Agreement in dollars of US\$ 600 in 2019 and US\$ 2400 in 2020.
- (vi) MOTT - Agreement in dollars of US\$ 100 in 2019 and US\$ 100 in 2020.
- (vii) OAK - Agreement in reais.
- (viii) SMART– Agreement in Euro of EUR\$ 78 in 2019 and 155 in 2020.
- (ix) HEWLETT– Agreement executed in dollars of US\$ 1,000 in 2020.

7. Project and partnership funds

Funds from the Institute's donations to partners are conditional and subject to the fulfillment of obligations under the agreements; therefore, the total amount of funds provided for in the agreement is appropriate on the date of commencement of the agreement.

The balance of this group is broken down as follows:

	2019	2018
Project and partnership funds - current assets	10,393	10,127
Project and partnership funds - noncurrent assets	440	290
	10,833	10,417

Funds for projects and partnerships

Total funds provided for in the agreements, less the amounts transferred to partners. The balance reflects the amounts to be transferred.

Instituto Clima e Sociedade

Notes to financial statements (Continued)

December 31, 2019 and 2018

(In thousands of Brazilian reais - R\$, unless otherwise stated)

7. Project and partnership funds (Continued)

	New agreements / balance payable - 2019	Amount paid in 2019	Amount payable in 2020	Amount payable in 2021
2017 agreements	375	375	-	-
2018 agreements	9,959	8,764	1,195	-
2019 agreements	24,982	15,344	9,198	440
	35,316	24,483	10,393	440

8. Property and equipment and intangible assets

These represent the amounts and changes in Institute's assets for the year. The Institute understands that the depreciation rates applied are reasonably related to the useful lives of the assets:

	Annual depreciation rates	Net amount 12/31/2018	Acquisitions	Depreciation / amortization	Net amount 12/31/2019
IT	20%	50	55	(23)	82
Furniture and fixtures	10%	28	11	(4)	35
Machinery and equipment	10%	36	-	(6)	30
Total property and equipment		114	66	(33)	147
Intangible assets - software	20%	9	-	(5)	4
Total intangible assets		9	-	(5)	4

	Annual depreciation rates	Net amount 12/31/2017	Acquisitions	Depreciation / amortization	Net amount 12/31/2018
IT	20%	50	16	(16)	50
Furniture and fixtures	10%	32	-	(4)	28
Machinery and equipment	10%	40	2	(6)	36
Total property and equipment		122	18	(26)	114
Intangible assets - software	20%	14	-	(5)	9
Total intangible assets		14	-	(5)	9

Management did not identify changes in circumstances or any indication of technological obsolescence or evidence suggesting that its assets will not be recoverable based on the financial performance and concluded that a provision for loss on property and equipment was not needed.

Instituto Clima e Sociedade

Notes to financial statements (Continued)

December 31, 2019 and 2018

(In thousands of Brazilian reais - R\$, unless otherwise stated)

9. Labor and social liabilities

	<u>2019</u>	<u>2018</u>
Accrued vacation pay and related charges	535	312
	<u>535</u>	<u>312</u>

10. Funds for social projects

Such funds are derived from donation agreements entered into with several national and international institutions, to be invested in the portfolio of social projects to be supported by the Institute and to carry out institutional activities.

The funds are recorded in liabilities at the total amount of the agreement entered into between the Institute and the institutional donor, net of amounts recorded in surplus (deficit) for the current period and exchange differences, when applicable. International funds are translated into the functional currency at the exchange rate prevailing on the initial date of the term of the donation, plus exchange differences up to the settlement date of such transactions.

The breakdown of the account balance by institutional donor is as follows:

<u>Institutional donors</u>	<u>Balance to be executed in Dec/18</u>	<u>Funds allocated</u>	<u>Execution</u>	<u>Balance 2020 to be executed</u>
Arapyau	145	10	(155)	-
CIFF	10,182	2,032	(11,614)	600
CWF	5,007	431	(2,637)	2,801
ECF	128	406	(495)	39
Embassy of Germany	16	490	(417)	89
HEWLETT	6,944	4,030	(6,938)	4,036
FILE Foundation	-	4,080	(148)	3,932
IKEA	-	12,120	(2,335)	9,785
Instituto Humanidade	100	-	(100)	-
Mott Foundation	509	806	(440)	875
OAK	17,600	4097	(6,787)	14,910
Smart Energy	1,376	35	(687)	724
Pisces Foundation	116	599	(465)	250
Porticus	58	-	(58)	-
RAINFOREST Alliance	-	3,206	(2,710)	496
Total	42,181	32,342	(35,986)	38,537

	<u>2019</u>	<u>2018</u>
Funds for social projects – current assets	38,537	40,954
Funds for social projects – noncurrent assets	-	1,227
	<u>38,537</u>	<u>42,181</u>

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Notes to financial statements (Continued)

December 31, 2019 and 2018

(In thousands of Brazilian reais - R\$, unless otherwise stated)

11. Partnership funds

Funds provided for in the donation agreements entered into between the Institute and the grantees. The amounts are represented by the total amount of the agreement signed, net of transfers.

The amounts to be transferred to projects and partnerships are commitments assumed based on an agreement entered into with the grantees. However, the release of funds is subject to compliance by the grantees with the obligations established in the contractual clauses.

The balances are segregated between current and noncurrent liabilities according to the schedule of transfers to the grantees provided for in each signed agreement.

The breakdown of the amounts to be transferred to the grantees is as follows:

	New agreements / balance payable - 2019	Contractual amendments	Amount paid in 2019	Amount payable in 2019	Amount payable in 2021
2017 agreements	375	-	375	-	-
2018 agreements	10,042	(83)	8,764	1,195	-
2019 agreements	25,011	(29)	15,344	9,198	440
	35,428	(112)	24,483	10,393	440
				2019	2018
Partnership funds – current assets				10,393	10,127
Partnership funds – noncurrent assets				440	290
				10,833	10,417

12. Equity

a) Net asset value

The net asset value of the Institute consists of surpluses (deficits) of prior years approved by the Decision-Making Board.

b) Accumulated surplus

This refers to current year's surplus (deficit). After approval at the Meeting, these amounts are incorporated into the net asset value of the Institute, and any surplus will be reinvested in social objectives, as provided for in the bylaws.

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Notes to financial statements (Continued)

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13. Operating revenues

13.1. Revenues with restriction

These refer to social programs, considered "with restriction" because they depend on the fulfillment of certain conditions established in the agreements to be appropriated to surplus (deficit) according to the accrual period. Donation revenues are as follows:

	<u>2019</u>	<u>2018</u>
Children's Investment Fund Foundation	11,614	6,755
The William and Flora Hewlett Foundation	6,938	5,268
OAK Foundation	6,787	4,829
RAINFOREST Alliance	2,710	-
Climate Works Foundation	2,637	3,483
IKEA Foundation	2,335	-
SMART Energy for Europe	687	119
ECF - European Climate Foundation	495	446
PISCES Foundation	465	457
MOTT Foundation	440	77
Embassy of Germany	417	464
Instituto Arapyau	155	1,234
Foundation for International Law for the Environment - FILE	148	-
Instituto Humanidade	100	200
Porticus	58	684
Good Energies Foundation	-	421
GIZ in Brazil	-	40
	<u>35,986</u>	<u>24,477</u>

13.2. Financial returns

	<u>2019</u>	<u>2018</u>
Financial returns	586	361
Finance costs	(189)	(38)
	<u>397</u>	<u>323</u>

13.3. Exchange gains (losses)

	<u>2019</u>	<u>2018</u>
Exchange gains	2	6
Exchange losses	(1)	(1)
	<u>1</u>	<u>5</u>

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Notes to financial statements (Continued)

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13. Operating revenues (Continued)

13.4. Revenues without restriction

Unconditional funds received from donations or voluntary contributions from partners and provision of services:

	<u>2019</u>	<u>2018</u>
Rendering of services	<u>184</u>	-
	<u>184</u>	-

14. Social activity cost

Expenses incurred with program activities established in social actions related to climate, electricity and urban mobility.

	<u>2019</u>	<u>2018</u>
Projects and partnerships (i)	(24,483)	(16,433)
Seminars and events	(34)	(76)
Third-party services	(2,882)	(2,376)
Human resources	(2,562)	(1,762)
	<u>(29,961)</u>	<u>(20,647)</u>

(i) Project and partnership funds refer to donation agreements entered into between the Institute and the grantees and are subject to the fulfillment of obligations between the parties. The recognition of expenses was made based on the transfer of funds to the grantees, according to the agreements.

15. Operating expenses

15.1. Personnel expenses

	<u>2019</u>	<u>2018</u>
Compensation	(1,219)	(1,022)
Social charges	(417)	(390)
Benefits (i)	(306)	(171)
	<u>(1,942)</u>	<u>(1,583)</u>

(i) The most relevant amounts of benefits refer to healthcare and dental health plan expenses.

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Notes to financial statements (Continued)

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15. Operating expenses (Continued)

15.2. Services rendered

Expenses incurred with the engagement of services provided by individuals and legal entities, as shown in the table below:

	<u>2019</u>	<u>2018</u>
Services provided - Individuals	(39)	(158)
Services provided - Legal entities (i)	<u>(1,088)</u>	<u>(368)</u>
	<u>(1,127)</u>	<u>(526)</u>

(i) Expenses incurred with services provided by legal entities refer to consulting and/or advisory services, such as audit, accounting, legal advisory and IT, among others.

15.3. Travel and lodging

Expenses incurred with tickets, lodging and other travel-related expenses, such as transportation, snacks and insurance are recorded as shown in the table below:

	<u>2019</u>	<u>2018</u>
Air tickets	(874)	(536)
Lodging	(1,057)	(261)
Transportation and meal expenses	<u>(238)</u>	<u>(111)</u>
	<u>(2,169)</u>	<u>(908)</u>

15.4. General and administrative expenses

These refer to expenses for office maintenance and general activities, as shown in the table below:

	<u>2019</u>	<u>2018</u>
Infrastructure	(559)	(468)
Store and supplies	<u>(255)</u>	<u>(182)</u>
	<u>(814)</u>	<u>(650)</u>

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Notes to financial statements (Continued)

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15. Operating expenses (Continued)

15.5. Tax expenses

The amount recorded refers to income tax (IR) on short-term investments and Tax on Financial Transactions (IOF) on foreign exchange transactions from the donations received.

	2019	2018
Income tax on investments	-	-
Tax on Financial Transactions (IOF)	(45)	(134)
Fines on accessory return	-	(48)
	<u>(45)</u>	<u>(182)</u>

16. Financial instruments

Financial risk management

Overview

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

The information below summarizes the Institute's exposure to each of the risks above, the Institute's purposes, policies and processes for measuring and managing risk and managing capital. Additional quantitative disclosures are included throughout these financial statements.

Risk management structure

The Institute assesses the risks in its financial instruments and defines the appropriate and acceptable limits considering its operations and objectives.

Market risk

Market risk is the risk that changes in market prices, such as interest rates of short-term investments, influence the gains earned on the basis of its portfolio or the value of its holdings in financial instruments. The Institute manages market risks through short-term investments in low market risk funds and with low financial leverage, always in first-tier financial institutions.

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Notes to financial statements (Continued)

December 31, 2019 and 2018

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16. Financial instruments (Continued)

Risk management structure (Continued)

Currency risk

Currency risk arises from the possibility of the Institute having its economic-financial statements impacted by exchange rate fluctuations.

The Institute has assets indexed to foreign currency, especially the US dollar and euro, arising from donations received by international organizations, which causes volatility in its surplus (deficit) and cash flow proportionally to exchange rate fluctuations.

Credit risk

Cash and cash equivalents presented in the table below represent the maximum credit exposure to these assets.

	<u>2019</u>	<u>2018</u>
Cash and banks	7	145
Short-term investments	242	18,091
Amounts in transit	5,208	1,162
	<u>5,457</u>	<u>19,398</u>

Liquidity risk

This refers to difficulties that the Institute may face to comply with obligations related to its financial liabilities, which are settled through cash payments or payments made with other financial assets. The purpose of the Institute's liquidity risk management is to ensure that the Institute has sufficient liquidity to meet its obligations falling due, under normal and stress conditions without causing unacceptable losses or risking the Institute's reputation.

As of December 31, the Institution held the following short-term funds:

	<u>2019</u>	<u>2018</u>
Short-term funds	<u>12,158</u>	24,696
	<u>12,158</u>	<u>24,696</u>

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Notes to financial statements (Continued)

December 31, 2019 and 2018

(In thousands of Brazilian reais - R\$, unless otherwise stated)

16. Financial instruments (Continued)

Risk management structure (Continued)

Liquidity risk (Continued)

Below is the aging list of the Institute's financial liabilities, corresponding to the remaining period in the statement of financial position until the contractual maturity date. The amounts disclosed in the table consist of contractual undiscounted cash flows.

	<u>Within 1 year</u>
At December 31, 2019	
Trade accounts payable and other liabilities	114
	<u>114</u>
At December 31, 2018	
Trade accounts payable and other liabilities	12
	<u>12</u>

a) Market value of financial instruments

The balances of cash and cash equivalents (banks and short-term investments) and current liabilities (accounts payable) correspond to market value due to maturity on a date close to that of the statement of financial position.

b) Other types of financial instruments

The Institute did not carry out derivative financial instrument transactions for the year ended December 31, 2019.

17. Transactions with related parties

Key management personnel compensation

The Board of Trustee members of the Institute are not remunerated, as provided for in the Bylaws. The Institute does not grant any type of compensation, advantage or benefit, directly or indirectly, in any way, by virtue of their powers, functions or activities attributed to them.

In order to be transparent, the Institute emphasizes that: Mr. Leonardo Vieira Lacerda is a member of the Decision-Making Board and holds the position of Environment Program Officer at the OAK Foundation in Geneva, Switzerland. The OAK Foundation also finances Instituto Clima e Sociedade.

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Notes to financial statements (Continued)

December 31, 2019 and 2018

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18. Subsequent events

Impacts of COVID-19

The rapid and sudden spread of the Coronavirus epidemic caused several sectors to shut down, causing a slowdown in the world economy, with an economic slowdown being inevitable. Brazil is already suffering from the impacts of this crisis, with high volatility in asset prices and exchange rates.

Following the orientation of social distancing determined by Brazil's Ministry of Health and by the state and municipal governments of Rio de Janeiro, face-to-face work at iCS was suspended, and the home office system was adopted.

In order to minimize the impacts of risks and uncertainties in operational planning, the iCS management, in addition to monitoring the evolution of the crisis, has held frequent meetings with the team and reviewed the performance strategies of the projects in execution and scheduled.

Management understands that economic events resulting from the COVID-19 pandemic may have indirect impacts on its receivable assets, but until the date of issue of this report it was not possible to measure what those impacts would be.