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WRI Brasil

Financial statements at December 31, 2018 and independent auditor's report

(A free translation of the original in Portuguese)

Independent auditor's report

To the Management and Associates
WRI Brasil

Opinion

We have audited the accompanying financial statements of WRI Brasil ("Entity"), which comprise the balance sheet as at December 31, 2018 and the statements of surplus, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of WRI Brasil as at December 31, 2018, and its financial performance and cash flows for the year then ended, in accordance with accounting practices adopted in Brazil issued by the Brazilian Accounting Pronouncements Committee (CPC), applicable to small and medium-sized entities (PMEs) - Technical Pronouncement PME - "Accounting for Small and Medium-sized Entities", and Technical Interpretation ITG 2002 (R1) - "Non-profit Entities".

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 Entity in accordance with the ethical requirements established in the Code of Professional Ethics and Professional Standards issued by the Brazilian Federal Accounting Council, 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 audit opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting practices adopted in Brazil applicable to small and medium-sized entities (CPC - Technical Pronouncement PME - "Accounting for Small and Medium-sized Entities") and Technical Interpretation ITG 2002 (R1) - "Non-profit Entities", and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from 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:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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.

- Obtain 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 Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude 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 Entity'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 Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether these 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 planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

São Paulo, May 8, 2019

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

José Vital Pessoa Monteiro Filho
Contador CRC 1PE016700/O-0

WORLD RESOURCES INSTITUTE

WRI Brasil

Balance sheet
As of 31 December
In Reais

(A free translation of the original in Portuguese)

Assets	**2018**	**2017**	**Liabilities and ownership equity**	**2018**	**2017** (Restated (Note 2.12))
Current			Current		
Cash and cash equivalents (Note 3)	11,706,139	8,991,108	Accounts payable	30,589	8,721
Accounts receivable (Note 4)	680,713	954,158	Tax liabilities (Note 6)	121,995	79,346
Other accounts receivable	102,485	90,213	Social obligations (Note 7)	1,293,631	1,329,973
			Deferred revenues (Note 10)	86,450	
			Advance donations (Note 8)	8,757,744	6,454,978
	12,489,337	10,035,479		10,290,409	7,873,018
Non-Current					
Security deposit	66,724	66,724			
Fixed assets (Note 5)	597,848	616,397	Ownership equity		
Intangibles	40,588	45,248	Equity (Note 9)	2,904,088	2,890,830
	705,160	728,369		2,904,808	2,890,830
Total assets	13,194,497	10,763,848	Total liabilities and equity	13,194,497	10,763,848

The explanatory notes are an integral part of the financial statements.

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WRI Brasil

Explanatory Notes to the financial statements as of 31 December 2018
In reais, unless otherwise indicated

Operating Revenue	**2018**	**2017**
Restricted		
Donations (Note 8)	23,299,803	23,075,133
Voluntary work (Note 12)	17,358	15,552
	23,317,161	23,090,685
Non-restricted		
Provision of services, net (Note 9)	1,738,868	46,045
	1,738,868	46,045
	25,056,029	23,136,730
Costs and Operating Expenses		
General and administrative (Note 11)	(25,118,212)	(23,018,417)
Taxes	(286,572)	(367,350)
Financial income, net (Note 14)	379,371	611,212
Voluntary work (Note 12)	(17,358)	(15,552)
	(25,042,771)	(22,790,107)
Surplus for the year	13,258	346,623

The explanatory notes are an integral part of the financial statements.

WRI Brasil
Statement of changes in equity
In Reais (A free translation of the original in Portuguese)

	Ownership equity	Accumulated surplus	Total
At January 1 2017 (as originally presented)	1,902,418		1,902,418
Prior year adjustment (Note 2.12)	641,789		641,789
At January 1 2017 (restated)	2,544,207		2,544,207
Surplus for the year		346,623	346,623
Transfer	346,623	(346,623)	
At December 31, 2017	2,890,830		2,890,830
Surplus for the year		13,258	13,258
Transfer	13,258	(13,258)	
At December 31, 2018	2,904,088		2,904,088

The explanatory notes are an integral part of the financial statements.

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WRI Brasil

Explanatory Notes to the financial statements as of 31 December 2018
In reais, unless otherwise indicated

	2018	2017
Cash flows from operating activities		
Surplus for the year	13,258	346,623
Adjustment for non- cash items		
Depreciation and amortization	147,670	128,352
Write-off of fixed assets and intangibles	3,306	68,006
	164,234	**542,981**
Decrease (increase) in accounts receivable	273,445	(954,158)
Decrease (increase) in other accounts receivable	(12,272)	54,557
Increase (decrease) in accounts payable	21,868	(29,241)
Increase (decrease) in social obligations	(36,342)	314,115
Increase (decrease) in tax liabilities	42,649	52,783
Increase (decrease) in deferred revenues	86,450	
Increase (decrease) in advance donations	2,302,766	5,145,892
Net cash provided by operating activities	2,842,798	5,126,929
Cash flows from investing activities		
Acquisition of fixed assets and intangible assets	(127,767)	(122,791)
Net cash used in investing activities	(127,767)	(122,791)
Increase in cash and cash equivalents	2,715,031	5,004,138
Cash and cash equivalents at end of year (Note 3)	11,706,139	8,991,108
Cash and cash equivalents at beginning of year (Note 3)	8,991,108	3,986,970
Increase in cash and cash equivalents	2,715,031	5,004,138

The explanatory notes are an integral part of the financial statements.

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WRI Brasil

Explanatory Notes to the financial statements as of 31 December 2018
In reais, unless otherwise indicated

1 Operational context

WRI Brasil ("Entity") is a not-for-profit non-governmental global research organization, established in February 2014 in São Paulo - Brazil, which launched its operations in June 2014. It aims to promote the sustainable use of natural resources, fostering economic opportunity and human well-being, protecting the Earth's environment. To achieve this goal, WRI Brasil works with World Resources Institute associate organizations, its partners in Brazil and globally, in developing research-based solutions.

WRI Brasil was authorized to operate as a Civil Society Organization of Public Interest - OSCIP, as per the notice published in the Federal Official Gazette of 19 September 2014. It received a Certificate of Recognition of Environmental Entity granted by the Ministry of Environment and a Statement of Exemption from Inheritance and Donation Tax - ITCMD from the Treasury Department of São Paulo on 6 October 2017, renewed until 5 October 2018.

WRI Brasil and the World Resources Institute ("WRI Washington DC") are legally related organizations, regulated under a Cooperation Agreement and a license to use the brand, with common missions, values and approaches. These organizations are committed to working together to achieve the goal of encouraging human society to live in a way that protects the environment, in order to meet the needs and aspirations of current and future generations. They share strategic work plans, financial management and control systems and a synergetic governance system for strategic collaborative decision-making. The organizations contribute to each other by raising funds from national and international donors, among other actions, and activities relevant to the achievement of their common mission.

WRI Brasil opened an office in the city of Porto Alegre - RS, called WRI Brasil Cidades Sustentáveis (WRI Brasil Sustainable Cities) in 2015.

2 Presentation of the financial statements and the principal accounting practices

The Entity's Board of Executive Officers approved these financial statements on May 8, 2019.

The financial statements were prepared in accordance with accounting practices adopted in Brazil for small and medium-sized enterprises - CPC PME Technical Pronouncement - "Accounting for Small and Medium Enterprises" and Technical Interpretation ITG 2002 (R1) - "Non-profit Entities"; and show all the relevant information specific to the financial statements consistent with data used by the management. They have been prepared under the historical cost basis of accounting pursuant to ITG Standard 2002 (R1) and at fair value for financial assets, voluntary work and contributions (Note 12).

The preparation of financial statements requires the use of estimates to account for certain assets, liabilities and other transactions, including the selection of lifespans for fixed assets, calculation of the fair value of financial assets, provisions for liabilities and other valuations. Actual result may vary from those estimates.

2.1 Functional currency and presentation currency

The financial statements are being presented in Brazilian Real/ Reais (R$), which is the functional currency of WRI Brasil and its presentation currency.

2.2 Cash and cash equivalents

Cash and cash equivalents are held in Brazilian Real. Financial investments present insignificant risks of changes in fair value and are used to manage short- and long-term commitments.

2.3 Financial assets

From January 1, 2018, the Entity classifies its financial assets under the following measurement categories:

. Measured at amortized cost.

. Measured at fair value (either through other comprehensive income or profit or loss).

The classification depends on the business model used for managing the financial assets and the contractual terms of the cash flows. Management determines the classification of its financial assets at initial recognition, which are currently classified at amortized cost.

(a) Assets measured at amortized cost

These include current assets, except for those with maturity of more than 12 months after the balance sheet date (which are classified as non-current assets) comprising cash and cash equivalents (Note 3), accounts receivable and security deposits.

2.4 Fixed assets

Fixed assets are stated at historical cost of acquisition. Depreciation is calculated on the straight-line method at rates that take into account the useful lives of the assets (Note 5).

2.5 Intangible

Purchased software licenses are capitalized at costs plus expenses incurred for preparing the software for use. These are amortized over five years.

2.6 Accounts Payable

Accounts payable to suppliers are obligations to pay for goods or services that were acquired in the ordinary course of business and are recognized at invoiced amounts under corresponding contracts. These accounts payable are classified as current liabilities if the payment is due within one year. Otherwise, they are presented in non-current liabilities.

2.7 Taxes on operations

WRI Brasil is a non-profit entity, exempt from income tax and social contribution on net income (Note 15). Other taxes are levied on its operating activities, including: (a) Social Integration Program (PIS) - contribution of 1% on the payroll amount; (b) Contribution to the National Institute of Social Security (INSS) - employers' and employee contributions; (c) withholding tax (IRRF) on income from financial investments – withheld by financial institutions. For services rendered, a 7.6% levy is applied for Social Security Financing Contribution (COFINS) and a 5% tax on services (ISS).

2.8 Other current assets and liabilities

These are stated at cost, including, when applicable, indexation/interest income accruals, less a provision for adjustment to realizable value, when applicable. Recorded liabilities are for known or estimated amounts, including, when applicable, charges for indexation/interest accruals.

2.9 Ownership equity

Ownership equity represents donations from third parties, plus or minus the accumulated annual surplus or deficit.

2.10 Advance donations

Donations received by WRI Brasil relating to specific projects are recorded as "Advance donations " in current liabilities and are appropriated to income as the resources are applied. Other revenues and expenses are recorded on an accruals basis.

2.11 Critical accounting estimates and applied judgment

Critical estimates and judgment applied by management in applying accounting policies that affect amounts in the financial statements are as follows:

Provisions for impairment losses on non-financial assets

Non-financial assets are reviewed annually for impairment. When there is evidence of impairment, the carrying amount of the asset is tested. An impairment loss is recognized when the carrying amount of the asset exceeds its recoverable amount. The latter is the higher of an asset's fair value less costs to sell and its value in use. For loss assessment purposes, assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash Generating Units (CGUs)). Non-financial assets that have been written down in the past are reviewed at the balance sheet date to identify a possible reversal of the provision for impairment losses.

Provisions

Provisions are recognized when: (i) the Entity has a present or non-formalized obligation as a result of past events; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) the amount can be reasonably estimated.

Provisions are measured at the present value of the expenses required to settle the obligation, using a pre-tax rate that reflects current market assessments of the time value of money and the specific risks of the obligation. Increases in the obligation due to the passage of time are recognized as financial expense.

2.12 Re-presentation of comparative figures

(a) Restatement of errors from previous years

In 2018, the Entity reviewed the balance of "Advance donations" for all projects, analyzing donation receipts and revenue recognition by project. The analysis identified certain past revenue recognition accounting anomalies.

b) Restatement

	As originally presented	Restated	Adjustment
Balance sheet			
Liabilities			
Advance donations	7,096,767	6,454,978	(641,789)
Ownership equity			
Equity	2,249,041	2,890,830	641,789

3 Cash and cash equivalents

	2018	2017
Cash - Fixed interest fund	3,225	3,902
Banks	106,739	59,173
Financial investments (*)	11,596,175	8,928,033
	11,706,139	8,991,108

(*) Financial investments are represented by quotas of the Itaú Premium DI FICFI Fund, Bradesco Referência DI LP and Bradesco FIC FI Simple Fixed Income, with daily liquidity and used to manage short and long-term commitments.

4 Accounts Receivable

Accounts Receivable includes R$274,390 of services rendered and R$406,323 (2017 - R$954,158) of reimbursements for expenses incurred by the Entity's projects, as supported by donation agreements.

5 Fixed Assets

	Cost	Accumulated depreciation	2018 Net	2017 Net	Annual depreciation rates - %
Furniture and fixtures	356,494	139,536	216,958	240,210	10
Computer equipment	401,300	172,115	229,185	187,324	20
Machines and equipment	57,488	27,266	30,222	34,023	10
Leasehold improvements	151,958	90,531	61,427	91,819	20
Installations	83,762	23,706	60,056	63,021	20
	1,051,002	453,154	597,848	616,397	

Changes in fixed assets were as follows:

	2018	**2017**
Beginning of the year	616,397	697,624
Additions	127,767	110,010
Write-offs	(3,306)	(64,974)
Depreciation	(143,010)	(126,263)
End of the year	597,848	616,397

6 Tax liabilities

	2018	**2017**
COFINS due (i)	80,430	48,103
ISS due (i)	23,155	6,419
Contributions withheld	15,067	18,750
Other taxes and contributions	3,343	6,074
	121,995	79,346

(i) The Entity incurs COFINS and ISS on invoices issued for the period from 2015 to 2018 (Note 2.7).

7 Social obligations

	2018	**2017**
Provision for vacations	960,687	982,620
Social charges	332,944	347,353
	1,293,631	1,329,973

8 Advance donations

The Entity has received donations for implementing and maintaining specific projects and to fund its operating structure.

Donations received include R$ 23,299,803 (2017 - R$ 23,075,133) applied in the year and R$ 8,757,744 (2017 - R$ 6,454,978, restated) to be applied in its operations and projects in the following year.

Donations from legal entities were as below:

	2018	**2017**
Donations from legal entities (i)	26,244,338	27,272,890
Less: Inheritance and Donation Tax (“ITCMD”) due	(20,162)	(83,257)
Net amount of voluntary donations received	26,224,176	27,189,633

(i) In 2018 and 2017, 84% of donations were sub grants from the World Resources Institute (Note 13 (a)).

9 Ownership equity

Equity totals R$2,904,088 (2017-R$2,890,830).

In the event of dissolution, the balance of equity will be required to be transferred to an entity or non-profit entities with a similar purpose, under the terms of Law no. 9,790/99.

In the event that the Entity loses its exemptions under Law No. 9,790/99, assets, acquired with public funds during the exemption period must be transferred to another to entity with a similar purpose, under the terms of Law no. 9,790/99.

10. Provision of services

The Entity performs research and development services. For these activities, invoices accrue a service tax (ISS) of 5% and 7.6% levy for COFINS. Invoices issued for services which have not yet been rendered ("Deferred revenues") at 31 December 2018 were R$86,450.

Net revenue from services rendered is as follows:

	2018	**2017**
Service revenue	2,000,900	47,156
Sales tax	(262,032)	(1,111)
	1,738,868	46,045

11 General and administrative expenses

	2018	**2017**
Services provided by legal entities (i)	(6,374,880)	(4,823,633)
Personnel expenses	(12,819,952)	(13,199,582)
Travel expenses	(3,132,404)	(2,732,279)
Project costs (i)	(1,002,365)	(539,039)
Property expenses	(1,204,883)	(1,230,714)
Others expenses (ii)	(583,728)	(493,170)
	(25,118,212)	(23,018,417)

(i) Increase reflects higher project costs.
(ii) Consist mainly of depreciation, utilities and other general expenses.

12 Voluntary work

Voluntary work and services received, that did not generate cash disbursements, were for the meetings of the Board of Directors of WRI Brasil. Had the entity been required to pay for these voluntary services, it estimates that it would have disbursed approximately R$ 17,358 in 2018 (R$15,522 in 2017).

The disclosures of the fair value of volunteer work is made in accordance with Interpretation ITG-2002 (R1), as approved by Resolution CFC no. 1409/12.

13 Transactions with related parties

WRI Brasil and WRI Washington DC are related organizations through a Cooperation Agreement and a license to use the brand (Note 1).

The following transactions were conducted between the parties.

(a) Donations received

	2018	**2017**
World Resources Institute	22,045,543	22,884,009

(b) Balances for reimbursements of expenses

	2018	2017
Accounts receivable (Note 4)		
World Resources Institute	323,799	536,827

c) Remuneration of key management personnel

Key management personnel in 2018 comprise five directors, including the executive director, operational director, strategic relations and development director, in addition to two program directors and a vice-director of Cities. Total annual remuneration paid to key management personnel for services rendered is as follows:

	2018	2017
Total remuneration of key management personnel	2,836,112	3,062,759

In 2018, three directors are based at the WRI Brasil headquarters in São Paulo and two at the branch in Porto Alegre.

14 Financial result

	2018	2017
Income from financial investments (i)	379,763	615,826
Discounts obtained	1,399	11,355
Banking fees	(13,217)	(14,083)
Other financial income, net	11,426	(1,886)
	379,371	611,212

(i) The reduction reflects a reallocation of gains to ongoing restricted projects.

15 Taxes

A non-profit entity is one that presents no surplus in its accounts or, if so presented, it is to be applied wholly for the maintenance and development of its social objectives, provided it complies with its other legal requirements.

The Entity is exempt from income tax and social contribution (based on article 150 of the Federal Constitution) and from the Contribution for Social Security Financing (COFINS) on its surplus.

Pursuant to ITG - 2002 - "Non-profit Entities", had it not been exempt it would have been taxed at the current rates of 15% for Income Tax, 9% for Social Contribution, 7.6% for COFINS on revenue and for 1.65% PIS on revenue.

Had this exemption not been in effect, the amount of estimated taxes are:

	2018	2017
	(unaudited)	(unaudited)
IRPJ	1,989	51,993
CSLL	1,193	31,196
COFINS	1,770,785	1,757,210
PIS	413,138	381,499
	2,187,105	2,221,898

16 Lawsuits

The Entity is not a party to labor, civil or tax proceedings.

17 Other information

(a) For the years ended 31 December 2018 and 2017, the Entity did not carry out operations involving derivative financial instruments.

(b) The Entity does not maintain pension plans, private pension plans, or any other retirement or post-employment benefits plan for employees and managers or a benefit plan for managers and employees in the form of bonuses or equity plans.

18 Insurance coverage

The Entity contracted D&O insurance (Civil Responsibility of Directors, Board Members and Officers), with a limit of R$ 7,000,000 expiring on 18 November 2019, at a premium of R$ 8,711.

* * *

RACHEL BIDERMAN FURRIELA
Executive Director

ANA PAULA SALVADOR DE AGUIAR DA COSTA
Accountant CRC-1-SP228.935-O-8