



# VALUE FROM BOTH **FARM** AND **LAND**

**UNDERSTANDING  
BIOLOGICAL ASSETS AND LAND APPRAISAL - ACCOUNTING**

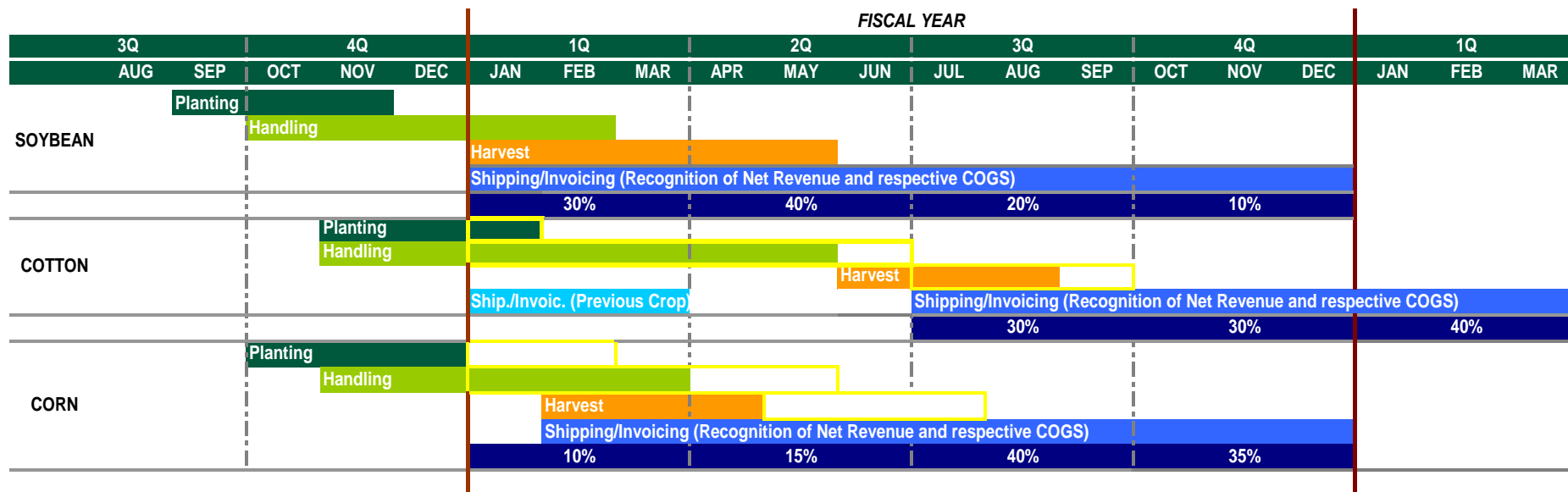


# INTRODUCTION

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- ✓ In 2011, all Brazilian listed Companies started disclosing their Financial Data (starting with 4Q and full-year 2010, together with 2009's, for comparison purposes) under the IFRS methodology (*CVM Instruction nº 457, July 2007*)
- ✓ The interim financial statements, as disclosed in the year 2010 (1Q, 2Q and 3Q), were presented again, noting the new accounting policies.
- ✓ This brought some changes in booking methodology if compared to the previous BR GAAP accounting standards
- ✓ From our Company's point of view, this migration is beneficial, once it integrates/converges the Brazilian accounting standards with internationally-accepted booking methodology
- ✓ The main impacts from this migration, for SLC Agricola, where:
  - ✓ ***Biological Assets (which will change the period of margin recognition)***
  - ✓ ***Booking of assets at their "fair value" (land, machinery, equipments...);***
- ✓ This presentation aims to clarify some of the main impacts of the new accounting methodology on our Financial Statements

# BIOLOGICAL ASSETS: UNDERSTANDING THE CROP CYCLE & PRE-IFRS (BRGAAP) BOOKING METHODOLOGY



 2<sup>nd</sup> Crop

 Average Net Revenue Recognition (out of total crop-year revenue)

- ✓ Under BRGAAP booking methodology, only the output that was shipped/invoiced in the quarter was booked under Net Revenue (and respective COGS)
- ✓ The portion of the crop that was eventually still “on the field” (not harvested) by the end of the quarter was simply booked in the Balance Sheet under “Growing Crops”, and the portion that was already harvested but not yet shipped was booked under “Inventories”

Obs: The period of planting/handling/harvest depends basically on the farm location. As SLC Agricola’s farms are located in 6 different states (different latitudes) we have a broader window for these procedures.

# BIOLOGICAL ASSETS: “POINT OF HARVEST”

- ✓ The IFRS introduced the concept of Biological Assets, which basically requires the recognition/booking (under Net Revenues) of that portion of the crop which is at a “point of harvest” by the end of the month;
- ✓ For SLC Agricola, “point of harvest” was defined as one month prior to harvest
- ✓ The IFRS methodology indicates that, by the end of each month, it is necessary to map how many plots of each farm have reached enough biological maturity to be considered as “one month away from harvest”. For these plots, the current selling price at the region is subtracted by the total estimated cost, the result being booked under “Biological Assets”, inside the Net Revenue Account. Note that eventual hedges made are not considered for the biological asset calculation;
- ✓ So, basically, the “Biological Asset” calculation is an upfront booking of the crop’s **gross margin**

## Example

	Quarter	
Net Revenue Breakdown	Volume	R\$ thd
Cotton Lint (Invoiced)	tons	\$\$\$
Soybean (Invoiced)	tons	\$\$\$
Corn (Invoiced)	tons	\$\$\$
<b>Biological Assets</b>	tons	\$\$\$

Current Selling Price (ignores eventual hedges)

(-) COGS

**(=) Biological Asset**

## Illustration



Cotton plot at Point of Harvest



Soybean plot at Point of Harvest

# BOOKING EXAMPLE OF BIOLOGICAL ASSET (SOYBEAN, AT ILLUSTRATIVE VALUES)

1)

December 31	
<b>Premises</b>	
Output to be harvested in Jan (at point of harvest)	15,000 tons
Forecasted Unitary Realization Price	R\$ 600/ton
(-) COGS	R\$ 350/ton
Biological Asset (Price - COGS x tons)	R\$ 3,750,000
<b>Booking</b>	
Income Statement	
<b>Net Revenue</b>	
Soybean (Invoiced)	XXXXXX
Cotton (Invoiced)	XXXXXX
Corn (Invoiced)	XXXXXX
Biological Asset	R\$ 3,750,000
Balance Sheet	
<b>Assets</b>	
Biological Assets	R\$ 3,750,000

2)

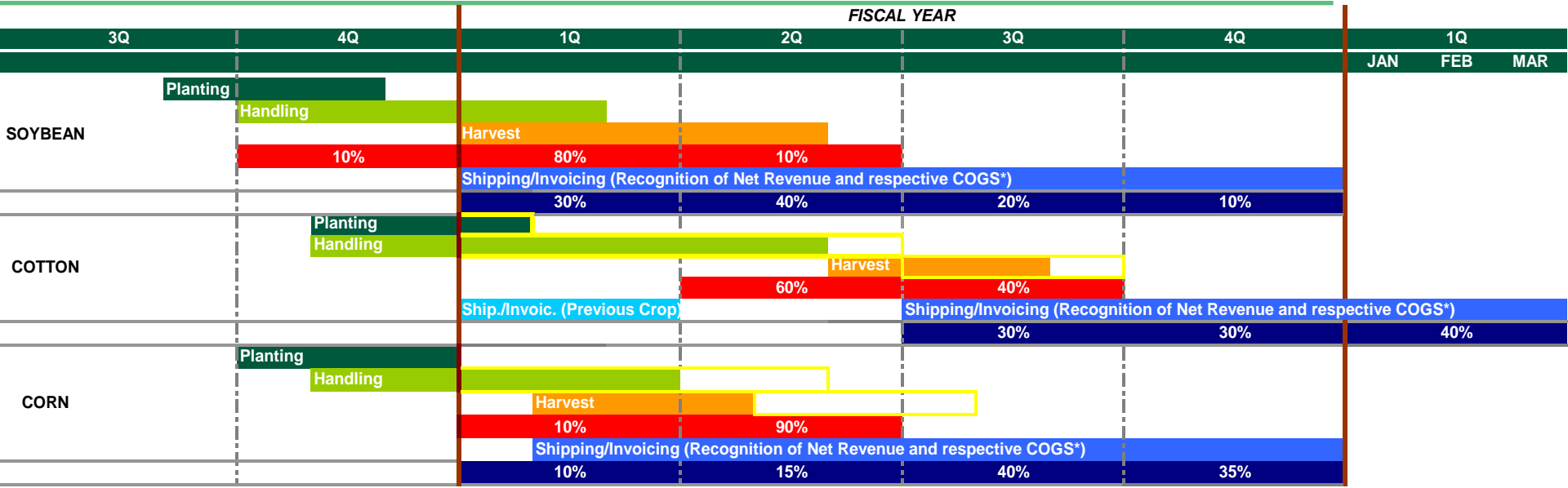
January 31	
<b>Premises</b>	
Harvest and Shipment of the Soybeans	15,000 tons
Realization Price <sup>(1)</sup>	R\$ 600/ton
<b>Booking</b>	
NetRevenue	
Soyean Invoiced	R\$ 9,000,000
COGS	R\$ 5,250,000
<i>Biological Asset Portion</i>	R\$ 3,750,000
TOTAL =>	R\$ 9,000,000
Gross Margin	R\$ 0

On January 31<sup>st</sup> the same process done in December occurs again: mapping how much of the crop is at "point of harvest" and doing the biological assets recognition

THE MARGIN, ONCE ALREADY RECOGNIZED (IN THE PREVIOUS QUARTER) BECOMES PART OF THE COST

(1) Considering the sale occurs at the exact forecasted price (any fluctuation in the sale price will be directly reflected at Net Revenues)

# BIOLOGICAL ASSETS: HOW TO MEASURE THE QUARTERLY IMPACT CONSIDERING THE CROP CYCLES



2<sup>nd</sup> Crop  
 Estimated percentage of total output requiring Biological Asset adjustment  
 Average Net Revenue Recognition (out of total crop-year revenue)

- ✓ Considering the crop cycle and harvesting periods (and % of the crop that is harvested each month), Biological Asset recognition should happen in the proportion that is presented in the table above, which means the bulk of the crop’s margin should be recognized in these periods.
- ✓ Once Biological Asset calculation is based on premisses (of realization price, for instance) further changes in revenues will be reflected directly on the quarter where the crop which was marked as Biological Asset is invoiced (through increases/reductions in realization price), bringing increases/decreases in the margin)

## OTHER IFRS SIGNIFICANT IMPACTS

### ASSETS AT MARKET VALUE

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- ✓ Company's land was updated in the books at Fair Value (based on Independent Land Appraisal\* on the base-date of January 1st, 2009). This created a proportional increase at Shareholder's Equity. Before the adoption of the IFRS, the land was booked at historical acquisition price;
- ✓ Machinery, buildings and equipment's value were also marked-to-market;
- ✓ After this mark-to-market of the assets, there was no annual updating of the asset's value at the balance sheet
  - ✓ *The Company intends, however, to continue to do the annual "off-balance sheet" land appraisals and to provide market disclosure of that, in order to monitor movements in its land bank prices*