

REPORT

DATE:	July 8th, 2010
TO:	AFUPM – “Association”
ATTN:	Associates of AFUPM and Worldwide Unification movement
SUBJECT:	Association’s legal situation in Brazil

1. INTRODUCTION

By July, 2008, the situation of Associação das Famílias para Unificação e Paz Mundial (AFUPM or Association) in Brazil was extremely dire, where financial and legal wellbeing of AFUPM was in serious question. UCI decided to intervene in order to reverse further trending catastrophe, initiating to adopt some measures in order to guide the Association onto the right path.

As example of the bad situation experienced by the Association at that moment it’s possible to mention that it was involved in numerous lawsuits mainly running before the Court of Mato Grosso do Sul. Some of the attorneys handling those lawsuits have never provided the Association with reports or copies of the claims, so the **Association’s representatives could not have control of it. Most of all Association’s properties in Mato Grosso do Sul, as well as few in other states, had been attached by opposing parties in the lawsuits to guarantee the debts. The Association’s financial situation was terrible. It had no resources to address the existing debts which included taxes, environmental fines, attorney’s fees and others.**

At that moment, the most relevant properties in Mato Grosso do Sul were involved in a Contract signed by and between the Association and its attorney Antonio Augusto de Souza Coelho (“Antonio Augusto”). According to such Contract, said attorney had power to sell the lands to himself or to third parties. The lands started to be sold, but the Association never received anything for that. There is no doubt that the Contract was unfair and absolutely unfavorable to the Association.

Briefly, the Association was involved in the following relevant cases:

- (i) five tax foreclosures in the total amount of approximately R\$31,500,000.00 (updated until December, 2009);
- (ii) five tax administrative proceedings in the total amount of approximately R\$32,900,000.00 (updated until April, 2010);
- (iii) one arbitration proceeding, in which the amount of approximately R\$150,000,000.00 involved refers to the properties discussed on the dispute;

(iv) two lawsuits involving the transfer of the properties of the Figueira Farm and the Morraria Farm, which involves the total amount of approximately R\$74,000,000.00;

(v) nine lawsuits filed by David Moura de Olindo ("**David**"), involving the total amount of approximately R\$10,000,000.00;

(vi) five lawsuits filed by Wilson Francisco Fernandes, involving the total amount of R\$2,700,000.00;

(vii) one lawsuit filed by Laura Cristina Ricci Cristóvão, involving the total amount of approximately R\$600,000.00;

(viii) one enforcement of final decision involving the total amount of approximately R\$70,000,000.00;

(ix) five public civil actions, involving environmental issues: three of them concerns the New Hope Farm, one concerns the Hotel Americano and one concerns the Salobra Farm. The amounts involved in such claims are considerable, but very hard to estimate;

(x) other less relevant cases.

2. SERVICES RENDERED BY ADVOGADOS

At the time UCI started to assist the Association, the first step taken was hiring Advogados. Along with it, several measures have been adopted, initiating by a research to identify all the problems involving the Association which took over 4 months to fully catalogue and analyze due to the extensive and complicated nature of the problems. Some of the problems and solutions found by UCI and **Advogados** will be briefly described below.

2.1. Real estate properties' disputes

Part of the chaotic and uncontrolled situation was reflected directly in the past decision by the Association to settle an Agreement with ex-lawyer Antonio Augusto. The Agreement, signed by the Association in error, induced by its ex lawyer and without any kind of legal assistance, basically granted Antonio Augusto powers to sell most of the **Association's farms in Mato Grosso do Sul**.

In other words, the Association assigned control and/or ownership over 46,000 hectares of property worth approximately R\$150,000,000.00 in exchange of assuming debt and liabilities of no more than R\$25,000,000.00 (though Antonio Augusto convinced the Association to believe that these debts actually amounted to over ten times their real amount). In fact, Antonio Augusto sold some of the **Association's farms and was taking** all actions in order to sell the rest of them.

Thus, UCI immediately authorized **Advogados**, on behalf of Association, to request an Injunction, which was granted and kept in force, preventing Antonio Augusto from selling **all Association's farms in Mato Grosso do Sul**. **In parallel**, an arbitration proceeding was initiated in which the Association claimed for the nullification and/or **Antonio Augusto's breach** of the Agreement signed by the Association and all the acts taken by Antonio Augusto on behalf of it, which caused inestimable losses for the **Association's assets**.

Recently, an extremely favorable decision was rendered. The Agreement was terminated and the Association regained all the properties back, except Fazenda Rio Branco that was not included in the Agreement. It was a two-year proceeding, that demanded hard work by **Advogados** and UCI, and the final decision was a great victory.

Moreover, several farms owned by the Association have been invaded and occupied by third parties for the past years. The situation was not under control and the possibility of losing the areas to occupants was worrying. UCI and **Advogados** have taken the necessary actions to identify the occupants and to repossess those areas, avoiding the **properties' loss**.

2.2. Former lawyers' disputes

UCI and **Advogados**, duly representing the Association, were also able to intercept another abusive action taken by one of the **Association's ex lawyer, David**. **There is a foreclosure proceeding filed by Apolinário Adames de Souza ("Apolinário")** against the Association in the unreasonable amount of approximately R\$70,000,000.00. David, then, on behalf of the Association, filed a supposed defense, arguing that the amount due would be approximately R\$40,000,000.00. Both the amount plead by Apolinário and the acknowledgment of debt in the sum of R\$40,000,000.00 by David have no reasonable grounds.

Advogados plead the nullity of the unduly defense presented by David on behalf of the Association and presented a real refutation for the entire debt that is being collected. There is still missing a decision about it, but in any **case the nullity of David's act in the case** was already declared by the Lower Court judge and the collection proceeding is suspended at this time.

Not only are civil measures being taken against all the people involved in such cases, but also criminal actions are being looked into in this regard.

Also, when UCI undertook the control of the Association's situation, there were 9 (nine) lawsuits filed by David, involving the total amount of approximately R\$10,000,000.00, 5 (five) lawsuits filed Wilson Francisco Fernandes ("**Wilson**"), a former attorney too, involving the total amount of R\$2,700,000.00, and 1 (one) lawsuit filed by Laura Cristina Ricci Cristóvão ("**Laura**"), also a former attorney, involving the total amount of approximately R\$600,000.00. All these cases refer to attorney fees supposedly owed by the Association and were not, at that time, being handled by any attorney, reason why

the Association's assets and real estate properties had being attached and lost. With UCI's intervention, all these cases started to be handled by Advogados and a lot of victories have been done in its favor from then on. It is important to point out that at UCI's direction, the Association, assisted by Advogados, filed a lawsuit against David, his companies and Laura in order to annul some of these lawsuits because the Association was induced in error by them.

2.3. Environmental issues

In relation to environmental issues, it was possible to verify that in the past some fines were imposed to the Association by environmental authorities and UCI is handling these cases at the moment.

Also, Advogados found at that time 5 (five) public civil actions filed against Association related to environmental issues which were completely ignored by the Association and with high risks of condemnations and huge fines.

Then, one of them, in which was running against the Association, Advogados presented an appeal to the Superior Court of Justice in order to revoke the unfavorable decision rendered against the Association. The case has been suspended and UCI has negotiated a very reasonable agreement that is about to be settled with the Public Prosecutor.

In another case, an engineer was hired by UCI in order to draft a project to recover the environmentally damaged area, which will be presented to the Public Prosecutor to settle the case. It is TozziniFreire's understanding that a settlement can quickly be reached if the Association removes all structures that currently reside in the permanent preservation area along the river. However, UCI has argued that this is a religious holy ground for the Association and has been working to find a suitable agreement to keep these structures in their places.

In a third case, UCI negotiated the terms, assisted by Advogados, where the Association settled an agreement with the Public Prosecutor, ending the lawsuit.

It is important to emphasize that the involved amount in such actions is considerable, but very hard to estimate. UCI and Advogados succeeded in obtaining great victories for the Association.

2.4. Tax issues

2.4.1. Judicial tax proceedings

As for the tax liabilities involving the Association, Advogados is currently handling the defenses filed in the five tax foreclosures already filed by National Treasury aiming at collecting alleged ITR unpaid taxes, involving approximately R\$50,000,000.00.

A favorable Lower Court decision was rendered in the single case already judged, which involves the amount of approximately R\$2,500,000.00. The Federal Lower Court recognized the Association's tax immunity due to an understanding that the documentation and allegations presented by **Advogados**, on behalf of the Association, were enough to prove that it fulfills the requirements established by law for granting such immunity.

This favorable decision may influence the other pending tax foreclosures related to the ITR tax debts collection (a potential liability involving R\$47,500,000.00), since the basis of the defenses are the same, as well as any other tax foreclosure involving the same object (**Advogados** has been constantly searching for any new tax foreclosure filed by National Treasury).

Besides the handling of the ITR taxes already assessed by Brazilian IRS, UCI and **Advogados** have been coordinating a large and complex work involving the georeference and registration of Association's rural real estate properties in order to properly designate permanent preservation and required legal reserve areas. The presentation of the proper register and georeference is mandatory to reduce several of ITR tax debts already assessed and yet avoid potential liabilities involving the rural property taxes.

2.4.2. Administrative tax proceedings

Advogados is currently handling five tax administrative proceedings issued by the Internal Revenue Office in order to collect different federal taxes – IRPJ, CSLL, COFINS and PIS.

The values of IRPJ, CSLL, COFINS and PIS are being charged in virtue of an act issued by the federal tax authorities suspending the tax immunity applicable to the Association. **Advogados** presented a defense alleging the expiration of the statute of limitations for collection of the debts object of such tax collection as well as the application of tax immunity to the Association, as it fulfills the legal requirements. Such proceedings are extremely important for the Association as it discusses the tax immunity applicable in the case.

Recently, **Advogados** has had a partially favorable decision in the proceeding regarding ITR issued by the lower court which canceled part of the tax collected that will benefit the Association. Unfortunately, it is not possible yet to estimate the amount of benefit that the Association will have in virtue of such decision as it stills need to be confirmed by the higher court but a decision of the lower court is good news indeed. An appeal was filed before the higher court in order to change the part of the decision that was unfavorable to the Association and **Advogados** is closely following up on it.

2.5. Real Estate Properties

As for the real estate properties owned by Association, UCI and **Advogados** have prepared an inventory including all properties owned by the Association with a description of their legal and documental current status and if they have been sold or encumbered. With this

inventory that had previously not been prepared, the Association knows exactly the situation of each of its real estate properties.

Due to the Arbitration Proceeding and to avoid the real estate properties to be transferred to third parties, especially to Antonio Augusto, **Advogados** has blocked all real estate registries of these properties grounded on an injunction. This action enabled the Association to keep ownership of all the real estate properties.

Later on, the final decision of the arbitration proceeding determined the termination of the Agreement and gave back to Association all the properties object of the Agreement.

Due to UCI and **TozziniFreire's** actions, the georeference procedure of the farms has been mostly completed by the engineer hired by UCI. The georeference of the farms shall allow the regularization of the farms with INCRA, the remission of rural estate taxes (ITR) of the farms, and the free disposal of the farms by the Association if it intends to.

3. CONCLUSION

To sum up, actions taken by **Advogados** jointly with UCI have already avoided the payment of outrageous amounts and have avoided the lost of thousands of hectares of land areas as well.

UCI and **Advogados** participate in weekly conference calls (usually lasting at least one (1) hour) to discuss updates, legal strategies, direction etc.

For instance, **Advogados** and UCI prevented the loss of 46,000 hectares of property worth approximately R\$150,000,000.00, by means of the above mentioned Injunction.

Afterwards, a very successful work by **Advogados** and UCI granted the most important victory to the Association: the arbitration proceeding was judged and the Association got back all the properties object of the Agreement.

In addition, **Advogados**, assisted by UCI, plead the nullity of the defense presented by a former lawyer, which have erroneously acknowledged a R\$ 40,000,000.00 debt of the Association. As informed, there is still one missing decision, but in any case the nullity of ex lawyer's act in the case was already declared by the Lower Court judge and the collection proceeding is suspended at this time.

Moreover, the Association was about to accomplish an award. An appeal to the Superior Court of Justice was presented in order to revoke the unfavorable decision rendered against the Association and is about to settle an agreement with the Public Prosecutor.

In other environmental lawsuits, (i) an agreement was settled with the Public Prosecutor, assisted by **Advogados** and UCI, ending the lawsuit and (ii) UCI hired an engineer in order to draft a project to recover the damaged area while maintaining existing structures, which will be presented to the Public Prosecutor to settle another environmental case.

It is important to inform that, in Brazil, the georeference procedure is required to **regularize rural areas' situation**, allowing the remission of rural real estate taxes (ITR) of the farms and the **properties' free disposal**.

The **Association should have hired an engineer to do the farms' georeference procedure** years ago but it had no resources to pay for that complex work.

For that reason, UCI hired an engineer to proceed with the georeference of all farms owned by Association, needed especially to transfer to the Association the ones that have been previously acquired and paid, but were still in the name of previous owners, due to the lack of georeference.

Actions taken by **Advogados** and UCI made it possible for the mostly completed georeference procedure of most of the farms.

As for the tax liabilities involving Association, **Advogados** and UCI are currently handling the defenses filed in the five tax foreclosures already filed by National Treasury aiming at collecting alleged ITR unpaid taxes, involving approximately R \$50,000,000.00.

A favorable Lower Court decision was rendered in the single case already judged which involves the amount of approximately R\$2,500,000.00. The Federal Lower Court recognized the **Association's tax immunity and if** this favorable decision influences the other pending tax foreclosures related to the ITR tax debts collection, the Association might be released of the payment of R\$47,500,000.00.

It is clear that UCI and **Advogados** are taking all the necessary actions to preserve the **Association's patrimony and are being successful** at their job, as for instance the regain of all the properties that worth R\$ 150,000,000.00 by means of the arbitration proceeding. Unless forced by AFUPM to withdraw from all work, they intend to continue with it, in order to safeguard the **Association's situation in Brazil**.