The Nature Conservancy
Protecting nature. Preserving life.™

CONSERVATION CONNECTIONS

ANNUAL REPORT 2007

CONSERVATION CONNECTIONS

The mission of The Nature Conservancy is to preserve plants, animals and natural communities that represent the diversity of life on Earth by protecting the lands and waters they need to survive.

2007: THE YEAR IN CONSERVATION

Millions Pledged for Islands Conservation

The Global Environment Facility, the world's largest environmental funding body, proposed $100 million to help Pacific island nations cope with climate change and promote sustainable development. Part of that proposal is $6 million directed to the Micronesia Challenge, a landmark conservation initiative in the northern Pacific to effectively conserve 30 percent of marine resources and 20 percent of terrestrial resources by 2020. The Nature Conservancy has pledged $3 million to the effort, and is working closely with partners to implement the Micronesia Challenge on the ground.

Above: Kimbe Bay, Papua New Guinea

Landmark Debt-for-Nature Swap in Costa Rica

The Nature Conservancy and Conservation International brokered the largest-ever debt-for-nature swap under the Tropical Forest Conservation Act. Under the deal, the United States will forgive $26 million in debt owed to it by Costa Rica. In turn, Costa Rica will spend the $26 million to conserve tropical forests in six areas—sites chosen from a blueprint of conservation gaps that the Conservancy helped create for Costa Rica.

Above: Three-toed sloth in Costa Rica

In a record year—when the Conservancy helped protect more than 840,000 acres of lands and waters, and completed more than 800 conservation transactions—here are a few highlights that illustrate our geographic breadth, the range of our tactics, and the scope of our achievements.

Historic Conservation of Great Bear Rainforest in Canada

The Nature Conservancy and partners completed financing to help protect a healthy future for 21 million acres of the Great Bear Rainforest, the largest remaining stretch of temperate rainforest on Earth. Together, public and private funds raised a total of 120 million Canadian dollars to support conservation management and ecologically sustainable business ventures along the British Columbia coast.

Above: Grizzly tracks in Great Bear Rainforest of British Columbia, Canada

First Students Graduate from Amazon Indigenous Training Center

Three classes of 15 students each—representing nine different indigenous groups—have graduated from the Amazon Indigenous Training Center in Manaus, Brazil, since the center opened in August 2006. At the center, students learn conservation techniques that are unique to indigenous lands, which comprise nearly 22 percent of the Amazon. The training center is a pilot project of the Conservancy and COIAB, the largest indigenous federation in the Amazon Basin.

Above: Deniziu Araújo Ticuna, a graduate of the Amazon Indigenous Training Center

New Research Camp Established in Botswana

Through its partnership with the African Wildlife Foundation, the Conservancy helped establish a new base camp adjacent to Botswana's Chobe National Park. The camp gives scientists who are studying the continent-wide decline of lions and other large predators improved access to critical habitat areas. The researchers' work is shaping conservation strategies to reduce conflict between wildlife and local communities.

Above: African lion in Chobe National Park, Botswana

Conservancy Expands its Global Grasslands Presence

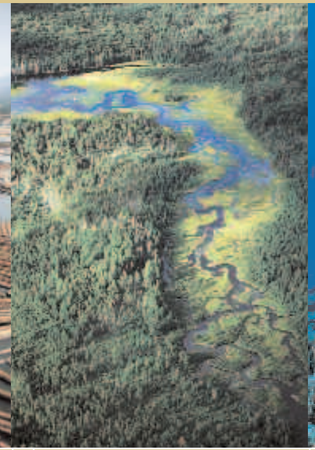
As part of a goal to conserve temperate grasslands worldwide, the Conservancy began laying the foundation for conservation in Argentina and Mongolia. In Argentina, the Conservancy aims to work with federal and provincial governments, private landowners and the sheep ranching community to conserve 40 million acres of the country's extensive grasslands. In Mongolia, the Conservancy is working closely with government agencies and local communities to protect the planet's largest remaining area of intact temperate grasslands.

Above: Bactrian camels in Mongolia

World Leaders Back Forest Carbon Partnership to Fight Climate Change

World leaders at the Group of Eight (G8) summit gave the World Bank a mandate to develop a "forest carbon partnership" aimed at dramatically reducing deforestation in developing nations. Deforestation accounts for about 20 to 25 percent of global greenhouse gas emissions. The Conservancy was a key player in the discussions to include this issue as part of a comprehensive climate change strategy that addresses all major sources of carbon emissions. The World Bank launched the initiative in December 2007 during international climate change talks in Bali, Indonesia.

Above: World's largest sawmill in Borneo, Indonesia



Largest Conservation Deal in New York's History

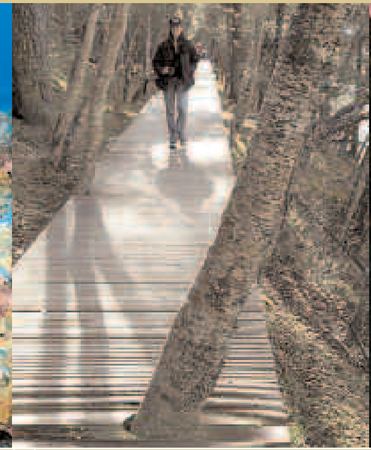
The Conservancy purchased 161,000 acres of forest in New York's Adirondacks, the last big tract of privately owned timberland in the park. The transaction—the largest ever for the Conservancy in the state—will protect a rich mosaic of wilderness lands and waterscapes. A working forest agreement will allow selective logging to continue for 20 years, helping to preserve 850 jobs at a local mill.

Above: Adirondack State Park, New York

First Marine Protected Area Network Designed to Address Climate Change

The Conservancy designed a marine protected area in Kimbe Bay, Papua New Guinea, that is one of the first in the world to incorporate both human needs and principles of coral reef resilience to withstand impacts from climate change. With the support of local communities and governments, the Conservancy is now working to implement the protected areas and find sustainable financing sources to ensure their proper management.

Above: Coral reef in Kimbe Bay, Papua New Guinea



China Establishes First National Park

The Nature Conservancy helped China establish its first national park, which will serve as a model for a new Chinese national park system. The new park—Pudacuo National Park in China's Yunnan Province—is located in one of the biologically diverse regions of the world. By helping the Chinese government properly plan for and manage tourism through this model national park, the Conservancy is providing the government with an opportunity to reduce the impacts of tourism and other threats to biodiversity.

Above: Pudacuo National Park, Yunnan Province, China

A MESSAGE FROM THE PRESIDENT

An annual report is an opportunity to assess a past year's progress, but at The Nature Conservancy our focus is always on the future. We have set the bar high for the coming decade, committing our organization to work with others to ensure the effective conservation of places that represent at least 10 percent of every major habitat on Earth. We have also launched the Campaign for a Sustainable Planet to support this goal.

To achieve such an ambitous goal—which will nearly double the amount of our planet in protected status—we need to think bigger than we ever have before. And we must leverage every action, every dollar and every partnership to dramatically expand conservation's footprint and reach people and places within key habitats around the world.

We will not do this alone. The "work with others" phrase in our goal is of paramount importance. We have always valued partnerships—with landowners, corporations, governments and other organizations. We now must parlay the trust we have earned to influence those worldwide institutions with the greatest potential to affect positive action for our lands and waters, our seas and climate. We aim to be a trusted advisor for these institutions and the "go to" organization to broker an ethos of cooperation.

With two-thirds of Earth's natural systems in decline, the urgency of our mission requires that we influence policy and engage key players on a global scale. But we have not forgotten that every conservation achievement starts at the grass roots, and innovation is tested at individual sites. With nearly 60 years of on-the-ground learning, we are investigating ways to be more nimble at developing conservation strategies at individual sites that can be rapidly expanded and replicated around the globe.

In these pages you will see highlights of what we have achieved in 2007 with your support. But we have also gleaned seven stories from our priority projects to demonstrate how our work around the world is increasingly interconnected, how lessons learned at one place are being applied at sites across the globe, and how people of all walks of life are working together to create a sustainable future for us all.

These are the kinds of efforts that will drive us in the years ahead. These are the kinds of people who, like you, will help us move our mission from the special-interest sidelines to mainstream relevance and drive conservation action in the United States, throughout our hemisphere and in every corner of the Earth.

Stephanie Meeks
Acting President & Chief Executive Officer
Chief Operating Officer

A MESSAGE FROM THE CHAIRMAN

Every successful company needs a compelling vision, one that drives its workforce and inspires its customers and investors. The same is true for any successful charitable organization. The Nature Conservancy's vision is clear and inspirational: to create a sustainable planet.

As a business leader, I came to the Conservancy because I saw an organization that was bold enough to take the pragmatic risks necessary to challenge itself and the world to do more than what may seem possible. To double the amount of conservation in the coming decade than was accomplished in the last century is a bold goal indeed. But the pace of habitat loss, climate change and other serious threats demands nothing less of us.

I believe that the Conservancy is the only organization that is positioned to marshal the resources and partnerships to take on this challenge. The accomplishments of the past year hint at what is possible when we think big. With record-setting revenues, the Conservancy helped China create its first national park and brokered the largest debt-for-nature swap in Costa Rica. We secured financing to help protect a healthy future for 21 million acres of the Great Bear Rainforest in British Columbia, and helped world leaders develop a cutting-edge initiative to address carbon emissions from deforestation.

In late 2007, we launched the Campaign for a Sustainable Planet to support our bold conservation goal. The campaign will be the largest in conservation history; I contend it will be the most important conservation action of our generation. It will support the expansion and launch of programs and projects that will enable us to achieve results on a global scale. The expanded use of innovative strategies—such as payments for ecosystem services and the development of markets for carbon stored in forests—that the goal calls for has the power to transform how we use our planet's natural resources.

The board of directors is deeply committed to the goal and stands ready to lead the Conservancy through this historic campaign. Our direction is set, and our resolve is strong. Early outreach shows that our enthusiasm is shared by many people who are eager to support action on a scale that can truly make a difference in their lives, and in the lives of their children and grandchildren.

This is a watershed moment for global conservation, and what we do in the next few years will shape our world for generations to come. I hope you will join us in this extraordinary quest to make The Nature Conservancy's vision a reality.

John P. Morgridge
Chairman, Board of Directors

CONNECTING THE DOTS

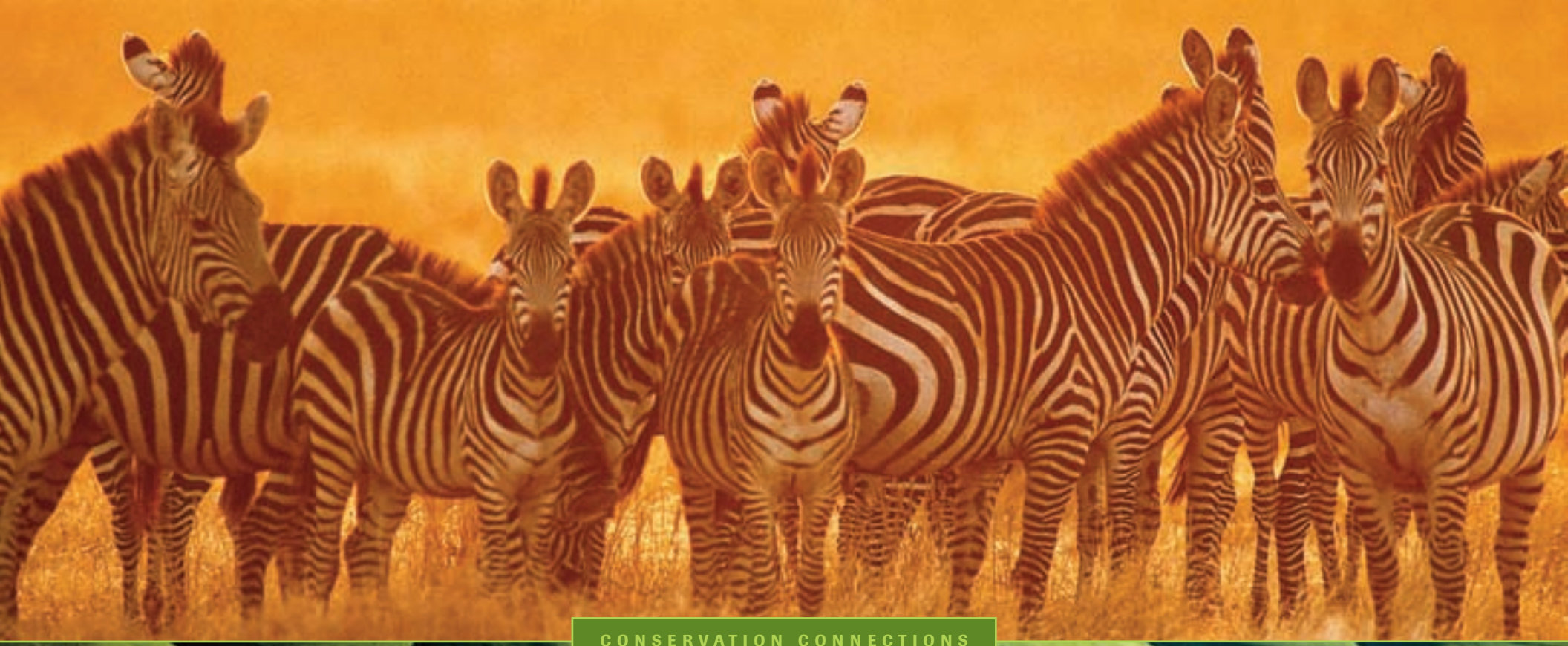
A New Mexico cowboy shares a lifestyle and its challenges with a shepherd in Tanzania. Lessons learned by a Colorado attorney link freshwater protection in China and Ecuador. Efforts to restore common, fragmented landscapes unite an Aboriginal people in the Australian outback with residents of Southern California. And the choices a woman makes at a London grocery connect her to an Amazonian farmer in Brazil.

For better or worse, we live in a global economy. The food we eat and the resources we use may come from many other parts of the planet. What happens *here* invariably has an effect *there* and vice versa.

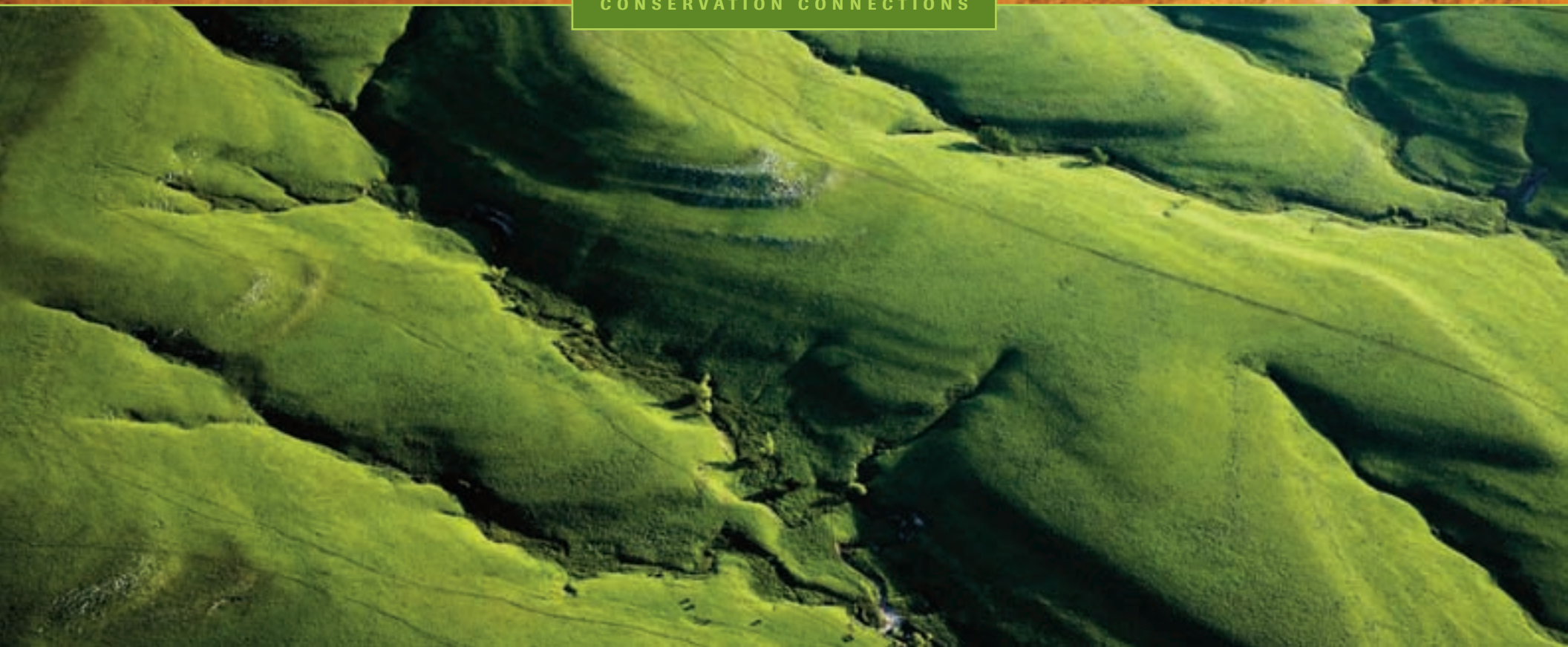
Similarly, conservation action at one place may have international ramifications and global applications. In a time of climate change and the rapid depletion of natural habitats and the resources they contain, it is imperative for us to appreciate our connections to places and people we may never know directly, but from whom we may learn and share valuable experience.

Key to establishing a sustainable world for us all is understanding, appreciating and maximizing these conservation connections.

Right: Visitors explore tropical rainforest on Costa Rica's Osa Peninsula.



CONSERVATION CONNECTIONS



GRASSLAND VOICES

Preserving Wildlife and a Way of Life

Grasslands—those open expanses of land whose soils have nourished humanity and supported wildlife for millions of years—are vanishing worldwide. And as grasslands disappear, so do time-honored ways of life. These ways of life, intimately tied to the land and its natural cycles, still exist among Maasai pastoralists in Kenya and Tanzania, cowboys in the United States, nomadic herders in Mongolia, *gauchos* in Argentina, and in other places where grasslands remain.

While their daily lives and customs differ widely, people who depend on grasslands for their livelihoods face similar challenges in maintaining their traditional way of life and the landscapes they have relied upon for generations. With this common bond, they are among the Conservancy's most powerful allies in grasslands conservation.

Top: A grazing herd of zebra in Tanzania.
Bottom: Aerial view of the Flint Hills grasslands near Wichita, Kansas.

Steven Kiruswa is director of the African Wildlife Foundation's Maasai Steppe Heartland in Arusha, Tanzania.

"I am Maasai. I grew up as any other boy, as a shepherd. Where I'm from, the Longido District in northern Tanzania, is a very rich area for wildlife. I grew up around wildlife and always loved it. Because Maasai are a pastoral people, they co-exist with wildlife. There are conflicts sometimes, when resources are scarce, but they mostly live in harmony with wildlife.

"The Maasai are very proud of their culture, but it is very challenging to preserve it. I am on the board of an organization that is trying to set up a dialogue to see what can be done so we do not lose the Maasai culture to the encroachment of modernization and new ways of life.

"My personal philosophy has been to try for balance between what I can maintain in my culture and what I can learn and adopt from other cultures. I try to keep good things from both worlds, knowing that there is so much good in the modern world, and there's also so much good in the traditional world that I wouldn't like to see lost."

"I try to keep good things from both worlds..."

Top: The grazing wildlife may differ—zebra and wildebeest here in Tanzania—but Steven Kiruswa (below) shares cultural and conservation challenges with grassland dwellers from Asia and the Americas.

Warner Glenn

is a founder of the Malpai Borderlands Group, led by generations-old cattle ranching families. This grassroots organization works to maintain a "working wilderness" on nearly one million acres along the Arizona and New Mexico borders with Mexico.

"Folks from landscapes like ours from around the world have come to visit our group to talk about challenges common to all of us. We've had people come from Mongolia, Indonesia, Brazil, Canada, Mexico, Australia and Africa. When the idea of bringing Maasai over was brought up, we wondered why they would want to come all this way to visit us. It turned out that the challenges we face to protect our grasslands are almost identical to the ones they face too.

"The Maasai are like us in a lot of ways. They know the land, how the animals use it, and how to protect it. We both know that you've got to work with a lot of different kinds of people who you may not have in the past, and bring everybody together for the right thing to happen. When I saw how respectful and nice the Maasai were to my granddaughter Mackenzie, I could tell that they love their families and want to pass on their way of life to their children just like we do.

"I consider The Nature Conservancy and some of the good people who work with that organization to be a huge benefit to the land as a whole, and a help to the people who make their livings in open country."

Bottom left: The ranches that comprise the Malpai Borderlands Group have become a learning laboratory for grassland managers visiting from around the world.

Bottom right: Warner Glenn.

◁ AFRICAN GRASSLANDS AND SAVANNAS

The vast grasslands and savannas of East Africa were the birthplace of humans. These largely intact landscapes support many species that have lived there for thousands of years, including the richest concentrations of large mammals left on Earth. The Conservancy has helped build the institutional capacity of land trusts in Kenya and Tanzania that will enable conservation of private lands. Together with partners such as the African Wildlife Foundation, the Conservancy is working to keep remaining migratory corridors open for animals and ensure that conservation delivers benefits for local people such as the Maasai.

Left: Elephant in Tanzania.

Right: The high Andean grasslands of Ecuador.

MEXICO • TANZANIA • ARIZONA • NEW

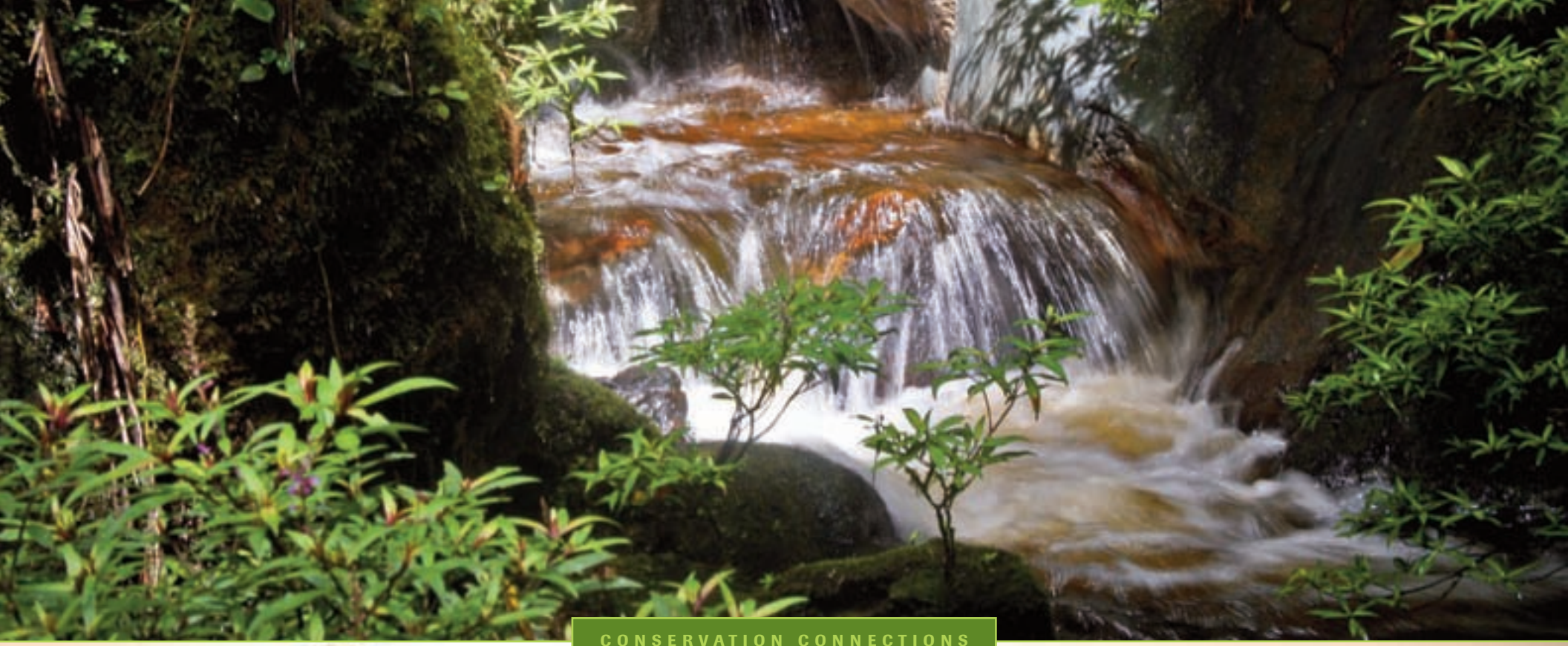
▷ GREAT PLAINS OF NORTH AMERICA

North America's grasslands are rare, life-sustaining ecosystems that house a great diversity of plants and animals. Local partners such as the Malpai Borderlands Group are essential to the Conservancy's efforts to test innovative strategies and create the largest network of protected grasslands in the world: more than 63 million acres stretching across southern Canada, the Great Plains and northern Mexico. This comprehensive plan to protect North America's most significant grasslands includes efforts to conserve several species of endemic birds that winter, migrate and breed within the Great Plains. Elsewhere, the Conservancy has also initiated programs in Argentina and Mongolia with the goal of conserving millions of acres of grasslands there.

Right: Bison at Niobrara Valley Preserve, Nebraska.

"Grasslands are the heart of five continents, and they enrich our world with wildlife that inspires us, food and water that nourish us, clean air that supports us, and time-honored ways of life that define us as a people."

—Bruce Runnels, Managing Director, Rocky Mountain Conservation Region



CONSERVATION CONNECTIONS

Top: A freshwater stream in the Colombian Andes.
Bottom: Qiaoyu Guo, the Conservancy's Yangtze River project manager in China.

LAKES & RIVERS

Securing the Lifeline for People and Wildlife

Whether it comes from melting snow high in the Colorado Rockies, monsoon rainfall on the foothills of the Tibetan Plateau, or the grassy *páramos* of South America's tropical Andes, fresh water is the building block for all life outside oceans. Salmon, otters, hippos and aquatic plants call lakes and rivers home, and like us, every species needs water to survive. Yet as humans further deplete these supplies to water cities and farms, the challenge of supporting the growing human population—while sustaining healthy rivers and lakes—is becoming increasingly difficult.

That's why the Conservancy has made freshwater conservation a global priority. From Colorado to China to Ecuador, Conservancy staff and partners are working to identify the most effective ways to protect lakes and rivers, and they are sharing and applying those strategies around the globe.

A Conservancy-initiated program to encourage major water users in Quito, Ecuador, to pay for reforestation efforts upstream is informing similar efforts elsewhere in South America, as well as in China and the United States. Likewise, our experience working with dam operators along the Colorado River to restore natural flow regimes for native fish and forests is helping us apply similar strategies along the Yangtze.

Humankind's need for fresh water has always united us—now, the Conservancy's innovative solutions do too.

COLORADO · CHINA · ECUADOR

David Harrison is a leading water rights attorney based in Boulder, Colorado, and a special advisor to the Conservancy's Global Freshwater Team. He is also former chairman of the Conservancy's board of directors.

"We've arrived at a historic moment. Interest in the environment has been growing and growing because environmental disasters keep piling up and piling up. Our rivers are in terrible trouble. Overall, freshwater ecosystems are categorically more in danger than other ecosystems. We've got this legacy of neglect and overdevelopment and now it's coming to a head.

"Our state trustees want to know that they're contributing to our global strategy. They like it when they see what's happening in Colorado producing benefits in the Yangtze or at the International Hydropower Association. When they hear that, they're inspired, and they're inspired to take more action at home in Colorado.

"One of the things we're really excited about in China is the possibility of taking some of the revenue from hydropower generation and putting it into a permanent conservation fund on an annual basis that will provide the money to restore ecosystems and maintain a network of freshwater protected areas—stream segments all over the Yangtze River Basin. That idea comes straight out of the work we've done in Ecuador's Condor Bioreserve and in the Colorado and Mississippi Rivers."

> "Our state trustees want to know that they're contributing to our global strategy."

Above left: David Harrison.

Above right: Much of TNC's pioneering work on river restoration and management innovation began in the 1980s on the Colorado River.

Dr. Qiaoyu Guo is the Yangtze River project manager for The Nature Conservancy's China program and is based in Beijing.

"I believe one of the advantages we have working in China is the track record we developed in the United States, working with the Army Corps of Engineers to restore ecological flow where dams have been built. We have these good international case studies and lessons learned from our experience in Arizona, Georgia and Honduras.

"We are focusing on the area of the Yangtze River above Three Gorges Dam where four new dams are planned. Two are already being built. So many other non-governmental organizations are simply opposed to dams in China. But the dams are a reality. We may not like dams. But we don't say that we are the organization that opposes dams, nor are we the organization that supports dams. We are the organization that can work with agencies in China and bring international experts to help find solutions."

Below left: Qiaoyu Guo.

Below right: TNC seeks to help balance China's burgeoning energy needs with the maintenance of natural processes and aquatic species on the Yangtze River, here in its upper reaches.

"We are the organization that can work with agencies in China and bring international experts to help find solutions."

Maria Aigaje and her daughter, Adelaida,

live within Ecuador's Condor Bioreserve in the traditional Quechua community of Oyacachi, which has benefited from funds generated by a sustainable water fund in Quito.

Maria: "As far as rivers go, our Oyacachi River used to be big. We had a lot of fish, and families from our community depended on those fish. But people started burning the forests and high, spongy grasses to create grazing lands. I didn't even recognize our mountains anymore. Luckily we didn't get rid of everything, or no one here or downstream would have any water.

"Now we're trying to defend and protect our river. My daughter, Adelaida, has organized a youth group to do reforestation work. They're helping to replant 7,000 *polylepis* trees. They're teaching all of us how to care for nature."

Adelaida: "Why are we reforesting? In the forest there are all kinds of animals, birds, insects—everything. That's why I care for the forests—without them, there would be no beautiful animals, no beautiful bugs. If we don't care for the forests and the trees, there won't be any water, and everyone needs water."

Below left: Below left: Pita River flowing through the Cotopaxi National Park in the Andean highlands of Ecuador.

Below right: Maria (front) and Adelaida Aigaje.

> "If we don't care for the forests and the trees, there won't be any water, and everyone needs water."

COLORADO RIVER

Beginning in the 1980s the Conservancy forged valuable relationships with agencies such as the U.S Bureau of Reclamation to test dam operation changes in the Upper Colorado River and other rivers, releasing water to mimic natural flow regimes. These experiments proved valuable for fish and fishermen alike, and helped restore streamside forests. Building upon decades of work in the region, the Conservancy has created a system-wide conservation strategy for the Colorado River Basin that combines conservation action at 35 sites in seven states with cross-cutting policy and project work addressing issues such as water laws and climate change. These strategies may enable us to conserve 67,000 river miles of the Colorado and its tributaries over the next 10 years.

YANGTZE RIVER

Flowing from the Tibetan Plateau to the East China Sea near Shanghai, the Yangtze is often referred to as China's "Mother River." Here, the Conservancy is working with the Chinese government and others to influence the construction and operation of 12 planned hydropower dams in order to minimize the ecological damage they pose. The Conservancy is also working with the government to develop and implement a conservation plan for the entire watershed. This effort will integrate both sustainable development of the river's hydropower potential and conservation of its most critical stretches.

COLORADO • CHINA • ECUADOR

◁ RIVERS OF THE ANDES

The two million citizens of Quito, Ecuador, derive 80 percent of their drinking water from the Condor Bioreserve—a 5.4-million-acre mosaic of protected areas high in the Ecuadorian Andes. In 2000, the Conservancy made an initial investment of just $1,000 and teamed up with the U.S. Agency for International Development to develop a fund called FONAG for the ongoing protection of Quito's water supply. Quito's water and electric companies contribute to FONAG every month, and the fund now contains nearly $5 million. Proceeds fund education and reforestation projects undertaken by traditional communities like Oyacachi, located within the Condor Bioreserve. The Conservancy has helped establish similar funds in three other South American cities and seeks to replicate the model on a global scale.

Left: Mindo-Nambillo Ecological Reserve in Ecuador.

CONSERVATION CONNECTIONS

THE CLIMATE CONNECTION

Confronting a Threat Without Borders

Perhaps more than any other issue, climate change illustrates that our actions locally have consequences in places around the globe. A coal-fired power plant in Kentucky emits carbon into the atmosphere, which has been warmed by more than a century of industry. Thousands of miles away, an Inuit in the Arctic feels the heat as seals he has hunted for years become scarce with the melting sea ice.

Climate change is one of the most serious issues facing the world today, and The Nature Conservancy is working to prevent its extreme impacts. Three Conservancy experts represent ways in which we are tackling climate change locally and globally.

Top: Increasing polar ice melt in the Arctic.
Bottom: Saplings for reforestation in Brazil's Atlantic Forest.

Above: Australian Alison Green is among a team of marine scientists working with communities throughout Southeast Asia's Coral Triangle to develop networks of marine protected areas that are resilient to climate change.

Dr. Alison Green is a senior marine scientist with the Conservancy's Coral Triangle program.

"I'll never forget the first time I saw a coral reef, while on a family holiday to the Great Barrier Reef. I never dreamt that anything could be so fascinating and beautiful. Now, I'm fortunate enough to study coral reefs around the world, particularly in the Coral Triangle around Papua New Guinea, Solomon Islands and Indonesia. Like most coral reefs in the world, the reefs here are threatened by climate change. When corals become stressed by high sea temperatures, they expel their colorful algae and turn white. If you don't know what it is, it looks quite beautiful. But if you do, it's quite sad because what you are looking at is dying coral. With enough warming, this can happen over very large areas and the corals might die off completely.

"Resilience is about recognizing that coral reefs are going to come under increasing stress from climate change, and ensuring they are as healthy as possible to withstand these threats. It has changed the way in which we do conservation. Our goal is to try and give the reefs the best chance of survival.

"We can't afford to give up. Not only do coral reefs support the highest marine diversity on the planet, they also support the livelihoods of billions of people. Despite the enormity of the challenge, I'm not willing to give up the fight."

> "Our goal is to try and give the reefs the best chance of survival."

Cathleen Kelly is director of United States climate policy for the Conservancy.

"Climate change, in many ways, is the defining issue of our era. It's something I've been working on for almost 15 years now, and momentum is growing to really take significant action to address this threat. Tackling climate change is something I'm very passionate about and feel very committed to.

"Climate change is going to impact every investment the Conservancy has ever made or will make, so we're compelled to do something about it. Supporting policy to reduce this threat is the most powerful tool we have to both achieve emission reductions and generate new sources of funding for conservation.

"We are already seeing climate change impacts to people and places, and we're going to continue to see more. But if we can pass strong climate legislation in the United States, this would set the stage for a new international climate agreement that all major emitters can join. Then we can really start bending that global emissions curve downward. I'm definitely concerned about climate change, but hopeful that if we take immediate actions to reduce emissions, we can avoid some of the worst impacts."

Below left: U.S. climate policy director Cathleen Kelly. TNC's track record as a trusted advisor and partner to government agencies positions the organization to help guide policies to curb carbon emissions.

Below right: Polar bears face rapid ice melt in the Arctic.

Duncan Marsh is the director of international climate policy for the Conservancy, and leads our initiative to reduce emissions from tropical deforestation by catalyzing a global market that values carbon stored in standing forests.

"Deforestation accounts for approximately 20 percent of global greenhouse gas emissions, and is one of the leading sources of emissions from many developing countries. Nevertheless, the destruction of the world's remaining tropical forests continues at alarming rates. If deforestation is 20 percent of the problem, reducing emissions by conserving forests can be 20 percent of the solution to climate change, while also preserving biodiversity and promoting sustainable livelihoods.

"By seeking to establish an economic value for the carbon in standing forests, we are providing an alternative to the economic forces that lead to the destruction of forests. We want to match up global demand for reduced emissions of carbon with the ability of forests, particularly tropical forests, to store carbon very effectively. The Conservancy's on-the-ground forest carbon projects in places like the Noel Kempff Mercado Climate Action Project in Bolivia keep millions of tons of potential carbon emissions from entering the atmosphere.

"I'm encouraged by the fact that the international community, led by key developing countries, is beginning to recognize that forest conservation has an important role to play in efforts to mitigate climate change. The question is whether we can put in place the necessary incentive structures in time to save the remaining tropical forests and avoid the more serious impacts of climate change. The Conservancy is at the vanguard of that movement."

> "...reducing emissions by conserving forests can be 20 percent of the solution to climate change."

Left: Duncan Marsh works to create market solutions to curb carbon emissions from deforestation.

Below: Forests, like that at Iguaçu National Park in Brazil shown here, store large amounts of carbon.

ADAPTING TO CHANGE

Dr. Alison Green (p. 20) recently led the design of the world's first marine protected area network aimed at minimizing climate change impacts on coral reefs in Papua New Guinea—a model that is being used around the world. Key to the design is reef resilience, a revolutionary concept developed by the Conservancy and partners that involves identifying and protecting areas where coral reefs are most likely to resist bleaching and other damage. Larvae from the resilient corals can then re-populate reefs destroyed by bleaching. It is one of the many strategies the Conservancy is pursuing, both on land and in the water, to help plants, animals, natural areas and people adapt to unavoidable effects of climate change.

AUSTRALIA • WASHINGTON DC • SOUTH AMERICA

◁ TROPICAL FORESTS AND CLIMATE

The Conservancy is a leader in developing conservation projects that benefit the climate by storing carbon in tropical forests. In places like Belize, Bolivia and Brazil, U.S. companies—including General Motors, American Electric Power and Texaco—have invested in these forest carbon projects in order to offset their carbon emissions. Building upon our continued forest conservation and restoration work on the ground, the Conservancy is working with partners to lay the groundwork for a global market that invests in the carbon stored in tropical forests. Such a market has the potential to channel unprecedented funding toward the protection of forests—bringing benefits to plants, animals, local communities and the climate.

△ CLIMATE CHANGE POLICY

In the United States, the Conservancy is working to pass national climate change legislation and enact regional initiatives that include mandatory caps on emissions, funding to help fish and wildlife adapt to climate change, carbon crediting programs that encourage land conservation, and restoration efforts that minimize carbon levels in the atmosphere. On the global stage, the Conservancy is working with partners to inform and shape a new international climate change agreement that involves all major carbon-emitting countries, includes incentives to reduce emissions from deforestation, and supports conservation strategies to help people and nature adapt to the inevitable impacts.

Above: Workers plant trees near Coapilla in Chiapas, Mexico.

CONSERVATION CONNECTIONS

Top: Forest extends to the horizon on the island of Borneo, Indonesia.
Bottom: A log yard near the village of Long Gi, East Kalimantan, Indonesia.

TIMBER TRADE

Greening the Global Forest Market

We are all consumers of forests. From our printer paper to magazines to furniture, we are surrounded with the fiber of forests from around the world. But few of us know the origin of these forest products, much less whether they were sustainably managed and legally harvested before making their way into our homes and offices.

The forest products trade, estimated at $150 billion a year, is a vast global industry. Some of this trade is traffic in wood that was poorly managed and illegally logged, with often devastating consequences for people, wildlife and natural systems. Deforestation also contributes almost one-quarter of greenhouse gases causing climate change.

In our work beyond protected areas, The Nature Conservancy promotes the legal and sustainable management and harvest of *production* forests. Our primary tool is Forest Stewardship Council (FSC) certification, in which forest management practices are evaluated by an independent third party according to social, environmental and economic standards. FSC-labeled products allow businesses and consumers to choose those that are "sourced" responsibly. But FSC solid wood and paper represent less than two percent of the U.S. forest products market, and U.S. consumer awareness of FSC is low—two big challenges as we work to build the supply of and demand for FSC-certified products along the length of the supply chain, from forest, to manufacturer, to corporate retailer, to consumer.

▽ FROM THE FOREST…

In Indonesia, an estimated 70 percent of timber exports are illegal, costing the country $3.7 billion a year in lost revenue. In 2006, The Nature Conserva ncy and others helped timber giant Sumalindo achieve FSC certification of the company's 670,000-acre forest concession in East Kalimantan, on the island of Borneo. It is now the largest FSC-certified block in Southeast Asia. The Conservancy also has worked with Indonesian stakeholders to develop and field test a new wood legality compliance standard, which enables an independent auditor to verify the legality of an Indonesian forest product destined for the export market.

Below: Researchers conduct an orangutan nest survey in East Kalimantan. Illegal logging is destroying habitat for the planet's last remaining orangutans.

INDONESIA • CHINA • NEW YORK • WASHINGTON, DC •

AMIR SUNARKO is director and president of PT. Sumalindo Lestari Jaya, a timber management and manufacturing company headquartered in Jakarta, Indonesia.

"It's been a long process, getting certified. We began focusing our effort in 2001, and we received the certificate in 2006. The longest part of the assessment was the public comment, in which we invited all stakeholders to participate – from non-governmental organizations such as Greenpeace, to the central and provincial governments, to local people.

"In Indonesia, it is said that logging equals illegal. But Sumalindo is legal. All members of Sumalindo, management and employees alike, feel proud that we are already certified. It was an emotional moment when we received the certificate. It is true that the economic value of FSC certification has not shown up, yet. Others can sell cheaper because they forget about the environment.

"People in general say that logging is bad, but The Nature Conservancy's approach is positive: Business as well as local communities can benefit from forests as long as they're well managed."

"…management and employees alike, feel proud that we are already certified. ."

▽ TO THE FACTORY…

From 1993 to 2003, Chinese exports of wood furniture increased tenfold, and the export of other wood products quadrupled. But as China was assuming the mantle of the "world's woodshop," forest experts noted that much of the wood being imported into the country to fuel its manufacturing boom was coming from places with high rates of illegal logging and other destructive forest practices, such as Southeast Asia and Russia. Working with the Conservancy, WWF and the suppliers and purchasers along his supply chain, Carl Lu has taken measures to ensure that the wood A&W manufactures into flooring boards is legal, and increasingly, is FSC-certified – something that his clients in the United States, like The Home Depot, are beginning to demand. In 2008, Lu hopes to more than double his 2007 sales to U.S. retailers.

Below: Carl Lu inspects flooring production at his Shanghai factory with TNC staffer Dr. Chen Xiaoqian (left) and a factory worker (right).

CARL LU is president and CEO of A&W Woods, Ltd., in Shanghai, a manufacturer of wood flooring and other wood products, and the first Chinese flooring company to issue stock on the Hong Kong stock exchange.

> "…we are trying to be a responsible leader in legal wood procurement."

"As I expand my company, we are trying to be a responsible leader in legal wood procurement. We ask our suppliers to show relevant documents for legality before we accept their materials, and we reject wood when they cannot supply the required documents.

"In terms of forest products, the producing country, the processing country and the consuming country need to be fully involved in the whole chain so that responsibility is shared among the three to help prevent illegal logging. The key element should be change in the consuming market. If the consumer changes buying habits—as they are doing in Europe and now in the U.S.—it will put pressure on the producing and processing sectors.

"I definitely think that there will be increased demand for legal and certified products. But I think the speed of this change may be quite slow, because consumers have yet to show that they will pay a premium for these products on a large scale.

"When we were a very poor country, we could not afford to think about the conservation of nature. But with China's economic development, we can now afford to think about conservation issues."

▽ TO THE DISTRIBUTOR...

Xerox is not in the timber business; it does not cut trees. Instead, it relies on an array of companies in its supply chain to deliver the paper that has been one of the mainstays of Xerox's $16 billion international business. In 2006, the Conservancy launched a multi-year project with Xerox to create a series of science-based tools, practices and systems that enable the company's paper suppliers to more confidently source forest products in ways that protect forest ecosystems. By incorporating ecological criteria more explicitly into the company's purchasing decisions, the partnership aims to improve land-use practices in Brazil, Canada, Indonesia and the United States.

"Problems like illegal logging create worries for our customers. Certified forest management gives them assurance."

NEW YORK • WASHINGTON • INDONESIA • CHINA •

ANNE STOCUM is manager of environment, health and safety market support at Xerox Corporation, in Webster, New York.

"It's in the best interest of our business and our sustainable development goals to make sure that forests are managed well. We see the answer lies in doing our part to develop a sustainable paper cycle.

"The reality is, a lot of paper goes through Xerox equipment each year. Problems like illegal logging create worries for our customers. Certified forest management gives them assurance. They don't want a detailed answer on the question of where their paper fiber comes from. They want the equivalent of the "Good Housekeeping seal of approval." And forest certification programs are the closest thing we have to that today.

"Four years ago we began requiring that our suppliers use third-party certified sustainable forest management standards, such as FSC or Sustainable Forestry Initiative. It was a big step forward for these companies to make. Now we are reworking our requirements, and the Conservancy is helping us understand how we could improve those requirements. We want to position our suppliers to be moving us all forward and to also continue to meet our customer expectations. We want to assure we're sourcing responsibly, no matter where in the world that is."

Left: A crew logging to FSC standards in the Adirondack Mountains of New York.

▽ TO THE CONSUMER...

According to the FSC label on the Van Slykes' new patio furniture, the wood was processed at the SumaPacha facility in La Paz, Bolivia. The company exports a fair amount of hardwood from the Bolivia Sustainable Forest Management Project (BOLFOR II), which in turn assists SumaPacha. A joint effort among the Conservancy, the U.S. Agency for International Development, and the Bolivian government, BOLFOR II is a decade-long project to strengthen Bolivia's forestry sector—the harvesting of timber and the manufacture and export of wood-based products—as a means of protecting the country's threatened forests. The Conservancy's Eco-Enterprises Fund also provided a loan to SumaPacha.

Below: The Van Slykes with their FSC-certified furniture.

WASHINGTON • INDONESIA • CHINA • NEW YORK

KATHERINE VAN SLYKE and her husband,

Tarquin, live with their two young children on Bainbridge Island, Washington.

"We're among a pretty conscientious group of people. So I'd seen 'FSC-certified' around in different places, in some catalogues. My husband, who's a builder and woodworker, knew that Home Depot carried FSC-certified products. I knew these products were environmentally and socially responsible.

"When we looked online at Home Depot's patio tables and chairs, nothing actually said FSC-certified, but it was on the list of things we were looking for. We didn't discover it was FSC until it arrived. They should make it easier for the more-aware consumer to find FSC. If I were to tell a friend about FSC, well, how would they know it was so if labeling weren't more obvious?

"For me, 'consuming responsibly' means, where there is a choice, choosing conscientiously for the environment. Given our socioeconomic situation, I probably have more choices than a lot of people. Sometimes that means paying more, and I'm okay with that."

"...'consuming responsibly' means, where there is a choice, choosing conscientiously for the environment."

FSC©

Visit fscus.org and ask for FSC-certified garden furniture and other products at your local retail stores.

CONSERVATION CONNECTIONS

OUR FINITE SEAS

Turning the Tide on Ocean Destruction

A sport fishing guide in the Caribbean makes a living taking tourists to the spots where he has fished for most of his life. A former marine resource commissioner works to secure a future for fishing communities in eastern Maine. On a remote island in the South Pacific—where 85 percent of the population depends entirely on natural resources—a local man helps protect his community's rich marine life. All three, along with billions of people around the globe, depend on the bounty of the oceans—a bounty that is increasingly endangered by overfishing, climate change and pollution.

The Conservancy seeks to turn the tide on ocean destruction. In the United States and around the world, we work with communities and governments to establish networks of marine protected areas that benefit people as much as marine life. We apply new, market-based solutions to stop overfishing and restore coastal ecosystems that protect the shores against storms. Our goal: to increase marine habitat protection tenfold in less than a decade.

Top: Conducting an annual groundfish survey in the Gulf of Maine.
Bottom: An atoll in the Federated States of Micronesia

Shawn Leadon is a sport fishing guide with the Andros Island Bonefish Club in the Bahamas.

"You can sometimes, in a day, see a million fish."

"Last year, I did a rapid ecological assessment with The Nature Conservancy, lending a hand with all the information I've had in my head for years. I'm probably the only guy on the island who knows where the bull sharks reproduce, and where to find sawfish up to 16 feet long. It's always a new adventure when I go out fishing. I try to venture out to new spots and watch the tides, the fish and the amount of food that's available to the fish. That's how I came to discover where to find things like tarpon, bull sharks and sawfish. When I told the TNC guys about this stuff, they said, 'Man, you're kidding!' But when I took them there, they couldn't believe it.

"My dad has been fishing for almost 37 years, and has not yet fished more than one-third of the island. That can tell you how many fly fishing areas are on this island. You can sometimes, in a day, see a million fish.

"Andros Island is unique in that the whole ecosystem is totally intact. So we don't have to try to rejuvenate it, or try and bring it back together. It's here now, it's intact now, so we need to protect it now. It's important to spread that message, and make people understand that we should not be too comfortable. We need to protect it now to make sure that it will benefit not only us, but our children and our children's children.

Above left: Fishing guide Shawn Leadon casts a fly at Andros Island in the Bahamas, one of the most prolific fisheries in the Caribbean.

Above right: Dolphins and snapper are common sights in the waters off the Bahamas.

Robin Alden is a former Maine commissioner of marine resources who serves as executive director of Penobscot East Resource Center, a nonprofit that advocates for community-based management of fisheries in eastern Maine.

"We have a situation in eastern Maine where we have lost our groundfish and haven't been able to fish for the past 15 years or so. Instead of fishing several species, fishermen are fishing just for lobster. In Penobscot Bay, we have a fishery that is 93 percent dependent on lobster. This is not sustainable economically or ecologically in the long term.

"Community-based management means that the people who are fishing share responsibility for the resource. The person on the boat is the person who actually carries out the stewardship. There's no amount of police power that can ever be exerted that can control what happens on the water. And in the wheelhouse, on the deck, are the people who actually make the conservation decisions.

"I believe that if we can empower the local people who are involved in fishing in learning together and confronting the issues, we can create a fishery that can carry on well into the next century."

> "...in the wheelhouse, on the deck, are the people who actually make the conservation decisions."

Above: Robin Alden hopes community management will help Maine's groundfish recover and keep lobster fishing sustainable.

Right: A researcher returns a lobster during a groundfish survey in the Gulf of Maine. Groundfish are species such as cod, haddock and flounder, which feed close to the bottom of the ocean.

Rence Zama is a fisherman on the management committee of the Arnavons Community Conservation Area, the first community-managed marine protected area in the South Pacific. He and other villagers opposed an earlier effort to impose a nature sanctuary by the Solomon Islands government.

"The Nature Conservancy came to the three communities of Katupika, Waghena and Kia. At first I wasn't feeling 100 percent on this. But they asked for our input. They accept our input and talked compromise. So I changed my view. Through this consultation and workshop, it's clear to me that I own this project.

"My change helped the community and the people to change. These three communities, we agree to establish this project because the Conservancy and the government recognized us this time. It's up to the three of us now. It helps the tribe, it helps the community, to understand and to work on problems together. Wholehearted, I don't want any community member to dispute this project anymore. The fish are returning. The turtles are returning. That's why I manage this project today.

"Word has spread about our success. Now other communities are asking how they can create protection areas like ours."

> "The fish are returning. The turtles are returning. That's why I manage this project today."

Left: Rence Zama approaches the traditional Solomon Islands hut that serves as the management office for the Arnavons Community Conservation Area.

CARIBBEAN BASIN

Andros Island is the largest yet least-developed island in the Bahamas archipelago. With the help of Shawn Leadon (p. 32) and other local partners, the Conservancy completed a rapid ecological assessment in 2006 that uncovered a previously unknown haven on the island's west side for baby sea turtles and sharks, as well as a number of endangered species. Efforts are underway to protect this site by creating one of the largest marine protected areas in the Caribbean. Across the Caribbean Basin, the Conservancy is working to protect more than 10 million acres of marine and coastal habitat.

GULF OF MAINE

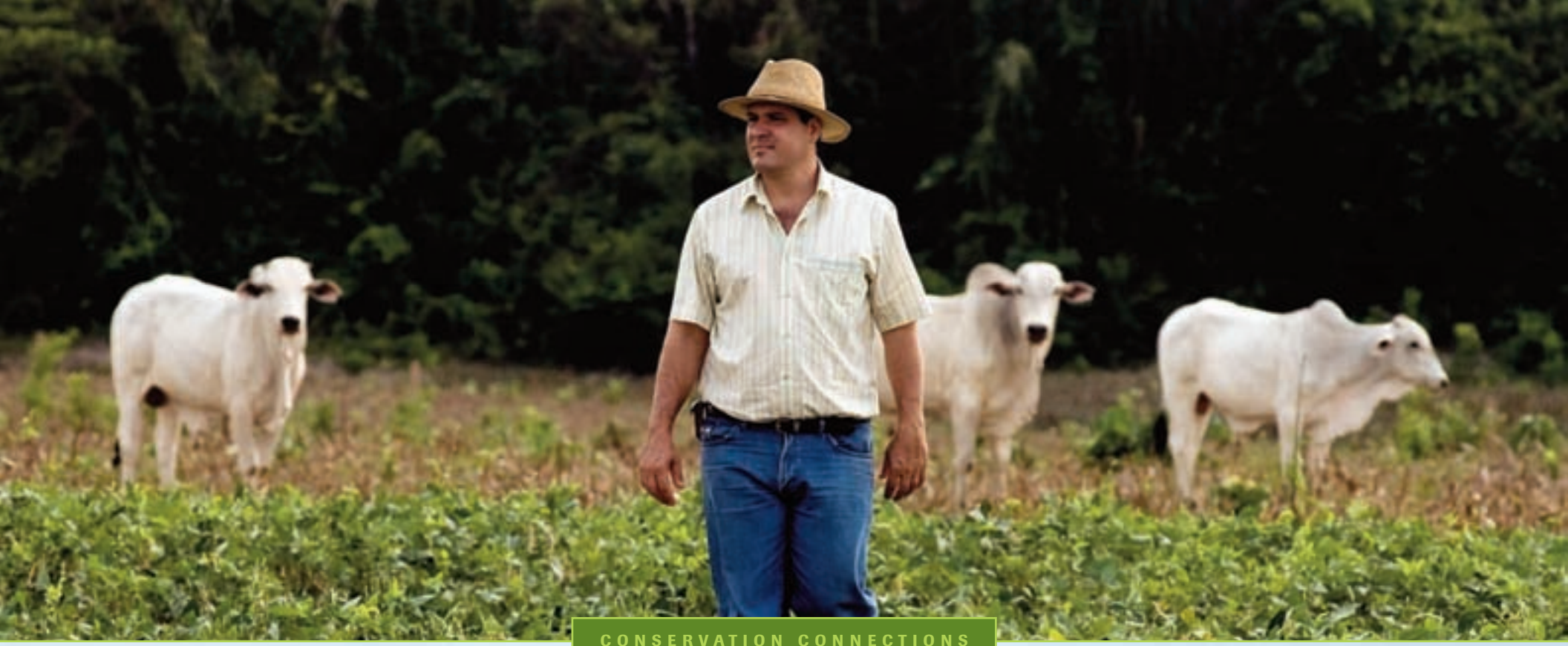
The rugged Maine coast is home to iconic fishing communities that have depended for centuries on the extraordinary bounty of the Gulf of Maine's marine resources. But humans and marine ecosystems in the area now face threats from climate change, unsustainable harvesting and other forces. One key aspect of our approach to marine conservation here involves building relationships with fishermen, scientists and others to help develop alternative approaches to fisheries management. Together with these groups, we are working to restore the health of the Gulf of Maine's once-prolific groundfish populations.

SOLOMON ISLANDS • BAHAMAS • MAINE •

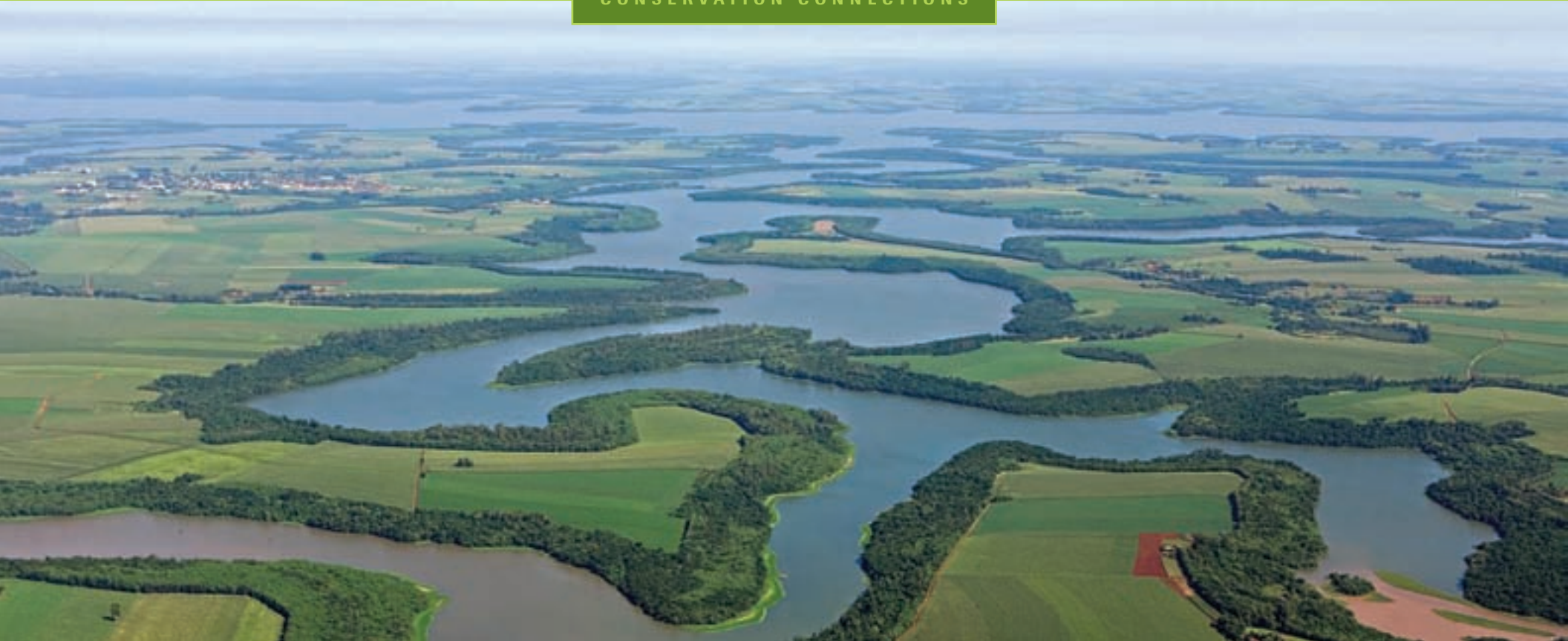
▷ CORAL TRIANGLE

The Solomon Islands, along with Papua New Guinea and much of Indonesia are part of the "Coral Triangle," a region in the South Pacific that harbors more coral and reef fish species than anywhere else in the world. These reefs support the livelihoods of 126 million people and provide food for millions more. The Conservancy is facilitating the rapid expansion of marine protected area networks at 12 key sites, designed to be resilient to the effects of climate change, with a goal of protecting 12 million acres of near-shore marine habitat in the next three years. A Conservancy center in Bali is training 300 local people throughout the Triangle to effectively manage this expanded network.

Right: Corals off Raja Ampat, West Papua, Indonesia.



CONSERVATION CONNECTIONS



GLOBAL FOOD CHAIN

European Pressure Drives Change in Amazon Harvest

Consumers increasingly want to know where their food comes from, while the modern food chain is making the answer increasingly complex. Consider the Big Mac. In Western Europe, the cows that become Big Macs were likely fed soybeans from Brazil—soybeans that may have been harvested from fields that used to be Amazon rainforest. Consumers have challenged this reality, prompting multinational corporations like McDonald's and Cargill to pledge not to buy soy from deforested land in the Amazon.

But how does Cargill, the world's largest grain trader and a major supplier to McDonald's, ensure that the soy it buys from local farmers is not destroying the Amazon? The Nature Conservancy believes the answer lies in Brazil's advanced Forest Code, which requires farmers in the Amazon to keep 80 percent of their land in native vegetation cover. With Cargill's support, the Conservancy has launched the Responsible Soy Project, a pilot initiative to help farmers near Santarém, Brazil, come into compliance with the Forest Code. It is a model that the Conservancy plans to apply throughout the Amazon.

Top: Soy farmer Pio Stefanelo on his Amazon property.
Bottom: Farmland along Brazil's São Francisco Verdadeiro River.

ENGLAND · MINNESOTA · BRAZIL

Jenny Henman lives in London.

"I'm concerned about eating soy and other crops that are grown in tropical areas because of the threat of clearing the forest. It's a serious issue and needs to be addressed. As consumers, we can play a major role in that.

"I think a lot, actually, about the impact the food I eat has on the environment. I am definitely interested in buying local produce when it's in season, but I'm not against buying things from developing countries because it's an important source of income for them.

"There's definitely considerable interest in these issues here in the UK. It's a really hot topic in the newspapers. In supermarkets, they're keen to promote awareness of local and organic produce. Supermarkets are even thinking of introducing labels to tell you how much carbon was produced in making and delivering each product. People are quite aware of the issues, and in general they discuss it a lot."

Above left: European consumers, like Londoner Jenny Henman, are demanding greater environmental accountability in the produce they buy.

Above right: A farmer in Brazil.

"I think a lot, actually, about the impact the food I eat has on the environment."

Mark Murphy is assistant vice president of corporate affairs and manager for corporate citizenship at Cargill in Minneapolis, Minnesota.

"We play an important role delivering agricultural products to branded food companies and consumers around the world who want responsible food. To preserve our license to operate, we have to manage the paradox between economic development and environmental stewardship. By working with pragmatic partners like the Conservancy, we can promote responsible sourcing practices while still being an engine for rural economic development in emerging regions.

"The Conservancy is helping us develop and apply better sourcing practices on the ground with local farmers, who are selling their goods into a large global food system. In Santarém, the Conservancy helped set up processes to work with the farmers, improve environmental accountability on farms and in our contracts, and improve compliance with the Forest Code. Working closely with our business associates in Brazil, Conservancy staff are helping us create effective monitoring systems for compliance. Now the trick is going to be bringing this project to scale, in other reaches of the Amazon biome and throughout Brazil."

Left: Soy farmer Pio Stefanelo, who is participating in a pilot project with Cargill that has the potential to ease deforestation in the Amazon with market incentives tied to European consumer demand.

Right: Mark Murphy of Cargill.

"...we can promote responsible sourcing practices while still being an engine for rural economic development..."

Above left: Sorghum harvest at Pio Stefanelo's farm. Stefanelo (right) is among those farmers who recognize the value of balancing development with natural area protection and who are working to comply with Brazil's Forest Code.

BRAZIL · ENGLAND · MINNESOTA ·

Pio Stefanelo is a soy farmer in Belterra, Pará, Brazil, who participates in the Responsible Soy Project.

"From the beginning, I've participated in discussions of environmental compliance. The difficulties are great. When Cargill began the project with The Nature Conservancy I thought it was a good way of achieving compliance where the process would be done in a professional, rational way with technical support.

"I saw this as an opportunity and a way that we could still produce in areas that had already been opened up in the Amazon. One key benefit is that we gain access to markets, principally European markets, where these products are more valued. With products that meet environmental laws we can advance in these markets. The fact is that soy is one of the only agricultural products that guarantees a viable economic return for a small producer in the Amazon.

"I believe in the Amazon's potential. It provides us with food, minerals, tourism, et cetera. We must preserve it, and certainly we should have large preserved areas that will continue to be preserved. But we must also create development models that guarantee the quality of life in harmony with preserved nature. Only this way will we really preserve the Amazon."

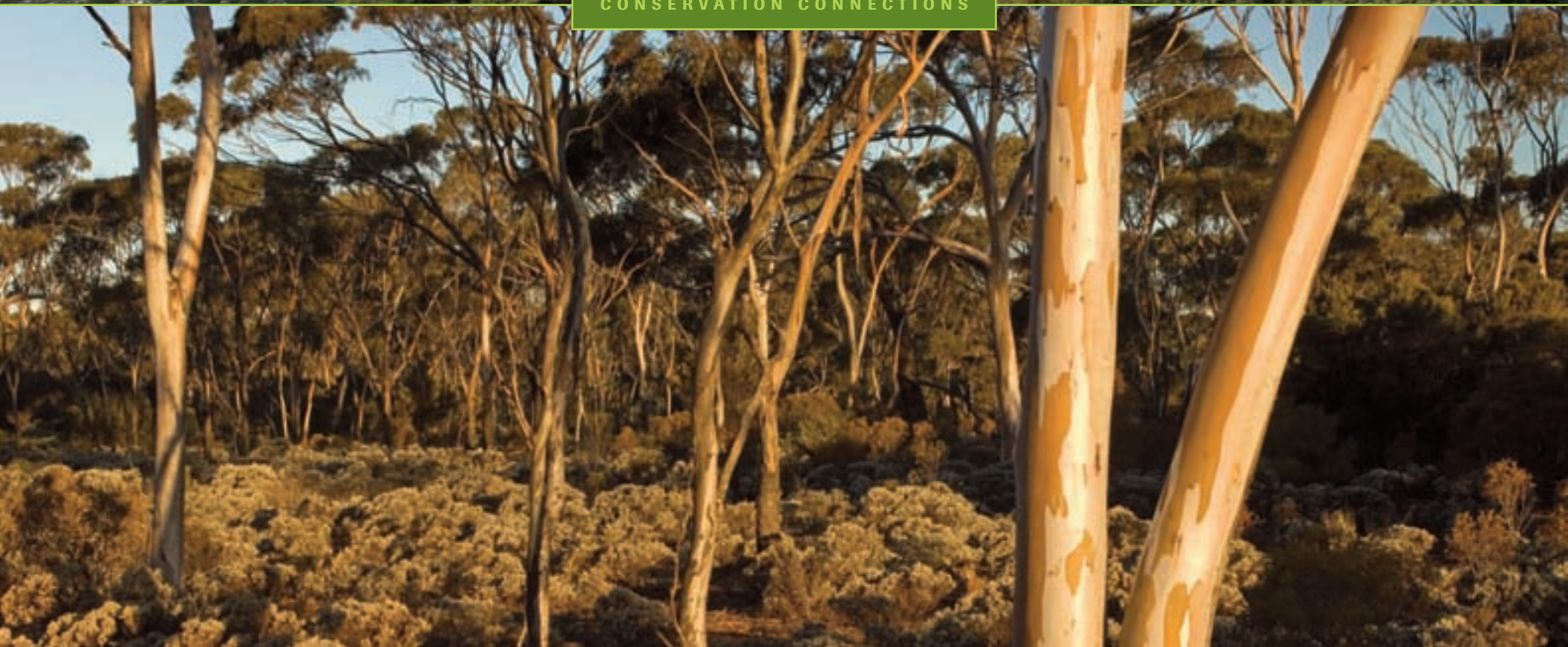
> "...we must also create development models that guarantee the quality of life in harmony with preserved nature."

◁ AMAZON BASIN

The Amazon Basin houses the largest remaining tropical rainforest on Earth. It harbors about one-fourth of the planet's species and stores vast amounts of carbon. But the region faces relentless pressure on its resources. To address these pressures, the Conservancy is working in the Amazon to help farmers comply with Brazil's advanced Forest Code, which requires farmers in the Amazon to keep 80 percent of their land in native vegetation cover. We also work with indigenous groups, whose territories comprise more than 20 percent of the Basin, to help build their capacity in land management. Together, these strategies have the potential to protect more than 160 million acres of the Amazon and promote a sustainable future for its people.

Left: Deniziu Araújo Ticuna, a graduate of the Amazon Indigenous Training Center in Manaus, Brazil. His classmates are pictured on his t-shirt. The training center is one way the Conservancy is strengthening the land management capacity of local indigenous organizations.

CONSERVATION CONNECTIONS



MEDITERRANEAN MOSAIC

Maintaining and Restoring Rare Landscapes

Mediterranean habitats are among the most threatened in the world and are found in only five places on Earth: the basin of the Mediterranean Sea, portions of California and northern Baja California, southern Australia, the western cape of South Africa, and the central coast of Chile. Besides sharing scenic beauty, mild climates and production of some of the world's best wines, Mediterranean places around the world face many of the same threats: including habitat destruction from urbanization and agriculture.

Covering less than three percent of Earth's land surface, these areas account for an incredible 20 percent of all known vascular plant species. The Conservancy is establishing a network of scientists and practitioners working to accelerate conservation in Mediterranean regions around the world. And with partners, the Conservancy aims to protect millions of acres of Mediterranean habitat in California, Chile and Australia.

Top: The California coast at the Conservancy's Spindrift Point Preserve.
Bottom: Eucalypt forest with saltbush, Great Western Woodland, southwestern Australia.

AUSTRALIA · CALIFORNIA

Averil Dean is an Elder of the Noongar people in Western Australia and lives within the Gondwana Link project area.

"We just want to keep alive the ability to pass on our culture, and we can only do that through the bush—pass on our culture to our youth and for them to pass that on to theirs. I think Gondwana Link is a good thing in as much as people are sitting up and taking notice of what Aboriginal people are saying. This is the important thing—that people are asking for our advice. They never did that before."

Keith Bradby is director of the Gondwana Link project and has been active in land conservation in the Mediterranean habitats of southwestern Australia for three decades.

"A lot of conservation efforts are based on conserving scarcity. Well, we're fighting to preserve one of the last strongholds of abundance. This is a rare part of the world where evolution has proceeded apace, and it still can if we give it a hand. And we are crazy enough to think we can achieve our ecological goals while strengthening the region's social fabric.

"As we restore the landscape, we also want to help restore people's relationship to and respect for the land and its needs. Probably the biggest hope of all I have is that we will help native Noongar people come back and restrengthen or restore their links with this country. Someone recently described our work here as 'appropriately audacious.' I think that's a great phrase."

Above: Averil Dean

Right: Keith Bradby

"...we're fighting to preserve one of the last strongholds of abundance."

> “...if we can preserve the mosaic of rare habitat intact here—amidst extreme urbanization—we can make it happen anywhere.”

Dr. Erin Boydston is a research ecologist for the U.S. States Geological Survey in Irvine, California.

“I research terrestrial carnivores, primarily bobcats, in their Mediterranean habitat in southern California. Carnivores are critical to ecosystem health and maintenance of biodiversity, but their wide-ranging movements frequently bring them into conflict with people, particularly when they range outside of protected areas.

“Through our research, we are learning how these animals move on this complex landscape and how they are impacted by fragmentation. That way, we can identify areas where they are most vulnerable and make science-based recommendations to reduce the threats to their populations.

“Conservationists are trying to protect remaining habitat, restore areas where the habitat quality has degraded, and restore connectivity between larger and smaller areas across the landscape. We are finding ways to conserve the biodiversity here into the future.

“Our work is important to other Mediterranean habitats, because if we can preserve the mosaic of rare habitat intact here—amidst extreme urbanization—we can make it happen anywhere.”

Above left: Despite the fragmentation of these similar landscapes a world apart, both southern California and southwestern Australia maintain surprisingly rich wildlife populations, including bobcats in urbanized southern California.

Above right: Dr. Erin Boydston.

△ GONDWANA LINK, AUSTRALIA

The southwest corner of Australia is a global haven for plant diversity. Although sparsely populated, nearly two-thirds of the vegetation has been cleared for agriculture, which much of the land can no longer support. Gondwana Link is a visionary effort by six Australian organizations and The Nature Conservancy to restore and reconnect a 620-mile swath of native bushland that includes the tall wet forests flanking the Indian Ocean and a relatively undisturbed—yet currently unprotected—interior woodland the size of Maine. Farmland and privately owned lands at risk make up only a small percentage of the total link, and already some 20,000 acres have been protected, and 3,700 acres of barren farmland restored with plants found only in that part of the world.

Above: Mediterranean forest in the Great Western Woodland of Australia.

▷ CALIFORNIA AND NORTHWEST BAJA CALIFORNIA, MEXICO

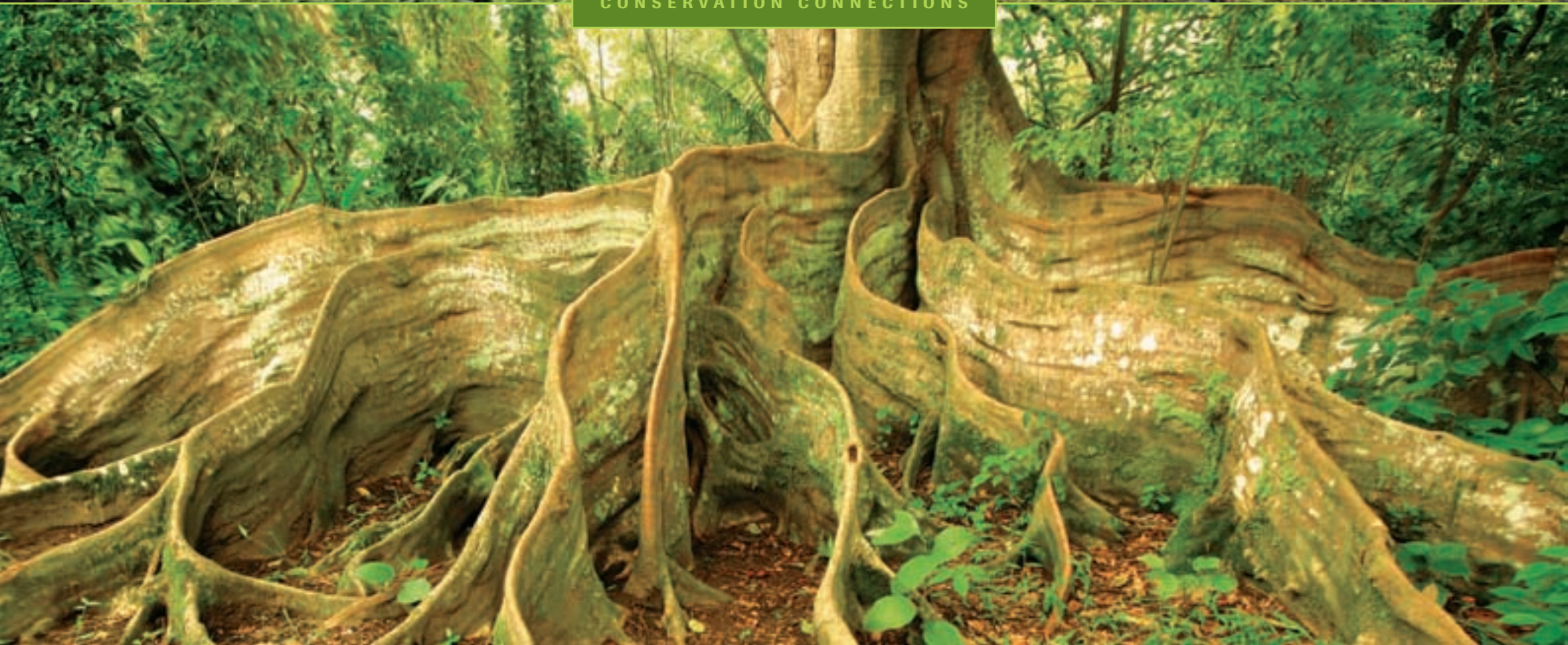
Southern California has the highest population density of the five Mediterranean regions. It also has the most land and waters under protection—a phenomenal achievement considering the extreme development pressure. In the Mediterranean habitats of southern California and northwest Baja California in Mexico, the Conservancy is focused on maintaining connectivity among fragmented habitat patches by protecting key private lands that provide linkages and buffers to protected public lands. In the next three years, our goal is to protect an additional 600,000 acres here.

Right: Bird watching on the Palo Corona Ranch in Monterey County, California.

"Through the Global Mediterranean Action Network our conservation building blocks have become part of a much larger global effort."

—Michael Looker, Australia program director

CONSERVATION CONNECTIONS



Top: Seedlings for reforestation by farmers in Brazil's Atlantic Forest.
Bottom: Root structure of a wild fig tree in Costa Rica.

SUSTAINABLE HARVESTS

Cultivation as a Conservation Tool

Our forests, grasslands, rivers and oceans feed the planet's multitudes, but unsustainable forestry, farming and fishing practices take a toll on our lands and waters. The Conservancy supports sustainable harvest strategies that acknowledge the needs of people and the conservation of natural processes

We work in some of the most species-rich habitats in the world to help communities develop ecologically compatible livelihoods. In Brazil, where the once-prolific Atlantic Forest is down to less than seven percent of its original range, women are forming medicinal herb co-ops rather than selling their land to soybean industries. Along the Gulf of Mexico in Texas, where coastal prairies have all but disappeared, farmers are raising rice while preserving habitat for migratory birds. And in Panama, where tropical forests are threatened by the creep of development, Conservancy partners are helping small-scale farmers green their practices, keep their land and earn more in the marketplace.

Sustainable harvests enable farmers, ranchers and landowners to preserve their livelihoods by protecting their natural resources, proving that cultivation and conservation can go hand in hand.

Felix Lara is a coffee farmer in Cerro Punta, Panama, where Conservancy partner FUNDICCEP helps farmers meet the standards of Conservation Coffee, a program designed to move farmers toward shade-grown or organic certification.

"Until my father's final days, he was on his knees in the soil planting coffee—he loved coffee. Before he died he meditated a lot on selling the farm. My father wanted to leave his sons money, not the burden of working a farm.

"After my father died I still thought about selling the farm. But today, I have taken down the for-sale sign. The farm is now certified as a conservation coffee farm and a pound of coffee sells for $2.70 in the market rather than 80 cents.

"I learned to plant trees from the old folks. As long as there are trees, there is water, shade and life. I am happy with my decision. *Estoy Felíz.*"

"The farm is now certified as a conservation coffee farm and a pound of coffee sells for $2.70 in the market rather than 80 cents."

Right: Felix Lara, photographed on his coffee farm in Panama.

Roseli Cordeiro Eurich

is president of a Brazilian organization that supports a medicinal herb women's co-op in the Atlantic Forest of Brazil where the *faxinal* system—a traditional forestry method that leaves the forest largely intact—allows for the sustainable management of forest resources such as the threatened Araucaria tree.

"My parents raised us in such a manner that we survived on everything that nature gave us. We grew everything we ate. At the time, people really depended on the forest to survive. But other farmers started to take out wood and pine so that they could earn money. They took what the forest had to offer, but they took it in a way that didn't make any sense. Pulling up everything and selling it.

"We started to see the possibility that medicinal plants could be a source of income. Our big dream was to set up a cooperative. The Nature Conservancy's financial support has been fundamental for us. It doesn't do much good for you to have these wonderful ideas and fantastic planning if you don't have money to implement it.

"Now we need to replace what has already been cut down. We have to do something that can be continued. My vision for five years from now is that the cooperative is fully organized, and all of the *Araucarias* are still the height that they are today."

Below left: Serra Bonita Reserve in Brazil's Atlantic Forest.

Below right: Roseli Cordeiro Eurich (right) visits with a co-op member on a farm in central Parana state, Brazil.

Derril Franzen is a rice farmer on the Texas Gulf Coast who leases land on the Conservancy's Clive Runnells Family Mad Island Marsh Preserve.

"It's good rice land here. We farm three 400-acre parcels in a three-year rotation. We'll plant and harvest the rice, then flood the fields for the migratory birds. Then we drain them the following year and put them into the cattle grazing rotation. Before we plant rice on a parcel, we go in and till it with a 30-foot disk. It helps the grasses grow and creates food forage for the cattle. When the grass seeds out, it creates another food source for the birds. Everything works in unison.

"When The Nature Conservancy got part of the property, we were a little skeptical. We didn't know much about the organization, but we soon found out they're good to work with. We realized the Conservancy's mission is to make things work together for the good of the land. I think everybody realizes that if a place is not managed then it's just not productive for anything—even the wildlife."

"We'll plant and harvest the rice, then flood the fields for the migratory birds."

FOREST BRIDGE OF THE AMERICAS

Panama marks the southern end of the Forest Bridge of the Americas, a finger of forest that runs the length of Central America. Although 80 percent of these forests have been cleared, this verdant ribbon of habitat packs more than seven percent of the Earth's species into less than half a percent of its land mass. Here, the Conservancy is working with conservation partners to implement forestry certification programs, improve fire management, establish payment for ecosystem services, and empower local growers to develop sustainable land-use practices. Over the next three years, these strategies will enable us to strengthen the management of 2.5 million acres of protected forests and certify an additional 100,000 acres under sustainable management.

▽ GULF OF MEXICO

The Gulf of Mexico spans 600,000 square miles, three countries—the United States, Mexico and Cuba—and a variety of habitats. The Conservancy and its partners have already protected three million acres in this region, but coastal and offshore infrastructure, commercial and residential development, overfishing and pollution continue to threaten these valuable ecosystems. With an eye toward protecting another two million acres, we are now working to restore sea-grass beds, oyster reefs and wetlands by buying out fishing permits, managing freshwater inflows, and working with communities to develop sustainable harvest strategies.

Bellow: Topsail Hill on Florida's Gulf Coast.

PANAMA • TEXAS • BRAZIL

ATLANTIC FOREST OF SOUTH AMERICA

The Atlantic Forest once stretched across 330 million acres of Brazil, Argentina, and Paraguay. Today, although 93 percent of this moist tropical forest has been cleared, its fragmented remains still harbor nearly as much biological diversity as the Amazon. The Conservancy is working to restore this habitat by providing incentives for large-scale conservation, such as forest easements and carbon credits, and implementing a billion-tree reforestation effort. To supplement these conservation strategies, the Conservancy supports a variety of eco-friendly small businesses, such as Rosali Cordeiro Eurich's co-op (p. 51), to create "buffer zones" around parks and other protected areas.

FINANCIALLY, FY07 SET NEW HIGH WATERMARK

for revenue at $1.3 billion, easily exceeding the previous high achieved in FY06. Stellar investment returns, 24.2 percent net of all fees, were the primary driver of the record revenue year. In addition, a substantial increase in land purchase and sale activity primarily to conservation partner organizations not only helped compensate for an overall decline in private fund raising, but also contributed to an increase in the Conservancy's overall programmatic efficiency, which reached 84 percent.

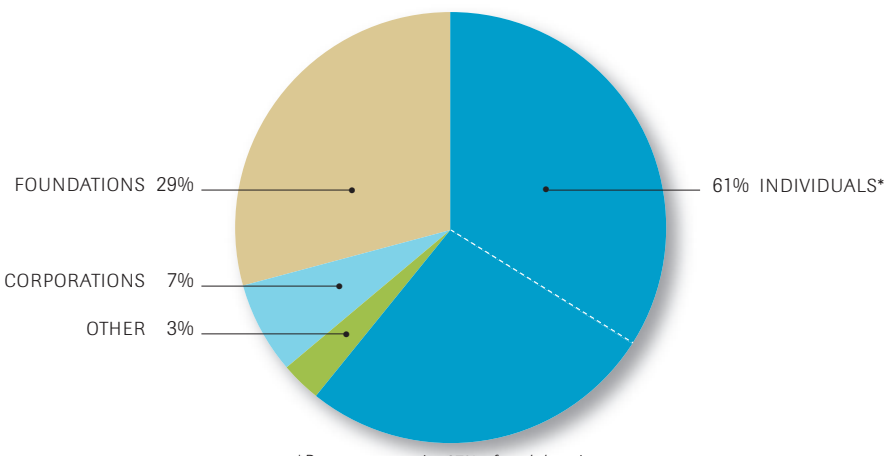
As a result of the record revenue year and the $206 million positive net result, the Conservancy's balance sheet remains strong, with total assets now in excess of $5.4 billion. The total asset figure results not only from the reinvestment of unspent endowment investment income, but also from a record land purchase year. Consistent with the Conservancy's strategy of deploying capital in a catalytic fashion to achieve lasting conservation at scale, the record land acquisitions were balanced by significant land sales.

Operationally, the Conservancy experienced healthy 13 percent growth in non-land acquisition spending, and achieved a balanced operating budget in FY07.

The financial results depicted on page 55 are derived from the Conservancy's audited June 30, 2007, consolidated financial statements, which contain an unqualified opinion. The Conservancy's complete, audited financial statements can be obtained online at nature.org/annualreport or by calling (800) 628-6860.

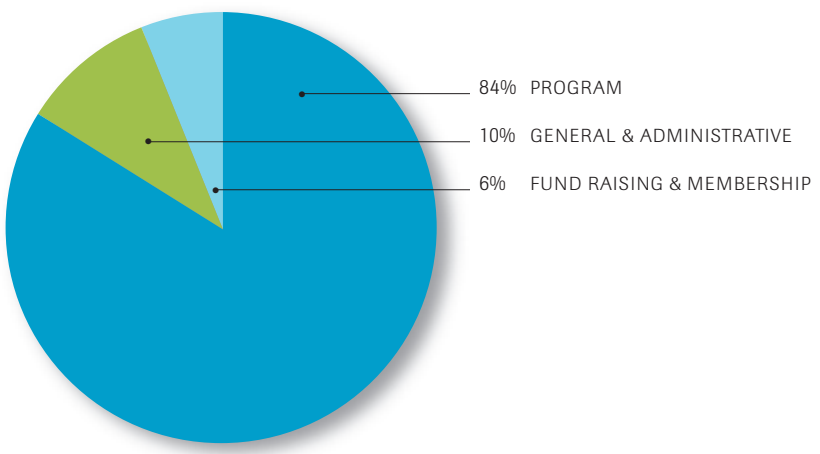
Stephen Howell
Chief Financial Officer

TNC DUES & CONTRIBUTIONS IN FY07



*Bequests comprise 27% of total donations

TOTAL PROGRAMMATIC EFFICIENCY



FINANCIAL SUMMARY

	For the fiscal year ending on June 30, 2007 and 2006 (in thousands)	2007	2006
SUPPORT & REVENUE	Dues and contributions	378,297	424,685
	Private contracts	25,639	19,747
	Government grants	109,637	101,232
	Investment Income	350,826	218,978
	Other income	35,603	35,093
	Land sales and gifts	377,439	285,934
	Total Support & Revenue	1,277,441	1,085,669
EXPENSES & PURCHASES OF CONSERVATION LAND & EASEMENTS	Conservation activities and actions	338,293	298,474
	Purchases of conservation land and easements	566,472	243,994
	Total Conservation Program Expenses & Purchases of Conservation Land & Easements	904,765	542,468
	General and administrative	101,707	86,311
	Fund raising	48,165	46,664
	Membership	16,903	16,276
	Total Administration & Fund Raising	166,775	149,251
	Total Expenses & Purchases of Conservation Land & Easements	1,071,540	691,719
	Net Result-Support & Revenue over Expenses & Purchases of Conservation Lands & Easements (Note 1)	205,901	393,950
FUND RAISING SUMMARY	Fund raising expenses as a percentage of total expenses & purchases of conservation land & easements	4.5%	6.7%
ASSET, LIABILITY & NET ASSET SUMMARY	Conservation land	1,780,350	1,502,629
	Conservation easements	1,161,434	1,079,115
	Investments held for conservation projects	630,744	491,305
	Endowment investments	1,161,229	922,044
	Planned giving investments	298,528	257,656
	Property & equipment (net of depreciation)	92,628	88,351
	Current assets	186,119	379,755
	Other assets (note 2)	104,480	107,639
	Total Assets	5,415,512	4,828,494
	Current liabilities	114,567	102,490
	Notes payable—long-term	417,091	340,864
	Other liabilities (note 3)	156,486	128,565
	Total Net Assets	4,727,368	4,256,575
	Total Liabilities & Net Assets	5,415,512	4,828,494

(1) Not intended to represent increase in net assets.
(2) Primarily includes pledges of future gifts, notes receivable, trade lands and restricted cash.
(3) Primarily includes deferred revenue and planned giving liability.

Note: The figures that appear in the financial summary shown are derived from the 2007 & 2006 consolidated financial statements that have been audited and have received an unqualified opinion. The complete, audited 2007 & 2006 financial statements for The Nature Conservancy can be seen at nature.org/annualreport, or can be ordered from The Nature Conservancy at (800) 628-6860.

Board of Directors of The Nature Conservancy

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CONSERVATION CONNECTIONS

Cover images. Left: High Andean grasslands of Ecuador. Right: Diver with school of fish off Papua New Guinea. Inside front cover: Theodore Roosevelt National Park in North Dakota. Inside back cover: Baxters Hollow preserve in Wisconsin.

The Nature Conservancy
Protecting nature. Preserving life.™

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