

Financial Statements

***Fundo Brasileiro para a
Biodiversidade - FUNBIO***

***December 31, 2007 and 2006
with Report of Independent Auditors***

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

FINANCIAL STATEMENTS

December 31, 2007 and 2006

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A free translation from Portuguese into English of Report of Independent Auditors on financial statements prepared in accordance with the accounting practices adopted in Brazil

REPORT OF INDEPENDENT AUDITORS

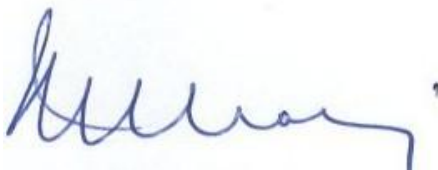
The Management
Fundo Brasileiro para a Biodiversidade - FUNBIO

1. We have audited the accompanying balance sheet of Fundo Brasileiro para a Biodiversidade - FUNBIO as of December 31, 2007, and the related statements of income, of changes in endowment funds and of changes in financial position for the year then ended. These financial statements are the responsibility of the Entity's management. Our responsibility is to express an opinion on these financial statements.
2. We conducted our audit in accordance with generally accepted auditing standards in Brazil which comprised: (a) the planning of our work, taking into consideration the materiality of balances, the volume of transactions and the accounting and internal control systems of the Entity, (b) the examination, on a test basis, of the documentary evidence and accounting records supporting the amounts and disclosures in the financial statements, and (c) an assessment of the accounting practices used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation.
3. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fundo Brasileiro para a Biodiversidade - FUNBIO at December 31, 2007, and the results of its operations, changes in its endowment funds and changes in its financial position for the year then ended, in accordance with the accounting practices adopted in Brazil.

4. Our audit was conducted for the purpose of forming an opinion on the overall financial statements referred to in the first paragraph. The statement of cash flow for the year ended December 31, 2007, which provides supplementary information about the Entity, is not required as an integral part of the basic financial statements, in accordance with accounting practices adopted in Brazil. The statement of cash flow was subjected to the same auditing procedures outlined in the second paragraph hereof and, in our opinion, is fairly presented, in all material respects, in relation to the overall financial statements.
5. The financial statements for the year ended December 31, 2006, presented for comparative purposes, were audited by other independent auditors who issued an unqualified report thereon dated March 16, 2007.

Rio de Janeiro, May 12, 2008.

ERNST & YOUNG
Auditores Independentes S.S.
CRC - 2SP 015.199/O-6 - F - RJ



Mauro Moreira
Accountant CRC - 1RJ 072.056/O - 0

A free translation from Portuguese into English of financial statements prepared in accordance with the accounting practices adopted in Brazil

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

BALANCE SHEETS December 31, 2007 and 2006 (In thousands of reais)

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets		
Cash and banks	1,279	3,771
Financial investments (Note 4)	65,746	55,574
Advances to suppliers (Note 5)	433	665
Other	26	32
	<u>67,484</u>	<u>60,042</u>
Noncurrent assets		
Permanent assets		
Tangible assets (Note 6)	405	442
Intangible assets (Note 6)	110	121
Deferred charges (Note 3)	90	87
	<u>605</u>	<u>650</u>
	<u>68,089</u>	<u>60,692</u>

	2007	2006
LIABILITIES AND ENDOWMENT FUNDS		
Current liabilities		
Suppliers	1,594	1,132
Payroll and related charges	733	617
Taxes	62	38
Third-party funds related to projects (Note 7)	33,129	26,165
Other accounts payable	241	112
	35,759	28,064
Noncurrent liabilities		
Funds and reserves (Note 9)	15,856	17,995
Endowment Funds		
Accumulated surplus	14,633	13,446
Superavit for the year	1,841	1,187
	16,474	14,633
	68,089	60,692

See accompanying notes.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

STATEMENTS OF INCOME

Years ended December 31, 2007 and 2006
(In thousands of reais)

	2007	2006
Revenues		
Donations (Note 10)	26,701	22,842
Partnerships (Note 11)	79	339
Funds obtained abroad (Note 9)	2,139	1,931
Other operating revenues	95	1
	29,014	25,113
Project costs (Note 12)	(19,240)	(17,122)
	9,774	7,991
Expenses		
General and administrative expenses (Note 14)	(6,782)	(9,127)
Financial expenses (Note 15)	(15,723)	(13,931)
Financial income	14,574	16,256
	(7,931)	(6,802)
Other nonoperating expenses (Note 13)	(2)	(2)
Superavit for the year	1,841	1,187

See accompanying notes.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

STATEMENTS OF CHANGES IN ENDOWMENT FUNDS

Years ended December 31, 2007 and 2006

(In thousands of reais)

	Accumulated surplus	Superavit (deficit) for the year	Total
At December 31, 2005	21,774	(8,328)	13,446
Transfer to accumulated surplus	(8,328)	8,328	-
Superavit for the year	-	1,187	1,187
At December 31, 2006	13,446	1,187	14,633
Transfer to accumulated surplus	1,187	(1,187)	-
Superavit for the year	-	1,841	1,841
At December 31, 2007	14,633	1,841	16,474

See accompanying notes.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 2007 and 2006

(In thousands of reais)

	<u>2007</u>	<u>2006</u>
Sources of funds		
Superavit for the year	1,841	1,187
Items not affecting working capital:		
Depreciation and amortization	159	148
Fixed assets written off	2	2
	<u>2,002</u>	<u>1,337</u>
Applications of funds		
Acquisition of tangible and intangible assets	109	73
Additions to deferred charges	7	1
Decrease in funds and reserves	<u>2,139</u>	<u>1,931</u>
Total applications of funds	<u>2,255</u>	<u>2,006</u>
Decrease in net working capital	<u>(253)</u>	<u>(668)</u>
Changes in net working capital		
Current assets:		
At the end of the year	67,484	60,055
At the beginning of the year	<u>60,055</u>	<u>56,951</u>
	<u>7,429</u>	<u>3,104</u>
Current liabilities:		
At the end of the year	35,759	28,077
At the beginning of the year	<u>28,077</u>	<u>24,305</u>
	<u>7,682</u>	<u>3,772</u>
Decrease in net working capital	<u>(253)</u>	<u>(668)</u>

See accompanying notes.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

STATEMENTS OF CASH FLOW Years ended December 31, 2007 and 2006 (In thousands of reais)

	2007	2006
Cash flow from operating activities		
Superavit for the year	1,841	1,187
Adjustments to reconcile surplus to cash generated by operating activities:		
Net book value of permanent assets written off	2	2
Depreciation and amortization	159	148
	2,002	1,337
Changes in assets and liabilities		
(Increase)/decrease in advances to suppliers	232	(665)
(Increase)/decrease in other assets	6	(3)
Increase/(decrease) in suppliers	462	(784)
Increase/(decrease) in other liabilities	256	(62)
Net cash used in operating activities	2,482	(177)
Cash flow from investing activities		
Acquisition of fixed assets	(109)	(73)
Deferred charges	(7)	(1)
Net cash used in investing activities	(116)	(74)
Cash flow from financing activities		
Funds related to projects received	6,964	4,618
Increase in funds and reserves	(2,139)	(1,931)
Net cash generated by financing activities	4,825	2,687
Increase in cash and financial investments	7,667	2,436
Increase in cash and financial investments		
At the beginning of the year	59,358	56,922
At the end of the year	67,025	59,358
	7,667	2,436

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

(In thousands of reais)

1. Operations

Fundo Brasileiro para a Biodiversidade (“FUNBIO”) is a not-for-profit civil association formed in October 1995 for the purpose of supplementing governmental action aimed at the conservation and sustainable use of the country’s biological diversity, in conformity with the international Convention on Biological Diversity (CDB), and the National Program on Biological Biodiversity (Pronabio).

FUNBIO’s specific purpose is to operate a fund that provides financial and material support to initiatives associated with the conservation and sustainable use of biodiversity resources in Brazil with the funds received.

The Entity’s major funding sources are: (a) donations of funds for specific costing of activities and projects, received from the Global Environment Facility (GEF), through the World Bank, by public or private, national or international individuals or legal entities, and by international entities; (b) earnings from investments in the country and abroad; and (c) compensation for services provided in accomplishing its purposes.

The main projects coordinated by the Entity are as follows:

(i) Amazon Region Protected Areas Project (“ARPA”)

The ARPA Project is within the scope of the Brazilian government’s 10-year Amazon Region Protected Areas Program, aimed at protecting the ecosystems that are considered essential to the maintenance and integrity of the Amazon flora and fauna. The ARPA Project expects to receive funds amounting to US\$400 million over 10 years. FUNBIO was elected by the Brazilian government and donors as the institution that will manage ARPA Project’s funds. The first phase of the project expects contributions totaling some US\$81.5 million, US\$63.40 million of which to be donated by: Global Environment Facility (GEF), WWF-Brazil and the German Development Bank KfW.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

1. Operations (Continued)

(i) Amazon Region Protected Areas Project (“ARPA”) (Continued)

• FAP - Protected Areas Fund

The Protected Areas Fund (FAP) is an endowment fund created by the Amazon Region Protected Areas Program (ARPA), in common agreement with the agencies in charge of the National Environmental Policy. The Fund’s main purpose is to support the long-term financial sustainability of fully protected conservation units consolidated under the ARPA Program and conservation units of sustainable use selected within the ARPA Program. This fund receives resources from donations and invests them in returnable financial investments. The net return on these investments may be used to support the conservation units or to capitalize the fund itself, depending on capitalization targets established for the fund to bear the expenses of a group of conservation units on a permanent basis.

As a financial mechanism supporting the management of the ARPA Project, FUNBIO is responsible for the following aspects in connection with FAP’s resources management:

1. Implement and manage the Protected Areas Fund (FAP), featured as a permanent endowment fund, in support of the sustainability of fully protected Conservation units (CUs) consolidated by the Project and selected CUs of sustainable use;
2. Establish policies, procedures and general principles for the financial investment of funds and retain specialized asset management firms for the related investment;
3. Hire, supervise, monitor and evaluate the performance of financial asset management firms in compliance with the investment policy and the attainment of targeted results;
4. Prepare and present financial reports and balance sheets regarding the use and investment of FAP’s funds;

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

1. Operations (Continued)

(i) Amazon Region Protected Areas Project (“ARPA”) (Continued)

- **FAP - Protected Areas Fund (Continued)**

5. Engage independent audits on a regular basis; and

6. Supervise compliance with legal and contractual obligations, as well as with standards and procedures required by donors regarding the Fund’s financial and accounting aspects.

(ii) Partnership Fund

The main purpose of the Partnership Fund is to raise funds to support projects of common interest, in priority thematic areas for conservation and sustainable use of Brazilian biodiversity. The following projects are currently under way: (a) The black lion tamarin (*Leontopithecus chrysopygus*) as the umbrella species for the Atlantic Rain Forest fragment biodiversity conservation in the inner part of the state of São Paulo, concluded in December 2007 - Partnership with IPÊ; (b) Development of conservation models for the *caatinga* dry forest biodiversity through implementation of the management plan on the Serra das Almas Private Natural Heritage Reserve (RPPN) and surrounding areas, concluded in August 2007 - Partnership with Caatinga; (c) Monte Alegre Project in Paraná - Partnership with KPPF; and (d) Regional Agro-ecological Program in Paraná.

(iii) Ford Foundation and FUNBIO Partnership Fund

This fund focuses on providing financial support to local sustainable development projects, with activities to be developed in the Amazon and Atlantic Rain Forest biomes.

(iv) Sustainable Production Support Program (“PAPS”)

This program aims at strengthening small-scale initiatives associated with the sustainable biodiversity use and represents an alternative option to economic activities that produce high environmental impacts, increasing the opportunities for new employments and income to local populations.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

2. Presentation of the Financial Statements

The financial statements were prepared in accordance with the accounting practices set forth in Brazil's Corporation Law.

For the purpose of providing additional information, the Entity is presenting the Statements of Cash Flow. These statements were prepared according to Accounting Standards and Procedures (NPC) 20 issued by the Brazilian Institute of Independent Auditors (IBRACON).

The Entity continuously strives to improve its corporate governance levels, its financial statement presentation and, especially, its alignment with the accounting practices required by the Brazilian Securities Commission (CVM). In this context, the Entity conducted an analysis of best accounting practices, which resulted in prior years' adjustments. As a result of these adjustments, the comparative figures for December 31, 2006 were adjusted. The effects of these adjustments are immaterial.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

3. Significant Accounting Practices

a) Determination of profit and loss

Donations

Revenues from donations are recorded when actually received and expenses are recorded as incurred.

Funds from partnerships

Revenues and expenses relating to partnership projects are recorded in the income statement as incurred.

Funds obtained abroad

This is recorded as revenues when the financial resources invested abroad by the Fund Manager (AIG - America International Group) are transferred to a financial institution in Brazil, and matched with the account "Funds and reserves" under noncurrent liabilities.

b) Cash and banks

These comprise the cash balance and bank deposits at the balance sheet date.

c) Financial investments

Financial investments are stated at cost, plus accrued earnings to the balance sheet date.

d) Accounting estimates

The preparation of the financial statements in accordance with the accounting practices adopted in Brazil requires management to use its judgment to determine and record accounting estimates. Settlement of transactions involving these estimates may result in amounts significantly different from those recorded in the financial statements due to the uncertainties related to the estimation process. The Entity reviews its estimates and assumptions at least on an annual basis.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

3. Significant Accounting Practices (Continued)

e) Foreign currency

Monetary assets denominated in foreign currencies were translated into reais at the foreign exchange rate in effect at the balance sheet date. Foreign currency translation gains and losses were recognized in net income for the year.

f) Tangible and intangible assets

These are recorded at acquisition or formation cost (including interest and other financial charges). Depreciation is calculated under the straight-line method at the rates mentioned in Note 6, which take into consideration the estimated useful lives of the assets.

Replacement costs incurred to replace an item of fixed assets and which are recorded separately are classified under fixed assets. Other costs are capitalized only when there is an increase in the economic benefits of this item of fixed assets. Any other costs are recognized as expenses in the income statement.

g) Deferred charges

Deferred charges refer to leasehold improvements. Amortization is calculated under the straight-line method based on the lease term.

g) Other current assets

These are stated at cost or realization value, including, where applicable, accrued earnings and monetary variations to the balance sheet date.

h) Current and noncurrent liabilities

These are stated at known or estimated values, including, where applicable, the related accrued charges and monetary or exchange variations to the balance sheet date.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

3. Significant Accounting Practices (Continued)

i) Provisions

A provision is recognized in the balance sheet when the Entity has a legal or constructive obligation arising from past events, the settlement of which is expected to result in an outflow of economic benefits. Provisions are recorded reflecting the best estimates of the risk involved.

j) Income taxes

As a nonprofit entity, the Entity is exempt from the payment of income taxes (both income tax and social contribution tax), as established in article 15 of Law No. 9532/97, provided that the requirements of lines “a” and “e”, paragraph 2, article 12 of this Law are complied with.

k) Social Contribution Tax on Gross Revenue for Social Integration Program (PIS) and Social Contribution Tax on Gross Revenue for Social Security Financing (COFINS)

Pursuant to article 13 of Provisional Measure (MP) No. 2158-35, of 2001, nonprofit entities having registered employees, as defined by Brazilian Labor Law, will contribute to PIS at a fixed rate of 1% on total monthly payroll. These entities are exempt from PIS on revenues under the provisions of paragraph 1, article 14 of Provisional Measure No. 2158-35, provided that the requirements of article 12 of Law No. 9532/97 are complied with.

In accordance with item X, article 14 of Provisional Measure No. 2158-35, of 2001, COFINS shall not be levied on revenues recorded by nonprofit entities. Also in this case exemption will be subject to compliance with the requirements of article 12 of Law No. 9532/97.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2007 and 2006
(In thousands of reais)

4. Financial Investments

	<u>2007</u>	<u>2006</u>
Financial investments in the country - Banks	3,105	1,598
Financial investments in the country - Unibanco / AIG - FAP	1,749	868
Financial investments in the country - Banco do Brasil / FAUNA FUND	2,849	-
Financial investments abroad - Banks	2,141	442
Financial investments abroad - AIG FUNBIO	26,127	27,520
Financial investments abroad - AIG FAP	29,775	25,146
	<u>65,746</u>	<u>55,574</u>

Financial investments in the country refer substantially to funds indexed to Interbank Deposits (DI), bearing interest at future spot rates based on yields from Interbank Deposit Certificates (CDI), and to fixed-interest funds, bearing interest at 10% per annum.

FAP's investments in the country refer to the first two tranches of donations by O Boticário Franchising and by Natura Cosméticos S.A., in individual amounts of U\$200 thousand, totaling U\$ 800 thousand.

Fauna Fund's investments in the country refer to the Seismic project with funds from IBAMA Process No. 02001.003030/2001-82, Commitment Agreement and Addendum thereto, entered into between IBAMA (Brazilian Institute of the Environment and Renewable Natural Resources) and IAGC (International Association of Geophysical Contractors) (Official Gazette of January 8, 2003, Technical Cooperation Agreement between IBAMA – Brazilian Institute of the Environment and Renewable Natural Resources and FUNBIO – Fundo Brasileiro para a Biodiversidade signed on November 28, 2006 and Official Letter No. 67/2007 – GP/IBAMA, dated January 18, 2007).

Financial investments abroad consist of time deposits and money market deposit accounts, at average annual rates of 4% plus the foreign exchange rate variation of the U.S. dollar. These also include investments in securities, foreign equity and funds bearing interest at rates ranging from 16% to 24% per annum (AIG).

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

NOTES TO FINANCIAL STATEMENTS (Continued) December 31, 2007 and 2006 (In thousands of reais)

4. Financial Investments (Continued)

Changes in the balance of FAP's investments abroad during 2007:

	2007	2006
Balance at January 1	25,146	20,142
Funds obtained	6,187	3,965
Yield	3,772	2,856
Foreign exchange variation	(5,208)	(1,723)
Financial management cost	(122)	(94)
Balance at December 31	29,775	25,146

Changes in the balance of FAP's investments in the country during 2007:

	2007	2006
Balance at January 1	868	-
Funds obtained	777	841
Yield	104	27
Balance at December 31	1,749	868

5. Advances to Suppliers

At December 31, 2007 and 2006, advances to suppliers basically comprise payments related to the maintenance of assets used in the projects, whose goods or services had not been delivered.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

6. Fixed Assets

	Annual depreciation rate - %	2007			2006
		Costs	Additions and exclusions	Depreciation	Net book value
Tangible assets					
Furniture and fixtures	10%	232	2	(125)	109
Machinery and equipment	10%	152	32	(58)	126
IT equipment	20%	463	40	(333)	170
Tangible assets		847	74	(516)	405
Intangible assets		230	33	(153)	110
		1,077	107	(669)	515

Intangible assets comprise software usage licenses and trademarks and patents.

7. Third-party Funds Related to Projects

These refer to funds obtained from partners but not yet used in projects. At December 31, the balance of third-party funds related to projects is broken down as follows:

	2007	2006
ARPA (i)	33,099	26,135
Other projects	30	30
	33,129	26,165

- (i) Funds from FAP (Protected Areas Fund) within the ARPA Project, endowment fund, deposited with AIG (Asset Manager), derived from initial donations by GEF/IBRD (US\$750 thousand) and WWF-Brazil (US\$750 thousand). In 2006, GEF/IBRD contributed US\$1,644 million, WWF-Brazil contributed US\$215 thousand, and O Boticário Franchising and Natura Cosméticos S.A. each contributed US\$200 thousand. In 2007, GEF/IBRD contributed US\$2,065 million, WWF-Brazil contributed US\$1,070 million, and O Boticário Franchising and Natura Cosméticos S.A. each contributed US\$200 thousand.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

8. Contingencies

In the normal course of its activities, the Entity adopts, for the purpose of computing and paying taxes and contributions, interpretations of laws and regulations based on the opinion of its legal and tax advisors, which may differ from those of the tax authorities.

Taxes and contributions are subject to review and potential taxation within various prescriptive periods, as applicable.

The Entity is not a defendant in civil, tax or labor cases.

9. Funds and Reserves

These comprise funds donated by the World Bank from the Global Environment Facility (GEF) for the start-up of FUNBIO's activities, as well as subsequent donations, broken down as follows:

	<u>2007</u>	<u>2006</u>
Balance at January 1	17,995	19,926
Funds obtained abroad – AIG	<u>(2,139)</u>	<u>(1,931)</u>
Balance at December 31	<u>15,856</u>	<u>17,995</u>

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

NOTES TO FINANCIAL STATEMENTS (Continued) December 31, 2007 and 2006 (In thousands of reais)

10. Donations

	2007	2006
International Bank for Reconstruction and Development - IBRD	3,624	6,301
WWF - World Wide Funds	10,009	5,700
KfW - Kreditanstalt für Wiederaufbau	9,657	10,498
Fauna Fund	2,700	-
Other (i)	711	343
	26,701	22,842

- (i) Donations for institutional and financial support to the event “Fórum Paulista de Mudanças Climáticas e Biodiversidade” (Sao Paulo Forum on Climate Changes and Biodiversity), made by AIG Private Bank Ltd., to the event Funbio 10 Years, made by Cemig (Companhia Energética Minas Gerais), and to complete the Juruti sustainable model proposal, made by Omnia Minérios Ltda. (Alcoa).

11. Revenues from Partnerships

These refer to funds received in connection with the “fostering” projects, as shown below:

Partner	2007	2006
Ecoglobal	-	4
Instituto Terra	28	-
Fundação Brasileira para Desenvolvimento Sustentável - FBDS/Klabin do Paraná Produtos Florestais	-	64
Fundação para o Desenvolvimento Econômico-Rural da Região Centro-Oeste do Paraná - RURECO	-	6
Instituto de Pesquisas Ecológicas - IPÊ	51	163
Associação Caatinga	-	102
	79	339

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

12. Project Costs

These refer to costs incurred in the “fostering” projects, as shown below:

Partner	2007	2006
Ecoglobal (i)	-	216
Instituto Terra	54	-
Fundação Brasileira para Desenvolvimento Sustentável - FBDS/Klabin do Paraná Produtos Florestais	-	726
Ford Foundation	111	334
Fundação para o Desenvolvimento Econômico-Rural da Região Centro-Oeste do Paraná - RURECO	-	7
Instituto de Pesquisas Ecológicas - IPÊ	102	326
Associação Caatinga	24	189
Sustainable Production Support Program - PAPS – FUNBIO	-	20
Component 2.3 - ARPA	118	-
ARPA Project costs (ii)	18,831	15,304
	19,240	17,122

(i) Fee charged in the form of consideration for the management of funds to support the event “Fórum Paulista de Mudanças Climáticas e Biodiversidade” (Sao Paulo Forum on Climate Changes and Biodiversity).

(ii) These refer to ARPA Project costs for the conservation units.

13. Other Nonoperating Expenses

In 2007 and 2006, these refer to the net book value of permanent assets written off.

14. General and Administrative Expenses

	2007	2006
Payroll	4,412	3,922
Third-party services	648	1,353
Lease and maintenance	405	427
Travel and accommodation	811	2,536
General	438	832
Other (a)	68	57
	6,782	9,127

(a) The balance for 2006 considers the prior years’ adjustments mentioned in Note 2.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

15. Financial Expenses

In 2007 and 2006, these refer basically to the foreign exchange variation of investments abroad.

16. Insurance

The insurance policies in effect at December 31, 2007 aim at protecting the Entity's premises against fire and electrical damage. Insurance policies are taken out at amounts considered sufficient by management to cover possible risks. The risk assumptions, in view of their nature, are not within the scope of a financial audit, and were not, therefore, reviewed by our independent auditors.

17. Financial and Derivative Instruments

The major financial instruments used by the Entity refer to financial investments, and their amounts approximate market value at the balance sheet date. Other financial assets and liabilities are included in the balance sheet at cost plus any related income and expenses, at amounts approximating market value.

For the years ended December 31, 2007 and 2006, the Entity did not enter into transactions involving derivative financial instruments.

18. Cash Movement of the ARPA Project

Total funds received in 2007 and 2006 were as follows:

	2007	2006	Accumulated
GEF - Global Environment Facility	3,624	6,301	23,035
WWF - World Wide Funds	10,009	5,700	18,463
KfW - Kreditanstalt fur Wiederaufbau	9,657	10,498	24,359
Yield	140	134	561
Foreign exchange variation	(438)	(466)	(2,605)
Total funds received	<u>22,992</u>	<u>22,167</u>	<u>63,813</u>

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

18. Cash Movement of the ARPA Project (Continued)

The statement of applications of funds during 2007 and 2006 is as follows:

	2007	2006	Accumulated
Statement of project eligible costs			
Category - GEF:			
Component assets	37	88	361
Advisory services	309	378	1,883
Sustainable use subprojects	-	3	9
Recurring costs	1,815	4,340	10,684
Special services	1,730	2,372	3,836
Income generating subprojects	-	16	42
	3,891	7,197	16,815
Category - WWF:			
Salaries and benefits	2,103	1,078	3,486
Advisory services	1,418	1,079	2,628
Travel and accommodation	1,260	780	2,076
Workshops and training	322	220	687
Equipment	1,295	1,195	3,526
Publication and videos	97	59	226
Direct administrative costs	1,371	902	2,553
Infrastructure	40	84	171
Vehicles	57	199	256
	7,963	5,596	15,610
Category - KfW:			
Assets	1,827	2,857	4,863
Advisory services	1,453	367	1,946
Recurring costs	3,669	4,047	6,298
Special services	2,261	1,966	4,843
Construction work	584	912	1,780
	9,794	10,149	19,730
Statement of total costs	21,648	22,942	57,543

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

19. Changes in Brazil's Corporation Law

On December 28, 2007, Law No. 11638/07 was published to amend the provisions of Brazil's Corporation Law regarding the accounting practices adopted in Brazil for years ended as of December 31, 2008.

In accordance with the new Law, the accounting rules to be issued by the Brazilian Securities and Exchange Commission (CVM) for public companies must be consistent with the international financial reporting standards. In a public announcement indicating its preliminary interpretation, CVM informs that the standards adopted by the International Accounting Standards Board (IASB) are today's international benchmark for accounting standards.

The main changes introduced by the new Law include:

- Presentation of the Statement of Cash Flow and the Statement of Value Added;
- Adoption of classification criteria and valuation at market price of financial instruments;
- Permanent assets must now include the subgroup "Intangible assets" and, formally, the rights referring to intangible assets intended for maintaining the company's activities or exercised for this purpose. Fixed assets must now include the assets resulting from operations associated with the transfer of benefits, control and risk, regardless of transfer of title. Deferred charges are limited to preoperating expenses and to incremental restructuring costs;
- Adjustment to Present Value of long-term assets and liabilities and relevant short-term assets and liabilities;
- Regular reviews to check the recoverability of amounts classified as fixed assets, intangible assets and deferred charges are now compulsory;

At this point it is not possible to anticipate the impacts introduced by Law No. 11638 on the Entity's results of operations and financial position in connection with the financial statements for the year ending December 31, 2008 and, retrospectively, the financial statements for the year ended December 31, 2007 presented for comparative purposes.

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NOTES TO FINANCIAL STATEMENTS (Continued)

December 31, 2007 and 2006

(In thousands of reais)

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General Secretary

Marina Carlota Amorim Machado
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Vanderlei da Conceição de Souza
Accountant
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