

Fundo Brasileiro para Biodiversidade - FUNBIO

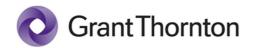
Independent auditor's report on the financial statement of the "Amazon Protected Areas Program – ARPA"

January 1 to December 31, 2016



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Independent auditor's report on the financial statement of the Amazon Protected Areas Program – ARPA

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To the: Management of **Fundo Brasileiro para Biodiversidade - FUNBIO** Amazon Protected Areas Program - ARPA Rio de Janeiro – RJ

Opinion

We have audited the financial statement of the Amazon Protected Areas Program - ARPA ("Program"), presented in Note 5, executed by Fundo Brasileiro para Biodiversidade – FUNBIO ("Entity") funded by different institutes and entities ("Donors"), described in Note 3, for the period from January 1 to December 31, 2016, and notes to the financial statement, including a summary of the significant accounting policies.

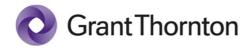
In our opinion, the accompanying financial statement presents, in all material respects, the receipts and payments made during the period from January 1 to December 31, 2016 in accordance with the accounting standards and policies described in Note 4.

Emphasis of matter

As described in Note 4, the Program's financial statement was prepared on the accounting basis of funds (cash), in conformity with the International Financial Reporting Standard on the accounting basis of funds (cash). The accounting basis of funds recognizes the transactions and facts only when the resources (including those equivalent to the funds) are received or paid by the Entity and not when they result, derive or originate from rights or obligations, even though a movement of funds (cash) has not been produced. Our opinion is not qualified in respect of this matter.

Basis for opinion

We conducted our audit in accordance with the Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Program in accordance with the relevant ethical requirements set out in the Code of Ethics for Professional Accountants and the professional standards issued by the Federal Accounting Board ("CFC"), and we have fulfilled our other ethical responsibilities in accordance with those standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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

Funbio's management is responsible for the preparation and fair presentation of this financial statement in accordance with International Financial Reporting Standards, supplemented by the provisions of the Donation Agreements signed with different institutes and entities ("Donors"), and for such internal control as it determined as necessary to enable the preparation of this financial statement free from material misstatement, whether due to fraud or error.

In preparing the financial statement, management is responsible for assessing the Program, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in the preparation of the financial statement unless Management intends to liquidate the Program.

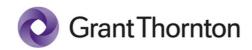
Those charged with the Program's governance are responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial statement.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statement, whether
 due to fraud or error, design and perform audit procedures responsive to those risks, and
 obtain audit evidence that is sufficient and appropriate to provide a basis for our audit
 opinion. The risk of not detecting a material misstatement resulting from fraud is higher
 than for one resulting from error, as fraud may involve collusion, forgery, intentional
 omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit
 procedures that are appropriate in the circumstances, but not for expressing an opinion on
 the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of
 accounting and, based on the audit evidence obtained, whether a material uncertainty
 exists related to events or conditions that may cast significant doubt on the Program's
 ability to continue as a going concern. If we conclude that a material uncertainty exists, we
 are required to draw attention in our auditor's report to the related disclosures in the



financial statement or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Program to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the financial statement, including the disclosures, and whether the financial statement represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Rio de Janeiro, April 27, 2017

Ana Cristina Linhares Areosa
CT CRC RJ-081.409/O-3

Grant Thornton Auditores Independentes CRC SP-025.583/O-1 "S" - RJ

Cumulative financial statement reconciled with the bank balance

We show below the cumulative values of the movements occurred during the execution of the Arpa Phase II and Arpa Transition Fund Programs:

Donors	Resources contributed	Resources to be allocated	Resources transferred	Net income	Exchange differences	Execution	Advance	Other adjustments	Accumulated balance until 12/31/2016	Bank balance	Difference (I)
BNDES	19,949	-	-	493	-	(20,440)	-	(2)	-	-	-
GEF BM	35,277	-	-	-	-	(34,191)	187	(41)	1,232	1,243	(11)
KFW	53,914	(2,435)	-	329	3	(49,877)	(692)	(6)	1,236	3,671	(2,435)
BID	7,142	-	-	243	-	(5,927)	1	32	1,491	1,823	(332)
FT – Operating	11,900	-	-	413	-	(11,560)	(186)	(21)	546	546	_
Long-term transition fund	265,482	-	(11,900)	61,748	48,148	-	_	1	363,479	363,579	(100)
Total	393,664	(2,435)	(11,900)	63,226	48,151	(121,995)	(690)	(37)	367,984	370,862	(2,878)

⁽I) Income not accrued and Reimbursement of expenses to Funbio

The accompanying notes are an integral part of these financial statements.

Notes to the Program's financial statement for the period from January 1 to December 31, 2016 (amounts expressed in thousands of Reais, unless otherwise indicated)

1. Operational context of the Program's executor agent

Fundo Brasileiro para a Biodiversidade ("FUNBIO" or "Entity"), is a private, non-profit civil association, in operation since 1996. It is an innovative financial mechanism created to develop strategies that contribute to the implementation of the Convention on Biological Diversity (CBD) in Brazil. It acts as a strategic partner of the public and corporate sectors and of civil society, in initiatives that strengthen conservation policies, enable environmental funding programs and social and environmental investments, reduction and mitigation of their impacts, and in compliance with their legal obligations.

In just over 20 years, FUNBIO already managed \$ 593 million, supported 256 projects in 7 biomes, 206 institutions and 310 protected areas totaling 67 million hectares (approximately 3 times the territory of the State of São Paulo) and has provided the training of more than 1,300 partners. The source of resources leveraged by FUNBIO, with approximately 70 donors in its history, comes from international cooperation agreements, legal obligations and private national and international donations.

FUNBIO is the first and only national implementing agency of the Global Environment Fund (GEF), one of the world's most important funders of environmental projects, which gave accreditation to FUNBIO for its implementation capacity.

The Entity is part of the Latin America and the Caribbean Network of Environmental Funds, with 21 organizations of 16 countries, which, since 1999, have already managed more than \$2 billion in equity and extinguishable funds, supporting more than 900 protected areas.

FUNBIO's governance is led by the Advisory Board (AB), which comprises 16 members of the academic and environmental sectors and of the civil, corporate, and government society and is responsible for setting the strategy and for the overall direction of the organization. In 3 meetings per year the AB assesses strategic directions and institutional management: it establishes a general policy, sets goals and priorities, transformed into actions by the Executive Secretariat. The AB approves annual operational plans, investment policies and developed projects. The Board members participate as volunteers, bringing their experience and knowledge. The Advisory Board is organized into Committees that deal with specific issues, such as Management, Project Standards, and Finances and Audit commissions and an Asset Management Committee.

At the end of this year, FUNBIO has assets under management amounting to R\$732 million (2015 - R\$ 548 million), with approximately 56% linked to long-term actions and projects organized in funds.

The execution of resources by FUNBIO in 2016 presented a growth of 39% to a historical mark of R\$ 81 million (2015 - R\$ 58 million).

2. Description of the program

The Amazon Protected Areas Program - ARPA is the largest tropical forest protection initiative in the world. Its goal is the conservation and sustainable use of 60 million hectares -15% of the Amazon region – in Conservation Units (CUs).

FUNBIO is the program's financial manager, performing the procurement and contracting activities for the CUs and performing the fund's asset management that ensures the program's sustainability in the long run, the Transition Fund (TF). This fund incorporates the PAF (Protected Areas Fund) resources, constituted in the program's first phase, and leverages new resources from the international cooperation and private donations, with the goal to get to 215 million dollars.

This resource should finance the CUs supported by Arpa in a gradual transition, until governmental resources assume full coverage of the UCs' maintenance cost from 2039. In its second phase, Arpa supports the creation of more 13 million hectares in new CUs and the consolidation of about 32 million hectares in already established CUs.

In 2016, we highlight:

- The Transition Fund and PAF reached the amount of R\$ 366 million, an increase of 45% (2015: R\$ 245 million) arising from new deposits received from donations of WWF Brazil, of Anglo American Minério de Ferro S.A. and KfW Entwicklungsbank (German Development Bank), income from financial investments and exchange differences, the latter impacted by the devaluation of the foreign currency (US\$) in the investment portfolio. In 2016 new units began to use resources from the Transition Fund, segregated and presented in the financial statement as ARPA FT Operating;
- We have allocated R\$ 15.8 million and applied in the Program approximately **R\$ 16.6 million** of GEF resources, referring to the World Bank contract for a total amount of \$ 15.9 million.
- From the contract with the Ministry for Economic Cooperation and Development of Germany (BMZ), signed with Kfw-Entwicklungsbank (German Development Bank) amounting to EUR 20 million, we have allocated **R\$ 17.2 million** and applied R\$ 16.9 million in the Program.
- The ARPA FT Operating account received R\$ 7.9 million from the Fund in 2016 and have applied 8.2 million in the Program.
- With respect to the Non-Reimbursable Technical Cooperation signed with IDB Inter-American Development Bank, totaling US\$ 4.5 million, which provides for the Planning and Strengthening of the Transition Fund Manager for the Amazon Protected Areas Program (ARPA) to Vida, R\$1.2 million (US\$ 374 thousand) have been allocated by the Agreement ATN/MC 14220-Br (MSC) and R\$ 714 thousand (\$ 208,000) applied in the Program , and through the Agreement ATN/OC-Br 14219 (SCI) R\$3.6 million (\$ 988,000) have been allocated and R\$ 3 million (\$ 835,000) applied the program in 2016.

3. Donors

The accountability financial statement of Amazon Protected Areas Program – Arpa, of which the Fundo Brasileiro para a Biodiversidade – FUNBIO is the financial manager –, has been prepared by FUNBIO's management at December 31, 2016 in order to inform donors about the financial execution of the Technical Cooperation Agreements and Donation Agreements listed below:

- ARPA PHASE II with resources from:

- Global Environment Facility (GEF), through the World Bank TF 12073;
- And from the Ministry for Economic Cooperation and Development of Germany (BMZ), signed with KfW-Entwicklungsbank (German Development Bank) - BMZ 2006.66214.

- ARPA TRANSITION FUND currently composed of:

- Resources donated to the Long-Term Transition Fund, managed by Funbio through
 Pragma; which incorporated resources from the Amazon Protected Areas Fund (PAF)
 also receiving donations from WWF "Global Nature Fund" and from MAC Foundation
 through WWF Brazil, from Anglo American Minério de Ferro Brasil S.A., from the
 Ministry for Economic Cooperation and Development of Germany (BMZ), signed with
 KfW-Entwicklungsbank (German Development Bank) KfW-BMZ 2013.67.127
- And from the Operating Transition Fund with resources from the Long-Term Transition
 Fund for the operations of the 44 Conservation Units that came out of Phase II of the
 Arpa Program and joined the Transition Fund (Phase III).
- The resources from the Inter-American Development Bank (IDB) ATN/OC-BR 14219 and ATN/MC 14220-BR do not compose the Transition Fund, as they are amounts transferred and kept in separate accounts with the aim of structuring Funbio while as Transition Fund manager.

4. Significant accounting policies

Basis of preparation

The Program's financial statement was prepared on the accounting basis of funds (cash), with revenues recognized when funds are received and expenses recognized when they actually represent applications of funds, as set out in the Donation Agreements.

5. Funds available - Phase II (BNDES/GEF BM/KFW)

Until December 31, 2016, the resources available and remaining in the Program's bank accounts, are presented below:

Description	Туре	Total
BB Frankfurt - C/C 3593 3158 88 (KfW) (i)	Current account	2,435
Banco do Brasil – C/C 23220-3 (GEF BM)	Current account	1,243
Banco do Brasil – C/C 21872-3 (BNDES)	Current account	-
Banco do Brasil – C/C 23656-X (KfW)	Current account	1,236
Total cash and cash equivalents		4,914

(i) Movements of account - Banco do Brasil Frankfurt c/c 35.933.315.888 of sponsor KFW, can be demonstrated as follows:

Movement of Resources	2016	2015	
Balance at January 1	-	-	
Contributed resources	20,347	10,594	
Allocation to Banco do Brasil - CC 23656-X (KfW)	(17,168)	(10,992)	
Exchange differences	(744)	398	
Balance at December 31	2,435	-	

6. Resources contributed by ARPA - Phase II (BNDES/GEF BM/KFW)

In its second phase (2010 to 2016), Arpa supported the creation of more 13 million hectares in new Conservation Units and the consolidation of about 32 million hectares in already established Conservation Units. For that, Funbio, as the financial manager of the Arpa program, maintains a contract and received resources from the Amazon Fund through BNDES - Banco Nacional de Desenvolvimento Econômico Social – Contract 09.2.1432.1; from GEF - Global Environment Facility through the World Bank - TF 12073; and from the Ministry for Economic Cooperation and Development of Germany (BMZ), through Kfw - Entwicklungsbank (German Development Bank) - BMZ 2006.66214

The table below shows the summary of amounts in thousands of Reais (R\$) regarding the resources received in the Programs:

	2016	2015	Accumulated
BNDES	-	-	19,949
GEF BM	15,827	5,790	35,277
KfW BMZ	20,347	10,594	53,914
KfW BMZ - to be allocated	(2,435)	-	(2,435)
Yield	271	535	2,340
Exchange differences	(744)	398	2,710
Cost of financial management	(140)	(104)	(459)
Balance at December 31	33,126	17,213	111,296

The following are the input of resources in account 23220-3 (GEF BM) and 3593 315888 (KfW) maintained with Banco do Brasil in 2016. There was no input of resources from BNDES during 2016.

ARPA PROGRAM Phase II

Resources contributed by GEF BM - BB RJ - Ag: 1569-5 C/C 23220-3

Date of contribution	Total
2/23/2016	3,448
4/8/2016	2,485
6/14/2016	3,034
9/27/2016	3,140
11/30/2016	3,719
Total	15,827

ARPA PROGRAM Phase II Resources contributed by KFW - Frankfurt BB C/C 3593 315888

Date of contribution	Total
1/11/2016	3,541
4/24/2016	8,064
9/20/2016	3,591
11/25/2016	5,151
Total	20,347

7. Summary table of the expenses statement - Phase II (BNDES/GEF BM/KFW) The total resources applied during 2015 and 2016 were as follows:

Contract BNDES/ARPA - No 09.2.1432.1

BNDES category	2016	2015	Accumulated
Recurring costs	-	358	6,213
Special services	-	515	4,466
Fuel	-	409	3,495
Air tickets	-	40	1,511
Goods	-	228	3,856
Consulting	-	-	520
Per diems	-	-	120
Constructions	-	-	5
Programs - Disbursement	-	-	254
Balance at December 31	-	1,550	20,440

Contract BM/ARPA - TF 12073

GEF BM Category	2016	2015	Accumulated
Goods	4,310	183	4,493
Recurring costs	347	650	3,447
Training	902	1,525	5,220
Monitoring	7,695	4,400	14,847
Consulting	1,746	417	3,980
Special services	584	343	1,196
Constructions	1,009	-	1,009
Balance at December 31	16,593	7,518	34,191

Contract KfW 2006 66 214

	2016	2015	Accumulated
Goods KfW	2,876	1,130	5,930
Consulting	2,430	2,101	6,142
Recurring Costs	7,756	8,733	25,803
Constructions and Renovations	100	160	260
Special Services	3,799	3,921	11,742
Balance at December 31	16,961	16,045	49,877

Total of the expenses statement

	2016	2015	Accumulated
Contract BNDES/ARPA - No 09.2.1432.1	-	1,550	20,440
Contract BM/ARPA - TF 12073	16,593	7,518	34,191
Contract KfW 2006 66 214	16,961	16,045	49,877
Balance at December 31	33,554	25,113	104,508

8. Transition Fund

On June 18, 2012, at the United Nations Conference Rio+20, a memorandum of understanding was signed between: GORDON and Betty Moore Foundation, Linden Trust for Conservation, Funbio, WWF Network represented by WWF Br and the Ministry of Environment with the objective of promoting and implementing the Amazon Commitment /Amazon for Life initiative with actions aimed at ensuring ecological, social, institutional and financial sustainability of 40 million hectares in conservation units including 5 to 10 million hectares of the Arpa Program.

In 2014 the Transition Fund - Long-Term (25 years) extinguishable (amortization fund) financing mechanism, of private character, by means of contracts between entities, individuals and legal entities, Brazilian and foreign donors, was created with the goal of ensuring the conservation of

biodiversity and ecosystem and of the ecosystem services in 60 million hectares of the Brazilian Amazon through the effective management of Conservation Units supported by the Arpa Program.

The Transition Fund (TF) operates in accordance with the rules laid down in Modules 1 and 2 of Arpa's MOP and have its Governance performed through the Transition Fund Committee ("TFC") and by the Fund Manager, chosen by TFC, currently Funbio, for practicing the acts necessary for the TF to reach its Goal, as defined in the MOP.

With the implementation of the Transition Fund the resources donated by Natura Cosméticos S.A., by Boticário Franchising Ltda., by WWF USA through WWF Br, by the Economic Cooperation and Development of Germany (BMZ) through Kfw-Entwicklungsbank (German Development Bank) and by the Global Environment Facility (GEF), through the World Bank, for the Amazon Protected Areas Fund - PAF in the first phase of the Program, were transferred (principal and income) to the TF. The resources donated by KfW to PAF, in the second phase of Arp,a are awaiting signature of the amendment to the agreement for the transfer.

The minimum raising estimate to the Transition Fund is \$215 million.

In 2016 the following contracts were signed:

• In May 2016 the Separate Agreement referring to the Ministry for Economic Cooperation and Development of Germany (BMZ) contribution through Kfw - Entwicklungsbank (German Development Bank) - BMZ No. 2013 67 127, amounting to EUR 31,704,839.77, was signed. The resources related to the signed contract were released in two instalments throughout 2016.

During the last CFT meeting in 2015 the amount of R\$ 21,935,397 was approved to be disbursed throughout the 2016/2017 biennium for the 44 CUs that became part of the Transition Fund. This amount was increased in more \$3 million after the CFT meeting held in January 2016, due to the contribution regarding the disbursement condition No. 7 related to biodiversity monitoring.

8.1 BID/MSC/SCI and Operating FT programs

The following are the inputs of resources in account 28125-5 (BID-MSC), 27154-3 (BID-SCI) and account 23802-3 (TF) held with Banco do Brasil, throughout 2016.

Program	Bank account	Amounts	Date of input of resources in the Bank
BID - MSC	BB RJ - Ag: 1569-5 C/C 28125-5 Voluntários	1,231	7/11/2016
BID - SCI	BB RJ - Ag: 1569-5 C/C 27154-3 Voluntários	1,812	3/16/2016
BID - SCI	BB RJ - Ag: 1569-5 C/C 27154-3 Voluntários	1,754	11/17/2016
Operating FT	BB RJ - Ag: 1569-5 C/C 23802-3 Voluntários	3,700	1/27/2016
Operating FT	BB RJ - Ag: 1569-5 C/C 23802-3 Voluntários	2,000	8/3/2016
Operating FT	BB RJ - Ag: 1569-5 C/C 23802-3 Voluntários	2,200	10/20/2016
Total		12,697	

We present below the bank balances at December 31 (in R\$ thousand):

ARPA TRANSITION FUND Accounts	2016	2015
Banco do Brasil – C/C 27154-3 (BID – SCI)	1,069	248
Banco do Brasil – C/C 28125-5 (BID – MSC)	754	315
Banco do Brasil – C/C 23802-3 (FT)	546	742
Balance at December 31	2,369	1,305

8.2. Contract FT/BID-14219 ATN/OC-Br (SCI) and ATN/MC 14220-Br (MSC)

Input of resources in account 27154-3 Banco do Brasil (BID - SCI):

	2016	2015	Six-month period
BID - SCI	3,566	-	5,595
Yield	71	135	222
Cost of financial management	(15)	(2)	(24)
Balance at December 31	3,622	133	5,793

Input of resources in account 28125-5 Banco do Brasil (BID - MSC):

			Six-month
	2016	2015	period
BID – MSC	1,231	316	1,547
Yield	52	-	52
Cost of financial management	(6)	(1)	(7)
Balance at December 31	1,277	315	1,592

Application of BID operating resources by Component:

Contract ATN/OC 14219-Br - (SCI)	2016	2015	Six-month period
Component 1 BID - Critical Studies	129	66	214
Component 2 BID - Management Improvement Professional Services	1,190	600	1,897
Component 3 BID - Training	1,029	324	1,462
Component 4 BID - Equipment and Software	276	134	482
Administrative Expenses - FUNBIO BID	338	205	543
Balance at December 31	2,962	1,329	4,598

Contract ATN/MC 14220-Br (MSC)	2016	2015	Six-month period
Component 1 BID - Critical Studies	21	17	40
Component 2 BID - Management Improvement Professional			
Services	276	143	426
Component 3 BID - Training	265	41	312
Component 4 BID - Equipment and Software	37	261	376
Administrative Expenses - FUNBIO BID	115	60	175
Balance at December 31	714	522	1,329

8.3 Transition Fund/Operating Account

Input of resources in account 23802-3 Banco do Brasil (TF):

			Six-month
	2016	2015	period
Operating Transition Fund	7,900	2,500	11,900
Yield	192	221	426
Cost of financial management	(11)	(2)	(13)
Total	8,081	2,719	12,313

Application of FT / Operating resources by Marco Referencial:

Operating Transition Fund	2016	2015	Accumulated
Program's Coordination - Representation and articulation	34	1	35
Coordination - Monitoring and Studies	20	-	20
Coordination - Committee Secretariat and Program Forums	2	6	8
Coordination - Program Planning	27	-	27
Management – Communication	_	1	1
Management - Funbio Operationalization	1,018	854	1,872
Transition Fund Management	-	251	260
MR Demarcation - Implementation level II	7	-	7
MR Equipment – Maintenance	187	55	246
MR Equipment – Spare	281	327	611
MR Basic Equipment - Procurement level I and II	406	394	800
MR Basic Equipment - Maintenance level I and II	335	56	391
MR Participatory Management - Management Council Operation level	476	150	627
MR Installations - Construction level II	11	-	11
MR Installations - Maintenance level I and II	222	37	260
MR Installation Maintenance	135	31	167
MR Signage Maintenance	41	-	41
MR Maintenance of the CU Council Operations	338	178	527
MR Monitoring - Biodiversity index level I	136	4	140
MR Monitoring - Protocols implementation level II	147	-	147
MR Monitoring - Maintenance of indexes level II	54	3	57
MR Monitoring - Protocols implementation level II	98	5	104
MR Monitoring - biodiversity protocol	308	103	411
MR Monitoring – resource use protocol	14	-	14
MR Operationalization level I and II	1,508	389	1,902
MR Research - Development and Studies level II	86	60	149
MR Handling Plan - Drafting level I	207	-	207
MR Handling Plan - Review level I and II	23	11	34
MR Protection - Plan Drafting level I	200	-	200
MR Protection - Plan Implementation level I and II	1,268	184	1,457
MR UC Protection	537	221	779
MR Handling Plan Review	4	-	4
MR Signage - Expansion level II	5	-	5
MR Signage - Implementation level I	1	-	1
MR Signage - Maintenance level I and II	41	-	41
Total	8,175	3,320	11,560

8.4. Transition Fund/Long-term Fund

The Long-term Extinguishable Transition Fund is managed by Pragma Patrimônio composed by resources of the extinguished PAF (Protected Areas Fund) and by the amount of new resources.

Below we present, in thousands of Reais, the balances held in the Program's accounts:

ARPA PAF/TF Accounts	2016	2015
Itaú Miami C/I 6086720 (TF)*	149,018	51,234
Itaú Miami C/I 6086720 (TF)*	71,510	43,536
J. P. Morgan C/I 82683009 (TF)	-	29,983
Itaú Miami C/I 6087033 (TF KfW)	6,219	6,979
Itaú Pragma AG.4191 C/I 88475-0(TF)	68,819	48,407
Itaú Private C/I EFFICAX 13564-3 (TF)	1,723	77
Itaú Pragma AG.4191 C/I 89897-4 (TF KfW)	33,683	32,425
Itaú Private C/I Compromissada DI 16716-6-X (TF KfW)	-	9,059
Itaú Private C/I EFFICAX FI RF - 16716-6-X (TF KfW)	19,614	12,776
Credt Suisse C/I 13594-1 (TF KfW)	12,892	11,159
Total	363,479	245,635

^{*} In 2015 in this account R \$3,348 were in transit, regularized in January 2016.

Movement of the TF balances, in thousands of Reais, kept in the country (C/C 88475 and 13564-3 Active and Efficax):

	2016	2015
Balance at January 1	48,484	31,880
Input of resources	13,314	15,187
WWF CR00001	11,602	7,878
WWF CR00002 (MAC)	-	5,256
WWF CR00003*	100	100
ANGLO AMERICAN	1,612	1,953
Transfer of resources to the Operating Transition Fund	-	(2,500)
Net income	10,662	5,447
Financial Management Costs	(1,818)	(1,530)
Balance at December 31	70,642	48,484

• The input of resources in the amount of R \$100 thousand regarding the contract WWF CR00003 was deposited, at the end of 2016, in FUNBIO's administrative account and transferred to the TF account at the beginning of 2017, regularizing the contribution.

Movements of TF balances kept in Itaú Miami (c/c 6086720 and JT02183):

	2016	2015
Balance at January 1	94,770	60,534
Input of resources KfW	109,743	-
Transfer of resources received from J. P. Morgan c/c 82683009	30,790	3,348
Exchange differences	(20,836)	28,671
Yield	6,115	2,220
Cost of financial management	(54)	(3)
Balance at December 31*	220,528	94,770

^{*} In 2015, there are R\$ 3,348 in transit

Movements of TF balances kept in J. P. MORGAN c/c 82683009:

	2016	2015
Balance at January 1	29,983	22,884
Transfer of resources to Itaú Miami c/c 6086720	(30,790)	(3,348)
Yield	(49)	(337)
Exchange differences	(440)	10,805
Cost of financial management	1,296	(21)
Balance at December 31	-	29,983

Movements of TF balance (PAF KfW) - maintained at Banco Itaú Miami (CC 6087033):

	2016	2015
Balance at January 1	6,979	5,127
Yield	339	(540)
Exchange differences	(1,099)	2,392
Balance at December 31	6,219	6,979

Movements of TF balance (PAF KfW) - maintained at Itaú (Pragma - 4191 89897-4 and Itaú Private - C/C 16716-6:

	2016	2015
Balance at January 1	54,260	59,731
Transfer of resources to Credit Suisse c/c 135941-5	-	(10,099)
Transfer of resources to the Operating Transition Fund	(7,900)	-
Cost of financial management	(1,852)	(863)
Yield	8,789	5,491
Balance at December 31	53,297	54,260

Movements of TF balance (PAF KfW) - maintained at Banco Itaú Miami (CC 13594):

	2016	2015
Balance at January 1	11,159	10,099
Cost of financial management	(1,605)	(887)
Yield	3,338	1,947
Balance at December 31	12,892	11,159

9. Contingencies

The Program's management, through its internal and external legal advisors, assessed the likelihood of contingencies that may occur in this Program. Until December 31, 2016 there were no lawsuits against Funbio or for this Program.

* * *



Independent Auditors ' report on the compliance with standards, laws and regulations of the Amazon Protected Areas Program – ARPA

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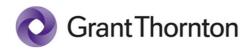
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To the Management of **Fundo Brasileiro para Biodiversidade** - **FUNBIO** Amazon Protected Areas Program - ARPA Rio de Janeiro - RJ

We conducted the audit of the financial statement of the Amazon Protected Areas Program - ARPA ("Program"), performed by the Fundo Brasileiro para Biodiversidade – FUNBIO funded by different institutes and entities ("Donors"), which comprises the financial statement for the period from January 1 to December 31, 2016 and we issued our report thereon, dated April 27, 2017.

In connection with our audit, we examined the compliance with contractual clauses and articles established in the Donation Agreements signed with different institutes and entities ("Donors"), applicable at December 31, 2016, and other agreements signed between the parties, Laws and other legal provisions in Brazilian law.

We conducted our audit in accordance with International Auditing Standards and the Donors' requirements. These standards require the due planning and performance of audit to obtain a reasonable assurance that FUNBIO complied with the relevant clauses of the Donation Agreements signed with different institutes and entities ("Donors") and other agreements signed between the parties, Laws and other legal provisions in Brazilian law. The audit includes the examination, based on proofs, of the appropriate evidence. We consider that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

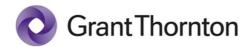


In our opinion, in the year ended December 31, 2016, FUNBIO complied, in all material respects, with the contractual clauses of the Donation Agreements signed with different institutes and entities ("Donors") for the Amazon Protected Areas Program – ARPA and other agreements signed between the parties, Laws and other legal provisions in Brazilian law.

Rio de Janeiro, April 27, 2017

Ana Cristina Linhares Areosa
CT CRC RJ-081.409/O-3

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Independent Auditors' report on the internal control system of the Amazon Protected Areas Program – ARPA

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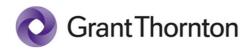
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To the Management of **Fundo Brasileiro para Biodiversidade - FUNBIO** Amazon Protected Areas Program - ARPA Rio de Janeiro – RJ

This report is complementary to our report on the financial statement of the Amazon Protected Areas Program - ARPA.

The Fundo Brasileiro para Biodiversidade – FUNBIO's Management, the executor of the Amazon Protected Areas Program – ARPA, is responsible for establishing and maintaining an internal control system sufficient to mitigate the risks of misstatements in the financial information and protect the assets under the Program's custody, including the constructions built and other goods purchased. To fulfill this responsibility, judgements and estimates are required from Management to assess the expected benefits and costs relating to policies and procedures of the internal control system. The objectives of an internal control system are to provide reasonable, but not absolute, assurance to management that the assets are protected against losses stemming from unauthorized use or disposals, that transactions are conducted in accordance with management's approval and the terms of the contract and are properly recorded to allow for the preparation of reliable financial statements. Due to the limitations inherent to any internal control system, there may be errors or irregularities that are not detected. In addition, the projections of any structure evaluation of future periods are subject to the risk that the procedures might be proven inadequate because of changes in conditions, or that the policies' and procedures' design and operation effectiveness may deteriorate.

In planning and developing our financial statement audit of the Program for the year ended December 31, 2016, we gained an understanding of the current internal control system and assessed the control risk to determine the audit procedures, with the purpose of expressing an opinion on the Program's financial statement, and not to express an opinion on the internal control system's effectiveness, reason why we do not express it.



Our audit of the Amazon Protected Areas Program - ARPA for the year ended December 31, 2016 revealed no significant deficiencies in the design or operation of the internal control system which, in our opinion, could adversely affect FUNBIO's ability to record, process, summarize and present financial information in a manner consistent with the management's assertions in the statements of funds received and disbursements made, as well as accumulated investments.

A significant deficiency is a condition in which the design or operation of one or more elements of the internal control system do not reduce to a relatively low level the risk that errors or irregularities may occur in amounts that could be significant in relation to the Program's basic financial statement, and that could not be timely detected by FUNBIO's personnel during the normal course of duties to which they were assigned.

Our consideration about the internal control system does not necessarily expose all matters regarding the system that could be considered significant deficiencies and, therefore, should not necessarily expose all conditions to be informed that could be considered significant deficiencies in accordance with the previous definition.

Rio de Janeiro, April 27, 2017

Ana Cristina Linhares Areosa
CT CRC RJ-081.409/O-3

Grant Thornton Auditores Independentes CRC SP-025.583/O-1 "S" - RJ