FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2003 AND 2002

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

"A free translation of the original report in Portuguese on financial statements prepared in accordance with accounting principles generally accepted in Brazil."

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

FINANCIAL STATEMENTS AS OF DECEMBER 31, 2003 AND 2002

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Trevisan

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INDEPENDENT AUDITOR´S OPINION

To management of
Fundo Brasileiro para a Biodiversidade - FUNBIO
Rio de Janeiro - RJ

1 We have examined the Balance Sheet of Fundo Brasileiro para a Biodiversidade - FUNBIO, as of December 31, 2003, and the related statements of operations, changes in net assets and cash flows for the year then ended, expressed in reais and prepared under the responsibility of the management of the Fund. Our responsibility is to express an opinion on these financial statements.

2 Except for the mentioned in paragraph 3, we conducted our audit in accordance with auditing standards generally accepted in Brazil, which include: (a) planning of the audit, considering the materiality of the amounts presented, the volume of transactions and the entity´s accounting and internal control systems of FUNBIO; (b) examining, on a test basis, the evidence supporting the amounts and disclosures in the financial statements; and (c) assessment of the accounting practices used and significant estimates made by FUNBIO`s management, as well as the presentation of the financial statements taken as a whole.

3 FUNBIO has recorded costs during the 2003 year in the amount of R$2,475 thousand related to projects based on the financial statements of the projects "DFP" signed by its responsible persons and verified by the development department. As the original documents in the amount of R$1,861 thousand are kept in the project locations once these documents are not owned by FUNBIO rather than by the executing companies, our audits have included the analysis and verification of not certified copies.

4 In our opinion, except for the effects that might result of the issues mentioned in paragraph 3, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Fundo Brasileiro para a Biodiversidade - FUNBIO as of December 31, 2003, the results of its operations, the changes in net assets and the cash flows for the year then ended in accordance with the accounting practices adopted in Brazil.

5 As mentioned in the note no. 2 (i) letter i to the financial statements, the company has adopted in this year new criteria for recording and recognizing funds repassed to the projects, donations of partners linked to projects, advances to projects and account for.

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INDEPENDENT AUDITOR´S OPINION

To management of
Fundo Brasileiro para a Biodiversidade - FUNBIO
Rio de Janeiro - RJ

6 The amounts expressed in Brazillian reais were translated into U.S. dollars in accordance with the method described in Note 2 (h), for the readers`convenience. This translation should not be construed as if the amounts expressed in reais would represent, would have represented or could be exchanged into U.S. dollars.

7 The financial statements for the year ended on December 31, 2002, presented for comparison purpose, was audited by us, and or unqualified opinion was issued dated March 8, 2003.

Rio de Janeiro, April 13, 2004

José Luiz de Souza Gurgel
Sócio-contador
CRC RJ-087339/O-4
Trevisan Auditores Independentes
CRC 2SP013439/O-5 "S" RJ

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EXHIBIT 1

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

BALANCE SHEET AS OF DECEMBER 31
(Expressed in thousand of Brazilian reais and in thousands of U.S. dollars)

	R$		US$	
	2003	2002 Reclassified	2003	2002 Reclassified
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	4	3,559	1	1,008
International Bank	7,221		2,500	
Investments in foreign currency	4,981	3,170	1,724	897
Investments in local currency	4,244	4,132	1,469	1,170
Investments in foreign managed securities portfolio (note 3)	28,286	31,349	9,793	8,874
Advances to projects (note 4)	221	1,048	77	297
Other	12	16	4	5
	44,969	43,274	15,568	12,251
PERMANENT ASSETS				
Fixed assets				
. Furniture and fixture	178	99	62	28
. Machinery and equipment	92	37	32	10
. Computing equipment	232	194	80	55
. Accumulated depreciation	(138)	(83)	(48)	(24)
Deferred assets				
. Software	88	45	30	13
.Trade mark	2	2	1	1
. Leasehold improvements	91		32	
. Accumulated amortization	(29)	(13)	(10)	(4)
	516	281	179	79
TOTAL	45,485	43,555	15,747	12,330
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
. Wages, payroll and related charges payable	179	106	62	30
. Outsourced services	30	42	10	12
. Tax and contributions	11		4	
. Rent to pay	18		6	
. Other liabilities	3	60	1	17
	241	208	83	59
Thirdf parties' funds				
. Donations from partners - linked to projects (note 4)	5,177	2,024	1,580	573
. Portfolio administration fees payable	39		14	
. Yield from donations	186	95	64	27
. Account for - linked to projects	(33)		(11)	
. ARPA/WWF	224		78	
	5,593	2,119	1,725	600
NET ASSETS - EQUITY FUND	39,651	41,228	13,939	11,671
. Commited resources	6,488	7,334	2,246	2,076
. Free resources	33,163	33,894	11,693	9,595
TOTAL	45,485	43,555	15,747	12,330

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

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EXHIBIT 2

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED ON DECEMBER 31,
(Expressed in thousand of Brazilian reais and in thousands of U.S. dollars)

	R$		US$	
	2003	2002 Reclassified	2003	2002 Reclassified
REVENUES				
Donation	7,335	5,341	2,398	1,782
Revenues from short term investments				
. In Brazil	823	317	269	106
. Abroad (Net)	2,802	84	916	28
. Other	46	6	15	2
TOTAL REVENUES	11,006	5,748	3,598	1,918
EXPENSES				
. Salaries and wages	1,172	924	383	308
. Other supplies	30	34	10	11
. Third parties services	830	625	271	209
. Lease and maintenance	260	121	85	40
. Traveling expenses	294	157	96	52
. General expenses	199	119	65	40
. Financial expense	152		50	
Non-operating expenses	9		3	
Project costs	2,475	6,890	809	2,299
Loss from financial investments managed by Rothschild Asset Management Limited		1,716		573
TOTAL EXPENSES	5,421	10,586	1,772	3,532
Net exchange variation	(7,203)	15,134	(2,355)	5,049
SURPLUS (DEFICIT) FOR THE YEAR	(1,618)	10,296	(529)	3,435
NET ASSETS				
Balance at the beginning of the year	41,227	30,932	11,671	13,335
Prior year adjustment	42		12	
Surplus (deficit) for the year	(1,618)	10,296	(529)	3,435
Translation adjustments			2,785	(5,099)
Balance at the end of the year (note 7)	39,651	41,228	13,939	11,671

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

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EXHIBIT 3

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

(Expressed in thousand of Brazilian reais and in thousands of U.S. dollars)

	R$		US$	
	2003	2002 Reclassified	2003	2002 Reclassified
CASH FLOWS FROM OPERATING ACTIVITIES				
Surplus (deficit) for the year	(1,618)	10,296	(529)	3,435
Depreciation and amortization	71	44	30	14
Unrealized exchange variation on financial results	1,667	(13,418)	(118)	(4,477)
Surplus (deficit) adjusted	120	(3,078)	(617)	(1,028)
Prior year adjustment	42		12	
Translation adjustments			2,785	(5,099)
(Increase) decrease in advances to projects	827	747	220	477
(Increase) decrease in other assets	4	(8)	1	(1)
Increase (decrease) in accounts payable	33	58		(20)
Increase (decrease) in donations linked to projects	3,474	(1,339)	1,007	(876)
Net cash flows from (used in) operating activities	4,500	(3,620)	3,408	(6,547)
CASH FLOW FROM (USED IN) INVESTING ACTIVITIES				
Purchase (disposal) of fixed assets	306	(134)	130	(10)
Decrease (increase) in financial investments	(1,140)	3,145	(2,045)	5,768
Net cash flows from (used in) investing activities	(834)	3,011	(1,915)	5,758
NET INCREASE (DECREASE) IN CASH	3,666	(609)	1,493	(789)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3,559	4,168	1,008	1,797
CASH AND CASH EQUIVALENTS AT THE END OF THE Y	7,225	3,559	2,501	1,008
NET INCREASE (DECREASE) IN CASH	3,666	(609)	1,493	(789)

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FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED AT DECEMBER 31, 2003 AND 2002
(Expressed in thousands of Brazilian reais and in thousands of U. S. dollars)

1 OPERATIONS

FUNBIO has a general objective to contribute to environmental conservation and to the sustainable use of the Brazilian bio-diversity. As a not-for-profit organization, its specific objective is to operate a fund oriented to providing financial and material support to initiatives associated with environmental, conservation and the sustainable use of the bio-diversity located in the national territory, as provided under the Convention on Biological Diversity and also under the National Program for Biological Diversity, as well as in compliance with the guidelines established by the competent government agencies.

The main fund sources are: (a) income from its investments and financial applications inside and outside Brazil; (b) donations from de World Bank/Global Environmental Facility (GEF), and/or from individuals or public/private entities, foreign or local, and from international entities; and (c) payment for services rendered related to the attainment for the FUNBIO's purposes.

On October 1, 1999 the Fund obtained legal autonomy and started to control its operations as of July 1, 2000.

2 SUMMARY OF SIGNIFICANT ACCOUTING PRATICES

Fundo Brasileiro para Biodiversidade – FUNBIO adopts the accounting practices as provided for in the Brazilian Corporate Law, adapted to the legal provisions and regulations applicable to the non-profitable civil associations.

The most significant accounting practices adopted in the preparation of the financial statements may be summarized as follows:

a Cash and cash equivalents

Represent the cash balance in bank and financial investments of immediate liquidity, which are registered at cost, added of the income verified until the date of the balance, not in excess of the respective market values.

b Investments in foreign currency

Are represented substantially by deposit certificates with bankers abroad, with fixed deadlines and added of income proportionally to the date of the balance, without exceeding the market value. The amounts are converted into reais based on the commercial US dollar purchase rate on the date of the balance.

c Investments in foreign managed securities portfolio

Are recognized based on the values reported in the U.S. dollars statement prepared by AIG Private Bank (funds manager) as at the balance sheet date, which includes the invested amount plus accrued income net of any provision for loss, when informed by the funds manager, and are translated into reais by using the official purchase exchange rate at the date of the balance sheet.

d Advances to projects

Represent advances related to the partnership agreements and funding of projects for the preservation and sustainable use of biodiversity.

e Fixed assets

Are stated at acquisition cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets.

f Project obligations

The obligations with contributions to the projects are accounted for as the projects occur. The Fund makes advances for the projects, and are registered as advances in the current assets and as contra entry, account for in the current liability related to expenditures to be evidenced from 2003 fiscal year.

g Revenues and expenses with projects

Recognized by accrual basis, according to the execution of the projects and the accountability of the fund, by the executor beneficiaries of the projects.

h Translation into U.S. dollars (US$)

The amounts of the Balance Sheet were converted into US dollars based on the exchange rate on December 31, 2003 and 2002 (R$ 2.8884 and R$ 3.5325 respectively, to US$ 1). The amounts of the statement of income have been converted at the average dollar exchange rate in the fiscal year. The adjustments related to the conversion into US dollars are included in net assets.

I Change of accounting policies

Funds of Funbio

During the 2003 fiscal year, the allocated amounts repassed and recorded in the expenses are related to the funds of Funbio. Such expenditures are recognized in the income statement upon the disbursement. However, until 2002 fiscal year, such expenses were recorded upon the account for.

Funds of Third Parties

The donations of partners linked to projects and the respective advances related to 2003 fiscal year are recorded and controlled on balance sheet accounts, current liabilities and assets, respectively. Upon the account for, there is a match between assets and liabilities, and there is not effect on the statement of operations. However, until December 31, 2002, such funds received and repassed were controlled on balance sheets and allocated to the statement of operations upon the account for.

3 INVESTMENTS IN FOREIGN MANAGED SECURITIES PORTFOLIO

These investments refer to sundry financial investments in fixed and variable securities, currency and operations with derivative instruments, made by AIG Private Bank in the international market. The balance is shown as follows:

	R$		US$	
	2003	2002	2003	2002
"Eurobonds" and other international fixed Income securities				
Canadá		283		80
Europe	3,823	8,015	1,324	2,269
Japan		2,215		627
USA	20,222	5,758	7,001	1,630
Other		1,315		372
Subtotal	24.045	17.586	8,325	4.978
Publicly-held companies' equity securities				
Canada		64		18
Europe	570	2,123	197	601
Asia		459		130
USA	2,451	7,768	849	2,199
United Kingdon	417		144	
Japan	485		168	
Other	127	2,841	44	804
Subtotal	4.050	13.255	1.402	3.752
Cash and cash equivalents	191	508	66	144
Total	28,286	31,349	9,793	8,874

4 FUNDS RECEIVED FROM PARTNERS AND SPENT WITH PROJECTS

The funds received from the partners for project funding are registered innthe liabilities upon receipt, and accounted as advances to projects on the assets as such funds are transferred by Funbio. The recognition of the partners' donation income and the expenses of the Fund with the projects are mentioned on the explanatory note number 2 lette i.

					2003								2002	
	Percentage of contributions of third parties in the project	Donations received from third parties		Total allocated funds		Realized expenses less result project's finance		Advances pending expense accounting		Donation received pending relization of expenditures		Advances pending expense accounting		Donation received pending relization of expenditures	
		R$	US$	R$	US$	R$	US$	R$	US$	R$	US$	R$	US$	R$	US$
Institution/project															
PROMAR Project "Sustainable use of the Sea/Bio-diversity as na Economical Alternative to the Espirito Santo Coast Communities" (a)	51	81	28	51	18	42	15	9	3	30	10	51	14	81	23
CSN Project "Cicuta" (a)	53	1,000	346	1,237	428	1,118	387	119	41	345	120	140	40	419	119
Inst. Terra Project "Environmental Education and Recovery of the Atlantic Forest in the Vale do Rio Doce" (a)	50	1,250	433	2,450	848	2,450	848			72	25	126	36		
FBDS/KLABIN Project "Monte Alegre" (a)	62	2,700	935	3,189	1,104	3,453	1,195	(264)	(91)	707	245			639	181
MPE Project "Best Echo-tourism Practives Program" (c)	81													37	10
IESB Project "Joint Management of Natural Resources and Forest" (b)	50			238	82	237	82	1				22	6		
Agrotec Project "Production and Commercialization of Fruit Pulp from the Cerrado and Caatinga (b)				115	40	115	40					22	6	3	1
G. Sertão Project "Agro-Extrating and refining of Fruit Pulp the Cerrado and Caatinga' (b)				142	49	136	47	6	2			42	12		
APA Project P. "Joint processing and commercialization of the Amazon Agro-Florestal Products" (b)				144	50	144	50					1			
AS - PTA - Project "Stopping the Genetic Erosion in Agriculture, Recovery, Concervation and Sustainable use of Traditional Varieties by Small Producers Communities" (b)	50	1,009	349	2,017	698	2,000	692	17	6			82	23	41	12
RURECO Project "Conservation and Sustainability use of Natural Resources in the Paraná Center - West Region" (a)	51	375	130	548	190	536	186	12	4	93	32	1		134	38
Foundation Ford (a)	50	1,922	665	1,634	566	1,642	568	(8)	(2)	119	41	117	33	342	97
Foundation Ford II										3,525	1,008				
IPÊ - Ecology Research Institute (c)	50	167	58	203	70	170	59	33	11	66	23				
Caatinga (c)	50	143	50	182	63	115	40	67	23	52	18				
Others		269	93	1,419	492	1,190	412	229	80	168	58	444	127	328	93
		8,916	3,087	13,569	4,698	13,348	4,621	221	77	5,177	1,580	1,048	297	2,024	573

(a) Joint contracts with non-governmental entities whose funds are donated to and managed by the Fund to execute projects.
(b) Joint contracts with other entities who do not have any funds from other sources or whose third party funds are directly allocated to the operation of project without the Fund's intervention.
(c) Project executed by the Fund with partners financial support.

The US dollar amounts were converted at the exchange rate of the end year, except the values recorded in realized expenses, which were converted by the average rate of the year and except by the Fundação Ford III, on the received donations pending of expenses realization.

There is no information about project ARPA on notes 4, 5 and 6, due to such project was subject to a specific report.

5 PROJECT BUDGETS

Budgets for the expenditures specified in the contracts signed with the projects operting parties, in accordance with the Fiduciary Fund for the World Environment (GEF) and its Annexes and with the FUNBIO operations Manual:

						2003		2002
	FUNBIO´s Fund			Third party´s funds		Budget of projects managed by FUNBIO		Budget of projects managed by FUNBIO
	R$	US$		R$	US$	R$	US$	US$
Institution/project								
PROMAR Project "Sustainable Use of the Sea/Bio-diversity as an Economical Alternative to the Espirito Santo Coast Communities"	513	178	(a)	540	187	1,053	365	1,053	298
CSN Project "Cicuta"	890	308	(b)	1,000	346	1,890	654	1,890	535
Inst. Terra Project "Environmental Education and Recovery of the Atlantic Forest in the Vale do Rio Doce"	1,244	431	(a)	1,245	431	2,489	862	2,489	705
FBDS Project "Monte Alegre"	1,922	665	(b)	3,200	1	5,122	1,773	5,122	1,450
MPE Project "Best Echo-tourism Practices Program"								1,780	504
Fundação Ford	1,432	496	(a)	1,432	496	2,864	992	1,788	506
RURECO Project "Conservation and Sustainability Use of Natural Resources in the Paraná Center-West Region"	354	123	(b)	375	130	729	253	729	206
AS - PTA Project "Stopping the Genetic Erosion in Agriculture, Recovery, Conservation and Sustainable Use of Traditional Varieties by Small Producers Communities"	1,649	571	(b)	1,649	571	3,298	1,142	3,298	934
IPÊ - Ecology Rersearch Institute	645	223	(a)	635	220	1,280	443		
Caatinga	367	127	(a)	367	127	734	254		
Others	2,126	736		310	107	2,436	843	2,225	630
Total	11,142	3,858		10,753	2,616	21,895	7,581	20,374	5,768

(a) Agreement executed in US dollars.
(b) Agreements executed in Reais.

Amounts in U.S. dollars were translated using the exchange rate in effect at year-end.

There is no information about project ARPA on notes 4, 5 and 6, due to such project was subject to a specific report.

6 PROJECT COMMITMENTS

Refer to on lending to the projects, in compliance with the Donation Agreement with the Fiduciary Fund for the World Environment (GEF) an its Annexes and the FUNBIO Operations Manual, as determined in the respective contracts signed by the parties. The projects and on lending balances are as follows:

						2003
	Total funds Managed by FUNBIO		Total of resources transferred		Resources transferable	
Institution/project	R$	US$	R$	US$	R$	US$
PROMAR Project "Sustainable Use of the Sea/Bio-Diversity as na Economical Alternative to the Espírito Santo Coast Communities"	1,053	365 (a)	51	18	1,002	347
CSN Project "Cicuta"	1,890	654 (b)	1,237	428	653	226
Inst. Terra Project "Environmental Education and Recovery of the Atlantic Forest in the Vale do Rio Doce"	2,489	862 (a)	2,450	848	39	14
FBDS / Klabin Project " Monte Alegre"	5,122	1,773 (b)	3,189	1,104	1,933	669
Caatinga	734	254 (b)	182	63	552	191
IPÊ - Ecology Reseach Institute	1,280	443 (b)	203	70	1,077	373
Fundação Ford	2,864	992	1,872	648	992	344
RURECO Project "Conservation and Sustainability Use of Natural Resources in the Paraná Center-West Region"	729	253 (b)	548	190	181	63
AS - PTA Project "Stopping the Genetic Erosion in Agriculture, Recovery, Conservation and Sustainable Use of Traditional Varieties by Small Producers Communities"	3,298	1,142 (b)	2,017	698	1,281	444
Others	608	210	480	167	128	43
Sub-total	20,067	6,948	12,229	4,234	7,838	2,714
Project 100% made with Funbio resources	1,828	633	1,340	464	488	169
Total	21,895	7,581	13,569	4,698	8,326	2,883

a Agreement executed in US dollars.
b Agreement executed in reais.

Amounts in U.S. dollars were translated using the exchange rate in effect at year-end.

There is no information about project ARPA on notes 4, 5 and 6, due to such project was subject to a specific report.

FUNBIO hires external advisors for the final evaluation, including for the physic and financial evolution upon the completion of each project.

7 NET ASSETS

Comprised by donations from Banco Mundial and non-governmental organizations to subsidize projects oriented to the conservation and sustainable use of the biodiversity.

8 PRIOR YEAR ADJUSTMENT

It mainly relates to the adjustment of wrongful appropriation accountings in respect to pooling of allocated amounts for the projects in the prior fiscal years.

* * *