

## Fundo Brasileiro para Biodiversidade - FUNBIO

(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail.)

Independent Auditor's Report on the financial statement of the  
Amazon Region Protected Areas (ARPA) Program

January 01 to December 31, 2017

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(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail. See Note 10 to the financial statement.)

# Independent Auditor's Report on the financial statement of the Amazon Region Protected Areas (ARPA) Program

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

## **Opinion**

We have audited the financial statement of the Amazon Region Protected Areas (ARPA) Program (the "Program"), presented in Note 5, conducted by the Fundo Brasileiro para Biodiversidade – FUNBIO ("Entity"), funded by different institutes and entities (the "Donors"), described in Note 3, for the period from January 01 to December 31, 2017, and a summary of the significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statement presents, in all material respects, the receipts and payments made during the period from January 01 to December 31, 2017 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 a cash basis of accounting, in conformity with the International Financial Reporting Standard on the cash basis of accounting. Under the cash basis of accounting, transactions and events are recognized only when funds (including fund equivalents) are received or used by the Entity to make payments, and not when they result, earn or originate from rights and obligations, even though no cash movement has occurred. Our opinion is not qualified regarding this matter.



### **Basis for opinion**

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

### **Responsibility of Management and those charged with governance for the financial statement**

FUNBIO’s Management is responsible for the preparation and fair presentation of this financial statement in accordance with the International Financial Reporting Standards as well as the provisions of the Donation Agreements signed with different institutes and entities (the “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 discontinue 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 statement**

Our objectives are to obtain reasonable assurance about whether the financial statement taken as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor report expressing 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. In addition:

- 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 opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve override of internal control, collusion, forgery, intentional omissions or misrepresentations;



- Obtain an understanding of the internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of 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 in operation. 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 in operation;
- 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 26, 2018

A handwritten signature in blue ink that reads "Ana Cristina Linhares Areosa".

Ana Cristina Linhares Areosa  
Grant Thornton Auditores Independentes

## Cumulative financial statement reconciled to bank balances

(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail.)

(In R\$ thousand)

Shown below are the cumulative amounts of changes in ARPA Phase II and ARPA Transition Fund:

Donors	Funds contributed	Unallocated funds	Funds transferred	Net income	Exchange rate changes	Execution	Advance	Other adjustments	Balance accrued through 12/31/2017	Bank Balance	Difference (l)
BNDES	19,949	-	-	493	-	(20,440)	-	(2)	-	-	-
GEF BM	46,171	-	-	-	-	(46,171)	-	159	159	160	(1)
KFW	66,171	(3,344)	-	421	912	(60,151)	(147)	11	3,873	3,358	515
BID	12,283	-	-	310	-	(10,336)	1	1	2,259	2,590	(331)
FT - Operating	-	-	41,600	504	-	(36,861)	(1,496)	(3)	3,744	3,744	-
FT - Transition Fund - Long term	304,547	-	(41,600)	109,853	54,002	-	-	-	426,802	427,429	(627)
<b>Total</b>	<b>449,121</b>	<b>(3,344)</b>	<b>-</b>	<b>111,581</b>	<b>54,914</b>	<b>(173,959)</b>	<b>(1,642)</b>	<b>166</b>	<b>436,837</b>	<b>437,281</b>	<b>(444)</b>

(l) Unrecognized funds, unallocated funds, transfers from FT Long Term to FT Operating, and reimbursement of expenses to FUNBIO.

The accompanying notes are an integral part of this financial statement.

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# Notes to the financial statement of the Program for the period from January 01 to December 31, 2017 (Amounts expressed in thousands of Brazilian reais, unless otherwise stated)

## **1. General Information of the Program's Manager**

Fundo Brasileiro para a Biodiversidade -FUNBIO ("Entity"), whose headquarters are located at Rua Voluntários da Pátria, 286 – 5º andar, Botafogo, city of Rio de Janeiro, State of Rio de Janeiro, is a private, non-profit civil association, in operation since 1996.

FUNBIO is an innovative mechanism created to develop strategies that help support the implementation of the Convention on Biological Diversity (CBD) in Brazil. Over its 21 years, FUNBIO has served as a strategic partner of the private sector, different federal and state government bodies and civil society.

These partnerships help ensure the feasibility of the companies' environmental and social investments and the reduction and mitigation of their impacts as well as compliance with their legal obligations. At the public sector level, they are intended to consolidate conservation policies and make environmental financing programs feasible.

In just 21 years, FUNBIO managed US\$ 600 million, supported 282 projects in 7 biomes, 233 institutions and 311 protected areas totaling 67 million hectares (around three times the size of the State of São Paulo) and already empowered more than 1,300 partners. The source of the funds leveraged by FUNBIO, with a track record of approximately 70 donors, comes from international cooperation agreements, legal obligations and private national and international donations.

FUNBIO is the one and only agency in charge of implementing the Global Environment Facility (GEF) Trust Fund, one of the world's most important financing instruments for environmental projects which accredited FUNBIO for its implementation capacity.

Funds managed by FUNBIO in 2017 grew 17%, reaching a record R\$97 million (2016 – R\$81 million). These funds are used to execute the projects under its responsibility, and those used by the Entity to fulfill the purposes under its bylaws are segregated and may be identified in this report.

As at December 31, 2017, assets managed by FUNBIO amounts to R\$788 million (2016 – R\$ 734 million), out of which approximately 56% are linked to long-term actions and projects organized in the form of funds.

FUNBIO's governance is led by the Advisory Board (AB), which is composed of 16 members from academic institutions, environmental agencies, civil society, companies, and government and is responsible for defining the organization's strategy and overall direction. The Advisory Board holds three times a year to evaluate the strategic directions and institutional management: The Board 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 Techniques, and Finance & Audit and an Asset Management Committees.

Since 2013, FUNBIO adopts the following environmental and social protection policies, which establish the principles of our work: Indigenous Population, Assessment of Environmental and Social Impact, Protection of Habitats, Physical Cultural Resources, Involuntary Resettlement, Pest Management and Complaints, Control and Responsibility System.

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

FUNBIO is guided by core values such as: effectiveness, ethics, intellectual independence, innovation, responsiveness and transparency, and this report is part of the Entity's effort in this regard.

## **2. Description of the program**

ARPA program 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 2017, the Entity began to support 60.8 million hectares in 117 Conservation Units (CUs). This area is equivalent – for purposes of comparison – two times the size of Germany.

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 (FT). This fund incorporates resources from the PAF (The Amazon Region Protected Areas Fund), organized in the program's first phase, and leverages new resources from the international cooperation and private donations, with the goal to reach 215 million dollars.



his resource should finance the CUs supported by ARPA in a gradual transition, until governmental resources assume full coverage of the UCs' maintenance cost as from 2039.

In its second phase, ARPA supports the creation of more 13.5 million hectares in new CUs and the consolidation of about 60 million hectares of protected areas.

2017 highlights include the following:

- The Transition Fund, including the Operating and Long-term, reached R\$430 million, an increase of 18% (2016: R\$363 million) arising from new deposits received from donations made by WWF and Anglo American, income from short-term investments and exchange rate changes, the latter impacted by an appreciation of approximately 1.5% in the foreign currency included in the investment portfolio. In April 2017, all the units and creation processes supported by subcomponents 1.2 and 2.1 of the Program began to use resources from the Transition Fund, segregated and presented in the financial statement as FT – Operating. This migration occurred prior to the originally scheduled term as the funds available for Phase II (GEF and KfW contracts) were coming to an end.
- We allocated R\$10.9 million and approximately **R\$11.9 million** from funds under the Phase II of the agreement with the World Bank in the total amount of US\$15.890 million, were applied in the Program. The agreement was completed in July, and the grace period ended in November 2017.
- From the contract with the Ministry of Economic Cooperation and Development of Germany (BMZ), signed with Kfw-Entwicklungsbank (German Development Bank) for Phase II in the amount of EUR 20 million, we allocated R\$11.7 million and applied R\$10.2 million in the Program;
- ARPA FT – Operating account received R\$29.7 million, corresponding to US\$9.2 million, derived from the Transition Fund in 2017 and executed 25.3 million.
- 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\$5.1 million were allocated and R\$3 million were managed under the two agreements: MSC and SCI.

### 3. Donors

The financial statement of the Amazon Region 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, 2017 to provide donors with information on the financial execution of the Technical Cooperation Agreements and Donation Agreements listed below:

- **ARPA PHASE II** with funds originating from:

the Global Environment Facility (GEF), through the World Bank – TF 12073, terminated in 2017;

- the Ministry for Economic Cooperation and Development of Germany (BMZ), signed with KfW-Entwicklungsbank (German Development Bank) – BMZ 2006.66214;
- BNDES (National Bank for Economic and Social Development) – Contract 09.2.1432.1, terminated in 2015.

- **ARPA FUNDO DE TRANSIÇÃO**, currently comprised of the following:

- Funds donated to the Long-Term Transition Fund, managed by FUNBIO through Pragma, which incorporated the funds from the Amazon Region 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) – BMZ 2013.67.127
- the Operating Transition Fund with funds from the Long-Term Transition Fund for operating the 44 Conservation Units that came out of Phase II of ARPA program and joined the Transition Fund (Phase III).

the funds 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 to structure FUNBIO as the Transition Fund manager. **Significant accounting policies**

#### **Basis of preparation**

The Program's financial statement was prepared on a cash basis. Income is recognized when funds are received while expenses are recognized when they actually represent that funds were used, as established in the Donation Agreements.

## 5. Funds available – Phase II (BNDES, GEF/BM and KfW)

Through December 31, 2017, funds available and remaining in the Program's bank accounts are shown below:

Description	Type	Total
BB Frankfurt – C/A 3593 3158 88 (KfW) (i)	Checking account	3,344
Banco do Brasil – C/A 23220-3 (GEF BM)	Checking account	160
Banco do Brasil – C/A 21872-3 (BNDES)	Checking account	-
Banco do Brasil – C/A 23656-X (KfW)	Checking account	3,358
<b>Total cash and cash equivalents</b>		<b>6,862</b>

(i) Refers to KfW funds to be allocated. Movements in checking account (Banco do Brasil Frankfurt / Checking Account No. 35.93 315.888) relating to sponsor KfW are as follows:

Changes in Funds	2017	2016
<b>Balance at January 1</b>	2,435	-
Funds raised	11,750	20,347
Allocation to Banco do Brasil – C/A 23656-X (KfW)	(11,753)	(17,168)
Exchange rate changes	912	(744)
<b>Balance at December 31</b>	<b>3,344</b>	<b>2,435</b>

## 6. Funds contributed by ARPA – Phase II (BNDES/GEF BM/KfW)

In its second phase (2010 to 2017), ARPA supported the creation of additional 3.5 million hectares in new Conservation Units and the consolidation of 10.3 million hectares in already established Conservation Units. For that, FUNBIO, as the financial manager of the ARPA program, maintains a contract and received funds from the Amazon Fund through BNDES - Banco Nacional de Desenvolvimento Econômico Social – Contract 09.2.1432.1, which terminated in 2015; from GEF - Global Environment Facility through the World Bank - TF 12073, which terminated in 2017; and from the Ministry for Economic Cooperation and Development of Germany (BMZ), through KfW - Entwicklungsbank (German Development Bank) - BMZ 2006.66214.

The table below summarizes the amounts in thousands of Brazilian reais (R\$) regarding the funds received in the Programs:

	2017	2016	YTD
BNDES	-	-	19,949
GEF BM	10,895	15,827	46,171
KfW BMZ	12,257	20,347	66,171
KfW BMZ - to be allocated	(3,344)	(2,435)	(3,344)
<b>Total</b>	<b>19,908</b>	<b>33,739</b>	<b>128,947</b>

Cash inflows in account 23220-3 (GEF BM) and account 3593 315888 (KfW) held in Banco do Brasil during 2017. No funds were contributed by BNDES during 2017.

**ARPA PROGRAM – Phase II**

**Funds contributed by GEF BM - BB RJ - Branch: 3519-x Account No. 23220-3**

<b>Contribution date</b>	<b>Total</b>
01/12/2017	2,324
03/09/2017	2,915
05/19/2017	1,956
06/06/2017	726
06/21/2017	981
07/05/2017	1,993
<b>Total</b>	<b>10.895</b>

**ARPA PROGRAM – Phase II**

**Funds contributed by KfW - BB Frankfurt - Account No. 3593 315888**

<b>Contribution date</b>	<b>Total</b>
03/06/2017	5,649
12/21/2017	6,608
<b>Total</b>	<b>12.257</b>

**7. Summarized statements of expenses – Phase II (BNDES/GEF BM/KfW)**

No funds from BNDES were used during 2017 and 2016. The total funds used in 2017 and 2016 were the following:

**Contract BM/ARPA - TF 12073**

<b>Category GEF BM</b>	<b>2017</b>	<b>2016</b>	<b>YTD</b>
Assets	7,364	4,310	11,858
Recurring costs	872	347	4,320
Training	158	902	5,377
Monitoring	1,091	7,695	15,937
Consulting fees	1,535	1,746	5,514
Special services	206	584	1,402
Works	754	1,009	1,763
<b>Balance at December 31</b>	<b>11,980</b>	<b>16,593</b>	<b>46,171</b>

**Contract KfW 2006 66 214**

	<b>2017</b>	<b>2016</b>	<b>YTD</b>
Assets KfW	302	2,876	6,232
Consulting fees	2,845	2,430	8,988
Recurring costs	5,138	7,756	30,940
Works and renovations	-	100	260
Special services	1,989	3,799	13,731
<b>Balance at December 31</b>	<b>10,274</b>	<b>16,961</b>	<b>60,151</b>

Total statement of expenses	2017	2016	YTD
Contract BNDES/ARPA - No. 09.2.1432.1	-	-	20,440
Contract BM/ARPA - TF 12073	11,980	16,593	46,171
Contract KfW 2006 66 214	10,274	16,961	60,151
<b>Balance at December 31</b>	<b>22,254</b>	<b>33,554</b>	<b>126,762</b>

## 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) private financing mechanism structured as a sinking fund (amortization fund) created by means of contracts between entities, individuals and legal entities, Brazilian and foreign donors, to ensure the conservation of biodiversity and 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 under the rules set out in Modules 1 and 2 of ARPA's MOP, and its Governance is under the responsibility of the Transition Fund Committee ("TFC") and by the Fund Manager, chosen by the TFC, currently FUNBIO, to perform the actions necessary for the TF to reach its purposes, as defined in the MOP.

The Transition Fund is estimated to raise at least US\$215 million.

2017 highlights include the following:

- Support to the consolidation of 3 new CUs, totaling 117 CUs;
- Exceeding the goal to support 60 million hectares of protected areas to 60.7 million hectares in 117 conservation units;
- Four Transition Fund Committee (TFC) meetings were held;
- 68 CUs and 7 creation processes were admitted into Phase II of the Transition Fund;
- Admission of the State of Roraima into the ARPA Program with support to 6 creation processes and state CUs;
- Support to 14 new creation processes;
- Empowerment of new managers on procedures relating to ARPA/Transition Fund;
- Progress in the process for contracting an international asset manager;

- Signature of the new project GEF Landscapes by means of the World Bank (USD30 million);
- Purchases of equipment and engagement of consulting firms to structure FUNBIO and empowerment of employees based on Technical Cooperation with the IDB;
- Extension of the agreement with the IDB through August 2018;
- Implementation of the new planning model with automatic requests and performance schedule by PO;
- Promotion of Planning Workshops for the new two-year period (2018/2019).

### 8.1 IDB/MSC/SCI programs and TF Operating

Funds deposited in accounts 28125-5 (IDB-MSC), 27154-3 (IDB-SCI) and 23802-3 (TF) held in Banco do Brasil, during 2017.

Program	Bank account	Amounts	Deposit date
IDB – MSC	BB RJ - Branch 3519-x C/A 28125-5 Voluntários	348	08/03/2017
IDB – MSC	BB RJ - Branch 3519-x C/A 28125-5 Voluntários	286	12/28/2017
IDB - SCI	BB RJ - Branch 3519-x C/A 27154-3 Voluntários	2,290	05/29/2017
IDB - SCI	BB RJ - Branch 3519-x C/A 27154-3 Voluntários	2,216	12/28/2017
TF - Operating	BB RJ - Branch 3519-x C/A 23802-3 Voluntários	2,200	01/05/2017
TF - Operating	BB RJ - Branch 3519-x C/A 23802-3 Voluntários	5,000	04/19/2017
TF - Operating	BB RJ - Branch 3519-x C/A 23802-3 Voluntários	7,500	06/19/2017
TF - Operating	BB RJ - Branch 3519-x C/A 23802-3 Voluntários	7,500	09/26/2017
TF - Operating	BB RJ - Branch 3519-x C/A 23802-3 Voluntários	7,500	12/01/2017
<b>Total</b>		<b>34,840</b>	

Bank balances as at December 31 (in R\$ thousand):

ARPA TRANSITION FUNDS accounts	2017	2016
Banco do Brasil - C/A 27154-3 (IDB-SCI)	2,304	1,069
Banco do Brasil - C/A 28125-5 (IDB-MSC)	286	754
Banco do Brasil - C/A 23802-3 (TF)	3,744	546
<b>Saldo em 31 de dezembro</b>	<b>6,334</b>	<b>2,369</b>

### 8.2. Contract TF/IDB - ATN/OC 14219-Br (SCI) and ATN/MC 14220-Br (MSC)

Deposits in account 27154-3 Banco do Brasil (IDB-SCI):

	2017	2016	YTD
IDB-SCI	4,506	3,566	10,101
Income	65	71	287
Financial management costs	(19)	(15)	(43)
<b>Balance at December 31</b>	<b>4,552</b>	<b>3,622</b>	<b>10,345</b>

Deposits in account 28125-5 Banco do Brasil (IDB-MSC):

	2017	2016	YTD
IDB-MSC	634	1,231	2,181
Income	25	52	77
Financial management costs	(4)	(6)	(11)
<b>Balance at December 31</b>	<b>655</b>	<b>1,277</b>	<b>2,247</b>

Use of operating funds from the IDB by component:

<b>Contract ATN/OC 14219-Br - (SCI)</b>	2017	2016	YTD
Component 1 IDB - Critical Studies	413	129	627
Component 2 IDB - Professional Services - Management Improvement	1,595	1,190	3,491
Component 3 IDB – Empowerment	609	1,029	2,071
Component 4 IDB - Equipment and Software	335	276	817
Management costs - FUNBIO IDB	335	338	878
<b>Balance at December 31</b>	<b>3,287</b>	<b>2,962</b>	<b>7,884</b>

<b>Contract ATN/MC 14220-Br (MSC)</b>	2017	2016	YTD
Component 1 IDB - Critical Studies	204	21	243
Component 2 IDB - Professional Services - Management Improvement	331	276	757
Component 3 IDB – Empowerment	302	265	614
Component 4 IDB - Equipment and Software	135	37	512
Management costs - FUNBIO IDB	151	115	326
<b>Balance at December 31</b>	<b>1,123</b>	<b>714</b>	<b>2,452</b>
<b>Total</b>	<b>4,410</b>	<b>3,676</b>	<b>10,336</b>

### 8.3 Transition Fund/Operating Account

Deposits in account 23802-3 Banco do Brasil (TF):

	2017	2016	YTD
Transition Fund - Operating	29,700	7,900	41,600
Income	224	192	650
Financial management costs	(113)	(11)	(146)
<b>Total</b>	<b>29,887</b>	<b>8,081</b>	<b>42,200</b>

## Use of operating funds from TF/Operating by milestone ("MR"):

Milestone ("MR")	2017	2016	Total
Public Consultation	14	-	14
Coordination - Program Representation and articulation	58	34	93
Coordination - Monitoring and studies	71	20	94
Coordination - Secretariat of the Committee and Program Forums	13	2	21
Coordination - Program planning	924	27	950
Environmental diagnosis	96	-	96
Land status diagnosis	56	-	56
Social and economic diagnosis	91	-	91
Management - Communication	-	-	-
Management - FUNBIO operational structuring	2,175	1,018	4,046
Transition Fund management	-	-	260
MR Boundary demarcation - Implementation Level II	85	7	91
MR Boundary demarcation - Revision Level II	24	-	24
MR Equipment - Maintenance	134	187	380
MR Equipment - Replacement	67	281	678
MR Basic Equipment - Acquisition Levels I and II	649	406	1,448
MR Basic Equipment - Maintenance Levels I and II	1,378	335	1,769
MR Community Participation - Management Board Organization Level I	10	-	10
MR Community Participation - Management Board Operation Level	2,313	476	2,939
MR Facilities - Construction Level II	42	11	52
MR Facilities - Maintenance Levels I and II	942	222	1,202
MR Boundary Demarcation Maintenance	34	-	34
MR Facilities Maintenance	46	135	212
MR Signaling Maintenance	73	41	114
MR Maintenance of the CU's Board Operation	378	338	910
MR Monitoring - Biodiversity Indicator Level I	887	136	1,027
MR Monitoring - Implementation of Protocols Level II	1,147	147	1,294
MR Monitoring - Maintenance of Indicators Level II	179	54	235
MR Monitoring - Maintenance of Protocols Level II	323	98	428
MR Monitoring - Biodiversity Protocol	564	308	975
MR Monitoring - Fund Use Protocol	33	14	48
MR Operating Structuring Levels I and II	3,402	1,508	5,315
MR Research - Development and Studies Level II	359	86	509
MR Handling Plan - Plan Design Level I	1,005	207	1,212
MR Handling Plan - Revision Levels I and II	352	23	386
MR Protection - Plan Design Level I	555	200	756
MR Protection - Plan Implementation Levels I and II	5,405	1,268	6,863
MR Conservation Unit Protection	475	536	1,254
MR Handling Plan Revision	109	4	113
MR Signaling - Expansion Level II	127	5	132
MR Signaling - Implementation Level I	203	1	204
MR Signaling - Maintenance Levels I and II	382	40	423
MR Land Status - Study Level II	4	-	4
MR Land Status - Regularization Level II	45	-	45
MR Commitment Agreement - CUs PI Level II	54	-	54
<b>Total</b>	<b>25,826</b>	<b>8,175</b>	<b>36,861</b>



#### 8.4. Transition Fund/Long-term Fund

The Long-Term Sinking Transition Funds is managed by Pragma Patrimônio, which is comprised of funds from the then existing FAP (Protected Areas Fund) and the receipt of new funds.

The Program's bank account balances in thousands of reais are as follows:

ARPA FAP/FT accounts	2017	2016
Itaú Miami C/I 6086720 (FT) (b)	195,697	149,018
Itaú Miami C/I JTU021893 (FT) (b)	100,573	71,510
Itaú Miami C/I 6087033 (FT KfW) (c)	6,339	6,219
Itaú Pragma AG.4191 C/I 88475-0(FT) (a)	77,199	68,819
Itaú Private C/I EFFICAX 13564-3 (FT) (a)	3,014	1,723
Itaú Pragma AG.4191 C/I 89897-4 (FT KfW) (d)	23,729	33,683
Itaú Private C/I EFFICAX FI RF - 16716-6-X (FT KfW) (d)	7,759	19,614
Credit Suisse C/I 13594-1 (FT KfW) (e)	13,119	12,892
<b>Total</b>	<b>427,429</b>	<b>363,478</b>

(a) Changes in the TF balances, in thousands of reais, held in Brazil (C/A 88475 and 13564-3 Active and Efficax):

	2017	2016
<b>Balance at January 1</b>	<b>70,642</b>	<b>48,484</b>
Funds received:	-	13,314
WWF CR00001	-	11,602
WWF CR00003	-	100
Anglo American	1,660	1,612
Transfer of funds to the Transition Fund - Operating *	627	-
Net income	8,959	10,662
Financial management costs	(1,675)	(1,818)
<b>Balance at December 31</b>	<b>80,213</b>	<b>70,642</b>

(\*) Refers to funds from Bahia and Espírito Santo Fund invested in the Transition Fund, which will be cleared in 2018.

(b) Changes in the TF balances held in Itaú Miami (C/A 6086720 and JT02183):

	2017	2016
<b>Balance at January 1</b>	<b>220,528</b>	<b>94,770</b>
Funds received – KfW	37,305	109,743
Transfer of funds received from J. P. Morgan C/A 82683009	-	30,790
Exchange rate changes	5,802	(20,836)
Income	32,694	6,115
Financial management costs	(59)	(54)
<b>Balance at December 31</b>	<b>296,270</b>	<b>220,528</b>

(b) Changes in TF (FAP KfW) balances held in Banco Itaú Miami (C/A 6087033):

	2017	2016
Balance at January 1	6,219	6,979
Transfer of funds to FAP KfW - C/A 16716-6	(1,192)	-
Income	1,261	339
Exchange rate changes	51	(1,099)
<b>Balance at December 31</b>	<b>6,339</b>	<b>6,219</b>

(c) Changes in TF (FAP KfW) balance held in Banco Itaú (Pragma - 4191 89897-4 and Banco Itaú Private Efficax FI RF - C/A 16716-6):

	2017	2016
Balance at January 1	53,297	54,260
Transfer of funds received from Credit Suisse - C/A 135941-5	1,430	-
Transfer of funds received from Banco Itaú Miami - C/A 6087033	1,192	-
Transfer of funds to the Transition Fund - Operating	(29,700)	(7,900)
Financial management costs	(1,046)	(1,852)
Income	6,315	8,789
<b>Balance at December 31</b>	<b>31,488</b>	<b>53,297</b>

(d) Changes in TF (FAP KfW) balance held in Credit Suisse (C/A 13594-1):

	2017	2016
Balance at January 1	12,892	11,159
Transfer of funds to Itaú Private Efficax FI RF (C/A 16716-6)	(1,430)	-
Financial management costs	(1,100)	(1,605)
Income	2,757	3,338
<b>Balance at December 31</b>	<b>13,119</b>	<b>12,892</b>

The investments of the funds managed by FUNBIO, through Pragma Patrimônio, are diversified, mature in the short and long terms, from 1 year to 8 years, with liquidity ranging from D+1 to D+ 180 days. The funds invested in Government Bonds -NTN-Bs, local and international floating income, Hedge Fund, Fixed income Low Vol and fixed/inflation.

## 9. Contingencies

The Program's Manager, supported by its in-house and external legal advisors, assessed the likelihood of contingencies that may be started in connection with the Program. Through December 31, 2017, no lawsuits had been filed against FUNBIO or ARPA program.

## 10. Explanation added to the translation for the English version

The accompanying financial statement was translated into English from the original Portuguese version prepared for local purposes.

\* \* \*



(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail.)

# Independent Auditor's Report on compliance with standards, laws and regulations of the Amazon Region Protected Areas (ARPA) Program

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

We have audited the financial statement of the Amazon Region Protected Areas (ARPA) Program ("Program"), managed by Fundo Brasileiro para a Biodiversidade (FUNBIO) and financed by different institutes and entities ("Donors"), which comprises the financial statement for the period from January 1 to December 31, 2017, and issued our respective report thereon dated April 26, 2018.


In connection with our audit, we examined compliance with contractual clauses and articles established in the Donation Agreements entered into with different institutes and entities ("Donors"), applicable at December 31, 2017, and other agreements between the parties, Laws and other legal provisions in Brazilian law.

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



In our opinion, in the year ended December 31, 2017, FUNBIO complied, in all material respects, with the contractual clauses of the Donation Agreements signed with different institutes and entities ("Donors") for the Amazon Region Protected Areas (ARPA) Program and other agreements signed between the parties, Laws and other legal provisions in Brazilian law.

Rio de Janeiro, April 26, 2018

  
Ana Cristina Linhares Areosa  
Grant Thornton Auditores Independentes



(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail.)

# Independent Auditor's Report on the internal control system of the Amazon Region Protected Areas (ARPA) Program

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

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

The Management of Brazilian Biodiversity Program – FUNBIO, the financial manager of the Amazon Region Protected Areas (ARPA) Program 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 management, including the construction works and other assets acquired. To fulfill this responsibility, Management is required to make judgments and estimates to assess the expected benefits and costs relating to the internal control system's policies and procedures. The objectives of an internal control system are to provide reasonable, but not absolute, assurance to Management that the assets are safeguarded from unauthorized use or disposition, that transactions are executed in accordance with Management's authorization and the terms of the agreement and recorded properly to permit the preparation of reliable financial reports. Because of inherent limitations in control systems, errors or irregularities may occur and not be detected. In addition, projection of any evaluation of systems to future periods is subject to risk since procedures may become inadequate as a result of changes in conditions, or the degree of compliance with the procedures may deteriorate.

In planning and developing our audit of the Program's financial statement for the year ended December 31, 2017, we gained an understanding of the current internal control system and assessed the control risk to determine the audit procedures in order to express an opinion on the Program's financial statement, and not to express an opinion on the effectiveness of the internal control system. Therefore, we do not express such opinion.

Our audit of the Amazon Region Protected Areas (ARPA) Program for the year ended



December 31, 2017 did not reveal significant deficiencies in the design or operation of the internal control system that, 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 operations.

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, 26 de abril de 2018

A handwritten signature in blue ink that reads "Ana Cristina Linhares Areosa".

Ana Cristina Linhares Areosa  
Grant Thornton Auditores Independentes

