

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 statements of "GEF Agency"

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 8 to the financial statements.)

Independent Auditor's Report on the financial statements of "GEF Agency"

To the:
Management of
Fundo Brasileiro para Biodiversidade – FUNBIO
"GEF Agency"
Rio de Janeiro – RJ

Opinion

We have audited the financial statements of "GEF Agency", managed by Fundo Brasileiro para Biodiversidade – FUNBIO ("Entity"), funded under the Memorandum of Understanding entered into between the Entity and the International Bank for Reconstruction and Development (IBRD) on January 22, 2015, for the period from January 01 to December 31, 2017, as well as a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements present, in all material respects, the receipts and payments made during the period from January 01 to December 31, 2017, in accordance with the accounting policies described in Note 3.

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 "GEF Agency" 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.

Emphasis of matter

As described in Note 3, the financial statements of the Memorandum of Understanding were 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 modified with respect to this matter.

Responsibility of Management and those charged with governance for the financial statements

FUNBIO's Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as well as the provisions of the Memorandum of Understanding and for such internal control as it determined as necessary to enable the preparation of these financial statements free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing "GEF Agency", 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 "GEF Agency".

Those charged with the "GEF Agency" 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 statements taken as a whole are 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 statements, 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 Project'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 "GEF Agency" 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 26, 2018

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

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

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

Fundo Brasileiro para Biodiversidade - FUNBIO

Financial statements of "GEF Agency"

Period from January 01 to December 31, 2017

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

(In R\$ thousand)

"GEF Agency" - FUNBIO

Description	12/31/2016	Cash inflow - Contributions to projects approved	Funbio costs	Income on short- term investments	Finance costs	12/31/2017
"GEF Agency" - FUNBIO (c/a 29149-8)	1,663	2,359	(10)	159	(10)	4,162
	1,663	2,359	(10)	159	(10)	4,162

"GEF Agency" - Projects

Description	12/31/2016	Cash inflow - Projects approved	Advance - Preparation of projects	Transfers (allocations)	Amounts accounted for	Income on short- term investments	Exchange rate changes	Finance costs	12/31/2017
"GEF Projects" - Projects (NY c/a 76250011-7)	90	4,881	-	(4,923)	-	-	(40)	(8)	-
Pró Espécies Preparation (c/a 129150-5)	473	-	(400)	79	-	23	-	-	175
Pró Espécies Preparation	400	-	400	-	(328)	-	-	-	472
Pro Espécies Grant (c/a 23533-4)	-	-	-	4,844	-	33	-	(19)	4,858
	963	4,881	-	-	(328)	56	(40)	(27)	5,505

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

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

Notes to the financial statements of “GEF Agency” for the period from January 01 to December 31, 2017

1. General information of the Projects’ manager

Fundo Brasileiro para a Biodiversidade – FUNBIO (“Funbio”), whose headquarters are located at Rua Voluntários da Pátria, 286 – 5ª 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 government 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 20%, 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. Project description

“GEF Agency”

The Global Environment Facility (GEF) created in 1991, following the Convention on Biological Diversity signed during Rio-92, had a pilot phase as a program under the World Bank and, in 1994, became independent.

GEF funds are available for developing countries and countries whose economy is in transition to meet the objectives of international conventions and environmental agreements. GEF funds are transferred to agencies accredited by GEF.

FUNBIO, which already executed projects implemented by other agencies, such as: The World Bank and FAO, is the only agency in Brazil accredited by GEF and one of the 3 in the world.

GEF Agency is an area of FUNBIO the purpose of which is to mobilize resources directly from the Global Environment Facility (GEF), capacity allowed to Funbio after an accreditation process in this Funds, which was closed in 2015.

The creation of GEF Agency in FUNBIO allows to support institutions, especially the Ministries of Environment, Sciences, Technology, Innovation and Communication, interested in the preparation and adequacy of projects to be submitted to GEF.

Once approved, each project receives funds for the Fund Project (funds allocated to the project to be implemented) and for Agency FEE (funds from the implementing agency) initially for the preparation of projects, and, after approved, receives funds for its actual implementation.

In 2016, FUNBIO submitted two proposals to GEF project, totaling around US\$20 million.

Projects submitted	Partners	Biome
Pro-Species Project	MMA, IBAMA, ICMBio and UICN	Nationwide
Monitoring of Changes in the Use of the Soil (LULUCF)	MCTIC, INPE	Nationwide

In October 2016, GEF cut the budget for the countries. Consequently, Brazil had to prioritize the projects that had already been submitted, and the project "Monitoring of the Use of Soil" was suspended until 2018. Therefore, the area has worked only with a project related to endangered species in Brazil.

Project Pro-Species, which is intended to improve the conservation status of 290 endangered species that do not occur in conservation units or indigenous land, was approved by GEF Board at the meeting of April 2016. After that, Funbio received funds to detail the project to a full version and contracted UICN so that, together with, could do such work.

In 2017, Funbio submitted the full project to GEF Secretariat, which approved it on July 20, 2017. Since that date, the work has been focused on the detailed project planning, including the preparation of the Operating Project Manual, the standard agreement that will be used in GEF projects and the work of identification of the institution that will execute the project. The project is scheduled to be initiated in the second quarter of 2018. This will be the first GEF Agency project in Funbio to go through GEF's entire approval cycle and actually initiate the implementation processes.

In addition to this work, the area is also responsible for the accreditation in another multilateral funds, the Green Climate Fund.

3. Significant accounting policies

Basis of preparation

GEF Agency's financial statements were prepared on a cash basis. Income is recognized when funds are received while expenses are recognized when funds are actually used.

These financial statements are presented in Real (R\$), which is FUNBIO's functional currency. All financial information presented in Brazilian reais has been rounded to the nearest thousand of reais, unless otherwise stated.

4. Transfer of funds – “GEF Agency”

FUNBIO has a checking account in Banco do Brasil in New York (No. 76250011-7) that receives funds from GEF intended for the projects and, in Brazil, has specific checking accounts for the implementation and operation of each project, namely: (c/a 129150-5) Pró Espécies Preparation and (c/a 23533-4) Pró Espécies Grant.

For funds intended for the reimbursement of indirect costs of FUNBIO, as the agency responsible for implementing GEF, a checking account is held in Banco do Brasil (c/a 29149-8).

The total funds received in the period from January 01 to December 31, 2017 were as follows:

“GEF Agency” - Projects (NY c/a 76250011-7)	Amounts in US\$ thousand	Exchange rate	Amounts in R\$ thousand	Date of receipt
Receipt (*)	1,500	3.2541	4,881	10/30/2017
Total funds received	1,500		4,881	

(*) The amount of US\$1,500, equivalent to R\$4.881, was allocated to Brazil.

“GEF Agency” - FUNBIO (c/a 29149-8)	Amounts in US\$ thousand	Exchange rate	Amounts in R\$ thousand	Date of receipt
Receipt	725	3.2525	2,359	11/22/2017
Total funds received	725		2,359	

Pró Espécies Grant (c/a 23533-4)**	Amounts in R\$ thousand	Date of receipt
Receipt	4,844	11/23/2017
Total funds received	4,844	

Pró Espécies Preparation (c/a 129150-5)**	Amounts in R\$ thousand	Date of receipt
Receipt	79	11/23/2017
Total funds received	79	

(**) Amount transferred from Projects NY

5. Use of funds – “GEF Agency”

Preparatory Pro-Species Project

On August 24, 2016, a financial support agreement was signed between Funbio and UICN Association to evaluate Project “National Strategy for the Conservation of Endangered Species - Pro Species” for application to the Global Environment Facility – GEF Board, effective for 9 months, involving the amount of R\$800 thousand, of which R\$400 thousand was transferred in 2016. In 2017, an amendment was signed extending the effective period by 5 months and adding R\$147 thousand to the agreement amount. The amount of R\$400 was transferred and R\$328 thousand was accounted for.

UICN is an environmentalist organization founded in 1948. In Brazil, it has operated as an NGO since 2010. Its activities are focused on the application of UICN’s Global Program in Brazil, involving a variety of topics, such as: governance, environmental policies and legislation, protected areas, endangered species and ecosystems, landscape ecology and planning, ecological restoration, climate change, ecosystem services.

The Project is intended to prepare a Pro-Species Project based on the support of the Ministry of Environment in preparing the Pro-Species Project Document, with technical and administrative support to hold meetings and workshops, articulation of key players for the preparation and execution of Pro-Species Project, engagement of consulting firms and preparation of documents, including and mainly the Pro-Species Project Evaluation Document, with content and form adequate for the submittal of the document to GEF Executive Secretariat for their endorsement.

The transfer of funds to the project was made by means of disbursements, according to the physical and financial budget and disbursement calendar, and the execution has followed the rules in Funbio’s Manual of Procedures and Acquisitions and Contracts – PO-12/2014.

All purchases and contracts have been recorded in the plan of acquisitions and each transaction is submitted to Funbio for analysis and acceptance as a way to enforce and ensure the application of Funbio’s rules.

After the full project was approved by GEF Secretariat on July 20, 2017, the focus of the relationship with UICN was placed on the preparation of the project execution with the preparation of the Operating Guide and preparatory meetings with the project beneficiaries. However, at the end of 2017, the project was temporarily suspended. At the beginning of 2018, an evaluation will be made of the continuity of this work.

Additionally, FUNBIO received at the end of 2017 the remaining “fee” advance under agreement GEF-ID-9271, of 08/03/2016, relating to Project GEF Species, in the amount of R\$2.3 million (US\$725 thousand) - (2016 – R\$1.6 million – US\$483 thousand), which will be recognized as activities are completed.

6. Cash on hand

Below are the balances available in the project's bank accounts, including short-term investments, as at December 31, 2017:

"GEF Agency" – Projects:

1 – "GEF Agency" Projects NY

Description	Type	In R\$ thousand
Banco do Brasil NY C/A 76250011-7	Checking account	-
Banco do Brasil NY Overnight investment account 76250011-7	Short-term investment	-
Total cash and cash equivalents		-

2 - Pró Espécies Preparation

Description	Type	In R\$ thousand
Banco do Brasil - C/A 129150-5	Checking account	-
Banco do Brasil - Investment account CDB 129150-5	Short-term investment	175
Total cash and cash equivalents		175

In 2017, income from short-term investments amounted to R\$23.

3 - Pró Espécies Grant

Description	Type	In R\$ thousand
Banco do Brasil - C/A 23533-4	Checking account	-
Banco do Brasil - Investment account RF LP Corp 10 mill 23533-4	Short-term investment	4,858
Total cash and cash equivalents		4,858

In 2017, income from short-term investments amounted to R\$33.

"GEF Agency" - FUNBIO

Description	Type	In R\$ thousand
Banco do Brasil - C/A 29149-8	Checking account	-
Banco do Brasil - Investment account RF LP Corp mill 29149-8	Short-term investment	4,162
Total cash and cash equivalents		4,162

In 2017, income from short-term investments amounted to R\$159.

7. Contingencies

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

8. Explanation added to the translation for the English version

The accompanying financial statements were translated into English from the original Portuguese version prepared for local purposes. Certain accounting practices applied by the Entity that conform to those accounting practices adopted in Brazil may not conform to the generally accepted accounting principles in the countries where these financial statements may be used.



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Independent auditor's report on the internal control system over the financial statements of "GEF Agency"

To the
Management of
Fundo Brasileiro para a Biodiversidade - FUNBIO
"GEF Agency"
Rio de Janeiro – RJ

This report is complementary to our report on the financial statements of "GEF Agency".

The Management of Fundo Brasileiro para a Biodiversidade – FUNBIO, the manager of "GEF Agency" 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 projects' 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 financial statements of "GEF Agency" for the period from January 01 to 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 financial statements of "GEF Agency", 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 Agency managed by Fundo Brasileiro para a Biodiversidade - FUNBIO for the period from January 01 to 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 Agency'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, April 26, 2018


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

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CRC SP-025.583/O-1 "S" – RJ



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Independent auditor's report on the compliance with standards, laws and regulations of "GEF Agency"

To the
Management of
Fundo Brasileiro para a Biodiversidade - FUNBIO
"GEF Agency"
Rio de Janeiro – RJ

We have audited the financial statements of "GEF Agency", managed by Fundo Brasileiro para a Biodiversidade – FUNBIO 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 respective agreements, applicable at December 31, 2017, and other agreements signed between the parties, Laws and other legal provisions in Brazilian legislation.

We conducted our audit in accordance with International Standards on Auditing. These standards require the due planning and performance of the audit to obtain reasonable assurance that FUNBIO complied with the relevant clauses under the respective agreements and other agreements signed between the parties, Laws and other legal provisions in the Brazilian legislation. 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 period from January 01 to December 31, 2017, FUNBIO complied, in all material respects, with the contractual clauses applicable to “GEF Agency” and other agreements signed between the parties, Laws and other legal provisions in the Brazilian legislation.

Rio de Janeiro, April 26, 2018


Ana Cristina Linhares Areosa
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