

Financial Information

Fundo Brasileiro para a Biodiversidade - FUNBIO

December 31, 2018 and 2017
with Independent Auditor's Report on the financial information of
"Áreas Protegidas da Amazônia - ARPA" Program

Fundo Brasileiro para a Biodiversidade - FUNBIO

Independent auditor's report on the financial information of "Áreas Protegidas da Amazônia - ARPA" Program

December 31, 2018 and 2017

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A free translation from Portuguese into English of Independent Auditor's Report on financial information prepared on a receipt and payment accounting base

Independent auditor's report on the financial information of "Áreas Protegidas da Amazônia - ARPA" Region Protected Areas (ARPA) Program

To the
Directors and Officers
Fundo Brasileiro para a Biodiversidade - FUNBIO
"Áreas Protegidas da Amazônia - ARPA" Program
Rio de Janeiro - Rio de Janeiro State

Opinion

We have audited the financial information of "Áreas Protegidas da Amazônia - ARPA" Program (the "Program" or "Project"), managed by Fundo Brasileiro para a Biodiversidade – FUNBIO (the "Entity"), funded by various institutes and entities (the "Donors") described in Note 2, which comprise the amounts received and paid in the period from January 1 to December 31, 2018, including a summary of significant accounting policies and the explanatory notes.

In our opinion, the financial information referred to above present fairly, in all material respects, the amounts received and paid in the period from January 1 to December 31, 2018, in accordance with the accounting base for receipts and payments described in Note 3.

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 information" section of our report. We are independent of the Entity in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by Brazil's National Association of State Boards of Accountancy ("CFC") 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 opinion.

Emphasis of matter - basis of preparation and presentation of the Project financial information and restriction on use

We draw attention to Note 3 to the Project financial information, which describes the basis of preparation and presentation of these financial information. As such, the Project financial information do not serve for other purposes. Our report is intended solely for use of FUNBIO and the Project donors. Our opinion is not modified in respect of this matter.



Other matters

Audit of corresponding figures

The Project financial information for the period from January 1, 2017 to December 31, 2017, presented for comparison purposes in the Notes, were audited by other independent auditors, who issued an unmodified opinion thereon dated April 26, 2018.

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

Management is responsible for the preparation and fair presentation of these financial information in accordance with the accounting base for receipts and payments described in Note 3, which includes determining that referred to base is acceptable for the preparation of the financial information under the circumstances, and for such internal control as management determines is necessary to enable the preparation of these financial information that are free from material misstatement, whether due to fraud or error.

In preparing the financial information, management is responsible for assessing the Project, disclosing, as applicable, matters related to going concern and using this basis of accounting for preparing the financial information, unless management either intends to end the Project, or has no realistic alternative to prevent the Project from ending.

Those charged with governance are responsible for overseeing the Project's financial information preparation process.

As described in Note 3, the financial information were prepared on the accounting base of receipts and payments. Referred to accounting base recognizes transactions and facts only when funds (including fund equivalents) are received or paid by the Project and not when these amounts result from, are earned or originate from rights or obligations that have not yet produced a change in funds (cash).

Auditor's responsibilities for the audit of the financial information

Our objectives are to obtain reasonable assurance about whether the financial information as a whole are 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 the 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 these financial information.



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

- Identify and assess risks of material misstatements of the financial information, 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 one resulting from error, as fraud may involve override of internal controls, collusion, forgery, intentional omissions or misrepresentations.
- 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 the purpose of expressing an opinion on the effectiveness of the Project's 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 substantial doubt on the Project'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 information 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 Project to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial information, including the disclosures, and whether the financial information represent the corresponding 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 may be identified during our audit.

Rio de Janeiro, May 23, 2019.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/O-6

A handwritten signature in blue ink, appearing to read 'Walter G. Neumayer', is written over a light blue horizontal line.

Walter G. Neumayer
Accountant CRC-RJ091659/O-0

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Financial information of “Áreas Protegidas da Amazônia - ARPA” Program
December 31, 2018 and 2017
(In thousands of reais, unless otherwise stated)

Accumulated amounts of changes occurring during execution of ARPA Program Phase II and ARPA Transition Fund are as follows:

Donors	Funds contributed	Funds to allocate	Advanced funds	Net yield	Exchange differences	Execution	Advance	Other adjustments	Accumulated balance until 12/31/2018	Bank balance	Difference (l)
BNDES	19,949	-	-	493	-	(20,440)	-	(2)	0	-	0
GEF BM	46,171	-	-	-	-	(46,171)	-	-	-	-	-
KFW	70,679	-	-	497	-	(70,990)	(2)	(95)	89	89	-
BID	14,454	-	-	355	-	(15,127)	-	(15)	(333)	-	(333)
FT	82,100	-	-	532	-	(81,115)	(1,747)	251	21	21	-
Long-term transition fund	343,611	-	(82,100)	102,117	106,460	-	-	-	470,088	470,088	-
Total	576,964	-	(82,100)	103,994	106,460	(233,843)	(1,749)	140	469,866	470,199	(333)

(l) Amounts disbursed directly in FUNBIO administrative checking account referring to expenses incurred before the Project's first disbursement.

See accompanying notes.

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Notes to financial information of the “Áreas Protegidas da Amazônia - ARPA”

December 31, 2018 and 2017

(In thousands of reais, unless otherwise stated)

1. Operations

Fundo Brasileiro Para a Biodiversidade (FUNBIO) is a Brazilian private not-for-profit institution that operates in partnership with the government and business sectors as well as the civil society so that strategic and financial resources are earmarked for effective biodiversity conservation initiatives. The Entity's head office is located at Rua Voluntários da Pátria, nº 286, 5th and 6th floors, Botafogo, Rio de Janeiro, state of Rio de Janeiro.

The main activities carried out include financial management of projects, design of financial mechanisms and studies of new sources of funds for conservation, as well as purchases and engagements of goods and services.

ARPA program is the largest tropical forest protection initiative in the world. The Transition Fund (FT) emerged from Arpa for Life initiative and began in 2014, marking the beginning of the Arpa Program Phase III. The Transition Fund is an extinguishable fund designed and developed as an alternative for the consolidation of Protected Areas supported by the Arpa Program, through investments of donations from international cooperation, private donations and government funds represented by consideration. Phase III aims at the gradual transfer, to the public authority, of the management of the Protected Areas supported by Arpa over a 25-year period, until the maintenance costs of supported Protected Areas are fully maintained by the public authority, thus allowing the achievement of the Program's main purpose, which consists of the consolidation and protection of 60 million hectares of forest, 15% of the Brazilian Amazon region. The goal of supporting to the Protected Areas was reached in 2017, when the Program already supported 60.8 million hectares, with 117 Protected Areas under its umbrella agreement. In addition, Phase III also aims to create 13.5 million hectares of protected areas in the Amazon region, a goal that is still being pursued.

FUNBIO is the program's financial manager, performing the procurement and contracting activities for the Protected Areas and performing the Fund's asset management that ensures the program's sustainability in the long term, the Transition Fund (“FT”). This fund incorporates resources from the Fundo de Áreas Protegidas da Amazônia (“FAP”), organized in the program's first phase, and leverages new resources from the international cooperation and private donations, with the goal to reach US\$215 million.

2018 highlights include:

- The Transition Fund and FAP, which was merged into FT, reached the amount of R\$470 million (considering 1 USD = 3.8706), a net increase of 10% arising from new deposits received from donations made by GEF through World Bank and Anglo American, short-term investment yields, transfers to the operating account and foreign exchange differences, the latter impacted by an appreciation of approximately 17% in the foreign currency (US\$) included in the investment portfolio;

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Notes to financial information of the “Áreas Protegidas da Amazônia - ARPA” (Continued)

December 31, 2018 and 2017

(In thousands of reais, unless otherwise stated)

1. Operations (Continued)

- In the end of 2018, the asset manager of the Transition Fund international allocations was chosen and in the beginning of December, all funds referring to Transition Fund international allocations had already been transferred from Pragma Patrimônio Ltda to Julius Bär & Co. Ltd. Bank. Pragma remained responsible for local fund management.
- From the contract with the Ministry of Economic Cooperation and Development of Germany (BMZ), entered into with Kfw-Entwicklungsbank (German Development Bank) for Phase II in the amount of €20,000 (euro), we allocated R\$7.4,00 and invested R\$10.831;
- ARPA FT - Operating account received R\$40.500 from the Transition Fund in 2018 and invested R\$44.253.
- With respect to the Non-Reimbursable Technical Cooperation entered into with the InterAmerican Development Bank (IDB), R\$599 (US\$154) were allocated under ATN/MC 14220-Br (MSC) Agreement; R\$804 (US\$217) were invested in the Program; and R\$73 (US\$20) of consideration, while R\$1.573 (US\$419) were allocated under ATN/OC 14219-Br (SCI) Agreement; R\$3,632 (US\$1.044) were invested in the Program; and R\$282 (US\$76) of consideration in 2018. The amount of US\$1,278 of consideration had been invested by the end of 2018.

2. Donors

The rendering of financial information of the “Áreas Protegidas da Amazônia - ARPA” Program, whose financial manager is Fundo Brasileiro para a Biodiversidade (FUNBIO), was prepared by management of FUNBIO as at December 31, 2018 to inform the donors about the financial execution of the following Technical Cooperation Arrangement and Donation Agreements:

ARPA PHASE II with funds from:

- From the contract with the Ministry of Economic Cooperation and Development of Germany (BMZ), entered into with Kfw-Entwicklungsbank (German Development Bank) - BMZ 2006,66214;
- From the Global Environment Facility (GEF), through the World Bank - TF 12073, ended in 2017;
- And from the Brazilian Development Bank (BNDES) – Agreement 09.2.1432.1, ended in 2015.

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Notes to financial information of the “Áreas Protegidas da Amazônia - ARPA” (Continued)
December 31, 2018 and 2017

(In thousands of reais, unless otherwise stated)

2. Donors (Continued)

ARPA TRANSITION FUND currently comprised of:

- Funds donated to the Long-term Transition Fund, managed by FUNBIO through Pragma; which received funds from the Fundo de Áreas Protegidas da Amazônia (FAP) Fund as well as donations from WWF - "World Wide Fund for Nature" and MAC Foundation through WWF Brazil, Anglo American Minério de Ferro Brasil S.A, Ministry of Economic Cooperation and Development of Germany (BMZ), entered into with Kfw-Entwicklungsbank (German Development Bank) KfW - BMZ 2013.67.127.
- The funds of the Operational Transition Fund are provided by the Long-Term Transition Fund in order to render the 117 Protected Areas operational.
- Funds from Inter-American Development Bank (IDB) - ATN/OC 14219-BR and ATN/MC 14220-BR are not included in the Transition Fund, since these are transferred amounts maintained in separate financial information in order to structure FUNBIO as Transition Fund manager, ended in 2018.

3. Summary of significant accounting practices

Basis of preparation

The Program's financial information were prepared on a receipt and payment accounting base, whereby revenues are recognized upon receipt of funds (resources) and expenses are recorded when they effectively represent expenses paid in cash (cash). This accounting practice differs from the accounting practices applicable in Brazil, which establish that transactions must be recorded to the extent that they are incurred rather than when paid.

4. Funds available - Phase II (BNDES, GEF/BM and KfW)

The funds available in the Program's bank accounts are as follows:

Description	Type	2018	2017
BB Frankfurt - C/C 3593 3158 88 (KfW) (i)	Checking account	-	3,344
Banco do Brasil - C/C 23220-3 (GEF BM)	Checking account	-	160
Banco do Brasil - C/C 21872-3 (BNDES)	Checking account	-	-
Banco do Brasil - C/C 23656-X (KfW)	Checking account	89	3,358
Total cash and cash equivalents		89	6,862

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Notes to financial information of the “Áreas Protegidas da Amazônia - ARPA” (Continued)
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(In thousands of reais, unless otherwise stated)

4. Funds available - Phase II (BNDES, GEF/BM and KfW) (Continued)

- (i) This refers to KfW funds to be allocated. Changes in this account - Banco do Brasil Frankfurt c/c 35.93 315.888 of sponsor KfW are as follows:

Changes in funds	2018	2017
Balance at January 1	3,344	2,435
Funds contributed	4,187	11,750
Allocation to Banco do Brasil - CC 23656-X (KfW)	(7,448)	(11,753)
Exchange differences	(83)	912
Balance at December 31	-	3,344

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

In its second phase (2010 to 2018), Arpa supported creation of over 4.2 million hectares in new Protected Areas and consolidation of 9 million hectares in Protected Areas already established. For this purpose, FUNBIO as the financial manager of Arpa Program maintains an agreement with and received funds from the Amazon Fund through BNDES – Agreement No. 09.2.1432.1, ended in 2015; from GEF - Global Environment Facility, through the World Bank - TF 12073, ended in 2017; and from the Ministry of Economic Cooperation and Development of Germany (BMZ), through KfW-Entwicklungsbank (German Development Bank) - BMZ 2006.66214.

A summary of the funds received in the Programs in 2018 and 2017, and total accumulated contributions are as follows:

	2018	2017	Accumulated
BNDES	-	-	19,949
GEF BM	-	10,895	46,171
KfW BMZ	4,187	12,257	70,679
KfW BMZ – to be allocated	-	(3,344)	-
Total	4,187	19,908	136,799

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Notes to financial information of the “Áreas Protegidas da Amazônia - ARPA” (Continued)
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5. Funds contributed by ARPA – Phase II (BNDES/GEF BM/KfW) (Continued)

Detailed information on the inflow of funds in accounts 23656-X and 3593 315888, referring to KfW BMZ, maintained in Banco do Brasil in 2018 and 2017 is as follows. No inflow of funds from GEF BM occurred in 2018.

ARPA PROGRAM Phase II Funds contributed by KfW - BB Frankfurt C/C 3593 315888		
Contribution date	2018	2017
03/06/2017	-	5,649
12/21/2017	-	6,608
09/27/2018	4,187	-
Total	4,187	12,257

6. Summary of statements of expenses – Phase II (BNDES/GEF BM/KfW)

No BNDES funds were invested in 2018 and 2017. No GEF BM funds were invested in 2018, only in 2017, as follows:

BM/ARPA Agreement - TF 12073

GEF BM Category	2018	2017	Accumulated
Assets	-	7,364	11,858
Recurring costs	-	872	4,320
Training	-	158	5,377
Monitoring	-	1,091	15,937
Advisory services	-	1,535	5,514
Special services	-	206	1,402
Works	-	754	1,763
Balance at December 31	-	11,980	46,171

Total funds invested in 2018 and 2017 relating to KfW Agreement No. 2006 66 214 were as follows:

	2018	2017	Accumulated
KfW assets	2,262	302	8,496
Advisory services	1,910	2,845	10,901
Recurring costs	5,246	5,138	36,189
Works and refurbishing	-	-	260
Special services	1,413	1,989	15,145
Balance at December 31	10,831	10,274	70,990

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6. Summary of statements of expenses – Phase II (BNDES/GEF BM/KfW) (Continued)

<u>Total expenses declared</u>	<u>2018</u>	<u>2017</u>	<u>Accumulated</u>
BNDES/ARPA Agreement No. 09.2.1432.1	-	-	20,440
BM/ARPA Agreement - TF 12073	-	11,980	46,171
KfW Agreement No. 2006 66 214	10,831	10,274	70,990
Balance at December 31	10,831	22,254	137,601

7. Transition Fund

On June 18, 2012, at the United Nations Rio+20 Conference, a memorandum of understanding was entered into between GORDON and Betty Moore Foundation, Linden Trust for Conservation, FUNBIO, WWF network represented by WWF Br and the Brazilian Ministry of the Environment aimed at promoting and implementing the Commitment for the Amazon Region/Amazon for Life Initiative through actions to ensure the ecological, social, political, institutional and financial sustainability of 40 million ha in preservation units, including 5 to 10 million ha of Arpa Program.

In 2014, the Transition Fund (FT), a long-term (25 years), extinguishable (amortization fund), financing mechanism of a private nature was created by means of agreements between entities, individuals and legal entities, Brazilian and foreign donors, for the purpose of ensuring preservation of biodiversity and eco-system services in 60 million ha of the Brazilian Amazon through the effective management of the Protected Areas supported by the Arpa Program.

The Transition Fund (FT) operates under rules established in Modules 1 and 2 of Arpa Program Operational Guide (MOP). Governance is under the responsibility of the Transition Fund Committee (“CFT”) and the Fund Manager, chosen by the CFT, currently FUNBIO, to perform the acts required for FT to achieve its objective, as defined in the Program Operational Guide.

Estimated minimum amount raised for the Transition Fund is US\$ 215,000.

2018 highlights include:

- Optimization of flows in Cérebro system through development of approval automation;
- Development and implementation of requests for self-employed service providers;
- Beginning of execution of the fuel card's pilot phase;

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(In thousands of reais, unless otherwise stated)

7. Transition Fund (Continued)

- Restricted account checks replaced by debit card;
- 1st Vessels' Action was held in Tefé, in order to regularize the region's helmsmen.
- Workshop to design the guide for preparation of the Works' ToR (Term of Reference);
- Drones purchase to support inspection actions by the Chico Mendes Institute for Biodiversity Conservation (ICMBio) – Integration Operation;
- Photography expeditions in 9 ARPA preservation units;
- Eight issues of Samaúma, ARPA newsletter, were launched and published;
- Bid completion in October 2018;
- ARPA “Lições Aprendidas” (Lessons Learned) event – 15 years was held;
- Two KfW audits were conducted (Phase 2 and TF);
- Four qualification courses (managing professionals and focal points) were held;
- Four CFT meetings were held;
- GEF Paisagens project reached effectiveness and the 1st disbursement (USD 10,000) was made;
- Julius Bär & Co. Ltd. Bank was contracted as international asset manager;
- Control point meetings with ICMBio and MMA were reactivated;
- Visits to the new governance of AM and MT managing authorities, together with MMA, to update the Program goals.

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Notes to financial information of the “Áreas Protegidas da Amazônia - ARPA” (Continued)
December 31, 2018 and 2017

(In thousands of reais, unless otherwise stated)

7. Transition Fund (Continued)

7.1. BID/MS/SCI and FT operational Programs

Inflows of funds in accounts 28125-5 (BID-MS), 27154-3 (BID-SCI) and 23802-3 (FT) maintained in Banco do Brasil, in 2018 and 2017, are as follows:

	ARPA Transition Fund accounts	Date of fund inflow in Bank	2018	2017
BID – MS	BB RJ - Ag: 3519-x C/C 28125-5 Voluntários	08/03/2017	-	348
BID – MS	BB RJ - Ag: 3519-x C/C 28125-5 Voluntários	12/28/2017	-	286
BID – MS	BB RJ - Ag: 3519-x C/C 28125-5 Voluntários	07/04/2018	599	-
BID – SCI	BB RJ - Ag: 3519-x C/C 27154-3 Voluntários	05/29/2017	-	2,290
BID – SCI	BB RJ - Ag: 3519-x C/C 27154-3 Voluntários	12/28/2017	-	2,216
BID – SCI	BB RJ - Ag: 3519-x C/C 27154-3 Voluntários	08/02/2018	1,573	-
FT operational	BB RJ - Ag: 3519-x C/C 23802-3 Voluntários	01/05/2017	-	2,200
FT operational	BB RJ - Ag: 3519-x C/C 23802-3 Voluntários	04/19/2017	-	5,000
FT operational	BB RJ - Ag: 3519-x C/C 23802-3 Voluntários	06/19/2017	-	7,500
FT operational	BB RJ - Ag: 3519-x C/C 23802-3 Voluntários	09/26/2017	-	7,500
FT operational	BB RJ - Ag: 3519-x C/C 23802-3 Voluntários	12/01/2017	-	7,500
FT operational	BB RJ - Ag: 3519-x C/C 23802-3 Voluntários	01/18/2018	8,000	-
FT operational	BB RJ - Ag: 3519-x C/C 23802-3 Voluntários	03/14/2018	7,500	-
FT operational	BB RJ - Ag: 3519-x C/C 23802-3 Voluntários	05/17/2018	1,950	-
FT operational	BB RJ - Ag: 3519-x C/C 23802-3 Voluntários	06/01/2018	7,050	-
FT operational	BB RJ - Ag: 3519-x C/C 23802-3 Voluntários	08/02/2018	8,000	-
FT operational	BB RJ - Ag: 3519-x C/C 23802-3 Voluntários	10/15/2018	4,000	-
FT operational	BB RJ - Ag: 3519-x C/C 23802-3 Voluntários	11/27/2018	4,000	-
Total			42,672	34,840

Bank balances at December 31 are as follows:

ARPA Transition Fund accounts	2018	2017
Banco do Brasil - C/C 27154-3 (BID - SCI)	-	2,304
Banco do Brasil - C/C 28125-5 (BID - MS)	-	286
Banco do Brasil - C/C 23802-3 (FT)	21	3,744
Balance at December 31	21	6,334

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Notes to financial information of the “Áreas Protegidas da Amazônia - ARPA” (Continued)
December 31, 2018 and 2017

(In thousands of reais, unless otherwise stated)

7. Transition Fund (Continued)

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

Inflow of funds in account 27154-3 Banco do Brasil (BID - SCI):

	2018	2017	Accumulated
BID – SCI	1,573	4,506	11,674
Yield	48	65	335
Financial management costs	(8)	(19)	(51)
Balance at December 31	1,613	4,552	11,958

Inflow of funds in account 28125-5 Banco do Brasil (BID - MSC):

	2018	2017	Accumulated
BID – MSC	598	634	2,780
Yield	10	25	87
Financial management costs	(3)	(4)	(14)
Balance at December 31	605	655	2,853

BID operational funds per component were applied as follows:

ATN/OC 14219-Br - (SCI) Agreement	2018	2017	Accumulated
Component 1 - BID – Critical Studies	1,533	413	2,161
Component 2 - BID – Professional Services Management Improvement	435	1,595	3,927
Component 3 - BID - Qualification	351	609	2,422
Component 4 - BID - Equipment and Software	1,595	335	2,412
Administrative costs - FUNBIO BID	-	335	878
Balance at December 31	3,914	3,287	11,800

ATN/MC 14220-Br (MSC) Agreement	2018	2017	Accumulated
Component 1 - BID – Critical Studies	463	204	706
Component 2 - BID – Professional Services Management Improvement	212	331	969
Component 3 - BID - Qualification	39	302	653
Component 4 - BID - Equipment and Software	159	135	670
Administrative costs - FUNBIO BID	4	151	330
Balance at December 31	877	1,123	3,328
Total	4,791	4,410	15,128

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Notes to financial information of the “Áreas Protegidas da Amazônia - ARPA” (Continued)
December 31, 2018 and 2017

(In thousands of reais, unless otherwise stated)

7. Transition Fund (Continued)

7.3. Transition fund/operational account

Inflow of funds in account 23802-3 Banco do Brasil (FT):

	<u>2018</u>	<u>2017</u>	<u>Accumulated</u>
Transition fund - operational account	40,500	29,700	82,100
Yield	181	224	831
Financial management costs	(160)	(113)	(299)
Total	<u>40,521</u>	<u>29,811</u>	<u>82,632</u>

Operational funds of FT/Operational per Reference Frame were applied as follows:

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Notes to financial information of the “Áreas Protegidas da Amazônia - ARPA” (Continued)
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(In thousands of reais, unless otherwise stated)

7. Transition Fund (Continued)

7.3. Transition fund/operational account (Continued)

Line labels	2018	2017	Total
Public Consultation	20	14	35
Coordination – Program representation and articulation	8	58	101
Coordination – Monitoring and Studies	83	74	177
Coordination – Committee Secretariat and Program Forums	12	13	33
General Coordination of Territory Consolidation – ICMBio headquarters	4	0	4
General Coordination of Social and Environmental Consolidation – ICMBio headquarters	1	0	1
General Coordination of Environment Protection – ICMBio	128	0	128
Coordination – Program Planning	170	924	1,120
Environmental Diagnosis	142	96	238
Land Status Diagnosis	24	56	80
Social Economic Diagnosis	156	91	247
Protected Areas Creation and Handling Board ICMBio headquarters	15	0	15
Management - Communication	0	0	0
Management – FUNBIO functionality	4,502	2175	8,548
Management – Logistics functionality	0	0	0
Transition Fund management	0	0	260
Mobilization	4	0	4
MR Demarcation - Implementation - level II	288	85	379
MR Demarcation - Review - level II	2	24	26
MR Equipment – Maintenance	456	134	836
MR Equipment – Replacement	225	67	903
MR Basic Equipment- Acquisition - levels I and II	7,153	649	8,601
MR Basic Equipment - Maintenance - levels I and II	1,947	1378	3,716
MR Participative Management – Managing Counsel Formation – level I	24	10	34
MR Participative Management – Managing Counsel Operation – level I	5	0	5
MR Participative Management – Managing Counsel Operation – level II	2,769	2313	5,708
MR GP – Natural Resources Handling and Preservation	121	0	121
MR GP – Formation and Qualification for Integration and Strengthening	42	0	42
MR GP – Formation and Qualification for Integration and Strengthening	124	0	124
MR GP – Community Organization Strengthening	0	0	0
MR GP – Community Organization Strengthening	111	0	111
MR GP – Community Organization Strengthening	186	0	186

Fundo Brasileiro para Biodiversidade - FUNBIO

Notes to financial information of the “Áreas Protegidas da Amazônia - ARPA” (Continued)

December 31, 2018 and 2017

(In thousands of reais, unless otherwise stated)

7. Transition Fund (Continued)

7.3. Transition fund/operational account (Continued)

Line labels	2018	2017	Total
MR GP – Integrated Management of UCs and Indian Lands	14	0	14
MR GP – Integrated Management of Protected Areas and Indian Lands	1	0	1
MR Facilities – Construction - level II	71	42	124
MR Facilities – Maintenance - levels I and II	974	942	2,177
MR Demarcation Maintenance	5	34	40
MR Facility Maintenance	270	46	482
MR Signaling Maintenance	96	73	210
MR Operation Maintenance of Preservation Areas Counsel	642	378	1,552
MR Monitoring – Biodiversity Indicator - level I	621	887	1,648
MR Monitoring – Sampling	1	0	1
MR Monitoring – Sampling	1,550	0	1,550
MR Monitoring – Supporting knowledge management	40	0	40
MR Monitoring – Implementing protocols - level II	669	1147	1,963
MR Monitoring – Maintenance of indicators - level II	163	179	399
MR Monitoring – Maintaining protocols - level II	234	323	662
MR Monitoring – Post - Sampling	36	0	36
MR Monitoring – Post - Sampling	41	0	41
MR Monitoring – Pre - Sampling	576	0	576
MR Monitoring – Biodiversity protocol	153	564	1,128
MR Monitoring – resource use protocol	12	33	60
MR Operationalization - levels I and II	44	0	44
MR Operationalization - levels I and II	5,351	3402	10,665
MR Research – Development and Studies - level II	571	359	1,079
MR Handling Plan – Preparation - level I	2,341	1005	3,553
MR Handling Plan – Review - levels I and II	788	352	1,174
MR Protection – Plan Preparation - level I	224	555	980
MR Protection – Plan Implementation - levels I and II	7,488	5405	14,351
MR Protected Areas Protection	1,488	475	2,741
MR Review of Handling Plan	233	109	346
MR Signaling – Expansion - level II	42	127	174
MR Signaling – Implementation - level I	133	203	336
MR Signaling – Maintenance - levels I and II	416	382	839
MR Land Status – Information Collection – level II	18	4	22
MR Land Status – Regularization – level II	15	45	61
MR Agreement – PI Protected Areas - level II	210	54	263
Total	44,253	25,286	81,115

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Notes to financial information of the “Áreas Protegidas da Amazônia - ARPA” (Continued)

December 31, 2018 and 2017

(In thousands of reais, unless otherwise stated)

7. Transition Fund (Continued)

7.4. Transition fund/Long-term fund

The Extinguishable Long-Term Transition Fund is managed by Pragma Patrimônio, formed by funds from former FAP (Protected Areas Fund) and contribution of new fund amounts.

Balances maintained in Program bank accounts are as follows:

ARPA FAP/FT accounts	2018	2017
Itaú Pragma AG.4191 C/I 88475-0(FT) (a)	108,458	77,199
Itaú Private C/I EFFICAX 13564-3 (FT) (a)	14,719	3,014
Itaú Private C/I WORLD EQUITIES FIC 13564-3 (FT) (a)	946	0
BNY NELLON C/I 30266555 (a)	406	0
Itaú Miami C/I 6086720 (FT)* (b)	0	195,697
Itaú Miami C/I JTU021893 (FT) (b)	0	100,573
JULIUS BAR C/I 0600.6868 (c)	333,321	0
Itaú Miami C/I 6087033 (FT KfW) (d)	0	6,339
Itaú Pragma AG.4191 C/I 89897-4 (FT KfW) (e)	8,047	23,729
Itaú Private C/I EFFICAX FI RF - 16716-6-X (FT KfW) (e)	4,191	7,759
Credit Suisse C/I 13594-1 (FT KfW) (f)	0	13,119
Total	470,088	427,429

(a) Changes in transition fund balances maintained in Brazil (C/C 88475 Itaú Pragma, c/c 13564-3 Active, Efficax and World Equities FIC and C/C 30266555 BNY MELLON) are as follows:

	2018	2017
Balance at January 1	80,214	70,642
Cash inflows:	1,915	-
WWF CR00001	0	-
WWF CR00003	0	-
ANGLO AMERICAN	1,915	1,660
Transf. of funds to Operational Transition Fund *	0	627
Transf. of funds to Bahia Fund	(627)	-
Transf. of funds received from Itaú Miami	37,570	-
Net yield	7,396	8,959
Financial management costs	(1,939)	(1,674)
Balance at December 31	124,529	80,214

(*) This amount refers to funds from Bahia and Espírito Santo Fund invested in the Transition Fund, which was regularized in 2018.

Fundo Brasileiro para Biodiversidade - FUNBIO

Notes to financial information of the “Áreas Protegidas da Amazônia - ARPA” (Continued)
December 31, 2018 and 2017

(In thousands of reais, unless otherwise stated)

7. Transition Fund (Continued)

7.4. Transition fund/Long-term fund (Continued)

(b) Changes in Transition Fund balances maintained in Itaú Miami (c/c 6086720 and JT02183):

	2018	2017
Balance at January 1	296,270	220,528
Cash inflows - KfW	0	37,305
Cash inflows - GEF	37,149	0
Transfer of funds Itaú Miami c/6086720 to Julius Bär 0600.6868	(226,581)	0
Transfer of funds Itaú JTU c/021893 to Julius Bär 0600.6868	(108,824)	0
Transfer of funds Itaú Miami c/6086720 to Itaú Pragma c/88475-0	(37,570)	0
Exchange differences	44,172	5,802
Yield	(4,436)	32,694
Financial management costs	(180)	(59)
Balance at December 31	0	296,270

(c) Changes in Transition Fund balances maintained in Julius Bär (0600.6868):

	2018	2017
Balance at January 1	0	0
Transfer of funds received - Itaú Miami c/c 6086720	335,544	0
Yield in account re transf. c/c 6086720	3,716	0
Yield	(12,061)	0
Exchange differences	6,213	0
Financial management costs	(91)	0
Balance at December 31	333,321	-

(d) Changes in Transition Fund balances (FAP KfW) – maintained in Banco Itaú Miami (CC 6087033):

	2018	2017
Balance at January 1	6,339	6,219
Transfer of funds to FAP KfW /c/ 16716-6	(7,178)	(1,192)
Yield	11	1,261
Exchange differences	830	51
Financial management costs	(2)	0
Balance at December 31	0	6,339

Fundo Brasileiro para Biodiversidade - FUNBIO

Notes to financial information of the “Áreas Protegidas da Amazônia - ARPA” (Continued)
December 31, 2018 and 2017

(In thousands of reais, unless otherwise stated)

7. Transition Fund (Continued)

7.4. Transition fund/Long-term fund (Continued)

- (e) Changes in Transition Fund balances (FAP KfW) – maintained in Itaú (Pragma - 4191 89897-4 and Itaú Private Efficax FI RF - C/C 16716-6):

	2018	2017
Balance at January 1	31,488	53,297
Transfer of funds received from Credit Suisse c/135941-5 to Itaú c/16716-6	13,695	1,430
Transfer of funds received from Itaú Miami c/c 6087033 to Itaú c/16716-6	7,178	1,192
Transfer of funds to Operational Transition Fund	(40,500)	(29,700)
Financial management costs	(777)	(1,046)
Yield	1,154	6,315
Balance at December 31	12,238	31,488

- (f) Changes in Transition Fund balances (FAP KfW) – maintained in Banco Credit Suisse c/c 13594-1:

	2018	2017
Balance at January 1	13,119	12,892
Transfer of funds to Itaú Pragma c/c 16716-6	(13,695)	(1,430)
Financial management costs	(442)	(1,100)
Yield	1,018	2,757
Balance at December 31	0	13,119

The investments of the Funds managed by FUNBIO, through Pragma Patrimônio, are diversified short- and long-term investments, from 1 to 8 years, with liquidity ranging from D+1 to D+ 180 days. These funds are invested in Government Securities - National Treasury Notes (NTN-Bs), local and international variable income, Hedge Fund, Fixed income Low Vol and fixed/inflation rate.



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A free translation from Portuguese into English of Independent Auditor's Report on compliance with accounting and financial contractual provisions

Independent auditor's report on compliance with the accounting and financial contractual provisions of "Áreas Protegidas da Amazônia - ARPA" Program

To the
Directors and Officers
Fundo Brasileiro para a Biodiversidade - FUNBIO
"Áreas Protegidas da Amazônia - ARPA" Program
Rio de Janeiro - Rio de Janeiro State

We audited the financial information for the period from January 01 to December 31, 2018 of the "Áreas Protegidas da Amazônia - ARPA" Program (the "Program" or "Project"), which is managed by Fundo Brasileiro para a Biodiversidade – FUNBIO (the "Entity") and funded by various institutes and entities ("Donors"), and issued our report thereon dated May 23, 2019.

Our audit was focused on checking whether the contractual clauses directly related to accounting and financial matters of the Donation Agreements entered into with the Donors are appropriately complied with.

We conducted our audit in accordance with International Standards on Auditing and the Donors' requirements. These standards require that we plan and conduct the audit in order to obtain reasonable certainty that FUNBIO has complied with the covenants set out in the Donation Agreements. The audit includes review, on a test basis, of the evidence deemed appropriate by us. Accordingly, we believe that our audit provides a reasonable base for our opinion.

In our opinion, as at December 31, 2018, FUNBIO complied with, in all significant respects, the contractual clauses applicable, of an accounting and financial nature, of the Donation Agreements entered into with the donors.

Rio de Janeiro, May 23, 2019.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/O-6

Walter G. Neumayer
Accountant CRC-RJ091659/O-0

Independent auditor's report on the internal controls of "Áreas Protegidas da Amazônia - ARPA" Program

To the
Directors and Officers
Fundo Brasileiro para a Biodiversidade - FUNBIO
"Áreas Protegidas da Amazônia - ARPA" Program
Rio de Janeiro - Rio de Janeiro State

This report supplements our report on the financial information of "Áreas Protegidas da Amazônia - ARPA" Program.

Management of Fundo Brasileiro para a Biodiversidade – FUNBIO (the "Entity"), Executing Institution of the "Áreas Protegidas da Amazônia - ARPA" Program (the "Program" or "Project"), is responsible for maintaining internal controls sufficient to mitigate the risks of significant misstatements in the financial information and protect the assets under custody of the Program, including the areas constructed and other assets acquired. In order to fulfill this responsibility, management is required to make judgments and estimates to evaluate the expected benefits and costs relating to internal control policies and procedures. An internal control system is aimed at providing management with reasonable assurance, but not a guarantee, that the assets are protected against losses deriving from unauthorized use or disposal, that the transactions are performed in accordance with management authorization and that the agreement terms are appropriately recorded in order to allow the financial information to be fairly prepared. Due to the limitations inherent in any internal control system, errors or irregularities may occur and remain undetected. In addition, the projections of any future periods' structure assessment are subject to the risk that the procedures may be inadequate due to changes in conditions, or that the efficiency of the design and operation of the policies and procedures may be impaired.

In planning and conducting our audit of the Program financial information for the period from January 01 to December 31, 2018, we obtained an understanding of the internal control structure and assessed the risk of controls to determine our audit procedures, in order to express an opinion on the Program financial information, but not to issue an opinion on internal control efficiency.

Our audit of the "Áreas Protegidas da Amazônia - ARPA" Program for the period from January 01 to December 31, 2018 identified no significant deficiencies in internal control design or operation which could, in our opinion, significantly affect FUNBIO's ability to record, process, summarize and present financial information consistently with management affirmations in the statements of the funds received and disbursements made, as well as with accumulated investments.



A significant deficiency is a condition in which the design or operation of one or more elements of the internal control structure does 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 financial information, and that could not be timely detected by FUNBIO employees in the normal course of their duties.

Our consideration on the internal control structure does not necessary expose all matters relating to this system that could be considered significant deficiencies and, as such, should not necessarily expose all conditions to be informed that could be considered significant deficiencies, in accordance with the prior definition.

Rio de Janeiro, May 23, 2019.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/O-6

A handwritten signature in blue ink, appearing to read 'Walter G. Neumayer', is written over a faint, larger version of the signature.

Walter G. Neumayer
Accountant CRC-RJ091659/O-0