

Financial Information

Fundo Brasileiro para a Biodiversidade - FUNBIO

December 31, 2018 and 2017
with Independent Auditor's Report on the financial information of "Agência
GEF"

Financial information of “Agência GEF”

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 "Agência GEF"

To the
Directors and Officers
Fundo Brasileiro para a Biodiversidade - FUNBIO – "Agência GEF"
Rio de Janeiro - Rio de Janeiro State

Opinion

We have audited the financial information of "Agência GEF" Projects ("Projects" or "Agência GEF"), managed by Fundo Brasileiro para a Biodiversidade - FUNBIO (the "Entity"), funded by means of 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 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 Memorandum of Understanding entered into between the Entity and the International Bank for Reconstruction and Development (IBRD) on January 22, 2015, and the accounting base for receipts and payments described in Note 2.

Basis for opinion

We conducted our audit in accordance with 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 Projects 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 Projects financial information and restriction on use

We draw attention to Note 2 to the Projects financial information, which describes the basis of preparation and presentation of these financial information, aimed at assisting FUNBIO in evidencing compliance with the covenants of aforementioned Memorandum of Understanding relating to preparation of financial information. As such, the Projects financial information do not serve for other purposes. Our report is intended solely for compliance with the Memorandum of Understanding between the Entity and the International Bank for Reconstruction and Development (IBRD) on January 22, 2015. Our opinion is not modified in respect of this matter.

Other matters

Audit of corresponding figures

The Projects 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 2 and with the Memorandum of Understanding entered into between the Entity and the International Bank for Reconstruction and Development (IBRD) on January 22, 2015, 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 Projects' ability to continue as a going concern, 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 Projects, or has no realistic alternative to prevent the Projects from ending.

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



As described in Note 2, 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 Projects 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, and the specific audit requirements set out in the Memorandum of Understanding entered into between the Entity and the International Bank for Reconstruction and Development (IBRD) on January 22, 2015, 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 Entity's internal control.
- Evaluate the appropriateness of accounting policies used (described in Note 2) 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 Projects' 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 Projects 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 'W. Neumayer', is written over the printed name.

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

Fundo Brasileiro para Biodiversidade - FUNBIO

Financial information of "Agência GEF"

December 31, 2018 and 2017

(In thousands of reais, unless otherwise stated)

Agência GEF - FUNBIO

| Description | 12/31/2017 | Cash inflow - Contributions to project preparation | Cash inflow - Contributions to projects approved | FUNBIO Costs | Short-term investment yields | Finance costs | FUNBIO transfer (allocation) | 12/31/2018 |
|-------------------------------|------------|---|---|--------------|------------------------------------|---------------|------------------------------------|------------|
| "Agência GEF" - FUNBIO | | | | | | | | |
| (c/c 29149-8) | 4,162 | - | - | (74) | 216 | (1) | (660) | 3,643 |
| | 4,162 | - | - | (74) | 216 | (1) | (660) | 3,643 |

Fundo Brasileiro para Biodiversidade - FUNBIO

Financial information of "Agência GEF"

December 31, 2018 and 2017

(In thousands of reais, unless otherwise stated)

"Agência GEF" - Projects

| Contracts | 12/31/2017 | Cash inflow - project preparation | Cash inflow - Projects approved | Transfers (allocations) | Advances - Project | Accounta bility | Costs related to projects | Short-term investment yields | Exchang e differenc es | Finance costs | 12/31/2018 |
|---|------------|---|--|----------------------------|-----------------------|--------------------|------------------------------------|------------------------------------|---------------------------------|------------------|------------|
| "Agência GEF" - Projects (NY c/c 76250011-7) | - | - | - | - | - | - | - | - | - | - | - |
| Pro-Species Preparation (c/c 129150-5) | 175 | - | - | - | - | - | (102) | 7 | - | - | (80) |
| Pro-Species Preparation Pro-Species Grant (c/c 23533-4) | 472 | - | - | - | - | - | - | - | - | - | 472 |
| Pro-Species Grant | 4,858 | - | - | - | (1,502) | - | - | 234 | - | - | 3,590 |
| | - | - | - | - | 1,502 | - | - | - | - | - | 1,502 |
| | 5,505 | - | - | - | - | - | (102) | 241 | - | - | 5,644 |

See accompanying notes.

Fundo Brasileiro para Biodiversidade - FUNBIO

Notes to the financial information of Agência GEF
December 31, 2018 and 2017
(In thousands of reais, unless otherwise stated)

1. Operations

Fundo Brasileiro para a Biodiversidade - FUNBIO, with its head office located at Rua Voluntários da Pátria, 286 - 5º andar, Botafogo - Rio de Janeiro - Rio de Janeiro state, is a not-for-profit institution, which began operating in 1996.

FUNBIO is an innovative financial mechanism, created to design strategies that contribute with implementation of the Convention on Biological Diversity (CDB) in Brazil. In the course of its 21-year operation, FUNBIO has been a strategic partner for the private sector, various state and federal entities and the organized civil society.

The Global Environment Facility (GEF) created in 1991, following the Convention on Biological Diversity entered into 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 through the 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 and one of the 3 agencies in the world accredited by GEF.

Agência GEF is an area of FUNBIO aimed at obtaining resources directly from the Global Environment Facility (GEF), a capacity conferred upon FUNBIO after an accreditation process in 2015. The creation of Agência GEF in FUNBIO allows this agency 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 referred to approval, for its actual implementation.

In 2018, FUNBIO submitted no project proposal to GEF, since the new project submission cycle was initiated in July 2018, and there was no time to prepare a new project. Accordingly, the area currently works with only one project related to endangered species in Brazil.

| Projects under implementation | Partners | Biome |
|--------------------------------------|----------------------------|--------------|
| Pro-Species Project | MMA, IBAMA, ICMBio and WWF | Nationwide |

Fundo Brasileiro para Biodiversidade - FUNBIO

Notes to the financial information of Agência GEF (Continued)

December 31, 2018 and 2017

(In thousands of reais, unless otherwise stated)

1. Operations (Continued)

The Pro-Species Project, which is intended to improve the conservation status of 290 endangered species that cannot be found in Protected Areas or Indian Reservations, was approved by GEF Board at the meeting held in April 2016. After that, FUNBIO received funds to detail the project to a full version and engaged the International Union for Conservation of Nature (“UICN”) to do such works together with MMA. In early 2018, WWF-Brazil was selected to financially execute the project’s actions, going through a period of preparation of documents and systems. In August 2018, the project was started.

This was the first project of Agência GEF at FUNBIO to go through the entire GEF approval cycle and start implementation processes.

In addition to this work, the area was also responsible for accreditation in another multilateral fund, the Green Climate Fund, in October 2018.

2. Summary of significant accounting practices

Basis of preparation

The financial information of Agência GEF 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), as established in the Memorandum of Understanding entered into between the Entity and the International Bank for Reconstruction and Development (IBRD) on January 22, 2015. 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.

These financial information are presented in reais (R\$), which is FUNBIO’s functional currency. All financial information presented in thousands of reais was rounded to the nearest amount, unless otherwise stated.

The financial information were approved by Entity management on May 23, 2019.

Fundo Brasileiro para Biodiversidade - FUNBIO

Notes to the financial information of Agência GEF (Continued)

December 31, 2018 and 2017

(In thousands of reais, unless otherwise stated)

3. Transfers of funds – “Agência GEF”

FUNBIO maintains a checking account in Banco do Brasil - New York (c/c 76250011-7) to receive GEF funds allocated to the projects. In Brazil, FUNBIO has checking accounts specific for implementation and operationalization of each project, to wit: (c/c 129150-5) Pro-Species Preparation and (c/c 23533-4) Pro-Species Grant.

As to funds intended to reimburse FUNBIO indirect costs as GEF implementing agency, an account is maintained in Banco do Brasil (c/c 29149-8).

As at December 31, 2018 and 2017, funds received were as follows:

| Agência GEF - Projects (NY c/c 76250011-7) | Amounts in US\$ thousand | Exchange | Amounts in R\$ thousand | Year of fund inflow |
|---|-------------------------------------|-----------------|------------------------------------|--|
| Inflow | 1,500 | 3.2541 | 4,881 | 2017 |
| Inflow | - | | - | 2018 |
| Total inflow | 1,500 | | 4,881 | |
| Agência GEF - FUNBIO (c/c 29149-8) | Amounts in US\$ thousand | Exchange | Amounts in R\$ thousand | Year of fund inflow |
| Inflow | 725 | 3.2524 | 2,360 | 2017 |
| Inflow | - | | - | 2018 |
| Total inflow | 725 | | 2,360 | |
| Pro-Species Grant (c/c 23533-4)** | | 2018 | 2017 | Amounts in R\$ thousand – Accumulated |
| Inflow | | - | 4,844 | 4,844 |
| Total inflow | | - | 4,844 | 4,844 |
| Pro-Species Preparation (c/c 129150-5)** | | 2018 | 2017 | Accumulated |
| Inflow | | - | 79 | 945 |
| Total inflow | | - | 79 | 945 |

(**) Amounts transferred from NY Projects account

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Notes to the financial information of Agência GEF (Continued)

December 31, 2018 and 2017

(In thousands of reais, unless otherwise stated)

4. Investment of funds – “Agência GEF”

Preparatory Pro-Species Project

On August 24, 2016, a financial support contract was entered into for the preparation of the evaluation document of the “National Strategy for the Conservation of Endangered Species - Pro-Species” Project, for application to the Global Environment Facility (GEF) Board, between FUNBIO and UICN, effective for 9 months, in the amount of R\$800, of which R\$400 was transferred in 2016. In 2017, an Amendment was entered into extending the effective period by 5 months and adding R\$147 to the contract amount. The amount of R\$400 was transferred and R\$328 were accounted for.

UICN is an environmentalist organization founded in 1948. In Brazil, it has operated as a non-governmental organization 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 and ecosystem services.

The Project aims to prepare a Pro-Species Project based on the support to 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 advisory 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 schedule, and the execution has followed the rules in FUNBIO’s Procedures, Procurement and Contracting activities Manual - 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 the 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 implementation with the preparation of the Operational 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 was conducted on the continuity of this work, and it was decided, based on the due diligence process carried out at UICN, that the project implementation would be carried out by another more experienced and structured institution.

Fundo Brasileiro para Biodiversidade - FUNBIO

Notes to the financial information of Agência GEF (Continued)

December 31, 2018 and 2017

(In thousands of reais, unless otherwise stated)

4. Investment of funds – “Agência GEF” (Continued)

Preparatory Pro-Species Project (Continued)

Although this was a possibility identified since the beginning of the preparation project, the engagement of the Executing Institution (WWF-Brazil) and the internal preparation were slower than expected, noting that this was the first time FUNBIO undertook this process, resulting in the start of the project only in August 2018.

Pro-Species Grant Project

The project was actually started in August 2018 and the first WWF-Brazil account rendering was conducted at year end; however, these accounts had not yet been approved by FUNBIO until year end.

The project's initial activities were taking place at the end of 2018, and in February or March 2019 the first supervision mission will be carried out.

5. Funds available

As at December 31, 2018, balances available in the project's bank accounts, including short-term investments, are as follows:

Agência GEF - Projects

1. *Agência GEF – Projects – NY*

| <u>Description</u> | <u>Type</u> | <u>2018</u> | <u>2017</u> |
|---|-----------------------|-------------|-------------|
| Banco do Brasil NY - C/C 76250011-7 | Checking account | - | - |
| Banco do Brasil NY w/ invest. in repurch. agr. 76250011-7 | Short-term investment | - | - |
| Total cash and cash equivalents | | - | - |

2. *Pro-Species Preparation*

| <u>Description</u> | <u>Type</u> | <u>2018</u> | <u>2017</u> |
|--|-----------------------|-------------|-------------|
| Banco do Brasil - C/C 129150-5 | Checking account | - | - |
| Banco do Brasil – w/CDB invest. 129150-5 | Short-term investment | 80 | 175 |
| Total cash and cash equivalents | | 80 | 175 |

In 2018, gains from short-term investments amounted to R\$ 7.

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Notes to the financial information of Agência GEF (Continued)

December 31, 2018 and 2017

(In thousands of reais, unless otherwise stated)

5. Funds available (Continued)

Agência GEF – Projects (Continued)

3. *Pro-Species Grant*

| Description | Type | 2018 | 2017 |
|--|------------------|--------------|--------------|
| Banco do Brasil - C/C 23533-4 | Checking account | - | - |
| | Short-term | | |
| Banco do Brasil – w/ LT FI Corp. Invest. 10m 23533-4 | investment | 3,590 | 4,858 |
| Total cash and cash equivalents | | 3,590 | 4,858 |

In 2018, gains from short-term investments amounted to R\$ 234.

4. *Agência GEF - FUNBIO*

| Description | Type | 2018 | 2017 |
|--|------------------|--------------|--------------|
| Banco do Brasil - C/C 29149-8 | Checking account | - | - |
| | Short-term | | |
| Banco do Brasil – w/ LT FI Corp. Invest. 10m 29149-8 | investment | 3,643 | 4,162 |
| Total cash and cash equivalents | | 3,643 | 4,162 |

In 2018, gains from short-term investments amounted to R\$ 216.