

Financial Information

Fundo Brasileiro para a Biodiversidade - FUNBIO

Twelve-month period ended June 30, 2019
with Independent Auditor's Report on the Financial Information of
the "REDD Early Movers do Mato Grosso (REM)" Project

Fundo Brasileiro para a Biodiversidade - FUNBIO

Financial Information of the “REDD Early Movers do Mato Grosso (REM)” Project

Twelve-month period ended June 30, 2019

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A free translation from Portuguese into English of Independent auditor's report on the financial information of the "REDD Early Movers do Mato Grosso (REM)" Project in Brazilian currency in accordance with the agreements executed by the parties, and the accounting base for receipts and payments described in Note 2

Independent auditor's report on the financial information the "REDD Early Movers do Mato Grosso (REM)" Project

To the
Directors and Officers
Fundo Brasileiro para a Biodiversidade - FUNBIO
"REDD Early Movers do Mato Grosso (REM)" Project
Rio de Janeiro - Rio de Janeiro State

Opinion

We have audited the financial information of Project REDD Early Movers do Mato Grosso ("REM")- Post-project compensation on the results of deforestation issue reduction, managed by Fundo Brasileiro para a Biodiversidade - FUNBIO ("Entity"), funded by financial contribution agreements and KfW (BMZ 2016 69 084) and implementation co-funded by Department of Business, Energy and Industrial Strategy "BEIS"(BMZ 3020 00 180), for the twelve-month period ended June 30, 2019, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the financial information referred to above present fairly, in all material respects, the amounts received and paid for the twelve-month period ended June 30, 2019, in accordance with the agreements executed by the parties, 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 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 2 to the Project financial information, which describes the basis of preparation and presentation of these financial information, aimed at assisting FUNBIO in evidencing the funds received and used in the abovementioned project. As such, the Project financial information do not serve for other purposes. Our report is intended solely for "REM Project" purposes. Our opinion is not modified in respect of this matter.



Other matters

Audit of corresponding figures

Opening balances of the Project financial information for the twelve-month period ended June 30, 2019, presented for comparison purposes in some Notes, were not audited by us or by any other independent auditor.

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, 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's 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 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 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 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.

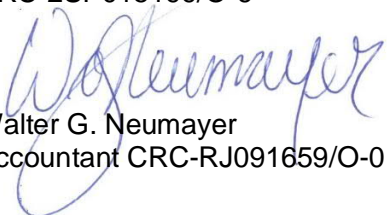
As part of the audit conducted in accordance with the Brazilian and International Standards on Auditing, and the specific audit requirements set out in the agreements entered into between FUNBIO and KfW ("Parties"), we exercise professional judgment and maintain professional skepticism throughout the 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 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, August 9, 2019

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



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

A free translation from Portuguese into English of the financial information of “REDD Early Movers do Mato Grosso (REM)” Project in Brazilian currency in accordance with the agreements executed by the parties, and the accounting base for receipts and payments described in Note 2

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Financial Information of the “REDD Early Movers do Mato Grosso (REM)” Project
Twelve-month period ended June 30, 2019 (In R\$ thousand, unless otherwise stated)

Changes in funds of the REDD Early Movers do Mato Grosso (REM) Project for the twelve-month period ended June 30, 2019 were as follows:

Project balance at beginning of period	-
Cash inflows	62,101
Yield	663
Tax on financial transactions (IOF) and bank fees	(237)
Execution	(378)
Project balance at end of period	62,149

For the twelve-month period ended June 30, 2019, breakdown of amounts by subprogram was as follows:

Subprograms	Fiscal year 2019
Family farming and traditional peoples and communities in Amazonia, Cerrado (savanna) and Pantanal	-
Indigenous peoples	-
Sustainable production, innovation and markets	23
Institutional strengthening and structuring public policies	355
Total	378

See accompanying notes.

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Notes to the financial information of the “REDD Early Movers do Mato Grosso (REM)” Project
Twelve-month period ended June 30, 2019
(In R\$ thousand, 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. Since the beginning of its activities in 1996, FUNBIO has supported 285 programs and projects, benefiting 234 institutions across the country.

The REDD Early Movers (REM) program is a German government initiative that rewards countries or states that contribute to climate change mitigation through forest conservation, coupled with a positive agenda that promotes social equality. Launched in 2012, during Rio+20, the state of Mato Grosso became a beneficiary of REM in 2017. The choice was because the State had reduced deforestation by 90% between 2004 and 2014.

The project is expected to run for four years, and conditions disbursements to the maintenance of deforestation below 1.788 km²/year. The funds arise from donations from the German Development Bank, KfW, under agreement number 2016 069 084, totaling 17 million euros, and from the Department Business, Energy and Industrial Strategy (BEIS, in the source language) of England, with an agreement entered into via KfW under No. 3020 00 180, totaling 23.9 million pounds sterling.

FUNBIO acts as financial manager and the State Department of the Environment of Mato Grosso (SEMA) as a technical manager, managing and formalizing the execution demands of the four subprograms of REM MT.

Subprogram Institutional Strengthening and Structuring Public Policies aims to consolidate the public policies that are in effect in the state to ensure that deforestation and environmental degradation are avoided. It also aims to ensure that the state of MT is prepared to apply the legislation, through effective monitoring and oversight.

Subprogram Sustainable Production, Innovation and Markets is geared towards medium-sized producers with properties of up to 1,500 hectares focused on agribusiness (livestock, soybean, and maize, among others). The goal is to ensure conservation of current legal reserve areas, implement sustainable production models, and improve timber forest management.

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Notes to the financial information of the “REDD Early Movers do Mato Grosso (REM)” Project
(Continued)

Twelve-month period ended June 30, 2019

(In R\$ thousand, unless otherwise stated)

1. Operations (Continued)

Subprogram Family Farming and Traditional Peoples and Communities supports, among others, small farmers, rubber tappers, extractivists, who provide environmental services to reduce CO2 emissions, such as reforestation and sustainable use of natural resources. Through the development of value chains of traditional products, training in agricultural techniques, agroindustry, cooperativism, recovery of degraded areas and increase of sales production volume by about 20%, the initiative should directly and indirectly benefit about 50,000 families.

Another REM MT subprogram is the Indigenous Territories. Aimed at the strengthening, protagonism and autonomy of indigenous peoples, it supports and rewards the 43 different ethnicities that have historically been protecting the natural resources and forest of about 14 million hectares in the state.

During the period of this report, there were pre-operating activities for the effective start of the project actions, such as:

- Completion of the Benefit Sharing Strategy;
- Preparation of the project visual identity;
- Preparation and approval of the Project operating manual;
- Structuring and operation of the Project Governance;
- Financial planning of the first disbursement (PDI and PAAC);
- Training of actors in the Cérebro system and procurement and hiring procedures;
- Compliance with the requirements for the release of the 1st disbursement;
- Definition of the indigenous subprogram;
- Completion of the Social and Environmental Risk Management System.

The authorization for issuing this financial information was given by FUNBIO's management on August 9, 2019.

Fundo Brasileiro para a Biodiversidade - FUNBIO

Notes to the financial information of the "REDD Early Movers do Mato Grosso (REM)" Project
(Continued)

Twelve-month period ended June 30, 2019
(In R\$ thousand, unless otherwise stated)

2. Summary of significant accounting policies

Basis of preparation and general information

The financial information of the REDD Early Movers (REM) Project 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, as well as in accordance with governmental audit requirements issued by the Comptroller General of the United States of America. The other accounting policies adopted by management are as follows:

1. Statement of the Fund's Responsibility: since FUNBIO uses its own accounting and financial management system to present the Project's operations, the chart of financial information used states the classification of accounting headings. The financial information of REDD Early Movers (REM), managed by Fundo Brasileiro para a Biodiversidade - FUNBIO were prepared on a cash basis, which consists in accounting for revenues only when these amounts are effectively received and for costs and expenses only when these amounts are effectively paid in legal tender.
2. Revenues: these are recognized on the date when the funds are transferred by KfW to FUNBIO and become available in FUNBIO checking account.
3. Exchange rate: the Project's financial records are maintained in reais, i.e. in Brazilian currency. On June 30, 2019, the price of real against euro was R\$4.35 (EUR 1.00). The financial information of REDD Early Movers (REM) were prepared in thousands of reais (R\$).

3. Funds available

At June 30, 2019, the balances remaining in checking accounts are as follows:

Description	Type	Amount
Banco do Brasil - C/C 24486-4	Checking account	2
Banco do Brasil - CDB invest. 24486-4	Automatic investment	22,263
Banco do Brasil - Long-term invest. fund 24486-4	Automatic investment	39,884
Total cash and cash equivalents		62,149

Fundo Brasileiro para a Biodiversidade - FUNBIO

Notes to the financial information of the “REDD Early Movers do Mato Grosso (REM)” Project
(Continued)

Twelve-month period ended June 30, 2019

(In R\$ thousand, unless otherwise stated)

3. Funds available (Continued)

For the 12-month period ended June 30, 2019, income of short-term investments totaled R\$663.

Cash restricted to the project is kept in a specific checking account that is maintained with automatic withdrawals as cash is needed to honor project commitments.

Investments in Bank Deposit Certificates (CDB) comprise bonds that guarantee 95.95% of the Interbank Deposit Certificate (CDI) variation, can be redeemed in 90 to 180 days, and pose insignificant risk of decrease in value.

Investments in investment funds are made through BB Renda Fixa LP Corporativo fund. Its portfolio basically comprises repurchase agreements, federal government bonds, time deposits and bonds of other financial institutions, private bonds, and Investment Fund Shares 555, with liquidity D+1.

Investments are held with first-tier financial institutions.

4. Transfers of funds - “REM”

FUNBIO received financial support through KfW's financial contribution agreement dated November 14, 2017, and the financial implementation agreement via KfW, co-funded by the Department of Business, Energy and Industrial strategy (BEIS) dated December 4, 2017 to implement the REDD Early Movers project in Mato Grosso.

Funds contributed when received were deposited in Account No. 24486-4 2 (checking account and automatic investment), held with Banco do Brasil.

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Notes to the financial information of the “REDD Early Movers do Mato Grosso (REM)” Project
(Continued)

Twelve-month period ended June 30, 2019

(In R\$ thousand, unless otherwise stated)

4. Transfer of funds - “REM” (Continued)

Through June 30, 2019, the funds provided by KfW totaled R\$62,101, recorded in Brazilian currency (reais). Exchange differences have no impact on Project financial information. See table below for details of the contributions made during the period:

REM	Amounts in €thousand	Foreign exchange rate	Amounts in R\$ thousand	Date the funds entered the bank
1st KfW contribution	5,000	4.4410	22,205	12/27/2018
1st BEIS-KfW contribution	9,138	4.3660	39,896	06/07/2019
Total	14,138	-	62,101	

5. Reconciliation of funds available

Reconciliation of excess revenues and costs incurred to amounts available in checking accounts and respective short-term investments at June 30, 2019 is summarized as follows:

	2019
Breakdown of cash and cash equivalents:	
Operational account	
Banco do Brasil - C/C 24486-4	2
Banco do Brasil - CDB invest. 24486-4	22,263
Banco do Brasil - Fixed income invest. 24486-4	39,884
Project's book balance	62,149

6. Service agreements

For the twelve-month period ended June 30, 2019, only the following service agreement was signed.

CEDOC agreement number	Company	Project / Where To	Date of Commencement (Original)	End Date (Original)	Agreement amount
056/2019	Cândido dos Santos Rosa Junior	REM-MT - SEMA 1º PDI	05/31/2019	11/30/2019	48

Independent auditor's report on compliance with the accounting and financial contractual provisions of the "REDD Early Movers (REM)" Project

To the
Directors and Officers
Fundo Brasileiro para a Biodiversidade - FUNBIO
"REDD Early Movers (REM)" Project
Rio de Janeiro - Rio de Janeiro State

We have audited the financial information for the twelve-month period ended June 30, 2019 of the REDD Early Movers (REM) Project, managed by Fundo Brasileiro para a Biodiversidade - FUNBIO ("Entity"), funded by KfW, and issued our report corresponding thereto, dated August 9, 2019.

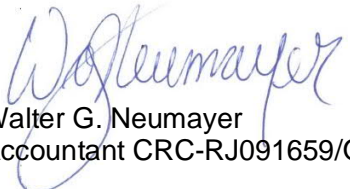
Our audit was focused on checking whether the contractual clauses directly related to accounting and financial matters of the REM project are appropriately complied with.

We conducted our audit in accordance with the international standards on auditing and the specific requirements contained in the "REM Project" clauses. These standards require that we plan and perform the audit in order to obtain reasonable certainty that FUNBIO has complied with the covenants related to the REM Project. The audit includes review, on a test basis, of the evidence deemed appropriate by us. Accordingly, we believe that our audit provides a reasonable basis for our opinion.

In our opinion, as at June 30, 2019, FUNBIO complied with, in all significant respects, the applicable contractual clauses, of an accounting and financial nature, of the REM Project.

Rio de Janeiro, August 9, 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 control structure of the “REDD Early Movers (REM)” Project

To the
Directors and Officers
Fundo Brasileiro para a Biodiversidade - FUNBIO
“REDD Early Movers (REM)” Project
Rio de Janeiro - Rio de Janeiro State

This report supplements our report on the financial information of the REDD Early Movers (REM) Project.

Management of Fundo Brasileiro para a Biodiversidade - FUNBIO, Managing Institution the REDD Early Movers (REM) 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 Project, 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.

When planning and performing our audit of the financial information of the Project for the twelve-month period ended June 30, 2019, we gained understanding of the internal control structure and assessed the control risk to determine the audit procedures, with a view to expressing an opinion on the financial information of the Project, rather than issuing an opinion on the effectiveness of the internal control structure.

Our audit of the REDD Early Movers (REM) Project for the twelve-month period ended June 30, 2019 revealed no significant deficiencies the de design or operation of internal controls that, in our opinion, could significantly affect FUNBIO's ability to record, process, summarize and report financial information in line with management representations in the statements of funds received, disbursements made, and investments accumulated.




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 Project's 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, August 9, 2019

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CRC-2SP015199/O-6



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