



Financial Statements

Fundo Brasileiro para a Biodiversidade - FUNBIO

December 31, 2009 and 2008
with Report of Independent Auditors

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

Financial statements

December 31, 2009 and 2008

Contents

Report of independent auditors	1
Audited financial statements	
Balance sheets	2
Statements of income	4
Statements of changes in endowment funds.....	5
Statements of cash flows	6
Notes to financial statements	7

A free translation from Portuguese into English of Report of Independent Auditors on financial statements prepared in accordance with accounting practices adopted in Brazil

Report of independent auditors

The Management

Fundo Brasileiro para a Biodiversidade - FUNBIO

We have audited the accompanying balance sheets of Fundo Brasileiro para a Biodiversidade - FUNBIO as of December 31, 2009 and 2008, and the related statements of income, of changes in endowment funds and of changes in cash flows for the years then ended. These financial statements are the responsibility of the Entity's management. Our responsibility is to express an opinion on these financial statements.

We conducted our audit in accordance with generally accepted auditing standards in Brazil which comprised: (a) the planning of our work, taking into consideration the materiality of balances, the volume of transactions and the accounting and internal control systems of the Entity, (b) the examination, on a test basis, of the documentary evidence and accounting records supporting the amounts and disclosures in the financial statements, and (c) an assessment of the accounting practices used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fundo Brasileiro para a Biodiversidade - FUNBIO at December 31, 2009 and 2008, and the results of its operations, changes in its endowment funds and changes in its cash flows for the years then ended, in accordance with the accounting practices adopted in Brazil.

Rio de Janeiro, April 14, 2010

ERNST & YOUNG
Auditores Independentes S.S.
CRC - 2SP 015.199/O-6 - F - RJ



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A free translation from Portuguese into English of financial statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

Balance sheets
December 31, 2009 and 2008
(In thousands of reais)

	<u>2009</u>	<u>2008</u>
Assets		
Current assets		
Cash and cash equivalents (Note 4)	9,350	24,449
Financial investments (Note 5)	72,978	86,573
Advances to suppliers (Note 6)	493	363
Other	313	191
	<u>83,134</u>	<u>111,576</u>
Noncurrent assets		
Intangible assets	111	81
Fixed assets (Note 7)	481	497
	<u>592</u>	<u>578</u>
Total assets	<u><u>83,726</u></u>	<u><u>112,154</u></u>

	<u>2009</u>	<u>2008</u>
Liabilities and endowment funds		
Current liabilities		
Suppliers	493	240
Payroll and related charges	1,151	1,014
Taxes	197	172
Third-party funds related to projects (Note 8)	53,337	59,894
Other accounts payable	79	1
	<u>55,257</u>	<u>61,321</u>
Noncurrent liabilities		
Funds and reserves (Note 10)	9,523	12,123
	<u>9,523</u>	<u>12,123</u>
Endowment funds		
Accumulated surplus	18,946	38,710
	<u>18,946</u>	<u>38,710</u>
Total liabilities and endowment funds	<u>83,726</u>	<u>112,154</u>

See accompanying notes.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

Statements of income
Years ended December 31, 2009 and 2008
(In thousands of reais)

	<u>2009</u>	<u>2008</u>
Revenues		
Donations (Note 11)	15,963	35,041
Partnerships	-	6
Funds obtained abroad (Note 10)	2,600	3,733
Financial revenues	5,837	30,658
Other operating revenues	2,017	979
	26,417	70,417
Project costs (Note 12)	(23,859)	(14,654)
	2,558	55,763
Expenses		
General and administrative expenses (Note 13)	(12,443)	(10,255)
Financial expenses (Note 14)	(9,874)	(23,264)
Other operating expenses	(5)	(8)
	(22,322)	(33,527)
Surplus (deficit) for the year	(19,764)	22,236

See accompanying notes.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

Statements of changes in endowment funds
Years ended December 31, 2009 and 2008
(In thousands of reais)

	Accumulated surplus	Surplus for the year	Total
At December 31, 2007	14,633	1,841	16,474
Surplus for the year	-	22,236	22,236
Transfer to accumulated surplus	24,077	(24,077)	-
At December 31, 2008	38,710	-	38,710
Deficit for the year	-	(19,764)	(19,764)
Transfer to accumulated surplus	(19,764)	19,764	-
At December 31, 2009	18,946	-	18,946

See accompanying notes.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

Statements of cash flows

Years ended December 31, 2009 and 2008

(In thousands of reais)

	2009	2008
Cash flows from operating activities		
Surplus (Deficit) for the year	(19,764)	22,236
Adjustments to reconcile surplus to cash generated by operating activities		
Net book value of permanent assets written off	5	11
Depreciation and amortization	171	160
	(19,588)	22,407
Changes in assets and liabilities		
(Increase)/decrease in advances to suppliers	(130)	70
(Increase)/decrease in other assets	(122)	(165)
Increase/(decrease) in suppliers	253	(1,354)
Increase/(decrease) in other liabilities	240	567
Net cash used in operating activities	(19,347)	21,525
Cash flows from investing activities		
Acquisition of fixed assets	(117)	(132)
Acquisition of intangible assets	(73)	(12)
Net cash used in investing activities	(190)	(144)
Cash flows from financing activities		
Funds related to projects received	3,318	18,383
Earnings from funds related to projects received	5,014	4,647
Exchange gains on funds related to projects received	(14,869)	3,704
Financial management on funds related to projects received	(20)	(385)
Increase in funds and reserves	(2,600)	(3,733)
Net cash generated by financing activities	(9,157)	22,616
Increase in cash and financial investments	(28,694)	43,997
Statement of increase in cash and financial investments		
At the beginning of the year	111,022	67,025
At the end of the year	82,328	111,022
	(28,694)	43,997

See accompanying notes.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

Notes to financial statements
December 31, 2009 and 2008
(In thousands of reais)

1. Operations

Fundo Brasileiro para a Biodiversidade (“FUNBIO” or “the Entity”) is a not-for-profit civil association formed in October 1995 for the purpose of supplementing governmental action aimed at the conservation and sustainable use of the country’s biological diversity, in conformity with the international Convention on Biological Diversity (CDB), the National Program on Biological Biodiversity (Pronabio), and the Public-Interest Civil Society Organization (OSCIP) certificate.

Having the allocation of strategic resources for biodiversity conservation as its stated mission, the Entity is primarily engaged in being the partner of choice for the main local and global environmental actors when seeking sustainable conservation solutions.

FUNBIO’s specific purpose is to operate a fund that provides financial and material support to initiatives associated with the conservation and sustainable use of biodiversity resources in Brazil with the funds received.

The Entity’s major funding sources are: (a) donations of funds for specific costing of activities and projects, received from the Global Environment Facility (GEF), through the World Bank and FAO – Food Agriculture Organization of the United Nations; from WWF-World Wildlife Fund; from the German Development Bank - KfW; from the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety - BMU, and from public or private, national or international individuals or legal entities, and by international entities; (b) earnings from investments in the country and abroad; and (c) compensation for services provided in accomplishing its purposes.

The main projects coordinated by the Entity may be divided into three generations. Significant 1st-Generation projects are as follows:

(i) Partnership Fund

The main purpose of the Partnership Fund is to raise funds to support projects of common interest, in priority thematic areas for conservation and sustainable use of Brazilian biodiversity. Currently, there are no projects underway within the Partnership Fund scope.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

Notes to financial statements (Continued)

December 31, 2009 and 2008

(In thousands of reais)

1. Operations (Continued)

(ii) Ford Foundation and FUNBIO Partnership Fund

This fund focuses on providing financial support to local sustainable development projects, with activities to be developed in the Amazon and Atlantic Rain Forest biomes. The project highlighted for 2009 and 2008 is the “Sustainable use of non-timber forest resources in extraction communities at Juruá Valley”, in Acre State, in a partnership with SOS Amazônia and Pesacre. The agreement with Ford Foundation was terminated in 2009.

(iii) Sustainable Production Support Program (“PAPS”)

This program aims at strengthening small-scale initiatives associated with the sustainable biodiversity use and represents an option to economic activities that produce high environmental impacts, increasing the opportunities for new jobs and income to local populations. The projects related to this program were concluded in 2008.

The 2nd-Generation initiatives consist of the Amazon Region Protected Areas Project (“ARPA”).

(i) Amazon Region Protected Areas Project (“ARPA”)

The ARPA Project is within the scope of the Brazilian government’s 10-year Amazon Region Protected Areas Program, aimed at protecting the ecosystems that are considered essential to the maintenance and integrity of the Amazon flora and fauna. This is the major rainforest preservation and sustainable use program in the world and aims at preserving until 2013 at least 60 million hectares of the Brazilian Amazon region through creation, consolidation and maintenance of Preservation Units (PUs). Coordinated by the Ministry of Environment, it is based on innovative public-private institutional joint operation that allows implementation of public policies using private sector structure and tools.

The ARPA Project expects to receive funds amounting to US\$400 million over 10 years. FUNBIO was elected by the Brazilian government and donors as the institution that will manage ARPA Project’s funds. The first project phase, which is about to be completed, involved investment of approximately US\$ 77 million from donations from the Global Environment Fund - GEF, WWF-World Wildlife Fund, KfW Entwicklungsbank (Development Fund from Germany) and Ministry of Environment, Preservation and Nuclear Safety from Germany - BMU. New funds are being negotiated for the second phase of the program, which will also receive funds from Fund for the Amazon Region.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

Notes to financial statements (Continued)

December 31, 2009 and 2008

(In thousands of reais)

1. Operations (Continued)

(i) Amazon Region Protected Areas Project (“ARPA”) (Continued)

▶ FAP - Protected Areas Fund

The Protected Areas Fund (FAP) is an endowment fund created by the Amazon Region Protected Areas Program (ARPA), in common agreement with the agencies in charge of the National Environmental Policy. The Fund’s main purpose is to support the long-term financial sustainability of fully protected conservation units consolidated under the ARPA Program and conservation units of sustainable use selected within the ARPA Program. This fund receives resources from donations and invests them in returnable financial investments. The net return on these investments may be used to support the conservation units or to capitalize the fund itself, depending on capitalization targets established for the fund to bear the expenses of a group of conservation units on a permanent basis.

As a financial mechanism supporting the management of the ARPA Project, FUNBIO is responsible for the following aspects in connection with FAP’s resources management:

1. Implement and manage the Protected Areas Fund (FAP), featured as a permanent endowment fund, in support of the sustainability of fully protected Conservation Units (CUs) consolidated by the Project and selected CUs of sustainable use;
2. Establish policies, procedures and general principles for the financial investment of funds and retain specialized asset management firms for the related investment;
3. Hire, supervise, monitor and evaluate the performance of financial asset management firms in compliance with the investment policy and the attainment of targeted results;
4. Prepare and present financial reports and balance sheets regarding the use and investment of FAP’s funds;
5. Engage independent audits on a regular basis; and
6. Supervise compliance with legal and contractual obligations, as well as with standards and procedures required by donors regarding the Fund’s financial and accounting aspects.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

Notes to financial statements (Continued)

December 31, 2009 and 2008

(In thousands of reais)

1. Operations (Continued)

Funbio's growth and the new opportunities that emerged therefrom gave rise to Business Units within its organizational structure: Applied Knowledge Unit (UN1), Financial Mechanisms Unit (UN2) and Program Management Unit (UN3). This new strategic profile enabled the Entity to secure new projects, thus starting the 3rd generation.

(i) ICMBio financial sustainability proposal

This 7-month-term project consists of a modeling and financial feasibility study for the National Conservation Units System (SNUC), for purposes of raising funds to Chico Mendes Biodiversity Conservation Institute (ICMBio) in its management and institutional modeling decisions. The project was concluded at the beginning of 2009.

(ii) Restructuring of Rio de Janeiro State Fund for Environmental Conservation and Urban Development (Fecam) and Environmental Compensation Fund modeling

In 2008, Funbio submitted to SEA-RJ (the Rio de Janeiro State Environment Department) a proposal for Fecam's institutional restructuring and an environmental compensation fund model. In addition to improving management of compensation funds, Funbio innovates by creating a mechanism that engages the private sector in the State environmental financing.

In 2009, Funbio managed the Pilot Fund using funds from environmental compensation originating in the process of Thyssenkrup - CSA Companhia Siderúrgica with the State Environment Institute - INEA.

At 2009 year end, Funbio and SEA entered into an agreement for operation, maintenance and control of the Mechanism for Biodiversity Preservation of the Rio de Janeiro State - FMA.

(iii) Brazilian savanna financial sustainability program

As a two-year-term, TNC (The Nature Conservancy)-funded project, this program is aimed to develop a financial sustainability strategy for the Brazilian savanna (*cerrado*) conservation, by establishing a fund that raises financial resources for the biome and is expected to protect a 2-million sq km area.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

Notes to financial statements (Continued)

December 31, 2009 and 2008

(In thousands of reais)

1. Operations (Continued)

(iv) Biodiversity and Agricultural Commodities Program

Funbio is the representative in Brazil to the Biodiversity and Agricultural Commodities Program (BACP). As such, it supports Chemonics consulting firm in building a strategy to transform the soybean supply chain market. To be effective for 5 years, the objective of this project is to help global biodiversity conservation within the agricultural scenario by transforming the market for four different commodities: soybean, palm oil, sugar cane and cocoa.

(v) Sustainable Juruti Project

In 2006, Alcoa looked for partnership work with Funbio and the Sustainability Studies Center (GVces) of Getúlio Vargas Foundation (FGV) to go beyond compulsory compensation and mitigation involved in the installation of a large venture in the Brazilian Amazon region; namely, bauxite mining in the municipality of Juruti, alongside Amazonas River, in western Pará state.

The Sustainable Juruti Project aims at ensuring a long-term agenda of sustainable development activities for the region that, after being implemented, will convert experience into national and international sustainability benchmark. The proposed sustainable development agenda for Juruti and surrounding area was fully discussed with the partners, public authorities and the population of Juruti. Based on agenda construction assumptions, the model presents three basic intervention elements, namely Sustainable Juruti Council (Conjus), Sustainable Development Indicators and Sustainable Juruti Fund (Funjus).

Pilot Funjus Program is managed by Funbio and received in 2009 contribution of R\$ 1,550. Funjus is a sustainable development project funding instrument for the region created by Funbio. It invests in the priorities defined by the Sustainable Juruti Council and considers sustainability indicators to evidence and measure the impacts of sponsored projects and the main transformations occurred by operation of social and environmental financing.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

Notes to financial statements (Continued)
December 31, 2009 and 2008
(In thousands of reais)

1. Operations (Continued)

(vi) **Project AFCoF -Atlantic Forest Conservation Fund or Fund for Rain Forest Preservation**

This project was prepared in 2008 and its first phase was developed in 2009, with investment of approximately R\$ 6.7 thousand in several initiatives. It involves a strategic partnership between Funbio and the Ministry of Environment, Preservation and Nuclear Safety of Germany (BMU), through KfW Entwicklungsbank (Development Bank of Germany), being focused on rainforests, among the most threatened around the world, of which only 7.26% are well preserved.

Giving continuity to AFCoF I activities, at the end of 2009 an agreement was entered into for the second phase, with contribution to Funbio of € 700 thousand in December 2009. For AFCoF II, second phase, to be started at the beginning of 2010, there will be support to the identification and UC creation initiatives by the Ministry of Environment (MMA), a new public bidding process for the private UCs to support RPPNs, besides the beginning of projects for Payment of Environmental Services and the development of a rainforest monitoring system. The amount approved by donator for the second phase amounts to € 6.5 million, to be performed in three years.

(vii) **Focus (Conservation and Sustainable Use Financing and Opportunities) Visão Brasil**

Having Arapyaú Institute for Education and Sustainable Development as its partner, the project - to be effective from October 2008 to January 2010 - is aimed at analyzing expansion of the sugar cane, soybean, livestock, fibers, energy and mining industries and their social and environmental impacts, prioritizing identification of barriers to be removed and incentives to be created, in addition to priority actions proposed for them to adopt alternative sustainable production and business models.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

Notes to financial statements (Continued)

December 31, 2009 and 2008

(In thousands of reais)

1. Operations (Continued)

(viii) Biodiversity Conservation Investments Database - BCID

Project coordinated by Funbio, in collaboration with ten environmental funds of RedLAC (Network of Environmental Funds of Latin America and Caribbean), aiming at providing better information on investments for preservation of the Andean-Amazon region through a public Internet portal. In June 2008, Funbio and RedLAC started building a Biodiversity Conservation Investments Database (BCID) for the Andean-Amazon region. Funded by Gordon and Betty Moore Foundation, which contributed US\$ 618,534 to the project, the objective of BCID is to help environmental funds, donors, government agencies, NGOs and other environmental community interest groups identify investment gaps and needs, thus improving allocation of new funds and coordination of initiatives towards the region conservation.

(ix) Brazil Fauna Fund

Resulting from a partnership between Funbio, Ibama, ICMBio and the Federal Prosecution Unit. It is an alternative to raise, leverage and invest funds from voluntary donations or penalties for damages to environment. By applying funds from fines or penalties, Brazil Fauna Fund enables performance of Brazilian-fauna-related research, damage mitigation and recovery projects. Seismic - the first of these projects - started up in 2008.

(x) National Biodiversity Project for Integrated Public and Private Initiatives (Probio II)

The project intends to promote transformation of current production, occupation and consumption models in Brazil, in public and private sectors, leading to the construction of sustainable production scenarios. Project objectives are:

(a) Promote definition of priorities and integration of preservation and biodiversity sustainable use (transversalization) in the main planning strategies and public and private sector practices, in Brazil; (b) Consolidate and strengthen institutional capacity to generate and distribute significant information and concepts related to biodiversity. Funbio is responsible for definition of biodiversity priorities in the private sector to incorporate preservation and biodiversity sustainable use in planning and practices of key private sector segments. Therefore, Funbio initiatives will focus on support to adoption of managerial practices and models, by private sector, reducing the environmental impact generated along the production chain.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

Notes to financial statements (Continued)

December 31, 2009 and 2008

(In thousands of reais)

1. Operations (Continued)

(x) National Biodiversity Project for Integrated Public and Private Initiatives (Probio II) (Continued)

To render the initiatives feasible, the Global Environment Fund -GEF, through the World Bank, entered into a donation agreement of US\$ 22 million with the Federal Savings and Loans Bank-CEF and Funbio, both in charge of receiving and management of funds, on March 14, 2008. Contract scope includes further US\$ 75 million collected by partners from government sources and private sector. Out of the total amount, US\$ 7.5 million will be transferred to Funbio, which will raise other US\$ 22.5 million. The project is scheduled to last 6 years.

2. Basis for preparation and presentation of financial statements and first time adoption of Law No. 11638/07 and Law No. 11.941

The financial statements were prepared in accordance with the accounting practices adopted in Brazil and the accounting provisions established by the Brazilian Corporation Law (Law No. 6404/76), with new provisions included, amended and repealed by Law No. 11638, dated December 28, 2007, and Law No. 11941, of May 27, 2009.

Authorization to conclude the preparation of the accompanying financial statements will be obtained at Funbio's Decision-making Board meeting to be held on April 16, 2010.

b) Changes in Brazilian accounting practices

With enactment of Law No. 11638/07, which introduced changes in Brazilian corporate legislation to allow convergence of Brazilian accounting practices with International Financial Reporting Standards (IFRS), new accounting standards and pronouncements have been issued by Brazilian FASB- CPC, in accordance with international accounting standards.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

Notes to financial statements (Continued)
December 31, 2009 and 2008
(In thousands of reais)

2. Basis for preparation and presentation of financial statements and first time adoption of Law No. 11638/07 and Law No. 11.941 (Continued)

b) Changes in Brazilian accounting practices (Continued)

To the date of these financial statements, 40 new accounting pronouncements had been issued by CPC and approved by CVM Rules, for mandatory application as from 2010. The pronouncements that may affect the financial statements of the Entity, considering its operations, are as under:

CPC 23 - Accounting Policies, Changes in Estimates and Correction of Errors
CPC 24 - Subsequent Events
CPC 26 - Presentation of Financial Statements
CPC 27 - Property, Plant and Equipment
CPC 30 - Revenues
CPC 32 - Income Taxes
CPC 37 - First Time Adoption of International Financial Reporting Standards
CPC 38 - Financial Instruments: Recognition and Measurement
CPC 39 - Financial Instruments: Presentation
CPC 40 - Financial Instruments: Evidence
CPC 43 - First Time Adoption of Accounting Pronouncements CPC 15 to 40
OCPC 03 - Financial Instruments: Recognition, Measurement and Evidence
ICPC 08 - Recording of Proposed Dividend Payment
ICPC 10 - Interpretation of First Time Application to Property, Plant and Equipment and Investment Property of Accounting Pronouncements
CPC 27, 28, 37 and 43

The Entity's management is analyzing the impacts of the changes introduced by these new pronouncements effective January 1, 2010. The Entity will measure the effects adventitiously generated on its financial statements for 2009, for purposes of comparison with the financial statements for the year ending December 31, 2010, as if these new pronouncements already were in effect since the beginning of the year ended December 31, 2009.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

Notes to financial statements (Continued)
December 31, 2009 and 2008
(In thousands of reais)

3. Significant accounting practices

a) Determination of profit and loss

Donations and funds from partnerships

Revenues from donations and partnership funds are recorded when actually received and expenses are recorded as incurred.

Funds obtained abroad

This is recorded as revenues when the financial resources invested abroad by the Fund Manager are transferred to a financial institution in Brazil, and matched with the account "Funds and reserves" under noncurrent liabilities.

b) Cash, cash equivalents, and financial investments

These comprise the cash balance, bank deposits and financial investments stated at cost, plus income earned and exchange rate changes through the balance sheet date.

c) Accounting estimates

The preparation of the financial statements in accordance with the accounting practices adopted in Brazil requires management to use its judgment to determine and record accounting estimates. Settlement of transactions involving these estimates may result in amounts significantly different from those recorded in the financial statements due to the uncertainties related to the estimation process. The Entity reviews its estimates and assumptions at least on an annual basis.

d) Foreign currency

Monetary assets denominated in foreign currencies were translated into reais at the foreign exchange rate in effect at the balance sheet date. Foreign currency translation gains and losses were recognized in net income for the year.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

Notes to financial statements (Continued)

December 31, 2009 and 2008

(In thousands of reais)

3. Significant accounting practices (Continued)

e) Fixed assets

These are recorded at acquisition or buildup cost (including interest and other financial charges). Depreciation is calculated under the straight-line method at the rates mentioned in Note 6, which take into consideration the estimated useful lives of the assets.

Replacement costs incurred to replace an item of fixed assets and which are recorded separately are classified under fixed assets. Other costs are capitalized only when there is an increase in the economic benefits of this item of fixed assets. Any other costs are recognized as expenses in the income statement.

f) Intangible assets

Recorded at acquisition or buildup cost (including interest and other financial charges). Amortization is calculated under the straight-line method and takes into consideration the estimated useful lives of the assets.

g) Other current assets

These are stated at cost or realization value, including, where applicable, accrued earnings and monetary variations to the balance sheet date.

h) Current and noncurrent liabilities

These are stated at known or determinable values, including, where applicable, the related accrued charges and monetary or exchange variations to the balance sheet date.

i) Provisions

A provision is recognized in the balance sheet when the Entity has a legal or constructive obligation arising from past events, the settlement of which is expected to result in an outflow of economic benefits. Provisions are recorded reflecting the best estimates of the risk involved.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

Notes to financial statements (Continued)

December 31, 2009 and 2008

(In thousands of reais)

3. Significant accounting practices (Continued)

j) Income taxes

As a nonprofit entity, the Entity is exempt from payment of income and social contribution taxes, as established in article 15 of Law No. 9532/97, provided the requirements of lines 'a' to 'e', paragraph 2, article 12 thereof are complied with.

k) Social Contribution Tax on Gross Revenue for Social Integration Program (PIS) and Social Contribution Tax on Gross Revenue for Social Security Financing (COFINS)

Pursuant to article 13 of Provisional Measure (MP) No. 2158-35, of 2001, nonprofit entities having registered employees, as defined by Brazilian Labor Law, will contribute to PIS at a fixed rate of 1% on total monthly payroll. These entities are exempt from PIS on revenues under the provisions of paragraph 1, article 14 of Provisional Measure No. 2158-35, provided that the requirements of article 12 of Law No. 9532/97 are complied with.

In accordance with item X, article 14 of Provisional Measure No. 2158-35 of 2001, COFINS shall not be levied on revenues recorded by nonprofit entities. Also in this case exemption will be subject to compliance with the requirements of article 12 of Law No. 9532/97.

4. Cash and cash equivalents

	<u>2009</u>	<u>2008</u>
Cash and banks – country	971	639
	<u>971</u>	<u>639</u>
Banks – abroad	4,185	1,785
	<u>4,185</u>	<u>1,785</u>
Financial investments - country		
Banco do Brasil/Fauna fund (Sismica)	1,680	2,234
Miscellaneous	2,476	11,461
	<u>4,156</u>	<u>13,695</u>
Financial investments - abroad	38	8,330
	<u>38</u>	<u>8,330</u>
	<u>9,350</u>	<u>24,449</u>

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

Notes to financial statements (Continued)

December 31, 2009 and 2008

(In thousands of reais)

4. Cash and cash equivalents (Continued)

Financial investments in the country refer substantially to short term investment funds presenting average 9% annual earnings, and Bank Deposit Certificates (CDBs) indexed to Interbank Deposit Certificates (CDI), which closed the year with 9.9% yields.

In 2009 (July to October) Funbio transferred to Brazil the funds from its Resource Fund - FRF, which in 2009 were invested in Interbank Deposit Certificates - CDI related investments and started being gradually transferred to Pragma Gestão de Patrimônio Ltda. Local portfolio presented performance of 4.05% in 2009 (July to December), representing 99% of CDI ,

Fauna Fund's investments in the country refer to the Seismic project with funds from IBAMA Process No. 02001.003030/2001-82, Commitment Agreement and Addendum thereto, entered into between IBAMA (the Brazilian Institute of the Environment and Renewable Natural Resources) and IAGC (International Association of Geophysical Contractors) (Federal Official Gazette of January 8, 2003, Technical Cooperation Agreement between IBAMA - Brazilian Institute of the Environment and Renewable Natural Resources and FUNBIO - Fundo Brasileiro para a Biodiversidade signed on November 28, 2006 and Official Letter No. 67/2007 - GP/IBAMA, dated January 18, 2007).

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

Notes to financial statements (Continued)
December 31, 2009 and 2008
(In thousands of reais)

5. Financial investments

	<u>2009</u>	<u>2008</u>
Financial investments - country		
Unibanco - Fauna Fund	-	20
Itau Fauna Fund	67	-
Itaú Unibanco FAP (a)	3,798	2,781
Itau FUNBIO - Pragma FRF (b)	13,953	-
Itau FUNBIO - FRF (b)	7,087	-
Miscellaneous	1,411	-
	<u>26,316</u>	<u>2,801</u>
Financial investments - abroad		
Itau Funbio (b)	3	26,800
Itau FAP (c)	46,659	56,972
	<u>46,662</u>	<u>83,772</u>
	<u>72,978</u>	<u>86,573</u>

- (a) FAP investments in the country derive from the three initial donations by O Boticário Franchising and Natura Cosméticos S.A., amounting to US\$ 200 thousand each, thus totaling US\$ 1,600 thousand, invested in an exclusive Unibanco Private fund.

Changes in balances of FAP investments in the country during 2009:

	<u>2009</u>	<u>2008</u>
Balances at January 1	2,781	1,749
Funds obtained	776	830
Yields	241	202
	<u>3,798</u>	<u>2,781</u>

- (b) In 2009, funds from Funbio Resource Fund (FRF) were transferred to Brazil, with a remaining residual balance abroad resulting from dividends recorded in the account. These funds had yield of 31.38%, while the local portfolio had yield of 4.05% in 2009 (July to December).
- (c) Financial investments abroad in 2009 basically comprise investments in securities, international shares FAP funds, which had yield of 9.85% in the year. FAP funds, by resolution of donators, were not transferred to Brazil and continue with Itaú Luxembourg and managed by Pragma Gestão de Patrimônio Ltda.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

Notes to financial statements (Continued)
December 31, 2009 and 2008
(In thousands of reais)

5. Financial investments (Continued)

Changes in balances of FAP investments abroad during 2009:

	<u>2009</u>	<u>2008</u>
Balance at January 1	56,972	29,775
Funds obtained	-	17,523
Yields	4,576	(2,340)
Exchange rate change	(14,869)	12,131
Investment management cost	(20)	(117)
	<u>46,659</u>	<u>56,972</u>
Balance at December 31		

6. Advances to suppliers

At December 31, 2009 and 2008, advances to suppliers basically comprise payments related to feeder and ship building expenses, for which goods have not yet been delivered given lack of authorization from the Harbors' Master Office, which precludes suppliers from issuing the respective invoices.

7. Fixed assets

	Annual depreciation rate - %	2009			2008	
		Cost	Additions and exclusions	Depreciation	Net book value	
Furniture and fixtures	10%	274	13	(177)	110	124
Machinery and equipment	10%	171	10	(83)	98	106
IT equipment	20%	583	17	(412)	188	178
Improvements held by third parties	4%	111		(26)	85	89
		<u>1,139</u>	<u>40</u>	<u>(698)</u>	<u>481</u>	<u>497</u>

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

Notes to financial statements (Continued)

December 31, 2009 and 2008

(In thousands of reais)

8. Third-party funds related to projects

These refer to funds obtained from partners but not yet used in projects. At December 31, the balance of third-party funds related to projects is broken down as follows:

	2009	2008
ARPA (i)	50,462	59,758
CSA - Thyssenkrup - Mata Atlântica (ii)	1,003	-
Alcoa - Fundo Juruti Sustentável (iii)	1,578	-
Other projects (iv)	294	136
	53,337	59,894

- (i) Funds from FAP (Protected Areas Fund) within the ARPA Project, endowment fund, deposited initially with AIG Private Bank Ltd (Asset Manager), and with Itaú Luxembourg from October 2008 on, derived from initial donations by GEF/BIRD (US\$750 thousand) and WWF- World Wildlife Fund (US\$750 thousand). In 2005, GEF/BIRD contributed US\$ 3,490 thousand, the same amount contributed by WWF- World Wildlife Fund. In 2006, GEF/BIRD contributed US\$1,644 thousand, WWF- World Wildlife Fund contributed US\$215 thousand, and O Boticário Franchising and Natura Cosméticos S.A. each contributed US\$200 thousand. In 2007, GEF/BIRD contributed US\$2,065 thousand, WWF- World Wildlife Fund contributed US\$1,070 thousand, and O Boticário Franchising and Natura Cosméticos S.A. each contributed US\$200 thousand. In 2008, GEF/BIRD contributed US\$ 6,551 thousand, WWF- World Wildlife Fund contributed US\$ 2,257 thousand, and O Boticário Franchising and Natura Cosméticos contributed US\$ 200 thousand each. In 2009, O Boticário Franchising and Natura Cosméticos contributed US\$ 200 thousand each
- (ii) Funds donated by Thyssenkrupp CSA Companhia Siderúrgica, from environmental compensation linked to environmental licenses No. FE 011733 and FE 011 695, to support the Preservation Universities of Rio de Janeiro State to render feasible the pilot FMA-RJ project related to the contract with SEA.
- (iii) Funds donated to Sustainable Juruti project through Alcoa World Alumina Brasil Ltda. Such donation was destined to fund sustainable development projects to be developed in Juruti - Pará State.
- (ii) Funds from Promar - R\$ 30 (R\$ 30 in 2008), RedLAC - R\$ 121 (R\$ 12 in 2008), Fauna Fund- R\$ 67 (R\$ 19 in 2008), Caatinga - R\$ 34 (R\$ 34 in 2008), and IPÊ - R\$ 42 (R\$ 41 in 2008).

9. Contingencies

In the normal course of its activities, the Entity adopts, for the purpose of computing and paying taxes and contributions, interpretations of laws and regulations based on the opinion of its legal and tax advisors, which may differ from those of the tax authorities.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

Notes to financial statements (Continued)

December 31, 2009 and 2008

(In thousands of reais)

9. Contingencies (Continued)

Taxes and contributions are subject to review and potential taxation within various statutes of limitation, as applicable.

The Fund is not a defendant in any proceeding of any nature.

10. Funds and reserves

These comprise funds donated by the World Bank from the Global Environment Facility (GEF) for the start-up of FUNBIO's activities, as well as subsequent donations, broken down as follows:

	<u>2009</u>	<u>2008</u>
Balance at January 1	12,123	15,856
Funds obtained abroad	<u>(2,600)</u>	<u>(3,733)</u>
Balance at December 31	<u>9,523</u>	<u>12,123</u>

11. Donations

	<u>2009</u>	<u>2008</u>
International Bank for Reconstruction and Development - BIRD (i)	(1,787)	11,904
WWF- World Wildlife Fund	-	1,341
KfW - Kreditanstalt fur Wiederaufbau	8,170	8,920
Moore Foundation	420	1,013
BMU KfW Arpa	3,870	4,637
Focus Visão Brasil (Arapyau Institute)	318	6,646
BMU KfW Atlantic Rain Forest - AFCoF II	1,750	-
International Bank for Reconstruction and Development - BIRD PROBIO	681	-
CSA Pilot Project FMA	2,259	-
Other (ii)	282	580
	<u>15,963</u>	<u>35,041</u>

(i) On April 30, 2009, FUNBIO returned the remaining funds to the World Bank due to the conclusion of the 1st ARPA project phase.

(ii) In 2009 the amounts refer to donations from TNC- The Nature Conservancy, from several donors to project CFA and from CI - Conservation International Foundation for Kayapo Project.. In 2008, the amounts refer to donations from ICMBio (Chico Mendes Biodiversity Conservation Institute), Alcoa Alumínio S.A. and TNC (The Nature Conservancy).

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

Notes to financial statements (Continued)
December 31, 2009 and 2008
(In thousands of reais)

12. Project costs

These refer to funds received in connection with the “fostering” projects, as shown below:

	<u>2009</u>	<u>2008</u>
Ford Foundation	409	77
Component 2.3 - ARPA	53	1,393
Fauna Fund (Seismic)	240	229
RedLac Project (i)	80	43
BCID Project	240	85
Component 4.1 BMU KFW Atlantic Rain Forest	5,483	240
Atlantic Rain Forest Fund	2,215	-
ARPA (ii)	14,707	12,587
Others	432	-
	<u>23,859</u>	<u>14,654</u>

(i) Funds received from Moore Foundation to the 9th RedLac Meeting, and annual fees received from Funbio as network member.

(ii) These refer to ARPA Project costs for the conservation units.

13. General and administrative expenses

	<u>2009</u>	<u>2008</u>
Payroll	7,439	5,786
Third-party services	1,693	1,900
Lease and maintenance	939	756
Travel and accommodation	884	1,166
Other	1,488	647
	<u>12,443</u>	<u>10,255</u>

14. Financial expenses

These refer basically to the foreign exchange variation.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

Notes to financial statements (Continued)
December 31, 2009 and 2008
(In thousands of reais)

15. Insurance

The insurance policies in effect at December 31, 2009 aim at protecting the Entity's premises against fire and electrical damage. Insurance policies are taken out at amounts considered sufficient by management to cover possible risks. The risk assumptions, in view of their nature, are not within the scope of a financial statement audit, and were not, therefore, reviewed by our independent auditors.

16. Financial and derivative instruments

The major financial instruments used by the Entity refer to financial investments, and their amounts approximate market value at the balance sheet date. Other financial assets and liabilities are included in the balance sheet at cost plus any related income and expenses, at amounts approximating realizable value.

For the years ended December 31, 2009 and 2008, the Entity did not enter into transactions involving derivative financial instruments.

17. Financial instruments and risk management

The amounts recorded in the asset and liability accounts as financial instruments are restated as contractually provided for at December 31, 2009 and correspond, approximately, to their market value. These amounts are substantially represented by cash and cash equivalents and trade accounts receivable.

The Entity's major financial instruments are as follows:

- (i) Cash and cash equivalents - stated at market value, which is equivalent to their book value;
- (ii) Miscellaneous advances - classified as financial assets held to maturity and accounted for at their contractual amounts, which are equivalent to realizable value.

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

Notes to financial statements (Continued)
December 31, 2009 and 2008
(In thousands of reais)

17. Financial instruments and risk management (Continued)

Risk factors

The major market risk factors affecting the Entity's business are as follows:

(i) Foreign exchange rate risk

The Entity has foreign-currency-denominated investments, mainly in US dollar and Euro. The Entity has no hedging instruments for protection in case of a significant decrease in the US dollar or any other foreign currency exchange rate.

(ii) Interest rate risk

The Entity has local-currency-denominated investments, mainly in floating-rate Bank Deposit Certificates (CDB), and it has no hedging instruments for protection in case interest rates fall significantly.

18. Cash movement of the ARPA project

Total funds received in 2009 and 2008 were as follows:

	2009	2008	Accumulated
GEF - Global Environment Facility	(1,787)	11,904	33,152
WWF - World Wildlife Fund	544	1,340	20,347
KfW - Kreditanstalt fur Wiederaufbau	8,170	8,920	41,449
BMU KfW ARPA	3,870	4,637	8,507
Yield	48	168	777
Foreign exchange variation	(944)	336	(3,213)
Total funds received	9,901	27,305	101,019

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

Notes to financial statements (Continued)
December 31, 2009 and 2008
(In thousands of reais)

18. Cash movement of the ARPA project (Continued)

The statement of applications of funds during 2009 and 2008 is as follows:

	2009	2008	Accumulated
Statement of project eligible costs (SOE)			
Category - GEF			
Component assets	-	211	572
Advisory services	202	1,142	3,077
Sustainable use subprojects	171	1,402	1,582
Recurring costs	2,299	8,133	21,116
Special services	-	601	4,427
Income generating subprojects	49	64	155
	2,721	11,553	30,929
Category – WWF – World Wildlife Fund			
Salaries and benefits	213	367	4,166
Advisory services	395	727	3,984
Travel and accommodation	580	146	2,802
Workshops and training	7	1	700
Equipment	73	58	3,988
Publication and videos	3	86	314
Direct administrative costs	612	287	3,456
Infrastructure	-	-	207
Vehicles	3	535	794
	1,886	2,209	20,411
Category – KfW			
Assets	554	1,004	6,420
Advisory services	1,066	984	4,011
Recurring costs	5,138	4,104	18,707
Special services	1,439	1,564	7,374
Construction works	946	18	2,754
	9,143	7,675	39,266
Category - KfW-BMU			
Assets	2,663	-	2,663
Advisory services	526	-	526
Recurring costs	1,815	-	1,815
Special services	177	-	177
Construction works	82	-	82
	5,263	-	5,263
Statement of total costs	19,013	21,437	95,869

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

Notes to financial statements (Continued)
December 31, 2009 and 2008
(In thousands of reais)

19. Cash movement of the Probio II Project

Total funds received in 2009 and 2008 were as follows:

	2009	2008	Accumulated
Probio II	681	-	681
Foreign exchange variation	(21)	-	21
Total contributions	660	-	660

The statement of applications of funds during 2009 and 2008 is as follows:

	2009	2008	Accumulated
Statement of project eligible costs (SOE)			
Category Probio II			
Component assets 5	55	-	55
Advisory services	48	-	48
Recurring costs	446	-	446
Statement of total costs	549	-	549

20. Changes in cash of Project BMU KfW Mata Atlântica - AFCoF I

Total funds received in 2009 and 2008 were as follows:

	2009	2008	Accumulated
BMU KfW Mata Atlântica - AFCoF I	-	6,646	6,646
Foreign exchange variation	-	184	184
Total funds received	-	6,830	6,830

FUNDO BRASILEIRO PARA A BIODIVERSIDADE - FUNBIO

Notes to financial statements (Continued)
December 31, 2009 and 2008
(In thousands of reais)

20. Changes in cash of Project BMU KfW Mata Atlântica - AFCoF I (Continued)

The statement of applications of funds during 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>	<u>Accumulated</u>
Statement of project eligible costs (SOE)			
BMU KfW Atlantic Rain Forest Category			
Component assets 1, 2, 3 and 4	2,976	-	2,976
Advisory services	713	-	713
Recurring costs	103	1	104
Special services	388	-	388
Construction works	370	-	370
Projects - Outlays	1,340	240	1,580
	<hr/>		<hr/>
Statement of Total Costs	5,890	241	6,131
	<hr/>		<hr/>

Rosa Maria Lemos de Sá
General Secretary

Vanderlei da Conceição de
Souza
Accountant CRC - 087.179-0

Hélcio Pereira de Oliveira
Financial Coordinator