

Report

Financial Statements

Brazilian Biodiversity Fund - FUNBIO

December 31, 2008 and 2007

with Report of Independent Auditors

BRAZILIAN BIODIVERSITY FUND - FUNBIO

FINANCIAL STATEMENTS

December 31, 2008 and 2007

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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

1. We have audited the accompanying balance sheet of Brazilian Biodiversity Fund - FUNBIO as of December 31, 2008, and the related statements of income, of changes in endowment funds and of changes in cash flows for the year then ended. These financial statements are the responsibility of the Entity's management. Our responsibility is to express an opinion on these financial statements.
2. 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.
3. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brazilian Biodiversity Fund - FUNBIO at December 31, 2008, and the results of its operations, changes in its endowment funds and changes in its financial position for the year then ended, in accordance with the accounting practices adopted in Brazil.

4. We have formerly audited the financial statements of Brazilian Biodiversity Fund for the year ended December 31, 2007, including the balance sheets, the statements of income, changes in endowment funds and changes in financial position for the year then ended, having expressed an unqualified opinion thereon dated May 12, 2008. As mentioned in Note 3, the accounting practices adopted in Brazil were changed as from January 1, 2008. The financial statements for the year ended December 31, 2007, except for the statement of changes in financial position, are presented together with the 2008 financial statements and were prepared in accordance with accounting practices adopted in Brazil in force until December 31, 2007 and, as allowed by Technical Pronouncement CPC 13 – First Time Adoption of Law No. 11638/07 and Provisional Executive Act No. 449/08, are not being restated with the adjustments for year-to-year comparison purposes.

Rio de Janeiro, April 16, 2009.

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



Mauro Moreira
Contador CRC - 1RJ 072.056/O - 2

Accountant CRC - 1RJ 072.056/O – 0

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

BRAZILIAN BIODIVERSITY FUND - FUNBIO

BALANCE SHEETS

December 31, 2008 and 2007

(In thousands of Reais)

	<u>2008</u>	<u>2007</u>
ASSETS		
Current assets		
Cash and cash equivalents (Note 4)	24,449	9,374
Financial investments (Note 5)	86,573	57,651
Advances to suppliers (Note 6)	363	433
Other	191	26
	<u>111,576</u>	<u>67,484</u>
Noncurrent assets		
Intangible assets	81	110
Fixed assets (Note 7)	497	495
	<u>578</u>	<u>605</u>
Total assets	<u>112,154</u>	<u>68,089</u>

BRAZILIAN BIODIVERSITY FUND - FUNBIO

	<u>2008</u>	<u>2007</u>
LIABILITIES AND ENDOWMENT FUNDS		
Current liabilities		
Suppliers	240	1,594
Payroll and related charges	1,014	733
Taxes	172	62
Third-party funds related to projects (Note 8)	59,894	33,336
Other accounts payable	1	34
	<u>61,321</u>	<u>35,759</u>
Noncurrent liabilities		
Funds and reserves (Note 10)	12,123	15,856
	<u>12,123</u>	<u>15,856</u>
Endowment funds		
Accumulated surplus	38,710	14,633
Surplus for the year	-	1,841
	<u>38,710</u>	<u>16,474</u>
Total liabilities and endowment funds	<u>112,154</u>	<u>68,089</u>

See accompanying notes.

BRAZILIAN BIODIVERSITY FUND - FUNBIO

STATEMENTS OF INCOME

Years ended December 31, 2008 and 2007

(In thousands of reais)

	<u>2008</u>	<u>2007</u>
Revenues		
Donations (Note 11)	35,041	26,701
Partnerships	6	79
Funds obtained abroad (Note 10)	3,733	2,139
Financial revenues	30,658	14,574
Other operating revenues	979	95
	70,417	43,588
Project costs (Note 12)	(14,654)	(19,240)
	55,763	24,348
Expenses		
General and administrative expenses (Note 13)	(10,255)	(6,782)
Financial expenses (Note 14)	(23,264)	(15,723)
Other operating expenses	(8)	-
	(33,527)	(22,505)
Other nonoperating expenses	-	(2)
Surplus for the year	22,236	1,841

See accompanying notes.

BRAZILIAN BIODIVERSITY FUND - FUNBIO

STATEMENTS OF CHANGES IN ENDOWMENT FUNDS

Years ended December 31, 2008 and 2007

(In thousands of reais)

	Accumulated surplus	Surplus for the year	Total
At December 31, 2006	13,446	1,187	14,633
Transfer to accumulated surplus	1,187	(1,187)	-
Surplus for the year	-	1,841	1,841
At December 31, 2007	14,633	1,841	16,474
Surplus for the year		22,236	-
Transfer to accumulated surplus	24,077	(24,077)	22,236
At December 31, 2008	38,710	-	38,710

See accompanying notes.

BRAZILIAN BIODIVERSITY FUND - FUNBIO

STATEMENTS OF CASH FLOWS Years ended December 31, 2008 and 2007 (In thousands of reais)

	2008	2007
Cash flows from operating activities		
Surplus for the year	22,236	1,841
Adjustments to reconcile surplus to cash generated by operating activities:		
Net book value of permanent assets written off	11	2
Depreciation and amortization	160	159
	22,407	2,002
Changes in assets and liabilities		
(Increase)/decrease in advances to suppliers	70	232
(Increase)/decrease in other assets	(165)	6
Increase/(decrease) in suppliers	(1,354)	462
Increase/(decrease) in other liabilities	567	256
Net cash used in operating activities	21,525	2,482
Cash flows from investing activities		
Acquisition of fixed assets	(132)	(109)
Acquisition of intangible assets	(12)	
Deferred charges	-	(7)
Net cash used in investing activities	(144)	(116)
Cash flows from financing activities		
Funds related to projects received	18,383	6,964
Earnings from funds related to projects received	4,647	-
Exchange gains on funds related to projects received	3,704	-
Financial management on funds related to projects received	(385)	-
Increase in funds and reserves	(3,733)	(2,139)
Net cash generated by financing activities	22,616	4,825
Increase in cash and financial investments	43,997	7,667
Statement of increase in cash and financial investments		
At the beginning of the year	67,025	59,358
At the end of the year	111,022	67,025
	43,997	7,667

BRAZILIAN BIODIVERSITY FUND - FUNBIO

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

(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; from WWF-World Wildlife Fund; from the German Development Bank – KfW; from 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:

BRAZILIAN BIODIVERSITY FUND - FUNBIO

NOTES TO FINANCIAL STATEMENTS--Continued
December 31, 2008 and 2007
(In thousands of reais)

1. Operations--Continued

(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. Partnership projects with *IPÊ* and *Caatinga* Association were concluded in 2007. Currently, there are no projects underway within the Partnership Fund scope.

(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 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.

(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 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. 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 phase of the project expects contributions totaling some US\$81.5 million, US\$63.40 million of which to be donated by: Global Environment Facility (GEF), WWF- World Wildlife Fund, the German Development Bank – KfW, and BMU.

BRAZILIAN BIODIVERSITY FUND - FUNBIO

NOTES TO FINANCIAL STATEMENTS--Continued
December 31, 2008 and 2007
(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;

BRAZILIAN BIODIVERSITY FUND - FUNBIO

NOTES TO FINANCIAL STATEMENTS--Continued
December 31, 2008 and 2007
(In thousands of reais)

1. Operations--Continued

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

- **FAP - Protected Areas Fund--Continued**

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.

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.

(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.

BRAZILIAN BIODIVERSITY FUND - FUNBIO

NOTES TO FINANCIAL STATEMENTS--Continued
December 31, 2008 and 2007
(In thousands of reais)

1. Operations--Continued

(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.

(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) 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.

BRAZILIAN BIODIVERSITY FUND - FUNBIO

NOTES TO FINANCIAL STATEMENTS--Continued
December 31, 2008 and 2007
(In thousands of reais)

Operations--Continued

(vi) Biodiversity Conservation Investments Database – BCID

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.

(vii) Brazil Fauna Fund

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.

2. Basis for preparation and presentation of financial statements and first time adoption of Law No. 11638/07 and Provisional Executive Act No. 449/08

Authorization to conclude the preparation of the accompanying financial statements was obtained at Funbio's Decision-making Board meeting held on April 16, 2009.

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 by Provisional Executive Act No. 449, of December 3, 2008.

BRAZILIAN BIODIVERSITY FUND - FUNBIO

NOTES TO FINANCIAL STATEMENTS--Continued
December 31, 2008 and 2007
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Basis for preparation and presentation of financial statements and first time adoption of Law No. 11638/07 and Provisional Executive Act No. 449/08-- Continued

In accordance with CVM Rule No. 565, of December 17, 2008, which approved accounting pronouncement from the Brazilian FASB (CPC 13) – First time adoption of Law No. 11638/07 and Provisional Executive Act No. 449/08, the Entity established January 1, 2008 as the transition date for the adoption of new accounting practices.

The transition date is defined as the starting point for adoption of the changes in accounting practices adopted in Brazil, and represents the reporting date as of which the Entity prepared its initial balance sheets adjusted by these new accounting provisions of 2008.

CPC 13 released companies from the obligation to apply the provisions set forth in NPC 12– Accounting Practices, Changes in Accounting Estimates and Correction of Errors upon the first-time adoption of Law No. 11638/07 and MP No. 449/08. This rule establishes that, in addition to separately identifying the effects of the new accounting practice adoption in the retained earnings/accumulated losses account, entities state their opening balance sheet for the account or group of accounts relating to the oldest period for comparison purposes, as well as other comparative amounts presented, as if the new accounting practice had always been in use.

The financial statements for the year ended December 31, 2007, presented together with 2008 financial statements, were prepared in accordance with the accounting practices adopted in Brazil until December 31, 2007 and, as allowed by Pronouncement CPC 13 – First time adoption of Law No. 11638/07 and Provisional Executive Act No. 449/08 have not been restated with the adjustments for year-to-year comparison purposes.

The balance sheet as of December 31, 2007 was reclassified for better financial statement presentation and comparability purposes. The amount of R\$ 90 was reclassified from Deferred charges to Fixed assets since it referred to improvements held by third parties.

BRAZILIAN BIODIVERSITY FUND - FUNBIO

NOTES TO FINANCIAL STATEMENTS--Continued
December 31, 2008 and 2007
(In thousands of reais)

2. Basis for preparation and presentation of financial statements and first time adoption of Law No. 11638/07 and Provisional Executive Act No. 449/08 -- Continued

Changes in accounting practices, which were taken into consideration when preparing or presenting the financial statements for the year ended December 31, 2008 and the opening balance sheet for January 1, 2008 were measured and recorded by the Company based on accounting pronouncements issued by the CPC and approved by the Brazilian Securities and Exchange Commission (CVM) and the National Association of State Boards of Accountancy (CFC):

- Framework for Preparing and Presenting Financial Statements, approved by CVM Rule No. 539, of March 14, 2008;
- CPC 01 Impairment of Assets, approved by CVM Rule No. 527 of November 1, 2007 ("CPC 01");
- CPC 03 - Statement of Cash Flows, approved by CVM Rule No. 547 of August 13, 2008 ("CPC 03");
- CPC 12 - Present Value Adjustments, approved by CVM Rule No. 564 of December 17, 2008 ("CPC 12");
- CPC 13 - First-Time Adoption of Law No. 11638/07 and Provisional Executive Act No. 449/08, approved by CVM Rule No. 565 of December 17, 2008 ("CPC 13");
- CPC 14 - Financial Instruments: Recognition, Measurement and Disclosure, approved by CVM Rule No. 566 of December 17, 2008 ("CPC 14").

BRAZILIAN BIODIVERSITY FUND - FUNBIO

NOTES TO FINANCIAL STATEMENTS--Continued
December 31, 2008 and 2007
(In thousands of reais)

Basis for preparation and presentation of financial statements and first time adoption of Law No. 11638/07 and Provisional Executive Act No. 449/08-- Continued

The opening balance sheet at January 1, 2008 (*transition date*) was prepared considering the exceptions required and some elective exemptions allowed by Accounting Pronouncement CPC 13, as follows:

(i) Exemption from presenting comparative financial statements:

The financial statements for 2007 are prepared based on the accounting practices effective in 2007. As mentioned above, the option provided by CPC No. 13 not to adjust financial statements for 2007 with accounting practices of 2008 was exercised by the Company.

(ii) Exemption from classification of financial instruments as of their original recording date:

Although CPC 14 establishes that classification of financial instruments shall be made as of their original recording date, for first time adoption purposes, CPC 13 allowed them to be classified as of the transition date, an option that was adopted by the Company.

(iii) Maintenance of balances under deferred charges until realization - elective exemption:

The Entity reclassified all the balances recognized in the Deferred charges group to the Fixed assets account on the transition date.

(iv) Considerations on discount to present value – elective exemption:

The Entity calculated the discount to present value based on a rough calculation on balances outstanding for each long term monetary asset and liability group of accounts, having not identified any transactions subject to this adjustment. The effects of adjustment to present value of short term monetary items were immaterial.

BRAZILIAN BIODIVERSITY FUND - FUNBIO

NOTES TO FINANCIAL STATEMENTS--Continued
December 31, 2008 and 2007
(In thousands of reais)

2. Basis for preparation and presentation of financial statements and first time adoption of Law No. 11638/07 and Provisional Executive Act No. 449/08-- Continued

(viii) Exception from application of the first periodic valuation of the economic useful lives of property and equipment:

The Entity adopted the exception allowed by CPC 13, and will therefore reevaluate estimates of the useful economic lives of its property and equipment to be effective, where applicable, from the year beginning January 1, 2009. Any changes in the useful economic lives of assets resulting from this revaluation, if significant, will be recorded as changes in accounting estimates and will be recognized prospectively.

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.

BRAZILIAN BIODIVERSITY FUND - FUNBIO

NOTES TO FINANCIAL STATEMENTS--Continued
December 31, 2008 and 2007
(In thousands of reais)

3. Significant accounting practices--Continued

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.

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.

BRAZILIAN BIODIVERSITY FUND - FUNBIO

NOTES TO FINANCIAL STATEMENTS--Continued
December 31, 2008 and 2007
(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.

BRAZILIAN BIODIVERSITY FUND - FUNBIO

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2008 and 2007

(In thousands of reais)

4. Cash and cash equivalents

	<u>2008</u>	<u>2007</u>
Cash and banks – country	639	656
	<u>639</u>	<u>656</u>
Banks – abroad	1,785	623
	<u>1,785</u>	<u>623</u>
Financial investments - country:		
Banco do Brasil / Fauna fund	2,234	2,849
Miscellaneous	11,461	3,105
	<u>13,695</u>	<u>5,954</u>
Financial investments – abroad:	8,330	2,141
	<u>8,330</u>	<u>2,141</u>
	<u>24,449</u>	<u>9,374</u>

Financial investments in the country refer substantially to short term investment funds presenting average 11% annual earnings, and Bank Deposit Certificates (CDBs) indexed to Interbank Deposit Certificates (CDI), which closed the year with 12.32% yields.

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).

BRAZILIAN BIODIVERSITY FUND - FUNBIO

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2008 and 2007

(In thousands of reais)

4. Cash and cash equivalents--Continued

Financial investments abroad consist of time deposits at average annual rates of 1.00% and 2.10% for 90- and 180-day terms, respectively, and money market deposit accounts at average rates of 0.05% p.a. plus the foreign exchange rate variation of the U.S. dollar.

5. Financial investments

	<u>2008</u>	<u>2007</u>
Financial investments – country:		
Unibanco - Fauna Fund	20	-
Unibanco FAP (a)	2,781	1,749
	<u>2,801</u>	<u>1,749</u>
Financial investments – abroad:		
Itau Funbio (b)	26,800	-
AIG Funbio (b)	-	26,127
Itau FAP (b)	56,972	-
AIG FAP (b)	-	29,775
	<u>83,772</u>	<u>55,902</u>
	<u><u>86,573</u></u>	<u><u>57,651</u></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\$ 1,200 thousand, invested in an exclusive Unibanco Private fund.

BRAZILIAN BIODIVERSITY FUND - FUNBIO

NOTES TO FINANCIAL STATEMENTS--Continued
December 31, 2008 and 2007
(In thousands of reais)

5. Financial investments--Continued

Changes in balances of FAP investments in the country during 2008:

	<u>2008</u>	<u>2007</u>
Balances at January 1	1,749	868
Funds obtained	830	777
Yields	202	104
	<u>2,781</u>	<u>1,749</u>

(b) Financial investments abroad are made up of investments in securities, foreign equities and funds, which yielded -13% (Funbio Reserve Fund) and -5% (FAP) in 2008 (initially at AIG Private Bank, and at Itaú Luxembourg from October onwards).

Changes in balances of FAP investments abroad during 2008:

	<u>2008</u>	<u>2007</u>
Balance at January 1	29,775	25,146
Funds obtained	17,523	6,187
Yields	(2,340)	3,772
Exchange rate change	12,131	(5,208)
Investment management cost	(117)	(122)
	<u>56,972</u>	<u>29,775</u>

6. Advances to suppliers

At December 31, 2008 and 2007, 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.

BRAZILIAN BIODIVERSITY FUND - FUNBIO

NOTES TO FINANCIAL STATEMENTS--Continued
 December 31, 2008 and 2007
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7. Fixed assets

	Annual depreciation rate - %	2008			2007
		Cost	Additions and exclusions	Depreciation	Net book value
Furniture and fixtures	10%	234	40	(150)	124
Machinery and equipment	10%	183	(12)	(65)	106
IT equipment	20%	503	79	(404)	178
Improvements held by third parties	4%	107	4	(22)	89
		1,027	111	(641)	497
					495

BRAZILIAN BIODIVERSITY FUND - FUNBIO

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2008 and 2007

(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:

	<u>2008</u>	<u>2007</u>
ARPA (i)	59,758	33,236
Other projects (ii)	136	100
	<u>59,894</u>	<u>33,336</u>

(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 each contributed US\$ 200 thousand.

(ii) Funds from Promar – R\$ 30 (R\$ 30 in 2007), RedLAC - R\$ 12 (R\$ 0 in 2007), Fauna Fund- R\$ 20 (R\$ 0 in 2007), Caatinga - R\$ 34 (R\$ 33 in 2007), and IPÊ – R\$ 40 (R\$ 37 in 2007).

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.

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

The Entity does not figure as defendant in any civil, tax or labor claims.

BRAZILIAN BIODIVERSITY FUND - FUNBIO

NOTES TO FINANCIAL STATEMENTS--Continued
December 31, 2008 and 2007
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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>2008</u>	<u>2007</u>
Balance at January 1	15,856	17,995
Funds obtained abroad	<u>(3,733)</u>	<u>(2,139)</u>
Balance at December 31	<u>12,123</u>	<u>15,856</u>

11. Donations

	<u>2008</u>	<u>2007</u>
International Bank for Reconstruction and Development – BIRD	11,904	3,624
WWF- World Wildlife Fund	1,341	10,009
KfW - Kreditanstalt fur Wiederaufbau	8,920	9,657
Moore Foundation	1,013	-
BMU KfW Arpa	4,637	-
BMU KfW Atlantic Rain Forest	6,646	-
Fauna Fund	-	2,700
Other (i)	<u>580</u>	<u>711</u>
	<u>35,041</u>	<u>26,701</u>

(i) These amounts in 2008 refer to donations from ICMBio (Chico Mendes Biodiversity Conservation Institute), Alcoa Alumínio S.A. and TNC (The Nature Conservancy). In 2007, the amounts refer to revenues from institutional and financial support donations to the event entitled "SP State Forum of Climate Changes and Biodiversity", by AIG Private Bank Ltd. and Cemig – Companhia Energética Minas Gerais, for activities at Funbio 10 Years event, and by Omnia Minérios Ltda. (Alcoa) to execute a proposed sustainable model for Juruti.

BRAZILIAN BIODIVERSITY FUND - FUNBIO

NOTES TO FINANCIAL STATEMENTS--Continued
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12. Project costs

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

	<u>2008</u>	<u>2007</u>
Terra Institute	-	54
Ford Foundation	77	111
Ecological Research Institute - IPÊ	-	102
Caatinga Association	-	24
Component 2.4 – ARPA	1,393	118
Fauna Fund (Seismic)	229	-
RedLac Project (i)	43	-
BCID Project	85	-
Component 4.1 BMU KFW Atlantic Rain Forest	240	-
ARPA (ii)	12,587	18,831
	<u>14,654</u>	<u>19,240</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>2008</u>	<u>2007</u>
Payroll	5,786	4,412
Third-party services	1,900	648
Lease and maintenance	756	405
Travel and accommodation	1,166	811
Other	647	506
	<u>10,255</u>	<u>6,782</u>

BRAZILIAN BIODIVERSITY FUND - FUNBIO

NOTES TO FINANCIAL STATEMENTS--Continued
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14. Financial expenses

These refer basically to the foreign exchange variation of and losses on investments abroad.

15. Insurance

The insurance policies in effect at December 31, 2008 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 market value.

For the years ended December 31, 2008 and 2007, the Entity did not enter into transactions involving derivative financial instruments.

BRAZILIAN BIODIVERSITY FUND - FUNBIO

NOTES TO FINANCIAL STATEMENTS--Continued
December 31, 2008 and 2007
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17. Financial instruments and risk management

In accordance with the provisions set forth by Accounting Pronouncement CPC 14, the Entity measured its financial instruments.

The amounts recorded in the asset and liability accounts as financial instruments are restated as contractually provided for at December 31, 2008 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 market value.
- (iii) Trade accounts receivable – deriving from provision of services and accounted for at their contractual amounts, which are equivalent to market value.

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.

BRAZILIAN BIODIVERSITY FUND - FUNBIO

NOTES TO FINANCIAL STATEMENTS--Continued
December 31, 2008 and 2007
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17. Financial instruments and risk management--Continued

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.

iii. Credit risk underlying donations

This risk is associated with the Entity's possible failure in securing new funds due to the current financial crisis.

18. Cash movement of the ARPA project

Total funds received in 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>	<u>Accumulated</u>
GEF - Global Environment Facility	11,904	3,624	34,939
WWF - World Wildlife Fund	1,340	10,009	19,803
KfW - Kreditanstalt fur Wiederaufbau	8,920	9,657	33,279
BMU KfW ARPA	4,637	-	4,637
Yield	168	140	729
Foreign exchange variation	336	(438)	-2,269
Total funds received	<u>27,305</u>	<u>22,992</u>	<u>91,118</u>

BRAZILIAN BIODIVERSITY FUND - FUNBIO

NOTES TO FINANCIAL STATEMENTS--Continued

December 31, 2008 and 2007

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18. Cash movement of the ARPA project--Continued

The statement of applications of funds during 2008 and 2007 is as follows:

	2008	2007	Accumulated
Statement of project eligible costs (SOE)			
Category - GEF:			
Component assets	211	37	572
Advisory services	1,142	309	2,875
Sustainable use subprojects	1,402	-	1,411
Recurring costs	8,133	1,815	18,817
Special services	601	1,730	4,427
Income generating subprojects	64	-	106
	<u>11,553</u>	<u>3,891</u>	<u>28,208</u>
Category - WWF:			
Salaries and benefits	367	2,103	3,953
Advisory services	727	1,418	3,589
Travel and accommodation	146	1,260	2,222
Workshops and training	1	322	693
Equipment	58	1,295	3,915
Publication and videos	86	97	311
Direct administrative costs	287	1,371	2,844
Infrastructure	-	40	207
Vehicles	535	57	791
	<u>2,209</u>	<u>7,963</u>	<u>18,525</u>
Category - KfW:			
Assets	1,004	1,827	5,866
Advisory services	984	1,453	2,945
Recurring costs	4,104	3,669	13,569
Special services	1,564	2,261	5,935
Construction works	18	584	1,808
	<u>7,675</u>	<u>9,794</u>	<u>30,123</u>
Statement of total costs	<u>21,437</u>	<u>21,648</u>	<u>76,856</u>

Pedro Wilson Leitão Filho
General Secretary

Marina Carlota Amorim Machado
Financial Coordinator

Vanderlei da Conceição de
Souza
Accountant
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