

The Amazon Fund

*(Managed by Banco Nacional de Desenvolvimento
Econômico e Social – BNDES)*

*(Convenience Translation into English from the
Original Previously Issued in Portuguese)*

Financial Statements

for the Year Ended

December 31, 2011

and Independent Auditor's Report

Deloitte Touche Tohmatsu Auditores Independentes

(Convenience Translation into English from the Original Previously Issued in Portuguese)

INDEPENDENT AUDITOR'S REPORT

To the Management of
The Amazon Fund
(Managed by the Brazilian Development Bank - BNDES)
Rio de Janeiro, RJ

We have audited the accompanying financial statements of the Amazon Fund (the "Fund"), which comprise the balance sheet as at December 31, 2011, and the statement of surplus, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Fund's management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting practices adopted in Brazil applicable to nonprofit entities, as well as for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements 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 Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

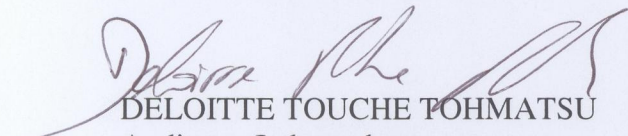
Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Amazon Fund as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with accounting practices adopted in Brazil applicable to nonprofit entities.

Other Matters

The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

Rio de Janeiro, April 20, 2012



DELOITTE TOUCHE TOHMATSU
Auditores Independentes



Marcelo Cavalcanti Almeida
Engagement Partner

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THE AMAZON FUND

(Managed by Banco Nacional de Desenvolvimento Econômico e Social - BNDES)

BALANCE SHEETS
As at December 31, 2011 and 2010
(In thousands of Brazilian reais - R\$)

	Note	2011	2010
ASSETS			
CURRENT			
Cash and cash equivalents	4	41,200	85,994
Total assets		<u>41,200</u>	<u>85,994</u>
LIABILITIES AND NET ASSETS			
CURRENT			
Project funds	5	39,934	84,394
NET ASSETS			
Accumulated surplus		1,266	1,600
Total liabilities and net assets		<u>41,200</u>	<u>85,994</u>

The accompanying notes are an integral part of these financial statements.

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THE AMAZON FUND

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STATEMENTS OF SURPLUS (DEFICIT)

For the Years Ended December 31, 2011 and 2010

(In thousands of Brazilian reais - R\$)

	Note	<u>2011</u>	<u>2010</u>
REVENUES			
Donations for investments	5	59,740	11,106
Donations for support	4	219	1,687
Financial income	4	8,344	5,244
EXPENDITURES			
Expenses on donations for investment	5	(59,740)	(11,106)
Expenses on income from project funds	5	(8,184)	(5,086)
Administrative expenses	6	(713)	(1,350)
(DEFICIT) SURPLUS FOR THE YEAR		<u>(334)</u>	<u>495</u>

The accompanying notes are an integral part of these financial statements.

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THE AMAZON FUND
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STATEMENTS OF CHANGES IN NET ASSETS
For the Years Ended December 31, 2011 and 2010
(In thousands of Brazilian reais - R\$)

	<u>Accumulated surplus</u>
Balance at December 31, 2009	<u>1,105</u>
Surplus for 2010	<u>495</u>
Balance at December 31, 2010	<u>1,600</u>
Deficit for 2011	<u>(334)</u>
Balance at December 31, 2011	<u><u>1,266</u></u>

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THE AMAZON FUND
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STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2011 and 2010
(In thousands of Brazilian reais - R\$)

	Note	<u>2011</u>	<u>2010</u>
OPERATING ACTIVITIES			
(Deficit) surplus for the year		(334)	495
Expenses on income from project funds	5	8,184	5,086
Income (loss) on advance of funds by BNDES		-	(143)
Funds from operating activities		<u>7,850</u>	<u>5,438</u>
FINANCING ACTIVITIES			
Funds raised to finance projects	5	7,096	54,557
Funds used in projects	5	<u>(59,740)</u>	<u>(11,106)</u>
Funds from financing activities		<u>(52,644)</u>	<u>43,451</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS			
		<u>(44,794)</u>	<u>48,889</u>
Cash and cash equivalents at beginning of year		85,994	37,105
Cash and cash equivalents at end of year	4	<u>41,200</u>	<u>85,994</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS			
		<u>(44,794)</u>	<u>48,889</u>

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NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

(In thousands of Brazilian reais - R\$)

1. GENERAL INFORMATION

Created under BNDES Resolution 1640, of September 3, 2008, The Amazon Fund is engaged in raising funds for non-reimbursable investments in the prevention, monitoring, and combat to deforestation, and in fostering the preservation and sustainable use of the Amazon rainforests, pursuant to Decree 6527, of August 1, 2008.

The Amazon Fund supports projects in the following areas:

- Management of public forests and protected areas;
- Environmental control, monitoring and inspection;
- Sustainable forest management;
- Economic activities developed from the sustainable use of forests;
- Ecological and economic zoning, territorial planning and land regularization;
- Preservation and sustainable use of biodiversity; and
- Recovery of deforested areas.

The Amazon Fund is managed by Banco Nacional de Desenvolvimento Econômico e Social (BNDES), which is also responsible for raising funds, contracting and monitoring the sponsored projects and actions.

The Entity has a Steering Committee (COFA), which is responsible for establishing guidelines and monitoring its performance.

The Amazon Fund became operational on October 9, 2009 with funds from donations.

As The Amazon Fund is not a legal entity on its own, its transactions are recorded in BNDES's specific accounts.

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NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

(In thousands of Brazilian reais - R\$)

2. PRESENTATION OF FINANCIAL STATEMENTS

The financial statements have been prepared and are presented in conformity with accounting practices adopted in Brazil for nonprofit entities, according to the Brazilian Accounting Standard (NBC) 10.19, approved by Federal Accounting Council (CFC) Resolution 877, dated April 18, 2000.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents include bank deposits and highly liquid short-term investments subject to an insignificant risk of change in value. These investments are classified as securities held for trading stated at cost plus income earned through the reporting date, and adjusted to fair value and classified in current assets. Income, gains and losses on these securities are recognized in profit or loss.

Project funds

Project funds refer to donations not yet used in projects. Pursuant to Decree 6527, of August 1, 2008, only 97% of the funds received should be allocated to projects. These amounts are recorded in liabilities, since they do not result in an increase or decrease in the Entity's equity, as the Fund is only the agent collecting and transferring funds for the projects.

Donations for support and administrative expenses

Pursuant to Paragraph 3 of article 1 of Decree 6527/2008, BNDES should allocate 3% of donations made to cover its operating costs and expenses relating to The Amazon Fund. The portion of donations for support is accounted for as income for the period, when actually received. Administrative expenses are recognized on the accrual basis.

Statement of cash flows

The Fund elected to present the statement of cash flows using the indirect method. The project funds were treated as financing activities, as the Fund acts solely as an agent collecting and transferring such funds.

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For the Year Ended December 31, 2011

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4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are broken down as follows:

	<u>2011</u>	<u>2010</u>
Unused funds (*)	3	6,647
Short-term investments	<u>41,197</u>	<u>79,347</u>
Fundo Gaia	39,934	77,949
BNDES	<u>1,263</u>	<u>1,398</u>
Total	<u><u>41,200</u></u>	<u><u>85,994</u></u>

(*) The Amazon Fund maintains an average amount of R\$3 (three thousand Brazilian Reais) in the bank account, whose amount is not invested, to cover administrative expenses, if any, charged by BNDES. In 2010, the account balance was R\$6,647 (six million six hundred and forty seven thousand Brazilian Reais), relating to the donation received by KFW as at December 31, 2010; such amount was held in the bank account up to January 3, 2011.

Pursuant to Decree 6527, of August 1, 2008, 97% of the donations received is used in projects. The Amazon Fund allocates these funds to a specific investment account. The funds are invested in Fundo Exclusivo Gaia, managed by Banco do Brasil DTVM, which are backed by government bonds and yield interest based on Fundo Gaia's return rate.

Changes in cash and cash equivalents are as follows:

	<u>2011</u>		
	<u>Total</u>	<u>Project funds (Fundo Gaia)</u>	<u>Funds for support</u>
Balance at December 31, 2010	85,994	84,394	1,600
Yield	8,344	8,184 (*)	160
Administrative expense	(713)	-	(713)
Funds released	(59,740)	(59,740)	-
Donation from Petrobras	7,315	7,096	219
Balance at December 31, 2011	41,200	39,934	1,266

(*) This amount includes R\$11,000 (eleven thousand Brazilian reais) relating to an adjustment to Income (loss) on advance of funds by BNDES, recorded in 2010.

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For the Year Ended December 31, 2011

(In thousands of Brazilian reais - R\$)

	<u>2010</u>		
	Total	Project funds (Fundo Gaia)	Funds for support
Balance at December 31, 2009	37,105	35,989	1,116
Yield	5,244	5,099	145
Interests on advance of funds by BNDES	(143)	(143)	
Administrative expense	(1,350)	-	(1,350)
Funds released	(11,106)	(11,106)	
Donations from the Norwegian Ministry of Foreign Affairs	49,600	48,111	1,489
Donations from KFW	6,644	6,444	200
Balance at December 31, 2010	85,994	84,394	1,600

5. PROJECT FUNDS

Project funds were received from the Norwegian Ministry of Foreign Affairs, KFW and Petrobras, and are earmarked to specific projects related to The Amazon Fund purposes.

The changes in the project funds are as follows:

	<u>2011</u>
Balance at December 31, 2010	84,394
Yield	8,184
Funds released	(59,740)
Donations received in 2011	<u>7,096</u>
Total	<u>39,934</u>
	<u>2010</u>
Balance at December 31, 2009	36,000
Yield	5,086
Interests on advance of funds by BNDES	(143)
Funds released	(11,106)
Donations received in 2010	<u>54,557</u>
Total	<u>84,394</u>

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The amount of R\$59,740 in 2011 (R\$11,106 in 2010) is recorded in “Revenue from donations for investments” and “Expenses on donations for investments”. This amount is recorded in both line items, resulting in a zero balance, as The Amazon Fund is a not-for-profit organization.

The project funds yield interest based on the same index as that used to adjust cash and cash equivalents.

Since the beginning of its activities until 31 December 2011, the Amazon Fund received funds from the following donors:

<u>Donor</u>	97%	100%
Norwegian Ministry of Foreign Affairs	83,468	86.049
KFW	6,444	6.643
Petrobrás	<u>7,096</u>	<u>7.315</u>
Total	<u>97,008</u>	<u>100.008</u>

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The amounts released for projects are as follows:

Beneficiary	Operations contracted	Amount released up to 2010	Amount released in 2011	Total amount released	Unreleased balance
State of Acre	60,000	-	31,557	31,557	28,443
City of Alta Floresta/MT	2,781	-	2,352	2,352	429
State of Amazonas	20,000	-	1,129	1,129	18,871
State of Mato Grosso / Bombeiros / MT	12,625	-	-	-	12,625
City of Carlinda/MT	1,871	-	1,160	1,160	711
Fundação Amazonas Sustentável (FAS)	19,169	3,999	3,110	7,109	12,060
Fundo DEMA	9,347	-	591	591	8,756
Fundo Brasileiro para a Biodiversidade (FUNBIO) / ARPA	20,000	4,999	-	4,999	15,001
Fundo Brasileiro para a Biodiversidade (FUNBIO) / KAYAPO	16,900	-	-	-	16,900
Instituto Floresta Tropical (IFT)	7,449	-	1,726	1,726	5,723
Instituto do Homem e Meio Ambiente da Amazônia (IMAZON)	9,736	-	3,577	3,577	6,159
Instituto Ouro Verde (IOV)	5,433	1,335	2,023	3,358	2,075
City of Marcelândia / MT	669	-	-	-	669
Museu da Amazônia (MUSA)	8,454	-	2,437	2,437	6,017
City of Porto dos Gaúchos/MT	134	-	121	121	13
State of Pará's Department of Environment	15,923	-	3,216	3,216	12,707
Instituto de Conservação Ambiental "The Nature Conservancy do Brasil" (TNC)	16,000	773	6,000	6,773	9,227
Fundação MURAKI/Universidade do Estado do Amazonas (UEA)	4,615	-	741	741	3,874
Fundação de Amparo e Desenvolvimento da Pesquisa (FADESP) / Universidade Federal do Pará	2,704	-	-	-	2,704
Total	233,810	11,106	59,740	70,846	162,964

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NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

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6. ADMINISTRATIVE EXPENSES

Administrative expenses in 2011 and 2010 are broken down as follows:

	<u>2011</u>	<u>2010</u>
Travel and lodging	510	474
Audit	113	68
Committees	8	16
Seminars and events	16	483
Advertising	55	304
Other expenses	<u>11</u>	<u>5</u>
Total	<u>713</u>	<u>1,350</u>

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NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended December 31, 2011

(In thousands of Brazilian reais - R\$)

SELMO ARONOVICH

Head of Financial Division

CARLOS FREDERICO RANGEL DE CARVALHO SILVA

Head of the Accounting Department

Accountant

CRC-RJ 087956/O-8