



TRANSLATION - Auditor's report

**Annual financial statements
as at December 31, 2011**

Caucasus Nature Fund
Offenbach am Main

Equity and Liabilities

	31/12/2011		31/12/2010	
	EUR	EUR	EUR	EUR
A. Equity				
I. Foundation capital				
1. Foundation capital including grants and contributions	8,122,017.91		8,122,017.91	
2. Income from realized asset restructuring	143,864.38	8,265,882.29	115,664.29	8,237,682.20
II. Reserves				
1. Free reserve - Section 58 (7a) of the German Tax Code (AO)	378,028.44		209,673.60	
2. Reserve - Section 58 (11b) of the German Tax Code (AO)	5,000,000.00		5,000,000.00	
3. Savings reserve - Section 58 (12) of the German Tax Code (AO)	233,432.75	5,611,461.19	233,432.75	5,443,106.35
III. Funds carried forward		38,768.24		0.00
		13,916,111.72		13,680,788.55
B. Provisions				
Miscellaneous provisions		47,059.74		50,720.00
C. Liabilities				
1. Liabilities re donations with conditional repayment obligations		1,134,753.14		627,184.32
2. Trade accounts payable		1,211.38		14,747.33
3. Other creditors		27,119.00		20,459.24
		1,163,083.52		662,390.89
		15,126,254.98		14,393,899.44

Caucasus Nature Fund, Offenbach am Main

Statement of income from January 1 to December 31, 2011

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1. Earnings from assets and other income
 - a) Income from assets
 - aa) Interest and similar income
 - ab) Income from realized asset restructuring
 - ac) Other operating income
 - b) Expenses for assets

Net income from assets

- c) Income from grants and subsidies

Net income

2. Projects and other expenses
 - a) Project and promotional expenses
 - aa) Promotional measures - projects
 - ab) Project development and technical services
 - ac) Project management
 - b) Administration expenses and other expenses
 - ba) Administration expenses
 - bb) Fundraising and advertising expenses
 - bc) Other operating expenses

Total project expenses and other expenses

3. Net income for the year (2010: net loss for the year)

4. Transfers from earnings reserves
5. Allocation to results from realized asset restructuring
6. Transfers to free reserve in accordance with Section 58 (7) of the German Tax Code (AO)

7. Funds carried forward

2011		2010	
EUR	EUR	EUR	EUR
455,347.13		348,432.92	
29,247.05		34,129.00	
0.00	484,594.18	8.17	382,570.09
	-48,659.52		-36,817.81
	435,934.66		345,752.28
	472,342.34		218,577.29
	908,277.00		564,329.57
-284,822.08		-289,579.22	
-44,506.88		-52,778.11	
-46,528.78	-375,857.74	-14,823.86	-357,181.19
-174,106.68		-126,885.03	
-121,339.83		-109,204.17	
-1,649.58	-297,096.09	-57.12	-236,146.32
	-672,953.83		-593,327.51
	235,323.17		-28,997.94
	0.00		28,997.94
	-28,200.09		0.00
	-168,354.84		0.00
	38,768.24		0.00

Caucasus Nature Fund, Offenbach am Main

Notes on the 2011 financial year

General information and explanations on the annual financial statements

With the Foundation Law of June 1, 2007, the Caucasus Nature Fund was formed as a public-law Foundation under the name of Caucasus Protected Areas Fund. Recognition by the Government's President was granted on June 25, 2007. The annual financial statements as at December 31, 2011 have been drawn up in accordance with the Foundation's rules of procedure based on the provisions of the German Commercial Code (HGB) for large joint stock companies (Sections 264 et seq. HGB) with the exception that the preparation and submission of a management report is waived.

The classification of balance sheet and statement of income items has taken account of the special features of the Fund arising from its legal structure as a Foundation. The statement of income was prepared using the cost of sales method pursuant to Section 275 (3) of the German Commercial Code (HGB).

For reasons of clarity, the structure of the statement of income was changed in comparison to the previous year to better reflect the activities of the Foundation. As a result, expenses for assets and income from assets are now shown as separate items. The figures from the previous year have been adjusted accordingly.

Accounting and valuation principles

Accounting and valuation methods have remained unchanged in comparison with the previous year.

Fixed assets and financial assets are valued in accordance with Section 255 (1) German Commercial Code (HGB). In the case of property, plant and equipment, performance-related depreciation is charged at the standard rates established on the basis of usage periods and straight-line methods recognized for taxation purposes. Financial assets are written down to their lower attributable value in the event of an anticipated permanent reduction in value.

Accounts receivable and other assets and balances at banks are stated at their respective nominal amounts.

The valuations of miscellaneous provisions include all identifiable risks and uncertain obligations. They are stated at the amount which is necessary on the strength of a prudent commercial assessment.

Liabilities are stated at their respective settlement amounts.

Business transactions concluded in foreign currencies are recorded at the rate on the date of the original transaction. Foreign currency receivables on the balance sheet date are valued at the lower rate of exchange on the initial recording date. Foreign currency liabilities on the balance sheet date are converted in accordance with the provisions of Section 256a of the German Commercial Code (HGB).

Bank balances denominated in foreign currencies are stated at the foreign exchange rates applicable as of the balance sheet date.

Notes on the balance sheet

The classification and development of fixed assets are shown as an integral part of the balance sheet in the Summary of Fixed Asset Movements.

Of the security portfolio forming part of the financial assets with a book value at the end of the report year in the amount of EUR 12,464,874.90, the following securities are shown at their attributable current values:

	Nominal value in EUR / shares	Book value EUR	Attributable current value EUR
Bonds			
MAN SE MTN	139,000.00	147,618.00	145,602.50
Thyssen Krupp AG MTN	135,000.00	147,487.50	146,623.50
Grenke Finance PLC MTN	147,000.00	149,425.50	149,205.00
Deutsche Bank step-up bonds	200,000.00	202,015.00	178,280.00
The Royal Bank of Scotland	150,000.00	150,375.00	144,060.00
Commerzbank AG certificates	500,000.00	505,250.00	481,200.00
Zurich FIN. (USA) INC. MTN	100,000.00	103,924.00	103,900.00
TelefonAktieBol. L.M.Ericsson	90,000.00	94,708.80	93,768.30
UBS AG (LDN.BR.) DAX Exp.	23,000 shares	2,300,000.00	2,162,000.00
		3,800,803.80	3,604,639.30
Investment shares			
Magellan SICAV Actions C O.N.	244 shares	400,811.24	362,371.72
Carmignac Invest. FCP SCT. Port.	34 shares	299,024.02	275,519.34
Tweedy, BR.V.Intl. VAL.FD	6609 shares	399,991.96	388,410.93
DWS Invest – Convertibles	2160 shares	299,921.26	269,308.80
JB Multist.-JB EQU.FD.SPEC.	3990 shares	405,926.33	384,755.70
		1,805,674.81	1,680,366.49
Total		5,606,478.61	5,285,005.79

No unscheduled write-downs to the lower market value were made in the case of the aforesaid financial instruments as at December 31, 2011 as it was assumed that no permanent reductions in value are involved. This assumption is justified by the fact that only short-term and minor fluctuations in the relevant market rates have occurred in the past.

As in the previous year, other assets are all due within one year.

On the balance sheet date, the Company shows foreign currency bank balances of 9,101,837.61 Armenian Drams, 56,819.62 Georgian Lari and 348,825.40 US Dollars.

The previous level of the Foundation's capital has remained fully intact.

EUR 168,354.84 was added to the free reserve within the meaning of Section 58 (7a) of the German Tax Code (AO) during the year under review. Earnings generated from realized asset restructuring and foreign exchange gains in the amount of EUR 28,200.09 were carried in the foundation capital during the year under review. The reserve in accordance with Section 58 (11b) AO and the so-called savings reserve in accordance with Section 58 (12) AO remained unchanged during the year under review.

Other provisions include outstanding invoices for consultancy services received in the report year, together with costs relating to asset management services and the annual financial statements.

Liabilities in connection with donations which are conditionally repayable relate to donations associated with a specific and individually agreed condition or a specific contractual arrangement with regard to the relevant use thereof and in respect of which the relevant donor has a repayment claim in the event of any non-performance. The liabilities in connection with conditionally repayable donations consist of two donations: EUR 636,273.84 resulting from a donation received in 2010 for use in Georgia, and EUR 498,479.30 resulting from a donation received during the year under review, intended for use in Armenia.

The liabilities in connection with conditionally repayable donations in the amount of EUR 1,134,753.14 have a residual term in excess of five years. All other liabilities have a residual term of less than one year as in the previous year.

Notes on the statement of income

In the 2011 financial year, the Foundation mainly received grants from the World Wide Fund for Nature Umweltstiftung Deutschland, the Bank of Georgia, Central Bank, Tiflis, Georgia, and the Conservation International Foundation, Arlington, Virginia, USA. Income from the use of conditionally repayable donations resulted in the amount of EUR 137,977.64.

Interest and similar income originate from time deposits and investment securities.

Expenses for assets are the result of fees for investment advice and custody account charges.

The item 'Expenses for project promotional measures' includes costs in connection with direct promotional measures in the Caucasus.

The item 'Expenses for project development and technical services' includes personnel expenses, legal consultancy costs and travelling expenses to the Caucasus in connection with promotional measures.

The item 'Project management expenses' only includes personnel costs.

Administration expenses include auditing and external bookkeeping costs, miscellaneous administration-related personnel costs, leases, expenses in connection with the administration of donations, consultancy costs and other operating expenses.

The raising of funds and advertising expenses include personnel costs, travelling and consultancy expenses in connection with the acquisition of funds.

Personnel expenses

	2011	2010
	EUR	EUR
Personnel expenses		
Wages and salaries	130,012.36	121,634.01
Social security contributions, pension and benevolent costs	59,911.29	49,258.30
	189,923.65	170,892.31

Miscellaneous information

Auditor's fee

The total fee charged by the year-end auditor in respect of the financial year is equivalent to approximately TEUR 17.1 and includes year-end audit work of approximately TEUR 15.8 and other services in the amount of TEUR 1.3.

Management Board:

Chairmen

Eva Witt

Director, eastern Europe, Caucasus, Central Asia, KfW Development Bank, Frankfurt am Main (as from January 14, 2011)

Michael Evers

Senior Manager Municipal Development and Environment, Europe, KfW Development Bank, Dreieich (until January 14, 2011)

Deputy chairman

Christoph Heinrich

Departmental Director, World Wide Fund for Nature Umweltstiftung Deutschland, Ruppach-Goldhausen

Finance director

Jorgen B. Thomsen
Director Conservation and Sustainable Development, MacArthur Foundation,
Chicago, USA

Additional members

Scott Dresser
General Counsel and Secretary, Virgin Media, London, UK

Ronnie Kent
Former Executive Vice President, Head of International Listings, New York Stock Exchange
Euronext,
London, UK (as from January 14, 2011)

Marion Urban, Sectional Head at the Federal Ministry for Economic Collaboration, Bonn
(until January 17, 2011)

The Management Board conducts its work on an honorary basis.

Director

David Morrison, Executive Director,
Paris, France

Number of employees

The Foundation had an average of four employees in the 2011 financial year (2010: three employees).

Offenbach am Main, May 18, 2012

Caucasus Nature Fund

The Management Board