



TRANSLATION - AUDITOR'S REPORT

Financial Statements as of 31 December 2015

Caucasus Nature Fund
Offenbach am Main

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KPMG AG Wirtschaftsprüfungsgesellschaft

Caucasus Nature Fund, Offenbach am Main

Balance sheet as of December 31, 2015

Assets

	Dec. 31, 2015	Dec. 31, 2014
	EUR	EUR
A. Fixed assets		
I. Property, plant and equipment		
Office machinery and other equipment	21,376.50	28,532.25
II. Financial assets		
Securities held as investments	19,442,290.16	19,243,861.44
	<u>19,463,666.66</u>	<u>19,272,393.69</u>
B. Current assets		
I. Other assets	6,369,949.27	581,895.08
II. Cash and cash equivalents	5,616,314.60	6,215,801.57
	<u>11,986,263.87</u>	<u>6,797,696.65</u>
C. Prepaid expenses	2,542.20	1,154.10
	<u>31,452,472.73</u>	<u>26,071,244.44</u>

Equity and Liabilities

	Dec. 31, 2015		Dec. 31, 2014	
	EUR	EUR	EUR	EUR
A. Equity				
I. Foundation capital				
1. Original capital	7,728,100.00		7,728,100.00	
2. Additional endowments	11,393,917.91		5,393,917.91	
3. Net capital gains	439,024.78	19,561,042.69	386,045.86	13,508,063.77
II. Reserves				
1. Unappropriated reserve pursuant to Section 62 (1) no. 3 of the German Tax Code (AO)	1,211,513.59		895,122.85	
2. Reserve pursuant to Section 62 (3) no. 2 AO	10,078,431.39		10,914,969.15	
3. Savings reserve pursuant to Section 62 (4) AO	233,432.75	11,523,377.73	233,432.75	12,043,524.75
III. Funds carried forward			0.00	0.00
			<u>31,084,420.42</u>	<u>25,551,588.52</u>
B. Provisions				
Other provisions		80,934.35		102,234.86
C. Liabilities				
1. Liabilities arising from donations with repayment obligations	243,403.51		389,165.92	
2. Liabilities to banks	0.00		1,638.60	
3. Trade payables	18,134.60		3,824.06	
4. Other liabilities	25,579.85		22,792.48	
		287,117.96		417,421.06
		<u>31,452,472.73</u>		<u>26,071,244.44</u>

Caucasus Nature Fund, Offenbach am Main

Income statement for the period from January 1 to December 31, 2015

1.	Investment income and other revenue
a)	Investment income
aa)	Dividend income
ab)	Interest and similar income
ac)	Realized capital gains
ad)	Other investment income
b)	Investment-related expenses
<hr/>	
	Net investment income
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c)	Other income
d)	Income from grants and subsidies
<hr/>	
	Net revenue
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2.	Grants and other expenses
a)	Grants and project expenses
aa)	Grants
ab)	Project development and technical services
ac)	Project management
b)	Administrative and similar expenses
ba)	Administrative expenses
bb)	Fundraising and communication expenses
bc)	Other operating expenses
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	Total project and other expenses
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3.	Net loss for the year
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4.	Transfers to net capital gains
5.	Transfer to unappropriated reserve pursuant to Section 62 (1) no. 3 AO
6.	Transfers from reserves pursuant to Section 62 (3) no. 2 AO
7.	Funds carried forward from prior year
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8.	Funds carried forward
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		2015		2014	
		EUR	EUR	EUR	EUR
		131,962.25		72,635.11	
		520,721.97		601,743.78	
		414,738.68		66,410.84	
		0.00	1,067,422.90	10,224.80	751,014.53
			-141,338.03		-135,047.92
			<u>926,084.87</u>		<u>615,966.61</u>
			19,729.61		
			322,817.44		338,448.04
			<u>1,268,631.92</u>		<u>954,414.65</u>
		-1,150,148.91		-988,404.64	
		-126,828.33		-109,385.72	
		-131,510.47	-1,408,487.71	-99,993.75	-1,197,784.11
		-224,317.48		-214,791.75	
		-81,327.26		-92,973.85	
		-21,667.57	-327,312.31	-642.62	-308,408.22
			<u>-1,735,800.02</u>		<u>-1,506,192.33</u>
			<u>-467,168.10</u>		<u>-551,777.68</u>
			-52,978.92		0.00
			-316,390.74		-193,006.81
			836,537.76		740,090.57
			0.00		4,693.92
			0.00		0.00

Caucasus Nature Fund, Offenbach am Main

Notes to the financial statements for the 2015 financial year

General disclosures and explanations on the financial statements

The Caucasus Nature Fund was established as a civil law foundation under the name of Caucasus Protected Areas Fund by means of an act of foundation of June 1, 2007. It was recognized by the government president on June 25, 2007. The financial statements for the year ended December 31, 2015 were prepared in accordance with the rules of procedure of the Foundation and the provisions of the German Commercial Code [HGB] for large corporations (Sections 264 et seqq. HGB) with the exception that preparation of a management report was dispensed with.

The breakdown of items in the balance sheet and income statement took account of the distinctive features arising from the activities of the Foundation.

The income statement was prepared on the basis of the cost of sales method pursuant to Section 275 (3) HGB taking into consideration the legal characteristics of foundations.

Accounting policies

The accounting policies remained unchanged from the prior year.

Property, plant and equipment and financial assets are measured at cost in accordance with Section 255 (1) HGB. Property, plant and equipment is depreciated using rates based on the useful life recognized for tax purposes under the straight-line method. Financial assets are written down to the lower of cost or fair value in the event of anticipated permanent impairment.

Receivables and other assets as well as cash at banks are stated at nominal value.

Values assigned to other provisions include all identifiable risks and contingent liabilities. They are recognized at the settlement amount required according to prudent commercial judgment.

Liabilities are recognized at settlement amount.

Transactions in foreign currencies are generally recorded at the exchange rate on the date of the transaction. Foreign currency receivables and liabilities are measured at the exchange rate applicable on the date of the transaction. Foreign currency items are generally translated at the rates applicable on the balance sheet date in accordance with the provisions of Section 256a HGB.

Valuation units are created for liabilities and pending transactions for some foreign currency balances in accordance with Section 254 HGB. As part of a valuation unit combining foreign currency balances with liabilities, compensatory valuation (micro hedge) for the effects of changes in foreign exchange rates is made as the valuation of two balance sheet items would move in opposing directions due to changes in exchange rates. Foreign currency credit balances and liabilities translating to EUR 243,403.51 were included in this type of valuation unit in the financial year. As part of a valuation unit combining foreign currency credit balances with pending transactions, compensatory valuation (micro hedge) for the effects of changes in foreign exchange rates is made as contractual payment obligations exist for the foreign currency credit balances held. Foreign currency credit balances and liabilities translating to EUR 176,920.95 were included in this type of valuation unit in the financial year. Had these been measured in euro at the rate applicable at the balance sheet date, the value of the foreign currency holdings would have risen by EUR 31,808.90. The corresponding liabilities would have risen by the same amount.

Explanatory notes on the balance sheet

The classification and movements in fixed assets are presented in the statement of movements in fixed assets as part of the balance sheet.

Financial assets include a securities portfolio with a book value of EUR 19,442,290.16 as of the end of the financial year. The following securities in the portfolio were recognized at amounts exceeding their fair value:

	Nominal value/shares	Book value	Fair value
	EUR	EUR	EUR
Bonds			
HSBC Cap.Fd.Lp.	360,000.00	367,740.00	362,016.00
Gazprom. CAP.S.A.LO.PA.	420,000.00	463,008.00	422,730.00
Glencore Fin. Europe	410,000.00	454,804.80	382,120.00
Pro Secure Fund	300,000.00	312,600.00	298,725.00
RCI Banque	430,000.00	460,650.40	449,995.00
Coöp. Cent. Raif. Boerenlkb.	269,292.46	273,851.58	254,815.82
Gerresheimer AG	405,000.00	460,282.50	438,453.00
Volkswagen	400,000.00	416,360.00	366,800.00
Bayer AG	400,000.00	403,900.00	400,000.00
Hannover Rück	100,000.00	99,750.00	98,120.00
Linde AG	197,142.54	205,442.24	189,621.99
K+S AG	240,000.00	275,572.80	271,848.00
Vonovia Finance	250,000.00	248,580.00	244,350.00
O2 Telefoni. Dtltd.	250,000.00	266,502.50	262,212.50
Hannover Rück	100,000.00	99,750.00	98,120.00
Arcelormittal S.A.MTN.	290,000.00	302,674.54	280,575.00
Hutchison Whmp. Int. Ltd.	250,000.00	256,819.30	256,475.00
Vale S.A.NT.	250,000.00	265,573.40	228,500.00
Neste Oil	250,000.00	263,203.94	258,187.50
Dt. Postbank	400,000.00	310,293.07	243,000.00
Glencore Fin. Europe	250,000.00	247,236.65	180,612.50
Spanien Bonos	400,000.00	410,011.97	395,720.00
Norwegen Anl.	268,399.33	285,931.04	261,493.28
GAZ Cap. S.A.MTN.	100,000.00	100,830.24	99,830.00
Grenke Finance	285,000.00	287,880.11	285,000.00
Deutsche Lufthansa AG	145,000.00	150,075.00	149,045.50
		7,689,324.08	7,178,366.09
Investment shares			
Linde AG	960 shares	140,040.48	128,208.00
		7,829,364.56	7,306,574.09

As of December 31, 2015 none of these financial investment had been written down to lower market values as they were not expected to be permanently impaired. This assumption was based on the fact that the fluctuations in market value that had occurred in the past were short term and negligible.

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

As of the balance sheet date, the Company reported credit balances with banks in foreign currencies as follows: AMD 97,199,143.83 (Armenian dram), GEL 705,786.44 (Georgian lari) and USD 362,064.67.

The Foundation's previous capital remained unchanged at the full amount. The German Federal Ministry for Economic Cooperation and Development [BMZ] promised to contribute EUR 6,000,000 to the Foundation's capital via Germany's KfW development bank [KfW]. The corresponding receivable is recorded under other assets.

EUR 316,390.74 was transferred to the unappropriated reserves within the meaning of Section 62 (1) no. 3 of the German Tax Code [AO] during the year under review. These reserves equaled EUR 1,211,513.59 as of December 31, 2015.

As of December 31, 2015, the reserves pursuant to Section 62 (3) no. 2 AO amounted to EUR 10,078,431.39. This amount has the following two components:

- a non-cash donation in the form of shares with an unchanged value of EUR 85,638.50
- the remaining amount of EUR 9,992,792.89, which comprised two separate grants made by the BMZ via KfW originally totaling EUR 12,000,000.00 (EUR 5,000,000.00 granted in December 2010 and EUR 7,000,000.00 granted in December 2012). According to the agreement with KfW, the grant must be used to fulfil the purpose of the Foundation by the year 2030 at the latest (the total grant is subsequently referred to as the '2030 Sinking Fund').

According to the agreement with KfW on the '2030 Sinking Fund', the original grant of EUR 12,000,000.00 must be divided into the following three segregated grant categories: (i) EUR 9,500,000.000 scheduled to cover administrative expenses and similar costs for the protected areas in the Caucasus; (ii) EUR 500,000.00 to be used for international advisors for technical assistance and services connected with the management of the protected areas; (iii) EUR 2,000,000.00 scheduled for administrative expenses in connection with the Foundation's own activities in the Caucasus.

The following table shows changes in the '2030 Sinking Fund' broken down by the three categories of grant described above:

Grant category	Balance as of Jan. 1, 2011	Balance as of Dec. 31, 2011	Balance as of Dec. 31, 2012	Balance as of Dec. 31, 2013	Balance as of Dec. 31, 2014	Appropriation in 2015	Balance as of Dec. 31, 2015
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
EUR 9.5 million. (first installment of EUR 5 million) for administrative and similar costs of protected areas	5,000,000	5,000,000	9,403,266	9,149,269	8,587,825	491,140	8,096,685
EUR 0.5 million for international advisors	N/A	N/A	500,000	495,463	480,889	135,057	345,832
EUR 2 million for CNF's activities in the Caucasus	N/A	N/A	2,000,000	1,924,689	1,760,616	210,341	1,550,275
Total grant of EUR 12 million (2030 Sinking Fund)	5,000,000	5,000,000	11,903,266	11,569,421	10,829,330	836,538	9,992,792

The reserve pursuant to Section 62 no. 4 AO (known as the 'savings reserve') remained unchanged in the year under review.

Other provisions include outstanding invoices for accounting services, asset management services, custody fees, year-end audit costs and telephone fees.

Liabilities arising from conditionally repayable donations result from donations to which a specific, separately agreed condition or an individual contractual provision regarding their use is attached and for which the donor can claim repayment if these conditions are not fulfilled. Liabilities arising from conditionally repayable donations are composed of two donations: liabilities of EUR 134,696.35 from the remaining amount of a donation received in 2010 of USD 825,500.00, specified for use in Georgia ('Georgia Sinking Fund'). Liabilities of EUR 108,707.16 from the remaining amount of a donation received in 2011 of USD 815,500.00, specified for use in Armenia ('Armenia Sinking Fund'). The liabilities arising from the Georgia Sinking Fund were translated into euro and originally measured at EUR 627,184.32. Liabilities arising from the Armenia Sinking Fund were originally measured at EUR 580,261.85.

Changes in liabilities arising from conditionally repayable donations are shown in the table below:

Changes in Georgia Sinking Fund

Date	Description	Amount
		EUR
Dec. 21, 2010	Amount originally received	627,184.32
	Grants made to protected areas	-25,000.00
2011	Interest income	35,046.00
	Bank charges and similar expenses	-956.48
Dec. 31, 2011		636,273.84
	Grants made to protected areas	-257,015.48
2012	Interest income	19,790.88
	Bank charges and similar expenses	-105.25
	Asset allocation gains	9,758.10
Dec. 31, 2012		408,702.09
	Grants made to protected areas	-150,110.91
2013	Interest income	19,522.45
	Bank charges and similar expenses	-27.40
	Exchange rate effects	101.13
Dec. 31, 2013		278,187.36
	Grants made to protected areas	-71,644.47
2014	Interest income	11,811.21
	Bank charges and similar expenses	-62.20
	Exchange rate effects	-7,976.66
Dec. 31, 2014		210,315.24
	Grants made to protected areas	-102,079.27
2015	Interest income	10,076.77
	Bank charges and similar expenses	-66.04
	Exchange rate effects	16,449.65
Dec. 31, 2015		134,696.35

Changes in Armenia Sinking Fund

Date	Description	Amount
		EUR
Mar. 29, 2011	Amount originally received	580,261.85
2011	Grants made to protected areas	-112,977.64
	Interest income	16,800.45
	Bank charges and similar expenses	-76.94
	Exchange rate effects	14,471.58
Dec. 31, 2011		498,479.30
2012	Grants made to protected areas	-181,971.88
	Interest income	21,826.38
	Bank charges and similar expenses	-98.82
	Exchange rate effects	-907.71
	Asset allocation gains	13,374.29
Dec. 31, 2012		350,701.56
2013	Grants made to protected areas	-129,465.13
	Interest income	15,707.62
	Bank charges and similar expenses	-23.07
	Exchange rate effects	-527.12
Dec. 31, 2013		236,393.86
2014	Grants made to protected areas	-62,746.09
	Interest income	9,895.24
	Bank charges and similar expenses	-10.71
	Exchange rate effects	-4,681.62
Dec. 31, 2014		178,850.68
2015	Grants made to protected areas	-89,246.36
	Interest income	7,470.42
	Bank charges and similar expenses	-214.84
	Exchange rate effects	11,847.26
Dec. 31, 2015		108,707.16

All liabilities have a remaining term of up to one year.

Included in other liabilities are taxes payable in the amount of EUR 1,666.37 and amounts due in respect of social security of EUR 8,836.00.

Explanatory notes on the income statement

Dividend income is derived from investment securities.

Interest and similar income are attributable to time deposits and investment securities.

Expenses for investment resulted from charges for investment advice and custody fees.

Income from grants and subsidies of EUR 191,325.63 in the 2015 financial year is from the appropriation of conditionally repayable donations. The same amount was recognized as a corresponding expense. The remainder is mainly from subsidies and donations from: Ruane, Cunniff & Goldfarb LLC – Acacia Conservation Fund and Sullivan & Cromwell LLP, USA, via The King Baudouin Foundation, USA.

Expenses for project grants included costs associated with direct promotional measures in the Caucasus.

Expenses for project development and technical services include personnel expenses, travel expenses to the Caucasus in connection with assistance measures and the costs of maintaining offices in Armenia and Georgia.

Expenses for project management included personnel expenses and the costs of offices maintained in Armenia and Georgia.

Administrative expenses include other administration-related personnel expenses, auditing and external accounting costs, rent, insurance premiums, advisory costs and other operating expenses.

Fund raising and advertising expenses include personnel expenses, travel expenses, advisory costs, event costs and other expenses related to fund raising.

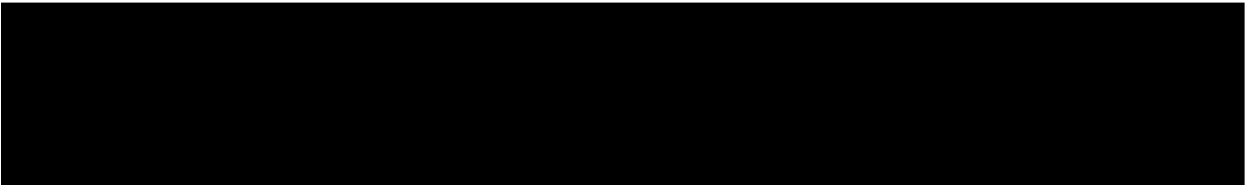
Other operating expenses under administrative and other expenses include other social contributions and expenses arising from currency translation.

Personnel expenses

	2015	2014
	EUR	EUR
Personnel expenses		
a) Wages and salaries	298,272.10	267,867.12
b) Social security	34,535.45	37,015.74
	322,807.55	304,882.86

Personnel expenses were higher than in the prior year because an additional employee and a temporary worker were hired for the office in Georgia.

Other disclosures



Board of Directors:

Chairwoman

- Eva Witt
Director, Eastern Europe, Caucasus and Central Asia, KfW Development Bank, Frankfurt am Main

Deputy Chairman

- Christoph Heinrich
Executive Officer, World Wide Fund for Nature Germany, Berlin

Chief Financial Officer

- Ronald Kent
Managing Director, Wholesale and Financial Policy at BBA, London, United Kingdom

Further member

- Scott Dresser (until March 31, 2016)
Group General Counsel, Vimpelcom, London, UK

The Board of Directors conducts its work on an honorary basis.

Managing Directors

- David Morrison (until March 31, 2016)
Executive Director, Berlin
- George (Geof) Giacomini (since April 1, 2016)
Executive Director, San Jose, USA

Number of employees

The Foundation employed an average of seven people in 2015.

Offenbach am Main, April 30, 2016

Caucasus Nature Fund

Management

Caucasus Nature Fund, Offenbach am Main

Movements in fixed assets during the 2015 financial year

	Cost			
	Jan. 1, 2015	Additions	Disposals	Dec. 31, 2015
	EUR	EUR	EUR	EUR
I. Property, plant and equipment				
Office machinery and equipment	46,849.25	1,229.96	237.86	47,841.35
II. Financial assets				
Securities held as investments	19,243,861.44	6,151,860.68	5,953,431.96	19,442,290.16
	19,290,710.69	6,153,090.64	5,953,669.82	19,490,131.51

Accumulated amortization and depreciation and depreciation during the				Book value		
Jan. 1, 2015	financial year	Disposals	Dec. 31, 2015	Dec. 31, 2015	Dec. 31, 2014	
EUR	EUR	EUR	EUR	EUR	EUR	EUR
18,317.00	8,385.71	237.86	26,464.85	21,376.50	28,532.25	
0.00	0.00	0.00	0.00	19,442,290.16	19,243,861.44	
18,317.00	8,385.71	237.86	26,464.85	19,463,666.66	19,272,393.69	