

Caucasus Nature Fund, Offenbach am Main

Balance sheet as of December 31, 2016

Assets

	Dec. 31, 2016	Dec. 31, 2015
	EUR	EUR
A. Fixed assets		
I. Property, plant and equipment		
Office machinery and other equipment	16.183,00	21.376,50
II. Financial assets		
Securities held as investments	20.947.044,01	19.442.290,16
	20.963.227,01	19.463.666,66
B. Current assets		
I. Other assets	226.426,08	6.369.949,27
II. Cash and cash equivalents	10.367.437,23	5.616.314,60
	10.593.863,31	11.986.263,87
C. Prepaid expenses	338,00	2.542,20
	31.557.428,32	31.452.472,73

Equity and Liabilities

	Dec. 31, 2016		Dec. 31, 2015	
	EUR	EUR	EUR	EUR
A. Equity				
I. Foundation capital				
1. Original capital	7.728.100,00		7.728.100,00	
2. Additional endowments	12.393.917,91		11.393.917,91	
3. Net capital gains	603.403,31	20.725.421,22	439.024,78	19.561.042,69
II. Reserves				
1. Unappropriate reserve pursuant to Section 62 (1) no. 3 Tax Code (AO)	1.356.356,96		1.211.513,59	
2. Reserve pursuant to Section 62 (3) no. 2 AO	9.031.403,06		10.078.431,39	
3. Savings reserve pursuant to Section 62 (4) AO	233.432,75	10.621.192,77	233.432,75	11.523.377,73
III. Funds carried forward		76.175,42		0,00
		31.422.789,41		31.084.420,42
B. Provisions				
Other provisions		98.614,97		80.934,35
C. Liabilities				
1. Liabilities arising from donations with repayment obligations		0,00		243.403,51
2. Trade payables		5.448,24		18.134,60
3. Other liabilities		30.575,70		25.579,85
		36.023,94		287.117,96
		31.557.428,32		31.452.472,73

Caucasus Nature Fund, Offenbach am Main

Income statement for the period from January 1 to December 31, 2016

1. Investment income and other revenue

- a) Investment income
 - aa) Dividend income
 - ab) Interest and similar income
 - ac) Payouts from funds
 - ad) Realized capital gains
 - ae) Other investment income
- b) Investment related expenses

Net investment income

- c) Other income
- d) Income from grants and subsidies

Net revenue

2. Projects and other expenses

- a) Project and grant expenses
 - aa) Grants projects
 - 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

Total project and other expenses

3. Net loss for the year

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

Caucasus Nature Fund, Offenbach am Main

Movements in fixed assets during the 2016 financial year

Cost				
	Jan. 1, 2016	Additions	Disposals	Dec. 31, 2016
	EUR	EUR	EUR	EUR
I. Property, plant and equipment				
Office Machinery and equipment	47.841,35	1.497,23	0,00	49.338,58
II. Financial assets				
Securities held as investments	19.442.290,16	4.739.084,17	3.234.330,32	20.947.044,01
	<u>19.490.131,51</u>	<u>4.740.581,40</u>	<u>3.234.330,32</u>	<u>20.996.382,59</u>

Accumulated amortization and depreciation				Book value		
Jan. 1, 2016	Amortization and depreciation during the financial year	Disposals	Dec. 31, 2016	Dec. 31, 2016	Dec. 31, 2015	
EUR	EUR	EUR	EUR	EUR	EUR	EUR
26.464,85	6.690,73	0,00	33.155,58	16.183,00	21.376,50	
0,00	0,00	0,00	0,00	20.947.044,01	19.442.290,16	
26.464,85	6.690,73	0,00	33.155,58	20.963.227,01	19.463.666,66	

Caucasus Nature Fund, Offenbach am Main

Notes to the financial statements for the 2016 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, 2016 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 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 542,487.11 were included in this type of valuation unit in the financial year.

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 20,947,044.01 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			
Linde AG	197,142.54 €	205,442.24 €	197,819.13 €
Volkswagen International N.V.	400,000.00 €	416,360.00 €	404,420.00 €
K+S AG	240,000.00 €	275,572.80 €	269,839.20 €
RCI Banque	430,000.00 €	460,650.40 €	434,536.50 €
Glencore Finance Europe	410,000.00 €	454,804.80 €	430,008.00 €
Gerresheimer AG	405,000.00 €	460,282.50 €	429,543.00 €
Gazprom. Capital .S.A.	420,000.00 €	463,008.00 €	423,150.00 €
Deutsche Pfandbrief BK. AG	320,000.00 €	324,640.00 €	324,489.60 €
LeasePlan Corporation	330,000.00 €	337,411.80 €	337,108.20 €
Grenke Finance plc	285,000.00 €	287,880.11 €	286,482.00 €
Deutsche Postbank AG	400,000.00 €	310,293.07 €	248,000.00 €
GAZ Capital S.A	100,000.00 €	100,830.24 €	100,250.00 €
Neste OYJ	250,000.00 €	263,203.94 €	251,400.00 €
Vale S.A.	250,000.00 €	265,573.40 €	260,812.50 €
Norwegen Anl.	268,399.33 €	285,931.04 €	267,673.31 €
BNP Paribas GmbH	100,000.00 €	101,929.46 €	99,940.00 €
Münchener Rückversicherungs-Gesellschaft AG	200,000.00 €	211,043.29 €	204,080.00 €
		5,224,857.09	4,969,551.44
Investment shares			
Danaher Corporation Registered Shares	2,000 St.	163,548.00 €	147,660.00 €
Continental AG	730 St.	159,459.85 €	133,918.50 €
CVS Health Corporation Registered Shares	1,390 St.	105,733.33 €	103,624.50 €
Alibaba Group Holding Ltd.	1,250 St.	105,875.30 €	103,512.50 €
Pictet-Group	675 St.	235,635.75 €	219,658.50 €
Grundbesitz Europa Inhaber-Anteile	12,100 St.	501,791.78 €	501,545.00 €
CANDR. BDS-CRE. OPP.IQEODI FUNDS	380 St.	585,659.80 €	575,160.40 €
ISHSIII-MSCI T.UK RE LSD Funds	18,430 St.	102,660.36 €	101,549.30 €
ISHSIII-MSCI T.USA RE DLD Funds	6,585 St.	155,477.19 €	154,813.35 €
Corestate Highstreet VI	1,311.85 St.	750,000.00	748,709.28

	Nominal value/shares	Book value	Fair value
	EUR	EUR	EUR
		2,865,841.36	2,790,151.33

As of December 31, 2016 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.

The other assets include receivables from NTA - a private partnership (GbR) whose partner next to PONT is CNF - in the amount of EUR 19,511.16. 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 55,339,955.45 (Armenian dram), GEL 552,869.25 (Georgian lari) and USD 712,310.10.

The Foundation's previous capital remained unchanged at the full amount. In the financial year the foundation capital received gains from realized capital transfers in the amount of EUR 164,378.53 as well as additional endowments in the amount of EUR 1,000,000.00 from KfW.

EUR 144,843.37 were 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 1,356,356.96 as of December 31, 2016.

As of December 31, 2016, the reserves pursuant to Section 62 (3) no. 2 AO amounted to EUR 9,031,403.06. 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 8,945,764.56, 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, 2012	Balance as of Dec. 31, 2013	Balance as of Dec. 31, 2014	Balance as of Dec. 31, 2015	Appropriation in 2016	Balance as of Dec. 31, 2016
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
EUR 9.5 Mio (first installment of EUR 5 million) for administrative and similar costs of protected areas	5,000,000	9,403,266	9,149,269	8,587,825	8,096,839	731,455	7,365,384
EUR 0.5 million for international advisors	N/A	500,000	495,463	480,889	345,832	40,796	305,036
EUR 2 million for CNF's activities in the Caucasus	N/A	2,000,000	1,924,689	1,760,616	1,550,121	274,777	1,275,344
Total grant of EUR 12 million (2030 Sinking Fund)	5,000,000	11,903,266	11,569,421	10,829,330	9,992,792	1,047,028	8,945,764

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. The liabilities arising from conditionally repayable donations have been completely dissolved in the financial year since the donations have been disposed of according to the respective conditions. The respective revenues are shown in the revenues from grants and allowances. The liabilities arising from conditionally repayable donations were composed of two donations: pFrom a donation received in 2010 in the amount of USD 825,500.00, specified for use in Georgia ('Georgia Sinking Fund') and from 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
	Grants made to protected areas	-147,961.87
2016	Interest income	0.00
	Bank charges and similar expenses	-35.39
	Exchange rate effects	13,300.91
Dec. 31, 2016		0.00

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
2016	Grants made to protected areas	-123,281.59
	Interest income	0.00
	Bank charges and similar expenses	-329.49
	Exchange rate effects	14,903.92
Dec. 31, 2016		0.00

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

Included in other liabilities are taxes payable in the amount of EUR 0.00 (PY: EUR 1,666.37) and amounts due in respect of social security of EUR 11,862.00 (PY: 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.

Payouts from funds result from investment securities shown in the shares of investment securities.

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

Income from grants and subsidies of EUR 271,243.46 in the 2016 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 include 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, on office team level with another foundation incurred personnel expenses, rent and other office expenses, own rent, travel expenses, insurance premiums, incidental bank charges, advisory costs and other operating expenses.

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

Personnel expenses

	2016	2015
	EUR	EUR
Personnel expenses		
a) Wages and salaries	332,063.96	298,272.10
b) Social security	35,100.39	34,535.45
	367,164.35	332,807.55

Personnel expenses were higher than in the prior year because vacancies with high price employees have been filled.

Other disclosures

Auditor's fee

The total fee charged by the auditor for the financial year amounted to approx. KEUR 30 and comprised solely of audit services for annual financial statements.

Board of Directors:

Chairwoman

- Eva Witt
Director, Eastern Europe, Caucasus and Central Asia, KfW Development Bank, Frankfurt am Main (until February 1, 2017)
- David Morrison
Conservationist; Non-Executive Director on Conservation Trust Fund and Public Company Boards; Berlin, Germany (Member since April 1, 2016 and chairman since February 1, 2017)

Deputy Chairman

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

Chief Financial Officer

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

Further member

- Scott Dresser
Group General Counsel, Vimpelcom; London, UK (until March 1, 2016)
- Ted Jonas
Of Counsel, DLA Piper; Tiflis, Georgien (seit 19. Januar 2017)

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

Managing Directors

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

Number of employees

The Foundation employed an average of seven people in 2016.

Events after the reporting period

Events after the reporting period of special importance did not occur

Offenbach am Main, August 18, 2017

Caucasus Nature Fund

Management