



TRANSLATION - Auditor's report

**Annual financial statements
as at December 31, 2012**

Caucasus Nature Fund
Offenbach am Main



Caucasus Nature Fund, Offenbach am Main

Balance sheet at December 31, 2012

Assets

	12/31/2012	12/31/2011
	EUR	EUR
A. Fixed assets		
I. Property, plant and equipment		
Office machinery and equipment and other fixed assets	8,142.71	4,739.21
II. Financial assets		
Investment securities	11,465,452.99	12,464,874.90
	<u>11,473,595.70</u>	<u>12,469,614.11</u>
B. Current assets		
I. Miscellaneous assets	240,535.99	259,418.96
II. Cash and cash equivalents	10,144,612.12	2,393,336.91
	<u>10,385,148.11</u>	<u>2,652,755.87</u>
C. Advance payments and prepaid expenses	8,389.21	3,885.00
	<u>8,389.21</u>	<u>3,885.00</u>
	<u>21,867,133.02</u>	<u>15,126,254.98</u>

Equity and liabilities

	12/31/2012		12/31/2011	
	EUR	EUR	EUR	EUR
A. Equity				
I. Foundation capital				
1. Original capital	7,728,100.00		7,728,100.00	
2. Capital contributions	393,917.91		393,917.91	
3. Net Capital gains	154,446.46	8,276,464.37	143,864.38	8,265,882.29
II. Reserves				
1. Free reserve - Section 58 (7a) of the German Tax Code (AO)	527,317.81		378,028.44	
2. Reserve - Section 58 (11b) of the German Tax Code (AO)	11,988,904.22		5,000,000.00	
3. Savings reserve - Section 58 (12) of the German Tax Code (AO)	233,432.75	12,749,654.78	233,432.75	5,611,461.19
III. Funds carried forward		0.00		38,768.24
		21,026,119.15		13,916,111.72
B. Provisions				
Miscellaneous provisions		45,500.00		47,059.74
C. Liabilities				
1. Liabilities re donations with conditional repayment obligations		759,403.65		1,134,753.14
2. Trade accounts payable		6,484.81		1,211.38
3. Other creditors		29,625.41		27,119.00
		795,513.87		1,163,083.52
		21,867,133.02		15,126,254.98

Caucasus Nature Fund, Offenbach am Main

Statement of income from January 1 to December 31, 2012

1. Investment Income and Other Revenue

- a) Investment Income
 - aa) Interest and similar income
 - ab) Realized Capital Gains
- b) Expenses for assets

Net Investment Income

- c) Revenue from Donations and Grants

Net Revenue

2. Grant and other expenses

- a) Grant 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

Total Grant and Other Expenses

3. Net income for the year

4. Transfers from reserves in accordance with Section 58 (11b) of the German Tax Code (AO)

5. Transfer to Foundation Capital - Realized Capital Gains

6. Transfers to earnings reserve in accordance with Section 58 (7a) of the German Tax Code (AO)

7. Funds carried forward from prior year

8. Funds carried forward

2012		2011	
EUR	EUR	EUR	EUR
491,721.34		455,347.13	
14,603.46	506,324.80	29,247.05	484,594.18
	-52,959.75		-48,659.52
	453,365.05		435,934.66
	782,912.15		472,342.34
	1,236,277.20		908,277.00
-810,397.07		-284,822.08	
-61,322.51		-44,506.88	
-54,001.20	-925,720.78	-46,528.78	-375,857.74
-154,948.31		-174,106.68	
-120,379.45		-121,339.83	
-10,859.73	-286,187.49	-1,649.58	-297,096.09
	-1,211,908.27		-672,953.83
	24,368.93		235,323.17
	96,734.28		0.00
	-10,582.08		-28,200.09
	-149,289.37		-168,354.84
	38,768.24		0.00
	0.00		38,768.24

Caucasus Nature Fund, Offenbach am Main

Notes on the 2012 financial year

General information and explanations on the annual financial statements

With the Foundation Establishment Act of June 1, 2007, the Caucasus Nature Fund was formed as a public-law Foundation under its original name as the Caucasus Protected Areas Fund. Recognition by the Government's President was granted on June 25, 2007. The annual financial statements as at December 31, 2012 have been drawn up in accordance with the Foundation's by-laws 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).

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 in principle recorded at the rate on the date of the original transaction. Foreign currency receivables and payables on the balance sheet date are valued at the lower rate of exchange on the initial recording date. Foreign currency items on the balance sheet date are in principle converted in accordance with the provisions of Section 256a of the German Commercial Code (HGB).

Foreign currency balances are valued as a unit with liabilities and with pending transactions in accordance with Section 254 HGB. When they are valued as a unit with liabilities, a valuation is made to compensate for the effects of exchange rate changes (micro hedge), as the value of both balance sheet items would run counter to each other due to the exchange rate changes. For this type of valuation unit, foreign currency balances and liabilities in the translated amount of EUR 469,742.83 were taken into account during the financial year. When foreign currency balances are valued as a unit with pending transactions, a valuation is made to compensate for the effects of exchange rate changes (micro hedge), as contractual payment obligations exist for the foreign currency balances that are held. For this type of valuation unit, foreign currency balances and obligations in the translated amount of EUR 427,134.67 were taken into account during the financial year. A revaluation performed on the reporting date would have led to a potential devaluation of EUR 12,378.07 to the foreign currency holdings. The corresponding liability would have decreased by the same amount.

Bank balances denominated in foreign currencies are stated at the foreign exchange rates applicable as of the balance sheet date, provided that no valuation units are formed with liabilities or pending transactions in accordance with Section 254 HGB.

Notes on the balance sheet

The classification and development of fixed assets are shown in the Summary of Fixed Asset Movements in appendix to the Notes.

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 11,465,452.99, the following securities are shown at their attributable current values:

	Nominal value/share	Book value	Attributable current value
	EUR	EUR	EUR
Bonds			
MAN SE MTN	139,000.00	147,618.00	141,440.84
Thyssen Krupp AG MTN	135,000.00	147,487.50	146,880.00
Commerzbank AG certificates	500,000.00	505,250.00	493,700.00
	774,000.00	800,355.50	782,020.84
Investment shares			
Bank of Georgia Holdings	6,000 shares	85,638.50	74,274.00
DWS Invest – Convertibles	2,160 shares	299,921.26	291,772.80
JB Multist.-JB EQU.FD.SPEC.	3,990 shares	405,926.33	394,890.30
		791,486.09	760,937.10
		1,591,841.59	1,542,957.94

No unscheduled write-downs to the lower market value were made in the case of the aforesaid financial instruments as at December 31, 2012, 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 18,719,128.44 Armenian Drams, 14,755.60 new Azerbaijani Manats, 78,016.17 Georgian Lari and 667,348.76 US Dollars.

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

Earnings generated from realized asset restructuring and foreign exchange gains in the amount of EUR 10,582.08 were carried in the foundation capital during the year under review.

EUR 149,289.37 was added to the free reserve within the meaning of Section 58 (7a) of the German Tax Code (AO) during the year under review.

A donation in the form of shares with a value of EUR 85,638.50, and a grant amounting to EUR 7,000,000.00, for which the respective party providing the grant expressly stated that it is meant to provide the Foundation with, or increase the Foundation's assets, were allocated to the reserves in accordance with Section 58 (11b) of the German Tax Code (AO). Together with the

grant of EUR 5,000,000.00 received from the same party in 2010 (which was also allocated to the reserves in accordance with Section 58 (11b) AO), the grant of EUR 7,000,000.00 must be used by 2030 at the latest with a view to fulfilling the purposes of the Foundation, in accordance with the agreement reached with the party that provided the grant. EUR 96,734.28 was withdrawn from the reserves in accordance with Section 58 (11b) AO, from the funds to be used by 2030. Therefore, the reserves in accordance with Section 58 (11b) AO developed as follows during the 2012 financial year:

	EUR
Balance at January 1, 2012 (to be used by 2030)	5,000,000.00
Withdrawal amounting to the funds used for promotional measures	96,734.28
Direct monetary contribution to the reserves to be used by 2030	7,000,000.00
Balance of the reserves to be used by 2030 at December 31, 2012	11,903,265.72
Direct contribution in kind to the reserves	85,638.50
Balance at December 31, 2012	11,988,904.22

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 and accounting services received during the year under review, 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 with 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: liabilities of EUR 408,702.09 resulting from a donation received in 2010 for use in Georgia, and EUR 350,701.56 resulting from a donation received in 2011 for use in Armenia. The liabilities in connection with conditionally repayable donations in the amount of EUR 759,403.65 have a residual term of four years. All other liabilities have a residual term of less than one year.

Notes on the statement of income

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.

In the 2012 financial year, the Foundation mainly received grants from the Critical Ecosystems Partnership Fund, contributed via the Conservation International Foundation, Arlington, Virginia, USA, as well as from the World Wide Fund for Nature Umweltstiftung Deutschland, and the Bank of Georgia, Central Branch, Tiflis, Georgia. Income from the use of conditionally repayable donations resulted in the amount of EUR 438,987.36.

Expenses for 'Grants' include costs in connection with direct promotional measures in the Caucasus.

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

Expenses for 'project management' include personnel costs and the costs of maintaining offices in Armenia and Georgia.

Administrative expenses include miscellaneous administration-related personnel costs, auditing and external accounting costs, leases, insurance premiums, consultancy costs and other operating expenses.

The Fundraising and communication expenses include personnel costs, organizational costs, travelling and consultancy expenses, and other costs in connection with the acquisition of funds.

Personnel expenses

	2012	2011
	EUR	EUR
Personnel expenses		
a) Wages and salaries	150,192.77	130,012.36
b) Social security contributions, pension and benevolent costs	62,775.09	59,911.29
	212,967.86	189,923.65

Personnel expenses increased in comparison to the previous year, as the offices in the Caucasus hired two new employees, while one employee left the office in Paris.

Other disclosures

Auditor's fee

The total fee charged by the year-end auditor in respect of the financial year is equivalent to approximately EUR 20.3 thousand and exclusively comprises year-end audit work.

Management Board:

Chairwoman

Eva Witt

First Vice President, East Europe, Caucasus, Central Asia, KfW Development Bank, Frankfurt am Main, Germany

Deputy Chairman

Christoph Heinrich

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

Finance Director

Jorgen B. Thomsen

Director of Conservation and Sustainable Development, MacArthur Foundation, Chicago, USA

Additional members

Scott Dresser

Consultant, Chicago, USA; Former General Counsel and Secretary, Virgin Media, London, UK

Ronnie Kent

Partner, h2glenfern, London, UK

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 during the 2012 financial year.

Offenbach am Main, April 11, 2013

Caucasus Nature Fund

The Management Board

Caucasus Nature Fund, Offenbach am Main

Summary of fixed asset movements in the 2012 financial year

	Acquisition costs			
	1/1/2012	Additions	Deductions	12/31/2012
	EUR	EUR	EUR	EUR
I. Property, plant and equipment				
Office machinery and equipment and other fixed assets	11,377.16	5,914.35	1,516.22	15,775.29
II. Financial assets				
Investment securities	12,464,874.90	844,065.15	1,843,487.06	11,465,452.99
	<u>12,476,252.06</u>	<u>849,979.50</u>	<u>1,845,003.28</u>	<u>11,481,228.28</u>

Cumulative depreciation				Net book values	
1/1/2012	Depreciation during the financial year	Deductions	12/31/2012	12/31/2012	12/31/2011
EUR	EUR	EUR	EUR	EUR	EUR
6,637.95	2,510.85	1,516.22	7,632.58	8,142.71	4,739.21
0.00	0.00	0.00	0.00	11,465,452.99	12,464,874.90
6,637.95	2,510.85	1,516.22	7,632.58	11,473,595.70	12,469,614.11

