



TRANSLATION - AUDITOR'S REPORT

Annual financial statements as at December 31, 2014

Caucasus Nature Fund
Offenbach am Main



Caucasus Nature Fund, Offenbach am Main

Balance sheet as of December 31, 2014

Assets

	Dec. 31, 2014	Dec. 31, 2013
	EUR	EUR
A. Fixed assets		
I. Property, plant and equipment		
Office machinery and Equipment	28,532.25	9,701.21
II. Financial assets		
Securities held as investments	19,243,861.44	15,407,990.38
	<u>19,272,393.69</u>	<u>15,417,691.59</u>
B. Current assets		
I. Other assets	581,895.08	375,431.97
II. Cash on hand, cash in banks	6,215,801.57	8,925,528.58
	<u>6,797,696.65</u>	<u>9,300,960.55</u>
C. Prepayments and accrued income	1,154.10	981.00
	<u>26,071,244.44</u>	<u>24,719,633.14</u>

Equity & liabilities

	Dec. 31, 2014		Dec. 31, 2013	
	EUR	EUR	EUR	EUR
A. Equity				
I. Foundation capital				
1. Original capital	7,728,100.00		7,728,100.00	
2. Additional endowments	5,393,917.91		3,393,917.91	
3. Net capital gains	386,045.86	13,508,063.77	386,045.86	11,508,063.77
II. Reserves				
1. Unappropriated reserve pursuant to Section 62 (1) no. 3 of the German Tax Code (AO)	895,122.85		702,116.04	
2. Reserve pursuant to Section 62 (3) no. 2 AO	10,914,969.15		11,655,059.72	
3. Savings reserve pursuant to Section 62 (4) AO	233,432.75	12,043,524.75	233,432.75	12,590,608.51
III. Funds carried forward				
		0.00		4,693.92
		<u>25,551,588.52</u>		<u>24,103,366.20</u>
B. Provisions				
Other provisions		102,234.86		67,391.04
C. Liabilities				
1. Liabilities arising from donations with repayment obligations	389,165.92		514,581.22	
2. Liabilities to banks	1,638.60		0.00	
3. Trade payables	3,824.06		9,384.08	
4. Other liabilities	22,792.48		24,910.60	
		417,421.06		548,875.90
		<u>26,071,244.44</u>		<u>24,719,633.14</u>

Caucasus Nature Fund, Offenbach am Main

Income statement for the period from January 1 to December 31, 2014

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

Net investment income

c) Income from grants and subsidies

Net revenue

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

Total project and other expenses

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

4. Transfers from reserves pursuant to Section 62 (3) no. 2 AO

5. Transfers to net capital gains

6. Transfer to unappropriated reserve pursuant to Section 62 (1) no. 3 AO

7. Funds carried forward from prior year

8. Funds carried forward

2014		2013	
EUR	EUR	EUR	EUR
72,635.11		21,070.26	
601,743.78		520,725.29	
66,410.84		231,424.75	
10,224.80	751,014.53	174.65	773,394.95
	-135,047.92		-101,086.07
	615,966.61		672,308.88
	338,448.04		558,526.76
	954,414.65		1,230,835.64
-988,404.64		-701,078.88	
-109,385.72		-124,395.64	
-99,993.75	-1,197,784.11	-58,554.35	-884,028.87
-214,791.75		-166,826.18	
-92,973.85		-72,824.41	
-642.62	-308,408.22	-29,909.13	-269,559.72
	-1,506,192.33		-1,153,588.59
	-551,777.68		77,247.05
	740,090.57		333,844.50
	0.00		-231,599.40
	-193,006.81		-174,798.23
	4,693.92		0.00
	0.00		4,693.92

Caucasus Nature Fund, Offenbach am Main

Notes to the financial statements for the 2014 financial year

General disclosures and notes concerning the annual 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, 2014 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. In this connection, reference is made to the amendment of the German Tax Code [AO] in the course of which particular contents were summarized in new paragraphs. From January 1, 2014, Section 58 no. 7a AO is replaced by Section 62 (1) no. 3 AO, Section 58 no.11b AO by Section 62 (3) no. 2 AO and Section 58 no. 12 AO by Section 62 (4) AO.

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 389,165.92 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 804,456.11 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 21,787.88. The corresponding liabilities would have risen by the same amount.

Explanatory notes to 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 19,243,861.44 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			
Gazprom. CAP.S.A.LO.PA.	420,000.00	463,008.00	386,400.00
Dt. Bank Cap.Fd.Tr.Xi	330,000.00	366,300.00	335,280.00
Pro Secure Fund	300,000.00	312,600.00	310,881.00
Coöp. Cent. Raif. Boerenlkb.	269,292.46	273,851.58	252,821.25
Gerresheimer AG	405,000.00	460,282.50	453,600.00
Unicredit S.P.A.MTN.	440,000.00	458,739.60	447,964.00
Linde AG	197,142.54	205,442.24	204,123.20
K+S AG	240,000.00	275,572.80	271,224.00
Carlsberg Breweries	125,000.00	127,175.00	126,862.50
Kommunalbanken	266,244.23	275,139.43	222,207.48
Skandi. Enski. Banken	250,000.00	277,333.18	254,185.00
Dt. Postbank	400,000.00	310,293.07	269,600.00
GAZ Cap.S.A.NT	150,000.00	154,756.41	145,350.00
Norwegen Anl.	239,105.74	244,415.46	224,021.23
HSBC CAP.	280,000.00	291,623.46	287,828.80
GAZ Cap. S.A.MTN.	100,000.00	100,830.24	91,775.00
Skandi. Enski. Banken	100,000.00	106,782.03	101,674.00
		4,704,145.00	4,385,797.46
Investment-shares			
Heidelbergcement AG	2,300 shares	142,223.86	134,895.00
Total S.A.Actions AU Porteur	3,700 shares	167,403.67	158,175.00
Telenor ASA Navne-Aksjer NK 6	7,080 shares	117,997.78	116,303.16
ISHARES PLC-MSCI WO.	33,000 shares	995,982.61	990,660.00
		1,423,607.92	1,400,033.16
		6,127,752.92	5,785,830.62

As of December 31, 2014 none of these financial instruments 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 securities held for investment, these financial instruments are by nature held for the long term, and are regularly reviewed by the Board's investment committee.

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

As at the balance sheet date, the Company reported credit balances with banks in foreign currencies consisting of AMD 48,957,866.36 (Armenian dram), AZN 121.24 (Azerbaijani manat), GEL 562,372.38 (Georgian lari) and USD 529,332.92.

The Foundation's previous capital remained unchanged at the full amount. The German Federal Ministry for Economic Cooperation and Development [BMZ] made a contribution of EUR 2,000,000 to the Foundation's capital via Germany's KfW development bank [KfW].

In the reporting year, EUR 193,006.81 was transferred to the free reserve within the meaning of Section 62 (1) no. 3 AO. These reserves amount to EUR 895,122.85 as of December 31, 2014.

Reserves according to Section 62 (3) no. 2 AO amount to EUR 10,914,969.15 as of December 31, 2014. This amount is composed of two components:

- a non-cash benefit in the form of shares with a value of EUR 85,638.50,
- the remaining amount of EUR 10,829,330.65, 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 9,500,000.00 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 at Jan. 1, 2011	Balance at Dec. 31, 2011	Balance at Dec. 31, 2012	Balance at Dec. 31, 2013	Appropriation in 2014	Balance at Dec. 31, 2014
	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	561,444	8,587,825
EUR 0.5 million for international advisors	N/A	N/A	500,000	495,463	14,574	480,889
EUR 2 million for CNF's activities in the Caucasus	N/A	N/A	2,000,000	1,924,689	164,073	1,760,616
Total grant of EUR 12 million (2030 Sinking Fund)	5,000,000	5,000,000	11,903,266	11,569,421	740,091	10,829,330

Reserves pursuant to Section 62 (4) AO remained unchanged in the reporting year and amount to EUR 233,432.75 as of December 31, 2014.

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

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 210,315.24 result 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 178,850.68 result 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

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

Liabilities arising from conditional repayment donations of EUR 389,165.92 had a remaining term of two years. All other liabilities have a remaining term of less than one year.

Other liabilities include tax liabilities of EUR 1,746.55.

Explanatory notes to 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 134,390.56 in the 2014 financial year is derived from the appropriation of conditionally repayable donations. The same amount was recognized as a corresponding expense. The remainder mainly results from subsidies and donations from: Ruane, Cunniff & Goldfarb LLC – Acacia Conservation Fund via The King Baudouin Foundation, USA and Bank of Georgia, Georgia.

Expenses for 'project grants' include costs associated with direct assistance 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

	2014	2013
	EUR	EUR
Personnel expenses		
a) Wages and salaries	267,867.12	220,405.76
b) Social security contributions	37,015.74	31,199.16
	304,882.86	251,604.92

Personnel expenses increased over the prior year as the full annual salary of one staff member employed in mid-2013 was included for the first time in the 2014 financial year.

Other disclosures

[REDACTED]

[REDACTED]

[REDACTED]

Board of Directors:

Chairman

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

Deputy Chairman

- Christoph Heinrich
Executive Officer, World Wide Fund for Nature Umweltstiftung Deutschland, Ruppach-Goldhausen

Chief Financial Officer

- Ronald Kent
Consultant, London, UK

Other members

- Scott Dresser
Group General Counsel, Vimpelcom, London, UK

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

Managing director

- David Morrison, Executive Director, Berlin

Number of employees

The Foundation employed an average of six people in 2014.

Offenbach am Main, February 23, 2015

Caucasus Nature Fund

The Management

Caucasus Nature Fund, Offenbach am Main

Movements in fixed assets during the 2014 financial year

	Cost			
	Jan. 1, 2014	Additions	Disposals	Dec. 31, 2014
	EUR	EUR	EUR	EUR
I. Property, plant and equipment				
Office machinery and equipment	21,455.25	26,249.30	855.30	46,849.25
II. Financial assets				
Securities held as investments	15,407,990.38	8,564,391.27	4,728,520.21	19,243,861.44
	15,429,445.63	8,590,640.57	4,729,375.51	19,290,710.69

Accumulated amortization and depreciation				Book value	
Jan. 1, 2014	Amortization and depreciation during the financial year	Disposals	Dec. 31, 2014	Dec. 31, 2014	Dec. 31, 2013
EUR	EUR	EUR	EUR	EUR	EUR
11,754.04	7,418.26	855.30	18,317.00	28,532.25	9,701.21
0.00	0.00	0.00	0.00	19,243,861.44	15,407,990.38
11,754.04	7,418.26	855.30	18,317.00	19,272,393.69	15,417,691.59

