Caucasus Nature Fund
Annual Report 2012

CAUCASUS NATURE FUND

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Introduction

The Caucasus
The Caucasus is one of the most biologically rich regions on Earth. Home to an unusually high number of endemic plant and animal species, it ranks as one of only 34 biodiversity "hotspots" according to both Conservation International and WWF.

Formed by the isthmus between the Black and Caspian Seas, the Caucasus ecoregion is a biological crossroads where plant and animal species from Europe, Central Asia, the Middle East, and North Africa mingle with endemic species found nowhere else on earth. About the size of France, the hotspot spans 500,000 square kilometers including Armenia, Azerbaijan and Georgia, as well as small portions of Russia, Iran and Turkey. Amazingly, this relatively small area holds nine of the world's eleven climate zones and landscapes from semi-desert to wetland, from alpine meadow to deep forest.

The Caucasus Nature Fund—"Supporting People Conserving Nature in the Caucasus"

The ultimate purpose of CNF is to promote the sustainable conservation of the globally unique diversity of nature and species found in the Caucasus, with focus on the South Caucasus countries of Armenia, Azerbaijan and Georgia, which form the core of the ecoregion. Our foundation's concrete mission is to address a structural problem—in these three developing countries, the environment is only one of many priorities and the governments have insufficient means. As a result the natural treasure represented by the region's magnificent protected areas (PAs) is chronically underfunded. We address this issue by making grants to support the operating costs of the PAs, up to doubling the contributions of the three governments if justified by the budgets submitted to us. In addition, over the course of our association with PAs, we work with their staff and the Ministry to ensure that our funds and the entire PA budget are being properly and efficiently spent.

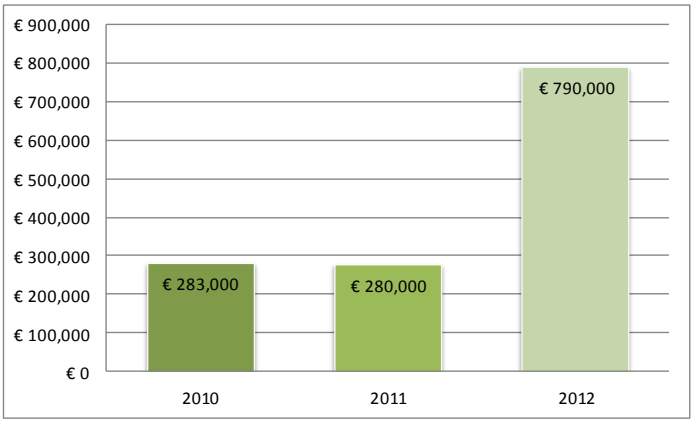
Funding for our projects is generated partly through our capital, both from the earnings on our endowment and the use of dedicated reserves that must be spent over a specified period. We also receive current use contributions, including gifts made on a tax advantaged basis by individuals in Europe and the US, and gifts from other foundations and corporations.

2012 Highlights

New
€ 7 Million
Grant from
the German
Governement

CNF's Capacity
Grew:
Two National
Coordinators hired

Grant Program = € 790,000
A 180% Increase



Corporate and Private
Funding Tripled in 2012

2012 Highlights

Ten Parks
400,000 ha.
of Wilderness
Protected

New Support for Lake Arpi NP Armenia

Completed Pilot Project in Shirvan NP Azerbaijan

Updated Management Plan Borjomi-Kharagauli NP Georgia

Governance

Board and Committees

The CNF Board of Directors has ultimate responsibility for CNF's strategy, grant program, budgets and finances, and investments. It is made up of three members appointed by CNF's founding institutions: Germany's Ministry of Economic Cooperation and Development (BMZ), Conservation International and WWF Germany. Two additional board members have been elected by the board on the basis of their expertise and qualifications. CNF's board holds regular semi-annual meetings, and meets more often as necessary.

CNF's board has two committees. The investment committee meets quarterly to review the performance of CNF's investments and investment managers. It is composed of two board members and the Executive Director. The audit committee meets separately once per year with CNF's independent bookkeeper/tax advisor and its external auditors to discuss issues relating to financial reporting.

The board and its committees held their regularly scheduled meetings in 2012, and the investment committee held two special meetings. In addition to the core business, they addressed the following:

- *Board:* renewal of the Executive Director's contract; the addition of CNF's new national coordinators.
- *Investment Committee*: interviews of potential discretionary managers in anticipation of a reorganization of CNF's investment management structure and advisors in 2013; development of investment guidelines for the proposed managers for review by the Board.

Advisory Board

CNF's Advisory Board is made up of influential members of society and business, each of whom has a profound commitment to promoting nature and conservation in the Caucasus ecoregion.

Governance at Year-End 2012

	Board	Advisory Board
Chairwoman	❖ Eva Witt—KfW	❖ Gabriela von Habsburg
Vice Chairman	❖ Christoph Heinrich— WWF	❖ Ian Hague
Treasurer	❖ Jorgen Thomsen— MacArthur Foundation	❖ Nina Hovnanian
	❖ Scott Dresser Attorney/Consultant (2)	❖ Dr. Hartmut Jungius
	❖ Ronald Kent Banker (1)(2)	❖ Paul Rodzianko
		❖ Willard Taylor

(1) Investment Committee member
(2) Audit Committee member

Staff

CNF's European offices are located in Paris and are staffed by a full time Executive Director, David Morrison, and two employees. In mid- 2012 CNF added two national coordinators, one based in Yerevan, Armenia and one in Tbilisi, Georgia. Together, the staff is responsible for strategy and programs implementation, development, financial management, communications and the day-to-day operations of the foundation.

Reporting & Transparency--Governance Documents

CNF seeks to be highly transparent in reporting on our operations. Our web site includes our charter, by-laws, financial statements, investment policy, framework agreements, this report and other documents.

Program & 2012 Progress

There are 32 existing and planned protected areas in Georgia, Armenia and Azerbaijan that CNF believes are most critical to the conservation of the region's biodiversity and most likely to benefit from our funding. Our goal is to support 20 of these by 2020, up from 10 in 2012.

	2010	2011	2012
Number of PAs Supported	4	7	10
Of which: Armenia	3	5	5
Azerbaijan	0	0	1
Georgia	1	2	4
Available PAs *	32	32	32
Hectares Supported	108,407	197,069	407,649
Total Hectares of Available PAs	1,247,850	1,247,850	1,247,850
% of Available Hectares Covered	9%	16%	33%
CNF Contribution	283,263 €	280,597 €	790,299 €
State Funding incl Tourist Revenues	399,374 €	556,895 €	1,038,091 €
Other Funding Sources	3,240 €	12,822 €	46,263 €
Total Funding	685,877 €	850,314 €	1,874,652 €
Total Funding per Hectare	6.33 €	4.31 €	4.60 €
Employees Supported **	156	279	397

Sustainable Support for Operating Costs

CNF's goal is to improve management of the PAs by reducing the financial gap in the protected area system through support of operating costs in the PAs, developing of services to provide alternative sources of revenue and increasing capacities in the system.

Goal	Cover core operating costs for 20 parks by 2020 in partnership with the Governments
Status	Supported 10 PAs in 2012 Armenia: Khosrov Forest, Arevik, Shikahogh, Lake Arpi and Arzakan-Meghradzor, Georgia: Borjomi-Karagauli, Lagodekhi, Tusheti, Vashlovani Azerbaijan: Shirvan
Update	In 2012, CNF supported operating costs in 10 PAs, including a pilot project in Azerbaijan. In addition we financed a mapping project in Dilijan NP. Calculated by area, CNF supported over 50% of PAs in Georgia and Armenia. Our funds provided salary supplements to 397 staff across the parks, which accounted for 34% of total CNF expenditure. A further 35% was spent on operating costs such as utilities and maintenance, and 26% on equipment and vehicles. CNF was able to leverage €1,084,354 in funding from the governements and other sources. The ratio of funds leveraged to funds provided was 1.4.

Long Term Planning

Management plans guide a park's day to day operations, setting both a long-term vision and medium-term priorities. When created with a participatory approach, a management plan can identify strategies to address conflicts surrounding proposed land use so as to conserve biodiversity while providing economic opportunity. CNF sponsored plans require development of a three year operational plan with costs allocated to the planned activities in a related budget. CNF is one of several organisations working in partnership to develop a comprehensive planning system in the Caucasus.

Goal	To ensure a management plan is in place for each park that CNF supports

Status

Park	Date Completed	Financing Partner	Implementing Partner
Borjomi Karagauli, Georgia	2012	CNF & WWF	Individual consultant
Vashlovani, Georgia	2012	GIZ & NACRES	Individual Consultant
Tusheti, Georgia	2012	GEF/UNDP	FFI & NACRES
Lake Arpi, Armenia	2012	BMZ/KfW	WWF & Consultant
Dilijan, Armenia	In progress	CNF	Individual Consultant
Samur-Yalama, Azerbaijan	2012	BMZ/KfW	Consultants

Update	The three management plans completed in Georgia provide a basis for participatory management planning in the country. CNF is working in partnership with the Ministry in Armenia to develop a similar plan for Dilijan, for which we received funding from the Acacia Conservation Fund.

Biodiversity Monitoring

Biodiversity monitoring provides data on species population trends and ecosystem health, and enables analysis of threats and impacts from human interactions and changing environmental conditions.

Goal	To support development of a viable biodiversity monitoring system on a park level, and establish training and procedures to ensure ongoing implementation and data sharing among the parks
Status	Workshop held with NACRES, APA, WWF October 2012
Update	In 2013 the first steps will be taken towards the creation of a pilot biodiversity monitoring system in Borjomi Karagauli NP. In partnership with NACRES,a pilot project will be developed and rolled out and the results discussed among experts and other interested parties prior to a system-wide roll out.

Challenges

- Difficulties in completing successful tenders has delayed a key project-- the reburbishment of the Lagodekhi PA's (Georgia) administration centre and tourist infrastructure--until 2013.
- Concerns arose over the effectiveness of management at Khosrov Forest, Armenia, just as our inititial 2010-2012 grant was expiring. Although new management has been installed, for 2013 CNF agreed only a short-term (one year) grant. Over the course of this year, improvements to the protection and visitors program will be evaluated and potential for future funding assessed.
- CNF's program in Azerbaijan is still in its infancy and is not being implemented in direct cooperation with the Ministry. Further efforts to institutionalize cooperation will be made in 2013.

Fundraising

In less than five years CNF has more than tripled its funding. When our endowment earnings are combined with drawdowns on our sinking funds and our annual donations, we estimate that we can now support an annual grant program of over € 800,000 on a sustainable basis. That puts us over halfway to our target of investing at least € 1.5 million annually in support of 20 of the most important protected areas of the South Caucasus by 2020.

Given our ambitious goal, continued fundraising remains crucial to our success, and CNF seeks to increase both the amount of our capital and annual donations to our cause.

2012 Fundraising

With a new commitment from the German Government, large one off donations from two individual/private foundation donors, and continued support from the corporate sector, 2012 was a year of solid fundraising success for CNF.

Ministry of Economic Cooperation and Development (BMZ)

In December 2012 we received a new € 7 million grant from the German government through its development bank (KfW). This major new grant is in the form of a sinking fund to be used by 2030. For more information on how this funding works visit our website at: http://caucasus-naturefund.org/directors-desk-new-funding/

This is our third major grant from the German government in five years. We are deeply grateful for its support.

Private Gifts: Corporate, Individuals and Private Foundations

Committed gifts from corporate donors, individuals and private foundations in 2012 tripled to € 340,000, solidifying this critical part of our funding base. This amount is enough to finance about 1/3 of our grants program in 2013. New or renewed funding was committed through these donors:

Most Important Corporate and Private Support–2012	
Corporate Gifts	*Individual/Private Foundations Gifts*
Bank of Georgia	Acacia Fund Family
Sullivan & Cromwell	Al Breach
ProCredit Georgia	Four additional Individuals

CNF thanks all of our private donors, large and small, for their wonderful generosity. We cannot succeed without your continued support. We highlight our three largest private donations in 2012 below.

Acacia Fund Family: donated US $160,000 of which $140,000 is allocated towards Dilijan National Park in Armenia to fund the creation and implementation of a new participatory management and operational plan. This gift complements previous and ongoing gifts by Acacia principals, making the Acacia family our largest private donor.

Al Breach: donated US $100,000 (in the form of shares of the Bank of Georgia, which is publicly traded on the London Stock Exchange) to CNF's capital. This donation makes Al our largest individual donor in 2012.

Bank of Georgia: The Bank of Georgia, CNF's largest corporate donor, has committed to support the operational costs and development of Borjomi National Park in Georgia. Their commitment was US $ 75,000 in 2012, bringing the bank's total contribution to US $225,000 over three years.

Networking

In May 2012 we organized a donor trip to Georgia. The trip brought together members of CNF's board, major donors and potential donors. The group visited Lagodekhi Protected Area and Vashlovani Protected Areas in eastern Georgia.

Communications and Outreach

Communications and outreach activities are a critical piece of our efforts to gain: 1) acceptance of our mission by partner government ministries and local stakeholders; 2) awareness of our mission by the donor community; and 3) increased public awareness of the natural treasures and environmental importance of the region.

Website and Social Media

In 2012 we further developed CNF's online presence. Our modernized website includes new features such as an updated content management system—allowing staff to make regular updates to the site, a blog function, easier to navigate content and navigation menu. We have also continued to expand our use of social media outlets such as Facebook, You Tube and the newly created CNF blog "Conservation in the Caucasus" in order to easily distribute news and items of interest to donors, local stakeholders and partner organizations.

Communication Materials

CNF produced a new "introductory" brochure outlining CNF's mission, goals and 2012 program. The brochure was shared with board and advisory board members to be used for fundraising and outreach activities. We continue to send regular newsletters and press releases to our mailing list of 700, announcing major CNF activities and initiatives.

Partners

CNF actively works with other partners in the region. This includes corporate sponsors who work on individual projects with us but also other NGOs and governmental and non-governmental organizations active in the region. In 2012, we worked particularly closely with the following organizations and individuals.

Governmental Partners

Our main partners are the Ministries responsible for the PAs in the three countries. We thank the governments and responsible agencies in Armenia and Georgia for their continued cooperation, and are looking forward to developing a more direct relationship with the Ministry in Azerbaijan in the coming years.

Bi-lateral and Multi-lateral Aid Agencies

BMZ/ KfW	The German Ministry of Economic Cooperation and Development (BMZ), working through Germany's development bank KfW, is our largest donor. But other BMZ/KfW programs in the regions are also our partners. In addition to TJS (mentioned below), KfW also works through an "open program" with the three Ministries through which it is making major investments in specified protected areas. We coordinate our work with that of KfW so that these PAs can benefit from our support as and after the German government investments are made.
GEF/ UNDP	We work directly with UNDP in implementing our Global Environment Facility sinking fund grants that are directly supporting our work in the PAs. In addition, UNDP is working in a variety of PA projects that will have synergies with our work, supporting the creation of new PAs in both Armenia and Georgia. In a GEF financed project completed in 2012, UNDP supported the development of a management and business plan in Tusheti National Park in Georgia which directly benefitted our work.
TJS	Transboundary Joint Secretariat (TJS) is an instrument of KfW that provides support to the Ministries of Environment of Armenia, Azerbaijan and Georgia in developing regional standards and outcomes in PAs. CNF has benefitted from TJS support in various ways, including assistance with accounting for PAs and the Ministries.

Conservation Partners

WWF	WWF was largely responsible for the feasibility study that led to CNF's creation and is one of CNF's founding partners. CNF cooperates with the WWF offices in Armenia and Georgia on a various field projects and technical audits.
NACRES	NACRES cooperates with us on technical audits of the parks in Georgia and is our partner in the development of a pilot biodiversity monitoring project in Borjomi-Kharagauli National Park, Georgia.
RECC	The Regional Environmental Center Caucasus acts as facilitator of our work in Azerbaijan, where we continue to work towards a more direct relationship with the government
FFI	FFI worked with NACRES (below) in developing the Management Plan for Tusheti National Park with UNDP support
GIZ	GIZ (German technical cooperation) supported consultant Michael Garforth's work in creating the new Management Plan for Vashlovani PAs in Georgia. We also joined our own funding with that of WWF in mandating Mike to create a new Management Plan for Borjomi Kharagauli National Park.

Financial Report

The following discussion should be read in conjunction with the 2012 audited financial statements and notes thereto.

Balance Sheet

There follows a summary of our balance sheet.

CNF: Summary of Balance Sheet					
Assets			Equity & Liabilities		
000 €					
December 31,					
	2011	2012		2011	2012
Fixed Assets:			*Equity*		
Property Plant & Equipment (office furniture & equipment)	5	8	Capital	8,266	8,276
Financial Assets (Investment Securities)	12,465	11,465	Reserves	5,611	12,750
			Funds Carried Forwards	39	0
Current Assets and Prepaid/ Deferred Items:			*Provisions and Liabilities:*		
Accounts receivable & other (1)	259	241	Miscellaneous Provisions	47	46
Cash & Cash Equivalents	2,393	10,145	Conditionally repayable donations	1,135	759
Prepaid Expenses and Deferred Charges	4	8	Trade accounts and other	28	36
Total Assets	**15,126**	**21,867**	**Total Equity & Liabilities**	**15,126**	**21,867**

(1) Represents accrued interest.

On the assets side of the balance sheet, total assets at December 31, 2012 amounted to €21.9 million, a € 6.7 million increase compared to December 31, 2011. This is explained by an increase of €7.75 million in cash and cash equivalents following a €7 million donation made by BMZ (see Fundraising for details). This donation was received at the end of 2012 and was not invested as at the balance sheet date.

The balance of the increase in cash and cash equivalents was due to a change in the investment of our remaining UNDP GEF sinking funds. Since these funds will be spent in 2016 and are no longer being invested long term, the underlying investments were sold and the proceeds were re-invested in 2012 in short- to

medium-term bank deposits, taking advantage of favorable interest rates available in the Caucasus. This action is also reflected in the decline in the investment securities from €12,45 million to €11,5 million.

On the equity and liability side of the balance sheet, the reserves increased by €7.2 million from to €12.8 million. The €7 million BMZ donation (which was added to the existing €5 million BMZ sinking fund to be spent by 2030), accounts for most of the increase. In addition, we received a donation to reserves from a private donor and added a portion of our interest earnings to reserves for a combined total addition of €235,000. Finally, we spent about €97,000 of the existing BMZ sinking fund. The balance sheet reduction from spending of our reserves is reflected as a "below the line" transfer on the income statement.

In 2012 CNF also spent €440,000 of the UNDP GEF sinking funds. These funds are accounted for under conditionally repayable donations and this line shows the associated reduction, offset by interest earned during the year. The amount of spending of these funds is reflected in the income statement as part of revenue from donations and grants.

Income Statement

Background

As background for the discussion of CNF's income statement it is important to keep in mind the different sources and uses of our funds.

- CNF has a "sinking fund" donated by BMZ that is reflected in reserves; two separate contributions created a total fund of €12 million that must be spent by 2030.
- There are also sinking funds donated by GEF/UNDP that are reflected in liabilities. Two separate contributions created total funding originally of €1.3 million that must be spent by 2016.
- In addition, CNF's spending sources also include current use income in the form of donations and the interest and dividend income on our investments.

Most of our expenditures are for the grant and program expenses that are our core mission, but a smaller portion goes cover administrative and fundraising and communications costs. In addition, CNF is still in its growth phase and seeks to take advantage of provisions of German tax law that allow a foundation to add to its capital and reserves. In general, we add capital gains to our capital to protect it against inflation. In addition, we transfer approximately one third of our investment income and 10% of current use income to a so-called "free reserve". By building our capital and reserves we seek to generate larger investment income in the future and thereby support the sustainability of our work.

Our expenditures are planned and managed in relation to the funding sources available to us. We strike a balance between developing our grant program on a sustainable basis and at the same time adding the maximum permitted funding to reserves, aiming for a zero balance or small carry forward of available funds to the next year. For as long as we have adequate sinking funds, we can draw on them to support our program at its current level and achieve a zero balance or small surplus on our income statement. Our challenges are to develop funding sources that can allow us to continue spending at even higher levels--and for the long term--as the sinking funds are consumed.

There follows a summary of our income statement and key ratios.

CNF Income, Expense and Key Ratios 2011-12		
	2011	2012
Income	(amounts in Euro, except for	
Investment Income		
Interest and Similar Income	455,347	491,721
Capital Gain and Other Investment Income	29,247	14,603
Total Investment Income	484,594	506,325
Less Investment Expenses	-48,660	-52,960
Net Investment Income	435,935	453,365
Revenue from Donations and Grants	472,342	782,912
Net Revenue	**908,277**	**1,236,277**
Expenses		
Grant and Project Expenses		
Grants(1)	-284,822	-810,397
Program Development & Technical Services (2)	-44,507	-61,323
Project Management (3)	-46,529	-54,001
Total Program Grants & Expenses	-375,858	-925,721
Administrative and Similar Expenses		
Administrative Expenses	-174,106	-154,948
Fundraising and Communication Expenses	-121,340	-120,379
Other Operating Expenses	-1,650	-10,860
Total Grant and Other Expenses	**-672,954**	**-1,211,908**
Net Income (Loss)	**235,323**	**24,369**
Transfer from 11b Reserve (2030 Sinking Fund)	0	96,734
Funds Available to Transfer to Reserves and Capital	**235,323**	**121,103**
Transfer to Foundation Capital	-28,200	-10,582
Transfer to Reserves	-168,355	-149,289
Funds Carried Forward from Prior Year	0	38,768
Funds Carried Forward	**38,768**	**0**
Administrative Expense/Total Expenses excluding fundraising	32%	14%
Administrative Expense/Total Expenses including fundraising	44%	23%
Total New Donations Committed/Fundraising Expense (4)	26X	42X

(1) Grants for programmatic purposes and external audit costs of such grants.

(2) Mission-related activity with program stakeholders (governments, PAs and donors), e.g. developing program and program documentation; advising grantees on PA budgets and management; documenting program result/impact.

(3) Ordinary program grants management, contracts administration, including grant funding and reporting, etc.

(4) See the discussion under Administrative and Fundraising Expense ratios below.

Net Income and Funds Carried Forward

As described detail below, in 2012, CNF's ordinary income and expense items generated net income of €24,369. Spending of the BMZ 2030 Sinking fund, which is represented by a "below the line" transfer from

the reserve, added €96,734. These two sources combined to produce 2012 funds available to transfer to reserves and capital of €121,103. Funds carried forward from 2011 of €36,768 were also available.

This allowed €149,289 to be transferred to the free reserve. The 2012 capital gain of €10,582 is also reflected below the line as a transfer to capital.

Net Revenue

Investment income was slightly higher in 2012 than in 2011, in large part due to the increased returns on the 2030 Sinking Fund investment following the investment of €2.3 million in an index link note. Investment expenses increased slightly as a result of the increased value of the portfolio.
Revenue from grants and donations increased by 66% from 2011 levels. This income line contains both the amount of UNDP GEF sinking funds spent within the period, which was the main reason for the jump in 2012 revenues, and grants and donation received in the financial year. The breakdown of these contributions is provided in the table below.

Donation Type	**Donors**	**Amount (EUR) 2011**	**Amount (EUR) 2012**
Sinking Fund Usage (1)	UNDP GEF	137,978	438,987
Operating Costs Grants and Service Fees	WWF, CEPF, UNDP/GEF	224,701	232,860
Corporate and Individual Donors	Bank of Georgia, ProCredit Bank, HSBC Armenia, individuals	110,294	111,065
Total		**472,343**	**782,912**

(1) These sinking funds are reflected under conditionally repayable donations on the balance sheet until they are spent, when the amount utilised in that year is reflected in revenues on the income statement. The liability of the conditionally repayable donations is then reduced by the equivalent amount.

Expenses

CNF monitors various measures of operating efficiency in order to assess efficiency of our program delivery. In particular, we follow measures of administrative expense efficiency and fundraising efficiency.

It is difficult to compare efficiency levels across different organizations in the charitable world. We believe there are two main reasons for this. First, there are a number of different and difficult to compare operating models and second, there is no clear consensus on cost categories for various cost items such as administrative expenses. CNF believes that the best it can do is to be clear and transparent about how it accounts for expenses and the operating ratios that we use. For a full explanation, please visit our website at: www.caucasus-naturefund.org/about-cnf/documents-publications/.

Grant and Project Expenses

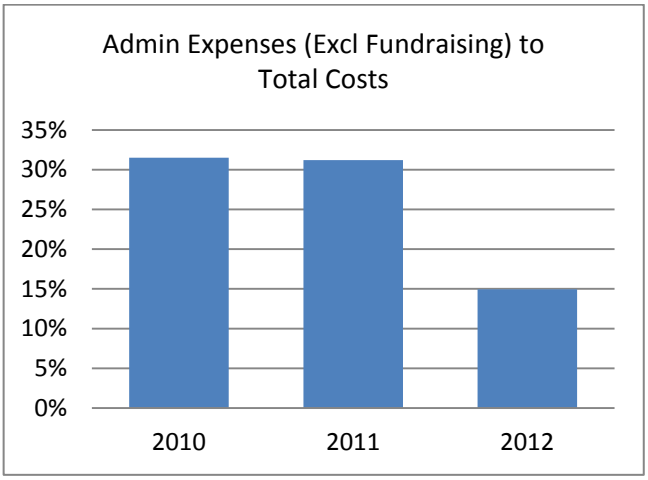
2012 was a year of significant expansion for the CNF grant program, as explained in more detail in the Program and 2012 Progress section of this report.

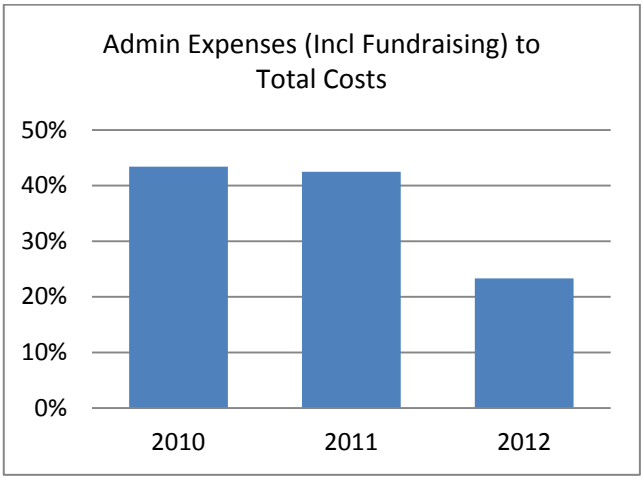
Program development and technical services increased from €44,507 in 2011 to €61,323 in 2012. This is a result of addition of the National Coordinators in Armenia and Georgia and the associated office costs.

Travel costs relating to program development also increased with the expansion of our program into the three countries. Program Management costs increased slightly less, from €46,529 to €54,001 reflecting predominantly the addition of the National Coordinators. Salary allocations are the main component of Program Development and Technical Services and Project Management expenses. We expect these costs to increase again in 2013 when the Caucasus office will be in operation for a full year. Over time, with the expansion of the grant program, these costs will stabilize.

Administrative and Fundraising Expenses and Ratios

CNF continued its overall trend of declining administrative ratios. Excluding fundraising, expense the ratio decreased to 14% in 2012; including fundraising, it decreased to 23% in 2012, due to the sustainable increase in CNF's grant program and the slight fall in administrative costs. In effect, CNF reached its target o reduce the ratio excluding fundraising to <20% and including fundraising to <25% in 2013 one year ahead of our plan.





Fundraising Expenses

Given our relatively small size and with a view to making annual comparisons meaningful, we follow fundraising success on an averaged three year trailing basis. The ratio of new donations committed to fundraising expense continues to be impressive. In the three years ended December 31, 2012, we raised 42 Euros for every Euro spent on development, an increase from 25 Euros raised for each Euro spent in the three year period ending 2011. The increase reflects the new donation from BMZ as well as an increase in private and corporate donations in 2012.

Investment Report

The following table shows the book value of our investments in our bond, equity-linked and equity portfolios at December 31, 2011 and 2012, as well as a portion of our cash and cash equivalents managed as part of our investment portfolio. We manage our investments on a market value basis, but provide this information on a book value basis that correlates it to the information to our financial statements and provides a useful overview of how we manage our assets. Information on unrealized gain/loss in the portfolio, which correlates to the overall market value, is provided in the discussion below.

Investment Assets – Book Values				
	December 31, 2011		December 31, 2012	
	€ 000s	% of Total	€ 000s	% of Total
Bonds	6,768	45.8	5,677	39.6
Equity-linked Securities	3,105	21.0	3,105	21.6
Equity Securities	2,591	17.6	2,677	18.7
Total Investment Securities	**12,464**	**84.4**	**11,459**	79.8
Emerging Market Fixed Term Bank Deposits	2,010	13.6	2,539	17.7
Existing Cash (1)	280	2.0	353	2.5
Total Investment Portfolio (excluding New Cash)	**14,754**	**100.0**	**14,351**	**100.0**
New Cash (1)	--	--	7,000 (1) (2)	NM
Total Investment Portfolio	**14,754**	**100.0**	**21,351**	**100.0**

(1) Does not include cash held for operational purposes, but rather only cash that is held as part of the investment portfolio.

(2) €7 million donation received from BMZ/KfW in late December 2012 and not invested as at balance sheet date.

CNF received a major new donation from BMZ/KfW in late December 2012 most of which will be invested and will become part of the investment portfolio in 2013. As this amount was not invested at December 31, 2012, the table above provides information on a "pre new contribution" basis. This facilitates comparison with last year and provides a fairer picture of activity in 2012.

On a book value basis, at December 31, 2012 the Total Investment Portfolio (excluding New Cash) declined compared to the prior year by € 750,000 to € 14 million. Total Investment Securities declined by € 1 million to €11.5 million, which reflects mainly spending of our sinking funds on our programs (portions of both the GEF and KfW sinking funds were spent). In addition, a portion of the reduction in

Total Investment Securities reflects the re- allocation of investments from lower yielding bond investments to higher yielding bank accounts in Georgia (this explains the 529,000 increase in Emerging Market Fixed Term Bank Deposits.

The increase in equity securities is explained mainly by a donation of shares we received during the year.

Our portfolio remained broadly diversified throughout the year and benefitted from the generally favorable development in the world capital markets. CNFs investment returns include principally interest and dividend income, capital gain or loss realized on the sale of securities, and unrealized gain or loss on its investment portfolio. Income and realized gain and loss in the year are shown in the income statement discussed above. At December 31, 2012, CNF's investment portfolio included €891,964of net unrealized gain, compared to €275,000 in net unrealized gain at December 31, 2011. Unrealized investment gain or loss is by definition not reflected in the foundation's financial statements.

Overall, in 2012 we achieved a return on our portfolio of 7.3% compared to 1.1% in 2011.