Caucasus Nature Fund, Offenbach am Main

Balance sheet as of December 31, 2017

Assets

	Dec. 31, 2017	Dec. 31, 2016
	EUR	EUR
A. Fixed assets		
I. Property, plant and equipment		
Other equipment, operating and office equipment	12,758.00	16,183.00
II. Financial assets		
Securities held as investments	23,629,357.34	20,947,044.01
	23,642,115.34	**20,963,227.01**
B. Current assets		
I. Other assets	202,622.74	226,426.08
II. Cash and cash at banks		
	10,551,142.39	10,367,437.23
	10,753,765.13	**10,593,863.31**
C. Prepaid expenses	**197.00**	**338.00**
	34,396,077.47	**31,557,428.32**

Equity and Liabilities

	Dec. 31, 2017		Dec. 31, 2016	
	EUR	EUR	EUR	EUR
A. Equity				
I. Foundation capital				
1. Initial endowment	7,728,100.00		7,728,100.00	
2. Additional endowments	15,893,917.91		12,393,917.91	
3. Realized capital gains	603,403.31	24,225,421.22	603,403.31	20,725,421.22
II. Reserves				
1. Unappropriated reserve pursuant to Section 62 (1) no. 3 of the German Tax Code (AO)	1,602,336.23		1,356,356.96	
2. Reserve pursuant to Section 62 (3) no. 2 AO	6,992,403.06		9,031,403.06	
3. Savings reserve pursuant to Section 62 (4) AO	233,432.75	8,828,172.04	233,432.75	10,621,192.77
III. Funds carried forward		1,184,069.05		76,175.42
		10,012,241.09		**10,697,368.19**
B. Provisions				
Other provisions		**96,674.70**		**98,614.97**
C. Liabilities				
1. Trade payables		1,039.19		5,448.24
2. Other liabilities		60,701.27		30,575.70
		61,740.46		**36,023.94**
		34,396,077.47		**31,557,428.32**

Caucasus Nature Fund, Offenbach am Main

Income statement for the period from January 1 to December 31, 2017

1. Investment income and other revenue	
a) Investment income	
aa) Dividend income	
ab) Interest and similar income	
ac) Distributions from funds	
ad) Realized capital gains	
ae) Other investment income	
b) Investment-related expenses	
ba) Expenses from exchange differences	
bb) Other investment-related expenses	
Net investment income	
d) Income from grants and subsidies	
Net revenue	
2. Project and other expenses	
a) Project and support expenses	
aa) Grant projects	
ab) Project development and technical services	
ac) Project management	
b) Administrative and other expenses	
ba) Administrative expenses	
bb) Fundraising and communication expenses	
Total project and other expenses	
3. Net loss for the year	
4. Transfer 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	
8. Funds carried forward	

	2017		2016	
	EUR	EUR	EUR	EUR
	99,968.83		63,531.71	
	349,311.40		479,406.67	
	189,953.11		69,645.28	
	491,785.94		137,629.21	
	0.00	1,131,019.28	26,749.32	776,962.19
	-298,252.05		0.00	
	-182,633.53	-480,885.58	-168,852.46	-168,852.46
		650,133.70		**608,109.73**
		294,118.72		470,780.25
		944,252.42		**1,078,889.98**
	-1,113,203.54		-1,119,805.90	
	-103,220.18		-128,761.30	
	-58,901.19	-1,275,324.91	-111,883.70	-1,360,450.90
	-319,941.55		-318,872.16	
	-34,113.06	-354,054.61	-61,197.93	-380,070.09
		-1,629,379.52		**-1,740,520.99**
		-685,127.10		**-661,631.01**
		0.00		-164,378.53
		-245,979.27		-144,843.37
		2,039,000.00		1,047,028.33
		76,175.42		0.00
		1,184,069.05		**76,175.42**

Caucasus Nature Fund, Offenbach am Main

Notes to the financial statements for the 2017 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, 2017, 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 average spot exchange rates applicable on the balance sheet date in accordance with the provisions of Section 256a HGB.

Explanatory notes on the balance sheet

The classification of and movements in fixed assets are presented in the attached statement of movements in fixed assets.

Financial assets include a securities portfolio with a book value of EUR 23,629,357.34 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			
K+S AG	240,000.00	275,572.80	265,152.00
Glencore Fin. Europe	410,000.00	454,804.80	414,059.00
Gerresheimer AG	405,000.00	460,282.50	412,087.50
Leaseplan Corporat	330,000.00	337,411.80	333,399.00
Carlsberg Breweries	330,000.00	365,541.00	364,105.50
Apple Inc.	215,234.89	214,541.83	191,260.74
AT & T Inc.	216,267.04	218,105.31	192,162.09
Ericsson MTN.17	200,000.00	200,440.00	197,840.00
Ryanair Dac MTN.14	210,000.00	222,192.60	220,185.00
Priceline Group Inc.	250,000.00	269,227.50	267,075.00
AXA S.A.MTN. V.03 2.MJSD	220,000.00	201,300.00	197,780.00
O2 Telefoni. Dtld.	50,000.00	53,705.00	53,317.50
		3,273,125.14	**3,108,423.33**
Investment shares			
Danaher Corp. Registered Shares	2,000 shares	163,548.00	155,000.00
BNP Paribas S.A.Actions Port. EO 2	1,700 shares	112,151.13	105,417.00
Ryanair Holding PLC	5,600 shares	85,578.33	83,440.00
Tencen. Holdings Ltd.Rg.Sh.	2,570 shares	111,383.35	111,281.00
ISHSIII-EO Corp. BD 1-5YR U.ETF REG.SH.O.N.	2,500 shares	277,755.00	276,725.00
Grundbesitz Europa Inhaber-Anteile	12,100 shares	501,791.78	480,128.00
CANDR. BDS-CRE. OPP.IQEODI FUNDS	485 shares	743,122.00	716,563.25
M.F.-M.EN.Y.S.-T.H EO I.A Funds	26,790 shares	2,487,955.50	2,468,430.60
THINK SUST. WORLD UCITS Funds	8,650 shares	705,321.00	696,411.50
ISHSIII-MSCI T.USA RE DLD Funds	6,585 shares	155,477.19	138,285.00
Segantii Asia-Pacific Equity Multi-Strategy Fund	1,681 shares	651,244.10	613,964.62
		5,995,327.38	**5,845,645.97**

As of December 31, 2017, none of these financial investments 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.

Other assets include a receivable of EUR 8,239.15 from Nature Trust Alliance GbR (NTA), Frankfurt am Main, a civil law partnership whose shareholders are CNF, PONT and since March 1, 2017, Blue Action Fund. As in the prior year, other assets are due within one year.

As of the balance sheet date, the Foundation reported credit balances with banks in foreign currencies as follows: AMD 596,618,886.85 (Armenian dram), GEL 2,216,893.47 (Georgian lari) and USD 841,373.11.

The Foundation's capital remained unchanged at the full amount as of the reporting date. There was an additional endowment of EUR 3,500,000.00 from KfW in the reporting year.

EUR 245,979.27 was transferred to the unappropriated reserves within the meaning of Section 62 (1) no. 3 AO during the year under review. These reserves equaled EUR 1,602,336.23 as of December 31, 2017.

As of December 31, 2017, the reserves for asset endowment pursuant to Section 62 (3) no. 2 AO amounted to EUR 6,992,403.06. This amount has the following two components:

- a non-cash donation in the form of shares with a value of EUR 85,638.50
- the remaining amount of EUR 6,906,764.56, 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 fulfill 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 Dec. 31, 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	Balance as of Dec. 31, 2016	Appropriation in 2017	Balance as of Dec. 31, 2017
	EUR	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	9,403,266	9,149,269	8,587,825	8,096,839	7,365,384	1,823,067	5,542,317
EUR 0.5 million for international advisors	N/A	500,000	495,463	480,889	345,832	305,036	-	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	1,275,344	215,933	1,059,411
Total grant of EUR 12 million (2030 Sinking Fund)	**5,000,000**	**11,903,266**	**11,569,421**	**10,829,330**	**9,992,792**	**8,945,764**	**2,039,000**	**6,906,764**

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 and year-end audit costs.

Other liabilities comprise variation margin payments received from unconditional futures in USD outstanding as of the reporting date and liabilities to employees. As in the prior year, all liabilities are due within one year.

Explanatory notes to the income statement

Dividend income is derived from investment securities.

Interest and similar income are attributable to time deposits, investment securities and current bank accounts.

Distributions from funds result from investment fund shares recognized under investment securities.

Expenses for investment result from expenses for the translation of foreign currency deposits, charges for investment advice, custody fees and foreign withholding taxes.

Income from grants and subsidies in the 2017 financial year is mainly from donations from US companies and private individuals via The King Baudouin Foundation, USA, and from Georgian companies.

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 administrative-related personnel costs, personnel expenses for the office shared with two other foundations, rent and other office expenses, auditing and external accounting costs, travel expenses, insurance premiums, own rent, incidental bank charges, advisory fees, IT costs and other operating expenses.

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

Personnel expenses

	2017	2016
	EUR	EUR
Personnel expenses		
a) Wages and salaries	177,394.94	332,063.96
b) Social security	0.00	35,100.39
	177,394.94	**367,164.35**

Personnel expenses decreased year-on-year as personnel were outsourced to NTA. Only employees working in the protected areas are still employed at CNF.

Other disclosures

Unconditional futures were concluded to hedge exchange rate risks for foreign currency deposits in USD. Variation margin payments are made every banking day corresponding to the market value of the futures. Results from futures closed out are recognized in profit or loss. Margin payments received or paid for futures not closed out as of the balance sheet date are recognized as liabilities or receivables.

Auditor's fee

The total fee charged by the auditor for the financial year amounted to approx. KEUR 28 and solely comprised audit services for annual financial statements.

Board of Directors:

Chairperson

- Eva Witt
  Director, East Europe, Caucus and Central Asia, KfW development bank; Frankfurt am Main, Germany (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 chairperson from February 1, 2017)

Deputy Chairman

- Christoph Heinrich
  Deputy Managing Director, Natural Protection Board, World Wide Fund for Nature; Berlin, Germany

Chief Financial Officer

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

Further members

- Theodore Charles Jonas
  Of Counsel, DLA Piper; Tbilisi, Georgia (from January 19, 2017)
- Thomas Christian Eisenbach
  KfW, Mainz (from April 3, 2017)

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

Executive Directors

George Giacomini, Executive Director

Number of employees

The Foundation employed an average of five people in 2017.

Subsequent events

No material events occurred after the close of the financial year.

Caucasus Nature Fund, Offenbach am Main

Movements in fixed assets in the 2017 financial year

		Cost			
		Jan. 1, 2017	Additions	Disposals	Dec. 31, 2017
		EUR	EUR	EUR	EUR
I.	**Property, plant and equipment**				
	Other equipment, operating and office equipment	49,338.58	2,446.14	0.00	51,784.72
II.	**Financial assets**				
	Securities held as investments	20,947,044.01	11,988,352.68	9,306,039.35	23,629,357.34
		19,490,131.51	**11,990,798.82**	**9,306,039.35**	**23,681,142.06**

Accumulated amortization and depreciation				Book value	
Jan. 1, 2017	Amortization and depreciation during the financial year	Disposals	Dec. 31, 2017	Dec. 31, 2017	Dec. 31, 2016
EUR	EUR	EUR	EUR	EUR	EUR
33,155.58	5,871.14	0.00	39,026.72	12,758.00	16,183.00
0.00	0.00	0.00	0.00	23,629,357.34	20,947,044.01
26,464.85	**5,871.14**	**0.00**	**39,026.72**	**23,642,115.34**	**20,963,227.01**