

**Caucasus Nature Fund (CNF)
Offenbach am Main/Germany**

Annual Financial Statements
for the Financial Year from

1 January to 31 December 2018

TRANSLATION

- German version prevails -

Caucasus Nature Fund (CNF), Offenbach am Main/Germany
Balance Sheet as at 31 December 2018

Assets			Equity and Liabilities				
	31 Dec. 2018 EUR	31 Dec. 2017 EUR		31 Dec. 2018 EUR	31 Dec. 2018 EUR	31 Dec. 2017 EUR	31 Dec. 2017 EUR
A. Fixed assets			A. Equity				
I. Property, plant and equipment			I. Foundation capital				
Operating and office equipment	8.108,00	12.758,00	1. Permanent endowment fund	7.728.100,00		7.728.100,00	
			2. Donations	22.693.917,91		15.893.917,91	
			3. Result form realised asset shifts	603.403,31		603.403,31	
				<u>31.025.421,22</u>		<u>24.225.421,22</u>	
Long-term securities	25.652.822,55	23.629.357,34	II. Reserves				
	<u>25.660.930,55</u>	<u>23.642.115,34</u>	1. Reserve for endowment with assets	6.478.496,68		6.992.403,06	
B. Current assets			2. Project reserve	29.000,00		0,00	
I. Other assets	159.101,07	202.622,74	3. Free reserve	1.968.699,97		1.602.336,23	
			4. Savings reserve	233.432,75		233.432,75	
II. Bank balances	14.407.994,21	10.551.142,39		<u>8.709.629,40</u>		<u>8.828.172,04</u>	
	<u>14.567.095,28</u>	<u>10.753.765,13</u>	III. Funds carried forward		<u>388.064,43</u>		<u>1.184.069,05</u>
C. Prepaid expenses	0,00	197,00	B. Provisions		<u>40.123.115,05</u>		<u>34.237.662,31</u>
			Other provisions		<u>88.766,20</u>		<u>96.674,70</u>
			C. Liabilities				
			1. Trade payables		6.282,73		1.039,19
			2. Other liabilities		9.861,85		60.701,27
					<u>16.144,58</u>		<u>61.740,46</u>
	<u>40.228.025,83</u>	<u>34.396.077,47</u>			<u>40.228.025,83</u>		<u>34.396.077,47</u>

Caucasus Nature Fund (CNF)
Offenbach am Main/Germany

Statement of Profit and Loss for the Financial Year from 1 January to 31 December 2018

	2018 EUR	2018 EUR	2017 EUR	2017 EUR
1. Investment income and other revenue				
a) Investment income				
aa) Dividends	170.369,12		99.968,83	
ab) Interest and similar income	238.103,60		349.311,40	
ac) Fund distribution	191.830,63		189.953,11	
ad) Income from realised asset shifting	693.266,35		491.785,94	
		1.293.569,70		1.131.019,28
b) Expenses for asset investments		-187.422,33		-182.633,53
c) Expenses from currency translation		-66.972,59		-298.252,05
Net investment income		1.039.174,78		650.133,70
d) Income from grants and subsidies		199.721,48		294.118,72
Net income		1.238.896,26		944.252,42
2. Project and program expenses as well as other expenses				
Direct project support				
a) Funding measures protection areas	-1.181.632,08		-930.747,23	
b) Other funding measures	-241.664,59		-27.334,88	
c) Consultancy and other projects	-163.403,25		-155.121,43	
		-1.586.699,92		-1.113.203,54
Project development and monitoring		-204.561,28		-154.727,72
Administrative and other expenses				
a) Administrative expense	-301.902,19		-327.335,20	
b) Fundraising and promotional expense	-60.280,13		-34.113,06	
		-362.182,32		-361.448,26
Total project expenses and other expenses		-2.153.443,52		-1.629.379,52
3. Loss for the period		-914.547,26		-685.127,10
4. Funds brought forward from the prior year		1.184.069,05		76.175,42
5. Withdrawals from the reserve for the endowment with assets		513.906,38		2.039.000,00
6. Allocations to the reserves				
a) Allocation to the project reserve	-29.000,00		0,00	
b) Allocation to the free reserve	-366.363,74		-245.979,27	
		-395.363,74		-245.979,27
7. Funds carried forward		388.064,43		1.184.069,05

Caucasus Nature Fund (CNF) Offenbach am Main/Germany

Notes to the Financial Statements for the Financial Year 2018

General Information and Explanations on the Annual Financial Statements

Caucasus Nature Fund (CNF) was established as foundation under civil law under the name Caucasus Protected Areas Fund with foundation business dated 1 June 2007. The recognition by the district president took place on 25 June 2007. The Foundation is registered within the foundation register of the Darmstadt/Germany district.

As a general rule, the financial year is the calendar year. The annual financial statements as at 31 December 2018 were prepared in accordance with the provisions under German commercial law as well as in compliance with the supplementary provisions of the charter. Here, the Foundation generally applied the provision of the German Commercial Code (HGB), applicable for large firms organised in a corporate form (Sections 264 et seq. German Commercial Code (HGB)), except for the waiver of preparation of a management report.

As regards the classification of the balance sheet and the statement of profit and loss, the particularities that arise from the activity of the Foundation were taken into account. The statement of profit and loss was prepared based on the cost-of-sales format in accordance with Section 275 (3) German Commercial Code (HGB) under taking into account the particularities under foundation law.

The classification of the statement of profit and loss was changed in the financial year compared to the prior year. The items "Project Development and Technical Services" as well as "Project management" that were disclosed in the prior year are now summarised under the item "Project Development and Monitoring".

The costs of the offices kept in the Caucasus, which were disclosed under the item "Project Development and Technical Services" in 2017, are disclosed in the reporting year in the prior year's column under "Administrative Expenses".

Accounting and Valuation Principles

The accounting and valuation principles were applied unchanged when compared to the prior year.

Property, plant and equipment and financial assets are measured at acquisition cost in accordance with Section 255 (1) German Commercial Code (HGB). At the property, plant and equipment, the wear

and wear is considered by depreciation, measured on the basis of accepted useful lives and under using the straight-line method. Financial assets are written down to the lower fair value in case of a lasting permanent impairment in value. The Foundation has not exercised the option of a write-down to the lower fair value in case of a presumably not permanent impairment in value.

Other assets are measured at acquisition cost or at lower fair value on balance sheet date.

Bank balances are recognised at nominal value.

The values recognised for the other provisions include all risks identifiable and uncertain liabilities. They are recognised at settlement amount based on sound business judgement.

Liabilities are carried at settlement amount.

Transactions denominated in foreign currencies are generally recorded at the rate in effect on the date of transaction. Receivables and liabilities denominated in foreign currencies are translated at the rate in effect on the day of origin. The translation of the currency items as of balance sheet date is generally made in accordance with the provisions under Section 256a German Commercial Code (HGB) and thus at the middle spot rate in effect on balance sheet date.

Notes to the Balance Sheet

Classification of and movements in fixed assets are included in the attached statement of movements in fixed assets.

As regards the security portfolio making part of the financial assets with a book value of EUR 25,652,822.55 as at the end of the reporting year, the following securities are disclosed over their fair values (market rates as of balance sheet date):

	Nominal value/number	Book value	Fair value
	EUR	EUR	EUR
Bonds			
Bayer AG	400,000.00	403,900.00	395,440.00
Volkswagen	400,000.00	416,360.00	399,200.00
O2 Telefoni.Germany	300,000.00	320,207.50	311,910.00
Carlsberg Breweries	330,000.00	492,716.00	491,612.50
Ryanair Dac MTN.14	210,000.00	222,192.60	216,090.00
Goldman Sachs GRP.Inc.	200,000.00	200,882.00	193,100.00
Booking Holdings	250,000.00	269,227.50	263,850.00
AXA S.A.MTN. V.03 2.MJSD	220,000.00	201,300.00	134,200.00
Carnival Corp.	240,000.00	255,825.60	250,128.00
Hutch.Wham.Eur.Fin.	240,000.00	273,120.00	260,856.00
KFW MTN.V.16	189,929.52	187,407.25	178,668.32
Standard Chartered PLC	160,000.00	166,428.80	163,216.00
Sabic Capital I B.V.NT.	160,000.00	169,358.40	166,320.00
Evonik Industries AG	200,000.00	206,022.00	202,960.00
Amadeus IT Group S.A.MTN.	200,000.00	200,566.00	198,880.00
Leaseplan Corporation	300,000.00	304,497.00	295,860.00
		4,290,010.65	4,122,290.82
Shares			
Adidas AG registered shares	575	110,705.91	103,931.25
Adobe Inc. Reg. Shares	530	110,938.68	103,577.90
Allianz SE Vink.registered shares O.N.	740	139,150.66	127,398.40
AXA S.A.Actions Port. EO 2.29	3360	77,190.34	62,455.68
Blackrock Inc.Reg. Shares Class A	270	116,132.06	90,420.30
BNP Paribas S.A.Actions Port. EO 2	1840	119,816.66	70,978.00
Facebook Inc.Reg.Shares CL.A	850	113,645.60	98,795.50
GEA Group AH shares registered on the name of the bearer	3,180	107,884.48	70,755.00
Heidelbergcement AG	1,640	105,335.17	86,559.20
JP Morgan Chase & Co.	1,285	123,161.76	107,914.30
Ryanair Holding PLC	5,600	85,578.33	57,120.00
Tencen.Holdings Ltd.Rg.Sh.	2,570	111,383.35	87,251.50
ING Group N.V Aandelen OP Naam EO-,01	8565	114,592.44	78,798.00
		1,435,515.44	1,145,955.03

Investment funds			
GAM STAR.CR.OPPS(EO)II EO Funds	30,350	432,177.15	386,045.93
Jupiter GL.FD.-J.DY.B.IEOA Funds	55,700	717,617.00	700,706.00
ISHSIII-EO Corp. BD 1-5YR U.ETF REG.SH.O.N.	2,500	277,755.00	273,175.00
Nordea 1-LD E. Cov.BD Bio Funds	2,225	222,121.75	220,964.75
LYXOR EURO CASH UCITS ETF ACT.A.PO.ACC O.N.	8,570	905,291.95	901,135.50
ISH.EB.R.MONEY MARKET U.ETF DE INH.ANT	11,505	905,159.33	894,743.85
I.M.III-I.EUROMTS CA.3 MO:UETF REG.SH.ACC ON	8,895	905,285.42	900,983.45
AMU.ETF CASH 3 M.EOM.I.G. Funds	7,635	905,086.49	901,769.85
ISHSIII-MSCI T.UK RE LSD Funds	18,430	102,660.36	92,651.30
CANDR.BDS-CRE.OPP.IQEODI FUNDS	485	743,122.00	680,983.65
ASS.CR.-A.C.SUBD.A.COCO I Funds	1,240	1,223,041.25	1,099,297.20
M.F.-M.EN.Y.S.-T.H EO I.A Funds	26,790	2,487,955.50	2,346,000.30
ISHSIII-MSCI T.USA RE DLD Funds	2,500	155,477.19	132,621.90
		9,982,750.39	9,531,078.68
Other shares			
Crown European Private Debt II	-	805,210.00	805,000.00
Segantii Asia-Pacific Equity Multi-Strategy Fund	-	803,382.72	777,139.36
Gemstock Class D EUR Shares	-	769,309.30	727,809.12
		2,377,902.02	2,309,948.48
		18,086,178.50	17,109,273.01

As at 31 December 2018, no write-downs to the lower market rates were made for these financial assets, since it is expected that the impairments are not of permanent nature. This assumption is justified by the fact that these market values showed only short-term and low fluctuations in the past.

Other Assets

The other assets include a receivable from NTA of EUR 24,818.39. NTA is a company under civil law, whose shareholder is CNF next to Prespa Ohrid Nature Fund (PONT) and Blue Action Fund.

The residual other assets relate to interest receivables and receivables from employees. Like in the prior year, the other assets are due within one year.

Bank Balances Denominated in Foreign Currencies

As of the balance sheet date, the Foundation discloses bank balances denominated in foreign currencies of AMD 44,869,874.76 (EUR 83,124.47), GEL 1,058,723.30 (EUR 347,830.03) and USD 848,307.42 (EUR 741,278.65).

Foundation capital

The foundation capital remained unchanged as of the balance sheet date. In the reporting year, KfW made an endowment of EUR 6,800,000.00.

Reserves for Endowment with Assets in Accordance with Section 62 (3) No. 2 German Tax Code (AO)

The reserves for endowment with assets in accordance with Section 62 (3) No. 2 German Tax Code (AO) amount to EUR 6,478,496.68 as of 31 December 2018.

This amount comprises two components:

- A non-cash benefit in form of shares with a value of EUR 85,638.50,
- The residual amount of EUR 6,392,858.18 of two separated grants by the BMZ via the KfW in an amount of EUR 12,000,000.00 in total. In accordance with the agreement closed with the KfW, the funds must be used in terms of the Foundation's mission until the year 2030 at the latest (in the following, the total grant is named "2030 Sinking Fund").

Following the agreement with the KfW about the "2030 Sinking Fund", the original grant amount of EUR 12,000,000.00 is classified by three separate grant categories: (i) EUR 9,500,000.000 are intended for covering administrative expenses and similar costs for protected areas in the Caucasus; (ii) EUR 500,000.00 shall be used for international consultants for technical aids and services in connection with the management of the protected areas; (iii) EUR 2,000,000.00 are intended for administrative expenses in connection with own activities of the Foundation in the Caucasus.

The development of the "2030 Sinking Fund", classified by the three stated grant categories, is presented in the following table:

Grant category	31 Dec. 2017 Amount	2018 Use	Total use 2011-2018	31 Dec. 2018 Amount
	EUR	EUR		EUR
mEUR 9.5 (first partial amount: mEUR 5) for administrative expenses and similar costs of the protected areas	5,542,317	167,602	4,124,285	5,375,715
mEUR 0.5 for international consultants	305,036	163,403	358,367	141,633
mEUR 2 for CNF activities in the Caucasus	1,059,411	182,901	1,123,490	876,510
Total amount of mEUR 12 (2030 Sinking Fund)	6,906,764	513,906	5,607,142	6,392,858

Project Reserve in Accordance with Section 62 (1) No. 1 German Tax Code (AO)

In the reporting year, the Foundation has for the first time set up a project reserve of EUR 29,000.00 for promised funds to be paid in the following two years.

Free Reserve in Accordance with Section 62 (1) No. 3 German Tax Code (AO)

An amount of EUR 366,363.74 was allocated to the free reserve in terms of Section 62 (1) No. 3 German Tax Code (AO) in the reporting year. These reserves amount to EUR 1,968,699.97 as of 31 December 2018.

Savings Reserve in Accordance with Section 62 (4) German Tax Code (AO)

The so-called savings reserve in accordance with Section 62 (4) German Tax Code (AO) remained unchanged in the reporting year.

Provisions

The other provisions include outstanding invoices for asset management services received in the reporting year, for deposit fees, accounting services and for the preparation and audit of the annual financial statements.

Liabilities

The other liabilities comprise received, so-called variation margin payments from open unconditional futures as of balance sheet date (futures on the USD) as well as liabilities to employees. Like in the prior year, all liabilities have a term of up to one year.

Notes to the Statement of Profit and Loss

The dividends result from long-term securities.

Interest and similar income relate to fixed term deposits, long-term securities and current bank accounts.

Distributions from funds result from investment fund shares disclosed under the long-term securities.

The investment expenses result from fees for investment advisory and deposit fees as well as from retained withholding taxes.

The income from grants and subsidies that is disclosed in the financial year 2018 primarily results from donations made by American companies and private persons via The King Baudouin Foundation, U.S., as well as from Georgian companies.

The “Expenses for Funding Measures for Protection Areas” include grants to a national park in the Caucasus.

Other funding measures relate to grants made for the purpose of nature conservation to governmental and non-governmental organisations in the Caucasus.

The item “Consultancy and Other Projects” primarily includes costs for consultancy and technical support at projects in the Caucasus.

The expenses for project development and monitoring include staff costs, costs for travels to the Caucasus in connection with the funding measures and costs for the offices in Armenia and Georgia as well as costs for monitoring and auditing the use of the granted funds within the scope of funding measures. In the prior year, the costs for the offices in Armenia and Georgia of EUR 103.220,18 were included in the prior year’s item “Project Development and Technical Services”.

The administrative expenses comprise staff costs, rent and other office expenses of Nature Trust Alliance GbR, audit and external accounting costs, travel costs, EDP costs, insurance premiums as well as the costs for the offices in Armenia and Georgia and sundry operational expenses.

The expenses for raised funds and advertising include staff costs, costs for events and PR and other costs in connection with the fundraising.

Employee benefit expense

	2018	2017
	EUR	EUR
Employee benefit expense		
Wages and salaries	229,125.18	177,394.94

Other Disclosures

The liabilities of Nature Trust Alliance GbR, Frankfurt am Main/Germany, in which the Foundation is the personally liable shareholder, amount to EUR 56,145.34 as of the balance sheet date.

Unconditional futures are closed for hedging currency risks for bank balances denominated in USD. So-called variation margin payments are made on each day in line with the market value of the futures. Results from closed out futures are recognised through profit or loss. Received or paid margin payments for not yet closed out futures as of balance sheet date are disclosed as liabilities or receivables.

Fee of the Annual Auditor

The total fee billed by the annual auditor for the financial year was kEUR 20 and exclusively comprised annual audit services.

Supervision and Management

The Foundation's charter was amended with effect from 4 September 2018. Prior to the amendment, the Foundation was led by a one-level management board, which delegated certain tasks to an executive director. After the amendment a two-level supervisory and management system was established, comprising a supervisory board and a management board.

Management Board until 4 September 2018:

Chairman

Mr David Morrison, Conservationist; Non-Executive Director on Conservation Trust Fund and Public Company Boards; Berlin/Germany

Vice Chairman/Chairwoman

Mr Christoph Heinrich, vice executive director, director in charge of nature conservation, World Wide Fund for Nature; Berlin/Germany

Financial director

Mr Ronald Kent, Managing Director, Wholesale and Financial Policy, BBA; London/Great Britain

Further members:

Mr Theodore Charles Jonas, Of Counsel, Dentons Georgia LLC; Tiflis/Georgia

Mr Thomas Christian Eisenbach, KfW, Frankfurt am Main/Germany

The management board worked voluntarily.

Executive Director until 4 September 2018:

Mr George Giacomini, Executive Director

Supervisory Board as from 4 September 2018:

Chairman

Mr David Morrison, Conservationist; Non-Executive Director on Conservation Trust Fund and Public Company Boards; Berlin/Germany

Vice Chairman/Chairwoman

Mr Christoph Heinrich (until 12 October 2018), vice executive director, director in charge of nature conservation, World Wide Fund for Nature; Berlin/Germany

Ms Stefanie Lang (as from 12 October 2018), Director Asia, World Wide Fund for Nature; Berlin/Germany

Further members:

Mr Ronald Kent, Managing Director, Wholesale and Financial Policy, BBA; London/Great Britain

Mr Theodore Charles Jonas, Of Counsel, Dentons Georgia LLC; Tiflis/Georgia

Mr Thomas Christian Eisenbach, KfW, Frankfurt am Main/Germany

The supervisory board worked voluntarily.

Management Board as from 4 September 2018:

Mr George Giacomini, Executive Director

The Foundation omitted the disclosure of the remuneration paid to the executive director and/or the management board analogue to Section 286 (4) German Commercial Code (HGB).

Number of Employees

In the financial year 2018, the Foundation had five employees in the annual average.

Major Post-Balance-Sheet-Date Events

There were no events of special importance that occurred after the end of the financial year.

Offenbach am Main/Germany, 11 June 2019

Caucasus Nature Fund (CNF)

The Management Board

Caucasus Nature Fund (CNF), Offenbach am Main/Germany

Movements in Fixed Assets in the Financial Year 2018

	Acquisition cost				Accumulated amortisation, depreciation and write-downs				Book value	Book value
	1 Jan. 2018 EUR	Additions EUR	Disposals EUR	31 Dec. 2018 EUR	1 Jan. 2018 EUR	Additions EUR	Disposals EUR	31 Dec. 2018 EUR	31 Dec. 2018 EUR	31 Dec. 2017 EUR
A. Fixed assets										
I. Property, plant and equipment										
Operating and office equipment	51.784,72	1.076,55	0,00	52.861,27	39.026,72	5.726,55	0,00	44.753,27	8.108,00	12.758,00
II. Financial assets										
Long-term securities	23.629.357,34	8.738.206,49	6.714.741,28	25.652.822,55	0,00	0,00	0,00	0,00	25.652.822,55	23.629.357,34
Total fixed assets	23.681.142,06	8.739.283,04	6.714.741,28	25.705.683,82	39.026,72	5.726,55	0,00	44.753,27	25.660.930,55	23.642.115,34