



TRANSLATION - AUDITOR'S REPORT

Annual financial statements as at December 31, 2013

Caucasus Nature Fund
Offenbach am Main



Caucasus Nature Fund, Offenbach am Main, Germany

Balance sheet at December 31, 2013

Assets

	31/12/2013	31/12/2012
	€	€
A. Fixed assets		
I. Property, plant and equipment		
Office machinery and equipment and other fixed assets	9,701.21	8,142.71
II. Financial assets		
Investment securities	15,407,990.38	11,465,452.99
	<u>15,417,691.59</u>	<u>11,473,595.70</u>
B. Current assets		
I. Miscellaneous assets	375,431.97	240,535.99
II. Cash and cash equivalents		
	8,925,528.58	10,144,612.12
	<u>9,300,960.55</u>	<u>10,385,148.11</u>
C. Advance payments and prepaid expenses	981.00	8,389.21
	<u>24,719,633.14</u>	<u>21,867,133.02</u>

Equity and liabilities

	31/12/2013		31/12/2012	
	€	€	€	€
A. Equity				
I. Foundation capital				
1. Original capital	7,728,100.00		7,728,100.00	
2. Capital contributions	3,393,917.91		393,917.91	
3. Net capital gains				
	386,045.86	11,508,063.77	154,446.46	8,276,464.37
II. Reserves				
1. Free reserve pursuant to section 58 (7a) of the AO	702,116.04		527,317.81	
2. Reserve pursuant to section 58 (11b) AO	11,655,059.72		11,988,904.22	
3. Savings reserve pursuant to section 58 (12) AO	233,432.75	12,590,608.51	233,432.75	12,749,654.78
III. Funds carried forward		4,693.92		0.00
		24,103,366.20		21,026,119.15
B. Provisions				
Miscellaneous provisions		67,391.04		45,500.00
C. Liabilities				
1. Liabilities arising from donations with repayment obligations		514,581.22		759,403.65
2. Trade accounts payable		9,384.08		6,484.81
3. Other creditors		24,910.60		29,625.41
		548,875.90		795,513.87
		24,719,633.14		21,867,133.02

Caucasus Nature Fund, Offenbach am Main, Germany

Statement of income for the year ended December 31, 2013

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) Expenses for assets
Net investment income
c) Revenue from donations and grants
Net revenue
2. Grant 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 income for the year
4. Transfers from reserves pursuant to section 58 (11b) AO
5. Transfers to net capital gains
6. Transfer to free reserve pursuant to section 58 (7a) AO
7. Funds carried forward from prior year
8. Funds carried forward

2013		2012	
€	€	€	€
21,070.26		0.00	
520,725.29		491,721.34	
231,424.75		14,603.46	
174.65	773,394.95	0.00	506,324.80
	-101,086.07		-52,959.75
	672,308.88		453,365.05
	558,526.76		782,912.15
	1,230,835.64		1,236,277.20
-701,078.88		-810,397.07	
-124,395.64		-61,322.51	
-58,554.35	-884,028.87	-54,001.20	-925,720.78
-166,826.18		-154,948.31	
-72,824.41		-120,379.45	
-29,909.13	-269,559.72	-10,859.73	-286,187.49
	-1,153,588.59		-1,211,908.27
	77,247.05		24,368.93
	333,844.50		96,734.28
	-231,599.40		-10,582.08
	-174,798.23		-149,289.37
	0.00		38,768.24
	4,693.92		0.00

Caucasus Nature Fund, Offenbach am Main, Germany

Notes to the annual financial statements for the year ended December 31, 2013

General disclosures and notes regarding the annual financial statements

The Caucasus Nature Fund was established as a civil-law foundation with the name Caucasus Protected Areas Fund by means of an endowment transaction on June 1, 2007. It was recognized by the regional president on June 25, 2007. The financial statements for the year ended December 31, 2013 were prepared in accordance with the rules of procedure of the Foundation and the provisions of the German Commercial Code relating to large corporations (sections 264 et seq. HGB) with the exception that no management report was prepared.

The breakdown of items in the balance sheet and statement of income took account of the distinctive features arising from the activities of a foundation.

The statement of income 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 applied in the annual financial statements were unchanged from those applied in 2012.

Property, plant and equipment and financial assets are recognized at cost in accordance with section 255 (1) HGB. Property, plant and equipment is written down according to use by means of depreciation rates based on useful lives recognized for tax purposes under the straight-line method. Financial assets are written down to their permanently impaired value or fair value, whichever is the lower.

Receivables and miscellaneous assets, and credit balances with banks are recognized at their nominal amounts.

The carrying values of miscellaneous provisions include all identifiable risks and contingent liabilities. They are recognized at the settlement value dictated by prudent business practice.

Liabilities are carried at their settlement value.

Transactions in foreign currencies are reported at the exchange rate on the date of the transaction. Foreign-currency receivables and liabilities are valued at the exchange rate applicable on the date on which they arose. Foreign-currency items are translated at the rates applicable on the balance sheet date in accordance with the provisions of section 256a HGB.

Hedging relationships with liabilities and pending transactions are recognized for some foreign-currency credit balances in accordance with section 254 HGB. When hedging relationships are recognized between foreign-currency credit balances and liabilities, a compensating item (micro hedge) is recognized for the effects of movements in exchange rates because the values of both line items would move in opposite directions if there are changes in exchange rates. Within this type of hedge accounting, foreign-currency credit balances and liabilities equivalent to €514,581,22 were recognized in 2013. When hedging relationships are recognized between foreign-currency credit balances and pending transactions, a compensating item (micro hedge) is recognized for the effects of movements in exchange rates because there are contractual payment obligations for the foreign-currency credit balances held. In this type of hedge accounting, foreign-currency credit balances and liabilities equivalent to €462,153.10 were recognized in 2013. If they had been translated into euros at the rates applicable at the balance sheet date, the value of the foreign-currency holdings would have fallen by €31,544.43. The corresponding liabilities would have fallen by the same amount.

Notes to the balance sheet

The summary of fixed asset movements which forms part of the balance sheet shows a breakdown of fixed assets and changes in fixed assets.

Financial assets included a securities portfolio with a book value of €15,407,990.38 as at the end of 2013. The following securities in the portfolio were recognized at amounts above their fair value:

	Nominal value/No. of shares	Book value	Fair value
	€	€	€
Bonds			
Deutsche Bank CAP. FD.	330,000.00	366,300.00	351,450.00
Pro Secure Fund	300,000.00	312,600.00	312,390.00
GA CAP. S.A. Gazprom	420,000.00	463,008.00	454,440.00
Gerresheimer AG	405,000.00	460,282.50	448,132.50
Glencore Fin. Europe	410,000.00	454,804.80	447,761.00
Coöp. Cent. Raif. Boerenljk.	269,292.46	273,851.58	261,956.63
Commerzbank AG certificate	500,000.00	505,250.00	497,100.00
SAP AG	134,000.00	138,245.12	133,899.50
ThyssenKrupp AG	135,000.00	147,487.50	139,131.00
Unicredit Bank Ireland	75,000.00	75,000.00	73,875.00
Nordea Bank Finland	250,000.00	265,752.20	260,425.00
Kommunalbanken	266,244.23	275,139.43	244,072.70
GAZ Cap.S.A.M.T.LPN	250,000.00	249,697.39	249,250.00
Export-Import Bk. of Korea	250,000.00	252,975.87	240,925.00
AUS.& N.Z.Bk.GR.LTD.	650,000.00	640,791.18	621,530.00
Neste Oil Corp.	250,000.00	263,203.94	261,575.00
Skandi. Enski. Banken	250,000.00	277,333.18	269,500.00
SBAB Bank	250,000.00	249,382.29	246,162.50
HSBC C.FD.	250,000.00	252,433.21	248,125.00
BMW Finance N.V.	246,457.17	249,452.51	240,392.20
	5,890,993.86	6,172,990.70	6,002,093.03
Investment shares			
Unilever N.V. Cert.	4,650 shares	137,948.64	135,105.75
DWS Topdividende	3,020 shares	280,195.60	278,625.20
Magellan Sicav Actions	8,700 shares	150,267.55	146,421.00
Templeton Global Bond Fund	21,120 shares	367,276.80	362,841.60
		935,688.59	922,993.55
		7,108,679.29	6,925,086.58

As at December 31, 2013 none of these financial instruments had been written down to lower market values because 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 was the case at the end of 2012, miscellaneous assets were due within one year.

As at the balance sheet date, the Company reported credit balances with banks in foreign currencies consisting of AMD 7,872,302.68 (Armenian dram), GEL 249,574.24 (Georgian lari) and US\$ 969,569.74.

The foundation capital remained at the same amount as at the end of 2012. The German Federal Ministry for Economic Cooperation and Development (BMZ) made a contribution of €3,000,000 to the Foundation's capital via Germany's KfW development bank (KfW) in 2013.

In the year under review, €174,798.23 was transferred to the free reserve within the meaning of section 58 no. 7 AO (section 62 (1) no. 3 AO from January 1, 2014). Realized capital gains and exchange-rate gains of €231,599.40 were added to foundation capital in 2013.

As at December 31, 2013, the reserves pursuant to section 58 no. 11b AO (section 62 (3) no. 2 AO from January 1, 2014) amounted to €11,655,059.72. This amount consisted of the following two components:

- a non-cash donation in the form of shares with a value of €85,638.50
- the remaining amount of €11,569,421.22, which comprised two separate grants made by the BMZ via KfW which originally totaled €12,000,000.00 (€5,000,000.00 granted in December 2010 and €7,000,000.00 granted in December 2012). According to the agreement with KfW, the grants 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 concerning the 2030 Sinking Fund, the original grant of €12,000,000.00 must be divided into the following three separate categories: (i) €9,500,000.00 to be set aside to cover administrative expenses and similar costs for the protected areas in the Caucasus; (ii) €500,000.00 to be used for international advisors for technical assistance and services connected with the management of the protected areas; (iii) €2,000,000.00 set aside 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	Appropriated in 2011	Balance at Dec. 31, 2011	Appropriated in 2012	Balance at Dec. 31, 2012	Appropriated in 2013	Balance at Dec. 31, 2013
	€	€	€	€	€	€	€
€9.5 mil. (first instalment of €5 mil.) for administrative and similar costs of protected areas	5,000,000	0	5,000,000	96,734	9,403,266	253,997	9,149,269
€0.5m for international advisors	N/A	N/A	N/A	N/A	500,000	4,537	495,463
€2m for CNF's activities in the Caucasus	N/A	N/A	N/A	N/A	2,000,000	75,311	1,924,689
Total grant of €12m (2030 Sinking Fund)	5,000,000	0	5,000,000	96,734	11,903,266	333,845	11,569,421

The reserve pursuant to section 58 no. 12 AO known as the savings reserve remained unchanged in the year under review.

Miscellaneous provisions included unpaid invoices for consultancy, accounting and asset-management services received in 2013, and year-end costs.

Liabilities arising from donations with conditional repayment obligations resulted from donations to which a specific, separately agreed condition or an individual contractual provision regarding their use was attached. They create an obligation to use the donation for a specified purpose and if this obligation is not met, the donor has the right to request reimbursement. Liabilities arising from donations with conditional repayment obligations comprised the following two donations: an amount of €278,187.36 representing the remainder of a donation of US\$ 825,500.00 received in 2010 specified for use in Georgia ('Georgia Sinking Fund') and liabilities of €236,393.86 representing the remainder of a donation of US\$ 815,500.00 specified for use in Armenia ('Armenia Sinking Fund'). The liabilities arising from the Georgia Sinking Fund were translated into euros and the original amount recognized was €627,184.32. An original amount of €580,261.85 was recognized for the liabilities arising from the Armenia Sinking Fund.

Changes in liabilities arising from donations with conditional repayment obligations are shown in the table below:

Changes in Georgia Sinking Fund

Date	Description	Amount
		€
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
	Capital 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 movements	101.13
Dec. 31, 2013		278,187.36

Changes in Armenia Sinking Fund

Date	Description	Amount
		€
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 movements	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 movements	-907.71
	Capital 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 movements	-527.12
Dec. 31, 2013		236,393.86

The liabilities arising from donations with conditional repayment obligations amounting to €514,581.22 had a residual term of three years. All other liabilities had a residual term of less than one year.

Other creditors included tax liabilities and liabilities for social security contributions of €10,997.36.

Notes to the statement of income

Dividend income related to investment securities.

Interest and similar income was attributable to time deposits and investment securities.

Expenses for assets resulted from charges for investment advice and custody fees.

Approximately half (€279,576.04) of the revenue from donations and grants received in 2013 related to the appropriation of donations with conditional repayment obligations. The same amount was recognized as a corresponding expense. The remainder mainly resulted from

grants and donations from: Ruane, Cunniff & Goldfarb LLC – Acacia Conservation Fund via The King Baudouin Foundation, USA; Bank of Georgia, Georgia; and Critical Ecosystems Partnership Fund, donated via Conservation International Foundation, USA.

Expenses for project grants included costs associated with direct promotional measures in the Caucasus.

Expenses for project development and technical services included personnel expenses, traveling expenses to the Caucasus in connection with promotional measures and the costs of offices maintained in Armenia and Georgia.

Expenses for project management included personnel expenses and the costs of offices maintained in Armenia and Georgia.

Administrative expenses included other personnel expenses connected with administration, auditing and external accounting costs, rent, insurance premiums, consultancy costs and other operating expenses.

Fundraising and communication expenses included personnel expenses, traveling expenses, consultancy costs, event costs and other expenses in connection with acquiring funds.

Other operating expenses of €29,909.13 shown under administrative and similar expenses related entirely to currency translation expenses.

Personnel expenses

	2013	2012
	€	€
Personnel expenses		
a) Wages and salaries	203,752.56	150,192.77
b) Social security contributions	31,199.16	62,775.09
	234,951.72	212,967.86

Personnel expenses were higher than in 2012 because an additional employee was recruited in the office in Georgia in 2103. Social security contributions were lower, largely because they were affected by changes in the personal circumstances of one employee.

Other disclosures

Auditor's fee

The total fee charged by the auditor for 2013 was approximately €30,000 and related exclusively to the auditing of financial statements.

Management Board:

Chairwoman

- Eva Witt
First Vice President, East Europe, Caucasus, Central Asia, KfW Development Bank, Frankfurt am Main

Deputy Chairman

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

Treasurer

- Ronnie Kent
Consultant, London, UK (from May 21, 2013)
- Jorgen B. Thomsen
Director Conservation and Sustainable Development, MacArthur Foundation, Chicago, USA (until May 21 2013)

Additional members

- Scott Dresser
Consultant, Chicago, USA; Former General Counsel and Secretary, Virgin Media, London, UK
- Ronnie Kent
Consultant, London, UK (until May 21, 2013)

The Management Board conducts its work on an honorary basis.

Executive Director

- David Morrison, Executive Director, Berlin

Number of employees

The Foundation employed an average of six people in 2013.

Offenbach am Main, March 31, 2014

Caucasus Nature Fund

Management Board

Caucasus Nature Fund, Offenbach am Main, Germany

Summary of fixed asset movements in the 2013 financial year

	Acquisition cost			
	1/1/2013	Additions	Deductions	31/12/2013
	€	€	€	€
I. Property, plant and equipment				
Office machinery and equipment and other fixed assets	15,775.29	5,679.96	0.00	21,455.25
II. Financial assets				
Investment securities	11,465,452.99	22,778,390.58	18,835,853.19	15,407,990.38
	<u>11,481,228.28</u>	<u>22,784,070.54</u>	<u>18,835,853.19</u>	<u>15,429,445.63</u>

Cumulative depreciation			Net book value		
1/1/2013	Depreciation during the financial year	Deductions	31/12/2013	31/12/2013	31/12/2012
€	€	€	€	€	€
7,632.58	4,121.46	0.00	11,754.04	9,701.21	8,142.71
0.00	0.00	0.00	0.00	15,407,990.38	11,465,452.99
7,632.58	4,121.46	0.00	11,754.04	15,417,691.59	11,473,595.70

