

# **Reserve Invest (Cyprus) Limited**

## **Report and financial statements 31 December 2009**

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# **Reserve Invest (Cyprus) Limited**

## **Board of Directors and other officers**

### **Board of Directors**

Pavel Novosyolov

Costas Hadjicosti

Petros Economides

Irina Guizikova (resigned on 19 January 2009)

Mikhail Kobysh (resigned on 19 January 2009)

Natalia Kuznetsova (appointed on 6 April 2009)

Olga Plaksina (appointed on 6 April 2009)

### **Company Secretary**

#### **Abacus Secretarial Limited**

Elenion Building

2<sup>nd</sup> floor

5 Themistocles Dervis Street

CY-1066 Nicosia

Cyprus

### **Registered office**

50 Agias Zonis Street

Arianthi Court, 2nd Floor

CY-3090 Limassol

Cyprus

# **Reserve Invest (Cyprus) Limited**

## **Report of the Board of Directors**

1 The Board of Directors presents its report together with the audited financial statements of the Company for the year ended 31 December 2009.

### **Principal activities**

2 The principal activities of the Company, which are unchanged from last year, comprise investing/trading in debt and equity securities (including, but not limited to, any form of dividend and interest earning shares, bonds, deposits, loans and financial instruments), brokerage activities, investment management and investment advisory services to IFD Kapital Group, Reserve Invest Holding (Cyprus) Limited Group and other investors for the purpose of providing access to securities markets.

3 The Company is regulated by the Cyprus Securities and Exchange Commission – (CySec) under authorisation number CIF028/04 issued on 4 May 2004 by which it is licensed to operate as a Cypriot Investment Firm and to provide the investment and non-core services in relation to the transferable securities and shares in collective investments undertakings. Also the Company is trading in money market instruments, futures, forward rate agreements, interest rate, currency and equity swaps and options and provides the investment service of underwriting in respect of issues for transferable securities and shares in collective investment undertakings.

### **Review of developments, position and performance of the Company's business**

4 2009 was another challenging year for Reserve Invest (Cyprus) Limited. The comprehensive income for the year was US\$678.995.208 versus a comprehensive loss in 2008 of US\$430.117.198. The majority of this income in 2009 stems from higher marked to market values for Russian securities. The other main sources of income were from own sales and trading, dividend income and interest income. The total assets of the Company grew from US\$1.222.028.757 at the end of 2008 to US\$1.792.613.789 as of 31 December 2009.

5 Reserve Invest (Cyprus) Limited revaluation gains were largely a result of an 80-percent gain in the Russian stock market from the lows in 2009 as the sell-off from the global credit crunch and financial crisis in emerging markets subsided. Investors who had dumped securities perceived as risky were replaced by value investors buying over-sold assets. Energy and commodity related stocks rebounded as the global economic slowdown eased and demand in these sectors recovered. Political uncertainty and freezing credit markets that had led to this risk aversion, and a flight to the perceived safety of the government treasuries, were replaced by coordinated government interventions via loose fiscal and expansionary monetary policies.

# **Reserve Invest (Cyprus) Limited**

## **Report of the Board of Directors (continued)**

### **Review of developments, position and performance of the Company's business (continued)**

6 During the credit crisis, and the steep drop in equity prices, Reserve Invest (Cyprus) Limited demonstrated solid performance and met all margin calls in cash and collateral in-full and on-time satisfying all of its debt obligations to its external bank and non-bank financial institution counterparts. Due to continued high volatility, the Company marginally expanded its repurchase agreement obligations from US\$262.143.668 to US\$335.729.619, which is considered by management as efficient for the Company's current operations. Overall leverage is down substantially from pre-crisis levels, while the current ratio stands at less than nineteen percent.

7 During the recovery from the financial crisis Reserve Invest (Cyprus) Limited was able to profit from a rise in Russian equity and bond prices through the use of options and cash trading. The Company will continue its hedging strategies with regards to foreign exchange, interest rate and liquidity risks as well as monitor credit and legal risks. Where appropriate the Company will look to profit from high volatility by taking a directional view in key markets within defined risk parameters.

### **Principal risks and uncertainties**

8 The principal risks and uncertainties of the Company are identified and disclosed in Notes 3 and 30 to the financial statements under "Financial Risk Management" and "Operating Environment".

### **Future developments**

9 Reserve Invest (Cyprus) Limited will continue its principal activities, while expanding its product range. The Company will continue to focus on asset management as well as own sales trading for both external clients and related Group companies. The Company's business mix has positioned the firm well for many long-term trends affecting emerging markets such as the growing demand for energy and a revitalization of the power sector in Russia. The Company expects a recovery in these markets based on continued global growth lead by Asia and the demand that it will create for energy and commodities. Just as Reserve Invest (Cyprus) Limited was hurt by a temporary reversal in these broad macro-trends in 2008, so was the Company strongly positioned to benefit once markets began to recover in 2009. We expect further growth in our core markets in 2010, but remain vigilant as to external risks from de-leveraging or a double-dip recession as fiscal and monetary stimuli are withdrawn and interest rates rise.

# **Reserve Invest (Cyprus) Limited**

## **Report of the Board of Directors (continued)**

### **Results**

10 The Company's results for the year are set out on page 10. The Board of Directors recommends the payment of a dividend as detailed below.

### **Dividends**

11 On 2 December 2009 the Board of Directors resolved to pay an interim dividend in the amount of US\$ 50.500.000. The dividend was settled by the way of bank transfer.

12 On 23 December 2009 the Board of Directors resolved to pay an interim dividend in the amount of US\$ 202.595.350. The dividend was settled as follows:

- US\$120.000.000 set-off with the Shareholder's obligation in respect of the increase of share capital (as described in paragraph 14 below);
- US\$ 65.777.482 set-off with the Shareholder's obligation in respect of a regular way share purchase agreement;
- US\$ 16.817.868 by the way of bank transfer.

13 On 3 March 2010 the Board of Directors resolved to pay an interim dividend in the amount of US\$10.000.000. The dividend was settled by the way of bank transfer on the same date.

### **Share capital**

14 On 23 December 2009, the Board of Directors resolved to issue 15 000 shares of EUR1,71 each at a premium of US\$ 7.997,56 per share. The shares were issued and allotted to Reserve Invest Holding (Cyprus) Limited as a partial settlement of dividend due to shareholder in the amount of US\$120.000.000.

### **Board of Directors**

15 The members of the Board of Directors at 31 December 2009 and at the date of this report are shown on page 1.

16 Messrs Irina Guizikova and Mikhail Kobysh resigned on 19 January 2009.

17 On 27 February 2009, the Company filed a notification to the Cyprus Securities and Exchange Commission in respect of change of Directors and the appointment of Mrs Natalia Kuznetsova and Mrs Olga Plaksina. On 6 April 2009, both of them were formally appointed as Directors of the Company.

# Reserve Invest (Cyprus) Limited

## Report of the Board of Directors (continued)

18 In accordance with the Articles of Association of the Company any Directors appointed by the Board of Directors shall hold office only until the next Annual General Meeting and shall then be eligible for re-election. All other Directors stay in office.

19 There were no significant changes in the assignment of responsibilities of the Board of Directors. Details regarding the remuneration of the Board of Directors are stated in Note 31(g) to the financial statements.

### Events after the balance sheet date

20 On 3 March 2010 the Board of Directors resolved to pay an interim dividend in the amount of US\$10.000.000. The dividend was settled by the way of bank transfer on the same date.

21 On 19 March 2010 the Company signed a termination agreement for the subordinated loan receivable agreement with OJSC “Promsvyazbank” and on 12 April 2010 the total outstanding balance amounting to US\$20.000.000 was repaid by the borrower to the Company.

22 There were no other material events which occurred after the end of the financial year, which have a bearing on the understanding of the financial statements.

### Branches

23 The Company did not operate through any registered branches during the year.

### Auditors

24 The Independent Auditors, PricewaterhouseCoopers Limited, have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

By Order of the Board



Costas Hadjicosti  
Director

Limassol  
26 April 2010

# Independent Auditor's Report To the Members of Reserve Invest (Cyprus) Limited

**PricewaterhouseCoopers Limited**

City House  
6 Karaiskakis Street  
CY-3032 Limassol  
P O Box 53034  
CY-3300 Limassol, Cyprus  
Telephone: + 357 - 25555000  
Facsimile: + 357 - 25555001  
[www.pwc.com/cy](http://www.pwc.com/cy)

## Report on the Financial Statements

We have audited the accompanying financial statements of Reserve Invest (Cyprus) Limited (the "Company"), which comprise the statement of financial position as at 31 December 2009, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Board of Directors' Responsibility for the Financial Statements*

The Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap. 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

**Board Members:** Phidias K Piliides (CEO), Dinos N Papadopoulos (Deputy CEO), Panikos N Tsiailis, Christakis Santis, Stephanos D Stephanides, Costas L Hadjiconstantinou, George Foradaris, Costas M Nicolaidis, Angelos M Loizou, Vasilis Hadjivassiliou, Androulla S Pittas, Savvas C Michail, Costas L Mavrocordatos, Christos M Themistocleous, Panicos Kaouris, Nicos A Neophytou, George M Loizou, Panteis G Evangelou, Liakos M Theodorou, Stelios Constantinou, Tassos Procopiou, Andreas T Constantinides, Theo Parperis, Constantinos Constantinou, Petros C Petrakis, Philippos C Soseilos, Evgenios C Evgeniou, Christos Tsolakis, Nicos A Theodoulou, Nikos T Nikolaidis, Cleo A Papadopoulou, Marios S Andreou, Nicos P Chimarides, Aram Tavitian, Constantinos Taliotis, Stavros A Kattamis, Yiannos A Kaponides, Tasos N Nolas, Chrysilios K Pelekanos, Eftychos Eftychiou, George C Lambrou, Chris Odysseos, Constantinos L Kapsalis, Stelios A Violaris, Antonis Hadjiloucas, Petros N Maroudias  
**Directors of Operations:** Androulla Aristidou, Achilleas Chrysanthou, George Skapoullaros, Demetris V Psaltis, George A Ioannou, George C Kazamias, Michael Kliriotis, Marios G Melanides, Sophie A Solomonidou, Yiannis Televantides, Antonis C Christodoulides, Anna G Loizou

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Basis for Qualified Opinion*

The Company's Board of Directors omitted the disclosure of the ultimate controlling party of the Company. This is not in line with the requirements of International Accounting Standard 24 " Related Party Disclosures ".

*Opinion*

In our opinion, except for the effect on the financial statements of the matter referred to in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of Reserve Invest (Cyprus) Limited as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap. 113.

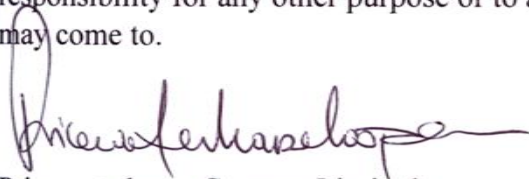
**Report on Other Legal Requirements**

Pursuant to the requirements of the Cyprus Companies Law, Cap. 113, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required, except as explained in the Basis for Qualified Opinion paragraph.
- In our opinion, the information given in the report of the Board of Directors is consistent with the financial statements.

**Other Matter**

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 156 of the Cyprus Companies Law, Cap. 113 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.



PricewaterhouseCoopers Limited  
Chartered Accountants

Limassol, 26 April 2010

# Reserve Invest (Cyprus) Limited

## Statement of financial position at 31 December 2009

<i>In US Dollars</i>	Note	2009	2008
<b>Assets</b>			
Cash and cash equivalents	19	<b>182.600.303</b>	119.161.103
Financial assets at fair value through profit or loss	5	<b>640.793.685</b>	188.348.248
Pledged assets	6	<b>720.858.954</b>	592.345.149
Trade receivables	7	<b>625.000</b>	102.278.434
Loans receivable	8	<b>171.718.360</b>	171.834.854
Promissory notes	9	<b>10.240.862</b>	21.373.721
Available-for- sale financial assets	10	<b>114.988</b>	7.491.219
Current income tax asset		<b>1.403.770</b>	815.475
Property, plant and equipment	11	<b>321.682</b>	390.032
Other assets	12	<b>63.936.185</b>	17.990.522
<b>Total assets</b>		<b>1.792.613.789</b>	1.222.028.757
<b>Liabilities</b>			
Financial liabilities at fair value though profit or loss	13	<b>427.054</b>	7.886.798
Trade and other payables	14	<b>1.154.411</b>	10.767.740
Repurchase agreements	6	<b>335.729.619</b>	262.143.668
Borrowings	15	-	31.170.884
Current income tax liabilities		-	656.820
<b>Total liabilities</b>		<b>337.311.084</b>	312.625.910
<b>Equity</b>			
Share capital	16	<b>1.869.371</b>	1.832.753
Share premium	17	<b>857.286.354</b>	737.322.972
Fair value reserve		<b>16.204</b>	846.578
Retained earnings		<b>596.130.776</b>	169.400.544
<b>Total equity</b>		<b>1.455.302.705</b>	909.402.847
<b>Total liabilities and equity</b>		<b>1.792.613.789</b>	1.222.028.757

On 26 April 2010, the Board of Directors of Reserve Invest (Cyprus) Limited authorised these financial statements for issue.

Costas Hadjicosti, Director

Natalia Kuznetsova, Director

The notes on pages 13 to 63 are an integral part of these financial statements.

# Reserve Invest (Cyprus) Limited

## Statement of comprehensive income for the year ended 31 December 2009

<i>In US Dollars</i>	Note	2009	2008
Net gains/(losses) from trading securities	5	<b>657.064.849</b>	(414.481.425)
Profit/(loss) on disposal of available for sale financial assets	10	<b>1.186.785</b>	(713.638)
Net gains/(losses) from trading in foreign currencies		<b>378.303</b>	(6.482.592)
Dividend income	5	<b>36.652.136</b>	32.521.836
Trading fees and commission expense	20	<b>(1.984.482)</b>	(2.724.725)
<b>Net income/(loss) from trading operations</b>		<b>693.297.591</b>	(391.880.544)
Interest income	21	<b>13.824.328</b>	31.413.360
Fees and commission income	22	<b>529.416</b>	639.056
Other operating income		<b>2.048</b>	10.719
Interest expense	23	<b>(15.722.410)</b>	(42.575.825)
Administrative and other operating expenses	24	<b>(2.765.551)</b>	(4.365.556)
Provision for impairment	26	<b>(2.059.498)</b>	(7.874.740)
Net foreign exchange translation losses		<b>(1.854.053)</b>	(6.893.569)
<b>Profit/(loss) for the year before tax</b>		<b>685.251.871</b>	(421.527.099)
Tax	27	<b>(5.426.289)</b>	(5.689.227)
<b>Profit/(loss) for the year</b>		<b>679.825.582</b>	(427.216.326)
Other comprehensive loss:			
Available-for-sale financial assets:			
Fair value losses arising during the year	10	<b>(27.739)</b>	(2.773.062)
Transferred to net profit due to disposal	10	<b>(802.635)</b>	(127.810)
<b>Other comprehensive loss for the year</b>		<b>(830.374)</b>	(2.900.872)
<b>Total comprehensive income/(loss) for the year</b>		<b>678.995.208</b>	(430.117.198)

The notes on pages 13 to 63 are an integral part of these financial statements.

# Reserve Invest (Cyprus) Limited

## Statement of changes in equity for the year ended 31 December 2009

<i>In US Dollars</i>	Note	Share capital	Share premium	Fair value reserve	Retained earnings <sup>(1)</sup>	Total equity
<b>Balance at 1 January 2008</b>		1.722.222	412.066.959	3.747.450	954.284.639	1.371.821.270
Total comprehensive loss for 2008		-	-	(2.900.872)	(427.216.326)	(430.117.198)
Transactions with owners:						
Additional issue of shares	16	108.987	325.256.013	-	-	325.365.000
Capitalisation of reserves on conversion of share capital to Euro	16	1.544	-	-	(1.544)	-
Dividends declared	18	-	-	-	(357.666.225)	(357.666.225)
<b>Balance at 31 December 2008/1 January 2009</b>		1.832.753	737.322.972	846.578	169.400.544	909.402.847
Total comprehensive income for 2009		-	-	(830.374)	679.825.582	678.995.208
Transactions with owners:						
Additional issue of shares	16	36.618	119.963.382	-	-	120.000.000
Dividends declared	18	-	-	-	(253.095.350)	(253.095.350)
<b>Balance at 31 December 2009</b>		1.869.371	857.286.354	16.204	596.130.776	1.455.302.705

- (1) Companies which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defence of the Republic Law, during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special contribution for defence at 15% will be payable on such deemed dividend to the extent that the shareholders (individuals and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer are Cyprus tax residents. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year at any time. This special contribution for defence is paid by the Company for the account of the shareholders.

The notes on pages 13 to 63 are an integral part of these financial statements.

# Reserve Invest (Cyprus) Limited

## Statement of cash flows for the year ended 31 December 2009

<i>In US Dollars</i>	Note	2009	2008
<b>Cash flows from operating activities</b>			
Profit/(loss) before tax		685,251,871	(421,527,099)
Adjustments for:			
Depreciation of property, plant and equipment	11	80,473	85,690
Net (gains)/losses on financial assets/liabilities at fair value through profit or loss		(403,426,313)	420,964,017
(Profit)/loss on disposal of available for sale financial assets	10	(1,186,785)	713,638
Dividend income	5	(36,652,136)	(32,521,836)
Interest income on loans	21	(8,416,020)	(13,379,293)
Interest expense on borrowings	23	161,671	2,267,170
Foreign exchange on loans		(34,470)	-
Impairment of financial assets	26	2,059,498	7,874,740
Interest received		8,484,594	17,770,012
Dividends received		31,259,089	29,825,558
Loans granted	31 (d)	(17,227,808)	(14,272,263)
Loan repayments received	31 (d)	17,310,198	21,241,349
		277,663,862	19,041,683
Changes in working capital:			
Trade receivables		101,653,434	(69,107,611)
Financial assets and liabilities at fair value through profit or loss		(346,476,739)	(53,703,317)
Pledged assets		161,484,066	696,846,757
Promissory notes		9,073,361	15,852,806
Trade and other payables		(9,613,329)	(3,362,016)
Repurchase agreements		73,585,951	(852,196,596)
Other assets		(45,945,663)	342,175,571
		221,424,943	95,547,277
<b>Cash generated from operations</b>		<b>221,424,943</b>	<b>95,547,277</b>
Tax paid		(1,278,357)	(6,124,390)
		220,146,586	89,422,887
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment	11	(12,123)	(57,983)
Acquisition of available for sale financial assets	10	-	(3,118,467)
Proceeds from disposal of available for sale financial assets	10	7,732,642	3,371,009
		7,720,519	194,559
<b>Cash flows from financing activities</b>			
Receipts from borrowings		-	145,000,000
Repayment of borrowings		(30,000,000)	(115,000,000)
Dividends paid to Company's shareholders	18	(133,095,350)	(32,301,225)
Interest paid		(1,327,901)	(1,100,940)
		(164,423,251)	(3,402,165)
<b>Net cash used in financing activities</b>			
		(164,423,251)	(3,402,165)
<b>Net increase in cash and cash equivalents</b>		<b>63,443,854</b>	<b>86,215,281</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>119,156,449</b>	<b>32,941,168</b>
		182,600,303	119,156,449
<b>Cash and cash equivalents at end of year</b>	19	<b>182,600,303</b>	<b>119,156,449</b>

The notes on pages 13 to 63 are an integral part of these financial statements.

# **Reserve Invest (Cyprus) Limited**

## **Notes to the financial statements**

### **1 General information**

#### **Country of incorporation**

The Company is incorporated and domiciled in Cyprus as a private limited liability company in accordance with the provisions of the Companies Law, Cap. 113. The Company is a 100% subsidiary of Reserve Invest Holding (Cyprus) Limited, a Cyprus incorporated company. The Company's registered office is at 50 Agias Zonis Street, Arianthi Court 2nd Floor, CY-3090 Limassol, Cyprus. The Company's principal place of business is at Maximos Plaza, Block 3, 3<sup>rd</sup> floor, 6 Griva Digheni Avenue, office 3301, CY-3035 Limassol, Cyprus.

#### **Principal activities**

The principal activities of the Company, which are unchanged from last year, comprise investing/trading in debt and equity securities (including, but not limited to, any form of dividend and interest earning shares, bonds, deposits, loans and financial instruments), brokerage activities, investment management and investment advisory services to IFD Kapital Group, Reserve Invest Holding (Cyprus) Limited Group and other investors for the purpose of providing access to securities markets.

The Company is regulated by the Cyprus Securities and Exchange Commission (CySec) under authorisation number CIF028/04 issued on 4 May 2004 by which it is licensed to operate as a Cypriot Investment Firm and to provide the investment and non-core services in relation to the transferable securities and shares in collective investments undertakings. Also the Company is trading in money market instruments, futures, forward rate agreements, interest rate, currency and equity swaps and options and provides the investment service of underwriting in respect of issues for transferable securities and shares in collective investment undertakings.

### **2 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented in these financial statements unless otherwise stated.

#### **Basis of preparation**

The financial statements of Reserve Invest (Cyprus) Limited have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the requirements of the Companies Law, Cap. 113. In addition the financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss (including derivative financial instruments) and available-for-sale financial assets.

# Reserve Invest (Cyprus) Limited

## 2 Summary of significant accounting policies (continued)

### Basis of preparation (continued)

As of the date of the authorisation of the financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2009 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of the following:

- (i) Certain provisions of IAS 39 “Financial Instruments: Recognition and Measurement” relating to portfolio hedge accounting;
- (ii) Improvements to IFRSs 2009.

In addition, the following interpretations have been endorsed, however their effective dates are not the same, although an entity may choose to early adopt them:

- (i) IFRIC 12 “Service Concession Arrangements”;
- (ii) IFRIC 15 “Agreements for the construction of real estate”; and
- (iii) IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”.

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates and requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

### Adoption of new and revised IFRSs

During the current year the Company adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2009. This adoption did not have a material effect on the accounting policies of the Company, with the exception of the following:

- (i) IAS 1 (revised) “Presentation of financial statements”, as a result of the adoption of which, the Company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented so that it is also in conformity with the revised standard. The change in the accounting policy impacts only presentation aspects.
- (ii) IFRS 7 “Financial Instruments-Disclosures” (amendment), as a result of the adoption of which, the Company provides additional disclosures in relation to the fair value measurements of its financial instruments by level of a fair value measurement hierarchy.

# Reserve Invest (Cyprus) Limited

## 2 Summary of significant accounting policies (continued)

### Adoption of new and revised IFRS (continued)

At the date of approval of these financial statements the following accounting standards were issued by the International Accounting Standards Board but were not yet effective:

#### (i) *Adopted by the European Union*

##### New standards

- IFRS 3 (Revised) “Business Combinations” (effective for annual periods beginning on or after 1 July 2009).
- IAS 27 (Revised) “Consolidated and Separate Financial Statements” (effective for annual periods beginning on or after 1 July 2009).
- IFRS 1 (Revised) “First Time Adoption of International Financial Reporting Standards” (effective for annual periods beginning on or after 1 July 2009).

##### Amendments

- Annual improvements to IFRS (2008) re IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” (effective for annual periods beginning on or after 1 July 2009).
- Amendment to IAS 39 “Financial Instruments: Recognition and Measurement” on “Eligible Hedged Items” (effective for annual periods beginning on or after 1 July 2009).
- Amendment to IFRIC 9 and IAS 39 regarding embedded derivatives (effective for annual periods beginning on or after 30 June 2009).
- Amendments to IAS 32 “Financial Instruments: Presentation: Classifications of Rights Issues” (effective for annual periods beginning on or after 1 February 2010).
- Annual Improvements 2009 (effective for annual periods beginning on or after 1 July 2009 to 1 January 2010).
- Amendments to IFRS 2 “Group Cash-settled Share-based Payment Transactions” (effective for annual periods beginning on or after 1 January 2010).

##### New IFRICs

- International Financial Reporting Interpretation Committee (IFRIC) 12 “Service Concession Arrangements” (effective for annual periods beginning on or after 1 January 2008, EU: 30 March 2009).
- IFRIC 15 “Agreements for the Construction of Real Estate” (effective for annual periods beginning on or after 1 January 2009, EU: 31 December 2009).
- IFRIC 16 “Hedges of a Net Investment in a Foreign Operation” (effective for annual periods beginning on or after 1 October 2008, EU: 30 June 2009).
- IFRIC 17 “Distributions of Non cash Assets to Owners” (effective for annual periods beginning on or after 1 July 2009).
- IFRIC 18 “Transfers of Assets from Customers” (effective for annual periods beginning on or after 1 July 2009).

# Reserve Invest (Cyprus) Limited

## 2 Summary of significant accounting policies (continued)

### Adoption of new and revised IFRS (continued)

#### *(ii) Not adopted by the European Union*

##### **New standards**

- IAS 24 (Revised) “Related Party Disclosures” (effective for annual periods beginning on or after 1 January 2011).
- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2013).

##### **Amendments**

- Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011).
- Amendments to IFRS 1 “Additional Exemptions for First-time Adopters” (effective for annual periods beginning on or after 1 January 2010).
- Amendment to IFRS 1 “Limited Exemption from Comparative IFRS 7 Disclosures for First Time Adopters” (effective for annual periods beginning on or after 1 July 2010).

##### **New IFRICs**

- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” (effective for annual periods beginning on or after 1 July 2010).

The Board of Directors anticipates that the adoption of these Standards in future periods will have no material impact on the financial statements of the Company.

# Reserve Invest (Cyprus) Limited

## 2 Summary of significant accounting policies (continued)

### Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Company's activities. Revenue is recognised when it is probable that economic benefits associated with the transaction will flow to the Company and the revenue can be reliably measured.

Revenues earned by the Company are recognised on the following bases:

**(a) Fee and commission income**

**(1) Brokerage commissions**

Brokerage commissions are recognised when the ownership of the securities is transferred.

**(2) Asset management and advisory services**

Asset management and advisory services income is recognised based on the applicable service contracts, usually on a time proportionate basis.

**(b) Interest income and interest expense**

Interest income and interest expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the comprehensive income statement using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

**(c) Dividend income**

Dividend income is recognised when the Company's right to receive payment is established.

# Reserve Invest (Cyprus) Limited

## 2 Summary of significant accounting policies (continued)

### Employee benefits

The Company and the employees contribute to the Government Social Insurance Fund based on employees' salaries. The Company's contributions are expensed as incurred and are included in staff costs. The Company has no further payment obligations once the contributions have been paid. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

### Foreign currency translation

#### (1) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in United States Dollars (US\$), which is the Company's functional and presentation currency.

#### (2) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the comprehensive income statement.

Translation differences on non-monetary items such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

### Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the country where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

# Reserve Invest (Cyprus) Limited

## 2 Summary of significant accounting policies (continued)

### Tax (continued)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on the Company where there is an intention to settle the balances on a net basis.

The tax effect of tax losses available for carry forward is recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

### Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

### Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of property, plant and equipment. Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values, over their estimated useful lives. The annual depreciation rates are as follows:

	%
Motor vehicles	25
Furniture, fixtures and office equipment	10 – 20
Computer hardware	15

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

# **Reserve Invest (Cyprus) Limited**

## **2 Summary of significant accounting policies (continued)**

### **Property, plant and equipment (continued)**

Expenditure for repairs and maintenance of property, plant and equipment is charged to the comprehensive income statement of the year in which they were incurred. The cost of major renovations and other subsequent expenditure are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with carrying amount and these are included in the comprehensive income statement.

### **Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

### **Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

# Reserve Invest (Cyprus) Limited

## 2 Summary of significant accounting policies (continued)

### Financial assets and financial liabilities

#### (a) Classification

The Company classifies its financial assets and financial liabilities in the following categories: financial assets and financial liabilities at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition and re-evaluates this designation at every reporting date.

#### (i) Financial assets and financial liabilities at fair value through profit or loss

Financial assets or financial liabilities are those acquired or incurred principally for the purposes of selling or repurchasing in the short term and these are classified as held for trading. Derivative financial instruments ('derivatives') are also categorised as financial assets or financial liabilities held for trading. The Company does not classify any derivatives as hedges in an accounting hedging relationship. Assets in this category are classified as current assets and liabilities as current liabilities.

Securities sold short are those positions where the Company has sold a security that it does not own in anticipation of a decline in the market value of the security and are classified as financial liabilities at fair value through profit or loss. To enter a short sale, the Company may need to borrow the security for delivery to the buyer. On each day the short sale transaction is open, the liability to replace the borrowed security is marked-to-market and a revaluation gain or loss is recorded in the comprehensive income statement. While the transaction is open, the Company will also incur an expense for any dividends or interest that will be paid to the lender of the securities.

#### (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which there is no intention of trading the receivable, other than: (a) those that the Company intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the Company upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration. The Company's loans and receivables are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non current assets

#### (iii) Available for sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of these financial assets within twelve months of the balance sheet date.

# Reserve Invest (Cyprus) Limited

## 2 Summary of significant accounting policies (continued)

### Financial assets and financial liabilities (continued)

#### (b) *Recognition/derecognition*

Regular way purchases and sales of financial assets or financial liabilities at fair value through profit or loss and available-for-sale financial assets are recognised/derecognised on the settlement date, which is the date that an asset is delivered to or by the Company. The asset is derecognised and a gain or loss on disposal is recognised on the date it is delivered by the Company. Any change in the fair value of the acquired asset in the period between the trade date, which is the date on which the Company commits to purchase or sell the asset and the settlement date is recognised in the comprehensive income statement to bring the Company's accounting policy in line with IFRS.

#### (c) *Measurement*

Financial assets and financial liabilities are initially recognised at fair value plus transaction costs for all financial assets and financial liabilities not carried at fair value through profit or loss. Financial assets and financial liabilities carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the comprehensive income statement. Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss and available-for-sale financial assets are measured at fair value.

Loans and receivables are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the “financial assets or financial liabilities at fair value through profit or loss” category are presented in the comprehensive income statement within “net gains/(losses) from trading in securities” in the year in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised on the face of the comprehensive income statement when the Company's right to receive payments is established. Gains or losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income. When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the comprehensive income statement as gains and losses on available-for-sale financial assets.

#### (d) *Fair value estimation*

The fair value of financial instruments traded in an active market (such as publicly traded derivatives and trading securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Company is the current bid prices; the appropriate quoted market price for financial liabilities is the current asking price. The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Valuation techniques used include the use of comparable recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

# Reserve Invest (Cyprus) Limited

## 2 Summary of significant accounting policies (continued)

### Financial assets and financial liabilities (continued)

#### (e) *Impairment*

#### (i) **Assets carried at fair value**

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the comprehensive income statement. Impairment losses recognised in the comprehensive income statement on equity instruments are not reversed through the comprehensive income statement.

#### (ii) **Assets carried at amortised cost**

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

### **Derivative financial instruments**

Derivative financial instruments which include exchange traded futures and options and over the counter options on equities, fixed income securities, commodities, foreign exchange contracts, forward rate agreements and currency options (both written and purchased) are initially recognised in the statement of financial position at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow models and options pricing models as appropriate. Derivatives are included within financial assets at fair value through profit or loss when fair value is positive and within financial liabilities at fair value through profit or loss when fair value is negative.

Changes in the fair value of derivatives are recognised in the comprehensive income statement and are presented within "net gains/(losses) from trading in securities". The Company has not applied hedge accounting in the years 2009 and 2008.

# **Reserve Invest (Cyprus) Limited**

## **2 Summary of significant accounting policies (continued)**

### **Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

### **Sale and repurchase agreements**

Securities sold subject to repurchase agreements ('repos') are retained and classified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the corresponding counter-party liability is disclosed separately in current liabilities under repurchase agreements. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to counterparties and are presented under reverse repurchase agreements. The difference between sale and repurchase price is treated as interest and accrued over the life of the repo agreements using the effective yield method.

Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in the comprehensive income statement. The obligation to return them is recorded at fair value as a financial liability at fair value through profit or loss.

### **Share capital**

Ordinary shares are classified as equity.

### **Share premium**

Share premium represents the excess of contributions paid over the nominal value of the shares issued.

### **Provisions**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

# **Reserve Invest (Cyprus) Limited**

## **2 Summary of significant accounting policies (continued)**

### **Accounts payables**

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### **Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the comprehensive income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

### **Cash and cash equivalents**

Cash and cash equivalents include cash in hand and deposits held at call with banks and bank overdrafts. . In the statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

### **Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation of the current period.

Up to the year ended 31 December 2008, the Company had presented separately on its balance sheet the current and non-current assets and liabilities. As from 1 January 2009 and with the adoption of the revised IAS1 'Presentation of Financial Statements', the Company has chosen to present its assets and liabilities based on their liquidity.

# Reserve Invest (Cyprus) Limited

## 3 Financial risk management

### (i) Financial risk factors

The Company's activities expose it to market price risk, interest rate risk, credit risk, liquidity risk, currency risk and capital management risk arising from the financial instruments it holds. The risk management policies employed by the Company to manage these risks are discussed below. The primary objectives of the financial risk management are to establish risk limits and then ensure that exposure to the risks stays within these limits.

#### (a) Market price risk

Market price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices. The Company's financial assets at fair value through profit or loss are susceptible to market price risk arising from uncertainties about their future prices. The Company's investment portfolio comprises mainly shares and ADR's of entities listed in the Russian equities market, promissory notes, Eurobonds and other corporate shares (Note 5). The Company's management monitors the price risk fluctuations on a continuous basis and acts accordingly.

The Company's market price risk is significantly concentrated. Shares and ADRs in OAO Lukoil represent around 95% (2008: 90%) of the total value of financial assets at fair value through profit or loss and pledged assets as at 31 December 2009. The exposure to the market price risk of OAO Lukoil shares and ADRs is recognised by the management as one of the major market price risks of the Company. The changes in the share price of OAO Lukoil and ADRs have a material impact on the profit of the Company which is demonstrated by the calculations below:

# Reserve Invest (Cyprus) Limited

## 3 Financial risk management (continued)

### (i) Financial risk factors (continued)

#### (a) Market price risk (continued)

<i>In US Dollars</i>	<b>2009</b>	2008
Lukoil equities and derivatives on the statement of financial position	<b>1.287.067.411</b>	692.150.097
Total financial assets at fair value through profit or loss and pledged assets less financial liabilities at fair value through profit or loss	<b>1.361.225.585</b>	772.806.599
Percentage of Lukoil equities and derivatives	<b>95%</b>	89%
Number of Lukoil shares	<b>2.543.942</b>	792 194
Number of Lukoil ADRs	<b>20.017.343</b>	21 093 659
	<b>22.561.285</b>	21 885 853
Price increase of US\$10 - effect on total comprehensive income of the Company	<b>225.612.850</b>	218.858.530
Price decrease of US\$10 - effect on total comprehensive income of the Company	<b>(231.809.100)</b>	(218.858.530)
Price increase of US\$50-effect on total comprehensive income of the Company	<b>1.128.064.250</b>	1.094.292.650
Price decrease of US\$50 - effect on total comprehensive income of the Company	<b>(1.244.760.500)</b>	(1.094.292.650)
Market value of Lukoil equities on the statement of financial position - 10% price increase.	<b>1.416.227.991</b>	761.866.842
Market value of Lukoil equities on the statement of financial position - 30% price increase	<b>1.673.723.989</b>	900.388.086

The effect of a decrease in the share price is higher than the effect of a similar increase in the share price since the Company has several underwritten put options on Lukoil ADRs (total number of 2 762 500) with a market value of US\$427.054 as of the reporting date (2008: Immaterial). In case of a decrease in the price of Lukoil equities by US\$10 or US\$50 these instruments suffer an estimated additional loss of US\$6.196.250 or US\$116.696.250 respectively. The estimate is calculated as a change in the intrinsic value of the options based on the assumption that the time value remains unchanged.

The management of the short-term market price risks under normal market conditions is performed by calculation of the 95% conditional value-at-risk using either historical modeling or the Monte-Carlo method. Risk management also performs stress-testing to evaluate the risks beyond the normal market conditions. The long-term measurement of the market price risk is also an important part of the risk management process and it is carried out using different statistical methods.

# Reserve Invest (Cyprus) Limited

## 3 Financial risk management (continued)

### (i) Financial risk factors (continued)

#### (a) Market price risk (continued)

Given the significant volume of financing obtained via repurchase transactions secured by OAO Lukoil ADRs the Company might also be exposed to additional liquidity risk from the requirements to post extra ADRs/cash on margin calls in the condition of a downturn market. Risk management monitors the market price risk of OAO Lukoil ADRs and prepares the forecast of margin call claims on a daily basis to ensure the necessary number of ADRs or cash are accumulated within an appropriate time period.

#### (b) Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Financial assets and financial liabilities issued at variable rates expose the Company to cash flow interest rate risk. Financial assets and financial liabilities issued at fixed rates expose the Company to fair value interest rate risk. The Company both lends and borrows at variable interest rates which are normally reviewed on a short-term basis. However, the Company is exposed to interest rate risk principally as a result of the structure of its assets and liabilities. The total interest bearing liabilities normally exceed the total interest bearing assets, hence the Company is exposed to the risk of an increase in interest rates. However as at 31 December 2009 and 31 December 2008 considerable cash balances resulted in a positive interest sensitivity gap. The Company's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

The table below summarises the Company's exposure to interest rate risks. Included in the table are the Company's assets and liabilities at carrying amounts, categorized by the earlier of contractual interest repricing or maturity dates.

# Reserve Invest (Cyprus) Limited

## 3 Financial risk management (continued)

### (i) Financial risk factors (continued)

#### (b) Interest rate risk (continued)

31 December 2009

<i>In US Dollars</i>	Demand and less than 1 month	1 month to 6 months	6 months to 12 months	1-5 years	Over 5 years	Non-interest bearing	Total
<b>Assets</b>							
Cash and cash equivalents	-	-	-	-	-	182,600.303	182,600.303
Financial assets at fair value through profit or loss	7,283.606	-	-	-	-	633,510.079	640,793.685
Pledged assets	9,644.762	-	-	-	-	711,214.192	720,858.954
Trade receivables	-	-	-	-	-	625.000	625.000
Loans receivable	88.115	171,630.245	-	-	-	-	171,718.360
Promissory notes	-	10,240.862	-	-	-	-	10,240.862
Available-for-sale financial assets	-	-	-	-	-	114.988	114.988
Current income tax asset	-	-	-	-	-	1,403.770	1,403.770
Property, plant and equipment	-	-	-	-	-	321.682	321.682
Other assets	57,482.489	-	-	-	-	6,453.696	63,936.185
	74,498.972	181,871.107	-	-	-	1,536,243.710	1,792,613.789
<b>Liabilities</b>							
Financial liabilities at fair value through profit or loss	-	-	-	-	-	(427.054)	(427.054)
Trade and other payables	(37.885)	-	-	-	-	(1,116.526)	(1,154.411)
Repurchase agreements	(103,798.773)	(231,930.846)	-	-	-	-	(335,729.619)
	(103,836.658)	(231,930.846)	-	-	-	(1,543.580)	(337,311.084)
Interest sensitivity gap	(29,337.686)	(50,059.739)	-	-	-	1,534,700.130	1,455,302.705

The Company categorises cash and cash equivalents as non-interest bearing assets since most of these balances bear nil or very negligible interest rates.

# Reserve Invest (Cyprus) Limited

## 3 Financial risk management (continued)

### (i) Financial risk factors (continued)

#### (b) Interest rate risk (continued)

31 December 2008

<i>In US Dollars</i>	Demand and less than 1 month	1 month to 6 months	6 months to 12 months	1-5 years	Over 5 years	Non-interest bearing	Total
<b>Assets</b>							
Cash and cash equivalents	-	-	-	-	-	119.161.103	119.161.102
Financial assets at fair value through profit or loss	24.938.324	-	-	-	-	163.409.924	188.348.248
Pledged assets	-	-	-	-	-	592.345.149	592.345.149
Trade receivables	-	-	-	-	-	102.278.434	102.278.434
Loans receivable	156.802	171.678.052	-	-	-	-	171.834.854
Promissory notes	-	310.069	5.980.018	15.083.634	-	-	21.373.721
Available-for-sale financial assets	-	-	-	-	-	7.491.219	7.491.219
Current income tax asset	-	-	-	-	-	815.475	815.475
Property, plant and equipment	-	-	-	-	-	390.032	390.032
Other assets	1.024.276	-	-	-	-	16.966.246	17.990.522
	26.119.402	171.988.121	5.980.018	15.083.634	-	1.002.857.582	1.222.028.757
<b>Liabilities</b>							
Financial liabilities at fair value through profit or loss	(3.181.607)	-	-	-	-	(4.705.191)	(7.886.798)
Trade and other payables	(162.263)	-	-	-	-	(10.605.477)	(10.767.740)
Repurchase agreements	(95.617.964)	(106.091.743)	(60.433.961)	-	-	-	(262.143.668)
Borrowings	(4.654)	(31.166.230)	-	-	-	-	(31.170.884)
Current income tax liabilities	-	-	-	-	-	(656.820)	(656.820)
	(98.966.488)	(137.257.973)	(60.433.961)	-	-	(15.967.482)	(312.625.910)
Interest sensitivity gap	(72.847.086)	34.730.148	(54.453.943)	15.083.634	-	986.890.094	909.402.847

# Reserve Invest (Cyprus) Limited

## 3 Financial risk management (continued)

### (i) Financial risk factors (continued)

#### (b) Interest rate risk (continued)

The estimated impact on the profit of the Company of an increase in interest rates based on the structure of interest bearing assets and liabilities with all other variables remaining constant is as follows:

#### 31 December 2009

<i>In US Dollars thousands</i>	Estimated increase/ (decrease) in interest income	Estimated (increase)/ decrease in interest expense	Net effect on profit
Increase of interest rate by 0,5% (current rates + 0,5)%	900	(1.664)	(764)
Increase of interest rates by 1% (current rates + 1)%	1.799	(3.329)	(1.530)
Decrease of interest rate by 0,5% (current rates - 0,5)%	(900)	1.664	764
Decrease of interest rates by 1% (current rates - 1)%	(1.799)	3.329	1.530

#### 31 December 2008

<i>In US Dollars thousands</i>	Estimated increase/ (decrease) in interest income	Estimated (increase)/ decrease in interest expense	Net effect on profit
Increase of interest rate by 0,5% (current rates + 0,5)%	850	(1.120)	(270)
Increase of interest rates by 1% (current rates + 1)%	1.700	(2.241)	(541)
Decrease of interest rate by 0,5% (current rates - 0,5)%	(850)	1.120	270
Decrease of interest rates by 1% (current rates - 1)%	(1.700)	2.241	541

### (c) Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. The Company's credit risk arises primarily from balances with related parties. The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry sectors. Such risks are subject to regular review. Limits on the level of credit risk by product, borrower and industry sectors are approved regularly by management. Actual exposures against limits are regularly monitored.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining collaterals and corporate and personal guarantees.

# Reserve Invest (Cyprus) Limited

## 3 Financial risk management (continued)

### (i) Financial risk factors (continued)

#### (c) Credit risk (continued)

The Company's maximum exposure to credit risk is primarily reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible nettings of assets and liabilities to reduce potential credit exposure is not significant.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of a failure by another party for a financial instrument failing to perform in accordance with the terms of the contract. The Company uses the same credit policies in making conditional obligations as it does for on-balance sheet financial instruments through established credit approval risk control limits and monitoring procedures.

Except for an impairment of US\$2.059.498 (2008: US\$7.874.740) there were no impaired financial assets on the statement of financial position of the Company.

The financial assets structured by credit rating are shown in the table below:

### 31 December 2009

In US dollars	With external rating					Without external rating			Total
	AAA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	1	2	3	
Cash and cash equivalents	-	178.799.655	309.969	-	3.490.679	-	-	-	182.600.303
Financial assets at fair value through profit or loss	172	333.918	607.876.953	3.527.821	6.516.023	14.143.962	4.967.278	3.427.558	640.793.685
Pledged assets	9.644.762	-	711.214.192	-	-	-	-	-	720.858.954
Loans receivable	-	-	-	-	170.088.115	1.630.245	-	-	171.718.360
Promissory notes	-	-	-	-	-	-	-	10.240.862	10.240.862
Other assets	6.433.384	41.126.612	27.139	-	-	14.441.865	-	1.907.185	63.936.185

### 31 December 2008

In US dollars	With external rating					Without external rating			Total
	AAA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ to BB-	B+ to B-	1	2	3	
Cash and cash equivalents	92.703.368	3.897.555	156.944	22.402.004	-	1.232	-	-	119.161.103
Financial assets at fair value through profit or loss	162	1.229.612	126.429.691	13.823.141	11.449.762	-	-	35.415.880	188.348.248
Pledged assets	-	-	583.958.507	-	-	-	-	8.386.642	592.345.149
Loans receivable	-	-	-	-	170.156.802	1.678.052	-	-	171.834.854
Promissory Notes	-	-	-	-	-	-	-	21.373.721	21.373.721
Other assets	3.745.151	967.267	16.386	-	-	13.149.471	59.717	52.530	17.990.522

# Reserve Invest (Cyprus) Limited

## 3 Financial risk management (continued)

### (i) Financial risk factors (continued)

#### (c) Credit risk (continued)

##### **Cash and cash equivalents:**

Cash and cash equivalents are classified based on the external ratings of the banks-counterparties. In case where no external rating is available the credit quality of the cash balances is determined with reference to the experience with the respective counterparty (group 1 - positive experience over 3 years, group 2 - positive experience from 1 to 3 years, group 3 - positive experience of less than 1 year or existence of default record).

##### **Financial assets at fair value through profit or loss:**

The financial assets at fair value through profit and loss are classified based on the external rating of the issuer. In cases where no external rating is available the financial assets are classified based on the listings of the issuer (1 - included on the top quotation lists on Russian stock exchanges - A1 or A2 at MICEX/ RTS or listed on any major international stock exchange; 2 - included on the lower level quotation lists of Russian stock exchanges - B quotation list or unlisted but traded on MICEX/RTS; 3 - not traded on any stock exchanges).

##### **Pledged assets:**

The pledged assets are classified based on the external rating of the issuer. In case no external rating is available the assets are classified based on the listings of the issuer (1 - included on the top quotation lists on Russian stock exchanges - A1 or A2 at MICEX/ RTS or listed on any major international stock exchange; 2 - included on the lower level quotation lists of Russian stock exchanges - B quotation list or unlisted but traded on MICEX/RTS; 3 - not traded on any stock exchanges).

##### **Loans receivable, promissory notes and other assets:**

Loans receivable, promissory notes and other assets are classified based on the external ratings of the counterparties. In case where no external rating is available the credit quality of loans is determined with reference to the experience with the respective counterparty (group 1 - positive experience over 3 years, group 2 - positive experience from 1 to 3 years, group 3 - positive experience of less than 1 year or existence of default record).

# **Reserve Invest (Cyprus) Limited**

## **3 Financial risk management (continued)**

### **(i) Financial risk factors (continued)**

#### **(d) Liquidity risk**

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

As at 31 December 2009 the management of the Company does not believe the current maturity profile of the Company exposes itself to any material liquidity risk, taking into account the level of cash at year end as well as the nature of its trading securities portfolio which is realizable at short notice if required.

The table below analyses the Company's financial assets and financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

# Reserve Invest (Cyprus) Limited

## 3 Financial risk management (continued)

### (i) Financial risk factors (continued)

#### (d) Liquidity risk (continued)

31 December 2009

<i>In US Dollars</i>	Demand and less than 1 month	1 month to 6 months	6 months to 12 months	1-5 years	Over 5 years	Not stated maturity	Total
<b>Assets</b>							
Cash and cash equivalents	182.600.303	-	-	-	-	-	182.600.303
Financial assets at fair value through profit or loss	640.793.685	-	-	-	-	-	640.793.685
Pledged assets	420.337.819	300.521.135	-	-	-	-	720.858.954
Trade receivables	625.000	-	-	-	-	-	625.000
Loans receivable	91.052	2.107.642	3.921.593	49.720.745	164.260.215	-	220.101.247
Promissory notes	-	10.479.656	-	-	-	-	10.479.656
Available-for-sale financial assets	-	-	-	114.988	-	-	114.988
Current income tax asset	-	1.403.770	-	-	-	-	1.403.770
Property, plant and equipment	-	-	-	-	-	321.682	321.682
Other assets	63.522.208	386.859	46.259	-	-	-	63.955.326
	1.307.970.067	314.899.062	3.967.852	49.835.733	164.260.215	321.682	1.841.254.611
<b>Liabilities</b>							
Financial liabilities at fair value through profit or loss	(427.054)	-	-	-	-	-	(427.054)
Trade and other payables	(1.036.000)	(118.411)	-	-	-	-	(1.154.411)
Repurchase agreements	(103.803.414)	(233.401.389)	-	-	-	-	(337.204.803)
	(105.266.468)	(233.519.800)	-	-	-	-	(338.786.268)
Liquidity gap	1.202.703.599	81.379.262	3.967.852	49.835.733	164.260.215	321.682	1.502.468.343
Cumulative liquidity gap	1.202.703.599	1.284.082.861	1.288.050.713	1.337.886.446	1.502.146.661	1.502.468.343	

# Reserve Invest (Cyprus) Limited

## 3 Financial risk management (continued)

### (i) Financial risk factors (continued)

#### (d) Liquidity risk (continued)

The liquidity position of the Company as at 31 December 2008 is set out below:

<i>In US Dollars</i>	Demand and less than 1 month	1 month to 6 months	6 months to 12 months	1-5 years	Over 5 years	Not stated maturity	Total
<b>Assets</b>							
Cash and cash equivalents	119.161.102	-	-	-	-	-	119.161.102
Financial assets at fair value through profit or loss	188.348.248	-	-	-	-	-	188.348.248
Pledged assets and securities lended	291.154.426	193.295.367	107.895.356	-	-	-	592.345.149
Trade receivables	2.780.075	99.498.359	-	-	-	-	102.278.434
Loans receivable	160.642	2.469.233	4.643.375	55.418.976	175.373.260	-	238.065.486
Promissory notes	-	639.580	6.204.831	16.914.065	-	-	23.758.476
Available-for-sale financial assets	-	-	-	7.491.219	-	-	7.491.219
Current income tax asset	-	815.475	-	-	-	-	815.475
Property, plant and equipment	-	-	-	-	-	390.032	390.032
Other assets	17.902.508	45.530	44.084	-	-	-	17.992.122
	619.507.001	296.763.544	118.787.646	79.824.260	175.373.260	390.032	1.290.645.743
<b>Liabilities</b>							
Financial liabilities at fair value through profit or loss	(3.344.424)	(4.542.374)	-	-	-	-	(7.886.798)
Trade and other payables	(2.027.398)	(8.740.342)	-	-	-	-	(10.767.740)
Repurchase agreements	(137.325.338)	(80.613.251)	(44.138.304)	-	-	-	(262.076.893)
Borrowings	(4.653)	(31.166.230)	-	-	-	-	(31.170.883)
Current tax liabilities	-	(656.820)	-	-	-	-	(656.820)
	(142.701.813)	(125.719.017)	(44.138.304)	-	-	-	(312.559.134)
Liquidity gap	476.805.188	171.044.527	74.649.342	79.824.260	175.373.260	390.032	978.086.609
Cumulative liquidity gap	476.805.188	647.849.715	722.499.057	802.323.317	977.696.577	978.086.609	

# Reserve Invest (Cyprus) Limited

## 3 Financial risk management (continued)

### (i) Financial risk factors (continued)

#### (e) Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's functional currency. The Company is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Russian Rouble and the Euro. The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

At 31 December 2009 the Company's net currency exposures were as follows:

<i>In US Dollars</i>	United States Dollars	Russian Roubles	Euro	Total
Cash and cash equivalents	180,981,673	1,255,005	363,625	182,600,303
Financial assets at fair value through profit or loss	462,632,914	178,160,771	-	640,793,685
Pledged assets	717,498,310	3,360,644	-	720,858,954
Trade receivables	625,000	-	-	625,000
Loans receivable	170,088,115	1,630,245	-	171,718,360
Promissory notes	-	10,240,862	-	10,240,862
Available-for-sale financial assets	-	114,988	-	114,988
Current income tax asset	-	-	1,403,770	1,403,770
Property, plant and equipment	321,682	-	-	321,682
Other assets	49,772,612	14,095,303	68,270	63,936,185
	1,581,920,306	208,857,818	1,835,665	1,792,613,789
Financial liabilities at fair value through profit or loss	(427,054)	-	-	(427,054)
Trade and other payables	(947,632)	(87,119)	(119,660)	(1,154,411)
Repurchase agreements	(333,147,382)	(2,582,237)	-	(335,729,619)
	(334,522,068)	(2,669,356)	(119,660)	(337,311,084)
	1,247,398,238	206,188,462	1,716,005	1,455,302,705

# Reserve Invest (Cyprus) Limited

## 3 Financial risk management (continued)

### (i) Financial risk factors (continued)

#### (e) Currency risk (continued)

At 31 December 2008 the Company's net currency exposures were as follows:

<i>In US Dollars</i>	United States Dollars	Russian Roubles	Euro	Total
Cash and cash equivalents	114.767.327	3.403.272	990.504	119.161.103
Financial assets at fair value through profit or loss	129.046.347	59.301.901	-	188.348.248
Pledged assets	575.409.951	16.935.198	-	592.345.149
Trade receivables	85.869.966	16.408.468	-	102.278.434
Loans receivable	170.156.802	1.678.052	-	171.834.854
Promissory notes	-	21.373.721	-	21.373.721
Available-for-sale financial assets	-	7.491.219	-	7.491.219
Current income tax asset	-	-	815.475	815.475
Property, plant and equipment	390.032	-	-	390.032
Other assets	7.594.255	10.340.470	55.797	17.990.522
	1.083.234.680	136.932.301	1.861.776	1.222.028.757
Financial liabilities at fair value through profit or loss	(4.484.494)	(3.402.304)	-	(7.886.798)
Trade and other payables	(1.044.320)	(9.438.288)	(285.132)	(10.767.740)
Repurchase agreements	(252.553.020)	(9.590.648)	-	(262.143.668)
Borrowings	(31.166.798)	-	(4.086)	(31.170.884)
Current income tax liabilities	-	-	(656.820)	(656.820)
	(289.248.632)	(22.431.240)	(946.038)	(312.625.910)
	793.986.048	114.501.061	915.738	909.402.847

At 31 December 2009, if the Russian Rouble had weakened / strengthened by 20% relative to the US dollar with all other variables held constant, post-tax profit for the year would have been US\$4.733.900 lower/higher, mainly as a result of foreign exchange losses/gains on translation of Rouble-denominated promissory notes and Rouble-denominated receivable accounts with brokers. At 31 December 2008, if the Russian Rouble had weakened/strengthened by 20% relative to the US dollar with all other variables held constant, post-tax loss for the year would have been US\$8.296.012 higher/lower. Profit is less sensitive to movement in Rouble/US dollar exchange rates in 2009 than in 2008 because of the decreased amount of Rouble-denominated promissory notes and trade receivables.

# Reserve Invest (Cyprus) Limited

## 3 Financial risk management (continued)

### (i) Financial risk factors (continued)

#### (f) Capital risk

Capital risk is the risk that the Company may lose value on its capital. When managing capital, the Company's objectives are to safeguard the Company's ability to continue as a going concern in order to provide terms for shareholders and for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Management of the Company carries out regular risk reviews and based on the identified level of risks ensures the adequate relation of the risk profile of the Company to its capital.

The legal and regulatory framework under which the Company operates, the Cyprus Securities and Exchange Commission ("CySEC"), stipulates that the Company must maintain a minimum capital adequacy ratio of 8%. The method of calculation is set up by the regulatory authority based on the International Basel II capital adequacy standards. The Company aims to always maintain a high capital adequacy ratio well above the required minimum. As at 31 December 2009 and 31 December 2008, Management believes that the Company's activities are strongly supported by shareholders' funds, with capital adequacy in excess of 20%.

The capital risk management is currently considered by Management as one of the priority directions for the development of a risk management function and it is evolving together with the increasing business requirements.

### (ii) Fair value estimation

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the year end date. The quoted market price used for financial assets held by the Company is the current bid price; the appropriate quoted market price for financial liabilities is the current asking price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial assets and liabilities that are not traded in an active market is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each year end date. Valuation techniques used for non-standardised financial instruments such as options and other over-the-counter derivatives, include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, option pricing models and other valuations techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

# Reserve Invest (Cyprus) Limited

## 3 Financial risk management (continued)

### (ii) Fair value estimation (continued)

The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values.

The Company adopted the amendments to IFRS 7, effective 1 January 2009. This requires the Company to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Company. The Company considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following table analyses within the fair value hierarchy the Company's financial assets and liabilities (by class) measured at fair value at 31 December 2009.

# Reserve Invest (Cyprus) Limited

## 3 Financial risk management (continued)

### (ii) Fair value estimation (continued)

<i>In US Dollars</i>	Level 1	Level 2	Level 3	Total balance
Financial assets at fair value through profit or loss:				
OAO Lukoil Oil Company shares	139,127,428	-	-	139,127,428
OAO Lukoil Oil Company ADR's	441,162,338	-	-	441,162,338
Other Corporate shares	52,529,849	330,154	360,310	53,220,313
Russian Corporate Bonds	2,423,077	-	1,313,273	3,736,350
Eurobonds	3,547,256	-	-	3,547,256
Pledged assets and securities lent:				
OAO Lukoil Oil Company shares	3,360,644	-	-	3,360,644
OAO Lukoil Oil Company ADR's	703,844,055	-	-	703,844,055
Other equities	4,009,493	-	-	4,009,493
Eurobonds	9,644,762	-	-	9,644,762
Available-for-sale financial assets	-	-	114,988	114,988
<b>Total assets</b>	<b>1,359,648,902</b>	<b>330,154</b>	<b>1,788,571</b>	<b>1,361,767,627</b>
Financial liabilities at fair value through profit or loss				
Written OTC options	-	427,054	-	427,054
<b>Total liabilities</b>	<b>-</b>	<b>427,054</b>	<b>-</b>	<b>427,054</b>

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities and bonds. The Company does not adjust the quoted price for these instruments.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they trade infrequently. Level 3 instruments include private equity and corporate debt securities. As observable prices are not available for these securities, the Company has used valuation techniques to derive the fair value.

# Reserve Invest (Cyprus) Limited

## 3 Financial risk management (continued)

### (iii) Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to clients are excluded from these financial statements where the Company acts in a fiduciary capacity such as nominee, trustee or agent. Commissions received from such business are shown within asset management and brokerage commission income in the comprehensive income statement.

## 4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### (a) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### (i) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

Fair value of derivatives is determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel of Reserve Invest (Cyprus) Limited, independent of the area that created them. Models are calibrated by back-testing to actual transactions to ensure that outputs are reliable.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

# Reserve Invest (Cyprus) Limited

## 4 Critical accounting estimates and judgements

### (a) Critical accounting estimates and assumptions

#### (ii) Functional currency

Management concluded that the US Dollar (US\$) is the currency of the primary economic environment in which the entity operates because a significant portion of the transactions, settlements and profits of the Company are influenced by the US Dollars. Moreover the Company's assets and liabilities are largely denominated and settled in US Dollars (Note 3 (i) (e)). In addition a significant portion of the Company's financing is in US Dollar while it also retains receipts from operating activities in US dollars. Also, the US Dollar is the currency in which management of the Company manages business risks and exposures, and measures the performance of its business.

## 5 Financial assets at fair value through profit or loss

The financial assets at fair value through profit or loss are analysed as follows:

<i>In US Dollars</i>	<b>2009</b>	2008
OAo Lukoil Oil Company shares	<b>139.127.428</b>	17.498.040
OAo Lukoil Oil Company ADR's	<b>441.162.338</b>	93.366.687
Other corporate shares	<b>53.220.313</b>	44.018.776
Russian corporate bonds	<b>3.736.350</b>	2.985.686
Eurobonds	<b>3.547.256</b>	21.952.637
FORTS shares futures long position	-	8.526.422
	<b>640.793.685</b>	188.348.248

Other corporate shares represent securities by various issuers which are traded in active markets.

Russian Corporate Bonds are securities issued by various Russian Corporations and traded at the Moscow Interbank Stock Exchange. They are denominated in Russian Roubles, have maturity dates ranging from 2009 to 2013 and coupon rates of approximately 7,7% - 14,9%.

Eurobonds are bonds denominated in US\$ issued by international governments and corporations and are freely tradable internationally. These bonds have maturity dates ranging from 2013 to 2019 and coupon rates of approximately 9,25% - 10,75%.

FORTS shares futures are RTS-traded futures on Russian blue chip shares.

In the cash flow statement, financial assets at fair value through profit or loss are presented within the section of operating activities as part of changes in working capital.

# Reserve Invest (Cyprus) Limited

## 5 Financial assets at fair value through profit or loss (continued)

In the comprehensive income statement, changes in fair values of financial assets at fair value through profit or loss are recorded in net gains on financial assets at fair value through profit or loss.

The net gains/(losses) on financial assets and financial liabilities at fair value through profit or loss is as follows:

<i>In US Dollars</i>	<b>2009</b>	2008
Gains/(losses) recognised in relation to shares, ADRs and bonds at fair value through profit or loss	<b>638.931.560</b>	(394.541.003)
Gains/ (losses) recognised in relation to derivatives at fair value through profit or loss	<b>18.133.289</b>	(19.940.422)
Total net gains/(losses)	<b>657.064.849</b>	(414.481.425)

In addition, during the year there was a dividend income of US\$36.652.136 (2008:32.521.136) from financial assets at fair value through profit or loss, which is shown separately on the face of the comprehensive income statement.

## 6 Pledged assets

Assets are pledged as collateral under repurchase agreements.

<i>In US Dollars</i>	<b>Asset</b>		<b>Related liability</b>	
	<b>2009</b>	2008	<b>2009</b>	2008
OAo Lukoil Oil Company shares	<b>3.360.644</b>	8.548.556	<b>2.582.237</b>	6.581.839
OAo Lukoil Oil Company ADR	<b>703.844.055</b>	573.192.937	<b>320.014.330</b>	243.223.295
Other equities	<b>4.009.493</b>	10.603.656	<b>3.965.962</b>	12.338.534
Eurobonds	<b>9.644.762</b>	-	<b>9.167.090</b>	-
	<b>720.858.954</b>	592.345.149	<b>335.729.619</b>	262.143.668

The liabilities under repurchase agreements are presented net of cash margin calls.

The fair value of shares collateralised under repurchase agreements amounted to US\$711 million (2008: US\$592 million). Out of this amount shares of fair value of US\$ nil (2008: US\$693 thousand) was obtained from reverse repurchase agreements.

Pledged assets as well as their related liability are payable / repayable within one year from the balance sheet date.

# Reserve Invest (Cyprus) Limited

## 7 Trade receivables

<i>In US Dollars</i>	2009	2008
Trade receivables – third parties	<b>625.000</b>	3.594.970
Trade receivables – related parties (Note 31 (c))	-	99.258.901
Provision for impairment	-	(575.437)
	<b>625.000</b>	102.278.434

Provision for impairment is analysed as follows:

<i>In US Dollars</i>	2009	2008
Provision for dividend receivable from third parties	-	496.687
Provision for coupon receivable	-	78.750
	-	575.437

The provision above represents specific provision accrued on 100% of the outstanding amounts. During the year 2009, the provision created for trade receivables in 2008 was written-off against the respective assets.

Trade receivables are all current and represent receivables in respect of trading in shares, bonds and derivatives. The fair value of receivables net of provisions does not differ significantly from its carrying amount.

## 8 Loans receivable

<i>In US Dollars</i>	2009	2008
Subordinated loan receivable from related party (Note 31 (d))		
current	-	41.618
non-current	<b>150.000.000</b>	150.000.000
Subordinated loan receivable from third parties		
current	<b>88.115</b>	115.184
non-current	<b>20.000.000</b>	20.000.000
Other loans receivable from third parties		
current	-	1.678.052
non-current	<b>1.630.245</b>	-
	<b>171.718.360</b>	171.834.854
Total current	<b>88.115</b>	1.834.854
Total non-current	<b>171.630.245</b>	170.000.000
	<b>171.718.360</b>	171.834.854

# Reserve Invest (Cyprus) Limited

## 8 Loans receivable (continued)

The effective interest rates on non-current loans receivable were as follows:

	2009	2008
Subordinated loans	4,95%	7,58%
Other loans	6,32%	6,32%

The Company entered into a subordinated loan agreement with JSCB “Promsvyazbank” in May 2006. The loan is denominated in US dollars, bears interest at the rate of 1 month LIBOR+5,125% per annum which is fixed on the preceding business day of every month and the accrued interest is payable monthly.

On 19 March 2010 the Company signed a termination agreement for the subordinated loan receivable agreement with OJSC “Promsvyazbank” and on 12 April 2010 the total outstanding balance amounting to US\$20.000.000 was repaid by the borrower to the Company.

The other loan receivable from third parties is in Russian Roubles and it is repayable on 27 December 2012.

## 9 Promissory notes

<i>In US Dollars</i>	2009	2008
At beginning of year	21.373.721	37.226.527
Additions	2.306.641	15.597.568
Disposals/redemptions	(10.735.644)	(30.226.700)
Accrued interest	1.215.975	3.113.060
Foreign exchange difference	(1.860.333)	(4.336.734)
Provision for impairment	(2.059.498)	-
At end of year	<b>10.240.862</b>	21.373.721

<i>In US Dollars</i>	2009	2008
Non-current portion	-	15.083.633
Current portion	<b>10.240.862</b>	6.290.088
	<b>10.240.862</b>	21.373.721

Promissory notes represent promissory notes issued by Russian companies which bear fixed interest rates and have maturities in March 2010 (31 December 2008: from March 2009 to March 2010) and are unsecured.

# Reserve Invest (Cyprus) Limited

## 10 Available-for-sale financial assets

<i>In US Dollars</i>	2009	2008
<b>Non-current</b>		
Opening net book amount	<b>7.491.219</b>	11.358.271
Additions	-	3.118.467
Disposals	<b>(6.545.857)</b>	(4.084.647)
Transfer from fair value reserve	<b>(802.635)</b>	(127.810)
Fair value losses	<b>(27.739)</b>	(2.773.062)
Closing net book amount	<b>114.988</b>	7.491.219

These investments are in the financial services industry sector and are not part of the long-term strategy of the Company. The financial assets available-for-sale as at 31 December 2009 are:

Name	Nature of business	Country of registration	% of shares held	2009	2008
				<i>In US Dollars</i>	
ZPIF "Financial Partner"	Investment Fund	Russia	0,38/20,45	<b>114.988</b>	7.491.219

ZPIF "Financial Partner" (the Fund) is an investment fund with a share capital of RUB 1 billion and was set up on 30 June 2006. The Fund is managed by Management Company OOO "Management Kapital PIF".

During the year ended 31 December 2009 the Company redeemed 177 324 of the shares of ZPIF "Financial Partner" for the consideration of RUB 231.982.350 (US\$7.732.642). The Company has recognised a gain on redemption in the amount of US\$1.186.785. This gain comprises an amount of US\$802.635 transferred from the fair value reserve and an amount of US\$384.150 recognised directly in the comprehensive income statement.

At 31 December 2009, the investment was revalued based on the NAV report received by the Fund's Management Company.

On 25 April 2008 the Company had acquired 66 065 shares in ZPIF "Stroitelny Kompleks" for RUB 73.094.057 (USD 3.118.467), while as at 1 January 2008 it already possessed a shareholding valued at US\$1.093.989.

In November 2008, the Company received a total consideration of RUB 92.476.852 (US\$3.371.008) on disposal of ZPIF "Stroitelny Kompleks" and realised a loss of US\$713.638.

# Reserve Invest (Cyprus) Limited

## 11 Property, plant and equipment

<i>In US Dollars</i>	Motor vehicles	Furniture, fixtures, and office equipment	Computer hardware	Total
<b>At 1 January 2008</b>				
Cost	188.466	324.066	100.573	613.105
Accumulated depreciation	(91.345)	(78.581)	(25.440)	(195.366)
Net book amount	97.121	245.485	75.133	417.739
<b>Year ended 31 December 2008</b>				
Opening net book amount	97.121	245.485	75.133	417.739
Additions	-	8.051	49.932	57.983
Depreciation charge (Note 24)	(32.907)	(33.092)	(19.691)	(85.690)
Closing net book amount	64.214	220.444	105.374	390.032
<b>At 31 December 2008/1 January 2009</b>				
Cost	132.103	332.117	150.505	614.725
Accumulated depreciation	(67.889)	(111.673)	(45.131)	(224.693)
Net book amount	64.214	220.444	105.374	390.032
<b>Year ended 31 December 2009</b>				
Opening net book amount	64.214	220.444	105.374	<b>390.032</b>
Additions	-	11.924	199	<b>12.123</b>
Depreciation charge (Note 24)	(24.545)	(33.333)	(22.595)	<b>(80.473)</b>
Closing net book amount	39.669	199.035	82.978	<b>321.682</b>
<b>At 31 December 2009</b>				
Cost	132.103	344.041	150.704	<b>626.848</b>
Accumulated depreciation	(92.434)	(145.006)	(67.726)	<b>(305.166)</b>
Net book amount	39.669	199.035	82.978	<b>321.682</b>

# Reserve Invest (Cyprus) Limited

## 12 Other assets

<i>In US Dollars</i>	2009	2008
Accounts with brokers	<b>6.019.040</b>	9.406.047
Collateral accounts	<b>47.559.996</b>	1.024.275
Dividend receivable from third parties	<b>16.020</b>	2.677.470
Due from clients	<b>348.514</b>	186.809
Reverse repurchase agreements	<b>9.922.493</b>	4.604.770
Other debtors and prepayments	<b>70.122</b>	91.151
	<b>63.936.185</b>	17.990.522

The fair value of assets received as collateral under reverse repurchase agreements with third parties amount to US\$13,6 million (2008: 31 December US\$4,6 million).

The fair value of shares collateralised under repurchase agreements amounted to US\$711 million (2008 : US\$592 million). Out of this amount shares of fair value of US\$ nil (2008: US\$693 thousand) were obtained from reverse repurchase agreements.

## 13 Financial liabilities at fair value through profit or loss

<i>In US Dollars</i>	2009	2008
Held for trading:		
- Listed bonds sold short	-	3.181.607
- Derivatives:		
Written OTC options	<b>427.054</b>	-
FORTS - shares options short positions	-	3.209.579
FORTS – shares futures short positions	-	192.725
Non deliverable forex transactions	-	1.302.887
<b>Total financial liabilities at fair value through profit or loss</b>	<b>427.054</b>	7.886.798

# Reserve Invest (Cyprus) Limited

## 13 Financial liabilities at fair value through profit or loss (continued)

### Options

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future securities price. Options held by the Company are both exchange-traded and of over the counter varieties. The Company is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet, but they do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and do not therefore indicate the Company's exposure to credit or market price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates, foreign exchange rates, changes of value of the underlying security relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

### Non-deliverable forex forward contracts (NDF)

A non-deliverable forex forward contract is a short-term forward contract where the gain/loss at a set future date is calculated as a difference between the agreed upon exchange rate and the spot rate at the fixing date for an agreed upon notional amount of funds. The contracts are marked to market using the implied forward rate by calculating the actual number of days remaining to the maturity of the NDF contract as measured against the actual market price displayed by respective market makers in the trading systems and are presented on a net basis in the statement of financial position.

### Futures

During 2009 the Company traded in futures on shares, indices and currencies. The settlement of these instruments is done at the end of each trading day automatically by the futures exchange (RTS FORTS) and all gains and losses become realized. Therefore fair value as of the reporting date equals to nil.

Notional amounts of the derivative contracts open at the reporting date are disclosed in the table below.

# Reserve Invest (Cyprus) Limited

## 13 Financial liabilities at fair value through profit or loss (continued)

<i>In US Dollars</i>	Notional amount	2009		Notional amount	2008	
		Assets	Liabilities		Assets	Liabilities
Written OTC options	<b>136.862.500</b>	-	<b>427.054</b>	-	-	-
FORTS – forex futures	<b>7.508.134</b>	-	-	-	-	-
FORTS – shares options	-	-	-	7.670.177	-	3.209.579
FORTS – shares futures	-	-	-	8.340.370	8.526.422	192.725
Non-deliverable forwards	-	-	-	6.400.000	-	1.302.887
	<b>144.370.634</b>	-	<b>427.054</b>	22.410.547	8.526.422	4.705.191

## 14 Trade and other payables

<i>In US Dollars</i>	2009	2008
Current:		
Trade payables – third parties	-	8.526.422
Other amounts due to related parties (Note 31 (f))	<b>380.708</b>	382.240
Other creditors and accrued expenses	<b>773.703</b>	1.859.078
	<b>1.154.411</b>	10.767.740

## 15 Borrowings

<i>In US Dollars</i>	2009	2008
<b>Current</b>		
Bank overdraft	-	4.654
Borrowings from related party (Note 31 (e))	-	31.166.230
	-	31.170.884

# Reserve Invest (Cyprus) Limited

## 16 Share capital

	2009			2008		
	Number of shares	EUR	<i>In US Dollars</i>	Number of shares	EUR	<i>In US Dollars</i>
<b>Authorised</b>						
At 1 January and 31 December	<b>1 000 000</b>	<b>1.710.000</b>		1 000 000	1.710.000	
<hr/>						
<b>Issued and fully paid</b>						
At 1 January	<b>800 000</b>	<b>1.368.000</b>	<b>1.832.753</b>	750 000	1.281.451	1.722.222
Increase on conversion to EUR on 1 January 2008				-	1.049	1.544
Additional issue	<b>15 000</b>	<b>25.650</b>	<b>36.618</b>	50 000	85.500	108.987
<hr/>						
At 31 December	<b>815 000</b>	<b>1.393.650</b>	<b>1.869.371</b>	800 000	1.368.000	1.832.753
<hr/>						

On 23 December 2009 the Board of Directors authorised the issue of 15 000 shares of EUR1,71 each at a total consideration of US\$120.000.000. The share premium resulting from this share issue amounted to US\$119.963.382 (Note 17). The consideration for the increase of share capital was paid via set-off with the equivalent amount of dividend (Note 18).

## 17 Share premium

	<i>In US Dollars</i>
<hr/>	
<b>At 1 January 2008</b>	412.066.959
Additional issue	325.256.013
<b>At 31 December 2008/1 January 2009</b>	<hr/> 737.322.972
Additional issue (Note 16)	119.963.382
<b>At 31 December 2009</b>	<hr/> 857.286.354 =====

## 18 Dividends per share

## Reserve Invest (Cyprus) Limited

On 2 December 2009 the Company paid an interim dividend in the amount of US\$50.500.000. The dividend was settled by the way of bank transfer. On 23 December 2009 the Company paid an interim dividend in the amount of US\$202.595.350. The dividend was settled as follows:

- US\$120.000.000 set-off with the Shareholder's obligation in respect of the increase of share capital;
- US\$ 65.777.482 set-off with the Shareholder's obligation in respect of a regular way share purchase agreement; and
- US\$ 16.817.868 by the way of bank transfer.

The dividend declared and settled in 2008, was US\$357.666.225.

### 19 Cash and cash equivalents

Cash and cash equivalents include the following for the purposes of the cash flow statement:

<i>In US Dollars</i>	<b>2009</b>	2008
Cash at bank	<b>182.600.303</b>	119.161.103
Bank overdraft	-	(4.653)
	<b>182.600.303</b>	119.156.450

### 20 Trading fees and commission expense

<i>In US Dollars</i>	<b>2009</b>	2008
Depository services	<b>516.423</b>	1.190.484
Brokerage and commission fees	<b>647.006</b>	895.804
Agency fees and deductions on dividend income	<b>654.047</b>	432.198
ADR insurance fees/share registration	<b>30.715</b>	16.558
Other trading expenses	<b>136.291</b>	189.681
	<b>1.984.482</b>	2.724.725

# Reserve Invest (Cyprus) Limited

## 21 Interest income

<i>In US Dollars</i>	<b>2009</b>	2008
Interest income on loans with related parties (Note 31 (b))	<b>7.320.901</b>	11.285.726
Interest income on loans with third parties	<b>1.098.498</b>	2.093.567
Interest income on promissory notes	<b>1.215.975</b>	3.113.060
Interest income on bonds	<b>3.271.529</b>	4.841.455
Interest income on reverse repurchase and securities lending agreements	<b>685.389</b>	8.669.824
Interest on collateral accounts and accounts with brokers	<b>220.691</b>	732.420
Interest income on bank deposits	-	646.639
Interest income on overnight bank accounts	<b>11.345</b>	30.669
	<b>13.824.328</b>	31.413.360

## 22 Fees and commission income

<i>In US Dollars</i>	<b>2009</b>	2008
Asset management fees	<b>338.866</b>	509.426
Brokerage fees	<b>184.173</b>	108.758
Investment advisory fees	<b>6.377</b>	14.372
Income from underwriting	-	6.500
	<b>529.416</b>	639.056

## 23 Interest expense

<i>In US Dollars</i>	<b>2009</b>	2008
Interest on repurchase agreements	<b>15.560.457</b>	39.497.867
Interest expense on borrowings	<b>161.671</b>	2.267.170
Interest on bank overdraft	<b>282</b>	973
Interest expense on collars	-	683.035
Interest expense on collateral accounts	-	126.780
	<b>15.722.410</b>	42.575.825

# Reserve Invest (Cyprus) Limited

## 24 Administrative and other operating expenses

<i>In US Dollars</i>	<b>2009</b>	2008
Staff costs (Note 25)	<b>1,676,616</b>	2,670,007
Legal, consultancy and professional fees	<b>290,323</b>	459,100
Auditors' remuneration	<b>73,982</b>	82,544
Directors' fees	<b>61,161</b>	27,500
Bank charges	<b>158,657</b>	57,684
Telephone, faxes and communication costs	<b>107,880</b>	237,399
Non-recoverable VAT	<b>128,185</b>	234,185
Rent	<b>84,162</b>	120,772
Depreciation of property, plant and equipment (Note 11)	<b>80,473</b>	85,690
IT expenses	<b>41,445</b>	143,402
Office supplies and maintenance expenses	<b>24,977</b>	32,340
Travel and accommodation expenses	<b>22,450</b>	32,318
Car expenses	<b>12,426</b>	16,429
Sponsorship expenses	-	157,886
Other sundry expenses	<b>2,814</b>	8,300
	<b>2,765,551</b>	4,365,556

## 25 Staff costs

<i>In US Dollars</i>	<b>2009</b>	2008
Salaries	<b>1,564,526</b>	1,938,206
Bonuses	<b>9,629</b>	556,661
Social insurance costs	<b>113,008</b>	155,905
Medical insurance costs	<b>17,394</b>	28,152
Income tax and other refunds	<b>(27,941)</b>	(8,917)
	<b>1,676,616</b>	2,670,007

In 2010, the Board of Directors resolved to pay bonuses approximating an amount of US\$650,000 to the employees of the Company based on the Company's results for the year 2009.

# Reserve Invest (Cyprus) Limited

## 26 Provision for impairment of financial assets

<i>In US Dollars</i>	2009	2008
Provision for balances due under repurchase/reverse repurchase agreements	-	7.299.303
Provision for other receivables (Note 7)	-	575.437
Provision for promissory notes	<b>2.059.498</b>	-
	<b>2.059.498</b>	<b>7.874.740</b>

During 2009, the provision for impairment in 2008 was written off against the respective assets.

## 27 Tax

<i>In US Dollars</i>	2009	2008
Current tax:		
Withholding tax suffered on dividend income	<b>5.393.047</b>	4.761.948
Withholding tax suffered on interest income	<b>1.454</b>	25.799
Other withholding taxes	<b>31.788</b>	-
Defence contribution	-	542.468
Corporation tax	-	359.012
	<b>5.426.289</b>	<b>5.689.227</b>

The tax on the Company's profits/(loss) before tax differs from the theoretical amount that would arise using the applicable tax rates as follows:

<i>In US Dollars</i>	2009	2008
Profit/(loss) before tax	<b>685.251.871</b>	(421.527.099)
Tax calculated at the applicable corporate tax rates	<b>68.525.187</b>	(42.152.710)
Tax effect of expenses not deductible for tax purposes	<b>1.295.195</b>	45.242.828
Tax effect of allowances and income not subject to tax	<b>(69.660.452)</b>	(3.883.020)
Tax effect of losses carried forward	<b>(159.930)</b>	792.902
Russian withholding tax suffered on dividend income	<b>5.393.047</b>	4.761.948
Withholding tax on interest income	<b>1.454</b>	25.799
Other withholding taxes	<b>31.788</b>	-
Corporation tax – previous years	-	359.012
Defence contribution	-	542.468
Tax charge	<b>5.426.289</b>	<b>5.689.227</b>

# Reserve Invest (Cyprus) Limited

## 27 Tax (continued)

The Company is subject to corporation tax on its taxable profits at the rate of 10%. The profits from the sale of securities (shares, bonds, debentures and other securities of companies incorporated in Cyprus or abroad and options thereon) are exempt from corporation tax. The withholding tax suffered on dividend income represents foreign tax deducted on dividends received from Russian equities at rates of 5%, 10% and 15%.

Upto 31 December 2008, under certain conditions interest may be subject to defence contribution at the rate of 10%. In such cases 50% of the same interest will be exempt from corporation tax thus having an effective tax rate burden of approximately 15%.

From 1 January 2009 onwards, under certain conditions, interest may be exempt from income tax and only subject to defence contribution at the rate of 10%. In certain cases dividends received from abroad may be subject to defence contribution at the rate of 15%.

## 28 Fiduciary activities

The Company provides asset management, brokerage, investment management and advisory services to third parties. Those assets that are held in a fiduciary capacity are not included in these financial statements. At the balance sheet date the Company had brokerage accounts amounting to US\$98,271,892 (31 December 2008: US\$47,129,932) and funds transferred under asset management estimated to be approximately US\$32,721,641 (31 December 2008: US\$83,808,680). At the balance sheet date the market value of asset management portfolios amounted to US\$23,311,828 (31 December 2008: US\$71,969,246).

## 29 Commitments

The Company is required by the counterparties to provide cash collateral for underwritten OTC options. As of 31 December 2009 the Company committed itself to pledge US\$25,000,000 with the counterparty on such transactions (2008: Nil). The funds were not yet pledged as of the reporting date, however the commitment was already in place

## 30 Contingent liabilities and operating risks

(a) **Legal proceedings.** From time to time and in the normal course of business, claims against the Company are received from customers. Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

(b) **Tax legislation.** There are transactions and calculations for which the ultimate tax determination may be uncertain based on the current Tax Legislation. The Company recognises liabilities for anticipated tax issues based on estimates whether additional taxes will be due as a result of different interpretations of the Tax Legislation. Where the final tax outcome, based on the results of tax audits, of the matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

# Reserve Invest (Cyprus) Limited

## 30 Contingent liabilities and operating risks (continued)

(c) **Off balance sheet risk.** In the normal course of business, the Company enters into agreements to manage funds of clients in accordance with the criteria established by the client. As a common practice, according to those agreements, the Company has no potential liability in respect of any losses and damage suffered by the clients as the result of common risks of investing and owning of the securities, except if resulting from gross negligence or willful default of the Company.

However in a few asset management agreements the Company guaranteed to its clients the return of the client's funds transferred under such agreements and/or the receipt of a guaranteed rate of return. The maximum potential financial risk arising out of such agreements executed by the Company as at 31 December 2009 does not exceed the amount equal to US\$15.365.934 (31 December 2008: US\$16.638.384).

### (d) Operating environment of the Company

*The Russian Federation:* The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation and high interest rates. The global financial crisis has had a severe effect on the Russian economy since mid-2008:

- § Lower commodity prices have resulted in lower income from exports and thus lower domestic demand. Russia's economy contracted in 2009;
- § The rise in Russian and emerging market risk premia resulted in a steep increase in foreign financing costs;
- § The depreciation of the Russian Rouble against hard currencies (compared to RR 25.3718 for 1 US Dollar at 1 October 2008) increased the burden of foreign currency corporate debt, which has risen considerably in recent years;
- § As part of preventive steps to ease the effects of the situation in financial markets on the economy, the Government incurred a large fiscal deficit in 2009.

Borrowers and debtors of the Group were adversely affected by the financial and economic environment, which in turn has had an impact on their ability to repay the amounts owed. Deteriorating economic conditions for borrowers and debtors were reflected in revised estimates of expected future cash flows in impairment assessments. The volume of financing available in particular from overseas has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

# Reserve Invest (Cyprus) Limited

## 30 Contingent liabilities and operating risks (continued)

As a result of the volatility in financial markets there are no longer regularly occurring transactions on an arm's length basis for a small number of equities held by the Company and, as such, in the opinion of management an amount of less than US\$15m is no longer being quoted on an active market. Hence the fair value for these financial instruments as at 31 December 2009 has been determined using a valuation technique. The objective of the valuation technique is to establish what the transaction price would have been at the end of the reporting period in an arm's length exchange motivated by normal business considerations. Determining fair value requires consideration of current market conditions, including the relative liquidity of the market and current credit spreads. The valuation techniques used by management to determine fair value in the absence of an active market include the use of comparable recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the future financial position of the Group.

## 31 Related party transactions

The Company is wholly owned by Reserve Invest Holding (Cyprus) Limited, a company also incorporated in Cyprus. The holding company, Reserve Invest Holding (Cyprus) Limited and its subsidiaries conduct mutual business and have common management with IFD Kapital Group, a group registered in the Russian Federation.

Transactions are entered into in the normal course of business with directors and other related parties including companies related to Lukoil and IFD Kapital Group. Lukoil is treated as a related party for the Company as certain members of the Lukoil Board of Directors and Management Board are also members of the Board of Directors of IFD Kapital Group.

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

During the year ended 31 December 2009 and the year 2008, a number of transactions were entered into with related parties. Certain of these transactions, particularly where a broad market does not exist, were consummated at terms agreed to between the parties. Shares and ADR's in OAO Lukoil Oil Company are disclosed in Notes 5 and 6 to the financial statements. Balances and transactions with Reserve Invest Holding (Cyprus) Limited and its subsidiaries, IFD Kapital Group and other related parties are as follows:

# Reserve Invest (Cyprus) Limited

## 31 Related party transactions (continued)

### (a) Trading transactions

<i>In US Dollars</i>	2009	2008
<b>Purchases of financial assets:</b>		
- shares:		
Holding company	118.283.128	769.552.313
Fellow subsidiary	310.492.936	869.781.019
Other common control group companies	76.946.610	643.645.770
Other related party	30.005.561	-
	<b>535.728.235</b>	2.282.979.102
- bonds:		
Holding company	11.473.815	-
Other common control group companies	1.524.730	38.846.669
	<b>12.998.545</b>	38.846.669
- promissory notes:		
Holding company	2.306.641	-
	<b>551.033.421</b>	2.321.825.771
<i>In US Dollars</i>	2009	2008
<b>Sales of financial assets:</b>		
- shares:		
Holding company	168.488.166	1.114.544.804
Fellow subsidiary	121.655.226	1.179.414.348
Other common control group companies	44.184.456	779.239.922
Other related party	13.399	2.217.644
	<b>334.341.247</b>	3.075.416.718
- bonds:		
Fellow subsidiary	176.014.720	-
Other common control group companies	3.980.336	49.113.940
	<b>179.995.056</b>	49.113.940
- promissory notes:		
Holding company	9.525.673	-
	<b>523.861.976</b>	3.124.530.658

# Reserve Invest (Cyprus) Limited

## 31 Related party transactions (continued)

### (b) Other transactions

<i>In US Dollars</i>	<b>2009</b>	2008
<hr/>		
<b>Reserve Invest Holding (Cyprus) Limited Group</b>		
Interest income (Note 21)	<b>7.320.901</b>	11.285.726
Asset management fees	<b>150.832</b>	154.742
	<hr/>	<hr/>
	<b>7.471.733</b>	11.440.468
	<hr/>	<hr/>
<b>Other common control group companies</b>		
Commission and brokerage expenses	<b>(447.442)</b>	(500.186)
Interest income	<b>5.924</b>	852.213
Interest expense	<b>(161.671)</b>	(2.354.438)
Fees and commissions income	<b>29.850</b>	-
	<hr/>	<hr/>
	<b>(573.339)</b>	(2.002.411)
	<hr/>	<hr/>

### (c) Balances arising from trading activities

<i>In US Dollars</i>	<b>2009</b>	2008
<hr/>		
<b>Trade receivables (Note 7):</b>		
Holding company	-	19.301.445
Fellow subsidiary companies	-	40.102.076
Other common control group companies	-	39.855.380
	<hr/>	<hr/>
	-	99.258.901
	<hr/>	<hr/>

# Reserve Invest (Cyprus) Limited

## 31 Related party transactions (continued)

### (d) Loans receivable from related parties

<i>In US Dollars</i>	<b>2009</b>	2008
Loan receivable from fellow subsidiary company (Note 8)	<b>150.000.000</b>	150.041.618
Less: current loans receivable from fellow subsidiary (Note 8)	-	(41.618)
	<b>150.000.000</b>	150.000.000

Included in the loans receivable from fellow subsidiaries is a subordinated loan of US\$150.000.000 (31 December 2008: US\$150.000.000 and accrued interest thereto of US\$41.618) to OJSC Petrocommercebank (a related bank). The loan is denominated in US Dollars and is payable on 9 November 2016. It bears interest of 3 month LIBOR + 4%. The interest on the loan is repayable quarterly.

### (e) Borrowings from related parties

<i>In US Dollars</i>	<b>2009</b>	2008
<b>Current</b>		
Borrowings from:		
Other common control group companies (Note 15)	-	31.166.230

The loans from a common control group company were denominated in United States Dollars, were unsecured and bore interest at the rates of 12,4% and 15,7% per annum and they were repaid in January 2009.

### (f) Other payable balances with related parties

<i>In US Dollars</i>	<b>2009</b>	2008
<b>Other common control group companies (Note 14):</b>		
- outstanding invoices for services	<b>1.610</b>	3.142
- financing	<b>379.098</b>	379.098
	<b>380.708</b>	382.240

# Reserve Invest (Cyprus) Limited

## 31 Related party transactions (continued)

### (g) Directors' remuneration

The total remuneration of the Directors (included in key management compensation below) was as follows:

<i>In US Dollars</i>	<b>2009</b>	2008
Fees	<b>139.646</b>	157.901
Emoluments in their executive capacity		
- Directors fees	<b>61.161</b>	27.500
- Salaries (gross)	<b>110.932</b>	92.795
	<b>311.739</b>	278.196

During the year the Company had the following transactions with entities in which one of its Directors has significant influence:

<i>In US Dollars</i>	<b>2009</b>	2008
Administration fees	<b>139.646</b>	157.901

### (h) Key management compensation

<i>In US Dollars</i>	<b>2009</b>	2008
Salaries and other short-term employee benefits	<b>1.053.854</b>	1.914.230

## 32 Events after the balance sheet date

On 3 March 2010 the Board of Directors resolved to pay an interim dividend in the amount of US\$10.000.000. The dividend was settled by the way of bank transfer on the same date.

On 19 March 2010 the Company signed a termination agreement for the subordinated loan receivable agreement with OJSC "Promsvyazbank" and on 12 April 2010 the total outstanding balance amounting to US\$20.000.000 was repaid by the borrower to the Company.

There were no other material post balance sheet events, which have a bearing on the understanding of the financial statements.

Independent Auditor's Report on pages 6 to 8.