

# **Reserve Invest (Cyprus) Limited**

## **Report and financial statements 31 December 2007**

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# **Reserve Invest (Cyprus) Limited**

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

### **Board of Directors**

Irina Guizikova  
Pavel Novosyolov  
Costas Hadjicosti  
Petros Economides  
Mikhail Kobysh

### **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 2007.

### 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 The year 2007 was a challenging year for Reserve Invest (Cyprus) Limited. The net profit was \$43,089,593 in 2007 compared to \$499,031,038 in 2006. Most of this stems from lower revaluation gains that decreased from \$468,423,676 in 2006 to \$29,094,069 in 2007. The total assets of the Company increased from \$2,454,377,302 at the end of 2006 to \$2,504,343,455 at 31 December 2007. Shareholder's equity was \$1,514,460,332 at the end of 2006 compared to \$1,371,821,270 at 31 December 2007.

5 Reserve Invest (Cyprus) Limited achieved reasonably strong financial performance in 2007 despite extreme volatility from a U.S. lead housing correction and a credit crunch in financial markets that necessitated coordinated central bank lending to the financial system. Many international markets were severely tested by a downturn that necessitated substantial margin calls on the Company's equity-backed repurchase agreements with banking counterparts. However, not only did Reserve Invest (Cyprus) Limited meet all margin calls in full and on time, but managed to keep substantially all of their funding, while at the same time reducing the interest rate paid on those borrowings as benchmark interest rates fell. This was the result of diversifying the number of counterparts that the company is active with for these funding operations.

6 Being active in Russian capital markets Reserve Invest (Cyprus) Limited commenced dealing in 2007 in equity options to hedge some of their core portfolio risk. The use of zero cost collars combined repurchase agreements helped lower financing costs while providing some downside protection. During 2007, the Company was active in trading equity and corporate bonds on the MICEX, RTS and NYMEX as well as through

# **Reserve Invest (Cyprus) Limited**

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

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

exchange traded funds. The Company continued to trade futures, options and non-deliverable forwards (NDF) currency contracts on other international exchanges to better manage the risks associated with a portfolio of assets with an exposure to energy and commodity prices as well as foreign exchange risks.

### **Principal risks and uncertainties**

7 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**

8 Reserve Invest (Cyprus) Limited will continue its main fiduciary role as manager of their shareholder's assets, while continuing to expand its product range for future hedging, own trading and sales to clients. The Company will actively look to expand into new areas that show growth promise, allowing the Company to diversify its sources of income, while keeping management of risk firmly under control. The Company's business mix has positioned the firm well for many positive broad trends affecting Russian and emerging markets while managing market corrections that may adversely affect profitability and shareholder's equity. The Company continues to expect strong, but volatile gains in emerging markets lead by upward price trends in energy and commodity markets, while a return to financial stability, a reduction in global imbalances and improving macroeconomic fundamentals support this long-term growth.

### **Results**

9 The Company's results for the year are set out on page 8. The Board of Directors recommends the payment of a dividend as detailed below and the profit for the year is retained.

# **Reserve Invest (Cyprus) Limited**

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

### **Dividends**

10 On 2 October 2007, the Board of Directors resolved to pay an interim dividend of US\$116.578.855 out of year's 2005 profits.

On 11 October 2007, the Board of Directors resolved to pay an interim dividend of US\$16.800.000 out of year's 2005 profits.

On 21 December 2007, the Board of Directors resolve to pay an interim dividend of US\$53.350.000 out of year's 2005 profits.

### **Share capital**

11 There were no changes on the share capital of the Company.

### **Board of Directors**

12 The members of the Board of Directors at 31 December 2007 and at the date of this report are shown on page 1. All of them were members of the Board throughout the year.

13 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(h) to the financial statements.

### **Registered office address**

14 The registered office address of the Company was changed as from 1 April 2008. The new address is 50 Agias Zonis Street, Arianthi Court 2nd Floor, CY-3090 Limassol, Cyprus.

### **Events after the balance sheet date**

15 With the introduction of Euro as the official currency of the Republic of Cyprus as from 1 January 2008, the nominal value of the Company's share capital will be translated based on the definite fixing of the exchange rate €1 = C£ 0,585274.

16 There were no other material events which occurred after the end of the financial year.

### **Branches**

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

# **Reserve Invest (Cyprus) Limited**

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

### **Auditors**

18 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  
23 April 2008



**PricewaterhouseCoopers Limited**  
 Julia House  
 3 Themistocles Dervis Street  
 CY-1066 Nicosia  
 P O Box 21612  
 CY-1591 Nicosia, Cyprus  
 Telephone: + 357 - 22555000  
 Facsimile: + 357 - 22555001  
[www.pwc.com/cy](http://www.pwc.com/cy)

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

## Report on the Financial Statements

We have audited the financial statements of Reserve Invest (Cyprus) Limited (the "Company") on pages 8 to 54, which comprise the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement 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 Company's Board of Directors is responsible for the preparation and fair presentation of these financial statements 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.

### *Auditors' 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 about whether the financial statements are free of material misstatement.

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 and fair presentation of the financial statements 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 reasonable basis for our audit opinion.

(6)

**Board Members:** Phidias K Pilides (CEO), Dinos N Papadopoulos (Deputy CEO), Tassos I Televantides (Deputy CEO), Panikos N Tsiailis, Christakis Santis, Stephanos D Stephanides, Costas L Hadjiconstantinou, George Foradaris, Costas M Nicolaidis, Angelos M Loizou, Vasilis Hadjivasiliou, Androulla S Pittas, Sawvas C Michail, Costas L Mavrocordatos, Christos M Themistocleous, Panicos Kaouris, Nicos A Neophytou, George M Loizou, Pantelis G Evangelou, Liakos M Theodorou, Stelios Constantinou, Tassos Procopiou, Andreas T Constantinides, Theo Parperis, Constantinos Constantinou, Petros C Petrakis, Philippos C Soseillos, 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, Yiangos A Kaponides, Tasos N Nolas, Chrysillos K Pelekanos, Efythios Efythiou, George C Lambrou, Chris Odysseos  
**Directors of Operations:** Adrian Ioannou, Androulla Aristidou, Achilleas Chrysanthou, George Skapoullaros, Bambos A Charalambous, Demetris V Psaltis, Constantinos L Kapsalis, Stelios A Violaris

*Basis for Qualified Opinion*

The Company's financial statements do not disclose the name of the ultimate controlling party as required by IAS24 "Related Party Disclosures". In our opinion, disclosure of the ultimate controlling party is necessary for a proper understanding of the Company's financial statements.

*Qualified Opinion*

In our opinion, except for the omission of the information described 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 2007, 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 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 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 on pages 2 to 5 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 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

Nicosia, 23 April 2008

# Reserve Invest (Cyprus) Limited

## Income statement for the year ended 31 December 2007

	Note	2007 US\$	2006 US\$
<b>Income</b>			
Net gains on financial assets and financial liabilities at fair value through profit or loss	15	<b>29,094,069</b>	468,423,676
Profit on disposal of available for sale financial assets	12	<b>2,563,388</b>	-
Interest income	7	<b>44,325,203</b>	35,017,574
Fee and commission income	9	<b>2,577,123</b>	2,281,163
Dividend income		<b>32,419,913</b>	18,136,396
Net foreign exchange gains		<b>7,781,961</b>	3,051,601
<b>Total income</b>		<b>118,761,657</b>	526,910,410
<b>Expenses</b>			
Interest expense	8	<b>(61,010,734)</b>	(32,143,097)
Fees and commission expense	9	<b>(2,990,520)</b>	(2,317,881)
Staff costs	6	<b>(1,867,822)</b>	(1,008,540)
Directors' fees	31(h)	<b>(65,589)</b>	(67,653)
Auditors' remuneration		<b>(83,695)</b>	(70,876)
Legal, professional and consultancy fees		<b>(482,070)</b>	(470,389)
Other expenses	5	<b>(781,547)</b>	(635,604)
Recovery from financial asset impaired	30(b)	-	14,634,838
<b>Total expenses</b>		<b>(67,281,977)</b>	(22,079,202)
<b>Profit before tax</b>		<b>51,479,680</b>	504,831,208
Tax	10	<b>(8,390,087)</b>	(5,800,170)
<b>Profit for the year</b>		<b>43,089,593</b>	499,031,038

The notes on pages 12 to 54 are an integral part of these financial statements.

# Reserve Invest (Cyprus) Limited

## Balance sheet at 31 December 2007

	Note	2007 US\$	2006 (as restated) US\$
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	417.739	214.954
Available-for-sale financial assets	12	11.358.271	28.587.520
Loans and receivables	13	190.309.851	200.172.211
		<u>202.085.861</u>	<u>228.974.685</u>
<b>Current assets</b>			
Financial assets at fair value through profit or loss	15	553.095.588	537.522.384
Pledged assets	16	1.289.191.906	1.323.683.397
Loans and receivables	13	426.914.170	340.664.959
Corporation tax receivable		113.762	113.762
Cash and cash equivalents	21	32.941.168	23.418.115
		<u>2.302.256.594</u>	<u>2.225.402.617</u>
<b>Total assets</b>		<u>2.504.342.455</u>	<u>2.454.377.302</u>
		=====	=====
<b>Equity and liabilities</b>			
<b>Capital and reserves</b>			
Share capital	22	1.722.222	1.722.222
Share premium	23	412.066.959	412.066.959
Fair value reserve	24	3.747.450	2.747.250
Retained earnings		954.284.639	1.097.923.901
<b>Total equity</b>		<u>1.371.821.270</u>	<u>1.514.460.332</u>
<b>Current liabilities</b>			
Trade and other payables	25	14.129.756	9.676.654
Financial liabilities at fair value through profit or loss	26	5.373.438	10.653.723
Repurchase agreements	16	1.112.627.721	895.759.301
Current tax liabilities		390.270	516.340
Borrowings	27	-	23.310.952
<b>Total liabilities</b>		<u>1.132.521.185</u>	<u>939.916.970</u>
<b>Total equity and liabilities</b>		<u>2.504.342.455</u>	<u>2.454.377.302</u>
		=====	=====

On 23 April 2008, the Board of Directors of Reserve Invest (Cyprus) Limited authorised these financial statements for issue.

Irina Guizikova, Director

Costas Hadjicosti, Director

The notes on pages 12 to 54 are an integral part of these financial statements.

# Reserve Invest (Cyprus) Limited

## Statement of changes in equity for the year ended 31 December 2007

	Note	Share capital US\$	Share premium US\$	Fair value reserve US\$	Retained earnings <sup>(1)</sup> US\$	Total equity US\$
<b>Balance at 1 January 2006 as previously reported</b>		1.146.450	280.642.731	-	730.892.863	1.012.682.044
Change of accounting policy	2	-	-	-	-	-
<b>Balance at 1 January 2006 – as restated</b>		1.146.450	280.642.731	-	730.892.863	1.012.682.044
Net profit for the year – as restated	2	-	-	-	-	-
<b>Balance at 31 December 2005/1 January 2006</b>		1.146.450	280.642.731	-	730.892.863	1.012.682.044
Available-for-sale financial assets: Fair value gains	24	-	-	2.747.250	-	2.747.250
Net income recognised directly in equity		-	-	2.747.250	-	2.747.250
Profit for the year		-	-	-	499.031.038	499.031.038
Total recognised income for 2006		-	-	2.747.250	499.031.038	501.778.288
Additional issue of shares	22	575.772	131.424.228	-	-	132.000.000
Dividends declared		-	-	-	(132.000.000)	(132.000.000)
		575.772	131.424.228	-	(132.000.000)	-
<b>Balance at 31 December 2006/1 January 2007</b>		1.722.222	412.066.959	2.747.250	1.097.923.901	1.514.460.332
Available for sale financial assets: Transfer to profit due to disposal		-	-	(2.040.814)	-	(2.040.814)
Fair value gain	24	-	-	3.041.014	-	3.041.014
Net income recognised directly in equity		-	-	1.000.200	-	1.000.200
Profit for the year		-	-	-	43.089.593	43.089.593
Total recognised income for 2007		-	-	1.000.200	43.089.593	44.089.793
Dividends declared	28	-	-	-	(186.728.855)	(186.728.855)
		1.722.222	412.066.959	3.747.450	954.284.639	1.371.821.270

- (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 12 to 54 are an integral part of these financial statements.

# Reserve Invest (Cyprus) Limited

## Cash flow statement for the year ended 31 December 2007

	Note	2007 US\$	2006 (as restated) US\$
<b>Cash flows from operating activities</b>			
Profit before tax		51,479,680	504,831,208
Adjustments for:			
Depreciation of property, plant and equipment	11	68,760	45,281
Net gains on financial assets/liabilities at fair value through profit or loss	15	(29,094,069)	(468,423,676)
Profit on disposal of available for sale financial assets	12	(2,563,388)	-
Dividend income		(32,419,913)	(18,136,396)
Interest income on loans		(16,463,798)	(4,296,578)
Interest expense on borrowings	8	627,349	945,372
Estimated recovery from financial asset impaired	30(b)	-	(9,010,761)
		<u>(28,365,379)</u>	<u>5,954,450</u>
Changes in working capital:			
Trade and other receivables		59,198,969	35,613,145
Reverse repurchase agreements		(164,589,492)	(144,263,115)
Financial assets at fair value through profit or loss		13,520,865	99,192,445
Pledged assets		34,491,491	(498,218,350)
Promissory notes		15,326,801	(43,761,729)
Financial liabilities at fair value through profit and loss		(5,280,285)	(16,806,848)
Trade and other payables		4,453,102	8,916,635
Repurchase agreements		216,868,420	690,328,941
Fixed deposits with banks		2,998,312	25,151,641
<b>Cash generated from operations</b>		<u>148,622,804</u>	<u>162,107,215</u>
Tax paid		(8,516,157)	(5,952,893)
<b>Net cash generated from operations</b>		<u>140,106,647</u>	<u>156,154,322</u>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment	11	(271,545)	(42,185)
Loans granted		(30,000,000)	(180,296,413)
Loan repayments received		48,696,334	-
Acquisition of available for sale financial assets	12	(966,180)	(25,840,270)
Proceeds from sale of available-for-sale financial assets		21,759,017	-
Interest received		11,359,669	1,319,169
Dividends received		29,506,267	18,136,396
<b>Net cash generated from/(used in) investing activities</b>		<u>80,083,562</u>	<u>(186,723,303)</u>
<b>Cash flows from financing activities</b>			
Receipts from borrowings		10,400,000	17,700,000
Repayment of borrowings		(33,710,952)	(16,499,798)
Dividends paid to Company's shareholders		(186,728,855)	-
Interest paid		(627,349)	(815,202)
<b>Net cash (used in)/generated from financing activities</b>		<u>(210,667,156)</u>	<u>385,000</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>9,523,053</u>	<u>(30,183,981)</u>
<b>Cash and cash equivalents at beginning of year</b>		<u>23,418,115</u>	<u>53,602,096</u>
<b>Cash and cash equivalents at end of year</b>	21	<u>32,941,168</u>	<u>23,418,115</u>

The notes on pages 12 to 54 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 and available-for-sale financial assets.

# Reserve Invest (Cyprus) Limited

## 2 Summary of significant accounting policies (continued)

### Basis of preparation (continued)

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 IFRS

In the current year the Company adopted all new and revised IFRS that are relevant to its operations and are effective for accounting periods beginning on 1 January 2007. This adoption did not result in substantial changes to the Company's accounting policies.

At the date of authorisation of these financial statements the following International Financial Reporting Standards (IFRS) and IFRIC Interpretations that have been issued by the IASB, and which the Company has not early adopted, are as follows:

#### *Standards that become effective for years ending 31 December 2007*

IFRS7, 'Financial instruments: Disclosures' and the complementary amendments to IAS 1, 'Presentation of Financial Statements – Capital Disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Company's financial instruments.

#### *Standards that become effective for years ending 31 December 2008*

IFRIC Interpretation 11 "IFRS 2 – Group and Treasury Share Transactions"	1 March 2007
IFRIC Interpretation 12 "Service Concession Arrangements"*	1 January 2008
IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction".*	1 January 2008

#### *Standards that become effective for years ending 31 December 2009*

IFRS 8 "Operating Segments"	1 January 2009
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# Reserve Invest (Cyprus) Limited

## 2 Summary of significant accounting policies (continued)

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

#### *Standards that become effective for years ending 31 December 2009*

IFRIC 13 “Customer Loyalty Programmes”*	1 July 2008
IAS 1 (Revised 2007) “Presentation of Financial Statements” *	1 January 2009
IFRS 2, Share-based Payment (Amendment 2008: Vesting Conditions and Cancellations)*	1 January 2009
IAS 32, Financial Instruments: Presentation and IAS 1, Presentation of Financial Statements (Amendment 2008: Puttable Financial Instruments and Obligations Arising on Liquidation)*	1 January 2009

#### *Standards that become effective for years ending 31 December 2010*

IFRS 3 (Revised 2008), “Business Combinations”*	1 July 2009
IAS 27 (Revised 2008), “Consolidated and Separate Financial Statements”*	1 July 2009

\* Have not been endorsed by the European Union.

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.

### Revenue recognition

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 contacts, usually on a time proportionate basis.

# **Reserve Invest (Cyprus) Limited**

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

### **Revenue recognition (continued)**

#### **(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 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.

### **Employee benefits**

The Company and the employees contribute to the Government Social Insurance Fund based on employees’ salaries. The premiums paid, are expensed as incurred and are included in staff costs. The Company has no further payment obligations once the contributions have been paid.

### **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.

# **Reserve Invest (Cyprus) Limited**

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

### **Foreign currency translation (continued)**

#### **(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 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 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.

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 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. 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.

# Reserve Invest (Cyprus) Limited

## 2 Summary of significant accounting policies (continued)

### 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.

Expenditure for repairs and maintenance of property, plant and equipment is charged to the 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 income statement.

### 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).

# 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 investments were acquired. Management determines the classification of investments at initial recognition and re-evaluates this designation at every reporting date.

#### (1) 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. 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 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.

#### (2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, 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.

#### (3) 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 the investments 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*

As of 1 January 2007, regular way purchases and sales of financial assets or financial liabilities at fair value through profit or loss and available-for-sale are recognised on the settlement date - the date that an asset is delivered to or by the Company instead of trade date. The asset is recognised on the date it is received 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 and the settlement date is recognised in the income statement.

#### (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 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 income statement within net gains on financial assets and financial liabilities at fair value through profit or loss in the year in which they arise. Gains or losses arising from changes in the fair value of available-for-sale financial assets are recognised in equity. When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments are included in the income statement.

#### (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 income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the 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 trade futures and over the counter options on equities, fixed income securities, commodities, foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) are initially recognised in the balance sheet 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 income statement and presented within net gains on financial assets and financial liabilities at fair value through profit or loss. The Company has not applied hedge accounting in the year 2007 and 2006.

# **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 balance sheet 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 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 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 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 more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

### **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 income statement over the period of the borrowings using the effective interest method.

# Reserve Invest (Cyprus) Limited

## 2 Summary of significant accounting policies (continued)

### Borrowings (continued)

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.

### Comparatives

#### Change in accounting policy

On 1 January 2007, the Company has re-evaluated its accounting policy in connection with the recognition/derecognition of securities under repurchase transactions given out from securities obtained from reverse repurchase transactions. Previously, the Company was recognising securities used in repurchase transactions that had been obtained from reverse repurchase transactions as financial assets and financial liabilities respectively. The new accounting policy does not permit recognition of these securities. Also, the new policy adopted is consistent with the respective one in IFD Kapital Group, a related party and a group that combines the results of the Company. The change has been effected retrospectively with the following restatements of comparatives (with no effect on previously reported reserves):

	31 December 2006 as previously reported US\$	31 December 2006 as restated US\$	Change US\$
<b>Assets and liabilities</b>			
Financial assets at fair value through profit or loss	525.498.023	537.522.384	12.024.361
Pledged assets	1.543.143.020	1.323.683.397	(219.459.623)
Financial liabilities at fair value through profit or loss	(218.088.985)	(10.653.723)	207.435.262
	<u>1.850.522.058</u>	<u>1.850.522.058</u>	<u>-</u>
	=====	=====	=====

# Reserve Invest (Cyprus) Limited

## 3 Financial risk management

### (1) Financial risk factors

The Company's activities expose it to market price risk, interest rate risk, credit risk, liquidity risk, currency risk and capital 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 investments at fair value through profit or loss are susceptible to market price risk arising from uncertainties about future prices of the investments. The Company's investment portfolio comprises mainly of securities and ADR's of entities listed in the Russian equities market, promissory notes, Eurobonds and other corporate shares (Note 15). 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. OAO Lukoil Company shares and ADRs represent over 90% of the total value of financial assets at fair value through profit or loss and pledged assets as at 31 December 2007 and over 75% as at 31 December 2006. 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 price of OAO Lukoil and ADRs have a material impact on the profit of the Company which is demonstrated by the calculations below:

	2007 US\$	2006 US\$
Lukoil equities and derivatives on the balance sheet	<b>1.706.464.720</b>	1.411.470.809
Total financial assets at fair value through profit or loss and pledged assets	<b>1.842.287.494</b>	1.861.205.781
Percentage on financial assets	<b>93%</b>	76%
Number of Lukoil shares	<b>1.637.657</b>	156.777
Number of Lukoil ADRs	<b>17.978.018</b>	15.994.389
	<b>19.615.675</b>	16.151.166
Price change US\$ 5-effect on net trading profit and net profit of the Company	<b>98.078.375</b>	80.755.830
Price change US\$10-effect on net trading profit and net	<b>196.156.750</b>	161.511.660

# Reserve Invest (Cyprus) Limited

profit of the Company

## 3 Financial risk management (continued)

### (1) Financial risk factors (continued)

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

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. The 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.

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. The 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 exceed the total interest bearing assets both in 2007 and previous years which exposes the Company to the risk of an increase in interest rates. The Company's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

# Reserve Invest (Cyprus) Limited

## 3 Financial risk management (continued)

### (1) Financial risk factors (continued)

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

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.

#### 31 December 2007

	Up to 1 year US\$	1 to 5 years US\$	Over 5 years US\$	Non-interest bearing US\$	Total US\$
<b>Assets</b>					
Property, plant and Equipment	-	-	-	417.739	417.739
Available for sale financial assets	-	-	-	11.358.271	11.358.271
Loans receivable	13.194.659	170.000.000	-	-	183.194.659
Financial assets at fair value through profit or loss	31.785.279	-	-	521.310.309	553.095.588
Pledged assets	22.463.420	-	-	1.266.728.486	1.289.191.906
Trade and other receivables	51.985.570	-	-	-	51.985.570
Corporation tax receivable	113.762	-	-	-	113.762
Promissory notes	16.916.676	20.309.851	-	-	37.226.527
Reverse repurchase agreements	337.817.265	-	-	-	337.817.265
Deposits with banks	7.000.000	-	-	-	7.000.000
Cash and cash Equivalents	32.941.168	-	-	-	32.941.168
<b>Total assets</b>	<u>514.217.799</u>	<u>190.309.851</u>	<u>-</u>	<u>1.799.814.805</u>	<u>2.504.342.455</u>
<b>Liabilities</b>					
Financial liabilities at fair value through profit or loss	(5.373.438)	-	-	-	(5.373.438)
Repurchase agreements	(1.112.627.721)	-	-	-	(1.112.627.721)
Trade and other payables	(14.129.756)	-	-	-	(14.129.756)
Current tax liabilities	(390.270)	-	-	-	(390.270)
<b>Total liabilities</b>	<u>(1.132.521.185)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1.132.521.185)</u>
Interest sensitivity gap	<u>(618.303.386)</u>	<u>190.309.851</u>	<u>-</u>	<u>-</u>	<u>-</u>

# Reserve Invest (Cyprus) Limited

## 3 Financial risk management (continued)

### (1) Financial risk factors (continued)

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

31 December 2006

	Up to 1 year US\$	1 to 5 years US\$	Over 5 years US\$	Non-interest bearing US\$	Total US\$
<b>Assets</b>					
Property, plant and equipment	-	-	-	214.954	214.954
Available for sale financial assets	-	-	-	28.587.520	28.587.520
Loans receivable	11.476.765	185.310.099	-	-	196.786.864
Financial assets at fair value through profit or loss	206.257.736	-	-	331.264.648	537.522.384
Pledged assets	13.622.503	-	-	1.310.060.894	1.323.683.397
Trade and other receivables	108.270.893	-	-	-	108.270.893
Corporation tax receivable	-	-	-	113.762	113.762
Promissory notes	52.553.328	-	-	-	52.553.328
Reverse repurchase agreements	173.227.773	-	-	-	173.227.773
Deposits with banks	9.998.312	-	-	-	9.998.312
Cash and cash equivalents	23.418.115	-	-	-	23.418.115
<b>Total assets</b>	<b>598.825.425</b>	<b>185.310.099</b>	<b>-</b>	<b>1.670.241.778</b>	<b>2.454.377.302</b>
<b>Liabilities</b>					
Financial liabilities at fair value through profit or loss	(10.653.723)	-	-	-	(10.653.723)
Repurchase agreements	(895.759.301)	-	-	-	(895.759.301)
Trade and other payables	(9.676.654)	-	-	-	(9.676.654)
Current tax liabilities	(516.340)	-	-	-	(516.340)
Borrowings	(23.310.952)	-	-	-	(23.310.952)
<b>Total liabilities</b>	<b>(939.916.970)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(939.916.970)</b>
Interest sensitivity gap	(341.091.545)	185.310.099	-	-	-

The estimated impact on the profit of the Company of an increase in interest rates with all other variables remaining constant is as follows:

	Estimated increase in interest income US\$000	Estimated increase in interest expense US\$000	Net effect on profit US\$000
Increase/(decrease) on interest rate by 0,5% (current rates + 0,5)%	15	52	-37
Increase/(decrease) of interest rates by 1% (current rates + 0,5)%	16	55	-39

# Reserve Invest (Cyprus) Limited

## 3 Financial risk management (continued)

### (1) Financial risk factors (continued)

#### (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 with balances with related parties and others. 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 collateral and corporate and personal guarantees.

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

Credit risk for off-balance sheet financial investments is defined as possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with 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 approvals risk control limits and monitoring procedures.

Except for an impairment of US\$23.975 (Note 5) there were no impaired financial assets on the balance sheet of the Company.

The financial assets and liabilities as at 31 December 2007 structured by the credit rating are shown in the table below:

# Reserve Invest (Cyprus) Limited

## 3 Financial risk management (continued)

### (1) Financial risk factors (continued)

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

	With external rating						Without external rating			Total
	US\$ 000						US\$ 000			US\$ 000
	AAA+ ... AA-	A+ ... A-	BBB+ ... BBB-	BB+ ... BB-	B+ ... B-	CCC+ ... CCC-	1	2	3	
Available for sale financial assets	-	-	-	-	-	-	-	-	11.358	11.358
Loans receivable	-	-	-	-	173.660	-	9.534	-	-	183.195
Financial assets at fair value through profit or loss	251	14.491	439.332	25.982	9.486	-	4.434	47.965	11.153	553.096
Pledged assets	-	-	1.263.295	8.889	17.008	-	-	-	-	1.289.192
Trade and other receivables	4.951	3.436	-	16	-	-	42.424	-	1.159	51.986
Promissory notes	-	-	-	-	-	-	-	-	37.227	37.227
Reverse repurchase agreements	-	5.050	-	-	10.450	7.047	228.083	39.172	48.016	337.817
Deposits with banks	-	-	-	-	7.000	-	-	-	-	7.000
Cash and cash equivalents	19.069	790	-	-	13.074	-	-	-	-	32.941
Financial liabilities at fair value through profit or loss	(5.373)	-	-	-	-	-	-	-	-	(5.373)
Repurchase agreements	(548.979)	(335.538)	-	-	-	-	(228.111)	-	-	(1.112.628)
Trade and other payables	-	-	-	-	-	-	-	(14.130)	(14.130)	(14.130)

#### Available for sale financial assets:

The assets are classified based on the external rating of the issuer. In cases where 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:

The loans receivable are classified based on the rating of the borrower. In cases where no external rating is available, the credit quality of loans is determined with the 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 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

# **Reserve Invest (Cyprus) Limited**

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

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

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

- 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).

#### **Trade and other receivables:**

Trade and other receivables are classified based on the external ratings of the counterparties. In case no external rating is available the credit quality of loans is determined with the 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).

#### **Promissory notes:**

Promissory notes are classified based on the rating of the issuer. In case no external rating is available the assets are classified based on the listings of the issuer.

#### **Reverse repurchase agreements:**

Reverse repurchase agreements are classified based on the external ratings of the counterparties. In case where no external rating is available the credit quality is determined with the 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).

#### **Deposits with banks:**

Deposits are classified based on the ratings of the bank-counterparty.

# Reserve Invest (Cyprus) Limited

## 3 Financial risk management (continued)

### (1) 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 loans is determined with the 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 liabilities at fair value through profit or loss:**

Financial liabilities are classified based on the rating of the issuer of the financial instrument.

##### **Repurchase agreements:**

Repurchase agreements 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 the 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).

##### **Trade and other payables:**

Trade and other payables 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 the 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).

#### (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 2007 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 shows the assets and liabilities at 31 December 2007 by their remaining contractual maturity:

# Reserve Invest (Cyprus) Limited

## 3 Financial risk management (continued)

### (1) Financial risk factors (continued)

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

	Demand and less than 1 month US\$	1 month to 1 year US\$	1-5 years US\$	Over 5 years	Not stated maturity US\$	Total US\$
<b>Assets</b>						
Property, plant and equipment	-	-	-	-	417.739	417.739
Available for sale financial assets	-	-	11.358.271	-	-	11.358.271
Loans receivable	-	13.194.659	170.000.000	-	-	183.194.659
Financial assets at fair value through profit or loss	553.095.588	-	-	-	-	553.095.588
Pledged assets	92.205.343	1.196.986.563	-	-	-	1.289.191.906
Trade and other receivables	7.267.276	44.718.294	-	-	-	51.985.570
Corporation tax receivable	-	113.762	-	-	-	113.762
Promissory notes	-	16.916.676	20.309.851	-	-	37.226.527
Reverse repurchase agreements	279.904.318	57.912.947	-	-	-	337.817.265
Deposits with banks	-	7.000.000	-	-	-	7.000.000
Cash and cash equivalents	32.941.168	-	-	-	-	32.941.168
<b>Total assets</b>	<b>965.413.693</b>	<b>1.336.842.901</b>	<b>201.668.122</b>	<b>-</b>	<b>417.739</b>	<b>2.504.342.455</b>
<b>Liabilities</b>						
Financial liabilities at fair value through profit or loss	(5.373.438)	-	-	-	-	(5.373.438)
Repurchase agreements	(294.742.629)	(817.885.092)	-	-	-	(1.112.627.721)
Trade and other payables	(4.428.890)	(9.700.866)	-	-	-	(14.129.756)
Current tax liabilities	-	(390.270)	-	-	-	(390.270)
<b>Total liabilities</b>	<b>(304.544.957)</b>	<b>(827.976.228)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1.132.521.185)</b>
<b>Net liquidity gap</b>	<b>660.868.736</b>	<b>508.866.673</b>	<b>201.668.122</b>	<b>-</b>	<b>417.739</b>	<b>1.371.821.270</b>
<b>Cumulative liquidity at 31 December 2007</b>	<b>660.868.736</b>	<b>1.169.735.409</b>	<b>1.371.403.531</b>	<b>1.371.403.531</b>	<b>1.371.821.270</b>	

# Reserve Invest (Cyprus) Limited

## 3 Financial risk management (continued)

### (1) Financial risk factors (continued)

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

The liquidity position of the Company as at 31 December 2006 is set out below:

	Demand and less than 1 month US\$	1 month to 1 year US\$	1-5 years US\$	Over 5 years	Not stated maturity US\$	Total US\$
<b>Assets</b>						
Property, plant and equipment	-	-	-	-	214.954	214.954
Available for sale financial assets	-	-	-	28.587.520	-	28.587.520
Loans receivable	2.175.493	9.301.272	185.310.099	-	-	196.786.864
Financial assets at fair value through profit or loss	537.522.384	-	-	-	-	537.522.384
Pledged assets	85.962.672	1.237.720.725	-	-	-	1.323.683.397
Trade and other receivables	-	108.270.893	-	-	-	108.270.893
Corporation tax receivable	-	113.762	-	-	-	113.762
Promissory notes	-	52.553.328	-	-	-	52.553.328
Reverse repurchase agreements	-	173.227.773	-	-	-	173.227.773
Deposits with banks	-	9.998.312	-	-	-	9.998.312
Cash and cash equivalents	23.418.115	-	-	-	-	23.418.115
<b>Total assets</b>	<b>649.078.664</b>	<b>1.591.186.065</b>	<b>185.310.099</b>	<b>28.587.520</b>	<b>214.954</b>	<b>2.454.377.302</b>
<b>Liabilities</b>						
Financial liabilities at fair value through profit or loss	-	10.653.723	-	-	-	10.653.723
Repurchase agreements	-	895.759.301	-	-	-	895.126.973
Trade and other payables	-	9.676.654	-	-	-	9.676.654
Current tax liabilities	-	516.340	-	-	-	516.340
Borrowings	-	23.310.952	-	-	-	23.310.952
<b>Total liabilities</b>	<b>-</b>	<b>939.916.970</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>939.916.970</b>
<b>Net liquidity gap</b>	<b>649.078.664</b>	<b>651.269.095</b>	<b>185.310.099</b>	<b>28.587.520</b>	<b>214.954</b>	<b>1.514.460.332</b>
<b>Cumulative liquidity at 31 December 2006</b>	<b>649.078.664</b>	<b>1.300.347.759</b>	<b>1.485.657.858</b>	<b>1.514.245.378</b>	<b>1.514.460.332</b>	

#### (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, Euro and Cyprus Pounds. The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

# Reserve Invest (Cyprus) Limited

## 3 Financial risk management (continued)

### (1) Financial risk factors (continued)

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

At 31 December 2007 the Company's net currency exposure in US\$ was as follows:

	Russian Roubles US\$	United States Dollars US\$	Cyprus Pounds US\$	Euro US\$	Total US\$
Property, plant and equipment	-	417.739	-	-	417.739
Available for sale financial assets	11.358.271	-	-	-	11.358.271
Loans receivable	9.534.400	173.660.259	-	-	183.194.659
Financial assets at fair value through profit or loss	12.702.802	540.392.786	-	-	553.095.588
Pledged assets	-	1.289.191.906	-	-	1.289.191.906
Trade and other receivables	43.082.530	8.843.866	56.172	3.002	51.985.570
Corporation tax receivable	-	-	113.762	-	113.762
Promissory notes	37.226.527	-	-	-	37.226.527
Reverse repurchase agreements	228.613.752	109.203.513	-	-	337.817.265
Deposits with banks	-	7.000.000	-	-	7.000.000
Cash and cash equivalents	1.575.292	30.469.393	792.211	104.272	32.941.168
Financial liabilities at fair value through profit or loss	-	(5.373.438)	-	-	(5.373.438)
Repurchase agreements	(228.641.967)	(883.985.754)	-	-	(1.112.627.721)
Trade and other payables	(4.483.336)	(9.369.009)	(277.411)	-	(14.129.756)
Current tax liabilities	-	-	(390.270)	-	(390.270)
	<u>110.968.271</u>	<u>1.260.451.261</u>	<u>294.464</u>	<u>107.274</u>	<u>1.371.821.270</u>

At 31 December 2006 the Company's net currency exposure in US\$ was as follows:

	Russian Roubles US\$	United States Dollars US\$	Cyprus Pounds US\$	Euro US\$	Total US\$
Property, plant and equipment	-	214.954	-	-	214.954
Available for sale financial assets	28.587.520	-	-	-	28.587.520
Loans receivable	15.310.099	181.476.765	-	-	196.786.864
Financial assets at fair value through profit or loss	122.411.214	415.111.170	-	-	537.522.384
Pledged assets	-	1.323.683.397	-	-	1.323.683.397
Trade and other receivables	77.836.099	30.390.055	44.739	-	108.270.893
Corporation tax receivable	-	-	113.762	-	113.762
Promissory notes	44.820.713	7.732.615	-	-	52.553.328
Reverse repurchase agreements	300.349	172.927.424	-	-	173.227.773
Deposits with banks	-	9.998.312	-	-	9.998.312
Cash and cash equivalents	678.102	22.410.925	328.358	730	23.418.115
Financial liabilities at fair value through profit or loss	(480.972)	(10.172.751)	-	-	(10.653.723)
Repurchase agreements	(225.621)	(894.901.352)	-	-	(895.126.973)
Trade and other payables	(3.979.043)	(6.254.329)	(75.610)	-	(10.308.982)
Current tax liabilities	-	-	(516.340)	-	(516.340)
Borrowings	-	(23.310.952)	-	-	(23.310.952)
	<u>285.258.460</u>	<u>1.229.306.233</u>	<u>(105.091)</u>	<u>730</u>	<u>1.514.460.332</u>

# Reserve Invest (Cyprus) Limited

## 3 Financial risk management (continued)

### (1) Financial risk factors (continued)

#### (f) Capital risk

Capital risk is the risk that the Company faces that it 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 Company is also subject to the Regulatory requirements in respect of the Capital Adequacy. As at 31 December 2007 the Management believes that the Company's activities are strongly supported by shareholders' funds.

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

### (2) Fair value estimation

The fair values of the Company's financial assets and liabilities approximate their carrying amounts at the balance sheet date. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Company using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

The fair value of financial instruments traded in active markets such as publicly traded financial assets at fair value through profit or loss 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 price. The appropriate quoted market price for financial liabilities is the current ask price.

# **Reserve Invest (Cyprus) Limited**

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

### **(2) Fair value estimation (continued)**

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses a variety of methods, such as estimated discounted cash flows, and makes assumptions that are based on market conditions existing at the balance sheet date.

The nominal value less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Company for similar financial instruments.

### **(3) 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 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) Income taxes**

Significant judgement is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these 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

## 4 Critical accounting estimates and judgements (continued)

### (a) Critical accounting estimates and assumptions (continued)

#### (ii) 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.

#### (i) 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 (1) (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 Other expenses

	2007 US\$	2006 US\$
Depreciation of property, plant and equipment (Note 11)	68.760	45.281
Rent	109.751	73.996
Telephone, faxes and communication costs	272.294	188.678
Bank charges	48.440	54.433
Travel and accommodation expenses	32.664	33.074
Office supplies and maintenance expenses	62.637	22.705
Other sundry expenses	9.998	10.748
Non-recoverable VAT	138.198	195.632
Bad debts	23.975	-
Cars expenses	14.830	11.057
Total other expenses	<u>781.547</u>	<u>635.604</u>

# Reserve Invest (Cyprus) Limited

## 6 Staff costs

	2007 US\$	2006 US\$
Salaries	1.401.282	876.612
Bonuses	328.370	89.907
Social insurance costs	118.996	23.465
Medical insurance costs	19.174	18.556
	<u>1.867.822</u>	<u>1.008.540</u>
	=====	=====

## 7 Interest income

	2007 US\$	2006 US\$
Interest income on loans with related parties	14.182.479	2.187.083
Interest income on loans with third parties	200.495	886.163
Interest on subordinated loan agreement with third party	2.080.824	1.223.333
Interest income on promissory notes	5.598.806	3.079.865
Interest income on bonds	12.160.727	19.693.008
Interest income on reverse repurchase and securities lending agreements	9.310.725	6.471.002
Interest on collateral accounts and accounts with brokers	247.379	331.155
Interest income on bank deposits	428.915	1.135.313
Interest income on overnight bank accounts	114.853	10.652
	<u>44.325.203</u>	<u>35.017.574</u>
	=====	=====

## 8 Interest expense

	2007 US\$	2006 US\$
Interest expense on borrowings	627.349	945.372
Interest on bank overdraft	-	1.445
Interest on repurchase agreements	60.383.385	31.196.280
	<u>61.010.734</u>	<u>32.143.097</u>
	=====	=====

# Reserve Invest (Cyprus) Limited

## 9 Fee and commission income and expense

	2007 US\$	2006 US\$
<b>Fee and commission income:</b>		
Asset management fees	1,577,059	1,341,678
Investment advisory fees	37,047	6,498
Brokerage fees	273,137	528,011
Income from underwriting	19,125	11,031
Other	670,755	393,945
<b>Total fee and commission income</b>	<u>2,577,123</u>	<u>2,281,163</u>
	=====	=====
<b>Fee and commission expense:</b>		
Brokerage and commission fees	(1,415,328)	(973,531)
Depository services	(814,568)	(782,504)
ADR insurance fees/share registration	(147,340)	(133,432)
Other trading expenses	(613,284)	(428,414)
<b>Total fee and commission expense</b>	<u>(2,990,520)</u>	<u>(2,317,881)</u>
	=====	=====

## 10 Tax

	2007 US\$	2006 US\$
Current tax:		
Withholding tax suffered on dividend income	4,613,262	2,546,406
Withholding tax suffered on interest income	86,131	-
Other withholding taxes	1,194,000	-
Defence contribution	23,481	134,199
Corporation tax	2,473,213	3,119,565
	<u>8,390,087</u>	<u>5,800,170</u>
	=====	=====

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the applicable tax rates as follows:

	2007 US\$	2006 US\$
Profit before tax	51,386,474	504,831,208
	=====	=====
Tax calculated at the applicable tax rates	5,138,647	50,483,121
Tax effect of expenses not deductible for tax purposes	4,107,416	3,107,403
Tax effect of allowances and income not subject to tax	(6,772,850)	(50,470,959)
Russian withholding tax suffered on dividend income	4,613,262	2,546,406
Withholding tax on interest income	86,131	-
Other withholding taxes	1,194,000	-
Defence contribution	23,481	134,199
<b>Tax charge</b>	<u>8,390,087</u>	<u>5,800,170</u>
	=====	=====

# Reserve Invest (Cyprus) Limited

## 10 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%.

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 burden of approximately 15%. In certain cases dividends received from abroad may be subject to defence contribution at the rate of 15%.

## 11 Property, plant and equipment

	Motor vehicles US\$	Furniture, fixtures, and office equipment US\$	Computer hardware US\$	Total US\$
<b>At 1 January 2006</b>				
Cost	94.908	165.333	39.134	299.375
Accumulated depreciation	(44.063)	(31.843)	(5.419)	(81.325)
Net book amount	50.845	133.490	33.715	218.050
<b>Year ended 31 December 2006</b>				
Opening net book amount	50.845	133.490	33.715	218.050
Additions	-	14.493	27.192	42.185
Depreciation charge (Note 5)	(21.263)	(16.660)	(7.358)	(45.281)
Closing net book amount	29.582	131.823	53.549	214.954
<b>At 31 December 2006</b>				
Cost	94.908	180.326	66.326	341.560
Accumulated depreciation	(65.326)	(48.503)	(12.777)	(126.606)
Net book amount	29.582	131.823	53.549	214.954
<b>Year ended 31 December 2007</b>				
Opening net book amount	29.582	131.823	53.549	214.954
Additions	93.558	143.740	34.247	271.545
Depreciation charge (Note 5)	(26.019)	(30.078)	(12.663)	(68.760)
Closing net book amount	97.121	245.485	75.133	417.739
<b>At 31 December 2007</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
	=====	=====	=====	=====

# Reserve Invest (Cyprus) Limited

## 12 Available-for-sale financial assets

	2007 US\$	2006 US\$
<b>Non-current</b>		
Opening net book amount	<b>28.587.520</b>	-
Additions	<b>966.180</b>	25.840.270
Disposals	<b>(19.195.629)</b>	-
Fair value gains on disposal (Note 24)	<b>(2.040.814)</b>	-
Fair value gains (Note 24)	<b>3.041.014</b>	2.747.250
Closing net book amount	<b>11.358.271</b>	28.587.520

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 2007 are:

Name	Nature of business	Country of registration	% of shares held	2007 US\$	2006 US\$
ZPIF "Financial Partner"	Investment Fund	Russia	18/(70)	<b>10.264.281</b>	28.587.520
ZPIF "Stroitelny Kompleks"	Investment Fund	Russia	4,8	<b>1.093.990</b>	-
				<b>11.358.271</b>	28.587.520

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" for a period up to 26 April 2011. According to the Regulations of the Fund change of the management company, changes in the investment objectives and policies and other changes to the Regulations can only be effected by a resolution of the Meeting of the Fund shareholders and require 75% majority vote. Early redemption is possible following the unanimous resolutions of the shareholders. The principal assets of the Fund are investment properties in Russian Federation. The assets of the Fund are to be revalued at least once a year based on the opinion of independent valuers. An annual management commission of 1,18% of the Net Assets Value of the Fund is payable to the Management Company and a commission of 0,59% of the Net Assets Value is payable to the Custodian, Registrar and Evaluators of the Fund.

On 28 June 2007 the Company sold 520 000 shares in ZPIF "Financial Partner" to Gatecraft Limited, a related party, for US\$21.759.017, a price which was based on the available NAV. The realised gain from the sale amounted to US\$2.563.388.

During the year ended 31 December 2007 the Company has acquired shares on ZPIF "Stroitelny Kompleks" – an investment fund managed by a related company OOO "Management Company Kapital PIF".

At 31 December 2007, the investment was revalued based on the NAV report received by the Fund's Management Company.

# Reserve Invest (Cyprus) Limited

## 12 Available-for-sale financial assets (continued)

Both the Company and ZPIF “Financial partner” are controlled by Reserve Invest Holding (Cyprus) Limited and the Company has used the exemption offered by IAS27 “Consolidated and Separate Financial Statements”, paragraph 10 and not prepared consolidated financial statements. Preparation of consolidated financial statements was not required due to the availability of consolidated financial statements of Reserve Invest Holding (Cyprus) Limited, into which the results and financial position of the Company are consolidated. This is also in compliance with the Companies Law, Cap. 113.

## 13 Loans and receivables

	2007 US\$	2006 US\$
<b>Non-current</b>		
Loans receivable from third parties (Note 14)	20.000.000	21.872.114
Loans receivable from related parties (Note 31(d))	150.000.000	163.437.985
Promissory notes (Note 18)	20.309.851	14.862.112
	<u>190.309.851</u>	<u>200.172.211</u>
<b>Current</b>		
Trade and other receivables (Note 17)	51.985.570	108.270.893
Loans receivable from third parties (Note 14)	2.181.592	9.349.843
Loans receivable from related parties (Note 31(d))	11.013.067	2.126.922
Promissory notes (Note 18)	16.916.676	37.691.216
Deposits with banks (Note 20)	7.000.000	9.998.312
Reverse repurchase agreements with third parties (Note 19)	112.801.865	173.227.773
Reverse repurchase agreements with related parties (Note 31(g))	225.015.400	-
	<u>426.914.170</u>	<u>340.664.959</u>
	=====	=====

## 14 Loans receivable from third parties

	2007 US\$	2006 US\$
<b>Non-current</b>		
Subordinated loan	20.000.000	20.000.000
Other loans	-	1.872.114
	<u>20.000.000</u>	<u>21.872.114</u>
<b>Current</b>		
Subordinated loan	170.322	172.193
Other loans	2.011.270	9.177.650
	<u>2.181.592</u>	<u>9.349.843</u>
Total loans receivable from third parties	<u>22.181.592</u>	<u>31.221.957</u>
	=====	=====

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

	2007 US\$	2006 US\$
Subordinated loan	9%	9%
Other loans	6,32%	6,32%

# Reserve Invest (Cyprus) Limited

## 14 Loans receivable from third parties (continued)

The non-current loan receivable from third parties is in Russian Roubles, bears interest at the rate of 0,01% and is repayable on 6 December 2008.

The Company entered into subordinate loan agreement with JSCB "Promsvyazbank" in May 2006. The loan is a US dollar loan, bears interest at the rate of LIBOR+5,125% per annum which is fixed on the preceding business day of every month and the accrued interest is payable monthly. The principal is repayable on 1 December 2011.

The current loans receivable from third parties are in US\$, bear interest at the rate of 12%.

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

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

	<b>2007</b>	2006
	<b>US\$</b>	(as restated) US\$
OAo Lukoil Oil Company shares	<b>111.088.517</b>	13.696.779
OAo Lukoil Oil Company ADR's	-	150.824.082
Other corporate shares	<b>410.221.792</b>	166.743.787
Russian corporate Bonds	<b>12.679.202</b>	110.386.852
Other Eurobonds	<b>5.912.995</b>	95.870.884
Derivative financial instruments	<b>13.193.082</b>	-
	<b>553.095.588</b>	537.522.384
	=====	=====
	<b>2007</b>	2006
	<b>US\$</b>	(as restated) US\$
Derivative financial instruments:		
Non-deliverable forex transactions	<b>157.575</b>	-
FORTS variation margin on open positions	<b>23.600</b>	-
Equity collar	<b>13.011.907</b>	-
	<b>13.193.082</b>	-
	=====	=====

Russian Corporate Bonds are securities issued by various Russian Corporations and traded at Moscow Interbank Stock Exchange. They are denominated in Russian Roubles, have maturity dates ranging from 2008 to 2015 and coupon rates of approximately 7,2% - 13,35%.

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

Equity collars are financial instruments developed between the Company and counterparties with the main objective the funding of the Company.

Other Eurobonds are bonds denominated in US\$ issued by international governments and corporations and are freely tradable internationally. These bonds have maturity dates ranging from 2009 to 2018 and coupon rates of approximately 7,875% - 10,5%.

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

# Reserve Invest (Cyprus) Limited

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

In the 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 gain on financial assets and financial liabilities at fair value through profit or loss income is as follows:

	2007 US\$	2006 US\$
Gains recognised in relation to shares, ADRs and bonds at fair value through profit or loss	<b>32.537.021</b>	476.253.936
Losses recognised in relation to derivatives at fair value through profit or loss	<b>(3.442.952)</b>	(7.830.260)
Total net gain	<b>29.094.069</b>	468.423.676

## 16 Pledged assets

Assets are pledged as collateral under repurchase agreements.

	Asset		Related liability	
	2007 US\$	2006 US\$	2007 US\$	2006 US\$
OAo Lukoil Oil Company shares	<b>27.293.500</b>	-	<b>225.582.116</b>	-
OAo Lukoil Oil Company ADR	<b>1.236.001.441</b>	1.247.085.516	<b>809.464.092</b>	684.554.850
Other equities	<b>3.433.546</b>	2.770.474	<b>28.783.948</b>	142.383.500
Eurobonds	<b>22.463.419</b>	73.827.407	<b>48.797.565</b>	68.820.951
	<b>1.289.191.906</b>	1.323.683.397	<b>1.112.627.721</b>	895.759.301

The liabilities under repurchase agreements are secured by pledge of equities and Eurobonds. The Eurobonds are various government and corporate Eurobonds with coupon rates of 7,875% to 10,5% p.a. and maturities between 2009 and 2018.

The fair value of shares collateralised under repurchase agreements amounted to US\$1.579 million (2006 : US\$1.457 million). Out of this amount shares of fair value of US\$315 million (2006: US\$206 million) was obtained from reverse repurchase agreements.

The fair value of bonds collateralised under repurchase agreements amounted to US\$58 million (2006: US\$86 million). Out of this amount bonds of fair value of US\$36 million (2006: US\$12 million) was obtained from reverse repurchase agreements.

# Reserve Invest (Cyprus) Limited

## 17 Trade and other receivables

	2007 US\$	2006 US\$
Trade receivables – third parties	2.974.991	59.757.694
Trade receivables – related parties (Note 31(c))	30.771.269	3.113.886
Amounts due from related parties (Note 31(f))	249.137	6.065.834
Dividend receivable from third parties	2.913.646	-
Collateral accounts	5.723.579	5.623.586
Accounts with brokers	8.212.843	18.348.325
Other debtors and prepayments	1.140.105	726.730
Estimated recovery from financial asset impaired	-	14.634.838
	<u>51.985.570</u>	<u>108.270.893</u>
	=====	=====

Trade receivables represent receivables in respect of trading in shares and bonds.

The fair value of these receivables does not differ significantly from its carrying amount.

## 18 Promissory notes

	2007 US\$	2006 US\$
At beginning of year	52.553.328	8.791.599
Additions	30.633.759	91.960.903
Disposals/redemptions	(53.027.333)	(51.402.452)
Accrued interest	5.598.806	3.079.865
Foreign exchange difference	1.467.967	123.413
At end of year	<u>37.226.527</u>	<u>52.553.328</u>
	=====	=====
	2007 US\$	2006 US\$
Non-current portion	20.309.851	14.862.112
Current portion	16.916.676	37.691.216
	<u>37.226.527</u>	<u>52.553.328</u>
	=====	=====

Promissory notes represent promissory notes issued by Russian banks and companies which bear fixed interest rates and have maturities from February 2008 to December 2010 (31 December 2006: from February 2007 to December 2010) and are unsecured.

# Reserve Invest (Cyprus) Limited

## 19 Reverse repurchase agreements with third parties

The fair value of assets received as collateral under reverse repurchase agreements with third parties amount to US\$181 million (2006: 31 December US\$307 million).

The fair value of shares collateralised under repurchase agreements amounted to US\$1.579 million (2006 : US\$1.457 million). Out of this amount shares of fair value of US\$315 million (2006: US\$206 million) were obtained from reverse repurchase agreements.

The fair value of bonds collateralised under repurchase agreements amounted to US\$58 million (2006: US\$86 million). Out of this amount bonds of fair value of US\$36 million (2006: US\$12 million) were obtained from reverse repurchase agreements.

## 20 Deposits with banks

Deposit in US\$ with banks is fixed term deposit with maturity in March 2008 and bearing interest at the rate of 6,9%. (31 December 2006: Deposits had maturities in March and July 2007 and interest rates of 8.5% p.a.).

## 21 Cash and cash equivalents

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

	2007 US\$	2006 US\$
Cash at bank	32.941.168	23.418.115

## 22 Share capital

	2007			2006		
	Number of shares	C£	US\$	Number of shares	C£	US\$
<b>Authorised</b>						
At 1 January and 31 December	1 000 000	1.000.000		1.000.000	1.000.000	
<b>Issued and fully paid</b>						
At 1 January	750 000	750.000	1.722.222	500 000	500.000	1.146.450
Additional issue	-	-	-	250 000	250.000	575.772
At 31 December	750 000	750.000	1.722.222	750 000	750.000	1.722.222

The ordinary shares are shares with par value of C£1 each. All issued shares are fully paid.

On 18 December 2006 the Board of Directors authorised the issue of 250 000 shares of C£1 each at a total consideration of US\$132.000.000. The share premium resulting from this share issue amounted to US\$131.424.228 (Note 23).

# Reserve Invest (Cyprus) Limited

## 23 Share premium

	US\$
<b>As at 1 January 2006</b>	280.642.731
Additional issue (Note 22)	131.424.228
<b>At 31 December 2006 and 31 December 2007</b>	<u>412.066.959</u> =====

## 24 Fair value reserve

	US\$
<b>As at 1 January 2007</b>	2.747.250
Fair value gains on disposal (Note 12)	(2.040.814)
Fair value gain on available for sale investment (Note 12)	3.041.014
<b>At 31 December 2007</b>	<u>3.747.450</u> =====

## 25 Trade and other payables

	2007 US\$	2006 US\$
Trade payables – third parties	3.755.577	7.864.443
Trade payables – related parties (Note 31(c))	7.480.110	-
Other amounts due to related parties (Note 31(f))	16.201	379.098
Other creditors and accrued expenses	2.877.868	1.433.113
	<u>14.129.756</u> =====	<u>9.676.654</u> =====

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

	2007 US\$	2006 US\$
Held for trading:		
- derivatives (non- deliverable forex transactions)	-	480.972
- listed bonds sold short	5.373.438	-
- listed equity securities sold short	-	10.172.751
<b>Total financial liabilities at fair value through profit or loss</b>	<u>5.373.438</u> =====	<u>10.653.723</u> =====

The Company enters into transactions with derivative instruments such as call/put options on OAO Lukoil Oil Company ADR, RAO Unified Energy Systems GDR, put/call options on Russian bonds and future contracts on commodities. During the year ended 31 December 2007 the Company entered into a number of non-deliverable futures contracts to sell RUB for USD and Euro with maturity date from March 2008 to September 2008.

# Reserve Invest (Cyprus) Limited

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

### 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 the 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 balance sheet.

## 27 Borrowings

	2007 US\$	2006 US\$
<b>Current</b>		
Borrowings from related party (Note 31(e))	-	11.098.138
Borrowings from third party	-	12.212.814
	-----	-----
	-	23.310.952
	=====	=====

The borrowings from third party bore interest at LIBOR +1% p.a., were unsecured and were repaid on 2 July 2007.

## 28 Dividends per share

On 18 December 2006, the Board of Directors resolved to pay an interim dividend of US\$132.000.000 out of the profits for the year 2005. During 2007 the Board of Directors resolved to pay an interim dividend of US\$186.728.855 out of the profits for the year 2005.

## 29 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\$252.047.425 (31 December 2006: US\$171.394.964) and funds transferred under asset management estimated to be approximately US\$110.427.332 (31 December 2006: US\$156.818.693). At the balance sheet date the market value of asset management portfolios amounted to US\$134.336.270 (31 December 2006: US\$181.423.960).

## 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. The Management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

# Reserve Invest (Cyprus) Limited

## 30 Contingent liabilities and operating risks (continued)

(b) **Legal proceedings with counterparties.** The Company had two unsettled repurchase transactions with Refco Capital Markets ("RCM") which filed a petition for bankruptcy in US bankruptcy court. In accordance with first repurchase transaction the Company sold to RCM 630 390 LUKOIL ADR's for the purchase price equal to US\$20 million. In accordance with second repurchase transaction the Company sold to RCM 600 000 Rostelecom ADR's for the purchase price equal to 6 million US Dollars. Also the Company and RCM have a dispute in respect of exercise of option transaction whereby the Company sold to RCM call option with respect to 144 000 LUKOIL ADRs. Management believes that this option transaction was expired unexercised because RCM did not send the Company a notice of exercise on the expiration date as provided for in ISDA documentation signed between the parties. In addition the Company has its own funds in the client account with RCM for the total amount of about US\$1,5 million.

According to management calculations estimated amount of Company's claim against RCM is about US\$17 million. The Company engaged international law firm Akin Gump Strauss Hauer & Feld LLP to prepare the claim against RCM and to represent the Company's interests in the Refco Group bankruptcy case. On 17 October 2005 Refco Group (including RCM) filed to US bankruptcy court a motion for bankruptcy. On 17 July 2006 the Company filed to the bankruptcy court its Proof of Claim. On 12 September 2006 Refco Group (including RCM) filed to the bankruptcy court in accordance with Chapter 11 of the US Bankruptcy Code a proposed Plan of Reorganization which was preliminary agreed with the Official Committee of Unsecured Creditors and the United States Trustee. On 15 December 2006 the bankruptcy court approved the Plan of Reorganization which was agreed by the majority of the creditors. According to the Plan of Reorganisation the Company is entitled to receive from RCM a recovery equal to 85,6% of the amount of the Company's claim approved by the bankruptcy court.

The Company has agreed with the United States Trustee an amount of the claim equal to US\$15.907.433 which was approved by the bankruptcy court. Therefore according to the Plan of Reorganisation the Company was entitled to receive from RCM an amount equal to US\$13.616.762 and during the year 2007 the Company has received the distributions from RCM for the total amount of US\$10.368.465.

On 1 June 2007 the Company agreed with Merrill Lynch Credit Products ("MLCP") to sell the claim to MLCP at the price of 92% of the amount of the claim approved by the bankruptcy court subject to the distributions made by RCM. On 26 June 2007 the Company executed with MLCP the Assignment Agreement whereby the Company assigned to MLCP all its rights arising out of the claim and MLCP paid to the Company the difference between the agreed price of the claim and the amount of all distribution made by RCM. The Company has received from MLCP the amount equal to US\$4.266.373.

Thus on 26 June 2007 the Company's claim against RCM was discharged in full and the total amount of the recovery received by the Company amounts to US\$14.634.838. This amount was recognised in the income statement for the year ended 31 December 2006.

# Reserve Invest (Cyprus) Limited

## 30 Contingent liabilities and operating risks (continued)

(c) **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 (Note 4 (a)(i)).

(d) **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 the guaranteed rate of return. The maximum potential financial risk arising out of such agreements executed by the Company as at 31 December 2007 does not exceed the amount equal to US\$26,002,798 (31 December 2006: US\$23,808,579).

### (e) Operating environment of the Company

**The Russian Federation.** The Russian Federation displays certain characteristics of an emerging market, including the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, relatively high inflation and economic growth.

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the difficulties experienced by legal 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.

**Recent volatility in global financial markets.** Since the second half of 2007 there has been a sharp rise in foreclosures in the US sub-prime mortgage market. The effects have spread beyond the US housing market as global investors have re-evaluated their exposure to risks, resulting in increased volatility and lower liquidity in the fixed income, equity, and derivative markets. The volume of Eurobond issues and similar wholesale financing by Russian financial institutions has significantly reduced since August 2007. Such circumstances may affect the ability of the Company to obtain new borrowings and refinance its existing borrowings at terms and conditions that applied to similar transactions in recent periods. Debtors or borrowers of the Company may also be affected by the lower liquidity situation which could in turn impact their ability to repay their amounts owed. Management is unable to reliably estimate the effects on the Company's financial position of any further possible deterioration in the liquidity of the financial markets and their increased volatility.

# Reserve Invest (Cyprus) Limited

## 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 2007 and the year 2006, 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 15 and 16 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:

### (a) Trading transactions

	2007	2006
	US\$	US\$
Purchases of financial assets:		
- shares:		
Holding company	61,038,617	198,999,118
Fellow subsidiary	22,812,531	14,741,040
Other common control group companies	653,138,987	250,427,844
Other related party	21,865,564	-
	<u>758,855,699</u>	<u>464,168,002</u>
- bonds:		
Other common control group companies	7,004,250	2,992,695
	<u>765,679,949</u>	<u>467,160,697</u>
	=====	=====

# Reserve Invest (Cyprus) Limited

## 31 Related party transactions (continued)

### (a) Trading transactions (continued)

	2007 US\$	2006 US\$
Sales of financial assets:		
- shares:		
Holding company	223,274,770	111,063,644
Fellow subsidiary	4,934,500	-
Other common control group companies	601,093,160	186,240,949
Other related party	22,667,583	31,703,896
	<u>851,970,013</u>	<u>329,008,489</u>
- bonds:		
Other common control group companies	1,184,500	21,473,684
	<u>853,154,513</u>	<u>350,482,173</u>
	=====	=====

### (b) Other transactions

	2007 US\$	2006 US\$
<b>Reserve Invest Holding (Cyprus) Limited Group</b>		
Interest expense	(1,636,413)	(1,061,222)
Interest income	14,054,776	2,433
Asset management fees	287,356	246,179
Profit on disposal of available-for-sale financial assets	2,563,388	-
<b>Other common control group companies</b>		
Commission and brokerage expenses	(893,865)	(918,687)
Interest income	430,886	181,348
Interest expense	(166,818)	-
Brokerage commission income	-	224,993
Agency fees	-	(33,851)
Advisory services fees expense	(50,000)	(50,000)
Other services expense	(15,000)	(15,000)
<b>Other related party:</b>		
Dividend income	30,642,165	18,136,396

### (c) Balances arising from trading activities

	2007 US\$	2006 US\$
<b>Trade payables:</b>		
Holding company	1,585,695	-
Other common control group companies	5,894,415	-
	<u>7,480,110</u>	<u>-</u>
	=====	=====
<b>Trade receivables:</b>		
Holding company	-	415,705
Other common control group companies	30,771,269	2,683,145
Other related party	-	15,036
	<u>30,771,269</u>	<u>3,113,886</u>
	=====	=====

# Reserve Invest (Cyprus) Limited

## 31 Related party transactions (continued)

### (d) Loans receivable from related parties

	2007 US\$	2006 US\$
Loan receivable from other common control group companies	7.523.130	13.437.985
Loan receivable from fellow subsidiary companies	153.489.937	152.126.922
	<u>161.013.067</u>	<u>165.564.907</u>
Less: current loans receivable from fellow subsidiary	(11.013.067)	(2.126.922)
	<u>150.000.000</u>	<u>163.437.985</u>
	=====	=====

The loan receivable from the other common control group companies is a Russian Rouble loan bearing interest at the rate of 3% per annum is unsecured and matures on 31 December 2009 respectively. Included in the loans receivable from fellow subsidiaries is a subordinated loan of US\$150.000.000 and accrued interest thereto of US\$3.489.937 to OJSC Petrocommercebank (a related bank). The loan is US Dollar loan payable on 9 May 2012. It bears interest of LIBOR + 4%. The interest on loan is repayable monthly.

### (e) Borrowings from related parties

	2007 US\$	2006 US\$
<b>Current</b>		
Borrowings from:		
Fellow subsidiary company	-	11.098.138
	=====	=====

The loan from fellow subsidiary company is a United States Dollar loan, is unsecured and bears interest at the rate of 2,2% per annum and on 1 September 2007. The carrying amount of the loan approximated to its fair value was repaid.

# Reserve Invest (Cyprus) Limited

## 31 Related party transactions (continued)

### (f) Other balances with related parties

	2007 US\$	2006 US\$
<b>Amounts receivable:</b>		
<b>Holding company:</b>		
- financing	-	3,689,084
- asset management and brokerage commission	<b>230,161</b>	199,629
<b>Fellow subsidiary companies:</b>		
- financing	<b>18,976</b>	736,549
<b>Other common control group companies:</b>		
-financing	-	1,440,572
<b>Other related parties</b>		
Dividend receivable	-	-
	<u>249,137</u>	<u>6,065,834</u>
	=====	=====
<b>Other common control group companies:</b>		
- outstanding invoices for services	<b>16,201</b>	-
- financing	-	379,098
	<u>16,201</u>	<u>379,098</u>
	=====	=====

### (g) Repurchase and reverse repurchase transaction balances with related parties

	2007 US\$	2006 (as related) US\$
<b>Reverse repurchase and securities lending transactions</b>		
Other common control group companies	<b>225,015,400</b>	-
	=====	=====
<b>Repurchase and security borrowing transactions</b>		
Holding company	-	628,664
Other common control group companies	<b>225,051,252</b>	3,664
	<u>225,051,252</u>	<u>632,328</u>
	=====	=====

# Reserve Invest (Cyprus) Limited

## 31 Related party transactions (continued)

### (h) Directors' remuneration

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

	2007 US\$	2006 US\$
Fees	146.068	110.667
Emoluments in their executive capacity	-	
- Directors fees	65.589	67.653
- Salaries (gross)	126.090	92.909
	<u>337.747</u>	<u>271.229</u>
	=====	=====

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

	2007 US\$	2006 US\$
Administration fees	146.068	110.667
	<u>146.068</u>	<u>110.667</u>
	=====	=====

### (i) Key management compensation

	2007 US\$	2006 US\$
Salaries and other short-term employee benefits	2.468.368	852.162
	<u>2.468.368</u>	<u>852.162</u>
	=====	=====

## 32 Events after the balance sheet date

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

Independent Auditors' Report on pages 6 and 7.