AS KIT Finance Europe

Annual Report
2007

Annual report

AS KIT Finance Europe

Beginning of financial year:	1 January 2007
End of financial year:	31 December 2007

Registration number:	11058103
Address:	Roosikrantsi 11, Tallinn 10119
Telephone:	+372 667 6270
Fax:	+372 667 6271
E-mail:	office@kitfinance.ee
Website:	kitfinance.ee
Core activity:	Provision of investment services
Management board:	Vadim Fedeev
	Kaido Kaljulaid
Auditor:	KPMG Baltics AS

Attached documents:
1. Independent auditor's report
2. Profit allocation proposal

Contents

Member of Management Board ____________________

MANAGEMENT REPORT

AS KIT Finance Europe

Based on a resolution adopted by the sole shareholder, limited company KIT Finance (OOO), on 25 April 2007 the business name of AS Aurora Access Securities was changed for AS KIT Finance Europe.

AS KIT Finance Europe (KFE) is an investment company registered in Estonia and part of the Russian-domiciled KIT Finance banking group. KFE's sole shareholder is KIT Finance (OOO), one of the leading brokers in the Russian securities market. For years, the company has ranked among the first three investment companies in a list prepared by the Russian National Rating Agency by reference to brokerage turnover.

KFE's core activity is provision of brokerage services to institutional investors. Currently the company offers trading access to the UK, US and Russian securities markets.

Operating environment

KIT Finance Group's decision to establish AS KIT Finance Europe in Estonia was prompted by Estonia's EU membership, liberal economic policy, open economy, and highly developed information and communication technology infrastructure.

Although compared with prior years, 2007 was characterised by the onset of negative developments in world economy, the operations of KFE were not directly impacted. The Russian economy maintained its growth potential and analysts believe that the positive trend will continue.

In 2008, we intend to expand our operations in Central Europe, Scandinavia and the Baltics. To achieve our objectives, we are going to create an organisational structure and recruit qualified staff. We want to be recognized by our target clients as a proactive and professional service provider. Therefore, we will put a lot of effort into promoting our services and are planning to extend our service range with asset management and business consulting. We will submit the Financial Supervision Authority an application for providing the above services throughout the European Union. On the other hand, we will continue our activities and development of customer relations in the Russian market.

Based on a resolution adopted by the supervisory board of KFE, on 12 November 2007 a representative office of KIT Finance Europe was opened in London.

KIT Finance Europe London Office represents the company in transactions with Central European customers. To date, an application has been filed for registering the office as a branch of AS KIT Finance Europe so that customers could be served directly from London. The London office was officially opened in February 2008 with a reception for major customers and potential Central European business associates.

Based on a resolution adopted by the supervisory board, on 28 December a representative office of KIT Finance Europe was registered on Cyprus. Similarly to the London office, the company has initiated proceedings for transforming the KIT Finance Europe Limassol Office into a branch of AS KIT Finance Europe. We are planning to launch the activities of the Limassol office in 2008.

Member of Management Board ______________________

Business review

After relatively successful performance in 2006, KFE succeeded in sustaining stable growth throughout 2007. The customer base continued expanding and profit for the period increased by a strong 81%.

The period's commission and fee income amounted to 30.5 million kroons. Compared with the end of 2006, customer funds held and brokered grew almost three-fold to 1,612 million kroons.

In connection with the growth of the company, new people were hired. Currently, KFE employs 11 people in Estonia, 6 people in the Russian office in St Petersburg, 5 people in the UK office in London and 2 people in the Cyprus office in Limassol. We are planning to hire up to ten more people in 2008.

In 2007, the management and supervisory boards did not change. On 6 January 2008, Mikk Raidma stepped down as member of the management board and Kaido Kaljulaid was appointed as his replacement.

In 2007, the remuneration of the members of the management board (the amount subject to social tax) equalled 1,785 thousand kroons and employee remuneration expenses totalled 3,889 thousand kroons. Payments made to members of the supervisory board totalled 150 thousand kroons.

The company's key financial figures and ratios with underlying formulas:

	2007	2006
Revenue including commissions and fees, interest income and other income for the preceding period	40,084	1,564
Revenue including commissions and fees, interest income and other income for the reporting period	65,660	40,084
Revenue growth, %	**64**	**2,463**
Net profit for the period	33,982	18,727
Average equity	285,389	27,467
Return on equity (ROE), %	**12**	**68**
Expenses	17,465	8,355
Net commissions and fees, net interest income and net gain/loss on financial transactions	51,447	26,837
Expense / income ratio, %	**34**	**31**

- Revenue growth (%) = (revenue 2007 – revenue 2006) / revenue 2006 * 100
- ROE (%) = net profit / total equity * 100
- Expense / income ratio (%) = expenses / net commissions and service fees plus net interest income plus net gain or loss on financial transactions

The increase of share capital in December 2006 by 225,300 thousand kroons has been excluded from the calculation of average equity for 2006.

Member of Management Board ________________

ANNUAL FINANCIAL STATEMENTS

Statement of management's responsibility

The management board has prepared the annual financial statements of AS KIT Finance Europe in compliance with the requirements of the Commercial Code of the Republic of Estonia. The financial statements give a true and fair view of the company's assets, liabilities and equity, results of operation and cash flows.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The financial statements reflect all significant events affecting the valuation of assets and liabilities which occurred between the balance sheet date (31 December 2007) and the date on which the financial statements were authorised for issue (10 March 2008).

According to management's assessment, AS KIT Finance Europe is a going concern.

Management confirms that the annual financial statements as at and for the year ended 31 December 2007 are true and complete.

Tallinn, 10 March 2008

Vadim Fedeev
Member of Management Board

Kaido Kaljulaid
Member of Management Board

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
Date/kuupäev 10.03.08
Signature/allkiri
KPMG, Tallinn

Balance sheet

(In thousands of Estonian kroons)

As at 31 December	Note	2007	2006
ASSETS			
Current assets			
Cash and bank balances	3, 18	272,753	249,666
Financial assets	4, 18	3,285	7,380
Receivables from customers	5, 18	32,959	77,015
Other receivables	6, 18	1,279	661
Accrued income and prepayments	6	4,027	1,393
Investments in subsidiaries	8	1,156	1,156
Property and equipment	9	1,525	1,207
Intangible assets	10	551	321
TOTAL ASSETS		**317,535**	**338,799**
LIABILITIES AND EQUITY			
Payables to credit institutions	11, 18	13,276	77,254
Payables to customers	11, 18	7,017	58
Payables to suppliers	18	449	550
Taxes payable	7	489	134
Accrued expenses	12	2,135	616
TOTAL LIABILITIES		**23,366**	**78,612**
Equity			
Share capital	13	244,350	244,350
Statutory capital reserve		936	0
Retained earnings		14,901	-2,890
Profit for the period		33,982	18,727
TOTAL EQUITY		**294,169**	**260,187**
TOTAL LIABILITIES AND EQUITY		**317,535**	**338,799**

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
Date/kuupäev 10.03.08
Signature/allkiri
KPMG, Tallinn

Member of Management Board ______

Income statement
(In thousands of Estonian kroons)

	Note	2007	2006
Commission and fees received	14	30,557	36,836
Commissions and fees paid		-8,471	-10,719
Net commission and fee income		**22,086**	**26,117**
Interest income	15	30,201	3,022
Interest expense	15	-3,842	-2,296
Net interest income		**26,359**	**726**
Other income from consulting services	14	4,902	226
Net gain / loss on marketable debt securities	4	-123	-125
Net foreign exchange gain / loss		-1,777	-107
Net gain / loss on financial transactions		**3,002**	**-6**
Data processing expenses		-5,502	-3534
Other operating expenses		-4,181	-1,778
Personnel expenses		-7,254	-2,940
Depreciation, amortisation and impairment losses	9, 10	-528	-103
Total expenses		**-17,465**	**-8,355**
Operating profit		**33,982**	**18,482**
Gain / loss on investments in subsidiaries	8	0	245
Profit before tax		**33,982**	**18,727**
Income tax expense		0	0
Profit for the period		**33,982**	**18,727**

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
Date/kuupäev..........10.03.08..........
Signature/allkiri..........................
KPMG, Tallinn

Member of Management Board ____________

Cash flow statement
(In thousands of Estonian kroons)

	Note	2007	2006
Cash flows from operating activities			
Profit for the period		33,982	18,727
Adjustments for:			
Depreciation, amortisation and impairment losses	9, 10	528	103
Gain / loss on financial assets		123	125
Gain / loss on revaluation of investments in subsidiaries		0	-245
Net interest income		-26,359	-726
Change in receivables and prepayments		-2,575	892
Change in payables and deferred income		1,667	812
Interest paid		-3,736	-1,894
Net cash from operating activities		**3,630**	**17,794**
Cash flows from investing activities			
Acquisition of property and equipment	9	-705	-1,079
Acquisition of intangible assets	10	-371	-329
Acquisition of financial assets	4	0	-3,912
Proceeds from realisation of financial assets	4	3,912	2,347
Change in term deposits	3	-13,370	-240,958
Loans granted		44,056	-77,015
Interest received		29,584	2,643
Net cash from / used in investing activities		**63,106**	**-318,303**
Cash flows from financing activities			
Change in loans from credit institutions		-63,978	77,252
Change in loans from customers		6,959	58
Contributions to share capital		0	225,300
Net cash used in / from financing activities		**-57,019**	**302,610**
Net cash flows		**9,717**	**2,101**
Cash and cash equivalents at beginning of period	3	6,361	4,260
Increase in cash and cash equivalents		9,717	2,101
Cash and cash equivalents at end of period	3	16,078	6,361

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
Date/kuupäev......10.03.08
Signature/allkiri......
KPMG, Tallinn

Member of Management Board ____________

Statement of changes in equity
(In thousands of Estonian kroons)

	Share capital	Fair value reserve	Statutory capital reserve	Retained earnings	**Total**
At 31 December 2005	**19,050**	**-14**	**0**	**-2,890**	**16,146**
Issue of share capital	225,300	0	0	0	**225,300**
Exchange differences on translating foreign operations (note 8)	0	14	0	0	**14**
Net profit for the period	0			18,727	**18,727**
At 31 December 2006	**244,350**	**0**	**0**	**15,837**	**260,187**
Transfer to capital reserve	0	0	936	-936	**0**
Net profit for the period	0			33,982	**33,982**
At 31 December 2007	**244,350**	**0**	**936**	**48,883**	**294,169**

Further information on share capital and movements in share capital is presented in note 13.

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
Date/kuupäev 10.03.08
Signature/allkiri
KPMG, Tallinn

Member of Management Board

Notes to the annual financial statements

Note 1. Significant accounting policies

AS KIT Finance Europe (the "company") is an investment company which was registered in Estonia on 2 August 2004. The address of the company's registered office is Roosikrantsi 11, Tallinn, Estonia. The company is involved in the provision of brokerage services to private and institutional investors.

Statement of compliance

The annual financial statements of AS KIT Finance Europe as at and for the year ended 31 December 2007 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Management authorised these financial statements for issue on 10 March 2008. The financial statements will be reviewed by the supervisory board and approved by the general meeting of the shareholders. The general meeting has the power to amend the financial statements.

Basis of preparation

The financial statements have been prepared on the historical cost basis except where indicated otherwise in these financial statements. The accounting policies set out below have been applied consistently to all periods presented in these financial statements except where indicated otherwise in these financial statements.

AS KIT Finance Europe has not prepared consolidated financial statements and has not consolidated its wholly-owned subsidiary Creative Investments Technologies Ltd. AS KIT Finance Europe is a wholly-owned subsidiary and shareholders do not object to the company not presenting consolidated financial statements. The company's debt and equity instruments are not publicly traded, the company has no intention of floating its shares and the group's parent company prepares consolidated financial statements which are made available to the public in accordance with International Financial Reporting Standards. Accordingly, under IAS 27 AS KIT Finance Europe is not required to prepare consolidated financial statements.

The company's reporting year began on 1 January 2007 and ended on 31 December 2007. The financial statements are presented in the Estonian kroon, which is the company's functional currency. All financial information in the financial statements has been presented in thousands of currency units, rounded to the nearest thousand, unless indicated otherwise.

Assets and liabilities are measured on a reasonable and conservative basis. The preparation of financial statements requires management to make judgements and estimates. The judgements and estimates are based on relevant information about the company's financial position and intentions and risks at the date the financial statements are authorised for issue. The final outcome of transactions recognised in the reporting or preceding periods may differ from those judgements and estimates.

Subsidiaries

Subsidiaries are entities controlled by the parent. Control exists when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity or has the power to govern the financial and operating policies of an entity in some other manner so as to obtain benefits from its activities. The activities of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases.

Member of Management Board

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
Date/kuupäev 10.03.08
Signature/allkiri
KPMG, Tallinn

Acquisitions of subsidiaries are accounted for by applying the purchase method (except for business combinations between entities under common control). Under the purchase method, the acquired assets and liabilities are recognised at their fair values and any difference between the cost of the business combination and the fair value of the net assets acquired is recognised as goodwill. Goodwill is not amortised. Instead, it is tested for impairment annually. Subsequent to acquisition, investments in subsidiaries are accounted for using the cost method.

Cash and cash equivalents

In the cash flow statement, cash and cash equivalents comprise cash on hand, demand deposits, term deposits with a maturity of up to three months and units in money market funds.

Financial assets

Depending on the purpose of acquisition, financial assets are classified into the following categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- Available-for-sale financial assets, which include investments whose fair value cannot be measured reliably and are therefore measured at cost (less any impairment losses).

Purchases and sales of financial assets are recognised using settlement date accounting. No financial assets have been classified as held-to-maturity investments.
When a financial asset is recognised initially, it is measured at its fair value, plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition.

Financial assets at fair value through profit or loss
A financial asset at fair value through profit or loss is a financial asset that is classified as held for trading (i.e. it is acquired principally for the purpose of selling or repurchasing it in the near term or it is a derivative that is not a hedging instrument) or some other financial asset which is designated as at fair value through profit or loss upon initial recognition. After initial recognition, financial assets at fair value through profit or loss are measured at their fair values. A gain or loss arising from a change in the fair value of such financial assets is recognised consistently in profit or loss.
In the case of listed securities, the fair value of an investment is its quoted bid price. If the market for a financial instrument is not active, fair value is established using valuation techniques, which include recent arm's length transactions, discounted cash flow analysis and option pricing models. At the year-end, the company did not have any investments whose value was measured using valuation techniques.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured at their amortised cost (cost less any principal repayments and any reduction for impairment) using the effective interest rate method.
Where it is probable that the company is unable to recover a loan or receivable in accordance with the agreed terms and conditions, the item is considered impaired and an impairment loss is recognised. The amount of an impairment loss is the difference between the asset's carrying amount and recoverable amount. The recoverable amount of a receivable is the amount of its estimated future cash flows, discounted by applying a market interest rate charged from similar debtors. The recoverability of receivables is estimated on an individual basis, taking into account the information available on the debtor's creditworthiness. Impairment losses are recognised as an expense in the period in which they are incurred. Doubtful receivables are written down to their recoverable amount. Irrecoverable receivables are written off the balance sheet.

Member of Management Board

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
Date/kuupäev 10.03.08
Signature/allkiri
KPMG, Tallinn

Receivables from customers

Receivables from customers include receivables acquired in the ordinary course of business except for receivables from other group companies and associated companies. Receivables from customers are measured at their amortised cost (at cost less any impairment losses).

The recoverability of receivables is estimated separately for each customer. Where individual estimation is not possible due to the large number of items involved, only significant items are reviewed on an individual basis. Other receivables are reviewed collectively by reference to historical experience with irrecoverable items. The recovery of items which have been written down due to impairment is recognised as a reduction of expenses from doubtful receivables.

Derivative financial instruments

Derivative financial instruments (forward, future, swap and option contracts) are measured at their fair values. A gain or loss on a change in the fair value of a derivative is recognised in profit or loss in the period in which it arises. The company does not have any derivative financial instruments which are part of hedging relationships that qualify for hedge accounting.

Property and equipment

Items of property and equipment comprise assets used in the company's business whose useful life exceeds one year.

An item of property and equipment is recognised initially at its cost. The cost of an item of property and equipment comprises its purchase price (including customs duties and other non-recoverable taxes and duties) and the costs incurred in bringing the item to the location and condition necessary for it to be operating in the manner intended by management. Items of property and equipment are carried at cost less any accumulated depreciation and any impairment losses.

Subsequent expenditure on an item of property and equipment which improves the standard of performance of the item beyond the originally assessed one and participates in the generation of future economic benefits is capitalised and added to the carrying amount of the item. Subsequent expenditure that is aimed at maintaining the standard of performance of an item of property and equipment is recognised as an expense as incurred.

Items of property and equipment are depreciated over their estimated useful lives on a straight-line basis. The following annual depreciation rates are applied:

Other machines and equipment	20%
Other equipment, fixtures and fittings and IT equipment	20-35%

Intangible assets

When an intangible asset is recognised initially, it is measured at its cost. The cost of an intangible asset comprises its purchase price and directly attributable acquisition charges. Intangible assets are carried at cost less any accumulated amortisation and any impairment losses. Intangible assets are amortised on a straight-line basis over their estimated useful lives. The following useful lives are assigned:

Software, patents, licences, trademarks and other intangible assets	3-5 years

Member of Management Board ________________

Financial liabilities

All financial liabilities (supplier payables, loans and borrowings, accrued expenses and other payables) are initially recognised at their fair value plus transactions costs that are directly attributable to their acquisition. Subsequent to initial recognition, financial liabilities are measured at their amortised cost.

The amortised cost of a current financial liability is generally equal to its nominal value. Therefore, current financial liabilities are measured at the amount payable. The amortised cost of a non-current financial liability is measured using the effective interest rate method. A financial liability is recognised as current when it is due to be settled within twelve months after the balance sheet date or the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date. Loans and borrowings which are due to be settled within twelve months after the balance sheet date but which are refinanced on a long-term basis after the balance sheet date and before the financial statements are authorised for issue are classified as current liabilities. In addition, the company classifies as current liabilities which the creditor has the right to call in at the balance sheet date due to breach of contract. Borrowing costs are recognised as an expense as incurred.

Payables to employees

Payables to employees include vacation pay liabilities as at the balance sheet date calculated in accordance with effective laws and the terms of employment contracts. Vacation pay liabilities together with associated social security and unemployment insurance charges are recognised in accrued expenses in the balance sheet and in personnel expenses in the income statement.

Corporate income tax and deferred tax

In accordance with effective legislation, in Estonia the profit earned by companies is not subject to taxation. Therefore, deferred tax assets and liabilities do not arise. In place of profit earned, income tax is levied on dividends distributed from retained earnings. From 1 January 2008, the tax rate is 21/79 of the amount distributed as the net dividend. The income tax payable on dividends is recognised as the income tax expense of the period in which the dividends are declared, irrespective of the period for which the dividends are declared or the period in which the dividends are distributed.

The maximum income tax liability which could arise on a dividend distribution is disclosed in the notes to the annual financial statements.

Foreign currency

Transactions in foreign currencies are translated to the presentation currency using the official exchange rates of Eesti Pank (Bank of Estonia) quoted at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency and non-monetary financial assets and liabilities which are measured at fair value are re-translated to Estonian kroons using the official exchange rates at the balance sheet date. Exchange gains and losses are offset and recognised in the income statement in the net amount.

Revenue

Revenue and expenses are recognised on an accrual basis. Fee income (including account management and private portfolio fees) is recognised when the service has been provided and the company has the right to demand payment.
Interest income and dividend income are recognised when it is probable that economic benefits associated with the transaction will flow to the company and the amount of the income can be measured reliably. Interest income is recognised on an accrual basis using the effective interest rate method except where

Member of Management Board

collection of interest is uncertain. Where collection is uncertain, interest income is recognised on a cash basis. Dividends are recognised when the shareholder's right to receive payment is established.

Offsetting

A financial asset and a financial liability are offset and the net amount is presented in the balance sheet only when the company has a legally enforceable right to offset the recognised amounts and the company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

New International Financial Reporting Standards and Interpretation of the Financial Reporting Interpretations Committee (IFRIC)

To date, a number of new standards, amendments to standards, and interpretations have been published, which will be mandatory for the company in annual periods beginning on or after 1 January 2008. The following is management's assessment of the impact the new and revised standards and interpretations may have on the company's financial statements in the period of their initial application.

- Revised IFRS 2 *Share-based Payment* (effective from 1 January 2009). The revised IFRS 2 is not relevant to the company's operations as the company does not have any share-based compensation plans.
- Revised IFRS 3 *Business Combinations* (effective for annual periods beginning on or after 1 July 2009). The revised standard does not have to be applied to business combinations before its effective date. Therefore, the revised standard does not have any impact on the financial statements of business combinations originating before the effective date of the revised standard.
- IFRS 8 *Operating Segments* (effective from 1 January 2009). The standard requires segment disclosure based on the components of the company that management monitors in making decisions about operating matters. The company has not yet completed its analysis and can therefore not assess the impact of the standard.
- Revised IAS 1 *Presentation of Financial Statements* (effective from 1 January 2009). The revised standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. The company's management is currently evaluating whether to present a single statement of comprehensive income, or two separate statements.
- Revised IAS 23 *Borrowing Costs* (effective from 1 January 2009). The revised IAS 23 is not relevant to the company's operations as the company does not have any qualifying assets for which borrowing costs would be capitalised.
- Revised IAS 27 *Consolidated and Separate Financial Statements* (effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 is not relevant to the company's operations as the company does not have any interests in subsidiaries that will be affected by the revisions to the standard.
- IFRIC 11 IFRS 2 – *Company and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007). IFRIC 11 is not relevant to the company's operations as the company has not entered into any share-based payment arrangements.
- IFRIC 12 *Service Concession Arrangements* (effective from 1 January 2008). IFRIC 12 is not relevant to the company's operations as the company has not entered into any service concession arrangements.
- IFRIC 13 *Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 July 2008). The company's management does not expect the interpretation to have any impact on the company's financial statements.
- IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interactions* (effective for annual periods beginning on or after 1 January 2008). The company does

not operate in countries that have a minimum funding requirement where there are restrictions on the employer company's ability to get refunds or reduce contributions.

Note 2. Financial risk management

An investment company has exposure to credit risk, currency risk, liquidity risk and operational risk. In 2007, the number of customers and transaction counterparties was relatively small. Therefore, risks were managed using the qualitative approach. The risks related to each customer and counterparty were reviewed on an individual basis and risk-taking decisions were made by the management board.

Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will fail to meet its contractual obligations related to the transfer of cash and / or securities.
In the case of customers, exposure to credit risk is mitigated by demanding that the customer deposit the funds and securities necessary for settling a securities transaction with the company before the transaction is performed. Exceptions to this rule are made on a case-by-case basis by the company's management. In 2007, exceptions were made in the case of customers belonging to the same consolidation group as the company.
In the case of counterparties to financial instruments, credit risk exposure is mitigated by entering into securities transactions with such companies only that are part of large financial groups or whose creditworthiness can be assessed using the information available to companies belonging to the same consolidation group as the company.

Currency risk

Currency risk is the risk that a change in an exchange rate will affect the value of the company's assets and revenue when translated to Estonian kroons disproportionately with the change in the value of the company's liabilities and expenses.
The company's revenues arise mostly in US dollars and expenses arise in Estonian kroons and euros. As a result, the company is exposed to currency risk arising from fluctuations in the exchange rates of those currencies. In addition, the company is exposed to currency risk in connection with the acquisition of securities and assumption of liabilities denominated in foreign currencies.
Currency risk is hedged by regularly converting the fees received by the company to Estonian kroons. The company's free funds are deposited in euros and invested in fixed-income securities denominated in the euro.

Liquidity risk

Liquidity risk is the risk that the company does not have sufficient liquid funds to meet its financial obligations as they fall due.

The company invests its free monetary funds in deposits and fixed income securities so that it would be possible to meet all financial liabilities on a timely basis in the event of any scenario. Deposit agreements include the clause which allows cancelling the agreement early without penalty payments and receiving the full amount of accrued interest. Fixed income securities which are acquired by the company can be traded in a secondary market.

Operational risk

Operational risk is the risk that internal processes and / or systems do not function or do not function adequately due to a technical error or failure, the activity or inactivity of the company's staff, or external factors.

Member of Management Board ______________

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
Date/kuupäev......10.03.08......
Signature/allkiri......................
KPMG, Tallinn

During the reporting period, the company implemented the “four eyes” principle to mitigate operational risk. According to the principle, all cash or securities transfers require the approval of at least two members of staff.

Note 3. Cash and bank balances

As at 31 December	**2007**	**2006**
Demand deposits, EEK	110	872
Demand deposits, foreign currency	15,918	5,439
Term deposits with a maturity of up to 3 months	50	50
Total cash and cash equivalents	**16,078**	**6,361**
Term deposits (3 to 12 months) (note 19)	256,675	243,305
Total cash and bank balances (note 18)	**272,753**	**249,666**

The annual interest rates of term deposits range from 7.5% to 9%. Term deposits can be cancelled without any restrictions.

Note 4. Financial assets

Debt and other fixed income securities are classified as financial assets at fair value through profit and loss. The annual interest rates of debt securities range from 6.46% to 7.8% and the base currency is the euro.

	Debt securities	
	2007	**2006**
At beginning of period	**7,380**	**5,956**
Sale	-3,912	-2,347
Acquisition (at purchase price)	0	3,912
Interest income accrued during the period	494	249
Interest received during the period	-554	-265
Change in fair value	-123	-125
At end of period (note 18)	**3,285**	**7,380**

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
Date/kuupäev 10.03.08
Signature/allkiri
KPMG, Tallinn

Member of Management Board

Note 5. Receivables from customers

As at 31 December	2007	2006
Securities loan	13,276	77,015
Other loans	15,666	0
Other receivables	4,017	0
Total receivables from customers (note 18)	**32,959**	**77,015**

Generally loans arise in connection with transactions performed with customers' assets due to differences between trade and settlement dates and are of a few days' duration.

Note 6. Other receivables, accrued income and prepayments

As at 31 December	2007	2006
Interest receivable	7	0
Interest receivable on deposits with group companies (note 19)	610	434
Settlements with debtors	1	198
Miscellaneous receivables	661	29
Total other receivables (note 18)	**1,279**	**661**
Prepaid and refundable taxes (note 7)	431	188
Prepayments	3,596	1,205
Total accrued income and prepayments	**4,027**	**1,393**

Prepayments of 3,596 thousand kroons comprise prepaid licence fees, fees paid to the Financial Supervision Authority and other prepayments.

Note 7. Taxes

As at 31 December	2007		2006	
	Prepayment	Payable	Prepayment	Payable
Value added tax (note 6)	431	0	188	0
Corporate income tax	0	1	0	0
Personal income tax	0	175	0	52
Social tax	0	294	0	77
Funded pension premiums	0	15	0	3
Unemployment insurance premiums	0	4	0	2
Total	**431**	**489**	**188**	**134**

Note 8. Investments in subsidiaries

The company acquired the subsidiary Creative Investment Technologies Ltd on 11 December 2005 for 1 British pound (GBP) from an entity under common control. On 1 December 2005, the subsidiary's share capital was increased by 49,999 pounds.

Member of Management Board ______________

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
Date/kuupäev 10.03.08
Signature/allkiri
KPMG, Tallinn

In 2005, the investment was written down by 245 thousand kroons because at 31 December 2005 the value of the investment was below its cost. In 2006, the value of the investment surpassed its cost. Therefore, the impairment loss was reversed.

When KFE's London office has been registered as a branch, the activity of the subsidiary will be reorganised and subordinated to the branch. When this has been completed, KFE will decide whether to dissolve the subsidiary or not.

Investments in subsidiary:

	Creative Investments Technologies Ltd
Domicile	**Great Britain**
Cost	1,156
Carrying amount of shares at 31 December 2005	**897**
Acquisition	0
Reversal of impairment	+245
Elimination of unrealised exchange losses	+14
Carrying amount of shares at 31 December 2006	**1,156**
Carrying amount of shares at 31 December 2007	**1,156**
Ownership interest at 31 December 2005	100%
Ownership interest at 31 December 2006	100%
Ownership interest at 31 December 2007	100%

Note 9. Property and equipment

	Machinery and equipment	Other equipment and fixtures	**Total**
Cost at 31 December 2005	**147**	**144**	**291**
Addition	149	930	**1,079**
Cost at 31 December 2006	**296**	**1,074**	**1,370**
Addition	658	47	705
Cost at 31 December 2007	**954**	**1,121**	**2,075**
Accumulated depreciation at 31 December 2005	**44**	**24**	**68**
Depreciation charge for the year	64	31	95
Accumulated depreciation at 31 December 2006	**108**	**55**	**163**
Depreciation charge for the year	129	258	387
Accumulated depreciation at 31 December 2007	**237**	**313**	**550**
Carrying amount at 31 December 2005	**103**	**120**	**223**
Carrying amount at 31 December 2006	**188**	**1,019**	**1,207**
Carrying amount at 31 December 2007	**717**	**808**	**1,525**

Member of Management Board ____________

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
Date/kuupäev 10.03.08
Signature/allkiri
KPMG, Tallinn

Note 10. Intangible assets

Movements:	Brokerage software, licences, etc purchased
At 31 December 2005	0
Cost	**329**
Accumulated amortisation at 31 December 2006	-8
Carrying amount at 31 December 2006	**321**
Addition	371
Amortisation charge for the year	-141
Accumulated amortisation at 31 December 2007	-149
Carrying amount at 31 December 2007	**551**

Note 11. Payables to credit institutions and payables to customers

As at 31 December		2007	2006
Pension Financial Services Inc	Securities loan	13,276	76,957
Pension Financial Services Inc	Cash	0	114
JP Morgan		0	19
Fortis		0	117
Deutsche Bank		0	36
SEB Eesti Ühispank		0	11
Total payables to credit institutions (note 18)		**13,276**	**77,254**
Payables to customers		7,017	58
Total payables to customers (note 18)		**7,017**	**58**

Payables to customers arise from settlements with customer funds and have a few days' duration.

Note 12. Accrued expenses

As at 31 December	2007	2006
Payables to employees	1,680	214
Interest payable	106	402
Other accrued expenses	349	0
Total accrued expenses	**2,135**	**616**

Note 13. Equity

Share capital

As at 31 December	2007	2006
Share capital (in thousands of Estonian kroons)	244,350	244,350
Number of shares	244,350	244,350
Pat value of a share (in thousands of Estonian kroons)	1	1

Member of Management Board ____________

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
Date/kuupäev.........10.03.08.........
Signature/allkiri.........................
KPMG, Tallinn

In 2006, the company increased its share capital by issuing 225,300 new shares with a par value of 1000 kroons each. The shares were paid for in cash. The minimum and maximum authorised share capital of the company amount to 244,300 thousand kroons and 977,200 thousand kroons respectively. Changes within the authorised limits do not require amendment of the Articles of Association.
Shareholders are entitled to dividends as declared from time to time. Each share carries one vote at meetings of the company.

Statutory capital reserve
The capital reserve has been established in accordance with the requirements of the Commercial Code. The capital reserve is created with net profit transfers. Every year, the company has to transfer to the capital reserve at least one twentieth of its net profit for the period until the reserve amounts to one tenth of share capital. The capital reserve may be used for covering losses and for increasing share capital but it may not be distributed to shareholders.

Contingent income tax liability
At 31 December 2007, the company's unrestricted equity (considering the requirement to transfer one twentieth of net profit for the period to the capital reserve) amounted to 47,184 thousand kroons (2006: 14,901 thousand kroons). At the balance sheet date, the company could distribute a dividend of 37,275 thousand kroons (2006: 11,623 thousand kroons) and the distribution would give rise to income tax expense of 9,909 thousand kroons (2006: 3,278 thousand kroons).

Note 14. Commissions and fees received and other income

Geographical area	2007	2006
European Union (Cyprus, Latvia)	13,100	10,969
Rest of the world (Russia, British Virgin Islands, St. Lucia)	17,457	25,867
Total	**30,557**	**36,836**

Activity	2007	2006
Commissions and fees received (EMTAK 66121)	30,557	36,836
Other income from consulting services (EMTAK 66191)	4,902	226
Total	**35,459**	**37,062**

Note 15. Net interest income

Interest income	2007	2006
On term deposits	21,573	1,140
On financial assets at fair value through profit or loss	494	487
On loans	8,134	1,395
Total interest income	**30,201**	**3,022**

Interest expense	2007	2006
On loans	-3,538	-684
Other interest expense	-304	-1,612
Total interest expense	**-3,842**	**-2,296**

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
Date/kuupäev 10.03.08
Signature/allkiri
KPMG, Tallinn

Member of Management Board

Note 16. Off-balance sheet assets and liabilities

The company acts as a custodian. Therefore, it intermediates and has in its possession and is liable for customer funds. At the year-end the balances were as follows:

	31 December 2007			31 December 2006		
Assets	**Cash**	**Securities**	**Total**	**Cash**	**Securities**	**Total**
Deutsche Bank	744	8,970	9,714	90,665	153,654	244,319
CIT Finance Investment Bank	39,484	0	39,484	-567	0	-567
KIT OOO	34	254,798	254,832	0	0	0
Pension Financial Services, Inc.	48,843	180,858	229,701	14,486	243,146	257,632
Fortis Bank Global Clearing N.V.	124,859	16,605	141,464	13,899	166	14,065
JPMorgan Chase Bank, N.A.	153,655	706,500	860,155	5,828	0	5,828
Man Direct	75,958	221	76,179	11,065	146	11,211
Total	**443,577**	**1,167,952**	**1,611,529**	**135,376**	**397,112**	**532,488**

Liabilities	Cash	Securities	Total
Fortis Bank Global Clearing N.V.	41	0	41
Man Direct	1	2,437	2,438
Total	**42**	**2,437**	**2,479**

Securities are stated at their fair values.

Note 17. Assets pledged as collateral

The company has a VISA credit card issued by AS Eesti Ühispank. The credit limit is 50,000 kroons and the facility is secured with a security deposit of 50,000 kroons (note 3).

Note 18. Financial instruments

Assets and liabilities by currency

At 31 December 2007	EEK	EUR	USD	GBP	RUR	Total
Assets						
Cash and bank balances	159	256,910	6,353	2,340	6,991	272,753
Financial assets	0	3,285	0	0	0	3,285
Receivables from customers	0	3,759	28,393	807	0	32,959
Other receivables	0	610	542	127	0	1,279
Total	**159**	**264,564**	**35,288**	**3,274**	**6,991**	**310,276**
Liabilities						
Payables to credit institutions	0	0	13,276	0	0	13,276
Payables to customers	0	0	115	0	6,902	7,017
Payables to suppliers	151	142	0	85	71	449
Total	**151**	**142**	**13,391**	**85**	**6,973**	**20,742**

Member of Management Board ______________

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
Date/kuupäev 10.03.08
Signature/allkiri
KPMG, Tallinn

As at 31 December 2006	EEK	EUR	USD	GBP	RUR	Total
Assets						
Cash and bank balances	922	246,108	2,594	0	42	249,666
Financial assets	0	7,380	0	0	0	7,380
Receivables from customers	0	0	77,015	0	0	77,015
Other receivables	29	632	0	0	0	661
Total	**951**	**254,120**	**79,609**	**0**	**42**	**334,722**
Liabilities						
Payables to credit institutions	11	16	77,091	136	0	77,254
Payables to customers	0	0	58	0	0	58
Payables to suppliers	499	48	0	0	3	550
Total	**510**	**64**	**77,149**	**136**	**3**	**77,862**

Credit risk

The assets presented in the above table represent the company's maximum credit risk exposure. At the balance sheet date, the company did not have any overdue receivables and no receivables had been written down.

Fair values of assets and liabilities

The fair values of assets and liabilities do not differ significantly from their carrying amounts. The largest portion of assets is made up of cash and bank balances. Receivables from and payables to credit institutions and customers have a very short duration.

Note 19. Transactions with related parties

Related party transactions include transactions with the parent and subsidiary companies, other group companies, shareholders, members of management, their close family members and companies controlled by them.

The company's parent company is KIT Finance (OOO) and the group's parent company is KIT Finance Investment Bank (OAO).

In the reporting period, the company performed transactions with related parties as follows:

Transactions with related parties	**2007**		**2006**	
	Commissions and fees paid	Commissions and fees received	Commissions and fees paid	Commissions and fees received
Group's parent	188	12,103	185	25,564
Other group companies	367	606	0	10
Total transactions	**555**	**12,709**	**185**	**25,574**

Consulting services	**2007**	**2006**
Group's parent	3,677	226
Total consulting services	**3,677**	**226**

Interest income	**2007**	**2006**
Group's parent	14,878	1,687
Total interest income	**14,878**	**1,687**

Member of Management Board ____________

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
Date/kuupäev 10.03.08
Signature/allkiri
KPMG, Tallinn

Balances with related parties:		
As at 31 December	**2007**	**2006**
Cash and bank balances		
Bank accounts with the group's parent	12,390	4,334
Deposits with the group's parent (note 3)	256,675	243,305
Total cash and bank balances	**269,065**	**247,639**

As at 31 December	**2007**	**2006**
Receivables		
Accounts receivable from the group's parent	3,998	0
Interest receivable from the group's parent (note 6)	610	434
Total receivables	**4,608**	**434**
Payables		
Group's parent	1	0
Parent	65	2
Total payables	**66**	**2**

According to management's assessment, the prices applied in transactions with related parties did not differ significantly from market prices.

In 2007, the remuneration of members of the management board (subject to social tax) amounted to 1,785 thousand kroons. The remuneration of the members of the supervisory board amounted to 150 thousand kroons.

Initialled for identification purposes only
Allkirjastatud identifitseerimiseks
Date/kuupäev......10.03.08......
Signature/allkiri......................
KPMG, Tallinn

Member of Management Board ____________________

SIGNATURES

The management board authorised the management report and the annual financial statements of AS KIT Finance Europe for issue on 10 March 2008.

The supervisory board of AS KIT Finance Europe has reviewed the annual report, including the management report and the annual financial statements, and the independent auditor's report and has approved their presentation to the general meeting of the shareholders.

This annual report is signed by all members of the management and supervisory boards.

Name	Position	Signature	Date
Vadim Fedeev	Member of Management Board		10.03.08
Kaido Kaljulaid	Member of Management Board		10.03.08
Maxim Tsyganov	Chairman of Supervisory Board		10.03.08
Nikolai Mylnikov	Member of Supervisory Board		10.03.08
Maivi Ots	Member of Supervisory Board		08.05.08
Vladimir Tarasenko	Member of Supervisory Board		10.03.08

KPMG Baltics AS
Narva mnt 5
Tallinn 10117
Estonia

Telephone +372 6 268 700
Fax +372 6 268 777
Internet www.kpmg.ee

INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS KIT Finance Europe

We have audited the accompanying financial statements of AS KIT Finance Europe, 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, as set out on pages 5 to 23.

Management's Responsibility for the Financial Statements

Management 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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 management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of AS KIT Finance Europe as of 31 December 2007, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, 10 March 2008

KPMG Baltics AS

Taivo Epner
Authorized Public Accountant

PROFIT ALLOCATION PROPOSAL

The management board of AS KIT Finance Europe proposes that the sole shareholder allocate the net profit for 2007 of 33,982 thousand kroons as follows:

1. Transfer to capital reserve – 1,699 thousand kroons.
2. Transfer to retained earnings – 32,283 thousand kroons

In addition, the management board proposes that no dividends be distributed.