Annual report

AS KIT Finance Europe

Beginning of financial year:	1 January 2008
End of financial year:	31 December 2008

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Attached documents:

1. Independent auditor's report
2. Profit allocation proposal
3. List of activities

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MANAGEMENT REPORT

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.

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

Business review

In 2008, KFE and its subsidiaries in London (UK) and Limassol (Cyprus) continued offering services and developing customer relations. In connection with the financial crisis in 2008, the number of transactions with KFE's clients dropped. Despite this, KFE was able to maintain its customer base, offering more flexible conditions for management of customer assets and a competitive level of investment service provision.

Compared to the end of 2007, the customer base has grown 84%. In connection with the expansion of activity in the first half-year of 2008, new employee recruitment took place in the company's branches. As of the end of 2008, the company including its branches employed 24 people.

Operating environment

The international financial crisis has increased the risks to the functioning of the financial system worldwide. The situation in the global economy grew significantly worse in the last months of 2008. The financial crisis, which started in the US real estate market and banking sphere, has now become a global economic crisis, and as of early 2009 it had spread into the real economy.

The cooling of the economic environment in the second half-year of 2008 and the general decline in the markets caused a slowdown in KFE's development and activity. Amid these financial crisis conditions, KFE made its primary objective maintaining and strengthening its position as the market leader in brokerage services. KFE continues to provide services through its London (UK) and Limassol (Cyprus) branch and representative offices in St. Petersburg (Russia).

Key economic events in 2008

KFE's transaction fees amounted to 54,731 thousand kroons in 2008 (30,557 thousand kroons in 2007). Net interest income dropped by 7% compared to 2007 to 24,593 thousand kroons (2007 – 26,359 thousand kroons). KFE has become more conservative in assessing risks associated with issuing loans to customers.

KFE's profit decreased 5% compared to the year before (2008 – 32,143 thousand kroons, 2007 – 33,982 thousand kroons).

There were no changes in KFE's management board and supervisory board in 2008. Management board members were paid social-tax-assessed remuneration in the amount of 1,167 thousand kroons and employees were paid 10,248 thousand kroons in remuneration. In 2008, remuneration to the members of the supervisory board totalled 50 thousand kroons.
Donoway Assurance OÜ was appointed the new auditor by decision of KFE's sole shareholder.

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

	2008	2007
Revenue including commissions and fees, interest income and other income for the preceding period	65,660	40,084
Revenue including commissions and fees, interest income and other income for the reporting period	82,864	65,660
Revenue growth, %	**26**	**64**
Net profit for the period	32,136	33,982
Average equity	310,237	285,389
Return on equity (ROE), %	**10**	**12**
Expenses	40,158	17,465
Net commissions and fees, net interest income and net gain/loss on financial transactions	72,301	51,447
Expense / income ratio, %	**56**	**34**

- Revenue growth (%) = (revenue 2008 – revenue 2007) / revenue 2007 * 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 * 100

By the end of 2008, the company will have 12 employees in Estonia, 5 in the Russian Federation office in St. Petersburg, 5 in the London branch of KFE and 2 in KFE's Limassol branch. In line with the new market situation and the conditions of the global economic crisis, KFE plans to cut its operating costs in 2009.

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 2008) and the date on which the financial statements were authorised for issue (15 March 2009).

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 2008 are true and complete.

Tallinn, 15 March 2009

Vadim Fedeev
Member of the Management Board

Kaido Kaljulaid
Member of the Management Board

Balance sheet
(In thousands of Estonian kroons)

	Note	31.12.2008	31.12.2007
ASSETS			
Current assets			
Cash and bank balances	3,18	299,383	272,753
Financial assets	4,18	2,898	3,285
Receivables from customers	5,18	20,086	32,959
Other receivables	6,18	121	1,279
Accrued income and prepayments	6,18	6,521	4,027
Investments in subsidiaries	8	1,156	1,156
Property and equipment	9	1,436	1,525
Intangible assets	10	351	551
TOTAL ASSETS		**331,952**	**317,535**
LIABILITIES AND EQUITY			
Payables to credit institutions	11	0	13,276
Payables to customers	11	0	7,017
Payables to suppliers	18	2,405	449
Taxes payable	7,18	2,415	489
Accrued expenses	12,18	820	2,135
TOTAL LIABILITIES		**5,640**	**23,366**
Equity			
Share capital	13	244,350	244,350
Statutory capital reserve		2,635	936
Retained earnings		47,184	14,901
Profit for the period		32,143	33,982
TOTAL EQUITY		**326,312**	**294,169**
TOTAL LIABILITIES AND EQUITY		**331,952**	**317,535**

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Income statement
(In thousands of Estonian kroons)

	Note	2008	2007
Commission and fees received	14	54,731	30,557
Commissions and fees paid		-10,123	-8,471
Net commission and fee income		**44,608**	**22,086**
Interest income	15	24,739	30,201
Interest expense		-146	-3,842
Net interest income		**24,593**	**26,359**
Other income from consulting services	14	3,401	4,902
Net gain / loss on marketable debt securities		-366	-123
Net foreign exchange gain / loss		65	-1,777
Net gain / loss on financial transactions		**3,100**	**3,002**
Data processing expenses		-7,439	-5,502
Other operating expenses		-15,528	-4,181
Personnel expenses		-16,388	-7,254
Depreciation, amortisation and impairment losses	9, 10	-803	-528
Total expenses		**-40,158**	**-17,465**
Operating profit		**32,143**	**33,982**
Profit for the period		**32,143**	**33,982**

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Cash flow statement
(In thousands of Estonian kroons)

	Lisa nr	2008	2007
Cash flows from operating activities			
Profit for the period		32,143	33,982
Adjustments for:			
Depreciation, amortisation and impairment losses	9, 10	803	528
Gain / loss on financial assets		366	123
Net interest income		-24,593	-26,359
Change in receivables and prepayments		-1,214	-2,575
Change in payables and deferred income		2,556	1,667
Interest paid		-135	-3,736
Net cash from operating activities		**9,926**	**3,630**
Cash flows from investing activities			
Acquisition of property and equipment	9	-504	-705
Acquisition of intangible assets	10	-10	-371
Proceeds from realisation of financial assets		0	3,912
Change in term deposits		-17,525	-13,370
Loans granted		12,873	44,056
Interest received		24,638	29,584
Net cash from / used in investing activities		**19,472**	**63,106**
Cash flows from financing activities			
Change in loans from credit institutions		-13,276	-63,978
Change in loans from customers		-7,017	6,959
Contributions to share capital		0	0
Net cash used in / from financing activities		**-20,293**	**-57,019**
Net cash flows		**9,105**	**9,717**
Cash and cash equivalents at beginning of period	3	**16,078**	**6,361**
Increase in cash and cash equivalents		**9,105**	**9,717**
Cash and cash equivalents at end of period	3	**25,183**	**16,078**

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Statement of changes in equity

(In thousands of Estonian kroons)

	Share capital	Statutory capital reserve	Retained earnings	**Total**
At 31 December 2006	**244,350**	**0**	**15,837**	**260,187**
Transfer to capital reserve	0	936	-936	**0**
Net profit for the period	0	0	33,982	**33,982**
At 31 December 2007	**244,350**	**936**	**48,883**	**294,169**
Transfer to capital reserve	0	1,699	-1,699	**0**
Net profit for the period	0	0	32,143	**32,143**
At 31 December 2008	**244,350**	**2,635**	**79,327**	**326,312**

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

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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 2008 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Management authorised these financial statements for issue on 15 March 2009. 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 2008 and ended on 31 December 2008. 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

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activities. The activities of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases.

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

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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.

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

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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

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.

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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 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.

Cash flow statement

The cash flow statement is prepared using the indirect method – cash flows from operating activities are found by adjusting net profit by eliminating the effect of non-cash transactions and changes in current assets and current liabilities related to operating activity. The cash flows from investment and financing activities are recorded using the direct method.

Subsequent events

The annual financial statements reflect all significant events affecting the valuation of assets and liabilities that became evident between the balance sheet date (31 December 2008) and the date on which the financial statements were authorised for issue but are related to transactions of the reporting or prior periods.

Subsequent events, that have not been considered in the valuation of assets and liabilities, but which will have a significant effect on the activities of the next financial year, are disclosed in the notes to the annual financial statements.

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 2009. 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 1 *First-time Adoption of International Financial Reporting Standards* (effective for annual periods that begin 1 July 2009 or later). As the company continues to prepare its financial statements in accordance with IFRS, the revised IFRS 1 will not have an impact on the company's financial reporting
- 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

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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.

- Revised IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (applied for reporting periods that begin on 1 July 2009 or later). *As the company is not holding non-current* assets for sale and does not have discontinued operations, the revised IFRS 5 does not impact the company's financial statements.
- Amendments to IFRS 7 *Financial Instruments: Disclosures* (applied for reporting periods that begin on 1 January 2009 or later). In the estimation of the company's management, IFRS 7 amendments will not impact financial statements.
- 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.
- The amended IFRS 32 *Presentation of Financial Instr*uments (applied for reporting periods that begin on 1 January 2009 or later). In the estimation of the company's management, IFRS 32 amendments will not impact financial statements.
- Amendments to IFRS 39 *Financial Instruments: Recognition and Measurement* (applied for reporting periods that begin on 1 January 2009 or later). In the estimation of the company's management, amendments to the definitions in IFRS 39 will not impact financial statements.
- 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 1 *Presentation of Financial Statements* (applied for reporting periods that begin on 1 July 2009 or later). The revised standard sets forth the definition of current assets and short-term obligations, which in the estimation of the company's management, will not impact the company's financial statements.
- Amended IAS 7 *Cash Flow Statemen*ts (applied for reporting periods that begin on 1 January 2009 or later). In the estimation of the company's management, IFRS 7 amendments will not impact financial statements.
- Amended IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. In the estimation of the company's management, IFRS 8 amendments will not impact financial statements.
- Amended IAS 10 *Events after the Balance Sheet Date*. In the estimation of the company's management, IAS 8 amendments will not impact financial statements.
- Amended IAS 16 *Property, Plant and Equipment* (applied for reporting periods that begin on 1 July 2009 or later). In the estimation of the company's management, IAS 16 amendments will not impact financial statements.
- Amended IAS 19 *Accounting for Employee Benefits* (applied for reporting periods that begin on 1 January 2009 or later). In the estimation of the company's management, IAS 19 amendments will not impact financial statements.
- Revised IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* (applied for reporting periods that begin on 1 January 2009 or later). As the company has no government grants the revised IFRS 20 does not impact the company's financial 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

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the company does not have any interests in subsidiaries that will be affected by the revisions to the standard.

- Revised IAS 28 *Investments in Associates* (applied for reporting periods that begin on 1 January 2009 or later). As the company has no investment in associated firms, the revised IFRS 28 does not impact the company's financial statements.
- Amended IAS 29 *Financial Reporting in Hyperinflationary Economies* (applied for reporting periods that begin on 1 January 2009 or later). In the estimation of the company's management, IAS 29 amendments will not impact financial statements.
- Revised IAS 31 *Financial* Reporting *of Interests in Joint* Venture (applied for reporting periods that begin on 1 January 2009 or later). As the company has no investment in associated firms, the revised IFRS 31 does not impact the company's financial statements.
- Amended IAS 34 *Interim Financial Reporting*. In the estimation of the company's management, IAS 8 amendments will not impact financial statements.
- Revised IAS 36 *Impairment of Assets* (applied for reporting periods that begin on 1 January 2009 or later). As the company has no goodwill or intangible assets with an unlimited life whose recoverable value is impacted by the amendments to the standard, the revised IFRS 36 does not impact the company's financial statements.
- Amended IAS 38 *Intangible Asse*ts (applied for reporting periods that begin on 1 January 2009 or later). In the estimation of the company's management, IAS 38 amendments will not impact financial statements.
- Amended IAS 39 *Financial Instruments: Recognition and Measurement* (applied for reporting periods that begin on 1 January 2009 or later). In the estimation of the company's management, IAS 39 amendments will not impact financial statements.
- Revised IAS 40 *Real Estate Investments* (applied for reporting periods that begin on 1 January 2009 or later). As the company has no real estate investments, the revised IFRS 40 does not impact the company's financial statements.
- Revised IAS 41 *Cash Flow Statements* (applied for reporting periods that begin on 1 January 2009 or later). As the company has no tie to agriculture, the revised IFRS 41 does not impact the company's financial statements.

Note 2. Financial risk management

The principles for determining, managing and auditing risks arising in the course of AS KIT Finance Europe's activities were established by the Risk Management Policy developed by the management; it was developed in concert with the Republic of Estonia's Securities Market Act and the recommendations of the Basel Committee. The risk management strategy is based on optimizing the ratio of the profitability of the investment firm to the level of assumed risks. Development of risk assessment methods and establishing of numerical parameters for criteria is completely in the competence of the management board of the investment firm.
An investment company has exposure to credit risk, currency risk, liquidity risk and operational risk.

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

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2008, exceptions were made in the case of customers belonging to the same consolidation group as the company.
The maximum amount of the loan depends on the market value of the collateral and establishing of limits.

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.
Information on assets and liabilities bearing currency risk is provided in Note 18.

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. 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.
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.
Conformity control has an important role in the assessment of operation risks.

Capital management

KFE complies with requirements established for capital as set forth in the Republic of Estonia's Securities Market Act. In order to ensure its reliability and mitigate risks related to provision of investment services, the investment firm is obliged to consistently adhere to prudential standards.
Reporting is submitted monthly to supervisory authorities regarding compliance with the capital requirements necessary to comply with prudential standards established for the investment firm and to cover risks.
All material risks for the investment firm must be adequately covered by equity at every point in time. The investment firm's equity must be equal to or exceed the minimum amount of share capital set forth in legislation (730 thousand euros or 11,422 thousand kroons) and 25% of the investment firm's fixed

overhead expenses. As of the balance sheet date, the company's equity exceeds the minimum amount established in legislation. There were no problems in 2008 in complying with the capital adequacy requirements.

Note 3. Cash and bank balances

Raha ja raha ekvivalendid	**31.12.2008**	**31.12.2007**
Cash on hand, foreign currency	2	0
Demand deposits, EEK	10	110
Demand deposits, foreign currency	25,121	15,918
Term deposits with a maturity of up to 3 months	50	50
Total cash and cash equivalents	**25,183**	**16,078**
Term deposits (3 to 12 months)	274,200	256,675
Total cash and bank balances (note 18)	299,383	272,753

The annual interest rates of term deposits range from 2,9% to 9%.

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 2008	**Debt securities 2007**
At beginning of period	**3,285**	**7,380**
Sale	0	-3,912
Interest income accrued during the period	202	494
Interest received during the period	-223	-554
Change in fair value	-366	-123
At end of period (note 18)	**2,898**	**3,285**

Note 5. Receivables from customers

	2008	**2007**
Securities loan	0	13,276
Other loans	1,239	15,666
Other receivables	18,847	4,017
Total receivables from customers (note 18)	**20,086**	**32,959**

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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

	31.12.2008	31.12.2007
Interest receivable	0	7
Interest receivable on deposits with group companies (note 20)	4	610
Settlements with debtors	20	1
Miscellaneous receivables	97	661
Total other receivables (note 18)	**121**	**1,279**
Prepaid and refundable taxes (note 7)	2,514	431
Prepayments	4,007	3,596
Total accrued income and prepayments	**6,521**	**4,027**

Prepayments of 4,007 thousand kroons comprise prepaid licence fees, fees paid to the Financial Supervision Authority and other prepayments.

Note 7. Taxes

	31.12.2008		31.12.2007	
	Prepayment	**Payable**	**Prepayment**	**Payable**
Value added tax (note 6)	273	0	431	0
VAT paid abroad(note 6)	1,392	0	0	0
Corporate income tax (note 6)	849	0	0	1
Personal income tax	0	77	0	175
Social tax	0	141	0	294
Funded pension premiums	0	8	0	15
Unemployment insurance premiums	0	3	0	4
Other taxes abroad	0	2,186	0	0
Total taxes	**2,514**	**2,415**	**431**	**489**

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.

The activity of the subsidiary is planned to be reorganised and subordinated to the KFE's London branch in the future .

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Investments in subsidiary:

		Creative Investments Technologies Ltd
Domicile		Great Britain
Cost		1,156
Carrying amount of shares at 31 December 2006		**1,156**
Carrying amount of shares at 31 December 2007		**1,156**
Carrying amount of shares at 31 December 2008		**1,156**
Ownership interest at 31 December 2006	100%	
Ownership interest at 31 December 2007	100%	
Ownership interest at 31 December 2008	100%	

Note 9. Property and equipment

	Machinery and equipment	Other equipment and fixtures	**Total**
Cost at 31 December 2006	**296**	**1,074**	**1,370**
Addition	658	47	705
Cost at 31 December 2007	**954**	**1,121**	**2,075**
Addition	**140**	**364**	**504**
Cost at 31 December 2008	**1,094**	**1,485**	**2,579**
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**
Depreciation charge for the year (+)	304	289	593
Accumulated depreciation at 31 December 2008	**541**	**602**	**1,143**
Carrying amount at 31 December 2006	**188**	**1,019**	**1,207**
Carrying amount at 31 December 2007	**717**	**808**	**1,525**
Carrying amount at 31 December 2008	**553**	**883**	**1,436**

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Note 10. Intangible assets

Movements:	Brokerage software, licences, etc purchased
Soetusmaksumus 31.12.2006	329
Akumuleeritud kulum 31.12.2006	-8
Jääkmaksumus 31.12.2006	**321**
Soetamine aruandeperioodil	371
Aruandeperioodi kulum	-141
Akumuleeritud kulum 31.12.2007	-149
Jääkmaksum31.12.2007	**551**
Soetamine aruandeperioodil	10
Aruandeperioodi kulum	-210
Akumuleeritud kulum 31.12.2008	-359
Jääkmaksumus 31.12.2008	**351**

Note 11. Payables to credit institutions and payables to customers

	31.12.2008	31.12.2007
Services Inc Securities loan	0	13,276
Total payables to credit institutions (note 18)	**0**	**13,276**
Payables to customers	0	7,017
Total payables to customers (note 18)	**0**	**7,017**

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

Note 12. Accrued expenses

	31.12.2008	31.12.2007
Payables to employees	613	1 680
Interest payable	11	106
Other accrued expenses	196	349
Total accrued expenses	**820**	**2,135**

Note 13. Equity

Share capital

	31.12.2008	31.12.2007
Share capital (in thousands of Estonian kroons)	244,350	244,350

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Number of shares	244,350	244,350
Pat value of a share (in thousands of Estonian kroons)	1	1

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 2008, the company's unrestricted equity (considering the requirement to transfer one twentieth of net profit for the period to the capital reserve) amounted to 77,720 thousand kroons (2007: 47,184 thousand kroons). At the balance sheet date, the company could distribute a dividend of 61,399 thousand kroons (2007: 37,275 thousand kroons) and the distribution would give rise to income tax expense of 16,321 thousand kroons (2007: 9,909 thousand kroons).

Note 14. Commissions and fees received

Geographical area	2008	2007
Euripean Union (Cypros, Latvia, Great Britain, Finland, Germany)	15,358	13,100
Rest of the World (Russia, British Virgin Islands, Kazakhstan, Armenia)	39,373	17,457
Total	**54,731**	**30,557**

Activity	2008	2007
Commissions and fees received	54,731	30,557
Other income from consulting services	3,401	4,902
Total	**58,132**	**35,459**

Note 15. Net interest income

Interest income	2008	2007
On term deposits	18,519	21,573
On demand deposits	4,132	0
On financial assets at fair value through profit or loss	202	494
On loans	1,886	8,134
Total	**24,739**	**30,201**

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Interest expence	2008	2007
On loans	-93	-3,538
Other interest expense	-53	-304
Total interest expense	**-146**	**-3,842**

Note 16 Operating lease

In year 2008 the company leased a vehicle under the terms of operating lease.
Total rental payments for 2008 amounted to 211 thousands kroons.
Operating lease payments of subsequent periods break down as follows:

	31.12.2008	31.12.2007
Payable within 1 year	156	0
Between 1 and 5 years	520	0

Note 17. Assets pledged as collateral

The company has a VISA credit card issued by AS SEB Bank. 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

31.12.2008	EEK	EUR	USD	GBP	CHF	RUR	Total
Assets							
Cash and bank balances	60	292,852	1,646	4,143	3	677	299,383
Financial assets	0	2,898	0	0	0	0	2,898
Receivables from customers	0	0	2,546	10	0	17,523	20,079
Other receivables	19	65	14	23	0	0	121
Accrued income and prepayments	1,767	2,584	0	2,169	0	1	6,521
Total	**1,847**	**298,400**	**4,206**	**6,345**	**3**	**18,201**	**329,002**
Liabilities							
Payables to suppliers	156	1,389	0	667	0	193	2,405
Taxes payable	229	18	0	2,168	0	0	2,415
Accrued expences	534	113	45	93	0	36	820
Total	**918**	**1,520**	**45**	**2,928**	**0**	**228**	**5,640**

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31.12.2007	EEK	EUR	USD	GBP	CHF	RUR	Total
Assets							
Cash and bank balances	159	256,910	6,353	2,340	0	6,991	272,753
Financial assets	0	3,285	0	0	0	0	3,285
Receivables from customers	0	3,759	28,393	807	0	0	32,959
Other receivables	0	610	542	127	0	0	1,279
Total	**159**	**264,564**	**35,288**	**3,274**	**0**	**6,991**	**310,276**
Liabilities							
Payables to credit institutions	0	0	13,276	0	0	0	13,276
Payables to customers	0	0	115	0	0	6,902	7,017
Payables to suppliers	151	142	0	85	0	71	449
Total	**151**	**142**	**13,391**	**85**	**0**	**6,973**	**20,742**

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. 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:

Assets	31.12.2008	31.12.2007
Customers' cash	185,746	443,577
Customers' securities	6,657,992	1,167,952
Total	**6,843,738**	**1,611,529**

Liabilities	31.12.2008	31.12.2007
Customers' cash	0	42
Customers' securities	25,864	2,437
Total	**25,864**	**2,479**

Securities are stated at their fair values.

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Note 20. 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 Holding (OOO).
In the reporting period, the company performed transactions with related parties as follows:

Transactions with related parties	**2008**		**2007**	
	Commissions and fees paid	Commissions and fees received	Commissions and fees paid	Commissions and fees received
Group's parent	529		188	12,103
Other group companies	948	9,788	367	606
Total transactions	**1,477**	**9,788**	**555**	**12,709**

Consulting services	**2008**	**2007**
Group's parent	1,519	3,677
Other group companies	1,882	0
Total consulting services	**3,401**	**3,677**

Interest income	**2008**	**2,007**
Other group companies	18,570	14,878
Total interest income	**18,570**	**14,878**

Balances with related parties:

Cash and bank balances	**31.12.2008**	**31.12.2007**
Bank accounts with the group companies	18,761	12,390
Deposits with the group companies (note 3)	256,675	256,675
Total cash and bank balances	**275,436**	**269,065**

Receivables	**31.12.2008**	**31.12.2007**
Accounts receivable from the group companies	0	3,998
Interest receivable from the group companies (note 6)	4	610
Total receivables	**4**	**4,608**

Payables	**31.12.2008**	**31.12.2007**
Parent	117	65
Other group companies	71	1
Total payables	**188**	**66**

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

In 2008, the remuneration of members of the management board (subject to social tax) amounted to 1,167 thousand kroons. The remuneration of the members of the supervisory board amounted to 50 thousand kroons.

The management board is eligible for severance pay of 3 months of remuneration. No compensation is paid to supervisory board members upon expiry of powers. Members of the management board and supervisory board do not have a stock option at AS KIT Finance Europe.

Note 21. Subsequent events

In January 2009 control over "KIT Finance Holding company" (OOO) which is the sole shareholder of "KIT Finance" (OOO) was acquired by two major Russian state-owned companies. "RZD" (OAO), Russian railways company, and AK "ALROSA" (ZAO), Russian diamond exploration company, ultimately control 45% in the share capital each. Outstanding 10% of the share capital is administered by a Russian non-state pension fund "Blagosostoyanie.

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SIGNATURES

The management board authorised the management report and the annual financial statements of AS KIT Finance Europe for issue on 15 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 the Management Board		15.03.09
Kaido Kaljulaid	Member of the Management Board		15.03.09
Maxim Tsyganov	Chairman of the Supervisory Board		15.03.09
Nikolai Mylnikov	Member of the Supervisory Board		15.03.09
Maivi Ots	Member of the Supervisory Board		18.03.09
Vladimir Tarasenko	Member of the Supervisory Board		18.03.09

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Larssen Donoway
INTERBALTIC
A Horwath Business Alliance Associate

INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS KIT Finance Europe

We have audited the accompanying financial statements of KIT Finance Europe, which comprise the balance sheet as at 31 December 2008, 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 6 to 26.

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 2008, 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, 15 March 2009

Donoway Assurance Ltd

Vadim Donchevski
Authorized Public Accountant

Darja Roos
Authorized Public Accountant

PROFIT ALLOCATION PROPOSAL

(In thousands of Estonian kroons)	
Retained earnings	47,184
Profit for the period	32,143
Total as at 31 December 2008	***79,327***

The Management Board of AS KIT Finance Europe proposes to the General Meeting of the Shareholders to distribute the profit as follows:

Transfer to capital reserve	1,607
Retained earnings after distribution of profit	***77,720***

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

LIST OF ACTIVITIES

(In thousands of Estonian kroons)

Activities	
Commissions and fees received (66121)	54,731
Other income from consulting services (66191)	3,401
Total	**58,132**