Annual report

AS KIT Finance Europe

Beginning of financial year:	1 January 2010
End of financial year:	31 December 2010

Registration number:	11058103
Address:	Roosikrantsi 11, Tallinn 10119
Telephone:	+372 663 0770
Fax:	+372 663 0771
E-mail:	office@kfe.ee
Website:	www.kfe.ee
Management board:	Stanislav Mikhalevskiy
	Kaido Kaljulaid
Auditor	Donoway Assurance OÜ

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, Russian, Germany, Canada, Ukraine securities markets.

Business review

In 2010, KFE continued offering investment services and developing customer relations. KFE continues to provide services through its London (UK) and Limassol (Cyprus) branches and representative office in St. Petersburg (Russia). Compared to the end of 2009, the customer base has grown by 76%.

Business environment

The growth trend on the world's financial markets continued in 2010. Dow Jones Industrials index grew by 10%, S&P 500 more than 11% and RTS Index grew by 14%. The financial sector has stabilized, and along with the greater economic recovery, investor optimism and interest in investing into equity market grew as well. In connection with this, the trade volumes of KFE clients increased by almost 3 times compared to the end of 2009.

Key economic events in 2010

KFE's net transaction fees amounted to 78,195 thousand kroons in 2010 (68,518 thousand kroons in 2009, increased by 14%). Net interest income increased by 56% compared to 2009 to 36,372 thousand kroons (2009 –23,376 thousand kroons).

KFE's profit increased 16% compared to the year before (2010 – 65,421 thousand kroons, 2009 – 56,190 thousand kroons).

In 2010, N. Mylnikov, a Supervisory board member of KFE, stepped down and the board elected A.Svintsov as a new member. Management board members were paid social-tax-assessed remuneration in the amount of 1,692 thousand kroons (2009 – 1,549 thousand kroons) and employees were paid 16,310 thousand kroons (2009 – 9,115 thousand kroons) in remuneration. In 2010, remuneration to the members of the supervisory board totalled 50 thousand kroons.

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

	2010	2009
Revenue including commissions and fees, interest income and other income for the preceding period (thousand kroons)	102,290	82,871
Revenue including commissions and fees, interest income and other income for the reporting period (thousand kroons)	160,832	102,290
Revenue growth %	**57**	**23**

	2010	2009
Net profit for the period (thousand kroons)	65,421	56,190
Average equity (thousand kroons)	415,213	354,407
Return on equity (ROE), %	**16**	**16**
Expenses (thousand kroons)	39,152	34,809
Net commissions and fees, net interest income and net gain/loss on financial transactions (thousand kroons)	105,175	91,517
Expense / income ratio, %	**37**	**38**

- Revenue growth (%) = (revenue 2010 – revenue 2009) / revenue 2009 * 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

The increases in work volumes in 2010 resulted in 12% growth in operating expenses compared to the year before (2010 – 39,152 thousand kroons, 2009 – 34,809 thousand kroons). The expense and income ratio of the financial year was 37% (in 2009 – 38%).

By the end of 2010, the company has 22 employees in Estonia, 5 in the Russian Federation office in St. Petersburg, 3 in the London branch of KFE and 2 in KFE's Limassol branch. The total number of employees including branches is 32 (2009 – 27).

Objectives for the next financial year

Based on the business and financial environment forecasts for the next year, the main objective of AS KIT Finance Europe is to maintain and strengthen the company's position in the financial markets.

ANNUAL FINANCIAL STATEMENTS

Statement of financial position

(In thousands of Estonian kroons)

	Note	31.12.2010	31.12.2009
ASSETS			
Cash and bank balances	3	93,743	29,690
Short-term investments	4	296,960	321,112
Financial assets	5	1,643	3,337
Receivables from customers	6	85,546	54,536
Other receivables	7	972	422
Accrued income and prepayments	7	3,739	4,009
Property and equipment	10	438	819
Intangible assets	11	37	171
TOTAL ASSETS		**483,078**	**414,096**
LIABILITIES AND EQUITY			
Payables to customers	12	2,806	28,347
Derivative instruments	9	691	0
Payables to suppliers		29,978	1,674
Taxes payable	8	768	555
Accrued expenses	13	912	1,018
TOTAL LIABILITIES		**35,155**	**31,594**
Equity			
Share capital	14	244,350	244,350
Statutory capital reserve		7,052	4,242
Retained earnings		131,100	77,720
Profit for the period		65,421	56,190
TOTAL EQUITY		**447,923**	**382,502**
TOTAL LIABILITIES AND EQUITY		**483,078**	**414,096**

Statement of comprehensive income

(In thousands of Estonian kroons)

	Note	2010	2009
Commission and fees received	15	123,262	78,389
Commissions and fees paid		-45,067	-9,871
Net commission and fee income		**78,195**	**68,518**
Interest income	16	37,570	23,820
Interest expense		-1,198	-444
Net interest income		**36,372**	**23,376**
Other income from consulting services	15	0	81
Net income/ loss from trade	9	-8,603	-875
Net gain / loss on marketable debt securities	5,9	-789	417
Net gain / loss on financial transactions		**-9,392**	**-377**
Data processing expenses		-9,874	-6,825
Other operating expenses		-7,818	-13,512
Personnel expenses		-20,756	-13,517
Depreciation, amortisation and impairment losses	10,11	-704	-955
Total expenses		**-39,152**	**-34,809**
Profit before tax		**66,023**	**56,708**
Income tax		-602	-518
Profit for the year		**65,421**	**56,190**
Total comprehensive income for the year		**65,421**	**56,190**
Total comprehensive income for the year attributable to			
Shareholders		**65,421**	**56,190**

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Statement of cash flows

(In thousands of Estonian kroons)

	Note	2010	2009
Cash flows from operating activities			
Profit for the period		65,421	56 190
Adjustments for:			
Depreciation, amortisation and impairment losses	10,11	704	955
Gain / loss on financial assets	9	789	-417
Net interest income		-36,372	-23,376
Loss from the liquidation of subsidiaries		0	400
Income tax		602	518
Change in receivables and prepayments		6,491	4,159
Change in payables and deferred income		28,435	-1,978
Income tax paid		-602	-518
Interest paid		-1,222	-444
Net cash from operating activities		**64,246**	**35,489**
Cash flows from investing activities			
Acquisition of property and equipment	10	-168	-114
Acquisition of intangible assets	11	-21	-44
Income from debt securities	5	1,564	0
Income from the liquidation of subsidiaries		0	757
Change in term deposits		24,152	-46,912
Loans granted		-37,223	-36,529
Interest received		37,044	23,513
Net cash from / used in investing activities		**25,348**	**-59,329**
Cash flows from financing activities			
Change in loans from customers		-25,541	28,347
Net cash used in / from financing activities		**-25,541**	**28,347**
Net cash flows		**64,053**	**4,507**
Cash and cash equivalents at beginning of period	3	**29,690**	**25,183**
Increase in cash and cash equivalents		**64,053**	**4,507**
Cash and cash equivalents at end of period	3	**93,743**	**29,690**

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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 2008	**244,350**	**2,635**	**79,327**	**326,312**
Transfer to capital reserve	0	1,607	-1,607	**0**
Net profit for the period	0	0	56,190	**56,190**
At 31 December 2009	**244,350**	**4,242**	**133,910**	**382,502**
Transfer to capital reserve	0	2,810	-2,810	**0**
Net profit for the period	0	0	65,421	**65,421**
At 31 December 2010	**244,350**	**7,052**	**196,521**	**447,923**

Further information on share capital and movements in share capital is presented in note 14.

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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 2010 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 2011. 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.

The company's reporting year began on 1 January 2010 and ended on 31 December 2010. 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.

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.
Term deposits with a term of three to 12 months are recognized as short-term financial investments.

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.

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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.

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

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.

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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 income tax and costs that have been calculated on the unpaid dividends at the time of the balance day sheet are adjusted according to the income tax rate of the new reporting year.

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

The income statement includes the income tax calculated for the Cyprus subsidiary in compliance with the legislation of Cyprus.

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 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.

Statement of cash flow

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.

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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 2009) 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 2010. 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" (All companies must apply the IFRS 1 standard set forth in the annex to this regulation by the beginning date of the first financial year beginning after 31 December 2009). As the company adopted the IFRS standard for the first time during the reporting period beginning prior to 1 July 2009, the revised IFRS 1 will not impact the company's financial statements.
- **Revised IFRS 2** "Share-based payment" Revised IFRS with amendments issued in April 2009. The amendments apply to reporting periods that begin 1 July 2009 or later. In the estimation of the company's management, IFRS 2 amendments will not impact financial statements.
- **Revised IFRS 3** "Business combinations" (applied for reporting periods that begin on 1 July 2009 or later). As the company has no business combinations, the revised IFRS 3 does not impact the company's financial statements.
- **Revised IFRS 5** „Non-current assets held for sale and discontinued operations". Revised IFRS with revisions issued in April 2009. The amendments apply to reporting periods that begin 1 January 2010 or later. As the company does not hold non-current assets for sale and does not have discontinued operations, the revised IFRS 5 does not impact the company's financial statements.
- **Revised IFRS 8** "Operating segments" Revised IFRS with amendments issued in April 2009. The amendments apply to reporting periods that begin 1 January 2010 or later. The standard requires that disclosure of segment information be based on company segments that the management reviews in making business decisions. In the estimation of the company's management, IFRS 8 amendments will not impact financial statements.

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- **Revised IAS 1** "Presentation of Financial Statements" Revised IAS with amendments issued in April 2009. The amendments apply to reporting periods that begin 1 January 2010 or later. The amended standard allows certain obligations paid for by the company's own equity instruments to be classified as long-term. In the estimation of the company's management, IAS 1 amendments will not impact the method of presentation of the main financial statements or the recognition of transactions and balances or accounting policies.
- **Revised IAS 7** "Statement of Cash Flows" Revised IAS with amendments issued in April 2009. The amendments apply to reporting periods that begin 1 January 2010 or later. The revised IAS 7 requires a classification of expenses recognized in future as investments. The amendments to IAS 7 have been taken into account in preparing the report.
- **Revised IAS 17** "Leases". Revised IAS with amendments issued in April 2009. The amendments apply to reporting periods that begin 1 January 2010 or later. The amendment pertains to detailed classification of land lease, retaining only general requirements. In the estimation of the company's management, IAS 17 amendments will not impact financial statements.
- **Revised IAS 27** "Consolidated and Separate Financial Statements" (applied for reporting periods that begin on 1 July 2009 or later). The revised standard requires the company to divide consolidated profit between the owners of the parent and holdings that are not controlled by the parent, even if the result is a negative balance in the share not controlled. In addition, the standard specifies how profit or loss is to be measured if the control over a subsidiary ends, and sets forth that transactions as a result of which the parent's holding in a subsidiary changes, in cases where it retains control, must be recognized directly in equity. As the company has no holdings that are covered by the standard, the revised IAS 27 does not impact the company's financial statements.
- **Revised IAS 36** "Impairment of assets". Revised IAS with amendments issued in April 2009. The amendments apply to reporting periods that begin 1 January 2010 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 IAS 36 does not impact the company's financial statements.
- **Revised IAS 39** "Financial Instruments: Recognition and Measurement (applied for reporting periods that begin on 1 January 2009 or later). All of the amendments have been taken into account in preparing the report.
- **IFRIC Interpretation 9** "Reassessment of Embedded Derivatives". As a result of interpretations, IFRS 3 is amended. The changes apply to reporting periods that begin 1 July 2009 or later. In the estimation of the company's management, these amendments will not impact financial statements.
- **IFRIC Interpretation 15** "Agreements for the Construction of Real Estate". IFRIC 15 is an interpretation that provides clarification and instructions regarding when the income from construction of real estate should be recognized, above all whether a construction contract is in the scope of application of IAS 11 Construction Contracts or IAS 18 Revenue. The amendments apply for reporting periods that begin on 1 January 2010 or later. As the company has no tie to real estate construction, the interpretation does not impact the company's financial statements.
- **IFRIC Interpretation 16** "Hedges of a Net Investment in a Foreign Operation". The IFRIC 16 interpretation specifies how the requirements of IAS 39 are to be applied if the (economic) unit keeps funds for the purpose of hedging risk from net investments in foreign operations. The amendments apply for reporting periods that begin on 1 July 2009 or later. As the company has no foreign operations, the interpretation does not impact the company's financial statements.

- **IFRIC Interpretation 17** "Distributions of Non-Cash Assets to Owners" (applied for reporting periods that begin on 1 July 2009 or later). In the estimation of the company's management, this interpretation will not impact financial statements.
- **IFRIC Interpretation 18** "Transfers of Assets from Customers" (applied for reporting periods that begin on 1 July 2009 or later). In the estimation of the company's management, this interpretation will not impact financial statements.

Standards, amendments and interpretations of standards which have not yet entered into force and which the company has not previously applied.

- **Phase 1 of IFRS 9, "Financial instruments – classification and measurement",** issued in November 2009 (applies or reporting periods beginning 1 January 2013 or later, not yet adopted by the EU). The standard specifies the classification of financial assets, recognition of instruments after recognition and recognition of equity instruments. The management is assessing the principles and impacts of the standard on the financial statements.
- **Revised IAS 24 "Related Party Disclosures"** applies to reporting periods beginning 1 January 2011 or later, not yet adopted by the EU. The revised standard reduces the requirements for disclosure applicable to state companies and clarifies the concept of related party. The management is assessing the principles and impacts of the standard on the financial statements.
- **Amendment to IFRS 7: Disclosures—Transfers of Financial Assets** applies to reporting periods beginning 1 July 2011 or later, not yet adopted by the EU. The amendment requires additional information to be disclosed regarding risks incurred by transferred financial assets. The management is assessing the principles and impacts of the standard on the financial statements.

Amendments to IFRSs, issued in May 2010, dates vary by standard; most amendments apply for reporting periods beginning 1 January 2011 or later, amendments not yet adopted by the EU. The amendments pertain to amendments and clarifications in the following standards and interpretations: IFRS 1; IFRS 3; IFRS 7; IAS 1; IAS 27; IAS 34; IFRIC 13. The management is assessing the impact of the amended standards and interpretations on the financial statements.

- **IFRIC Interpretation 14 "Prepayments of a Minimum Funding Requirement"** (applied for reporting periods that begin on 1 July 2011 or later). In the estimation of the company's management, these amendments will not impact financial statements.
- **IFRIC Interpretation 19 "Extinguishing Financial Liabilities with Equity Instruments"**. The IFRIC interpretation 19 specifies how to recognize a receivable in equity in the financial statements of the recipient of non-monetary contribution. The interpretation will come into effect for reporting periods starting 1 July 2010. In the estimation of the company's management, these amendments will not impact financial statements.
- **Amendment to IFRS 1 – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters** (applied for reporting periods that begin on 1 July 2010 or later). In the estimation of the company's management, these amendments will not impact financial statements.
- **Amendment to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters** (applies for reporting periods beginning 1 July 2011 or later, not yet adopted by the EU*)*. The amendments give IFRS first-time adopters an exemption from retrospective disclosure of transactions that took place before the date of transition to IFRS, as well as guidelines for companies that after emerging

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from severe hyperinflation resume preparing IFRS reports or preparing IFRS reports for the first time. In the estimation of the company's management, these amendments will not impact financial statements.

- **Amendment to IAS 32 "Classification of Rights Issues",** (applied for reporting periods that begin on February 2010 or later). In the estimation of the company's management, these amendments will not impact financial statements.
- **Amendment to IAS 12 "Deferred Income Tax: Recovery of Underlying Assets"** applies to reporting periods beginning 1 January 2012 or later, not yet adopted by the EU. The amendment establishes an exception to the existing principle of measuring deferred income tax related to assets and obligations in the case of real estate investments recognized at fair value. In the estimation of the company's management, these amendments will not impact 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 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 19.

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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 2010 in complying with the capital adequacy requirements.

Note 3. Cash and bank balances

Cash and cash equivalents	31.12.2010	31.12.2009
Cash on hand, foreign currency	0	1
Demand deposits, EEK	12	62
Demand deposits, foreign currency	38,918	16,590
Term deposits with a maturity of up to 3 months	54,813	13,037
Total cash and cash equivalents	**93,743**	**29,690**

Note 4. Short-term investments

	31.12.2010	31.12.2009
Term deposits (3 to 12 months)	296,960	321,112
Total short-term investments	**296,960**	**321,112**

The annual interest rates of term deposits range from 0,7% to 9,8%.

Note 5. Financial assets

Debt and other fixed income securities are classified as financial assets at fair value through profit and loss. The annual interest rate of debt security is 6.45% and the base currency is the euro.

	Debt securities 2010	Debt securities 2009
At beginning of period	**3,337**	**2,898**
Sales (redemption)	-1,564	0
Interest income accrued during the period	191	245
Interest received during the period	-223	-223
Change in fair value	-98	417
At end of period (note 19)	**1,643**	**3,337**

Note 6. Receivables from customers

	2010	2009
Accounts receivable from the group companies (note 21)	17	37
Loans receivable from the group companies (note 21)	0	15,647
Other loans	74,991	22,121
Other receivables	10,538	16,731
Total receivables from customers (note 19)	**85,546**	**54,536**

Recognized among "other loans" are financial margin loans with terms of several days, which were secured by securities and which amount to 67,168 kroons (interest rate of 10-15%) and a short-term loan of 7,823 thousand kroons (500,000 euros), that was granted to a non-related company with a term of up to 19 August 2011 at an interest rate of 4.5%.

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Note 7. Other receivables, accrued income and prepayments

	31.12.2010	31.12.2009
Interest receivable on deposits with group companies (note 21)	880	408
Other interest receivables	89	3
Miscellaneous receivables	3	11
Total other receivables (note 19)	**972**	**422**
Prepaid and refundable taxes (note 8)	610	158
Prepayments	3,129	3,851
Total accrued income and prepayments (note 19)	**3,739**	**4,009**

Prepayments of 3,129 thousand kroons comprise prepaid licence fees, fees paid to the Financial Supervision Authority and other prepayments.

Note 8. Taxes

	31.12.2010		31.12.2009	
	Prepayment	**Payable**	**Prepayment**	**Payable**
Value added tax	112	0	0	52
VAT paid abroad	81	0	85	0
Corporate income tax	0	5	0	7
Corporate income tax paid abroad	396	0	0	0
Personal income tax	0	216	0	107
Social tax	0	371	0	194
Funded pension premiums	0	14	0	0
Unemployment insurance premiums	0	31	0	20
Prepayment account	21	0	73	
Other taxes abroad	0	131	0	175
Total taxes (notes 7,19)	**610**	**768**	**158**	**555**

Note 9. Net gain/loss on financial transactions

	2010	2009
Due to changes in the currency exchange rate:	4,432	-1,000
foreign exchange gain from customers' transactions	753	0
revaluation gain/loss	3,679	-1,000
Net income/ loss from trade	-9,001	125
Currency derivatives:	-4,725	0
at fair value	-691	0
settled in cash (+received/-paid)	-4,034	0
Net gain / loss on marketable debt securities	-98	417
Net gain/loss from financial assets	**-9,392**	**-458**

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	2010	2009
Due to changes in the currency exchange rate:	4,432	-1,000
foreign exchange gain from customers' transactions	753	0
revaluation gain/loss	3,679	-1,000
Net income/ loss from trade	-9,001	125
Currency derivatives:	-4,034	0
settled in cash (+received/-paid)	-4,034	0
Net income / loss from trade	**-8,603**	**-875**

Note 10. Property and equipment

	Machinery and equipment	Other equipment and fixtures	Total
Cost at 31 December 2008	**1,094**	**1,485**	**2,579**
Addition	**24**	**0**	**24**
Prepayment	**0**	**90**	**90**
Disposals	**-167**	**0**	**-167**
Cost at 31 December 2009	**951**	**1,575**	**2,526**
Addition	**81**	**87**	**168**
Disposals	**-90**	**0**	**-90**
Cost at 31 December 2010	**942**	**1,662**	**2,604**
Accumulated depreciation at 31 December 2008	**541**	**602**	**1,143**
Depreciation charge for the year (+)	**392**	**339**	**731**
Disposals	**-167**	**0**	**-167**
Accumulated depreciation at 31 December 2009	**766**	**941**	**1,707**
Depreciation charge for the year (+)	**186**	**363**	**549**
Disposals	**-90**	**0**	**-90**
Accumulated depreciation at 31 December 2010	**862**	**1,304**	**2,166**
Carrying amount at 31 December 2008	**553**	**883**	**1,436**
Carrying amount at 31 December 2009	**185**	**634**	**819**
Carrying amount at 31 December 2010	**80**	**358**	**438**

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Note 11. Intangible assets

Movements:	Brokerage software, licences, etc purchased
Carrying amount at 31 December 2008	**351**
Additions	44
Depreciation charge for the year	-224
Accumulated depreciation at 31 December 2009	-583
Carrying amount at 31 December 2009	**171**
Additions	21
Depreciation charge for the year	-155
Accumulated depreciation at 31 December 2010	-738
Carrying amount at 31 December 2010	**37**

Note 12. Payables to customers

	31.12.2010	31.12.2009
Payables to customers in USD	997	28,318
Payables to customers in GBP	0	29
Payables to customers in CAD	1,809	0
Total payables to customers (note 19)	**2,806**	**28,347**

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

Note 13. Accrued expenses

	31.12.2010	31.12.2009
Payables to employees	523	626
Interest payable	190	214
Other accrued expenses	199	178
Total accrued expenses	**912**	**1,018**

Note 14. Equity

Share capital

	31.12.2010	31.12.2009
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

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 2010, the company's unrestricted equity (considering the requirement to transfer one twentieth of net profit for the period to the capital reserve) amounted to 193,250 thousand kroons (2009: 131,100 thousand kroons). At the balance sheet date, the company could distribute a dividend of 152,668 thousand kroons (2009: 103,569 thousand kroons) and the distribution would give rise to income tax expense of 40,582 thousand kroons (2009: 27,531 thousand kroons).

Note 15. Commissions and fees received

Geographical area	2010	2009
European Union (Cypros, Latvia, Great Britain, Finland, Germany, Sweden)	13,160	4,251
Rest of the World (Russia, Kazakhstan, Armenia, Ukraine etc)	110,102	74,138
Total	**123,262**	**78,389**

Activity	2010	2009
Commissions and fees received	123,262	78,389
Other income from consulting services	0	81
Total	**123,262**	**78,470**

Note 16. Net interest income

Interest income	2010	2009
On term deposits	26,490	20,099
On demand deposits	5	68
On financial assets at fair value through profit or loss (note 5)	191	245
On loans	10,884	3,408
Total	**37,570**	**23,820**

Interest expence	2010	2009
Other interest expenses	-1,198	-444
Total	**-1,198**	**-444**

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Interest income on loans according to the location of the client	2010	2009
European Union (Cypros, Latvia, Great Britain, Finland, Germany)	752	87
Rest of the World (Russia, Ukraine, Armenia)	10,132	3,321
Total	**10,884**	**3,408**

Interest income on term deposits according to the location of the bank	2010	2009
European Union (Estonia)	1	101
Rest of the World (Russia)	26,489	19,998
Total	**26,490**	**20,099**

Note 17. Operating lease

In year 2010 the company leased a vehicle under the terms of operating lease. Total rental payments for 2010 amounted to 156 thousands kroons.

Operating lease payments of subsequent periods break down as follows:

	31.12.2010	31.12.2009
Payable within 1 year	156	156
Between 1 and 5 years	208	364

Note 18. 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 19. Financial instruments

Assets and liabilities by currency

31.12.2010	EEK	EUR	USD	GBP	RUR	CAD	Total
Assets							
Cash and bank balances	64	58,032	1,206	3,268	31,173	0	93,743
Short term investments	0	277,798	0	0	19,162	0	296,960
Financial assets	0	1,643	0	0	0	0	1,643
Loans and receivables from customers	2	8,312	32,294	1	44,937	0	85,546
Other receivables	3	141	0	0	828	0	972
Accrued income and prepayments	1,016	2,359	0	364	0	0	3,739
Total	**1,085**	**348,285**	**33,500**	**3,633**	**96,100**	**0**	**482,603**

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Liabilities							
Payables to customers	0	0	997	0	0	1,809	2,806
Payables to suppliers	75	3,815	0	154	25,934	0	29,978
Derivative instruments	691	0	0	0	0	0	691
Taxes payable	637	23	0	108	0	0	768
Accrued expences	273	201	119	265	54	0	912
Total	**1,676**	**4,039**	**1,116**	**527**	**25,988**	**1,809**	**35,155**

31.12.2009	EEK	EUR	USD	GBP	RUR	CAD	Total
Assets							
Cash and bank balances	112	17,993	1,119	210	10,256	0	29,690
Short term investments	0	273,104	32,596	0	15,412	0	321,112
Financial assets	0	3,337	0	0	0	0	3,337
Loans and receivables from customers	0	15,647	2,445	1,628	34,817	0	54,536
Other receivables	13	375	5	0	30	0	422
Accrued income and prepayments	694	2,801	0	514	0	0	4,009
Total	**819**	**313,257**	**36,165**	**2,352**	**60,514**	**0**	**413,106**
Liabilities							
Payables to customers	0	0	28,318	29	0	0	28,347
Payables to suppliers	108	1,436	0	1	130	0	1,674
Taxes payable	380	167	0	8	0	0	555
Accrued expences	758	130	0	88	42	0	1,018
Total	**1,246**	**1,733**	**28,318**	**126**	**172**	**0**	**31,594**

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 20. 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	31.12.2010	31.12.2009
Customers' cash	3,114,705	314,724

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Customers' securities	45,501,653	8,896,566
Total	**48,616,358**	**9,211,290**

Liabilities	**31.12.2010**	**31.12.2009**
Customers' securities	164,217	1,755
Total	**164,217**	**1,755**

Securities are stated at their fair values.

Note 21. 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	**2010**		**2009**	
	Commissions and fees paid	Commissions and fees received	Commissions and fees paid	Commissions and fees received
Group's parent	6,373	168	3,227	1,369
Other group companies	217	7,909	754	11,156
Total transactions	**6,590**	**8,077**	**3,981**	**12,525**

	2010	**2009**
Consulting services		
Other group companies	0	81
Total consulting services	**0**	**81**
Interest income		
Other group companies	28,069	21,070
Total interest income	**28,069**	**21,070**

	2010	**2 009**
Interest expences		
Group's parent	26	45
Total interest expences	**26**	**45**
Net income/loss from trade		
Other group companies	42	125

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Net income/loss from trade	**42**	**125**

Balances with related parties:

	31.12.2010	31.12.2009
Cash and bank balances		
Bank accounts in the group companies	32,382	14,812
Deposits in the group companies (note 4)	296,960	321,112
Total cash and bank balances	**329,342**	**335,924**

Short-term receivables	**31.12.2010**	**31.12.2009**
Accounts receivable from the group companies	17	37
Loans receivable from the group companies	0	15,647
Interest receivable from the group companies (note 7)	880	408
Total receivables	**897**	**16,092**

Short-term payables		
Parent	32	39
Other group companies	1	8
Total short-term payables	**33**	**47**

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

In 2010, the remuneration of members of the management board (subject to social tax) amounted to 1,692 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 22. Subsequent events

On 1 January 2011, the euro (EUR) replaced the Estonian kroon (EEK) as the official currency. KIT Finance Europe AS thus converted its accounting into euros, with the financial statements for 2011 and future periods to be presented in euros.

Comparative data are converted based on the official exchange rate of 1 EUR = 15.6466 EEK.

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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 2011.

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
Stanislav Mikhalevskiy	Member of the Management Board		16.03.2011
Kaido Kaljulaid	Member of the Management Board		15.03.2011
Maxim Tsyganov	Chairman of Supervisory Board		15.03.2011
Aleksander Svintsov	Member of Supervisory Board		15.03.2011
Maivi Ots	Member of Supervisory Board		08.04.2011
Vladimir Tarasenko	Member of Supervisory Board		15.03.2011

Donoway Assurance Ltd
Member Crowe Horwath International

Narva mnt 13,
10151 Tallinn, Estonia
Phone +372 68 25 750
Fax +372 68 25 751
donoway@crowehorwath.ee
www.crowehorwath.ee
Auditing license nr.77

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 2010, 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 26. The audited financial statements are accompanied to the report.

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 (Estonia). 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 2010, 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, 15.03.2011

Donoway Assurance OÜ

Darja Roos	Vadim Donchevski
Authorized Public Accountant	*Authorized Public Accountant*
Certificate nr 552	Certificate nr 248

PROFIT ALLOCATION PROPOSAL

(In thousands of Estonian kroons)

Retained earnings	131,100
Profit for the period	65,421
Total as at 31 December 2010	***196,521***

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	3,271
Retained earnings after distribution of profit	***193,250***

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

LIST OF ACTIVITIES

(In thousands of Estonian kroons)

Activity	
Commissions and fees received (EMTAK 66121)	123,262
Total	**123,262**

Activities planned for the new reporting year:

Commissions and fees received (EMTAK 66121)