Renaissance Russia Distressed Assets Limited

Consolidated Financial Statements

For the period from October 23, 2007, the date of inception, to December 31, 2008

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Company information

Directors	David Blair Sarah Moule Alex Kotchubey (resigned on June 27, 2008) Ives Gyuntern (appointed on June 27, 2008, resigned on May 8, 2009) Igor Stychinsky (appointed on June 9, 2009)
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Investment manager	Renaissance Capital Investment Management Limited 56 Administration Drive Whickhams Cay I P.O. Box 3190 Road Town, Tortola British Virgin Islands
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Custodian	ING Bank (Eurasia) ZAO 36 Krasnoproletarskaya Moscow 127473 Russian Federation
Auditor	Ernst & Young LLC Sadovnicheskaya nab.77, bld.1 Moscow 115035 Russia
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Company information

Listing and ongoing sponsor

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Investment Manager's Report

As the Fund began its investment activities on the December 21, 2007, this report covers the period from December 21, 2007, the date when net assets value per share was calculated for the first time, to December 31, 2008 ("the Period").

Throughout the Period the Investment Manager worked initially to set up the Fund's diversified investment portfolio. Most of the Fund's investments were made in April - September 2008. Overall, during the Period the Fund made 15 investments of which it had exited from 3.

Overall, the portfolio of the Fund as of December 31, 2008 broadly met the investment criteria set out in its Offering memorandum. In particular, the Fund had invested into retail non-performing loan portfolios ("NPL portfolios"), distressed corporate bonds and special situations.

Different from the Investment Manager's initial expectations, it took seven months since the Fund's inception for it to invest into the first retail NPL portfolio. This delay was largely due to the relative shortage of the appropriate assets in the market as well as the high sale prices declared by the selling banks. The Fund paid less than 11 cents on a US Dollar for its first portfolio of auto loans. The Investment Manager believes that the purchase price was broadly commensurate with the quality of the underlying asset and the expected cash recovery. However, the first experience of working with Russian debt collection agencies has proven somewhat contradictory. On the one hand, one of the largest debt collection agencies whom the Fund engaged for the collection on the first NPL portfolio did not deliver on their promises of the timing and the volume of cash collected. On the other hand, smaller regional debt collection agencies appeared to perform much better when working to collect cash from borrowers in the respective regions. As of December 31, 2008, the Fund had four debt collection agencies working on this portfolio.

In the very end of the Period the Fund acquired three retail NPL portfolios for less than 5 cents on a US Dollar of the principal balance. This price reflected both the quality of the assets and the market trends that had led to the decreasing prices on such portfolios. By the end of the Period, the Fund was still accepting debt files from the selling bank and had engaged four debt collection agencies to collect cash from the portfolios.

Whilst the Investment Manager sees significant economic value in similar NPL purchase transactions, it notes that the initial investment period of the Fund ends in December 2009. Therefore, given the expected timeline of cash collection from such portfolios the Fund is unlikely to invest into new NPL portfolios during the remainder of its life.

In the beginning of 2008 the Investment Manager identified an investment opportunity in the distressed corporate bonds space. As a result, during 2008 the Fund invested into 11 corporate bonds most of which were nominated in Rubles. All but one of these bonds performed well and the Fund exited from three bonds at the put option date or the final maturity date. However, during 2008 there were two significant issues that negatively affected the Fund's performance in the bonds' space, namely:

- Ruble devaluation against the US Dollar – in order to minimize the negative impact from this development upon the Fund's bond position starting in Q4 2008 the Investment Manager chose to decrease its exposure to the Ruble bonds and increase exposure to non-Ruble instruments (please, see below).
- Air Union situation – the issuer ceased its operations in Q4 2008 and subsequently did not meet its bond obligations on the put option in November 2008. As of the date of this report, the Fund had engaged services of external legal counsel and the court case against Air Union has begun. The court case is expected to last for another two – three months.

A significant proportion of the Fund's assets under management are invested into one special situation – Project Onyx. At the time of the investment, April 2008, this USD 7.8 million bridge loan was considered as a very secure investment as it was backed by the collateral of the underlying real estate property with loan to value ratio of less than 40%. The borrower on this facility was going to refinance the loan before the maturity date in January 2009. However, primarily due to the financial crisis the borrower failed to secure a refinancing package. As of the date of this report the Fund has assumed ownership of the underlying real estate property and has put the property up for sale. Furthermore, as of the date of this report the Fund has been in discussions regarding the first transactions to dispose of this property.

Since July 2008 the Russian Ruble was gradually losing its value against the US Dollar and Euro and the investments by the Find denominated in Rubles were losing their value. This negative effect is specifically related to the first retail NPL portfolio purchased in late July 2008 and the distressed corporate bonds.

Investment Manager's Report (continued)

To reduce actual and potential negative effects of the Ruble devaluation the Investment Manager made the following two decisions:

1. Starting in October 2008 the Fund began gradually to reduce its Ruble denominated bonds position and replace them with USD denominated bonds. All these positions were taken by the Fund for the short- to medium (up to nine months) term.

2. As an indirect FX exposure hedge in December 2008 the Fund purchased future contracts to sell Euro for US Dollars with maturity date in March 2009. However, during December 2008 the Fund accrued some unrealized negative results on this investment as Euro was appreciating against the US Dollar. During Q1 2009 the US Dollar moved higher against the Euro and the Investment Manager exited this investment with overall marginal profit.

The Investment Manager notes that since February 2009 to the date of this report the Ruble has been appreciating against the US Dollar regaining some 15% of its value lost since July 2008.

Renaissance Capital Investment Management Limited
Investment manager of Renaissance Russia Distressed Assets Limited

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Independent Auditors' Report

To the Shareholders and Directors of Renaissance Russia Distressed Assets Limited -

We have audited the accompanying consolidated financial statements of Renaissance Russia Distressed Assets Limited ("the Fund"), which comprise the consolidated balance sheet as at December 31, 2008 and the consolidated statement of income, consolidated statement of changes in net assets attributable to shareholders and consolidated cash flow statement for the period from October 23, 2007, the date of inception, to December 31, 2008, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated 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 auditors' 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 consolidated financial statements give a true and fair view of the financial position of the Fund as at December 31, 2008, and its financial performance and its cash flows for the period from October 23, 2007, the date of inception, to December 31, 2008 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 15 of the consolidated financial statements which indicates that the Fund's term may end in 2009. Continuation of operations of the Fund depends upon the decision of the Directors of the Fund to extend its term. This outstanding decision indicates the existence of a material uncertainty which may cast significant doubt about the Fund's ability to continue as a going concern.

Ernst & Young LLC

June 30, 2009

Consolidated Balance Sheet

as at December 31, 2008

(in thousands of US Dollars)

	Notes	2008
Assets		
Cash and cash equivalents		1,986
Debt securities designated at fair value through profit or loss	5	4,457
Amounts due from broker		540
Loans and receivables	6	12,864
Syndication fee receivable	7	1,867
Other assets		11
Total assets		21,725
Liabilities		
Derivative financial liability	8	147
Performance fee payable	9	88
Management fee payable	9	116
Accounts payable and accrued expenses		116
Total liabilities excluding net assets attributable to shareholders		467
Net assets attributable to shareholders	10	21,258
Number of Redeemable shares in issue	10	206,790
Net asset value per Redeemable share (in US dollars)	10	102.80

Signed and authorized for release on behalf of the Directors of the Fund

David Blair
Director

Sarah Moule
Director

June 30, 2009

The accompanying notes on pages 10 to 29 are an integral part of these consolidated financial statements.

Consolidated Statement of Income

for the period from October 23, 2007, the date of inception, to December 31, 2008

(in thousands of US Dollars)

	Notes	*2008*
Interest income:		
- Loans and receivables		4,270
- Due from broker		671
- Debt securities designated at fair value through profit or loss		139
- Current accounts with bank		40
		5,120
Allowance for loan impairment	6	(4,446)
Net interest income after allowance for loan impairment		674
Syndication fee	7	1,867
Net foreign exchange loss:		
- Realised loss		(710)
- Unrealised loss		(1,319)
Net gain on debt securities designated at fair value through profit or loss		1,053
Non-interest income		891
Operating income		1,565
Performance fee	9	88
Management fee	9	444
Administration fee		44
Operating expenses		411
Non-interest expense		987
Profit before income tax		**578**
Income tax expense		-
Increase in net assets attributable to shareholders from operations		578

The accompanying notes on pages 10 to 29 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Net Assets Attributable to Shareholders

for the period from October 23, 2007, the date of inception, to December 31, 2008

(in thousands of US Dollars)

	Number of redeemable shares	*Net assets attributable to shareholders (calculated in accordance with IFRS)*
October 23, 2007, the date of inception	-	-
Issue of redeemable shares (Note 10)	206,790	20,680
Increase from transactions in redeemable shares	**206,790**	**20,680**
Increase in net assets attributable to shareholders from operations	-	578
December 31, 2008	**206,790**	**21,258**

The accompanying notes on pages 10 to 29 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

for the period from October 23, 2007, the date of inception, to December 31, 2008

(in thousands of US Dollars)

	2008
Cash flows from operating activities	
Increase/(decrease) in net assets attributable to shareholders from operations	**578**
Net changes in operating assets and liabilities:	
Increase in debt securities designated at fair value through profit or loss	(4,457)
Increase in amounts due from broker	(540)
Increase in loans and receivables	(12,864)
Increase in syndication fee receivable	(1,867)
Increase in other assets	(11)
Increase in derivative financial liability	147
Increase in performance fee payable	88
Increase in management fee payable	116
Increase in accounts payable and accrued expenses	116
Net cash used in operating activities	**(18,694)**
Cash flows from financing activities	
Proceeds from issue of redeemable shares	20,680
Net cash flows provided by financing activities	**20,680**
Net increase in cash and cash equivalents	**1,986**
Cash and cash equivalents at the beginning of the period	-
Cash and cash equivalents at the end of the period	**1,986**
Supplementary information:	
Interest received	1,005

The accompanying notes on pages 10 to 29 are an integral part of these consolidated financial statements.

(in thousands of US Dollars)

1. Principal Activities

These consolidated financial statements include the financial statements of Renaissance Russia Distressed Assets Limited and its 100% owned subsidiary Melado Enterprises Limited ("the Subsidiary"), together referred to as the "Fund".

Renaissance Russia Distressed Assets Limited was incorporated under the laws of the British Virgin Islands on October 23, 2007, as a closed-ended limited liability exempted company. The Fund is listed on the Bermuda Stock Exchange. Its registered office is Palm Grove House, P.O. Box 3190, Road Town, Tortola, British Virgin Islands.

The Fund makes majority of its investments through its subsidiary, Melado Enterprises Limited.

Melado Enterprises Limited was incorporated under Cyprus Companies Law, CAP.113 on September 26, 2007, as a private limited liability company.

The investment objective of the Fund is to achieve medium term capital growth by making investments into listed and unlisted financial instruments, equities, bonds, loan agreements, loan portfolios, promissory notes, other debt instruments, pledges and securitisation instruments of companies in default in various sectors in Russia, the other members of the CIS and the Baltic States.

The Fund appointed Renaissance Capital Investment Management Limited ("the Investment Manager"), an investment management company incorporated on British Virgin Islands, to implement the investment strategy of the Fund.

The Fund has an initial investment period of two years till December 31, 2009. However on or before December 31, 2009 the Directors may resolve to extend the term of the Fund until December 31, 2010. In the event no such resolution is passed the Directors are required to formulate proposals to be put to the shareholders for the winding-up or reorganisation of the Fund. Please also refer to Note 15.

2. Basis of Preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The consolidated financial statements are presented in United States Dollars ("US Dollars" or "USD"), which is the Fund's functional and presentation currency, as management considers that the USD reflects the economic substance of the underlying events and circumstances of the Fund.

Financial information presented in US Dollars has been rounded to the nearest thousand ("USD"), unless otherwise stated.

Operating environment

As previously noted, the Fund's activity is mainly focused on investments in entities located in the Russian Federation.

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity and supporting refinancing of foreign debt for Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Fund's investees, which could affect the fair value of the financial position, results of operations and business prospects of the Fund's investees and, consequently, affect the fair value of the Fund's investments.

While management believes it is taking appropriate measures to support the sustainability of the Fund's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Fund's results and financial position in a manner not currently determinable.

(in thousands of US Dollars)

3. Summary of Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

(A) Financial instruments

(i) Classification

The Fund classifies its financial assets and financial liabilities into the categories below in accordance with IAS 39. The Fund determines the classification of its financial assets upon initial recognition, and subsequently can reclassify financial assets in certain cases as described below.

Financial assets and liabilities at fair value through profit or loss

The category of financial assets and liabilities at fair value through the profit or loss is sub-divided into:

Financial instruments held for trading: Financial assets held for trading include equity securities, investments in managed funds and debt instruments. These assets are acquired principally for the purpose of generating a profit from short-term fluctuations in price. All derivatives and liabilities from short sales of financial instruments are classified as held for trading.

Financial instruments designated as at fair value through profit or loss: These include equity securities, debt instruments and investments in associates that are not held for trading. These financial assets are designated on the basis that they are part of a group of financial assets which are managed and have their performance evaluated on a fair value basis, in accordance with risk management and investment strategies of the Fund. The financial information about these financial assets is provided internally on that basis to the Directors.

The Fund designates the investments in equities in which it holds more than 20 per cent and less than 50 per cent upon initial recognition, as at fair value through profit or loss in accordance with the exemption provided by IAS 28 "Investments in Associates" for investment companies and venture capital organizations.

Available for sale financial assets

Available for sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as investments at fair value through profit or loss or investments held to maturity.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Company has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held to maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in the consolidated statement of income when the investments are impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Fund includes in this category amounts relating to reverse repurchase agreements, cash collateral on securities borrowed and other short-term receivables.

Other financial liabilities

This category includes all financial liabilities, other than those classified as at fair value through profit or loss. The Fund includes in this category amounts relating to repurchase agreements, cash collateral on securities lent and other short-term payables.

(ii) Recognition

The Fund recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e., the date that the Fund commits to purchase or sell the asset.

(in thousands of US Dollars)

3. Summary of Accounting Policies (continued)

(A) Financial instruments (continued)

(iii) Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- The rights to receive cash flows from the asset have expired; or
- The Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and
- Either (a) the Fund has transferred substantially all the risks and rewards of the asset, or (b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Fund's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Fund could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Fund's continuing involvement is the amount of the transferred asset that the Fund may repurchase, except that, in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Fund's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

The Fund derecognises a financial liability when the obligation under the liability is discharged, cancelled or expires.

(iv) Initial measurement

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the consolidated balance sheet at fair value. All transaction costs for such instruments are recognised directly in profit or loss.

Derivatives embedded in other financial instruments are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself classified as held for trading or designated as at fair value through profit or loss. Embedded derivatives separated from the host are carried at fair value with changes in fair value recognised in profit or loss.

(v) Subsequent measurement

After initial measurement, the Fund measures financial instruments which are classified as at fair value through profit or loss at fair value (see B below). Subsequent changes in the fair value of those financial instruments are recorded in "Net gain or loss on financial assets and liabilities at fair value through profit or loss". Interest earned and dividend revenue elements of such instruments are recorded separately in "Interest income" and "Dividend income" respectively. Dividend expenses related to short positions are recognised in "Dividends on securities sold not yet purchased".

Held-to-maturity investments are subsequently measured at amortised cost. Gains and losses are recognised in the consolidated statement of income when the investments are impaired, as well as through the amortization process.

After initial recognition available for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of net assets attributable to shareholders until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in net assets attributable to shareholders is included in the consolidated statement of income. However, interest calculated using the effective interest method is recognised in the consolidated statement of income.

(in thousands of US Dollars)

3. Summary of Accounting Policies (continued)

(A) Financial instruments (continued)

Loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortization process.

Financial liabilities, other than those classified as at fair value through profit or loss, are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instruments but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

(B) Determination of fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

Where the Fund has assets and liabilities with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies the bid or asking price to the net open position as appropriate.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible.

(C) Impairment of financial assets

The Fund assesses at each reporting date whether a financial asset or group of financial assets classified as loans and receivables is impaired. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in consolidated statement of income as "Allowance for loan impairment".

Impaired debts together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Fund. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a previous write-off is later recovered, the recovery is credited to the "Allowance for loan impairment".

Interest revenue on impaired financial asset is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(in thousands of US Dollars)

3. Summary of Accounting Policies (continued)

(C) Impairment of financial assets (continued)

For available for sale financial investments, the Fund assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income – is removed from net assets attributable to shareholders and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised directly in net assets attributable to shareholders.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated statement of income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

(D) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is generally not the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated balance sheet.

(E) Foreign currency translations

Transactions during the period, including purchases and sales of securities, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction.

Differences between the contractual exchange rate of a transaction in a foreign currency and the exchange rate prevailing on the date of the transaction are included in net gains less losses from dealing in foreign currencies. The official CBR exchange rates at December 31, 2008 and December 31, 2007 were 29.3804 Rubles and 24.5462 Rubles to 1 USD, respectively.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at each period end.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign currency transaction gains and losses on financial instruments classified as at fair value through profit or loss are included in the consolidated statement of income as part of the "Net gain or loss on financial assets and liabilities at fair value through profit or loss". Foreign exchange differences on other financial instruments are included in the consolidated statement of income as "Net foreign exchange gain/(loss)". Foreign exchange difference on non-monetary items, such as investments securities available for sale are included in the unrealized gains/(losses) on investment securities available for sale within the consolidated statement of changes in net assets attributable to shareholders.

(F) Due to and due from brokers

Amounts due to brokers are short-term loans taken from the broker to execute payments.

Amounts due from brokers include short-term deposits placed with the broker and balance on settlement account with the broker.

(in thousands of US Dollars)

3. Summary of Accounting Policies (continued)

(G) Cash and cash equivalents

Cash and cash equivalents in the consolidated balance sheet comprise cash on hand, demand deposits, short-term deposits in banks with original maturities of three months or less and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Short-term investments that are not held for the purpose of meeting short-term cash commitments and restricted margin accounts are not considered as "cash and cash equivalents".

For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(H) Interest income and expense

Interest income and expense are recognised in the consolidated statement of income for all interest-bearing financial instruments using the effective interest method.

(I) Dividend income and expense

Dividend income is recognised when the Fund's right to receive the payment is established. Dividend income is presented gross of any non-recoverable withholding taxes, which are disclosed separately in the consolidated statement of income. Dividend expense relating to equity securities sold short is recognised when the shareholders' right to receive the payment is established.

(J) Net gain or loss on financial assets and liabilities at fair value through profit or loss

This item includes changes in the fair value of financial assets and liabilities held for trading or designated upon initial recognition at fair value through profit or loss and exclude interest and dividend income and expense.

Realised gains and losses on disposals of financial instruments classified as "at fair value through profit or loss" are calculated using the First-In, First Out (FIFO) method. Unrealised gains and losses comprise changes in the fair value of financial instruments for the period and from reversal of prior period's unrealised gains and losses for financial instruments which were realised in the reporting period.

(K) Fees and commissions

Unless included in the effective interest calculation, fees and commissions are recognised on an accrual basis.

(L) Income taxes

The Fund is liable for income tax in Cyprus on taxable income of its subsidiary, which excludes capital gains on trading of securities either of a revenue or capital nature, at a flat rate of 10%. All expenses wholly and exclusively incurred in the production of taxable income are deductible for Cypriot tax purposes (expenses relating to the trading of securities will not be allowed for tax purposes).

(M) Profit participating non-voting redeemable shares

Profit participating non-voting redeemable shares are not redeemable at the shareholders' option and are classified as financial liabilities. The liabilities arising from the redeemable shares are carried at the redemption amount being the net asset value calculated in accordance with IFRS.

The Fund's net asset value per share is calculated by dividing the net assets attributable to shareholders by the number of shares in issue.

(in thousands of US Dollars)

3. Summary of Accounting Policies (continued)

(N) Distributions to shareholders

Distributions from the Fund may be made at any time as determined by the Directors. The Fund is not required to distribute the net proceeds of Portfolio Investments disposed of by the Fund and may reinvest all or a part of such net proceeds in new Portfolio Investments. The Fund is entitled to withhold from any distributions amounts necessary to create, in its discretion, appropriate reserves for expenses and liabilities of the Fund as well as for any required tax withholdings.

All distributions are paid out to the Shareholders pro rata in proportion to their shareholding. The Directors may determine whether and to what extent a distribution will be made in the form of dividends or as a partial compulsory redemption of Shares.

The distributions are recognized as finance costs within consolidated statement of operations.

(O) Future changes in accounting policies

Improvements to IFRS
In May 2008, the IASB issued amendments to IFRS, which resulted from the IASB's annual improvements project. They comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after January 1, 2009, with earlier application permitted. The Fund is currently evaluating the potential impact that the adoption of the amendments will have on its consolidated financial statements.

IAS 1 Presentation of Financial Statements (Revised)
The standard replaces IAS 1 Presentation of Financial Statements (revised in 2003) as amended in 2005. The revised IAS 1 Presentation of Financial Statements was issued in September 2007 and is effective for accounting periods beginning on or after January 1, 2009 with early application permitted.

The standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Fund has not decided yet whether a single statement or two linked statements will be presented.

IAS 23 "Borrowing Costs" (Revised)
IAS 23 Borrowing Costs issued in March 2007 will supersede IAS 23 Borrowing Costs (revised in 2003). IAS 23 is effective for accounting periods beginning on or after January 1, 2009, with early application permitted. The main change from the previous version is the removal of the option to immediately recognise as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The Fund expects that this revision will have no impact on the Fund's consolidated financial statements.

Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" - Puttable Financial Instruments and Obligations Arising on Liquidation
Amendments to IAS 32 and IAS 1 were issued by the IASB in February 2008 and become effective for annual periods beginning on or after January 1, 2009 with early application permitted. The amendment to IAS 32 requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendments to IAS 1 require disclosure of certain information relating to puttable instruments classified as equity. The Fund is till evaluating effect of these amendments to its consolidated financial statements.

Amendment to IAS 39 "Financial Instruments: recognition and measurement" - Eligible Hedged Items.
This amendment to IAS 39 Financial Instruments: Recognition and Measurement was issued on July 31, 2008 and is applicable for annual periods beginning on or after July 1, 2009 with early application permitted. The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The Fund expects that these amendments will have no impact on the Fund's consolidated financial statements.

(in thousands of US Dollars)

3. Summary of Accounting Policies (continued)

(O) Future changes in accounting policies (continued)

Amendments to IFRS 1 "First-time Adoption of IFRSs" and IAS 27 "Consolidated and Separate Financial Statements" - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
These amendments were issued in May 2008, and become effective for annual periods beginning on or after January 1, 2009. The revision to IAS 27 will have to be applied prospectively. The amendments to IFRS 1 allow an entity to determine the cost of investments in a subsidiary, jointly controlled entity or associate in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the statement of income in the separate financial statements. The new requirements affect only the parent's separate financial statements and do not have an impact on the consolidated financial statements of the Fund.

Amendments to IFRS 2 "Share-based Payment"- Vesting Conditions and Cancellations
This amendment to IFRS 2 Share-based payments was published in January 2008 and becomes effective for financial years beginning on or after January 1, 2009. The standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a nonvesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Fund expects that these amendments will have no impact on the Fund's consolidated financial statements as no such payment schemes currently exist.

IFRS 3 "Business Combinations" (revised in January 2008) and IAS 27 "Consolidated and Separate Financial Statements" (revised in January 2008).
The revised standards were issued in January 2008 and become effective for financial years beginning on or after July 1, 2009. IFRS 3 (Revised 2008) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27 (Revised 2008) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Application of the revised standards will become mandatory for the Fund's 2010 consolidated financial statements.

IFRS 8 "Operating Segments"
IFRS 8 becomes effective for annual periods beginning on or after January 1, 2009. This Standard requires disclosure of information about the Fund's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Fund.

For management purposes, the Fund is organized into one main operating segment, which invests in equity securities. All of the Fund's activities are interrelated, and each activity is dependent on the others. All significant operating decisions are based upon analysis of the Fund as one segment. The financial results from this segment are equivalent to the consolidated financial statements of the Fund as a whole. Accordingly, adoption of this Standard will not have any impact on the financial position or performance of the Fund.

IFRIC 13 "Customer Loyalty Programmes"
IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after July 1, 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Fund expects that this interpretation will have no impact on the Fund's consolidated financial statements as no such schemes currently exist.

IFRIC 15 "Agreements for the Construction of Real Estate"
IFRIC Interpretation 15 was issued in July 2008 and is applicable retrospectively for annual periods beginning on or after January 1, 2009. IFRIC 15 clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. The interpretation also provides guidance on how to determine whether an agreement is within the scope of IAS 11 "Construction Contracts" or IAS 18 "Revenue" and supersedes the current guidance for real estate in the Appendix to IAS 18. The Fund expects that this interpretation will have no impact on the Fund's consolidated financial statements.

(in thousands of US Dollars)

3. Summary of Accounting Policies (continued)

(O) Future changes in accounting policies (continued)

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"
IFRIC Interpretation 16 was issued in July 2008 and is applicable for annual periods beginning on or after October 1, 2008. This Interpretation provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of net investment, where within the group the hedging instrument can be held and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The Fund expects that this interpretation will have no impact on the Fund's consolidated financial statements.

IFRIC 17 "Distribution of Non-Cash Assets to Owners"
IFRIC Interpretation 17 was issued on November 27, 2008 and is effective for annual periods beginning on or after July 1, 2009. IFRIC 17 applies to pro rata distributions of non-cash assets except for common control transactions and requires that a dividend payable should be recognised when the dividend is appropriately authorized and is no longer at the discretion of the entity; an entity should measure the dividend payable at the fair value of the net assets to be distributed; an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation. The Fund expects that this interpretation will have no impact on the Fund's consolidated financial statements.

IFRIC 18 Transfers of Assets from Customers
IFRIC 18 was issued in January 2009 and becomes effective for financial years beginning on or after July 1, 2009 with early application permitted, provided valuations were obtained at the date those transfers occurred. This interpretation should be applied prospectively. IFRIC 18 provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. The interpretation clarifies the circumstances, in which the definition of an asset is met, the recognition of the asset and its measurement on initial recognition, the identification of the separately identifiable services, the recognition of revenue and the accounting for transfers of cash from customers. IFRIC 18 will have no impact on the financial position or performance of the Fund, as the Fund does not receive assets from customers.

Amendments to IFRS 7 "Improving Disclosures about Financial Instruments"
Amendments to IFRS 7 "Improving Disclosures about Financial Instruments" were issued in March 2009 and become effective for periods beginning on or after January 1, 2009 with early application permitted. These Amendments introduce a three-level fair value disclosure hierarchy that distinguishes fair value measurements by the significance of the inputs used. In addition, the amendments enhance disclosure requirements on the nature and extent of liquidity risk arising from financial instruments to which an entity is exposed. These amendments will have no impact on the financial position or performance of the Fund but will result in more detailed disclosures regarding measurement of the fair value of financial instruments.

4. Significant Accounting Judgments and Estimates

The preparation of the Fund's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts recognised in the consolidated financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Fair value of financial instruments

When the fair value of financial assets and financial liabilities recorded in the consolidated balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as credit risk (both own and counterparty's), correlation and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The models are calibrated regularly and tested for validity using prices from any observable current market transactions in the same instrument (without modification or repackaging) or based on any available observable market data.

(in thousands of US Dollars)

4. Significant Accounting Judgments and Estimates (continued)

Allowance for loan impairment

The Fund regularly reviews its loans and receivables to assess impairment. The Fund uses its experienced judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Fund estimates changes in future cash flows based on the observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans and receivables. The Fund uses its experienced judgment to adjust observable data for a group of loans or receivables to reflect current circumstances.

Deferred tax assets

Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available, against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits.

As of December 31, 2008 the Fund did not recognize deferred tax asset in respect of tax losses.

5. Debt Securities Designated at Fair Value through Profit or Loss

	2008
Eurobonds	
Red Arrow Leasing S.a.r.l. (RAIL)	1,815
ROSBANK Commercial Bank OJSC	674
TMK JSC	661
Irkut	475
	3,625
Russian bonds	
Kopeyka Trade House OJSC	485
Integra Finance	347
	832
	4,457

An increase of fair value of debt securities designated at fair value through profit or loss amounting to USD 1,150 was recognized within "Net gain on debt securities designated at fair value through profit or loss" for the period from October 23, 2007, the date of inception, to December 31, 2008.

6. Loans and Receivables

As of December 31, 2008 the Fund granted the following loans:

	2008
Secured loan	11,746
Distressed bonds	3,040
Distressed retail loans	2,524
Gross loans granted	**17,310**
Less - Allowance for impairment	(4,446)
Net loans granted	**12,864**

(in thousands of US Dollars)

6. Loans and Receivables (continued)

As of December 31, 2008 the Fund granted a loan secured by real estate property (office and warehouse building located in Moscow). In accordance with terms of the respective collateral agreement, the Fund is not permitted to sell or repledge the collateral in the absence of default by the owner of the collateral. The loan matures on January 1, 2009 and bears interest of 67% per annum. As of December 31, 2008 the Fund identified that there is objective evidence that the loan is impaired, respective impairment amounted to USD 1,963 was recognized within the Fund's consolidated statement of income. Refer also to Note 17.

In July and December 2008, the Fund purchased the rights to 100% of the cash flows arising on portfolios of non-performing fixed rate retail loans carried at USD 48,552 from MDM-Bank OJSC, for cash consideration of USD 3,058. As of December 31, 2008 respective payments received in cash by the Fund comprised USD 106. As at December 31, 2008 the Fund recognized an impairment related to these portfolios amounted to USD 181.

During the reporting period the Fund acquired individually impaired Ruble bonds of two Russian companies at significantly discounted value. As of December 31, 2008 the Fund recognized additional impairment related to these bonds amounted to USD 2,302.

Allowance for impairment of loans and receivables

A reconciliation of the allowance for impairment of loans granted is as follows:

	Secured loan 2008	*Distressed bonds 2008*	*Distressed retail loans 2008*	*Total 2008*
At 1 January 2008	-	-	-	-
Charge for the year	1,963	2,302	181	4,446
At 31 December 2008	**1,963**	**2,302**	**181**	**4,446**
Individual impairment	1,963	2,302	181	4,446
Collective impairment	-	-	-	-
	1,963	**2,302**	**181**	**4,446**
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	11,746	3,040	2,524	17,310

During the period from October 23, 2007, the date of inception, to December 31, 2008 amount of loans and receivables written off at the cost of allowance previously recognized comprised USD nil.

As of December 31, 2008 interest income accrued on loans and receivables, for which individual impairment allowances have been recognized, comprised USD 4,057.

7. Syndication Fee Receivable

During the period from October 23, 2007, the date of inception, to December 31, 2008, the Fund arranged a loan for a related party and received a compensation for the service of syndication amounted to USD 1,867. Respective syndication fee receivable was recognized as of December 31, 2008.

8. Derivative Financial Liability

On December 5, 2008 the Fund entered into an over-the-counter agreement to sell Euro at a specific price on March 19, 2009. Notional amount of the agreement amounted to USD 1,264. In accordance with the terms of the contract, as of December 31, 2008 the Fund held USD 126 as collateral on margin account with broker.

Respective derivative financial liability amounted to USD 147; correspondent loss was included to net unrealized foreign exchange loss.

(in thousands of US Dollars)

9. Performance and Management Fees

The Fund pays the Investment Manager a performance fee equal to 20% of the total increase in the net asset value per share over the initial subscription price. Such performance fee, if owed, will be on the occurrence of a crystallisation event in relation to each relevant Share; namely any redemption or repurchase of that Share, whether on, or in anticipation of, the winding up of the Fund or otherwise.

The Fund pays the Investment Manager a management fee equal to 2% per annum of the net asset value of the Shares as at close of business in Dublin on each business day. Management fees are generally paid quarterly or at such other times as the Directors, with the consent of the Investment Manager, may determine.

Amount of performance fee payable as of December 31, 2008 comprised USD 88, respective expense was recognized in the Fund's consolidated statement of income. Amount of management fee payable as of December 31, 2008 comprised USD 116 with correspondent expense recognized within the Fund's consolidated statement of income.

10. Net Assets Attributable to Shareholders

Incorporation and share capital

The Fund is authorised to issue 100 non-participating voting Founder shares of US Dollar 0.01 each and 4,999,900 profit participating non-voting Redeemable shares of US Dollar 0.01 each.

The Investment Manager owns 100% of the Founder shares.

During the period from October 23, 2007 to December 31, 2008, 100 Founder shares have been issued at US Dollar 0.01 each and 206,790 profit participating non-voting Redeemable shares have been issued at US Dollar 0.01 each.

The Fund does not have any externally imposed capital requirements.

Rights of the Founder Shares

The Founder shares carry one vote each at annual general meetings of the Fund, are not redeemable and have no rights to any dividends. On liquidation of the Fund the nominal amount paid up on them will be returned after the return of the nominal amount paid up on the redeemable shares.

Rights of the Redeemable Shares

The Redeemable shares have no voting rights. The Fund's Directors may declare and pay dividends on the Redeemable shares, at their sole discretion. These shares are not redeemable at the option of the Shareholders but may be repurchased by the Fund at the Directors' absolute discretion.

Winding Up

The Redeemable shares carry a right to a return of the subscription price paid up in respect of such shares in priority to any return of the subscription price paid up in respect of Founder shares, and an exclusive right to share in surplus assets remaining after the return of the subscription price paid up on the Redeemable shares and Founder shares.

Distributions

Distributions from the Fund may be made at any time as determined by the Directors. The Fund is not required to distribute the net proceeds of investments disposed of by the Fund and may reinvest all or a part of such net proceeds in new investments. The Fund will be entitled to withhold from any distributions amounts necessary to create, in its discretion, appropriate reserves for expenses and liabilities of the Fund as well as for any required tax withholdings.

All distributions will be paid out to the holders of Redeemable shares pro rata in proportion to their shareholding. The Directors may determine whether and to what extent a distribution will be made in the form of dividends or as a partial compulsory redemption of shares.

During the period from October 23, 2007, the date of inception, to December 31, 2008 the Fund did not declare

(in thousands of US Dollars)

any dividends; neither did it make any distribution.

10. Net Assets Attributable to Shareholders (continued)

Reconciliation of audited net assets to net assets as reported to the shareholders

In accordance with the terms of its offering documents the Fund reports its net assets on a daily basis. As a result of the preparation of these consolidated financial statements certain adjustments have been recorded to the net assets as previously reported in order to comply with IFRS. These differences are:

- An adjustment of net unrealized gain/(loss) on debt securities designated at fair value through profit or loss has been recognized;
- An impairment of loans has been recognized;
- A partial reversal of performance fee has been recognised;
- An adjustment of amortized cost of loans and receivables;
- An adjustment of unrealized foreign exchange loss on loans and receivables; and
- Other adjustments have been recorded.

The table below provides a reconciliation of the net assets attributable to shareholders as previously reported to the net assets attributable to shareholders as disclosed in these consolidated financial statements.

	2008
Net assets as reported to shareholders	**22,909**
Unrealized gain/(loss) on debt securities designated at fair value through profit or loss	2,530
Impairment of loans	(4,446)
Reversal of performance fee	470
Adjustment of amortized cost of loans and receivables	31
Adjustment of unrealized foreign exchange loss on loans and receivables	(224)
Other adjustments	(12)
Adjusted net assets per consolidated financial statements	**21,258**
Net asset value per Redeemable share as reported to shareholders (in US Dollars)	**110.78**
Adjustments per Redeemable share (in US Dollars)	(7.98)
Net asset value per Redeemable share as per these consolidated financial statements (in US Dollars)	**102.80**

11. Income Tax Expense

British Virgin Islands

At present the British Virgin Islands impose no taxes on income, profits, capital gains or appreciations in value of the Fund. There are also no taxes currently imposed in the British Virgin Islands on income, profits, capital gains or appreciation in the value of the redeemable shares, nor any taxes on the shareholders in the nature of estate duty, inheritance or capital transfer tax.

Cyprus

Income tax is provided for in accordance with Cyprus income tax regulations. The Fund is liable for income tax in Cyprus on the Cyprus taxable income of the subsidiary (which excludes capital gains on trading of securities either of a revenue or capital nature) at a flat rate of 10%. All expenses wholly and exclusively incurred in the production of taxable income are deductible for Cypriot tax purposes (expenses relating to the trading of securities will not be allowed for tax purposes).

(in thousands of US Dollars)

11. Income Tax Expense (continued)

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate, to income tax expense at the subsidiary's effective income tax rate is as follows:

	2008
Accounting income before tax	**578**
Tax benefit calculated at domestic rate applicable to the Fund's subsidiary	367
Tax effect of non-deductible expenses	(210)
Tax effect of tax exempt income	104
Income tax benefit	**261**
Unrecognised deferred tax asset	(261)
Income tax expense	-

12. Commitments and Contingencies

Legal

In the ordinary course of business, the Fund is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Fund.

The Management is unaware of any significant actual, pending or threatened claims against the Fund.

13. Financial Risk Management

Risk is inherent in the Fund's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The Fund's investing activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The most significant type of financial risk to which the Fund is exposed is credit risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Fund's strategic planning process.

According to its investment strategy the Fund aims to achieve medium-term capital growth by making investments into listed and unlisted financial instruments, equities, bonds, loan agreements, standard loan portfolios, promissory notes, other debt instruments, pledges and securitisation instruments of companies in default. Investments will be made in various sectors in Russia, and the other members of the CIS and the Baltic States.

Asset allocation is determined by the Fund's Investment Manager who manages the distribution of the assets to achieve the investment objectives. Divergence from target asset allocations and the composition of the portfolio is monitored by the Fund's Compliance Controller.

The nature and extent of the financial instruments outstanding at the balance sheet date and the risk management policies employed by the Fund are discussed below.

Credit risk

Credit risk represents the potential loss that the Fund would incur if counterparty to a financial instrument failed to perform pursuant to the terms of their obligations to the Fund. Credit risk is generally higher when a non-exchange-traded financial instrument is involved, because the counterparty is not backed by an exchange clearing house.

(in thousands of US Dollars)

13. Financial Risk Management (continued)

Credit risk (continued)

Counterparty credit risk is managed through the internally developed system of counterparty limits. The counterparty limits are established by the Investment Manager for the Fund. Adherence to those limits is monitored by Investment Manager on a daily basis. Counterparty limits bound the maximum amount of all unsettled trades (exposure) for all products with each respective counterparty.

Credit risk arising on transactions with brokers mostly relates to balances outstanding on settlement account held with the broker. Risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the brokers used. The Prime broker of the Fund is Renaissance Advisory Services Limited. The Fund monitors the credit ratings and financial positions of the broker used to further mitigate this risk. At the reporting date no unsettled transactions were in place.

Substantially all of the cash held by the Fund is held by Raiffeisenbank Moscow to facilitate any payments or proceeds received in Russian Rubles and US Dollars. Bankruptcy or insolvency of the Bank may cause the Fund's rights with respect to the cash held by the Bank to be delayed or limited. The Fund monitors its risk by monitoring the credit quality and financial position of the Bank.

The table below shows the maximum exposure to credit risk for the components of the consolidated balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Notes	*Maximum exposure 2008*
Cash and cash equivalents		1,986
Debt securities designated at fair value through profit or loss	5	4,457
Amounts due from broker		540
Loans and receivables	6	12,864
Syndication fee receivable	7	1,867
Other assets		11
Total credit risk exposure		21,725

The carrying amounts of financial assets best represent the maximum credit risk exposure at the balance sheet date. This relates also to loans and receivables carried at amortised cost. Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Credit quality per class of financial asset

The credit quality of financial assets is managed based on international credit ratings of counterparties, determined by Standard and Poor's, Moody's or Fitch. The table below shows the credit quality by class of asset for loan-related balance sheet lines, based on the Fund's credit risk monitoring approach.

		Neither past due nor impaired							*Past due or individually impaired*	
	Notes	*AAA.ru*	*BBB+*	*Ba2*	*Ba3*	*BB-*	*CCC+*	*Not rated*	*2008*	*Total 2008*
Cash and cash equivalents		1,986	-	-	-	-	-	-	-	1,986
Debt securities designated at fair value through profit or loss	5	-	1,815	475	674	661	485	347	-	4,457
Amounts due from broker		-	-	-	-	-	-	540	-	540
Loans and receivables:	6									
Secured loan		-	-	-	-	-	-	-	11,746	11,746
Distressed bonds		-	-	-	-	-	-	-	3,040	3,040
Distressed retail loans			-	-	-	-	-	-	2,524	2,524
		-	-	-	-	-	-	-	17,310	17,310
Syndication fee receivable	7	-	-	-	-	-	-	1,867	-	1,867
Other assets		-	-	-	-	-	-	11	-	11
Total		1,986	1,815	475	674	661	485	2,765	17,310	26,171

As of December 31, 2008 the Fund had no assets which were overdue but not impaired.

(in thousands of US Dollars)

13. Financial Risk Management (continued)

Credit risk (continued)

As of December 31, 2008 the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated comprised USD nil.

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, infringement of the original terms of the contract or bankruptcy of the borrower. The Fund addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances

The Fund determines the allowances appropriate for each individually significant loan on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and receivables that are not individually significant and for individually significant loans where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is no yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the appropriate delay between the time a loss is likely to have been uncured and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

The geographical concentration of Fund's assets and liabilities is set out below:

	2008			
	Russia and CIS	*Cyprus*	*Other*	*Total*
Assets:				
Cash and cash equivalents	1,986	-	-	1,986
Debt securities designated at fair value through profit or loss	4,457	-	-	4,457
Amounts due from broker	-	-	540	540
Loans and receivables	12,864	-	-	12,864
Syndication fee receivable	-	-	1,867	1,867
Other assets	-	8	3	11
	19,307	**8**	**2,410**	**21,725**
Liabilities:				
Derivative financial liabilities	-	147	-	147
Performance fee payable	-	-	88	88
Management fee payable	-	-	116	116
Accounts payable and accrued expenses	81	-	35	116
	81	**147**	**239**	**467**
Net balance sheet position	19,226	(139)	2,171	21,258

(in thousands of US Dollars)

13. Financial Risk Management (continued)

Liquidity risk and funding management

The Fund's constitution does not provide for the cancellation of shares and it is therefore not exposed to the liquidity risk of meeting shareholder redemptions upon the cancellation time.

The current liquidity requirements including payments of operating expenses and fees are managed in accordance with policies and procedures in place. The Fund uses detailed cash flow forecasting, which allows controlling and managing its liquidity and undertaking proper measures if liquidity shortages or excessive liquidity are anticipated.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Fund's financial liabilities at December 31, 2008 based on contractual undiscounted repayment obligations.

	December 31, 2008		
	Less than 3 months	*3 to 12 months*	*Total*
Derivative financial liabilities	147	-	147
Performance fee payable	-	88	88
Management fee payable	116	-	116
Accounts payable and accrued expenses	56	60	116
Total undiscounted financial liabilities	**319**	**148**	**467**

Market risk

Market risk embodies the potential for both loss and gains and includes currency risk, interest rate risk and other price risk.

The Fund's strategy on the management of investment risk is driven by the Fund's investment objective. The investment objective of the Fund is to achieve medium term capital growth through investments in listed and unlisted financial instruments, equities, bonds, loan agreements, loan portfolios, promissory notes, other debt instruments, pledges and securitisation instruments of companies in default. Investments will be made in various sectors in Russia, and the other members of the CIS and the Baltic States.

Currency risk

The Fund may invest in financial instruments denominated in currencies other than its functional currency – US Dollars. According to the Fund's investment policy, it may invest in securities and other instruments that are principally denominated in Russian roubles. Consequently, the Fund may be exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse affect on the value of that portion of the Fund's assets or liabilities denominated in currencies other than US Dollar, notwithstanding any efforts made to hedge such fluctuations.

Normally, any cash balances or proceeds in Russian roubles and other non-USD currencies are converted into USD.

Sensitivity analysis is based on consideration of up and down scenario according to parameters stated in the following table.

Currency	*UP Scenario*	*DOWN Scenario*
RUR	-10%	-30%

As of December 31, 2008, had the foreign currencies changed their exchange rates in accordance with reasonable possible changes provided in the table above, with all other variables held constant, net assets attributable to shareholders and profit and loss of the Fund would have changed by the amounts shown below:

	December 31, 2008
UP Scenario	(392)
DOWN Scenario	(1,175)

(in thousands of US Dollars)

13. Financial Risk Management (continued)

Market risk (continued)

Other price risk

Other price risk is the risk that value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

During the period from October 23, 2007 to December 31, 2008 the Fund had no transactions with equity investments; accordingly, the Fund has limited exposure to other price fluctuations and does not have specific policies and procedures for managing other price risk.

Interest rate risk

As of December 31, 2008 the Fund has no financial instruments bearing interest at floating rate. Therefore, the Fund has limited exposure to interest rate fluctuations and does not have specific policies and procedures for managing interest rate risk.

14. Fair Values of Financial Instruments

The following describes the methodologies and assumptions used to determine fair values of financial instruments.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits, savings accounts without a specific maturity, variable rate financial instruments.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost is estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments.

For distressed loans and receivables the fair value calculated based on discounted cash flow approach also approximates carrying value as of December 31, 2008.

Financial instruments recorded at fair value

The fair value of debt securities designated at fair value through profit or loss is based on quoted market prices as of December 31, 2008.

15. Going Concern

In accordance with the Offering Memorandum, the Fund has an initial investment period of two years till December 31, 2009. However on or before December 31, 2009 the Directors may resolve to extend the term of the Fund until December 31, 2010. In the event no such resolution is passed the Directors are required to formulate proposals to be put to the shareholders for the winding-up or reorganisation of the Fund.

As of the date when these consolidated financial statements were authorised for issue the decision on whether to extend the term of the Fund has not been taken and therefore the termination date of the Fund is currently uncertain. Therefore, there is a material uncertainty, which may cast significant doubt on the Fund's ability to continue as a going concern. Therefore, the Fund may be unable to realize its assets and discharge its liabilities in the normal course of business for the period of at least twelve months from the balance sheet date.

These consolidated financial statements have been prepared on a going concern basis and as such debt securities designated at fair value are stated at fair value, loan and receivables – at amortized cost as at the date of the consolidated financial statements. If the Fund is terminated during 2009, the securities and loans and receivables will need to be sold in urgent sales and such sales value less costs to sell may differ from the fair value and amortized cost reported in the consolidated financial statements. Continuation of operations of the Fund depends upon the decision of the Directors of the Fund to extend the term of the Fund.

As of December 31, 2008 the Fund's assets and liabilities are expected to be recovered or settled within one-year period.

(in thousands of US Dollars)

16. Related Party Transactions

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Fund's related party transactions were made on terms equivalent to those that prevail in arm's length transactions during the period from October 23, 2007, the date of inception, to December 31, 2008.

The volumes of related party transactions, outstanding balances as of December 31, 2008, and related expense and income for the period are as follows:

	2008	
	Investment manager	*Entities under common control*
Management fee payable at October 23, 2007	-	-
Management fee accrued	444	-
Management fee paid	(328)	-
Management fee payable at December 31	116	-
Performance fee payable at October 23, 2007	-	-
Performance fee accrued	88	-
Performance fee payable at December 31	88	-
Derivative financial liability	-	147
Amounts due from broker	-	540
Syndication fee receivable	-	1,867
Syndication fee income	-	1,867

During the year the Fund was involved into transactions with related parties which are classified as follows:

- Renaissance Capital Investment Management Limited, the Investment Manager
- Entities under common control
- Directors

Renaissance Capital Investment Management Limited, the Investment manager, belongs to Renaissance Investment Management Group ("RIM Group") which is together with Renaissance Capital Group ("RCHL Group") is under common control of Renaissance Group Holdings Limited (Bermuda).

During the period from October 23, 2007 to December 31, 2008 the Fund had operations with its broker, Renaissance Advisory Services Limited (Bermuda) and Renaissance Securities (Cyprus) Limited, the entities of RCHL Group.

During the period from October 23, 2007 to December 31, 2008 the Fund had no significant transactions with its Directors.

(in thousands of US Dollars)

17. Events after the Balance Sheet Date

Secured loan

On January 2, 2009 the secured loan granted by the Fund became overdue. On February 1, 2009 the Fund repossessed the real estate property pledged under this loan. The Fund plans to dispose the real estate property and use the respective proceeds to recover the outstanding claim. It is the Fund's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Fund does not occupy repossessed properties for business use.

Redemption of bonds

During March and April 2009 certain bonds designated at fair value through profit or loss were redeemed. Total cash received by the Fund comprised USD 1,353.

Renegotiation of bonds

During the subsequent period the Fund signed agreement on restructuring of one of the distressed bonds classified as loans and receivables. In accordance with the renegotiated terms of the bonds, the Fund received USD 42 in cash from the issuer in April 2009.

Distribution

During the period from March 10 to March 23, 2009 the Fund made a distribution to the Shareholders of Redeemable shares of USD 3,000 (US Dollar 14.51 per share).

Russian Rouble devaluation

Significant part of the Fund's investments is denominated in Russian roubles. As a result the rouble foreign exchange rate fluctuations have significant influence on fair value of the Fund's investments. In the beginning of 2009 the Russian Rouble was devalued to major currencies. At the date these consolidated financial statements have been authorized for issue, the official exchange rate of the Russian Rouble to US Dollar as set by the Central Bank of Russia comprised 31.2904, which constitutes a 7% reduction in the value of the Russian Rouble to the US Dollar since December 31, 2008.