

**KHODORKOVSKY FOUNDATION**  
**ACCOUNTS FOR THE PERIOD**  
**ENDED 31 DECEMBER 2004**

**INDEX**

Page 1-3	Trustees' Report
4	Statement of Trustees' Responsibilities
5	Independent Auditors' Report
6	Statement of Financial Activities
7	Balance Sheet
8	Cash Flow Statement
9-10	Notes to the Accounts

Company No: 4988238

Charity No: 1106885



## KHODORKOVSKY FOUNDATION

### TRUSTEES' REPORT FOR THE PERIOD ENDED 31 DECEMBER 2004

The Trustees submit their annual report and audited accounts for the period ended 31 December 2004.

The charity is a charitable company limited by guarantee (no: 4988238) and was incorporated on 8 December 2003. The charity is governed by its Memorandum and Articles of Association.

Charitable status was obtained on 19 November 2004 with the charity's registration number being 1106885.

#### Legal and Administrative Details

Trustees	A Tulloch C Young A Smith B Saltykov	(appointed 8 December 2003) (appointed 8 December 2003) (appointed 8 December 2003) (appointed 11 March 2004)
Charity's secretary	A Tulloch	
Registered office	4 Hill Street London W1J 5NE	
Bankers	Lloyds TSB Bank Plc Berkeley Square Branch London W1J 6AF	
Investment managers	Morgan Stanley & Co. International Limited 25 Cabot Square Canary Wharf London E14 4QA	
Auditors	Critchleys Greyfriars Court Paradise Square Oxford OX1 1BE	

#### Objectives

The main objects of the charity are to advance education in the Russian Federation through the provision of scholarships to students and the making of donations to educational establishments

#### Organisational structure

The charity is managed by its Board of Trustees.

**KHODORKOVSKY FOUNDATION****TRUSTEES' REPORT FOR THE PERIOD ENDED 31 DECEMBER 2004****Review of activities of the charity and future developments**

Following registration of the charity with the Charity Commission on 19 November 2004, the charity is now in a position to proceed with the making of grants to educational institutions in Russia and to support other UK charities in respect of their Russian scholarship programmes.

**Reserves policy**

As at 31 December 2004 free reserves (represented by unrestricted funds) were \$506,265,114. Having regard to the investment policy which envisages annual distributions of approximately 3% of the charity's funds, and, at the same time, preserves the real value of the charity's funds over the long term, free reserves will be built up over time to the extent the growth of the charity's funds exceeds the distributions made by the charity.

**Investment policy**

The charity has received an initial donation of \$500 million. The donor has specified that this amount should be treated as an expendable endowment as defined under the rules issued by the UK Accounting Standards Board. The trustees therefore have adopted an investment policy which envisages annual distributions of approximately 3% of the charity's funds and, at the same time, preserves the real value of the charity's funds over the long term.

The trustees have appointed two international investment banks to manage the charity's funds. In future, certain specialist managers may be appointed to run smaller portfolios within their specialist areas. The trustees have appointed an investment committee to monitor the performance of the managers of the funds of the charity and to review the allocation between all classes of assets from time to time to ensure that the total portfolio is prudently invested.

**1 Currency**

The donation was made in US dollars and it is currently invested entirely in short term dollar instruments. It is likely that over time an increasing proportion of the charity's disbursements will be denominated in Russian Roubles. However, as the investment climate for Russian Roubles remains uncertain, the trustees consider that the financial statements of the charity should be maintained in US Dollars and that the charity's investment performance should be judged in US Dollars.

**2 Anticipated Disbursements**

Given that charitable status was awarded in November 2004, the charity did not award any grants in 2004, though the objective in the long term is to distribute approximately annually 3% of the charity's funds. However, in its first few years of operation, whilst the infrastructure for the distribution of grants is being established, the charity may disburse annually less than 3% of the charity's funds.

**KHODORKOVSKY FOUNDATION****TRUSTEES' REPORT FOR THE PERIOD ENDED 31 DECEMBER 2004****Investment policy (continued)****3 Risk**

The investment policy will set a conservative attitude to risk. In addition to the allocation of funds between asset classes initially agreed with the managing banks, overall limits will be set on the proportion of the total funds of the charity that can be invested in particular classes.

**4 Administration**

As the charity currently has no full time employees, the banks chosen to manage the charity's funds will be required to contribute in a substantial way to their day to day administration, record keeping and reporting. The investment committee will periodically review the investment performance of each of the banks, and their adherence to the detail of the investment policy, and will report regularly to the Trustees. The investment committee may decide from time to time to recommend to the trustees that the allocation of funds between the banks should be changed or that other investment banks should be appointed as managers.

**Grant-making policy**

In accordance with the objects, it is intended that the charity will make grants to other UK charities working in Russia and individuals and institutions in the Russian Federation. However, as charitable status has only just been awarded, the detailed policy will be formulated in the forthcoming year.

**Risk management**

The trustees conduct the overall supervision and monitoring of the financial position of the charity. There are risks to income as a result of fluctuations in world equity and bond markets but the charity's investment policy adopted should minimise the risks to an acceptable level.

Internal Risks are mitigated by the implementation of procedures for the authorisation of all transactions by at least two of the trustees.

This report was approved by the Trustees on.....*18 April 2005*.....

*Alastair T. R. H.* Trustee

**KHODORKOVSKY FOUNDATION****STATEMENT OF TRUSTEES' RESPONSIBILITIES**

The trustees are required to prepare accounts for each financial year, which give a true and fair view of the state of affairs of the charity and the incoming resources and application of resources, including the net income or expenditure, of the charity for the year. In preparing those accounts, the trustees are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the charity will continue in operation.

The trustees are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the charity and which enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**KHODORKOVSKY FOUNDATION****INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF RHODORKOVSKY FOUNDATION**

We have audited the accounts of Khodorkovsky Foundation for the period ended 31 December 2004 which comprise the Statement of Financial Activities, Summary Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. These accounts have been prepared under the historical cost convention as modified by the revaluation of investments and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of trustees and auditors**

As described in the Statement of Trustees' Responsibilities the trustees (who are also the directors of Khodorkovsky Foundation the purposes of company law) are responsible for the preparation of the Trustees' Report and the accounts in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Trustees' Report is not consistent with the accounts, if the charity has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding trustees' remuneration and transactions with the charity is not disclosed.

We read other information contained in the Trustees Report, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

**Basis of audit opinion**

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the trustees in the preparation of the accounts, and of whether the accounting policies are appropriate to the charity's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

**Opinion**

In our opinion the accounts give a true and fair view of the state of the charity's affairs as at 31 December 2004, and of its incoming resources and application of resources, including its income and expenditure, in the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Oxford

22 April 2005

Critchleys  
Chartered Accountants  
Registered Auditors

## KHODORKOVSKY FOUNDATION

## STATEMENT OF FINANCIAL ACTIVITIES FOR THE PERIOD ENDED 31 DECEMBER 2004

	Note	Unrestricted \$
<b>Incoming Resources</b>		
Donations	2	500,003,832
Investment income	3	<u>2,361,016</u>
Total incoming resources		<u>502,364,848</u>
<b>Resources Expended</b>		
Costs of generating funds	4	470,416
Charitable expenditure Management and administration	5	<u>9,276</u>
Total resources expended		<u>479,692</u>
<b>Net incoming resources</b>		501,885,156
Realised gains on disposal of investment assets		<u>2,962,082</u>
		504,847,238
Unrealised gains on revaluation of investment assets		<u>1,417,876</u>
<b>Funds at 31 December 2004</b>		<u>506,265,114</u>

All activities are continuing.

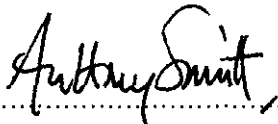
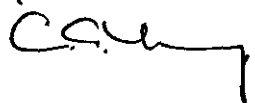
2004 represents the period 8 December 2003 to 31 December 2004.

KHODORKOVSKY FOUNDATION  
BALANCE SHEET AT 31 DECEMBER 2004

	Note	2004 \$
<b>Current assets</b>		
Investments	6	506,459,283
Cash at bank and in hand		<u>3,639</u>
		506,462,922
<b>Creditors: amounts falling due within one year</b>	7	<u>(197,808)</u>
<b>Net assets</b>		<u>506,265,114</u>
<b>Funds</b>		
Unrestricted funds		<u>506,265,114</u>

These accounts are prepared in United States Dollars.  
The rate of exchange at 31 December 2004 is £1=\$1.916.

These accounts were approved by the Trustees on 13 April 2005

  
..... Trustee  




## KHODORKOVSKY FOUNDATION

## CASH FLOW STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2004

	Note	2004 \$	2004 \$
Net cash inflow from operating activities	A		502,082,964
Financial investment			
Purchase of investments		(2,273,688,055)	
Proceeds from sales of investments		<u>1,771,883,241</u>	(501,804,814)
Increase in cash in the year	B		<u>278,150</u>

## NOTES TO THE CASH FLOW STATEMENT

A RECONCILIATION OF NET INCOMING RESOURCES  
TO NET INFLOW FROM OPERATING ACTIVITIES

	\$
Net incoming resources	501,885,156
Increase in creditors	<u>197,808</u>
Net cash inflow from operating activities	<u>502,082,964</u>

## B ANALYSIS OF NET FUNDS

	Cash flow \$	31 December 2004 \$
Cash at bank	3,639	3,639
Cash within investment portfolio	<u>274,511</u>	<u>274,511</u>
	<u>278,150</u>	<u>278,150</u>

## KHODORKOVSKY FOUNDATION

## NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 31 DECEMBER 2004

## 1 ACCOUNTING POLICES

a) **Basis of preparation**

The accounts have been prepared in accordance with the historical cost convention (with exception of investments that are included at market value) and applicable accounting standards. The accounts have also been prepared in accordance with the Statement of Recommended Practice (SORP), "Accounting and Reporting by Charities" published in October 2000 and the Companies Act 1985.

b) **Fund accounting**

Unrestricted funds are available for use at the discretion of the trustees in furtherance of the objects of the charity and which have not been designated for other purposes.

c) **Incoming resources**

Donations and investment income are included in the Statement of Financial Activities when they are received.

d) **Resources expended**

All expenditure is accounted for on an accruals basis under the appropriate expense category. Expenditure includes irrecoverable VAT where appropriate.

e) **Investments**

Investments are stated at market value at the balance sheet date. Market value includes accrued interest where applicable. The Statement of Financial Activities includes net gains and losses arising on revaluations and disposals throughout the year.

f) **Foreign currencies**

Transaction in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the Statement of Financial Activities.

## 2 DONATIONS

Donations include \$500,000,000 from Group Menatep Limited.

## 3 INVESTMENT INCOME

2004  
\$

Interest receivable

2,361,016

## 4 COSTS OF GENERATING FUNDS

\$

Investment management fees

470,416

## KHODORKOVSKY FOUNDATION

## NOTES TO THE ACCOUNTS FOR THE PERIOD ENDED 31 DECEMBER 2004

<b>5</b>	<b>MANAGEMENT AND ADMINISTRATION</b>	<b>2004</b>
		<b>\$</b>
	Auditors' remuneration	9,000
	Bank charges	<u>276</u>
		<u>9,276</u>

No Trustee received any remuneration or reimbursement of expenses in the period.

<b>6</b>	<b>INVESTMENTS</b>	<b>2004</b>	<b>2004</b>
		<b>Cost</b>	<b>Market Value</b>
		<b>\$</b>	<b>\$</b>
	Dollar instruments		
	Short term instruments	417,550,946	418,821,588
	Debt instruments	<u>87,215,950</u>	<u>87,363,184</u>
		504,766,896	506,184,772
	Cash within investment portfolio		<u>274,511</u>
			<u>506,459,283</u>

At the balance sheet date no individual investment represents more than 5% of the investments.

<b>7</b>	<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	<b>2004</b>
		<b>\$</b>
	Accruals	<u>197,808</u>

**8 RELATED PARTIES**

Tulloch & Co, a solicitor practice of which A Tulloch (a Trustee) is the principal, provided legal services to the charity in connection with its formation and Charity Commission registration. For this work it received a fee of \$95,800 (£50,000) which was paid directly by the founding donor.