

KHODORKOVSKY FOUNDATION

ACCOUNTS FOR THE YEAR

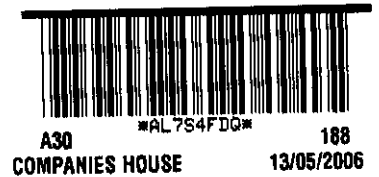
ENDED 31 DECEMBER 2005

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Company No: 4988238

Charity No: 1106885



KHODORKOVSKY FOUNDATION

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2005

The Trustees submit their annual report and audited accounts for the year ended 31 December 2005.

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	(resigned 20 October 2005)
	A Smith	
	B Saltykov	
	A Dalton	(appointed 6 December 2005)
Company 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	
	Merrill Lynch 33 King William St London EC4R 9AS	
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 YEAR ENDED 31 DECEMBER 2005

Review of activities of the charity and future developments

During the year the charity supported the Oxford Russia Fund in the distribution of \$770,580 to Russian universities for the provision of 500 undergraduate scholarships; the number of scholarships is expected to grow significantly each year.

A grant of \$4m was awarded to the Cross Industrial Institute of Technologies, Moscow to support the Podmoskovny Lyceum outside of Moscow.

A commitment has been made to St Antony's College, Oxford to pay £150,000 per annum for 4 years. The full value of this, \$1,029,000, has been included in these accounts as the commitment was made and communicated to the College before 31 December 2005.

Reserves policy

As at 31 December 2005 free reserves (represented by unrestricted funds) were \$536,832,833. Having regard to the charity's investment policy, which envisages annual distributions of approximately 3% of the charity's funds and which, 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 received an initial donation of \$500 million. The donor 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 adopted an investment policy that 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 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.

Currency

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.

Anticipated Disbursements

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.

Risk

The investment policy has a conservative attitude to risk.

KHODORKOVSKY FOUNDATION**TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2005****Investment policy (continued)****Administration**

The investment committee periodically reviews 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

The Foundation was endowed with \$500 million for the purpose of advancing education in Russia and thus support the development of a robust and active civil society in Russia.

The Trustees consider that these objects would be advanced by:

- a) the provision of scholarships for students (of Russian nationality) attending Russian universities in the Humanities;

The Foundation will not entertain individual applications for scholarships and will only provide scholarships through other UK Charities and Russian universities that are willing to administer the scholarships.

- b) the support of Russian educational institutions and non-profit organisations focused on education;
- c) the support of educational institutions in the UK, which indirectly advance education in Russia through the provision of training, research programmes, student/teacher exchange programmes and cultural activities; and
- d) the support of conferences, wheresoever held, on topics related to Russian education and other initiatives which might advance education in Russia.

The Trustees are of the view that the majority of their grant making will lie in the provision of scholarships to Russian students and the support of educational institutions in Russia.

The Trustees will avoid too hasty a disbursement of income derived from its endowment in the Foundation's early years whilst it builds up expertise and experience.

The Trustees' current policy is normally to accept grant proposals which have been initiated by the Foundation.

These policies will be annually reviewed in the light of the growing understanding of the needs of Russia and the Trustees intend to respond flexibly to the newly identified needs of succeeding generations of Russian citizens.

KHODORKOVSKY FOUNDATION**TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2005****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 adapted 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 24 April 2006.

..... Trustee

KHODORKOVSKY FOUNDATION
STATEMENT OF TRUSTEES' RESPONSIBILITIES

The Trustees are responsible for preparing the annual report and the accounts in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

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 year ended 31 December 2005 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 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 for 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 (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 other transactions is not disclosed.

We read other information contained in the Trustees Report, and consider whether it is consistent with the audited accounts. The other information comprises only the Trustees' Report. 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

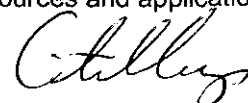
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant 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 in accordance with United Kingdom Generally Accepted Accounting Practice of the state of the charity's affairs as at 31 December 2005, and of its incoming resources and application of resources, including its income and expenditure, for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.



Critchleys
Chartered Accountants
Registered Auditors

Oxford
24 April 2006

KHODORKOVSKY FOUNDATION

STATEMENT OF FINANCIAL ACTIVITIES FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 Unrestricted \$	2004 Unrestricted \$
Incoming Resources			
Donations	2	-	500,003,832
Investment income	3	<u>5,397,110</u>	<u>2,361,016</u>
Total incoming resources		<u>5,397,110</u>	<u>502,364,848</u>
Resources Expended			
Costs of generating funds	4	875,125	470,416
Charitable expenditure			
Grants payable	5	5,799,580	-
Other costs in furtherance to the charity's objects		32,795	-
Management and administration	6	<u>115,386</u>	<u>9,276</u>
Total resources expended		<u>6,822,886</u>	<u>479,692</u>
Net incoming resources		(1,425,776)	501,885,156
Realised gains on disposal of investment assets		<u>12,191,412</u>	<u>2,962,082</u>
Unrealised gains on revaluation of investment assets		10,765,636	504,847,238
		<u>19,802,083</u>	<u>1,417,876</u>
Net movement in funds		30,567,719	506,265,114
Total funds brought forward		<u>506,265,114</u>	<u>-</u>
Total funds carried forward		<u>536,832,833</u>	<u>506,265,114</u>

All activities are continuing.

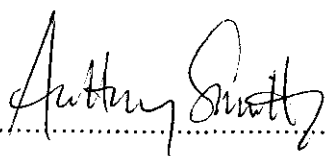
2004 represents the period 8 December 2003 to 31 December 2004.

KHODORKOVSKY FOUNDATION
BALANCE SHEET AT 31 DECEMBER 2005

	Note	2005 \$	2004 \$
Fixed assets			
Investments	7	<u>540,904,896</u>	<u>506,459,283</u>
Current assets			
Cash at bank and in hand		261,459	3,639
Creditors: amounts falling due within one year	8	<u>(3,819,022)</u>	<u>(197,808)</u>
Net current assets		<u>(3,557,563)</u>	<u>(194,169)</u>
Total assets less current liabilities		537,347,333	506,265,114
Creditors: amounts falling due after more than one year	9	<u>(514,500)</u>	-
Net assets		<u>536,832,833</u>	<u>506,265,114</u>
Funds			
Unrestricted funds		<u>536,832,833</u>	<u>506,265,114</u>

These accounts are prepared in United States Dollars.
The rate of exchange at 31 December 2005 is £1=\$1.715 (2004 £1 = \$1.916)

These accounts were approved by the Trustees on 24 April 2006.

..... Trustee

KHODORKOVSKY FOUNDATION

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 \$	2004 \$
Net cash inflow from operating activities	A	2,709,938	502,082,964
Financial investment			
Purchase of investments		(2,693,633,439)	(2,273,688,055)
Proceeds from sales of investments		<u>2,817,747,792</u>	<u>1,771,883,241</u>
		<u>124,114,353</u>	<u>(501,804,814)</u>
Increase in cash in the year	B	<u>126,824,291</u>	<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	(1,425,776)
Increase in creditors	<u>4,135,714</u>
Net cash inflow from operating activities	<u>2,709,938</u>

B ANALYSIS OF NET FUNDS

	31 December 2004 \$	Cash flow \$	31 December 2005 \$
Cash at bank	3,639	257,820	261,459
Cash within investment portfolio	<u>274,511</u>	<u>126,566,471</u>	<u>126,840,982</u>
	<u>278,150</u>	<u>126,824,291</u>	<u>127,102,441</u>

KHODORKOVSKY FOUNDATION

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2005

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) **Grants payable**

Grants are included in resources expended when they are approved by the Trustees and the commitment has been communicated to the beneficiaries. Any such grants not paid by the year end are included in creditors.

e) **Resources expended**

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

f) **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.

g) **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 in 2004 include \$500,000,000 from Group Menatep Limited.

3 INVESTMENT INCOME

	2005 \$	2004 \$
Interest receivable	5,048,954	2,361,016
Other investment income	<u>348,156</u>	<u>-</u>
	<u>5,397,110</u>	<u>2,361,016</u>

4 COSTS OF GENERATING FUNDS

	\$	\$
Investment management fees	<u>875,125</u>	<u>470,416</u>

KHODORKOVSKY FOUNDATION

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2005

1	GRANTS PAYABLE	2005 \$	2004 \$
	Institutions:		
	St Antony's College, Oxford	1,029,000	-
	Cross Industrial Institute of Technologies – Podmoskovny Lyceum	4,000,000	-
	Oxford Russia Fund	<u>770,580</u>	<u>-</u>
		<u>5,799,580</u>	<u>-</u>
2	MANAGEMENT AND ADMINISTRATION	2005 \$	2004 \$
	Auditors' remuneration	12,000	9,000
	Bank charges	436	276
	Travelling expenses	915	-
	Subscriptions	1,019	-
	Professional services	95,365	-
	Exchange rate differences	<u>5,651</u>	<u>-</u>
		<u>115,386</u>	<u>9,276</u>

No Trustee received any remuneration or reimbursement of expenses in the year other than disclosed in Note 10.

7	INVESTMENTS	2005 Cost \$	2005 Market Value \$	2004 Cost \$	2004 Market Value \$
	Short term instruments	10,957,401	10,855,725	417,550,946	418,821,588
	Debt instruments	183,779,347	184,836,671	87,215,950	87,363,184
	Equities and similar funds	177,025,085	194,788,398	-	-
	Hedge funds	<u>22,499,998</u>	<u>23,583,120</u>	<u>-</u>	<u>-</u>
		394,261,831	414,063,914	504,766,896	506,184,772
	Cash within investment portfolio		<u>126,840,982</u>		<u>274,511</u>
			<u>540,904,896</u>		<u>506,459,283</u>

At the balance sheet dates the following investments represented more than 5% of the portfolio.

Merrill Lynch Global Index Fund	\$55,121,302
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KHODORKOVSKY FOUNDATION

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2005

8	CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	2005 \$	2004 \$
	Accruals	304,522	197,808
	Grants payable	<u>3,514,500</u>	<u>-</u>
		<u>3,819,022</u>	<u>197,808</u>

9	CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	2005 \$	2004 \$
	Grants payable	<u>514,500</u>	<u>-</u>

10 RELATED PARTIES

In 2005, a solicitor's practice of which A Tulloch (a Trustee) is the principal provided professional services in connection with the charity's administration. For this work Tulloch & Co charged the charity a VAT inclusive amount of ct \$72,522 (£42,287) (of which disbursements and VAT amounted to £17,287).

In 2004 Tulloch & Co, a solicitor's 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.

The charity is related to Oxford Russia Fund by virtue of all Trustees being common to both charities. Grants of \$770,580 were paid to Oxford Russia Fund in the year.