

KHODORKOVSKY FOUNDATION
ACCOUNTS FOR THE YEAR
ENDED 31 DECEMBER 2008

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Company No: 4988238

Charity No: 1106885



KHODORKOVSKY FOUNDATION
TRUSTEES' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2008

The Trustees submit their annual report and audited accounts for the year ended 31 December 2008.

REFERENCE AND ADMINISTRATIVE DETAILS

Trustees	A Tulloch A Smith B Saltykov A Dalton
Company secretary	D Forsdick
Registered office	4 Hill Street London W1J 5NE
Company registration number	4988238
Charity number	1106885
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 Black Rock 33 King William St London EC4R 9AS
Auditors	Critchleys Greyfriars Court Paradise Square Oxford OX1 1BE

KHODORKOVSKY FOUNDATION**TRUSTEES' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)****STRUCTURE, GOVERNANCE AND MANAGEMENT**

The charity is governed by its Memorandum and Articles of Association.

No new trustees were appointed in the year to 31 December 2008. Existing trustees were selected on the basis of the skills and experience they were able to contribute in the fields of education in Russia and the UK, investment management and charity administration and have been drawn from persons known to the trustees as supportive of the charity's work. New trustees were inducted into their role as trustees in a series of briefings on the work of the charity.

Organisational structure

The charity is managed by its Board of Trustees.

The charity supports the work in Russia of the Oxford Russia Fund, another UK Charity, the majority of whose trustees are also trustees of the charity. The Oxford Russia Fund focuses on grants to Russian universities for the provision of scholarships, the distribution of English language academic books to Russian universities.

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.

OBJECTIVES AND ACTIVITIES

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.

Other than the support of the Oxford Russia Fund, the charity supports the Podmoskovny Lyceum, a boarding school for 175 socially deprived children, situated outside of Moscow.

Grant-making policy

The Foundation was endowed with \$500 million for the purpose of advancing education in Russia and thus supporting 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.

KHODORKOVSKY FOUNDATION

TRUSTEES' REPORT FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

Grant-making policy (continued)

- 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.

ACHIEVEMENTS AND PERFORMANCE

Through the grant making activities of the Oxford Russia Fund which is supported by the charity;

4,424 undergraduate students at 20 Russian Universities were in 2008 awarded scholarships of approx. USD1,000 (USD2,000, Moscow) each. The scholarships are awarded on merit and are designed to encourage the study of the humanities in Russian Universities. In 2009, the number of undergraduates at 20 Russian Universities who will hold ORF Scholarships is forecast to be 3,300.

Over 2,000 English Language academic books across the humanities have been distributed to each of 20 Russian Universities and in 2008 a pilot programme to provide 457 titles within the ORF recommended core library were provided to 13 Universities in 'ebook' format.

Podmoskovny Lyceum

As a result of the support of the Podmoskovny Lyceum, a boarding school outside of Moscow for socially deprived children, 175 children now receive a secondary school education of the highest quality in a caring environment.

Apart from Financial constraints and the need to expand the work of the charity and that of the Oxford Russia Fund in a prudent manner so as to ensure that the grants are used in the most effective manner, the trustees do not feel that there are factors inside or outside of the charity constraining the work of the charity in the above areas.

KHODORKOVSKY FOUNDATION
TRUSTEES' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

FINANCIAL REVIEW

Funding Sources

The charity was provided in December 2003 with an expendable endowment of USD500m and the funds for the work of the charity is derived from the income and capital gains generated by the endowment.

Investment policy

The charity has adopted as its long term current target return for its investment portfolio 4% over increases in the US Consumer Price Index (currently 2.4%), and it is recognised that this policy envisages fluctuations in investment returns over the business cycle.

Two international investment banks manage the bulk of the charity's funds, with certain specialist managers managing smaller portfolios.

Currency

There is an inherent mismatch between the majority of the charity's expenditure being directly or indirectly to Russian institutions (the needs of which are Russian rouble based) and using as the charity's reference currency the US dollar. However for prudent investment management, the USD has been chosen as the reference currency.

Anticipated Disbursements

The long term aim of the charity is to make annual grants of at least 3% of the charity's funds though in the early years, the trustees will expand the grant making activity of the charity in a prudent manner and the amount expended each year will initially be less than 3% of the charity's assets. The above spending rate is designed to preserve the real value of the charity's funds over the long term.

Risk

The investment policy has a conservative attitude to risk.

Administration

The monitoring of the performance of the charity's investment portfolio has been delegated by the Trustees to an investment committee whose members include experienced investment management practitioners. The investment committee also reviews performance of the managers and the allocation between all classes of assets from time to time to ensure that the total portfolio is prudently invested.

Performance

Over the year, due to the unfavourable investment climate, invested assets decreased from USD631m to USD424m. Expenditure as a percentage of invested assets (as at end of the financial year) is about 3.6% and expenditure in 2009 will be scaled back below 3% of the percentage of invested assets.

KHODORKOVSKY FOUNDATION**TRUSTEES' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)****Reserves policy**

Having regard to the charity's endowment based income, the reserves to cover fluctuations in donations are not required. Instead the charity's investment policy plans for fluctuations in income and capital growth and the need for funds to meet on-going commitments of the charity during periods of low dividend yield and nil or negative capital growth.

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.

So far as the Trustees are aware, there is no relevant audit information (information needed by the charity's auditors in connection with preparing their report) of which the charity's auditors are unaware; and

Each Trustee has taken all the steps that he ought to have taken as Trustee in order to make himself aware of any relevant audit information and to establish that the charity's auditors are aware of that information.

This report was approved by the Trustees on 20 April 2009



Trustee

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 2008 which comprise the Statement of Financial Activities, 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

The responsibilities of the Trustees (who are also the directors of Khodorkovsky Foundation for the purposes of company law) for preparing the Annual Report and accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Trustees' Responsibilities.

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 whether the information given in the Trustees' Report is consistent with the accounts.

In addition we report to you 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 the Trustees Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 charitable company's affairs as at 31 December 2008, and of its incoming resources and application of resources, including its income and expenditure, for the year then ended;
- the accounts have been properly prepared in accordance with the Companies Act 1985; and
- the information provided in the Trustees' Report is consistent with the accounts.

Oxford

23/4/2009


 Critchleys
 Chartered Accountants
 Registered Auditors

KHODORKOVSKY FOUNDATION

STATEMENT OF FINANCIAL ACTIVITIES
FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	Unrestricted Funds \$	Endowment Funds \$	Total 2008 \$	Total 2007
Incoming Resources					
Incoming resources from generated funds					
Investment income	2	<u>5,515,480</u>	<u>-</u>	<u>5,515,480</u>	<u>8,105,954</u>
Total incoming resources		<u>5,515,480</u>	<u>-</u>	<u>5,515,480</u>	<u>8,105,954</u>
Resources Expended					
Costs of generating funds					
Investment management costs	3	-	555,113	555,113	1,692,520
Charitable activities	4	15,548,989	-	15,548,989	13,747,733
Governance costs	6	<u>69,374</u>	<u>-</u>	<u>69,374</u>	<u>60,814</u>
Total resources expended		<u>15,618,363</u>	<u>555,113</u>	<u>16,173,476</u>	<u>15,501,067</u>
Net (outgoing) resources before transfers		(10,102,883)	(555,113)	(10,657,996)	(7,395,113)
Transfers	1b	<u>10,102,883</u>	<u>(10,102,883)</u>	<u>-</u>	<u>-</u>
Net (outgoing) resources		-	(10,657,996)	(10,657,996)	(7,395,113)
(Losses)/gains on investment assets	8	<u>-</u>	<u>(195,554,477)</u>	<u>(195,554,477)</u>	<u>51,772,443</u>
Net movement in funds		-	(206,212,473)	(206,212,473)	44,377,330
Total funds brought forward		<u>-</u>	<u>629,357,715</u>	<u>629,357,715</u>	<u>584,980,385</u>
Total funds carried forward		<u>-</u>	<u>423,145,242</u>	<u>423,145,242</u>	<u>629,357,715</u>

All activities are continuing.

KHODORKOVSKY FOUNDATION

BALANCE SHEET
AT 31 DECEMBER 2008

	Note	2008 \$	2007 \$
Fixed assets			
Investments	8	<u>424,417,368</u>	<u>631,967,627</u>
Current assets			
Cash at bank and in hand		586,155	925,001
Creditors: amounts falling due within one year	9	<u>(1,858,281)</u>	<u>(3,534,913)</u>
Net current liabilities		<u>(1,272,126)</u>	<u>(2,609,912)</u>
Net assets		<u>423,145,242</u>	<u>629,357,715</u>
Funds			
Endowment funds (expendable)	11	423,145,242	629,357,715
Unrestricted income funds		<u>-</u>	<u>-</u>
Total charity funds		<u>423,145,242</u>	<u>629,357,715</u>

These accounts are prepared in United States Dollars.

The rate of exchange at 31 December 2008 is £1 = \$1.4479 (2007: £1 = \$1.9973)

These accounts were approved and authorised for issue by the Trustees on 20 April 2009

 Trustee

KHODORKOVSKY FOUNDATION
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 \$	2007 \$
Net cash (outflow)/inflow from operating activities	A	(12,334,628)	(7,847,750)
Financial investment			
Purchase of investments		(738,624,047)	(766,534,408)
Proceeds from sales of investments		<u>748,057,672</u>	<u>709,061,769</u>
		<u>9,433,625</u>	<u>(57,472,639)</u>
(Decrease) in cash in the year	B	<u>(2,901,003)</u>	<u>(65,320,389)</u>

NOTES TO THE CASH FLOW STATEMENT

**A RECONCILIATION OF NET OUTGOING RESOURCES
TO NET CASHFLOW FROM OPERATING ACTIVITIES**

	\$	\$
Net (outgoing) resources	(10,657,996)	(7,395,113)
(Decrease) in creditors	<u>(1,676,632)</u>	<u>(452,637)</u>
Net cash (outflow) from operating activities	<u>(12,334,628)</u>	<u>(7,847,750)</u>

B ANALYSIS OF NET FUNDS

	31 December 2007 \$	Cash flow \$	31 December 2008 \$
Cash at bank	925,001	(338,846)	586,155
Cash within investment portfolio	<u>36,051,232</u>	<u>(2,562,157)</u>	<u>33,489,075</u>
	<u>36,976,233</u>	<u>(2,901,003)</u>	<u>34,075,230</u>

KHODORKOVSKY FOUNDATION
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2008

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 March 2005 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.

Expendable endowment funds represent assets where the intention is for the assets to be held long term for the benefit of the charity. However, as it is an expendable endowment, assets can be utilised to cover resources expended that exceed the balance on unrestricted funds.

Income arising on the endowment fund can be used in accordance with the objects of the charity and is included as unrestricted income. Any capital gains or losses arising on the investments form part of the fund. Investment management costs are charged against the fund.

c) Incoming resources

Voluntary 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. Any support costs specific to one of the activities is allocated wholly to the activity. The remaining support costs are allocated to that activity in proportion to the combined costs of activities undertaken directly and grants.

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. Due to the number of investment transactions in the year it is not possible, easily and accurately to split the investment gains between realised and unrealised and hence this split has not been shown on the face of the Statement of Financial Activities.

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.

KHODORKOVSKY FOUNDATION

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

2	INVESTMENT INCOME	2008	2007		
		\$	\$		
	Interest receivable	1,654,074	4,200,424		
	Other investment income	<u>3,861,406</u>	<u>3,905,530</u>		
		<u>5,515,480</u>	<u>8,105,954</u>		
3	INVESTMENT MANAGEMENT COSTS	2008	2007		
		\$	\$		
	Investment management fees	498,196	1,546,338		
	Professional fees	<u>56,917</u>	<u>146,182</u>		
		<u>555,113</u>	<u>1,692,520</u>		
4	CHARITABLE ACTIVITIES	Grant funding of activities \$	Support costs (Note 5) \$	Total 2008 \$	Total 2007 \$
	Advancement of Education in Russia:				
	- Oxford Russia Fund	8,580,518	31,308	8,611,826	7,165,139
	- Cross Industrial Institute of Technology Podmoskovny Lyceum	6,808,957	85,699	6,894,656	6,541,675
	- Other specific projects and grants	<u>42,353</u>	<u>154</u>	<u>42,507</u>	<u>40,919</u>
		<u>15,431,828</u>	<u>117,161</u>	<u>15,548,989</u>	<u>13,747,733</u>
5	SUPPORT COSTS	2008	2007		
		\$	\$		
	Charity administration and monitoring of activities	138,169	267,173		
	Salaries	-	52,209		
	Other expenses, including exchange differences	<u>(21,008)</u>	<u>(2,865)</u>		
		<u>117,161</u>	<u>316,517</u>		

KHODORKOVSKY FOUNDATION

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)**

6	GOVERNANCE COSTS	2008	2007
		\$	\$
	Auditors' remuneration - audit and accountancy	12,080	16,049
	- other services	11,503	3,498
	Professional services	<u>45,791</u>	<u>41,267</u>
		<u>69,374</u>	<u>60,814</u>

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

7	STAFF COSTS	2008	2007
		\$	\$
	Wages and salaries	-	48,950
	National Insurance costs	<u>-</u>	<u>3,259</u>
		<u>-</u>	<u>52,209</u>
		No.	No.
	Average number of employees by category: Support	<u>-</u>	<u>1</u>

No employees' emoluments exceeded £60,000 in the year.

8	INVESTMENTS (AT VALUATION)	2008	2007
		\$	\$
	Short term instruments	37,141,054	14,867,767
	Debt instruments	120,718,148	94,468,084
	Equities and similar funds	196,121,890	431,475,267
	Hedge and similar funds	<u>36,947,201</u>	<u>55,105,277</u>
		390,928,293	595,916,395
	Cash within investment portfolio	<u>33,489,075</u>	<u>36,051,232</u>
		<u>424,417,368</u>	<u>631,967,627</u>
	Investment assets in UK	17,166,358	43,235,510
	Investment assets outside UK	<u>407,251,010</u>	<u>588,732,117</u>
		<u>424,417,368</u>	<u>631,967,627</u>
	Analysis of movement in investments (excluding cash)	\$	\$
	Value at 1 January 2008	595,916,395	486,671,313
	Additions at cost	738,624,047	766,534,408
	Sale proceeds	(748,057,672)	(709,061,769)
	Net (loss)/gain on revaluation	<u>(195,554,477)</u>	<u>51,772,443</u>
		<u>390,928,293</u>	<u>595,916,395</u>

KHODORKOVSKY FOUNDATION
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

9 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	2008	2007
	\$	\$
Accruals	284,465	268,170
Grants payable	<u>1,573,816</u>	<u>3,266,743</u>
	<u>1,858,281</u>	<u>3,534,913</u>

10 RELATED PARTIES

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 \$123,104 (£85,021) (2007: \$102,459 (£51,299)), of which disbursements and VAT amounted to £30,021 (2007: £16,299).

The charity is related to Oxford Russia Fund by virtue of Trustees being common to both charities. Grants of \$8,580,518 (2007: \$7,115,002) were payable to Oxford Russia Fund in the year. In 2007 \$360,942 of this was included in creditors.

11 ENDOWMENT FUNDS (EXPENDABLE)

The fund balance represents the original donation of \$500,000,000, which the donor specified was to be treated as an expendable endowment, together with movements on the funds since that date.

12 ANALYSIS OF NET ASSETS BY FUND

	Unrestricted Funds \$	Endowment Fund \$	Total \$
Investments	1,272,126	423,145,242	424,417,368
Net current liabilities	<u>(1,272,126)</u>	<u>-</u>	<u>(1,272,126)</u>
	<u>-</u>	<u>423,145,242</u>	<u>423,145,242</u>