



**Risk Disclosure Statement for
PROFESSIONAL CLIENTS**

NKB Investments Limited

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RISK DISCLOSURE STATEMENT

BY NKB INVESTMENTS LIMITED (“we and “us”)

FOR PROFESSIONAL CLIENTS

1. Risk Factors Relating to Russia

Prospective investors should carefully consider the following factors relating to investment risks. As a result of these factors, as well as other risks inherent in any investment, an investment in Russian securities is not appropriate for all investors and there can be no assurance that the investor will meet its investment objectives or that investors will receive a return of their capital.

2. General Risks

Although the general trend in the Russian Federation and other states which had been part of the former Soviet Union over the past ten years has been towards more open markets and the promotion of private business initiatives, no assurance can be given that the Russian government will continue to pursue such policies or that such policies may not be altered significantly, especially in the event of a change in leadership, social or political disruption or unforeseen circumstances affecting economic, political or social life. Accordingly, political instability, economic distress, the difficulties of adjustment from a communist economy to a market economy, social instability, organised crime or other factors beyond our control could have a material adverse effect on the performance of the investor’s holdings.

Furthermore, there can be no assurance that the investment assets will not be subject to nationalisation, requisition or confiscation, whether legitimate or not, by any authority or body. While there may exist provision for compensation and reimbursement of losses under such circumstances, there can be no assurance that such provision would be effective to restore to the investor the market value or cost of its original investment.

3. Economic Risks

Russia’s economy experienced a prolonged recession beginning in the late 1980s and continuing throughout the 1990s. As a result of these difficulties, Russia’s financial and banking system came under severe strain and virtually collapsed during the 1998 financial crisis. Although the Russian economy demonstrated certain improvements between 2000 and 2003, policy responses to Russia’s economic and financial problems have not yet produced lasting structural reforms. There can be no assurance that Russia’s economy will demonstrate sustained growth, or will not decline. The investor’s investments may be adversely affected by a deterioration or reversal of the Russian economy.

4. Foreign Currency and Exchange Rate Risks

Investments in Russian securities are in companies whose functional currency is the Ruble and/or in Ruble-denominated securities of Russian companies. There is currently no reliable and cost efficient method of hedging Ruble risk and we do not intend to hedge such risk. Consequently, currency exchange rate fluctuations, devaluation of the Ruble and exchange control regulations may adversely affect the performance of such portfolio companies and the return realised on the investor’s investments. Over the past decade, the Ruble has lost value in relation to the U.S. dollar, and that trend may continue.

5. Russian Legal and Tax System.

The Russian legal and tax system is less predictable than most Western legal systems. Currently, the tax rules and regulations prevailing in Russia are, as a general matter, either

new or under varying stages of review and revision, and there is considerable uncertainty as to whether new tax laws will be enacted and, if enacted, the scope and content of such laws. Reliance on oral administrative guidance from regulators and procedural inefficiencies hinder legal remedies in many areas, including bankruptcy and the enforcement of creditors' rights. Moreover, companies often experience delays when obtaining governmental licenses and approvals.

There can be no assurance that current taxes will not be increased or that additional sources of revenue or income, or other activities, will not be subject to new taxes, charges or similar fees in the future. Any such increase in taxes, charges or fees payable by the Russian companies invested in, or by us, may reduce the returns for investors. In addition, changes to tax treaties (or their interpretation) between the Russian Federation and countries through which we conduct our business, or in which we have investment subsidiaries, may have significant adverse effects on the investor's ability to efficiently realise income or capital gains. Consequently, it is possible that the investor may face an unfavourable tax treatment in Russia resulting in an increase in the taxes payable on investments in Russian securities. Any such increase in taxes could reduce investment returns to shareholders.

6. Securities Market and Share Registration Risks

The Russian securities market is in the early stages of development and is regulated by several different authorities that are often in competition with each other (the Federal Service for the Financial Markets of Russia ("FSFMR"), the Ministry of Finance, the Central Bank and the Ministry of Antimonopoly Policy and Support of Entrepreneurial Activity). The regulations of these authorities are not always coordinated and may be contradictory. Governmental supervision of the securities markets is considerably less well developed than in many free market economies, and in some cases, is effectively non-existent. As a result, the risks of fraudulent transactions are higher than those in more highly regulated markets. No assurance can be given that legislation addressing such risks will be adopted or, if adopted, will be effectively implemented or enforced.

Investing in Russian securities will be subject to the significant risks associated with the early stage of development and relatively small size of the securities markets. There is a limited organised public trading market for securities in Russia with little liquidity or transparency, resulting in relatively slow and cumbersome execution of transactions. In particular, there may be no approved settlement procedure and trades may be settled by a free delivery of stock with payment of cash in an uncollateralised manner. This may give rise to a credit risk in relation to the counterparty. In general there may be an increased risk of defaults and delays in settlement compared to the markets in more developed economies. Due to local postal and banking systems, no guarantee can be given that all entitlements attaching to securities acquired by the investor, including in relation to dividends, will be realised.

To the extent that secondary markets for securities of Russian companies exist, a significant portion of trading is done over-the-counter rather than on stock exchanges. As a result, Russian-quoted securities are relatively illiquid and difficult to value. Published prices for securities are generally averages of indicated bid/ask quotes by dealers and do not reflect actual trades. The limited liquidity of the market for the majority of investments made by investors may be compounded by factors such as inadequate information and insufficient regulation. In addition, no established secondary markets may exist for some of the securities in which the investor will invest. Consequently, reduced secondary market liquidity may make it more difficult for the investor to obtain accurate quotations for purposes of valuing its portfolio and calculating its net asset value. Reduced secondary market liquidity may also have an adverse effect on market price and the investor's ability to dispose of particular securities necessary to meet its liquidity requirements or in response to specific economic or political events. Further, such

secondary markets are susceptible to being influenced by large transactions. Investors should be aware that the price of securities of Russian companies held by them may go down as well as up and that prospective investors may not realise their initial investment in the securities.

Certain companies in which the investor intends to invest may impose internal restrictions on the sales and transfer of shares to foreign investors either in their internal corporate charters or pursuant to Russian law. We may use special purpose investment subsidiaries owned directly or indirectly or beneficially by us in order to invest in such companies. Such special purpose investment subsidiaries may be established in the Russian Federation or elsewhere. Although such investment subsidiaries will be structured so as to permit an investment under Russian laws, no assurance can be given that the target companies will not treat such investment subsidiaries as foreign entities. The holding restrictions may cause us to dispose of certain investments or otherwise forfeit the ownership of such investments, resulting in potential losses..

Ownership of equity securities of Russian companies is determined by entries in the share register of each company and is evidenced by extracts from the share register. Under Russian law, a transferee of shares has no proprietary rights with respect to the equities until its name appears on the share register of the issuer. Currently, there is no central registration system for ownership of shares in Russia. Share registration is administered by companies themselves or by specialised registrars located throughout Russia. Regulations have been issued by the Federal Commission on the Securities Markets (“FCSM”) regarding the licensing conditions for such registrars and the procedures to be followed by them in performing their functions. In practice, however, these regulations have not been strictly enforced, and registrars generally have relatively low levels of capitalisation and inadequate insurance coverage. Moreover, registrars are not necessarily subject to effective governmental supervision. Any transfer of shares is accomplished through the registration of the transfer in the share register. In order to be recognised as the registered owner of a company’s shares, the purchaser or his representative must physically travel to the company’s registrar and open an account with the registrar. Any foreign person or company acquiring shares in a Russian joint stock company must notify the FCSM of such acquisition on the date of such acquisition as prescribed by Russian securities legislation.

In certain instances where we act as custodian for the investor, NKB Investments Limited may hold securities of Russian issuers through investment subsidiaries or other intermediaries or nominees. In either case, periodic reports will be reviewed in order to confirm our holdings in the underlying securities. We will identify counterparty risks associated with the use of nominees and investment subsidiaries and take appropriate measures to limit such risks whenever possible. Financial mismanagement by a nominee or an investment subsidiary or other acts by a nominee or an investment subsidiary which are not in accordance with our instructions could have a material adverse effect on an investment by the investor.

Although we will take steps to minimise these risks, including identifying custodians which meet specified standards, conducting periodic inspections of share registers and considering the reliability of registrars when selecting shares to be purchased, there can be no assurance that we will not lose our registration of equity securities through third party fraud, negligence or oversight or that the value of such securities will not be materially adversely affected.

7. Exchange Controls and Repatriation Risks Relating to Russian Securities

Russian foreign investment legislation currently guarantees the right of foreign investors to transfer abroad income received on investments (such as profits, dividends and interest payments), subject to adherence to currency and banking regulations regarding the conversion and transfers of funds, and subject to settlement of all applicable taxes and

duties. However, current legislation governing currency regulation and control guarantees the right to transfer interest, dividends and other income on investments, but does not expressly permit the repatriation of capital from the realisation of investments. Although current practice is to recognise the right to repatriation of capital, no assurance may be given that this will continue to be the case. Furthermore, there can be no assurance that future restrictions will not be imposed on converting Ruble earnings into hard currency or on the repatriation of profits. Such restrictions could have a material adverse effect on the economic value of an investment held by the investor.

Foreign investors use special Ruble accounts to purchase Russian equity securities denominated in Rubles and receive Ruble proceeds from such investments, and may convert Rubles in such accounts into foreign currency and repatriate the same, subject to payment of applicable taxes and duties. With limited exceptions, any proceeds from a sale of shares to Russian residents must be in Rubles and deposited into Ruble accounts. Russian tax legislation currently requires a foreign investor to register with the tax authorities prior to opening such a Ruble investment account and to satisfy certain administrative formalities related to establishing that all applicable taxes and duties have been paid before repatriating such funds. Such formalities are complicated and are sometimes perceived as restricting the repatriation of converted Ruble earnings from equity investments.

8. Banking and Financing Risks

The Russian banking and other financial systems are not well developed or well regulated. Delays in transfers by banks persist. Moreover, the Russian banking system has faced and may encounter in the future liquidity crises as well as other problems arising as a result of the under-capitalisation of the banking sector as a whole. Concerns about a banking crisis have arisen in recent years as a result of the lowering of yields on Russian state short-term zero-coupon bonds (“GKOs”), a key source of financing for Russian banks, and evidence that many Russian banks continue to have questionable loan portfolios and insufficient capital bases. Due in part to the fact that deposits at Russian banks are not insured, risks to investors include loss of money on deposit in, or being transferred via, or securities being held in custody with, affected banks which in addition to a loss of confidence in the Russian economy due to such crises, may lead to a general decline in share values in the banking sector or the economy as a whole. A general Russian banking crisis would have a material adverse effect on the investor’s holdings.

9. Risks Relating to Inexperienced Management and Lack of Financial Information

Russian businesses have a limited operating history. Most Russian companies are characterised by a lack of (i) market-oriented experienced management, (ii) modern industrial technology and (iii) a sufficient capital base with which to develop and expand their operations. Business records are not necessarily as detailed or informative as those of businesses operating in established market economies. Moreover, Russian accounting, auditing and financial reporting standards and requirements are not as stringent, consistently applied or informative as Western standards. As a result, the availability, quality and reliability of corporate information and equity research (including official data) is likely to be lower than that which is used to evaluate investments in developed markets, with the attendant risk that pricing decisions may be less than optimal to the extent they are based upon inaccurate information.

The foregoing risks do not purport to be a complete explanation of all the risks involved in acquiring shares in Russian securities. Potential investors should read this entire document as well as the documents referred to herein before deciding to make an investment decision.

10. Risks Relating to Custody

If you maintain a custody account with URALSIB then URALSIB will, in turn, keep its custody of ADRs and GDRs with JP Morgan, Russian local securities with a local sub-custodian in Russia which is an affiliate of URALSIB, and its Ukrainian securities with a local sub-custodian in the Ukraine, ING Bank Ukraine. We bring to your attention an important matter. The concept of Nominee Holder does not exist under Russian nor under Ukrainian Law. This means that Russian and Ukrainian courts will not recognise our local sub-custodian as being a nominee holder for your assets. Your assets may not be segregated from those of URALSIB held at the local sub-custodian. Thus, your assets may not be as well protected from claims made on behalf of general creditors of URALSIB. This risk is brought to your specific attention in our Terms of Business and is repeated here in this Risk Disclosure Statement for the avoidance of doubt and for the sake of completeness. All Investment Firms operating in Russian and Ukrainian local securities markets are in the same risk position.