

**OPEN-END INVESTMENT FUND**  
**Parex Russian Equity Fund**

**ANNUAL REPORT**  
**FOR THE YEAR ENDED 31 DECEMBER 2008**  
(5<sup>th</sup> financial year)

PREPARED IN ACCORDANCE WITH  
FCMC REGULATIONS ON ANNUAL REPORTS OF INVESTMENT FUNDS  
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

**Riga, 2009**

**AIF Parex Russian Equity Fund**  
**Annual report 2008**  
**Table of contents**

General information	3
Investment management company report	5
Statement of responsibility of the Board of the investment management company	6
Custodian bank report	7
Financial statements:	
Statement of assets and liabilities	9
Statement of income and expense	10
Statement of changes in net assets	11
Statement of cash flows	12
Notes	13
Auditors' report	24

**AIF Parex Russian Equity Fund**  
**Annual report 2008**  
**Investment management company report**

Name of the fund:	Parex Russian Equity Fund
Type of fund:	Open-end investment fund
Registration date of the fund:	5 March 2004
Number of the fund:	06.03.04.098/13
Name of the investment management company:	Parex Asset Management IPAS
Registered office of the investment management company:	Zigfrīda Annas Meierovica bulvāris 14, Rīga LV – 1050, Latvia
Registration number of the investment management company:	40003577500
Licence number of the investment management company:	06.03.07.098/181
Name of the custodian bank:	Joint stock company Parex banka
Registered office of the custodian bank:	Smilšu iela 3, Rīga LV – 1522, Latvia
Registration number of the custodian bank:	40003074590
Names and positions of Council Members, Board Members and Fund Managers:	<p><i>Council of the investment management company:</i></p> <p>Chairman of the Council – Nils Melngailis – appointed on 17/04/2009</p> <p>Council Member – Roberts Stugis – appointed on 17/04/2009</p> <p>Council Member – Breiding R. James - appointed on 17/04/2009</p> <p>Council Member – Anatolijs Fridmans - appointed on 17/04/2009</p> <p>Chairman of the Council – Gene Zolotarev – resigned on 25/02/2008</p> <p>Council Member – Gatis Kokins – resigned on 25/02/2008</p> <p>Council Member – Leonīds Jamroziks – resigned on 25/02/2008</p> <p>Council Member – Ēriks Brīvmanis – resigned on 05/06/2008</p> <p>Chairman of the Council – Mārtiņš Jaunarājs – resigned on 18/03/2009</p> <p>Council Member – Glenn Frank Woo - resigned on 18/03/2009</p> <p>Deputy Chairman of the Council – Valdis Birkavs – resigned on 17/04/2009</p> <p>Council Member – Arvīds Sīpols – resigned on 17/04/2009</p> <p>Council Member – Raits Černajs - resigned on 17/04/2009</p> <p>Council Member – Deniss Grigorenko - resigned on 17/04/2009</p> <p><i>Board of the investment management company:</i></p> <p>Chairman of the Board/ President – Roberts Idelsons – appointed on 30/11/2005</p> <p>Board Member – Elena Coleman – appointed on 30/03/2007</p> <p>Board Member – Edgars Makarovs – appointed on 30/03/2007</p> <p>Board Member – Zigurds Vaikulis – appointed on 30/03/2007</p> <p>Board Member – Igors Petrovs - appointed on 22/05/2008</p> <p>Board Member – Sergejs Medvedevs - resigned on 22/05/2008</p> <p>Board Member – Rems Kargins – resigned on 15/01/2009</p> <p><i>Fund Managers (Members of the Investment Committee):</i></p> <p>Edgars Makarovs</p> <p>Antons Ļubenko – appointed on 09/10/2008</p> <p>Kristiāna Ķiete – appointed on 09/10/2008</p> <p>Roberts Idelsons – resigned on 09/10/2008</p> <p>Sergejs Medvedevs - resigned on 09/10/2008</p>

**AIF Parex Russian Equity Fund**  
**Annual report 2008**  
**Investment management company report**

Auditors:

Diāna Krišjāne  
Certified Auditor  
Certificate No. 124

SIA Ernst & Young Baltic  
Muitas iela 1, Rīga  
Latvia, LV – 1010  
Licence No. 17



**AIF Parex Russian Equity Fund**  
**Annual report 2008**  
**Investment management company report**

The assets of the open-end investment fund Parex Russian Equity Fund (hereinafter – the Fund) are managed by the asset management company Parex Asset Management, registered office at Zīgrīda Annas Meierovica bulvāris 14, Rīga, LV-1050, unified registration number 40003577500, holding licence No. 06.03.07.098/181 to operate as an asset management company (last re-registered on 5 December 2005).

The investment objective of the Fund is to achieve long-term capital gains through investments mainly in equity shares of those companies which are incorporated or operating mainly in the Russian Federation. The Fund will generate income from appreciation of shares and dividend payments.

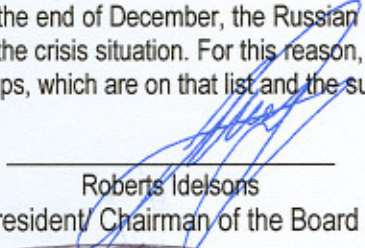
During the reporting period, the Russian stock market suffered two consecutive capital flights, driven by both local and global factors. First drops were observed in July. First, the Russian government attacked coal mining and metals industries, which could lead to huge penalties imposed on the companies of these sectors, then immediately the South Ossetia conflict followed. Each expression of the military power was followed by massive flights from the capital market. It did not take long for the global financial crisis to cause the global tendency of minimising all investments in risky assets, fuelled by the liquidity deficit. The drop in oil and metal prices accompanied by the Russian rouble devaluation initiated in the end of the year also produced an adverse effect on the market. The local RTS index lost 72.4% over the year.

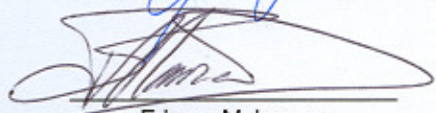
In 2008, the Fund's net assets decreased by 70.6%, or LVL 6,644,064, reaching LVL 2,765,658 as at the year end. Net assets had reached their absolute record in the beginning of the summer, before all troubles began. The Fund's value per share declined over the year by LVL 11.8, reaching as little as LVL 4.29. The Fund's annualised performance was negative, amounting to -72.0% in Latvian lats and -72.7% in US dollars, which is the Fund's base currency.

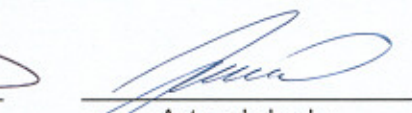
During the reporting year, a range of significant changes was made to the Fund's structure, which mostly concerned the proportions of energy, telecommunications, and raw materials. After the noteworthy drop in oil prices in the second half of the year, the Fund's exposure to energy resources was increased by 15.3 percentage points (pp), focusing on Lukoil, Rosneft, and Surgutneftegaz. This was done because, in the opinion of the Fund Manager, oil prices have reached the lowest possible level, and there is a large growth potential. Therefore, the Fund's energy position approximates to the index weights so as not to remain behind the market when it starts to grow. Completely opposite changes concerned telecommunications and raw material production, where the exposure was reduced by 11.6pp and 10.9pp respectively. As at the end of the year, the Fund had a short-term increase of its idle funds by 11.8pp, up to 23% of the Fund's assets. Subsequent to the year end, in March 2009, idle funds were below 10%.

In the reporting year, the management fee was paid from the Fund's assets in the amount of USD 328,200, or 2.17% of the average asset value for the year, which does not exceed the maximum expense limit fixed in the Prospectus, i.e. 4.00%.

In the end of December, the Russian government published a list of systemic companies eligible for state support in the crisis situation. For this reason, in the upcoming months emphasis will be placed mostly on most liquid blue chips, which are on that list and the subject of the Russian state support programme.

  
 Roberts Idelsons  
 President/ Chairman of the Board

  
 Edgars Makarovs  
 Member of the Investment  
 Committee

  
 Antons Ļubenko  
 Member of the Investment  
 Committee

  
 Kristiāna Ķiete  
 Member of the Investment  
 Committee

Rīga,  
 21 April 2009



**AIF Parex Russian Equity Fund  
Annual report 2008**

**Statement of responsibility of the Board of the investment management company**

The Board of the investment management company (hereinafter – the Company) is responsible for the preparation of the financial statements of the investment fund Parex Russian Equity Fund (hereinafter – the Fund).

The financial statements set out on pages 9 to 23 are prepared in accordance with the source documents and present fairly the financial position of the Fund as at 31 December 2008 and the results of its operations for the year then ended.

The financial statements are prepared in accordance with laws of the Republic of Latvia, the Regulations of the Financial and Capital Market Commission (FCMC) on Annual Reports of Investment Funds, and International Financial Reporting Standards as adopted in the European Union on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the management in the preparation of the financial statements.

The Board of the Company is responsible for the maintenance of proper accounting records, the safeguarding of the assets of Parex Russian Equity Fund and the prevention and detection of fraud and other irregularities in the Fund. They are also responsible for operating the Fund in compliance with the Law of the Republic of Latvia on Investment Management Companies, regulations of the Financial and Capital Market Commission, and other laws and regulations of the Republic of Latvia



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Roberts Idelsons  
President/ Chairman of the Board

Riga,  
21 April 2009





## CUSTODIAN BANK REPORT

For holders of  
OIF "Parex Russian Equity fund"  
Investment fund applications

Nr. 2.3.10.- 04/026

With this Parex Bank JSC, which is registered in LR Enterprise register on May 14, 1992 with No. 40003074590 and located at Smilšu str. 3, Riga, certifies, that:

According to the law "On investment companies" of Republic of Latvia, regulations of Financial and Capital Market Commission (FCMC), other requirements of LR legislation and contract with Custodian bank, which is concluded on the February 18<sup>th</sup>, 2004., Parex Bank JSC, (further in the text - Custodian) carries out functions of custodian bank for the OIF "Parex Russian Equity fund" (further in the text - Fund) founded by IPAS "Parex Asset Management";

Custodian is responsible for fulfilling of Custodian bank contract and requirements of LR legislation related to custodian banks. The main obligations of the Custodian are the following:

- to store assets of the Fund, as well as documents, which confirm title according to the requirements of LR legislation;
- to ensure maintenance of the Fund account, reception and execution of Company's orders, as well as performance of transactions according with requirements of LR legislation and current market practice;
- to ensure the Company with regular reports on assets of the Fund and its value (prices of the securities);
- to follow the correctness of the value of the Fund and its certificates set by the Company and its conformity with LR legislation acts;
- to follow the correctness and legal status of issuing, sales and repurchasing of investment certificates performed by the Company;

Issuing, sales and repurchasing of the investment certificates is performed according to the requirements of the law "On investment companies", fund prospect and Fund management regulations;

Storage of the Fund assets is performed according to the requirements of the law "On investment companies" and Custodian bank contract;

Calculation of the net value of the Fund assets is performed according to the requirements of the law "On investment companies", regulations of Financial and Capital Market Commission (FCMC), Fund prospect and Fund management regulations;



Orders of the Company, as well as transactions with the assets of OIF "Parex Russian Equity fund" are performed according to the requirements of the law "On investment companies", Fund prospect and Fund management regulations and Custodian bank contract .

In the accounting period no mistakes and illegal matters were observed in performance of the Company with Fund assets. Parex bank JSC is very satisfied with co-operation in performing of the functions of Custodian bank.



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Nils Melngailis  
Chairman of the Board, p.p.

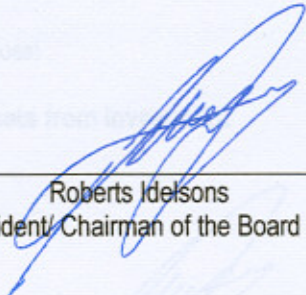
Riga, February 16, 2009





**AIF Parex Russian Equity Fund**  
**Annual report 2008**  
**Statement of assets and liabilities**  
**(LVL)**

Notes		31/12/2008	31/12/2007
	<b>Assets</b>		
3	Demand deposits with credit institutions	639,504	1,062,165
	Financial assets held for trading	10,328	35,533
4	Shares and other non-fixed income securities	2,132,100	8,362,663
	<b>Total assets</b>	<b>2,771,604</b>	<b>9,424,828</b>
	<b>Liabilities</b>		
5	Accrued expense	(5,946)	(15,106)
	<b>Total liabilities</b>	<b>(5,946)</b>	<b>(15,106)</b>
	<b>Net assets</b>	<b>2,765,658</b>	<b>9,409,722</b>

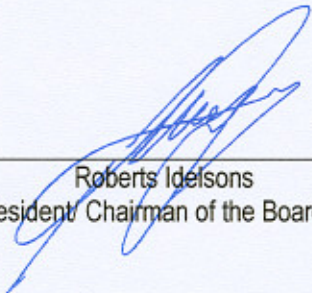
  
 Roberts Idelsons  
 President/ Chairman of the Board

Riga,  
 21 April 2009



**AIF Parex Russian Equity Fund**  
**Annual report 2008**  
**Statement of income and expense**  
**(LVL)**

Notes		2008	2007
	<b>Income</b>		
6	Interest income	19,926	26,506
	Dividend income	102,323	144,428
	<b>Total income</b>	<b>122,249</b>	<b>170,934</b>
	<b>Expense</b>		
	Remuneration to investment management company	(146,591)	(171,731)
	Remuneration to custodian bank	(11,354)	(14,140)
	Other fund management expense	(3,261)	-
	<b>Total expense</b>	<b>(161,206)</b>	<b>(185,871)</b>
	<b>(Decrease)/ increase in investment</b>		
7	Realised (decrease) in investment value	(1,522,557)	(502,430)
8	Unrealised (decrease)/ increase in investment value	(6,651,491)	3,357,933
	<b>Total (decrease)/ increase in investment</b>	<b>(8,174,048)</b>	<b>2,855,503</b>
	Foreign currency revaluation gain/ (loss)	709,498	(1,054,830)
	<b>(Decrease)/ increase in net assets from investment</b>	<b>(7,503,507)</b>	<b>1,785,736</b>

  
 Roberts Idelsons  
 President/ Chairman of the Board

Riga,  
 21 April 2009

**AIF Parex Russian Equity Fund**  
**Annual report 2008**  
**Statement of changes in net assets**  
**(LVL)**

	<b>2008</b>	<b>2007</b>
<b>Net assets as at the beginning of the year</b>	<b>9,409,722</b>	<b>7,873,592</b>
(Decrease)/ increase in net assets from investment activities	(7,503,507)	1,785,736
Transactions with investment certificates:		
<i>Inflow from sale of investment certificates</i>	<i>6,074,210</i>	<i>8,755,737</i>
<i>Outflow of redemption of investment certificates</i>	<i>(5,214,767)</i>	<i>(9,005,343)</i>
Increase/ (decrease) in net assets from transactions with investment certificates	859,443	(249,606)
(Decrease)/ increase in net assets for the year	(6,644,064)	1,536,130
<b>Net assets as at the end of the year</b>	<b>2,765,658</b>	<b>9,409,722</b>
Issued investment certificates as at the beginning of the year	612,101	633,174
Issued investment certificates as at the end of the year	645,011	612,101
Net asset value per investment certificate as at the beginning of the year	15.37	12.44
<b>Net asset value per investment certificate as at the end of the year</b>	<b>4.29</b>	<b>15.37</b>

Riga,  
21 April 2009



**AIF Parex Russian Equity Fund**  
**Annual report 2008**  
**Statement of cash flows**  
**(LVL)**

	<b>2008</b>	<b>2007</b>
Interest income	19,926	26,506
Dividend income	102,323	144,428
Investment management expense	(171,861)	(186,122)
(Acquisition) of financial assets	(3,734,215)	(2,069,198)
Disposal of financial assets	2,509,949	3,184,097
Foreign currency conversion result	(9,165)	(978)
<b>(Decrease)/ increase in cash from operating activities</b>	<b>(1,283,043)</b>	<b>1,099,254</b>
Inflow from sale of investment certificates	6,074,210	8,748,298
Outflow of redemption of investment certificates	(5,214,767)	(9,005,343)
<b>Increase/ (decrease) in cash from financing activities</b>	<b>859,443</b>	<b>(257,045)</b>
<b>(Decrease)/ increase in cash</b>	<b>(423,600)</b>	<b>842,209</b>
<b>Cash as at the beginning of the year</b>	<b>1,062,165</b>	<b>267,489</b>
<b>Result of revaluation of cash denominated in foreign currencies</b>	<b>939</b>	<b>(47,533)</b>
<b>Cash as at the end of the year</b>	<b>639,504</b>	<b>1,062,165</b>

The accompanying notes form an integral part of these financial statements.

**AIF Parex Russian Equity Fund**  
**Annual report 2008**  
**Notes**  
**(LVL)**

## 1. General information

Name of the fund:	Parex Russian Equity Fund
Type of the fund:	Open-end investment fund
Fund's business activity:	Investments mainly in equity shares of corporate entities incorporated or mainly operating in Russia
Name of the investment management company:	Parex Asset Management IPAS Zigfrīda Annas Meierovica bulvāris 14, Rīga, LV 1050, Latvia

## 2. Summary of significant accounting policies

### ***Basis of preparation***

The financial statements of AIF Parex Russian Equity Fund have been prepared in accordance with laws of the Republic of Latvia, the Regulations of the Financial and Capital Market Commission (hereinafter - FCMC) on Annual Reports of Investment Funds, and International Financial Reporting Standards as adopted in the European Union.

The financial statements are prepared on a historical cost basis, as modified for the measurement at fair value of held-for-trading securities.

The monetary unit used in the financial statements is lat (LVL), the monetary unit of the Republic of Latvia. The financial statements cover the period 1 January 2008 through 31 December 2008.

### ***Income and expense recognition***

Interest income and expense items are recognised on an accrual basis. Interest income is recognised according to the effective interest method.

Dividend income is recognised upon receipt.

### ***Foreign currency translation***

The Fund's functional currency is the U.S. dollar but, according to the FCMC requirements, the Fund ensures accounting also in Latvian lats. These financial statements are prepared based on transaction accounting in Latvian lats.

Transactions denominated in foreign currencies are recorded in Latvian lats at the official exchange rate established by the Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Latvian lats at the official exchange rate established by the Bank of Latvia at the last day of the reporting period. Any gain or loss resulting from a change in exchange rates is included in the statement of income and expense as gain or loss from the revaluation of foreign currency positions.

The exchange rates established by the Bank of Latvia (LVL to 1 foreign currency unit) and mainly applied when preparing the statement of assets and liabilities of the Fund can be specified as follows:

<u>Currency</u>	<u>31/12/2008</u>	<u>31/12/2007</u>
USD	0.495	0.484
SEK	0.0635	0.0744
RUB	0.0171	0.0197

### ***Cash***

Cash comprises Fund's demand deposits with credit institutions.

**AIF Parex Russian Equity Fund**  
**Annual report 2008**  
**Notes**  
**(LVL)**

**Investments in securities**

All investments in securities are classified as held-for-trading securities, i.e. securities are acquired for generating a profit from short-term fluctuations in price or dealer's margin.

Held-for-trading securities are initially recognised at cost and subsequently re-measured at fair value based on available market prices. The result of re-measuring held-for-trading securities at fair value is included in the statement of income and expense as increase/ (decrease) in investment.

Securities are revaluated on the basis of Bloomberg's and Russian Stock Exchange financial information on the bid prices of securities. Unlisted securities are evaluated on the basis of the custodian bank's information on transactions, but in case such information is not available, respective securities are evaluated at their amortised cost. Securities purchase and sale transactions are recognised on the date of settlements. The cost of securities sold is defined on a FIFO (first in, first out) basis.

**Fair values of financial assets and liabilities**

The fair value of financial assets and liabilities represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis.

**Taxes**

The Fund's income is subject to income tax in the country of its origin. Basically, the Fund's income is exempt from income taxes. The Fund is not a Latvian corporate income tax payer, and upon annulment of the Fund's investment certificates, no income tax is charged on increase in value.

**3. Demand deposits with credit institutions**

	31/12/2008	31/12/2007	% of Fund's net assets as at 31/12/2008
Demand deposits with credit institutions, AS Parex banka	639,504	1,062,165	23.12%
<b>Total demand deposits</b>	<b>639,504</b>	<b>1,062,165</b>	<b>23.12%</b>

The Fund receives interest on demand deposits at fixed rates.

**4. Shares and other non-fixed income securities**

	31/12/2008	31/12/2007	% of Fund's net assets as at 31/12/2008
Equity shares:			
OECD	37,407	11,216	1.35%
Non-OECD	2,094,693	8,351,447	75.74%
<b>Total shares</b>	<b>2,132,100</b>	<b>8,362,663</b>	<b>77.09%</b>

All equity shares of corporate entities are classified as held-for-trading securities. All shares are listed, except for shares with the book value as at 31 December 2008 in the amount of LVL 30,277 (2007: LVL 1,750,718), whereon purchase and sale information has been included in special listings, but which are traded over the counter.



**AIF Parex Russian Equity Fund**  
**Annual report 2008**  
**Notes**  
**(LVL)**

The table below presents shares by the issuer's country of residence:

Financial instrument	Amount	Acquisition value	Carrying amount as at 31/12/2008	% of Fund's net assets as at 31/12/2008
<b>Financial instruments traded on regulated markets</b>		<b>5,893,850</b>	<b>2,132,100</b>	<b>77.09%</b>
<b>Russian issuers:</b>		<b>5,640,503</b>	<b>2,094,693</b>	<b>75.73%</b>
LUKOIL	14,700	632,032	232,847	8.42%
NORILSK NIC-MMC	5,193	482,190	159,372	5.76%
MOBILE TELESYSTEMS-SP ADR	10,000	233,562	131,274	4.75%
SBERBANK	306,000	110,046	109,816	3.97%
URALKALY	127,000	153,338	106,871	3.86%
ROSNEFT	57,000	260,628	103,549	3.74%
FSK EES	52,425,317	219,160	101,206	3.66%
SURGUTNEFTEGAZ	34,743	122,439	89,428	3.23%
FEDERAL GIDRO OGC	8,839,506	90,581	87,511	3.16%
MAGNIT	10,800	239,038	85,536	3.09%
FAR EAST SHIPPING	598,500	184,074	79,990	2.89%
VIMPELCOM-SP ADR	18,000	27,348	64,865	2.35%
NOVATEK	6,300	84,882	58,472	2.11%
COMSTAR UNITED TELESYSTEMS	31,500	119,197	48,337	1.75%
POLUS ZOLOTO	4,000	80,564	47,520	1.72%
POWER MACHINES	1,480,000	72,324	40,293	1.46%
ROSNEFT GDR REGS	20,000	35,448	36,630	1.32%
IRKUTSKENERGO	290,500	79,419	35,949	1.30%
GAZPROM-SPON ADR REG S	5,000	40,030	34,526	1.25%
GAZPROM OAO	20,000	48,584	34,254	1.24%
SEVERSTAL	18,600	158,639	25,780	0.93%
UFAORGSINTEZ	29,000	57,903	25,839	0.93%
RASPADSKAYA	53,000	201,529	24,923	0.90%
SEVERSTAL-AUTO	12,375	132,083	24,503	0.89%
VEROPHARM	5,527	82,584	24,623	0.89%
UFANEFTEKHIM	54,000	94,589	24,592	0.89%
POLYMETAL	10,000	41,898	21,780	0.79%
KUZBASSRAZREZUGOL	500,000	167,090	19,800	0.72%
SURGUTNEFTEGAZ PFD	200,000	20,195	18,810	0.68%
WIMM-BILL-DANN	3,100	89,673	17,647	0.64%
BASHKIRENERGO	53,288	72,872	15,176	0.55%
MRSK CENTRA I PRIVOLZYA	12,000,000	72,245	14,850	0.54%
SBERBANK PFD	104,000	-	14,929	0.54%
AFK SISTEMA-REG S SPONS GDR	6,000	69,751	14,405	0.52%
BALTICA BREWERY	2,155	50,786	11,734	0.42%
NOVOLIPETSK METALLURGICAL PLANT	22,892	27,071	11,332	0.41%
BELON	100,000	68,653	9,900	0.36%
TRANSSTROY CORPORATION	15,000	70,305	9,281	0.34%
KALINA	3,325	77,141	9,135	0.33%
HOLDING MRSK	625,040	-	8,972	0.32%
DIXY GROUP	8,282	62,348	7,297	0.26%
YUZYNIY KUZBASS	1,650	84,579	6,942	0.25%
VERHNE-SALDINSKOE METALLURG.OBJED.	662	63,398	6,554	0.24%
INTEGRA GROUP HOLDINGS GDR	13,500	131,928	5,680	0.21%
ROSBUSINESSCONSULTING	21,200	71,597	5,352	0.19%
KAZANORGSINTEZ PREF	370,000	52,157	4,579	0.17%
GLOBALTRANS INVESTMENT	5,616	35,223	3,892	0.14%
TGK 8	5,151,696	-	3,060	0.11%
TMK	24,900	116,017	2,465	0.09%
ENISEY TGK 13	5,291,744	-	1,965	0.07%
OGK-4	306,603	-	1,821	0.07%
HOLDING MRSK PFD	324,970	-	1,786	0.06%
MOSENERGO	100,268	-	1,588	0.06%
KRASNOYAR.ENER.SBIT	30,800	-	1,372	0.05%
SITRONICS	14,000	78,439	1,386	0.05%
TGK 5	12,543,379	-	807	0.03%
ARZAMASSKY PRIBOROSTROIT. ZAVOD	60	16,310	535	0.02%
INZHINIRING CENTR	1,335	-	661	0.02%
TARGMET	95,000	56,647	470	0.02%
ARMADA	250	1,969	124	0.00%

**AIF Parex Russian Equity Fund**  
**Annual report 2008**  
**Notes**  
**(LVL)**

TGK-14	2,898,867	-	100	0.00%
CENTRENERGHOLDING	655,663	-	-	0.00%
CENTRENERGHOLDING PFD	340,892	-	-	0.00%
INTERGENERACIA AOO	2,198,200	-	-	0.00%
INTERGENERACIA PFD	1,142,885	-	-	0.00%
SIBENERGOHOLDING	3,944	-	-	0.00%
SIBENERGOHOLDING PFD	314,002	-	-	0.00%
TGK-11 HOLDING	202,171	-	-	0.00%
TGK-11 HOLDING-PFD	105,113	-	-	0.00%
<b>Luxembourgian issuers:</b>	<b>5,300</b>	<b>201,190</b>	<b>22,300</b>	<b>0.81%</b>
EVRAZ GROUP	5,300	201,190	22,300	0.81%
<b>Swedish issuers:</b>	<b>13,000</b>	<b>52,157</b>	<b>15,107</b>	<b>0.55%</b>
BLACK EARTH FARMING LTD-SDR	13,000	52,157	15,107	0.55%
<b>Total shares</b>		<b>5,893,850</b>	<b>2,132,100</b>	<b>77.09%</b>

### 5. Accrued expense

	31/12/2008	31/12/2007
Accrued commission fees payable to investment management company	4,946	13,830
Accrued commission fees payable to custodian bank	403	1,066
Accrued fees payable for professional services	597	210
<b>Total accrued expense</b>	<b>5,946</b>	<b>15,106</b>

### 6. Interest income

	2008	2007
Interest income from demand deposits with credit institutions	19,926	26,506
<b>Total interest income</b>	<b>19,926</b>	<b>26,506</b>

### 7. Realised (decrease) in investment value

	2008	2007
Income from sale of investments	2,907,424	3,501,156
(Increase) in value of investments sold, recognised in the prior reporting periods	(1,706,564)	(1,235,042)
Acquisition value of investments sold	(2,723,417)	(2,768,544)
<b>Total realised (decrease) in investment value</b>	<b>(1,522,557)</b>	<b>(502,430)</b>

### 8. Unrealised (decrease)/ increase in investment value

	2008	2007
From shares and other non-fixed income securities	(6,651,491)	3,359,139
<b>Total unrealised (decrease)/ increase in investment value</b>	<b>(6,651,491)</b>	<b>3,359,139</b>

**AIF Parex Russian Equity Fund**  
**Annual report 2008**  
**Notes**  
**(LVL)**

**9. Change in investment assets during the reporting year**

	31/12/2007	Increase during the reporting year	Decrease during the reporting year	Foreign currency revaluation result	Fair value revaluation result	31/12/2008
Financial assets held for trading						
Shares and other non-fixed income securities	8,362,663	3,734,215	(2,509,949)	719,219	(8,174,048)	2,132,100
<b>Total assets</b>	<b>8,362,663</b>	<b>3,734,215</b>	<b>(2,509,949)</b>	<b>719,219</b>	<b>(8,174,048)</b>	<b>2,132,100</b>

**10. Information on holders of investment certificates**

The below table specifies the proportion of investment certificates held by related parties out of total investment certificates issued:

	31/12/2008	31/12/2007	% of total certificates as at 31/12/2008
Investment certificates held by related parties	904	757	0.14%
Investment certificates held by other persons	644,107	611,344	99.86%
<b>Investment certificates issued as at the year end</b>	<b>645,011</b>	<b>612,101</b>	<b>100.00%</b>

**11. Related party disclosures**

The majority of the Fund's investments are acquired with the mediation of the custodian bank AS Parex banka. AS Parex banka receives remuneration as the custodian bank, as disclosed in the statement of income and expense. In addition, the Fund's cash resources are held with AS Parex banka.

The remuneration paid to the investment management company during the reporting year is disclosed in the statement of income and expense.

During the reporting year, related parties acquired 612.2764 investment certificates (2007: 1,473.645 certificates) and sold 756.6712 investment certificates (2007: 1,651.0838 certificates).

**12. Pledged assets**

During the reporting year, no guarantees or collaterals have been issued by the Fund, neither has it pledged or otherwise caused any encumbrance or lien on its assets.

**13. Fair values of financial assets and liabilities**

The management of the investment management company believes that the carrying amounts of financial assets and liabilities approximate to their fair values. The fair value is determined according to the market quotation method, based on available quotes of stock exchanges and brokers.

**14. Risk management**

Risks are inherent in the investment process. The risk management process includes risk identification, risk measurement, and directly risk management. The Fund is exposed to market risk (i.e. currency risk, interest rate risk, and price risk), credit risk, liquidity risk and other risks (including operational risk). The investment strategy of the Fund is



**AIF Parex Russian Equity Fund**  
**Annual report 2008**  
**Notes**  
**(LVL)**

#### **14. Risk management (continued)**

aimed at minimising the aforementioned risks; however, the Company cannot guarantee that these risks can be completely avoided in the future.

##### ***Risk management structure***

Risk identification and measurement are the responsibility of an independent unit – the Risk Management Division which prepares and presents information about risks to the Fund Manager who decides specifically whether it would be necessary to minimise risks. The risk measurement process employs several models based on historical data and adjusted to consider for the current economic situation. Specific models are used to forecast changes in risk factors in ordinary and extraordinary market situations.

To mitigate the investment risks, the Fund Manager follows the risk diversification and hedging principles. The Fund Manager acquires sufficient information on potential or current investment objects, as well as supervises the financial and economic position of issuers of the securities in which the Fund's property has been or is to be invested.

The Company, when developing the Fund's investment strategy and stating limits, performs an analysis of the Fund's investments by maturity, geographic and currency profile, as well as assesses the risks inherent to each of the above factors. The Fund Manager acts in strict compliance with the Fund Prospectus, Fund Management Regulations, as well as regulations and restrictions imposed by legislation of the Republic of Latvia.

##### ***Market risk***

Market risk is a risk that the Fund's value will reduce as a result of changes in any of the following market factors: securities prices, exchange rates, interest rates, etc.

##### ***Equity price risk***

Changes in equity prices depend on the following two groups of factors: changes in stock indexes of a respective country (for instance, DAX (German stock index)) and the financial position of the issuer (prospects of earnings profit), where the first factor is usually referred to as systematic risk and the second – as specific risk. Systematic risk is managed on the basis of forecasts of the overall economic development in specific geographic regions and industries. Specific risk management is performed by conducting a detailed analysis of the issuer's financial position and profitability, as well as other factors affecting the equity price, based on the published issuer's reports and mass media information. Equity price deviations and correlations are also a matter of particular focus, making it possible to calculate the total risk exposure for all shares of the portfolio on the basis of only equity price history.

As at the end of the reporting period, the beta (a ratio showing the change in the Fund's performance relative to the overall market) was 0.70. The beta was calculated on the basis of the data for the year 2008. The RTS index (Russian stock market index) was selected as the market index. The changes of the market index are calculated as annualised standard deviation.

Market changes	Changes of the Fund's value
58.2%	40.7%

##### ***Currency risk***

Currency risk arises when the nominal value of Fund's securities or other instruments differs from the Fund's currency (U.S. dollars). Exchange rate fluctuations may result in a gain or loss, depending on the trend of the fluctuations and the Fund's currency position. The Fund's exposure to currency risk is managed effectively by entering into currency forward and swap transactions, which results in closing of the existing positions and minimisation of potential risk losses. Currency risk is also minimised by the diversification effect, which arises in situations when the Fund has several currencies, and changes in exchange rates of those currencies are not closely interrelated.

**AIF Parex Russian Equity Fund**  
**Annual report 2008**  
**Notes**  
**(LVL)**

**14. Risk management (continued)**

The table below shows the Fund's assets and liabilities by currency profile as at 31 December 2008.

	EUR	USD	SEK	RUR	Total
<b>Assets</b>					
Demand deposits with credit institutions	-	594,931	-	44,573	639,504
Financial assets held for trading					
Shares and other non-fixed income securities	-	2,116,993	15,107	-	2,132,100
<b>Total assets</b>	<b>-</b>	<b>2,711,924</b>	<b>15,107</b>	<b>44,573</b>	<b>2,771,604</b>
<b>Liabilities</b>					
Accrued expense	(597)	(5,349)	-	-	(5,946)
<b>Total liabilities</b>	<b>(597)</b>	<b>(5,349)</b>	<b>-</b>	<b>-</b>	<b>(5,946)</b>
	EUR	USD	SEK	RUB	Total
<b>Net assets</b>	<b>(597)</b>	<b>2,706,575</b>	<b>15,107</b>	<b>44,573</b>	<b>2,765,658</b>
<i>Net long position</i>	-0.02%	97.86%	0.55%	1.61%	100.00%

The table below shows the Fund's assets and liabilities by currency profile as at 31 December 2007.

	LVL	USD	SEK	Total
<b>Assets</b>				
Demand deposits with credit institutions	-	1,062,165	-	1,062,165
Financial assets held for trading				
Shares	-	8,351,447	11,216	8,362,663
<b>Total assets</b>	<b>-</b>	<b>9,413,612</b>	<b>11,216</b>	<b>9,424,828</b>
<b>Liabilities</b>				
Accrued expense	(210)	(14,896)	-	(15,106)
<b>Total liabilities</b>	<b>(210)</b>	<b>(14,896)</b>	<b>-</b>	<b>(15,106)</b>
<b>Net assets</b>	<b>(210)</b>	<b>9,398,716</b>	<b>11,216</b>	<b>9,409,722</b>
<i>Net long position</i>	(0.00)%	99.88%	0.12%	100.00%

The effect of changes in currency exchange rates on the Fund's value is shown in the table below. Changes in currency exchange rates represent annualised standard deviation of the respective exchange rate calculated on the basis of the data for the year 2008.

Currency	Share (% of assets)	Change in currency rate against USD	Effect on the Fund's value
EUR	-0.02%	14.0%	0.00%
USD	97.86%	0.0%	0.00%
SEK	0.55%	18.7%	0.10%
RUB	1.61%	9.4%	0.15%
<b>Total</b>	<b>100.00%</b>		<b>0.25%</b>

**AIF Parex Russian Equity Fund**  
**Annual report 2008**  
**Notes**  
**(LVL)**

#### 14. Risk management (continued)

##### **Concentration risk**

The issuer's industry and geographic position are additional risk factors, which can affect the price of the issuer's securities or the issuer's solvency. Therefore, it is vital to identify concentration risk, i.e. to which extent the Fund's value depends on changes in specific regions or industries. Risk concentration by geographic profile (based on the country most affecting the issuer's solvency) and industry profile is presented in the table below.

The table below shows the Fund's assets and liabilities by geographic profile as at 31 December 2008.

	Latvia	OECD countries	Other non-OECD countries	Total
<b>Assets</b>				
Demand deposits with credit institutions	639,504	-	-	639,504
Financial assets held for trading				
Shares and other non-fixed income securities	-	37,407	2,094,693	2,132,100
<b>Total assets</b>	<b>639,504</b>	<b>37,407</b>	<b>2,094,693</b>	<b>2,771,604</b>
<b>Liabilities</b>				
Accrued expense	(5,946)	-	-	(5,946)
<b>Total liabilities</b>	<b>(5,946)</b>	<b>-</b>	<b>-</b>	<b>(5,946)</b>
<b>Net assets</b>	<b>633,558</b>	<b>37,407</b>	<b>2,094,693</b>	<b>2,765,658</b>

The table below shows the Fund's assets and liabilities by geographic profile as at 31 December 2007.

	Latvia	OECD countries	Other non-OECD countries	Total
<b>Assets</b>				
Demand deposits with credit institutions	1,062,165	-	-	1,062,165
Financial assets held for trading				
Shares	-	11,216	8,351,447	8,362,663
<b>Total assets</b>	<b>1,062,165</b>	<b>11,216</b>	<b>8,351,447</b>	<b>9,424,828</b>
<b>Liabilities</b>				
Accrued expense	(15,106)	-	-	(15,106)
<b>Total liabilities</b>	<b>(15,106)</b>	<b>-</b>	<b>-</b>	<b>(15,106)</b>
<b>Net assets</b>	<b>1,047,059</b>	<b>11,216</b>	<b>8,351,447</b>	<b>9,409,722</b>

**AIF Parex Russian Equity Fund**  
**Annual report 2008**  
**Notes**  
**(LVL)**

#### 14. Risk management (continued)

The table below shows the Fund's assets and liabilities by country profile.

Country	Carrying amount as at 31/12/2008	Carrying amount as at 31/12/2007	% of Fund's net assets as at 31/12/2008
Russia	2,094,693	8,276,911	75.74%
Latvia	633,558	1,047,059	22.91%
Luxembourg	22,300	74,536	0.81%
Sweden	15,107	11,216	0.55%
<b>Total</b>	<b>2,765,658</b>	<b>9,409,722</b>	<b>100.00%</b>

The table below shows the Fund's securities portfolio by industry profile.

	31/12/2008	31/12/2007	% of total Fund's assets as at 31/12/2008
Energy resources	702,818	845,025	25.41%
Raw materials	432,397	2,223,503	15.63%
Public utilities	276,163	1,059,646	9.99%
Telecommunications services	258,881	1,756,194	9.36%
Commercial banks	124,745	662,586	4.51%
Retail of food and consumer goods	92,833	286,891	3.36%
Transportation	83,882	193,426	3.03%
Capital goods	50,770	239,966	1.84%
Production of food and consumer goods	44,488	456,593	1.61%
Production of cars and car parts	24,503	317,444	0.89%
Pharmacy	24,623	134,422	0.89%
Household and beauty products	9,135	64,372	0.33%
Mass media	5,352	81,152	0.19%
Software and related services	1,510	41,443	0.05%
<b>Total shares</b>	<b>2,132,100</b>	<b>8,362,663</b>	<b>77.09%</b>

##### **Liquidity risk**

Liquidity risk is a risk that the Fund will have difficulties in meeting its financial obligations. The Fund Manager strives to maintain such an asset structure which would ensure a possibility of selling securities in due time and with no significant losses. Investments in the Russian market are associated with a high risk that various assets may have a temporarily illiquid market. This may give rise to a situation that financial instruments or other assets cannot be sold at all or can be sold at a lower value.



**AIF Parex Russian Equity Fund**  
**Annual report 2008**  
**Notes**  
**(LVL)**

**14. Risk management (continued)**

The table below shows the Fund's assets and liabilities by maturity profile as at 31 December 2008.

	Within 1 month	Total
<b>Assets</b>		
Demand deposits with credit institutions	639,504	639,504
Financial assets held for trading		
Shares and other non-fixed income securities	2,132,100	2,132,100
<b>Total assets</b>	<b>2,771,604</b>	<b>2,771,604</b>
<b>Liabilities</b>		
Accrued expense	(5,946)	(5,946)
<b>Total liabilities</b>	<b>(5,946)</b>	<b>(5,946)</b>
<b>Net assets</b>	<b>2,765,658</b>	<b>2,765,658</b>

The table below shows the Fund's assets and liabilities by maturity profile as at 31 December 2007.

	Within 1 month	Total
<b>Assets</b>		
Demand deposits with credit institutions	1,062,165	1,062,165
Financial assets held for trading		
Shares	8,362,663	8,362,663
<b>Total assets</b>	<b>9,424,828</b>	<b>9,424,828</b>
<b>Liabilities</b>		
Accrued expense	(15,106)	(15,106)
<b>Total liabilities</b>	<b>(15,106)</b>	<b>(15,106)</b>
<b>Net assets</b>	<b>9,409,722</b>	<b>9,409,722</b>

**AIF Parex Russian Equity Fund**  
**Annual report 2008**  
**Notes**  
**(LVL)**

**15. Dynamics of the Fund's performance**

	31/12/2008	31/12/2007	31/12/2006
<b>Fund's net assets (LVL)</b>	<b>2,765,658</b>	<b>9,409,722</b>	<b>7,873,592</b>
Number of Fund's shares	645,011	612,101	633,174
Value of Fund's shares (LVL)	4.29	15.37	12.44
Performance on Fund's shares	(72.01)%	23.55%	47.22%
<b>Fund's net assets (USD)*</b>	<b>5,585,966</b>	<b>19,441,812</b>	<b>14,690,900</b>
Number of Fund's shares	645,011	612,101	633,174
Value of Fund's shares (USD)	8.66	31.76	23.20
Performance on Fund's shares	(72.64)%	36.90%	62.92%

\* The net asset value in U.S. dollars is determined, based on exchange rates fixed at financial markets at the end of each day.

\*\* Performance is calculated supposing that a year consists of 365 days.

## INDEPENDENT AUDITORS' REPORT

To the holders of investment certificates of OIF Parex Russian Equity fund

### Report on the Financial Statements

We have audited 2008 financial statements of opened-end investment fund Parex Russian Equity fund (hereinafter – the Fund), which are set out on pages 9 through 23 of the accompanying 2008 Annual Report and which comprise the statements of assets and liabilities as at 31 December 2008, the statement of income and expenses, changes in net assets and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### Management's Responsibility for the Financial Statements

Investment management company's Parex Asset Management management is responsible for the preparation and fair presentation of these financial statements in accordance with the Regulations of the Financial and Capital Market Commission on Preparation of Financial Statements of Investment Funds. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these 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 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 auditor's 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.

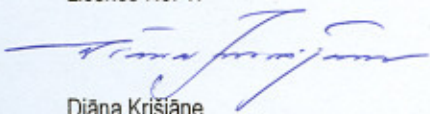
#### Opinion

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the Fund as at 31 December 2008, and of the results of their operations and their cash flows for the year then ended in accordance with the Regulations of the Financial and Capital Market Commission on Preparation of Financial Statements of Investment Funds.

### Report on Compliance of the Management's Report

Furthermore, we have read the Management's Report for the year ended 31 December 2008 (included on page 5 of the accompanying 2008 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2008.

SIA Ernst & Young Baltic  
Licence No. 17



Diāna Krišjāne  
Chairperson of the Board  
Latvian Sworn Auditor  
Certificate No. 124  
Riga, 21 April 2009