



**GFM COSSACK BOND COMPANY LIMITED**  
**REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**

For the period from 25 June 2010 to 30 June 2011

**GFM COSSACK BOND COMPANY LIMITED**

CONSOLIDATED FINANCIAL STATEMENTS

For the period from 25 June 2010 to 30 June 2011

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**GFM COSSACK BOND COMPANY LIMITED****BOARD OF DIRECTORS AND PROFESSIONAL ADVISERS**

Board of Directors	Roberts Idelsons Gleb Shestakov Richard Oliver Bernays Harry E. Fitzgibbons
Secretarial Agent and Secretary	Stravin Investment Services Limited, 12 Esperidon Street 4 <sup>th</sup> Floor 1087 Nicosia, Cyprus
Registered office	Walker House, P.O. Box 908, Mary Street George Town, Grand Cayman, Cayman Islands KY1-9002
Administrator	Cyproman Services Limited 12 Esperidon Street 4 <sup>th</sup> Floor 1087 Nicosia, Cyprus
Independent auditors in Cyprus	KPMG Limited 14 Esperidon Street 1087, Nicosia, Cyprus
Independent auditors in Cayman Islands	KPMG P.O. Box 493, Century Yard, Grand Cayman, Cayman Islands KY1-1106
Eurobond Custodian	Russische Commercial Bank AG
Rouble Denominated Custodian	Troika Dialog
Investment Manager	Global Fund Management S.A. Panama
Investment Advisors	Citadele Asset Management, Latvia
Legal Advisers	Walkers, Cayman Islands
International Counsel	Loughran & Co, England
Listing Agent	Appleby Management (Bermuda) Ltd

## **GFM COSSACK BOND COMPANY LIMITED**

### BOARD OF DIRECTORS' REPORT

The Board of Directors of GFM Cossack Bond Company Limited (the "Company") presents to the members of the Company its report together with the audited financial statements of the Company for the period from 25 June 2010 to 30 June 2011.

#### **INVESTMENT OBJECTIVES AND PRINCIPAL ACTIVITIES**

The principal activity of the Company is investment in CIS (Commonwealth of Independent States) securities. The Company invests in debt instruments either directly or through the subsidiary, as determined by the Investment Manager from time to time.

The investment objective is to achieve capital appreciation in US dollar terms. The Company will seek to achieve its investment objective by investing in both US dollar denominated and local currency denominated obligations of sovereign, regional and local governments and to a lesser extent, corporate borrowers in the CIS states.

#### **RESULTS**

In fiscal 2010/11, our Fund has delivered an 8.2% return. We have maintained very conservative stance due to uncertainty about the strength of economic recovery in the US and worries over European debt crisis.

During this fiscal year we have decreased our investment in Azerbaijan by more than 10% and invested 15.7% of the NAV in Kazakhstan. In our view after the hard landing in 2008/09 and near collapse of the banking system, the Kazakhstan fixed income market, powered by local pension money and an undervalued Tenge now offer a good risk adjusted return and disconnection from the global markets. And we are looking for disconnection in this time of uncertainty.

Spread between US treasuries and CIS Government debt has reduced to the extent that CIS government's debt has become relatively unattractive. Corporate allocation of the portfolio increased by 21% during the reporting period, at the expense of Sovereign, Sub- and Quasi-Sovereign issuers. In spite of this, more than 50% of the portfolio is invested in debt of investment grade issuers. To decrease risk we have shortened duration of the fund from 1.2 years in 2009/10 to 1 year in 2010/11. We intend to shorten duration of the portfolio further although present pricing of risk will not allow us to go as short as in the summer 2008, when duration came down to six months.

The risk metrics of the Fund remained well ahead of the benchmarks and improving with the Sharpe Ratio at 17.977 (4.496 in 2009/10) and the Annualised Standard Deviation at 0.0039 (0.03656 a year before).

Your Fund managers anticipate that the year ahead will be very difficult but we are confident that as in 2008 our chosen strategy will allow us to outperform the markets and deliver a superior result. After the reporting period there has been a severe sell-off in the bond markets with the EMBI dropping 2.75 % in September. However, the Fund still delivered a positive return providing good proof that our investment strategy is sound.

#### **EVENTS AFTER THE REPORTING PERIOD**

There were no material events after the reporting period date, which affect the financial statements as at 30 June 2011.

**GFM COSSACK BOND COMPANY LIMITED**BOARD OF DIRECTORS' REPORT (Cont.)**BOARD OF DIRECTORS**

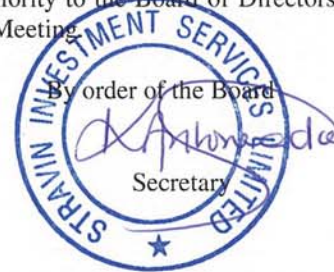
The members of the Board of Directors of the company as at the date of this report are set out on page 1. All of them were members of the Board throughout the period ended 30 June 2011.

In accordance with the Company's Articles of Association all directors presently members of the Board continue in office.

There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

**INDEPENDENT AUDITORS**

The independent auditors, Messrs KPMG Limited have expressed their willingness to continue in office. A resolution for their reappointment and giving authority to the Board of Directors to fix their remuneration will be submitted at the Annual General Meeting.



30 November, 2011



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CAYMAN ISLANDS

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## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying consolidated financial statements of GFM Cossack Bond Company Limited ("the Company"), which comprise the consolidated statement of financial position as at 30 June 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in net assets attributable to holders of redeemable shares and consolidated cash flow statement for the period from 25 June 2010 to 30 June 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at 30 June 2011, and its consolidated financial performance and its consolidated cash flows for the period from 25 June 2010 to 30 June 2011 in accordance with International Financial Reporting Standards.

1 December 2011

**GFM COSSACK BOND COMPANY LIMITED**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period from 25 June 2010 to 30 June 2011

	Notes	25/06/2010- 30/06/2011 US\$	26/06/2009- 24/06/2010 US\$
<b>Investment income</b>			
Net gain realised on trading		1,481,841	4,221,756
Coupons received		1,912,609	1,926,031
Bank interest income		965	103,147
Gross dividend income		7,422	93
Net foreign exchange loss		<u>(31,594)</u>	<u>(226,645)</u>
<b>Total investment (loss)/income</b>		<u>3,371,243</u>	<u>6,024,382</u>
<b>Operating expenses before finance costs</b>			
Administration expenses	4	<u>(1,151,818)</u>	<u>(1,069,779)</u>
<b>Net (loss)/income from operations before finance costs</b>		<u>2,219,425</u>	<u>4,954,603</u>
<b>Finance costs</b>			
Financing expenses	5	<u>(31,974)</u>	<u>(64,570)</u>
<b>Change in net assets attributable to holders of redeemable shares resulting from operations</b>		<u>2,187,451</u>	<u>4,890,033</u>
<b>Other comprehensive income</b>		<u>-</u>	<u>-</u>
<b>Total comprehensive income for the period</b>		<u>2,187,451</u>	<u>4,890,033</u>

The notes on pages 9 to 26 form an integral part of the consolidated financial statements.

**GFM COSSACK BOND COMPANY LIMITED**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

	Note	30/06/2011 US\$	24/06/2010 US\$
<b>Assets</b>			
Cash and cash equivalents	6	1,962,997	2,962,067
Equity instruments	7 & 8	30,615	83,719
Debt instruments	7 & 8	28,821,995	28,210,277
Derivative instruments	7 & 8	-	10,193
Other receivables	9	<u>5,723</u>	<u>682,842</u>
<b>Total assets</b>		<u>30,821,330</u>	<u>31,949,098</u>
<b>Liabilities</b>			
Derivative instruments	7 & 8	15,000	-
Other payables	10	<u>585,581</u>	<u>502,031</u>
<b>Total liabilities (excluding net assets attributable to holders of redeemable shares)</b>		<u>600,581</u>	<u>502,031</u>
<b>Net assets attributable to holders of redeemable shares</b>		<u>30,220,749</u>	<u>31,447,067</u>
Participating shares in issue	11	1,670,727	1,880,656
NAV per share (US\$)		<u>18.09</u>	<u>16.72</u>

The consolidated financial statements were approved by the Board of Directors on 30 November, 2011.

Richard Oliver Bernays  
Director

(..........)

Gleb Shestakov  
Director

(..........)

The notes on pages 9 to 26 form an integral part of the consolidated financial statements.



**GFM COSSACK BOND COMPANY LIMITED**

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO THE  
HOLDERS OF REDEEMABLE SHARES

For the period from 25 June 2010 to 30 June 2011

	25/06/2010- 30/06/2011 US\$	26/06/2009- 24/06/2010 US\$
<b>Balance at the beginning of the period</b>	31,447,067	35,495,983
Increase in net assets attributable to holders of redeemable shares	<u>2,187,451</u>	<u>4,890,033</u>
Contributions and redemptions by holders of redeemable shares:		
Issue of redeemable shares during the period	7,013,079	2,488,200
Redemption of redeemable shares during the period	(10,176,848)	(11,242,949)
Subscriptions not yet issued	<u>(250,000)</u>	<u>(184,200)</u>
Total contributions and redemptions by holders of redeemable shares	<u>(3,413,769)</u>	<u>(8,938,949)</u>
<b>Balance at the end of the period</b>	<u>30,220,749</u>	<u>31,447,067</u>

The notes on pages 9 to 26 form an integral part of the consolidated financial statements.

**GFM COSSACK BOND COMPANY LIMITED**

CONSOLIDATED CASH FLOW STATEMENT

For the period from 25 June 2010 to 30 June 2011

	25/06/2010- 30/06/2011 US\$	26/06/2009- 24/06/2010 US\$
<b>Operating activities</b>		
Change in net assets attributable to holders of redeemable shares resulting from operations	2,187,451	4,890,033
<b>Changes in operating assets and liabilities</b>		
Increase / (decrease) in other payables	17,750	75,104
(Increase) / decrease in other receivables	677,119	(682,842)
Sale / (purchase) of investments	<u>(533,421)</u>	<u>(4,669,791)</u>
<i>Net cash (used in)/generated from operating activities</i>	<u>2,348,899</u>	<u>(387,496)</u>
<b>Cash flows from financing activities</b>		
Payments on redemptions of shares	(10,176,848)	(11,242,949)
Increase in advance subscriptions	65,800	184,200
Proceeds from issue of shares	<u>6,763,079</u>	<u>2,304,000</u>
<i>Net cash (used in) financing activities</i>	<u>(3,347,969)</u>	<u>(8,754,749)</u>
<b>Movement in cash and cash equivalents during the period</b>	(999,070)	(9,142,245)
<b>Cash and cash equivalents at the beginning of the period</b>	<u>2,962,067</u>	<u>12,104,312</u>
<b>Cash and cash equivalents at the end of the period (Note 6)</b>	<u><u>1,962,997</u></u>	<u><u>2,962,067</u></u>
<b>Supplementary information on cash flows from operating activities:</b>		
	30/6/2011 US\$	24/6/2010 US\$
Interest received	965	103,147
Dividend received	1,699	93
Interest paid	3,537	28

The notes on pages 9 to 26 form an integral part of the consolidated financial statements.

## GFM COSSACK BOND COMPANY LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 25 June 2010 to 30 June 2011

#### 1. INCORPORATION AND PRINCIPAL ACTIVITIES

GFM Cossack Bond Company Limited (the "Company") was incorporated in the Cayman Islands on 15 May 1997 as an exempted limited liability company under the Companies Law of the Cayman Islands and registered as an open ended investment company under the Mutual Funds Law on 9 July 1997 and accordingly is registered as a regulated mutual fund under Sec. 4(3) of the Mutual Funds Law. As at 30 June 2011 the Company had no employees. The registered office of the Company is located at Walker House, Mary Street, George Town, Grand Cayman, Cayman Islands. The Company's participating shares are listed on the Bermuda Stock Exchange.

The principal activity of the Company is investment in CIS (Commonwealth of Independent States) securities. The Company invests in debt instruments either directly or through its subsidiary, as determined by the Investment Manager from time to time.

The investment objective is to achieve capital appreciation in US dollar terms. The Company will seek to achieve its investment objective by investing in both US dollar denominated and local currency denominated obligations of sovereign, regional and local governments and to a lesser extent, corporate borrowers in the CIS states.

These financial statements consolidate the financial statements of the Company and the following wholly owned subsidiary:

<b>Name of Company</b>	<b>Nature of business</b>	<b>Country of incorporation</b>
Diaghilev Investments Limited	Nominee Services	Cyprus

The financial statements were authorised for issue by the Directors on 30 November, 2011.

#### 2. BASIS OF PRESENTATION

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs). The measurement and presentation currency of the Company is the United States Dollar and not the local currency of the Cayman Islands, reflecting the fact that the shares of the Company are issued and redeemed in United States Dollars.

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amount of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may vary from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

**GFM COSSACK BOND COMPANY LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the period from 25 June 2010 to 30 June 2011**2. BASIS OF PRESENTATION (cont.)**

Judgments made by management in the application of IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next period are discussed in Note 13.

The Company invests in CIS markets and distributes its participating shares on the Bermuda Stock Exchange. The Company is organized and operates as one segment (both in terms of business and geography). Consequently, no segment reporting is provided in the Company's financial statements.

These consolidated financial statements are prepared on a fair value basis for financial assets and liabilities at fair value through profit or loss. Other financial assets and liabilities and non-financial assets and liabilities are stated at historical cost which is considered to approximate fair value due to the short term nature of these assets and liabilities. The accounting policies have been consistently applied by the Company and are consistent with those used in the previous period.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted by the Company are as follows:

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary, Diaghilev Investments Limited. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-company balances are eliminated in preparing consolidated financial statements.

Adoption of new and revised International Financial Reporting Standards and Interpretations

As from 25 June 2010, the Company adopted all the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), which became effective and also were endorsed by the European Union (EU) and are relevant to its operations. The adoption of these Standards did not have a material effect on the consolidated financial statements except for the adoption of IFRS3 "Business Combinations". Under the provisions of the revised IFRS 3 entities have a choice to measure non-controlling interest in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets.

All IFRSs issued by the International Standards Board (IASB) which are effective for periods beginning after 1 January 2009, have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of IFRIC 12: "Service Concession Arrangements" and certain provisions of IAS 39: "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

**GFM COSSACK BOND COMPANY LIMITED**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 25 June 2010 to 30 June 2011

**3. SIGNIFICANT ACCOUNTING POLICIES (cont.)**

Application of new and revised Standards and Interpretations

The following Standards, Amendments to Standards and Interpretations had been issued but are not yet effective for the period ended 30 June 2011:

***Standards and Interpretations adopted by the EU***

- *Improvements to IFRSs issued in 2010* (effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate)
- *IFRS 1 (amendment): Limited exemption from comparative IFRS 7 disclosures for first time adopters* (effective for annual periods beginning on or after 1 July 2010).
- *IAS 24 (revised): "Related Party Disclosures"* (effective for annual periods beginning on or after 1 January 2011).
- *IAS 32 "Classification of rights issues" (amendments)* (effective for annual periods beginning on or after 1 February 2010).
- *IFRIC 14 Prepayments of a Minimum Funding Requirement (amendments)* (effective for annual periods beginning on or after 1 January 2011).
- *IFRIC 19: "Extinguishing Financial Liabilities with Equity Instruments"* (effective for annual periods beginning on or after 1 July 2010).

***Standards and Interpretations not adopted by the EU***

- *Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters* (effective for annual periods beginning on or after 1 July 2011).
- *IFRS 7 (Amendment) Financial Instruments: Disclosures - Transfers of Financial Assets* (effective for annual periods beginning on or after 1 July 2011)
- *IFRS 9 "Financial Instruments"* (effective for annual periods beginning on or after 1 January 2013).
- *IAS 12 - "Deferred tax": Recovery of Underlying Assets (amendments)* (effective for annual periods beginning on or after 1 January 2012).

The Board of Directors expects that the adoption of these Standards and Interpretations in future periods will not have a material effect on the financial statements of the Company with the exception of the following:

- *The adoption of IFRS 9 could change the classification and measurement of financial assets.* The extent of the impact has not been determined.

**GFM COSSACK BOND COMPANY LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the period from 25 June 2010 to 30 June 2011**3. SIGNIFICANT ACCOUNTING POLICIES (cont.)**Financial instruments*(i) Classification*

The Company designates its investments into the financial assets at fair value through profit or loss category. The category of financial assets and financial liabilities at fair value through profit or loss comprises:

- Financial instruments held for trading. These include CIS exchange traded debt instruments, priority equity instruments and futures. All derivatives in a net receivable position (positive fair value) are reported as financial assets held for trading. All derivatives in a net payable position (negative fair value), are reported as financial liabilities held for trading.
- Financial instruments designated at fair value through profit or loss upon initial recognition. These include financial assets that are not held for trading purposes and which may be sold. At the date of this report, no such instruments were held. Financial assets and liabilities that are not at fair value through profit and loss include accounts receivable and payable and financial liabilities arising from redeemable shares.

*(ii) Recognition*

The Company recognises financial assets and financial liabilities on the date it becomes party to the contractual provisions of the instrument. A regular way purchase of financial assets is recognised using trade date accounting. From this date any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded. Financial liabilities are not recognised unless one of the parties has performed or the contract is a derivative contract not exempt from the scope of IAS 39.

*(iii) Measurement*

Financial instruments are initially measured at fair value (transaction price) plus, in case of a financial asset or financial liability, transaction costs that are directly attributable to the acquisition. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments classified at fair value through profit and loss are measured at fair value with changes in their fair value recognised in the consolidated statement of comprehensive income.

Financial liabilities arising from the redeemable shares issued by the Company are carried at the redemption amount representing the investor's right to a residual interest in the Company's assets.

*(iv) Fair value measurement principles*

The fair value of financial instruments is based on their quoted market prices at the consolidated statement of financial position date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices.

**GFM COSSACK BOND COMPANY LIMITED****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the period from 25 June 2010 to 30 June 2011

**3. SIGNIFICANT ACCOUNTING POLICIES (cont.)****Financial instruments (cont)***(v) Unrealised gains and losses on subsequent measurement*

Unrealised gains and losses arising from a change in the fair value of trading instruments are recognised in the consolidated statement of comprehensive income.

*(vi) Derecognition*

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with IAS 39. A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

*(vii) Specific instruments*

As part of the Company's investment strategy, it enters into certain derivative contracts, including futures. The futures represent currency contracts traded on the CME (Chicago Mercantile Exchange) and are effectively cash flow hedges against adverse movements in the exchange rates of the local currency denominated instruments. Subsequently, all gains and losses are recognized in the consolidated statement of comprehensive income. Open futures are considered effectively closed and derecognized when the number of contracts bought and sold short on the same exchange are offset. Accordingly, only the cost/proceeds associated with the net position are reflected in the consolidated financial statements.

**Interest-bearing borrowings**

Interest-bearing borrowings are recognised initially at cost, being the fair value of the consideration received net of attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the consolidated statement of comprehensive income over the period of the borrowings on an effective interest basis. Amortized cost is calculated by taking into account any issue costs, discount or premium on settlement.

**Interest income**

Interest income and expense is recognised in the consolidated statement of comprehensive income as it accrues.

**Dividend income**

Dividend income is recognised as gross in the consolidated statement of comprehensive income on the ex-dividend date.

**GFM COSSACK BOND COMPANY LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTSFor the period from 25 June 2010 to 30 June 2011**3. SIGNIFICANT ACCOUNTING POLICIES (cont.)**Expenses

All expenses are recognised in the consolidated statement of comprehensive income on the accrual basis except for transaction costs incurred on the acquisition of an investment which are included within the cost of that investment. Transaction costs incurred on the disposal of investments are deducted from the proceeds on sale.

Financing expense

Financing expenses comprise of bank charges and bank interest. Financial expenses are recognized as expenses in the consolidated statement of comprehensive income as they accrue.

Foreign currency transactions

Transactions in foreign currencies are translated to United States Dollars (US\$) at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the consolidated statement of financial position date are translated to US\$ at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the consolidated statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the reporting currency at the foreign exchange rates ruling at the dates that the values are determined.

Cash and cash equivalents

Cash and cash equivalents represent balances with banks and margin accounts with various brokers.

Other receivables

Other receivables are stated at their nominal value.

Taxation

There are no taxes on income or gains in the Cayman Islands and the Company has received an undertaking from the Governor in Cabinet of the Cayman Islands exempting it from all local income, profits and capital taxes until June 2017. Accordingly, no provision for income taxes is made in these consolidated financial statements.

Share capital

The Company issued Permanent and Participating Shares. The Permanent Shares were issued solely to comply with Cayman Islands Law. The Participating Shares are redeemable and represent the only instrument with a residual interest in the net assets of the Company. The participating shares provide the investors with the right to require redemption for cash at the value proportionate to the investor's share in the Company's net assets (see Net asset value per share below) as determined on each valuation day (Note 11).

On the issue of Participating Shares, the difference between the issue price and the nominal value is credited to the share premium account. On redemption, the premium repayable is debited to the share premium account. Any amount in excess of the aggregate share premium paid in is debited to retained earnings.



**GFM COSSACK BOND COMPANY LIMITED**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 25 June 2010 to 30 June 2011

**3. SIGNIFICANT ACCOUNTING POLICIES (cont.)**

Net asset value per share

The net asset value per share disclosed on the consolidated statement of financial position is calculated in accordance with the Articles of Association by dividing the net assets included in the consolidated statement of financial position by the number of Participating Shares outstanding at period end.

Permanent Shares are non-redeemable and do not have a residual interest in the net assets of the Company and therefore do not affect the calculation of the Company's net asset value per share.

Other payables

Other payables are stated at their nominal value.

Comparative figures

Wherever needed, the comparative figures have been restated according to the changes in the current year's presentation.

**4. ADMINISTRATION EXPENSES**

	25/06/2010- 30/06/2011 US\$	26/06/2009- 24/06/2010 US\$
Administration expenses	26,288	35,688
Marketing expenses	18,437	7,861
Legal fees	16,372	54,046
Directors fees and remuneration	30,000	30,000
Broker's fees and commissions paid	-	12
Stock exchange commissions	108,987	44,278
Custody, margin and flat fees	8,681	23,894
Fund administrator fees	35,000	35,000
Investment Manager's fees	420,446	451,023
Listing fees	2,500	3,250
Board meetings	10,337	7,939
Secretary fees	56,175	60,161
Nominees fees	20,000	20,000
Printing & stationery	1,395	2,238
Performance fees	371,814	243,142
Advertising	-	8,299
Postages	684	1,156
Subscription and membership fees	3	6
Audit and accounting fees	24,699	41,786
	<u>1,151,818</u>	<u>1,069,779</u>

**GFM COSSACK BOND COMPANY LIMITED**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 25 June 2010 to 30 June 2011

**5. FINANCING EXPENSES**

	25/06/2010- 30/06/2011 US\$	26/06/2009- 24/06/2010 US\$
Bank charges and fees	28,437	64,542
Interest expense	<u>3,537</u>	<u>28</u>
	<u>31,974</u>	<u>64,570</u>

**6. CASH AND CASH EQUIVALENTS**

	30/06/2011 US\$	24/06/2010 US\$
Cash at bank and margin accounts (1) with various brokers	<u>1,962,997</u>	<u>2,962,067</u>

(1) Margin accounts represent cash deposits with brokers transferred as a collateral against open futures contracts. The Company also transferred cash as collateral for transactions involving borrowed securities.

	24/6/2010 US\$	24/6/2010 US\$
<b>Analysis of cash at banks and margin accounts:</b>		
Cash at bank -RKB USD	434,960	453,769
Cash at bank -RKB EUR	-	121
Cash at bank -HELLENIC USD	624	40,518
Cash at bank -HELLENIC EUR	61	299
Cash at bank -RMG USD	-	(35)
Cash at bank -BASELAND USD	1,182,944	1,261,843
Cash at bank-BASELAND USD	256,268	1,176,107
Cash at bank -BASELAND RUR	24,508	25,434
Cash at bank -BASELAND AZN	-	1,900
Cash at bank-BASELAND UAH	1,338	682
Cash at bank -MTB UAH	48	5
Cash at bank -UKRISBANK UAH	1	1,422
Cash at Bank - FALCON USD	58,109	-
Cash at bank - AMERIA BANK USD	4,136	-
Cash in hand	<u>-</u>	<u>2</u>
	<u>1,962,997</u>	<u>2,962,067</u>

**GFM COSSACK BOND COMPANY LIMITED**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 25 June 2010 to 30 June 2011

**7. INVESTMENTS**

Investments consist of the following:

	30/06/2011	24/06/2010
	US\$	US\$
Equity instruments:		
Preferred shares in Russian corporations	<u>30,615</u>	<u>83,719</u>
Debt instruments:		
Local currency denominated debt instruments	9,377,680	5,912,565
Eurocurrency denominated debt instruments	<u>19,444,315</u>	<u>22,297,712</u>
	<u>28,821,995</u>	<u>28,210,277</u>
Derivative instruments:		
Net currency futures	<u>(15,000)</u>	<u>10,193</u>
	<u>28,837,610</u>	<u>28,304,189</u>

The debt instruments represent corporate and government bonds.

	30/06/2011	24/06/2010
	US\$	US\$
<b>Geographical spread of investments</b>		
Azerbaijan	16,644,288	19,976,947
Kazakhstan	4,542,489	-
Russia	3,543,183	3,879,479
Ukraine	3,308,866	3,310,461
Belarus	571,116	-
Armenia	<u>242,668</u>	<u>1,127,108</u>
	<u>28,852,610</u>	<u>28,293,996</u>

**GFM COSSACK BOND COMPANY LIMITED**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 25 June 2010 to 30 June 2011

**8. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS**

The Company's investment activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The most significant types of financial risk to which the Company is exposed are price risk, credit risk and liquidity risk. Price risk includes market risk, interest rate risk and currency risk.

The nature and extent of the financial instruments outstanding at the consolidated statement of financial position date and the risk management policies employed by the Company are discussed below:

**(a) Market risk**

Market risk is the risk that changes in interest rates, foreign exchange rates or equity prices will make an instrument less valuable. All trading instruments are recognised at fair value, and all changes in market conditions directly affect net income. The Company is exposed to market risk on financial instruments that are valued at market prices. Market movements can be volatile and are difficult to predict. The markets for some securities have limited liquidity and depth and may include restrictions on convertibility of currencies. This could limit realisation of prices which are quoted and execution of orders at desired prices.

The Company will seek to achieve its investment objective by investing in both US dollar denominated and local currency denominated obligations of sovereign, regional and local governments and to a lesser extent, corporate borrowers in the CIS states.

The Company will ensure that a reasonable spread of investments will normally be made and any purchase and will adhere to the general principle of risk diversification with regard to the use of derivatives. Furthermore, any investment by the Company in the securities of a corporate issuer will be limited to not more than 20 per cent of the securities or particular class of securities of that issuer at the time the investment is made for which purpose any existing holding in the securities concurred will be aggregated with the proposed new investment.

**(b) Interest rate risk**

The majority of the Company's assets and liabilities are interest bearing and as a result the Company is subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates.

The majority of the fixed income securities mature within one year. The effective interest rates which correspond to the fixed income securities are as follows:

	30/06/2011	24/06/2010
Running Yield	9.01%	9.25%
YTM	11.14%	12.37%
Duration (years)	1.05	1.20

**GFM COSSACK BOND COMPANY LIMITED**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 25 June 2010 to 30 June 2011

**8. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS (cont.)**

**(b) Interest rate risk (cont.)**

*At the reporting date the interest rate profile of the Company's interest bearing financial instruments was:*

	Note	Carrying Amount	
		30/06/2011 US\$	24/06/2010 US\$
<b>Variable rate instruments</b>			
Financial assets	7	<u>28,821,995</u>	<u>28,210,277</u>

*Sensitivity analysis*

A decrease of 100 base points in interest rates at the reporting date would have affected equity and profit or loss by the amounts shown below. This analysis assumes that all variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2010.

	Equity		Profit or Loss	
	Increase US\$	Decrease US\$	Increase US\$	Decrease US\$
30/06/2011				
Variable rate financial instruments	<u>-</u>	<u>288,220</u>	<u>-</u>	<u>288,220</u>
Cash flow sensitivity	<u>-</u>	<u>288,220</u>	<u>-</u>	<u>288,220</u>
24/06/2010				
Variable rate financial instruments	<u>-</u>	<u>282,103</u>	<u>-</u>	<u>282,103</u>
Cash flow sensitivity	<u>-</u>	<u>282,103</u>	<u>-</u>	<u>282,103</u>

*Exposure to interest rate risk*

The following are the contractual maturities of financial assets:

	Note	Carrying amount	Contractual Cash flows	Within 1 year	2-5 years	More than 5 years
		US\$	US\$	US\$	US\$	US\$
30/06/2011						
Debt instruments	7	<u>28,821,995</u>	<u>28,821,995</u>	<u>28,821,995</u>	<u>-</u>	<u>-</u>
24/06/2010						
Debt instruments	7	<u>28,210,277</u>	<u>28,210,277</u>	<u>28,210,277</u>	<u>-</u>	<u>-</u>

**GFM COSSACK BOND COMPANY LIMITED**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 25 June 2010 to 30 June 2011

**8. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS (cont.)**

**(c) Currency risk**

The Company may invest in financial instruments denominated in currencies other than its measurement currency. Consequently, the Company is exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse effect on the value of that portion of the Company's assets or liabilities denominated in currencies other than the United States Dollar.

The Company's total net exposure to fluctuations in foreign currency exchange rates at the consolidated statement of financial position date was as follows:

	30/06/2011	24/06/2010
	US\$	US\$
Rouble	1,536,622	775,399
Ukrainian Grivnya	3,310,254	3,098,447
Azerbaijan Manat	-	1,900
Armenian Dram	242,668	1,127,110
Kazakh Tenge	3,238,570	-

The Company may seek to protect the value of some portion or all of its portfolio holdings against currency risks by engaging in hedging transactions, if available, cost effective, and practicable. The Company may enter into forward contracts on currencies as well as purchase put and call options on currencies. The currency futures are used to hedge the foreign currency exposure of the Company.

*Sensitivity analysis*

A decrease of 100 base points in foreign currency rates at the reporting date would have affected equity and profit or loss by the amounts shown below. This analysis assumes that all variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010.

	<b>Equity</b>		<b>Profit or Loss</b>	
	<b>Increase</b>	<b>Decrease</b>	<b>Increase</b>	<b>Decrease</b>
	US\$	US\$	US\$	US\$
30/06/2011				
Variable rate financial instruments	-	83,281	-	83,281
Cash flow sensitivity	-	83,281	-	83,281
24/06/2010				
Variable rate financial instruments	-	50,029	-	50,029
Cash flow sensitivity	-	50,029	-	50,029

**GFM COSSACK BOND COMPANY LIMITED**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 25 June 2010 to 30 June 2011

**8. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS (cont.)**

**(d) Credit risk**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. Credit risk is generally higher when a non-exchange traded financial instrument is involved because the counterparty for non-exchange traded financial instruments is not backed by an exchange clearing house. To manage the level of credit risk, the Company deals with counterparties of good credit standing.

The amount of credit exposure is represented by the carrying amounts of the assets on the consolidated statement of financial position. Substantially all financial instruments are cleared through and held in custody by several institutions. The Company is subject to credit risk to the extent that such institutions may be unable to fulfil their obligations either to return the Company's securities or repay amounts owed. Management does not anticipate any material losses as a result of this concentration.

Credit risk arising on debt instruments is mitigated by investing primarily in rated instruments or instruments issued by rated counterparties of credit ratings of at least Ba1 or higher by Moody's or BB+ and higher by Standard and Poor's otherwise are regarded as predominantly speculative with respect to the issuers' capacity to pay interest and repay principal in accordance with the terms of the obligations and involve significant risk exposure to adverse conditions. The Company's manager analyses credit concentration based on the counterparty, industry and geographical location of the financial assets that the Company holds.

**(e) Liquidity risk**

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Group has procedures with the object of minimizing such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

	Note	Carrying amount US\$	Contractual Cash flows US\$	Within 1 year US\$	2-5 years US\$	More than 5 years US\$
30/06/2011						
Derivative						
Instruments	7 & 8	15,000	15,000	15,000	-	-
Other payables	10	<u>585,581</u>	<u>585,581</u>	<u>585,581</u>	-	-
		<u>600,581</u>	<u>600,581</u>	<u>600,581</u>	-	-
24/06/2010						
Other payables	10	<u>502,031</u>	<u>502,031</u>	<u>502,031</u>	-	-

**GFM COSSACK BOND COMPANY LIMITED**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 25 June 2010 to 30 June 2011

**8. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS (cont.)**

**(f) Futures contracts**

Futures contracts are commitments to either purchase or sell a designated financial instrument, currency, commodity or index at a specified future date for a specified price and may be settled in cash or another financial asset. Futures are standardized exchange traded contracts. Initial margin requirements for futures are met in cash or other instruments, and changes in the future contract values are settled daily. Futures contracts have little credit risk because the counterparty is CME (Chicago Mercantile Exchange).

Futures contracts result in exposure to market risk based on changes in market prices to contracted amounts. Market risks arise due to the possible movement in foreign currency exchange rates, indices and securities' values underlying these instruments. In addition, because of the low margin deposits normally required in relation to notional contract sizes, a high degree of leverage may be typical of a futures account. As a result, a relatively small price movement in an underlying of futures contract may result in substantial losses to the Company. All futures contracts are used to hedge currency risk. As a result any loss in futures contract is offset against a gain in underlying currency.

The following futures contracts were unsettled at the reporting date:

<b>Contracts</b>	<b>Notional Amount</b>	<b>Description</b>	<b>Expiration Date</b>	<b>Position</b>	<b>Counter-party</b>	<b>Fair Value</b>
						US\$
30/06/2011						
12	30,000,000 RUB	2,500,000 RUB	15/09/2011	Short	CME	1,067,400
24/06/2010						
2	5,000,000 RUB	2,500,000 RUB	15/09/2010	Short	CME	160,050
1	100 XAU	100 XAU Gold	15/10/2010	Long	CME	124,790
4	500,000 EURO	125,000 EURO	15/09/2010	Short	CME	616,900

**(g) Fair value hierarchy**

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).



**GFM COSSACK BOND COMPANY LIMITED**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 25 June 2010 to 30 June 2011

**8. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS (cont.)**

(g) **Fair value hierarchy (cont.)**

- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

		24/06/2011		25/06/2010	
	Note	Level 1 US\$	Total US\$	Level 1 US\$	Total US\$
Equity instruments	7 & 8	30,615	30,615	83,719	83,719
Debt instruments	7 & 8	28,821,995	28,821,995	28,210,277	28,210,277
Derivative instruments	7 & 8	(15,000)	(15,000)	10,193	10,193
Total		<u>28,837,610</u>	<u>28,837,610</u>	<u>28,304,189</u>	<u>28,304,189</u>

There have been no transfers between levels during the year.

**9. OTHER RECEIVABLES**

	30/06/2011 US\$	24/06/2010 US\$
Dividend receivable	5,723	-
Loan fees receivable	<u>-</u>	<u>682,842</u>

**10. OTHER PAYABLES AND ACRUALS**

Other payables consist of the following:	30/06/2011 US\$	24/06/2010 US\$
Secretarial fees	14,457	15,535
Audit and accounting fees	32,314	16,575
Management fees	108,428	116,816
Administration expenses	35,000	-
Directors' fees	60,000	30,000
Performance fees	85,382	138,905
Subscriptions received not yet issued	<u>250,000</u>	<u>184,200</u>
	<u>585,581</u>	<u>502,031</u>

**GFM COSSACK BOND COMPANY LIMITED**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 25 June 2010 to 30 June 2011

**11. SHARE CAPITAL**

Authorised

US\$1 divided into 100 Permanent shares of US\$0.01 each

US\$500.000 divided into 50.000.000 Participating shares of US\$0.01 each

	30/06/2011	24/06/2010
	US\$	US\$
<u>Issued share capital</u>		
<i>Nominal value</i>		
100 Permanent Shares of US\$0.01 each	1	1
1,670,727 (2010: 1,880,656) Participating Shares of US\$0.01 each	<u>16,707</u>	<u>18,807</u>
	<u>16,708</u>	<u>18,808</u>
	30/06/2011	24/06/2010
<u>Issued share capital</u>		
<i>Number of shares</i>		
Balance at the beginning of the period	1,880,656	2,507,517
Issue of redeemable shares during the period	385,142	2,484,200
Redemption of shares during the period	<u>(595,071)</u>	<u>(3,111,061)</u>
Balance at the end of the period	<u>1,670,727</u>	<u>1,880,656</u>

The rights attached to the Participating shares are as follows:

- Voting rights: One vote for every share registered.
- Dividends: The shares carry rights to dividends
- Winding up: Right to a return of the nominal amount in priority to the nominal amount paid up in respect of permanent shares.
- Redemption: The shares may be redeemed and further shares may be issued.
- Transfers: The shares may be transferred.

There are no externally imposed capital requirements.

**GFM COSSACK BOND COMPANY LIMITED**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 25 June 2010 to 30 June 2011

**12. INVESTMENT MANAGEMENT AND PERFORMANCE FEES**

The Investment Manager is Global Fund Management S.A. and has been appointed by the Company to manage the investments of the Company in accordance with the Investment Management Agreement.

Investment Manager

The Investment Manager will be paid a management fee equivalent to 1.5 per cent per annum of the average Net Asset Value determined on each Valuation Day. This fee is payable quarterly in arrears.

The Investment Manager is entitled to receive a performance fee calculated and accrued monthly and payable quarterly re-adjusted after the end of each financial year of the Company, provided that there has been an appreciation in the Net Asset Value per share in excess of the "Benchmark Net Asset Value per share". The Benchmark Net Asset Value per Share in each financial year shall be calculated in the following way:

$$Z = X + X.Y/100 \cdot (T_e - T_b)/365$$

Z = Benchmark Net Asset Value per Share.

X = Net Asset Value per share as at the last Dealing Day in the immediately preceding financial year after deduction of the performance fee (if any) attributable to such year;

Y = One Year LIBOR at the last Dealing Day in the immediately preceding financial year.

T<sub>e</sub> = Date of the last Dealing Day in the relevant financial year.

T<sub>b</sub> = Date of the last Dealing Day in the immediately preceding financial year.

The Performance Fee will be paid at the rate of 20 per cent of any excess of the Net Asset Value per Share expressed in US dollars over the Benchmark Net Asset Value per Share (as defined above) as at the last Dealing Day in the relevant financial year over that as at the last Dealing Day in the immediately preceding financial year in each case multiplied by the average number of Shares in issue during the period by reference to which the fee is payable (such average calculated by dividing the sum of the number of Shares in issue on each Dealing Day within such period including Shares to be redeemed but excluding Shares to be subscribed as of each such Dealing Day by the number of such Dealing Days).

For the purposes of calculating the performance fee, the Net Asset Value per Share is calculated after deducting the management fee referred to above but without accounting for the performance fee then payable.

**Valuation day:** The last Thursday or if such day is not a Business Day the immediately preceding Business Day in each month as of which the Net Assets Value per share is calculated.

**Dealing day:** Each Business Day following a valuation day.

**GFM COSSACK BOND COMPANY LIMITED**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 25 June 2010 to 30 June 2011

**13. ACCOUNTING ESTIMATES AND JUDGEMENTS**

The majority of the Company's financial instruments are measured at fair value on the consolidated statement of financial position.

For the majority of the Company's financial instruments, quoted market prices are readily available. However, certain financial instruments, for example unlisted securities are fair valued using valuation techniques, including reference to the current fair values of other instruments that are substantially the same (subject to appropriate adjustments).

Fair value estimates are made at specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision.

*The fair values versus the carrying amounts of the Company's financial assets and liabilities are as follows:*

	Note	30/06/2011		24/06/2010	
		Carrying amount US\$	Fair value US\$	Carrying amount US\$	Fair value US\$
Equity instruments	7 & 8	30,615	30,615	83,719	83,719
Debt instruments	7 & 8	28,821,995	28,821,995	28,210,277	28,210,277
Other receivables	9	5,723	5,723	682,842	682,842
Derivative instruments	7 & 8	(15,000)	(15,000)	10,193	10,193
Other payables	10	<u>(585,581)</u>	<u>(585,581)</u>	<u>(502,031)</u>	<u>(502,031)</u>
Total		<u>28,257,752</u>	<u>28,257,752</u>	<u>28,485,000</u>	<u>28,485,000</u>

The fair value of the Company's financial assets and liabilities approximates their carrying amounts at the consolidated statement of financial position date.

**14. RELATED PARTY TRANSACTIONS**

Global Fund Management S.A. owns 100 "Permanent" shares.

**15. EVENTS AFTER THE REPORTING PERIOD**

There were no material events after the reporting period, which affect the financial statements as at 30 June 2011.

**16. CONTINGENT LIABILITIES**

The Company had no material contingent liabilities as at 30 June 2011.

