



# JPMorgan Russian Securities plc

(formerly JPMorgan Fleming Russian Securities plc)

INTERIM REPORT FOR THE SIX MONTHS ENDED 30th APRIL 2006

# Chairman's Interim Statement

## Six Month Performance

### TOTAL RETURNS FOR THE SIX MONTHS TO 30th APRIL 2006

**+77.5%** Return to shareholders<sup>1</sup>

**+64.0%** Return on net assets<sup>2</sup>

**+79.1%** Benchmark return<sup>3,4</sup>

	30th APRIL 2006	31st OCT 2005	% CHANGE
<b>FINANCIAL DATA</b>			
Total net assets (£'000)	268,450	164,265	+63.4
Number of ordinary shares in issue	56,162,812	56,162,812	
Net asset value per ordinary share (p)	478.0	292.5	+63.4
Ordinary share price (p)	477.5	269.0	+77.5
Discount of share price to net asset value	0.1%	8.0%	

<sup>1</sup>Change in share price with net dividends (if any) reinvested.  
(Source: Standard & Poor's – www.funds-sp.com).

<sup>2</sup>Change in net asset value ('NAV') per share with net dividends (if any) reinvested.  
(Source: Fundamental Data Ltd).

The return on net assets is calculated on a bid to bid basis. Historic NAV's have been adjusted to a bid basis by using an average factor compiled from the previous 12 month end valuations. Hence there is a difference between the return on net assets (+64.0%) and the change in the NAV shown in the accounts (+63.4%).

<sup>3</sup>Change in value with net dividends (if any) reinvested. (Source: Datastream).

<sup>4</sup>The Company's benchmark is the CSFB ROS Index in Sterling terms. Comparison of the Company's performance is made with this benchmark. The benchmark is a recognised index of stocks which should not be taken as wholly representative of the Company's investment universe. The Company's investment strategy does not track this benchmark and, consequently, there may be some divergence between its performance and that of the Company.

### Performance

Over the six months to the 30th April 2006, the net asset value and share price of your Company rose substantially as the Russian equity markets benefited from higher commodity prices and a re-rating of Russia's economic potential.

The net asset value appreciation of +64.0% was behind that of the benchmark index, the CSFB ROS Index which grew by +79.1%. The benchmark index is heavily dominated by a small number of energy stocks which makes its relevance as a true indicator of investment manager performance unreliable.

The Company's share price rose by +77.5% as the discount at which the shares trade to their net asset value reduced from 8.0% to 0.1%.

### Revenue and Earnings

The revenue loss after taxation for the six months ended 30th April 2006 was £1,291,000, which equates to a loss per share of 2.30p.

### Investment Management Team

JPMorgan Asset Management have been reviewing to their resources in their emerging markets team and as a result of this we are pleased to report that Vitaly Kazakov will be working as the joint investment manager of the Company. Vitaly has been working with Oleg in the Moscow office for the last two years. He replaces Ashraf Ansary who is working in other emerging market areas for JPMorgan. We are grateful to Ashraf for his assistance.

### Update

As shareholders will be aware, there has been a sharp fall in many world equity markets over the last few weeks and Russia has not escaped. Some investors have become concerned over the outlook for inflation and rising commodity prices and have sold assets perceived as being more risky, such as the Russian market. The net asset value per share of the Company as at 29th June 2006 was 417.9p, which is a fall of 12.6% since the end of April. The Company has had no gearing through this period and the Board and investment managers believe that the underlying economic position of the companies we have invested in remains strong.

**Pamela Idelson Smith**

Chairman

30th June 2006

# Investment Managers' Report

In the period under review the Russian equity market rose rapidly with the assets of the Company rising by 64.0%. The Russian market has now gone through a period of major re-pricing, in which most valuations for Russian assets have been closing their historic discount to their peers in the emerging world universe and in some cases have moved to parity with their equivalents in the developed world.

The Company's benchmark index, the CSFB ROS Index, gained 79.1%. The major reason for the underperformance was our decision to underweight energy further within the portfolio as we considered that valuations in this area had become stretched.

The CSFB ROS Index rebalanced Gazprom's weighting in February 2006 and the index weighting rose from 6.4% to 44.7% at the end of April. The outcome of this change is that our benchmark as well as the nature of Russian market has become even more dominated by the energy sector which now represents 77.8% of the index with the concentration of the top 3 stocks in the index now at 73.7%. These developments are becoming a major challenge for your investment managers, as the short term relative performance of the Company could be significantly affected by a single stock. We continue to believe that the wider diversification of the portfolio and the search for investment opportunities which have not yet been widely discovered by the market are the best ways to deal with this challenge.

Energy prices and security of supply particularly for gas have become a serious concern during the period. Russia's relations with Ukraine and Georgia have worsened considerably as a result of rows about the re-pricing of contracts to international levels. At the same time, Gazprom, which is controlled by the Russian Government, has made provocative statements about its attitude towards the development of its relationship with the EU. These have been reinforced by the signing of energy co-operation agreements with the Chinese.

The Russian economy continues to be a beneficiary of high commodity prices. The Russian Central Bank joined the list of top 5 central banks in terms of their currency reserves. Inflation has been slowly falling towards single digits and is likely to fall below 10% by the end of 2006. The Consumer sector continues its steady growth of 10+% per annum. We expect this sector to remain the most vibrant part of the economy with average incomes continuing to increase.

The equity market has been broadened by several new companies obtaining public listings. In the review period we saw IPOs issued by Magnit (retailer), Amtel (tyre maker), Novolipetsk Steel Company (steel and mining company), and Trader Media East (media company). The total value of new equity supply was above \$2bn USD. Investment discipline is important when looking at the valuation of these deals and explains our cautious stand regarding some of these transactions.

The overall portfolio has been reshaped in favour of consumer related sectors and materials as we expect a slow down in earnings growth in the energy sector. The valuation of the Russian equity market is no longer at a major discount to other emerging markets. From our point of view the current perception that there will be further reductions in the country and equity risk premiums required for Russian stocks is overplayed by investors. We continue to see value in the Russian market in the longer term, but we are also ready for some volatility to be inspired by a reduction of risk tolerance and the next stage of the commodity cycle.

**Oleg I. Biryulyov**  
**Vitaly Kazakov**

Investment Managers

30th June 2006

# Analyses of the Portfolio

## Ten Largest Holdings

at 30th April 2006

Company	Sector	Market Value	
		£'000	% <sup>1</sup>
Lukoil ADR	Energy	39,583	14.7
Surgutneftegaz ADR	Energy	38,699	14.4
Sberbank Rossii	Financials	34,879	13.0
Norilsk Nickel ADR	Materials	28,881	10.8
Open Investments	Financials	11,516	4.3
Pharmacy 36.6	Consumer Staples	11,080	4.1
Severstal Auto	Consumer Discretionary	9,458	3.5
Polyus Gold	Materials	9,190	3.4
Evrax GDR	Materials	8,864	3.3
Mechel ADR	Materials	8,733	3.3
<b>Total</b>		<b>200,883</b>	<b>74.8</b>

<sup>1</sup>Based on total assets less current liabilities of £268.5m

As at 31st October 2005, the value of ten largest investments amounted to £140,339,000 representing 85.4% of total assets less current liabilities.

## Analysis of Portfolio by Sector

Sector	30th April 2006		31st October 2005	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
Energy	35.2	77.8	35.9	90.1
Materials	28.0	6.7	18.8	1.7
Financials	17.3	5.2	15.5	1.0
Telecommunications	6.8	6.3	22.0	5.1
Consumer Staples	5.7	1.1	3.2	0.4
Consumer Discretionary	3.5	–	1.6	–
Information Technology	2.9	–	4.9	0.4
Industrials	2.2	0.4	1.7	0.1
Utilities	–	2.5	–	1.2
Net current liabilities	(1.6)	–	(3.6)	–
	<b>100.0</b>	<b>100.0</b>	100.0	100.0

Based on total assets less current liabilities of £268.5m (2005: £164.3m)

# Income Statement

(Unaudited)

	Six months to 30th April 2006			Six months to 30th April 2005			Year to 31st October 2005		
	Revenue Return £'000	Capital Return £'000	Total Return £'000	Revenue Return £'000	Capital Return £'000	Total Return £'000	Revenue Return £'000	Capital Return £'000	Total Return £'000
Realised gains/(losses) on investments	-	7,816	7,816	-	(1,874)	(1,874)	-	4,415	4,415
Unrealised gains/(losses) on investments	-	99,197	99,197	-	(968)	(968)	-	45,268	45,268
Currency (losses)/gains on cash and short-term deposits held during the period	-	(226)	(226)	-	(230)	(230)	-	415	415
Unrealised foreign exchange gains/(losses) on US Dollar loan	-	461	461	-	350	350	-	(887)	(887)
Realised foreign exchange loss on US Dollar loan	-	(481)	(481)	-	-	-	-	-	-
Other capital charges	-	(15)	(15)	-	(33)	(33)	-	(51)	(51)
Overseas dividends	963	-	963	1,028	-	1,028	2,692	-	2,692
Deposit interest	139	-	139	63	-	63	149	-	149
<b>Gross return/(loss)</b>	<b>1,102</b>	<b>106,752</b>	<b>107,854</b>	<b>1,091</b>	<b>(2,755)</b>	<b>(1,664)</b>	<b>2,841</b>	<b>49,160</b>	<b>52,001</b>
Management fee	(1,656)	-	(1,656)	(919)	-	(919)	(1,989)	-	(1,989)
Other administrative expenses	(215)	-	(215)	(146)	-	(146)	(373)	-	(373)
<b>Net return before finance costs and taxation</b>	<b>(769)</b>	<b>106,752</b>	<b>105,983</b>	<b>26</b>	<b>(2,755)</b>	<b>(2,729)</b>	<b>479</b>	<b>49,160</b>	<b>49,639</b>
Finance costs	(388)	-	(388)	(378)	-	(378)	(822)	-	(822)
<b>(Loss)/return before taxation</b>	<b>(1,157)</b>	<b>106,752</b>	<b>105,595</b>	<b>(352)</b>	<b>(2,755)</b>	<b>(3,107)</b>	<b>(343)</b>	<b>49,160</b>	<b>48,817</b>
Taxation	(134)	-	(134)	(174)	-	(174)	(527)	-	(527)
<b>(Loss)/return attributable to shareholders</b>	<b>(1,291)</b>	<b>106,752</b>	<b>105,461</b>	<b>(526)</b>	<b>(2,755)</b>	<b>(3,281)</b>	<b>(870)</b>	<b>49,160</b>	<b>48,290</b>
<b>(Loss)/return per ordinary share</b>	<b>(2.30)p</b>	<b>191.08p</b>	<b>188.78p</b>	<b>(0.94)p</b>	<b>(4.90)p</b>	<b>(5.84)p</b>	<b>(1.55)p</b>	<b>87.53p</b>	<b>85.98p</b>

All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued in the period.

The total return column of this statement is the profit and loss account of the Company and revenue and capital return columns represent supplementary information.

# Reconciliation of Movements in Shareholders' Funds

(Unaudited)

	Called up share capital £'000	Capital redemption reserve £'000	Capital reserve £'000	Other reserve £'000	Revenue reserve £'000	<b>Total £'000</b>
<b>At 31st October 2004</b>	<b>562</b>	<b>39</b>	<b>62,049</b>	<b>53,361</b>	<b>(36)</b>	<b>115,975</b>
Net capital return from ordinary activities	–	–	49,160	–	–	<b>49,160</b>
Net revenue loss from ordinary activities	–	–	–	–	(870)	<b>(870)</b>
<b>At 31st October 2005</b>	<b>562</b>	<b>39</b>	<b>111,209</b>	<b>53,361</b>	<b>(906)</b>	<b>164,265</b>
Adjustment to opening shareholders funds at 1st November 2005 to reflect the adoption of bid prices	–	–	(1,276)	–	–	<b>(1,276)</b>
Net capital return from ordinary activities	–	–	106,752	–	–	<b>106,752</b>
Net revenue loss from ordinary activities	–	–	–	–	(1,291)	<b>(1,291)</b>
<b>At 30th April 2006</b>	<b>562</b>	<b>39</b>	<b>216,685</b>	<b>53,361</b>	<b>(2,197)</b>	<b>268,450</b>

# Balance Sheet

(Unaudited)

	30th April 2006 £'000	30th April 2005 £'000	31st October 2005 £'000
<b>Assets</b>			
Investments at fair value through profit or loss	272,782	115,944	170,163
<b>Net current liabilities</b>	<b>(4,332)</b>	<b>(3,250)</b>	<b>(5,898)</b>
<b>Total assets less current liabilities</b>	<b>268,450</b>	<b>112,694</b>	<b>164,265</b>
<b>Total net assets</b>	<b>268,450</b>	<b>112,694</b>	<b>164,265</b>
<b>Financed by:</b>			
Share capital	562	562	562
Capital redemption reserve	39	39	39
Other reserve	53,361	53,361	53,361
Capital reserve	216,685	59,294	111,209
Revenue reserve	(2,197)	(562)	(906)
<b>Equity shareholders' funds</b>	<b>268,450</b>	<b>112,694</b>	<b>164,265</b>
<b>Net asset value per ordinary share</b>	<b>478.0p</b>	<b>200.7p</b>	<b>292.5p</b>
<b>Ordinary share price</b>	<b>477.5p</b>	<b>179.2p</b>	<b>269.0p</b>
<b>Discount of share price to net asset value</b>	<b>0.1%</b>	<b>10.7%</b>	<b>8.0%</b>

*The results for the year ended 31st October 2005 are a non-statutory version of the full report and accounts for that year, which have been filed with the Registrar of Companies and on which the auditors reported under S235 of the Companies Act 1985. The report contained no qualifications or any statement under S237 (2) or (3) of the said Act.*

# Cash Flow Statement

(Unaudited)

	Six months to 30th April 2006 £'000	Six months to 30th April 2005 £'000	Year to 31st October 2005 £'000
Net cash (outflow)/inflow from operating activities	(1,075)	160	698
Net cash outflow from servicing of finance	(402)	(350)	(822)
Net cash inflow from capital expenditure and financial investment	4,993	3,243	6,764
Net cash (outflow)/inflow from financing	(8,713)	5,143	5,145
<b>(Decrease)/increase in cash for the period</b>	<b>(5,197)</b>	<b>8,196</b>	<b>11,785</b>

# Accounting Policies

These interim financial statements have been prepared on the basis of the accounting policies set out in the Company's Annual Report and Accounts for the year ended 31st October 2005, except as stated below.

The Company has adopted certain new accounting policies due to the issue of new financial reporting standards (FRSs) and issue of the revised Statement of Recommended Practice "Financial statements of investment trust companies" (SORP) by the AITC in December 2005. Further details on how these accounts have been affected are given below.

The new FRSs and the SORP have also given rise to some changes in presentation. The Statement of Total Return is now called the Income Statement and the total return column, as opposed to the revenue column, is now the profit and loss account of the Company. There is also a new primary statement, the Reconciliation of Movements in Shareholders' Funds.

## **Valuation of Investments**

Investments are designated as held at 'fair value through profit and loss' in accordance with FRS 26: 'Financial Instruments: Measurement'. Listed investments are valued at bid market prices. This represents a change in accounting policy, but in accordance with paragraph 108D of FRS 26, comparatives have not been restated. In prior periods investments were valued at last traded prices. The adoption of bid prices on 1st November 2005 reduced the published value of investments by £1,276,000, which represented 0.8% of equity shareholders funds.

## **Transaction Costs**

For the purpose of these accounts, transaction costs are defined as costs such as stamp duty and broker commissions incurred in the sale and purchase of investments. FRS 26 and the SORP require that where investments are designated as 'fair value through profit or loss', the transaction costs should be disclosed.

The transaction costs on purchases for the six months to 30th April 2006 were £45,000 (31st October 2005: £93,000; 30th April 2005: £31,000). The transaction costs on sales for the six months to 30th April 2006 were £47,000 (31st October 2005: £80,000; 30th April 2005: £39,000). These costs represent broker commission and are included in purchases and netted off against sales.

# Information about the Company

## FINANCIAL CALENDAR

<b>Financial year end</b>	31st October
<b>Interim results announced</b>	June
<b>Final results announced</b>	December/January
<b>Dividend (if any)</b>	Annually
<b>Annual General Meeting</b>	March

## History

The Company was launched in December 2002 by a placing and offer for subscription. It is the successor Company to The Fleming Russia Securities Fund Limited, a closed-ended investment company incorporated in Jersey and listed on the Irish Stock Exchange. The Company adopted its present name on 1st March 2006.

## Company Numbers

Company registration number: 4567378  
London Stock Exchange SEDOL code: 0032164732  
Bloomberg code: JRS LN  
Reuters code: JRS.L

## Directors

Pamela Idelson Smith (*Chairman*)  
Patrick Gifford  
James Nicholson  
Paul Teleki  
Lysander Tennant

## Manager and Secretary

JPMorgan Asset Management (UK) Limited

## Company's Registered Office

Finsbury Dials,  
20 Finsbury Street,  
London EC2Y 9AQ

*For company secretarial and administrative matters, please contact Hilary Lowe at the above address, or telephone 020 7742 6000.*

## Market Information

The Company's net asset value ("NAV") is published daily via the London Stock Exchange.

The Company's shares are listed on the London Stock Exchange. The market price of the shares is shown daily in the Financial Times, The Daily Telegraph, The Times and The Independent, and on the Company's internet site at [www.jpmmussian.com](http://www.jpmmussian.com) where the share price is updated every 15 minutes during trading hours.

## Share Transactions

The Company's shares may be dealt in directly through a stockbroker or through a professional adviser acting on an investor's behalf. They may also be purchased and held through the Investment Trust Share Plan, Individual Savings Account (ISA) and Personal Equity Plan (PEP).

## Registrars

### Lloyds TSB Registrars

Reference 2610,  
The Causeway,  
Worthing,  
West Sussex BN99 6DA  
Telephone 0870 600 3984

*Notifications of changes of address and all enquiries regarding certificates or dividend cheques should be sent to the Registrar quoting reference 2610.*

*Registered shareholders can obtain further details on individual holdings on the internet by visiting [www.shareview.co.uk](http://www.shareview.co.uk)*

## Savings Plan Administrators

*For queries on the JPMorgan ISA, PEP or Share Plan Account, see contact details overleaf.*

## Brokers

### UBS Limited

1 Finsbury Avenue,  
London,  
EC2M 2PP  
Telephone 020 7621 0004

## Auditors

### Ernst & Young LLP

1 More London Place,  
London,  
SE1 2AF



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