

Dear shareholders!

Advanced economic development created favourable conditions for investment business in Russia. Investment Company RUSS-INVEST used that environment for further increase of the assets. In 2004 company's net assets rose by 10.6% from 2,737.1 to 3,026.7 million roubles. Net income amounted to 412.06 million roubles. As for the size of equity and reserves, the company has been keeping a place among top three the biggest Russian investment companies for the fourth consecutive year.

Investment Company RUSS-INVEST mainly concentrates on stock market providing brokerage, depository, underwriting, and financial consulting services combined with dealing operations. In the same time, the company is developing a number of new projects aiming to diversify the business. The management set as a key priority the improvement of organisational structure and implementation of new technologies.

Main strategic goal of IC RUSS-INVEST is preservation the leading position of the company and its market share. For this purpose the company is raising the equity and reserves by sustaining high net income, maintains financial stability, diversifies the business, stimulates client's turnover, and improves operating efficiency. These tasks will be met only by full commitment of the management and employees. This is why the management will continue sophistication of organizational chart, corporate management, and hire the most qualified employees for the work in the company.

We are grateful very much to our shareholders for the trust and support and will do our best to defend their interests and stir up the value of company's shares.

Board of Directors of Investment Company IC RUSS-INVEST.

Background

The joint-stock company “Investment Company IC RUSS-INVEST” was established on December 3, 1992 as a voucher investment fund. As early as January 29, 1993 the state Property Committee of Russian Federation issued license # 58, which authorized the investment fund to operate at stock market. The license was prolonged on May 10, 1995 and on March 15, 1996. Russian State Property Committee registered prospectuses of stock emission on February 1 and September 1, 1993.

In 1998 the joint stock “CIF RUSS-INVEST” was reorganized in the form of joint-stock company “Investment Company IC RUSS-INVEST” because of new legislation requirements regulating joint-stock companies, investment funds, and companies and stock market as well. On December 30, 1999 Federal Commission for the Securities Market of Russia gave our company brokerage – dealership license #000-02275-110000 valid for next three years. On December 2002 company got brokerage – dealership license without limitation of validity and depository license valid for next three years.

In 1999 the company became a member of National Associations of Stock Market Professionals (NAUFOR). Later it became a member of stock market section at Moscow Interbank Currency Exchange (MICEX) and joined Russian Trading System (RTS) with a trade regime. Now the company is a shareholder of Stock exchange RTS and a member of Stock exchange MICEX.

**Board of Directors
Of “Investment Company IC RUSS-INVEST”**

Chairman of the Board - Arutyunyan Alexander (born in 1959, graduated from Moscow State University, Candidate of Science in Economics, Master of Business Administration (Eastern College, USA), Vice-President and Head of Equity Department of IC RUSS-INVEST). The stake in the company’s equity is equal to 0.0016%.

Deputy Chairman of the Board – Sumin George (born in 1961, graduated from Moscow Economic and Statistic Institute, Director of Siberian-Ural Registrar Centre). The stake in the company’s equity is equal to 0.00107%.

Bychkov Alexander – (born in 1961, graduated from Moscow State University, Doctor of Economics, Master of Business Administration (Graduate School of Business of the University of Chicago, USA), President of IC RUSS-INVEST). The stake in the company’s equity is equal to 0.10882%.

Gontcharenko Lyubov – (born in 1957, graduated from Moscow Finance Academy, Professor of Moscow Finance Academy). The stake in the company’s equity is equal to 0.00002%.

Grashina Svetlana – (born in 1965, graduated from Moscow Economic and Statistic Institute, Senior Specialist of Siberian-Ural Registrar Centre). The stake in the company’s equity is equal to 0.00035%.

Kapranova Lydia – (born in 1953, graduated from Moscow State Judicial Academy, Lawyer of Moscow City Association of Lawyers). The stake in the company’s equity is equal to 0.00219%.

Porokhovskiy Anatoly – (born in 1943, graduated from Moscow State University, Professor, Doctor of Economics, the Head of Political Economy Department at Moscow State University). The stake in the company’s equity is equal to 0.000009%.

Tepliyashina Svetlana – (born in 1971, graduated from Moscow Engineering and Construction Institute, Head of Back-Office of IC RUSS-INVEST). The stake in the company’s equity is equal to 0.00232%.

Tipunina Tatyana – (born in 1947, graduated from Moscow Aviation Institute, Deputy General Director of Open Joint-Stock Company Beryezka v Luzhnikakh). Has no stake in the company.

**President
Of “Investment Company IC RUSS-INVEST”**

Bychkov Alexander – (born in 1961, graduated from Moscow State University, Doctor of Economics, Master of Business Administration (Graduate School of Business of the University of Chicago, USA), President of IC RUSS-INVEST). The stake in the company’s equity is equal to 0.10882%.

**Board of Administration
Of “Investment Company IC RUSS-INVEST”**

Bychkov Alexander.

Teplyashina Svetlana.

Karabanova Nelly – (born in 1941, graduated from Bauman’s Moscow High Technical University and State Management Academy, Chief Accountant of IC RUSS-INVEST). The stake in the company’s equity is equal to 0.000096%.

Total amount of compensation paid to the members of management in 2004 is equal to 5,381,852 roubles.

Controlling Commission Of “Investment Company IC RUSS-INVEST”

Head of Controlling Commission - Rybnikova Natalia (born in 1964, graduated from Moscow Finance Academy, Deputy Chief Accountant of IC RUSS-INVEST).

Kuchmaeva Elena – (born in 1967, graduated from Moscow Textile Institute, deputy General director – Controller of closed joint-stock company High Class).

Shaikina Elena – (born in 1962, graduated from Moscow Agricultural Academy, Candidate of Science in Economics, Associate Professor at Moscow Agricultural Academy).

Auditor of “Investment Company IC RUSS-INVEST”

“KPMG”, has a license of Russian Ministry of Finance for auditing # E 003330 dated by January 17, 2003 valid during next five years.

Address: 119019, Moscow, Gogolevsky Boulevard, 11. Tel.: 7-(095)-937-4477.

“Baker, Tilly Rusaudit”, Ltd. has a license of Russian Ministry of Finance for auditing of stock exchanges, budget-connected funds, and investment companies # E006075 dated by June 24, 2004 valid during next five years.

Address: 129085, Moscow, Prospect Mira, 95. Tel.: 7-(095)-788-0906, 7-(095)-217-2329.

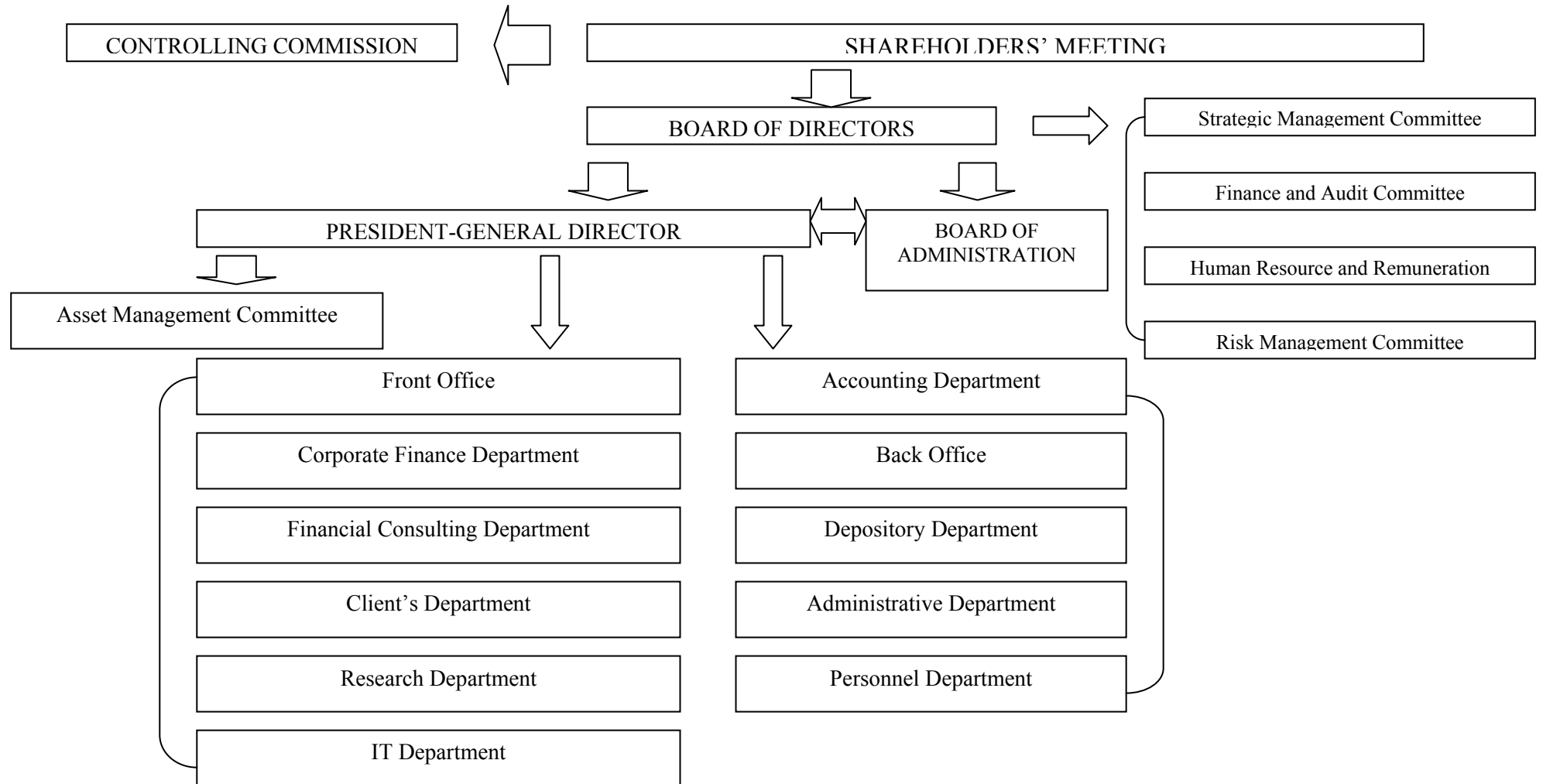
Registrar of “Investment Company IC RUSS-INVEST”

Closed Joint–Stock Company Siberian-Ural Registrar Centre has a license of Russian Federal Commission for the Securities Market # 10-000-1-00241 dated by February 9, 1999. Post address and reception of the shareholders: 117452, Moscow, Balaklavsky Prospect, 28b. Tel.: 7-(095)-318-1434.

The shareholders of “Investment Company IC RUSS-INVEST”

The company has 2,244,033 shareholders for January 1, 2005. There are 158 organisations among the shareholders.

Scheme 1. Organizational Chart



Report of the Board of Directors

The Board of Directors concentrated mainly on strategic development of the company. The strategic plan for 2003-2005 was completed ahead of a schedule as the management fulfilled the main goal of the plan – a creation of classic fully integrated investment company. Today the strategic management committee focuses on origination of new strategic plan for 2005-2007.

The committees of the Board of Directors effectively assisted directors and the management in the strategy development and business solutions. The company has four committees: the audit and finance committee, human management and compensation committee, strategic management committee, and risk management committee. Aiming to control the business expansion the Board of directors regularly reviewed the reports of the President and the heads of company's departments. In the same time the Board's committees submitted their business proposals to the Board of Directors and the President. One of the key Board's functions is adoption of business and financial plans and company's budget. The budget and business plan for 2004 were fulfilled. Current budget and financial plan for 2005 was planned with a surplus. It will allow the company to get a net income during next year.

All resolutions of annual shareholders meeting (AGM) and the Board of directors were completed. According to the resolution of 2004 AGM the company began to pay the dividends for 2003 since the 1st of January 2005.

In December 2004 the Board of Directors took a decision to make a secondary public offering of Company's shares placing 17,497,250 common shares with a price equal to 1 rouble.

Investment Policy and Major Areas of Company's Business.

Key goal of investment policy is growth of company's capital and net assets and preservation of its market share. First of all, rising capital will support financial stability of the company. Second, bigger capital will lead to growing assets in the future. Third, it will help to increase company's credit rating. Fourth, the company needs more capital for a new projects and markets.

To achieve this goal the company must:

- To determine an acceptable level of risk.
- To choose main markets for business operations.
- To create a diversified portfolio of assets.
- To practice an effective asset management.

For the company the most important areas of business are stock exchange operations. Current political stability in Russia, favorable economic situation, and fundamental strength of Russian companies combined with their low price to value ratio make the investments in Russian shares and corporate bonds quite promising despite all risks (like some tension in US-Russian relations, rising interest rates in the USA, some pitfalls in economic policy, and YUKOS affair). The experience of other emerging markets shows that an attainment of investment credit rating usually leads to the growth of stock market at least by 50% during next two years. In the same time the company will continue to diversify its business developing the projects in other areas.

According to valuations of our company the most attractive options are investments in oil, gas, steel, and telecommunication industries. Some interesting opportunities exist in electricity, machinery, consumer-oriented industries and banking.

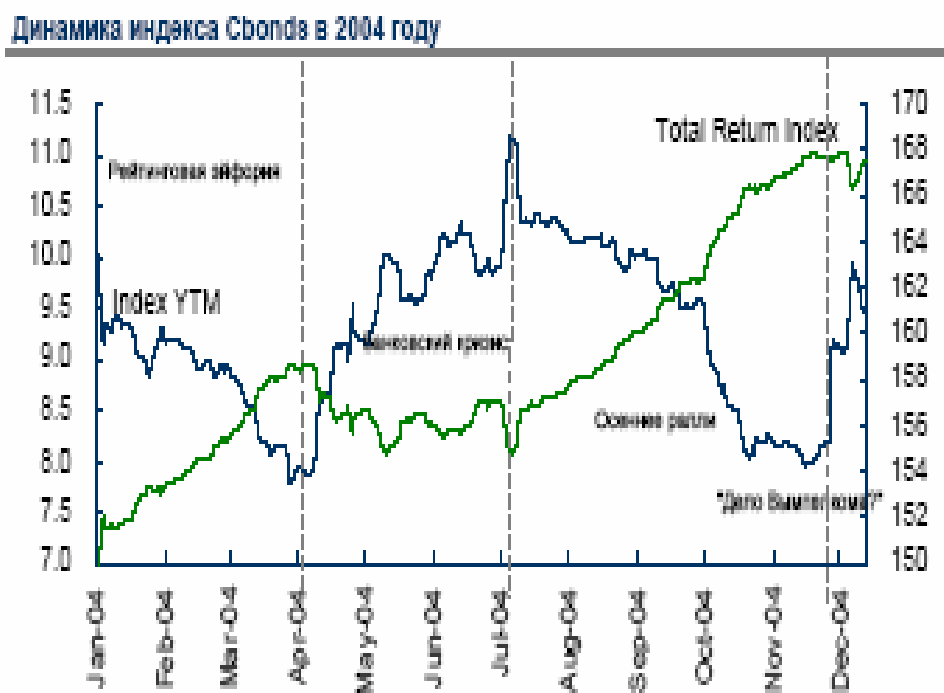
Company's asset portfolio structure is based on the following criteria: liquidity, risk, and yield. The management of the company is trying to find sensible balance between minimization of risk and administrative and sales costs and level of return acceptable for our shareholders.

Russian Capital Markets in 2004 and Investment Strategy.

Fixed Income Market.

In the first quarter of 2004 corporate bond market continued to grow because Russian credit rating was upgraded to the investment level by the Moody's Agency (see chart 1). That growth was based on the expectations that large global investors were ready to invest in Russia and the enormous increase in the liquidity. As a result, even despite the widespread opinion that all good news had already been priced, yields to maturity of the «first-tier» bonds fell to 5% p.a.

Chart 1. Dynamics of the Cbonds Index in 2004г.



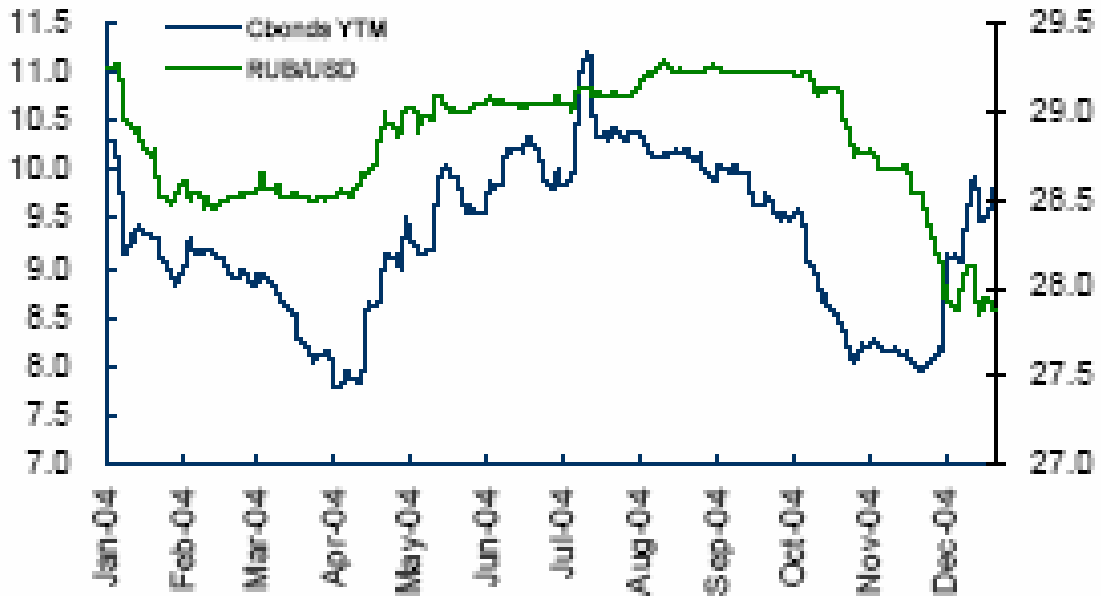
Source: cbonds.ru

The six-month rally ended in April 2004. The statement of Central Bank Chairman Mr. S.Ignatev, who said that Central Bank would abandon the policy of strengthening rouble exchange rate, directly caused the price fall. In the middle term the aftermath rouble depreciation made rouble-nominated bonds less attractive for foreign investors because the expected return of investments in overpriced bonds decreased due to weak rouble (see chart 2). Besides, in the USA the Federal Reserve Board started to raise the interest rates. That change of the interest rate cycle stimulated a fall of the bond prices (including the emerging markets), and their spreads to the US Treasuries became to grow.

Basically, that news would be enough for deep correction, but after imprudent actions and statements of the Central Bank officials in the summer 2004 there happened a confidence crisis in the Russian banking system, which concentrated about 80% of all Russian rouble-nominated bonds. The suspicion that there were «black lists» of the future victims led to the cut of credit lines and impossibility of refunding on the interbank credit market. The difficulties with current liquidity urged the banks to sell the corporate bonds. But the sales were scanted by seasonal factors: traditionally summer is not the best market for the seller. As a result, in May-July the losses from price falling exceeded the coupon return by 4-6 %.

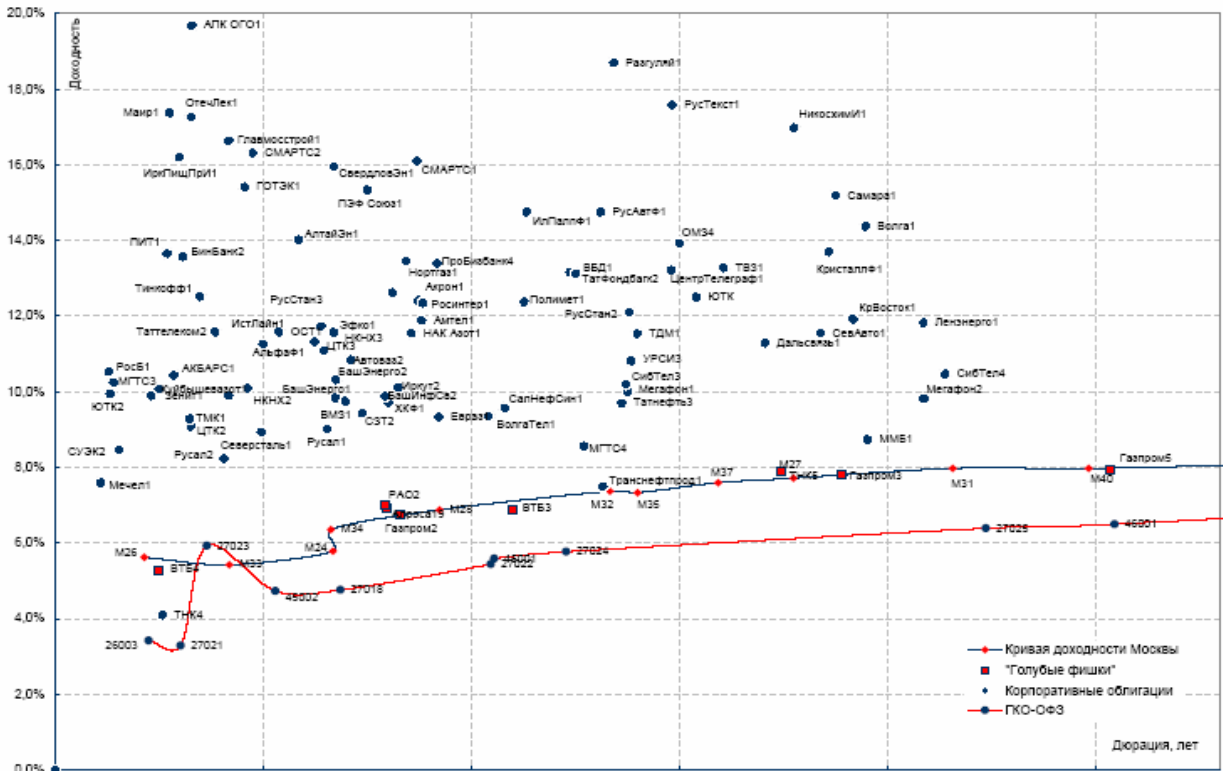
Chart 2. Dynamics of the Cbonds index and the rouble exchange rate in 2004.

Индекс Cbonds и рынок рубль-доллар



Source: cbonds.ru

Chart 3. Yield curve on the end 2004.



Source: MICEX

In the mid-summer the yields became attractive to the investors again, and the market revived due to appreciation of the rouble. The historical peak was reached in October 2004 inspired by inflow of foreign investments. The end of the year was successful, and in December there was a maximum

number of bond IPO (Initial Public Offering) that reflected an optimistic view of the market operators on the market prospects.

Development of the fixed income market in 2004 enables us to make a number of conclusions:

- The yield to maturity has been declining (the rate of return in 2004 was the lowest in the history of the fixed income market in Russia);
- Market players were hurt by the state officials actions;
- In addition to traditional estimation of the credit quality and the forecast of market liquidity the investors began to pay more attention to such issues as property rights and risk of possible tax claims;
- Dependence on change of interest rates in the USA confirmed that it is necessary to abandon the feelings of independence of the local market from the economic trends in the world.

Stock Market.

In spite of the obvious success of the economic growth in Russia, favorable situation in the global commodities markets, stable political situation in the country before and after parliamentary and presidential elections, mostly in 2004 the domestic stock market was falling. Index of Russian Trading System (RTS) grew in 2004 from 567.3 points up to 614.1 points and added thereby only 8.25%. For comparison, in 2003 the growth of RTS Index compounded 57.22% and in 2002 the Index increased by 34.1%. The leading global stock indices also demonstrated growth for the last year. For example, NASDAQ index rose approximately by 8.4% (in 2003 growth compounded 48%), the Dow Jones Industrial Average (DJIA) went up by 3.3% (in 2003 - by 24.7%), British FTSE added 6.7% during last year (against 16.5% in the year before).

The long-term fundamental factors, which positively influenced the stock market last year, were:

- Stable political situation after Vladimir Putin's re-election as the President of the Russian Federation;
- Growth of the Gross Domestic Product (GDP);
- High world prices of raw materials and crude oil that provided a positive balance of payments;
- Growth of foreign exchange and gold reserves and real and nominal appreciation of the rouble;
- Significant growth of the money supply and, consequently, high rouble liquidity;
- Drop of inflation and interest rates;
- Positive financial statements of Russian companies.

The beginning of 2004 was extremely successful for the investors on Russian stock market. For the first three months the RTS Index grew almost 38.5% and has reached a new historical high level of 785.5 points. The period of fast growth of the market took place between parliamentary and presidential elections in Russia, which one was called as "presidential rally" on trader's slang. The main factors that influenced the stock market in the first quarter were high world prices of raw materials and crude oil and reelection of Vladimir Putin as the President of Russian Federation in March. The absolute victory in the first round became an index of political and social stability in the country. In view of the strong economic results it created a basis for the growth of Russian stocks. The growth of the market, founded on the favorable economical situation and fundamental undervaluation of the Russian assets, was supported by the high prices of oil and steel. It led to revaluation of Russian companies in financial forecasts. As a result, the oil and metallurgical companies became the leaders of the price growth on the stock market – Surgutneftegaz, Gazprom, LUKoil, GMK Norilsk Nickel, Severstal, NLMK, NTMK.

Chart 4. The Dynamic of RTS Index in 2001-2004



Source: RTS

The second quarter became a complete contrast to the first one. The tax claims given to YUKOS had a negative effect on Russian stock market and brought the former market leader in terms of market capitalization close to a bankruptcy. The situation got worse with a beginning of court hearings in a case against former co-owners of Group MENATEP (major shareholder of YUKOS) Mikhail Khodorkovskiy and Platon Lebedev and a sale of 75% of the shares of the basic exploration asset of the company JSC Yuganskneftegaz to cover the tax debt. Those events gave an occasion to speak about difficult mutual relations between the authorities and business in Russia and worsening investment climate, that caused huge selling of Russian shares among foreign investors.

The period of a rally of Russian shares in the first quarter was replaced with stagnation in the middle of the year. In spite of YUKOS factor, that stimulated sales of Russian shares on the stock exchanges, objectively the correction on the market was ripened. After «presidential rally» in January - March, when RTS Index reached a new historic maximum, many investors decided current price levels were quite favourable for sale of the assets and profit taking. At the same time, in autumn, price fall was replaced by growth and RTS Index won back a large part of dip in April - July. The fears concerning escalation of the conflict between the authorities and business declined and the possibility of a new crisis involving another Russian companies similar to YUKOS became less probable. The Government also showed a desire to take into account the investors' needs. We meant power engineering reform, privatization of a number of major companies (Svyazinvest, MMK), and the most significant question – liberalization of Gazprom's stock market. The sell of state-owned stake in LUKoil to one of the largest international oil company, ConocoPhillips, became also a positive factor. The expectations of Russian credit rating increase by the leading rating agency of the world, Standard&Poor's, had also an encouraging influence on the market. Such improvement of credit rating would make Russian assets more attractive for international investors. Besides the positive background, which one was reshaped of strong fundamental economic forces, promoted gradual recovery of the market in the third quarter of 2004.

Speaking about outlook of Russian stock market it is necessary to mark high growth rates of Russian economy that, from our point of view, is the main factor of the financial stability. The contribution of Russia to the global economy increases from year to year. It is reflected as in industrial production statistics in Russia, so in growing foreign investments. In 2003 the growth of Russian economy exceeded global figures 2.9 times and the growth of direct foreign investments in Russia exceeded investments in other emerging markets by 6.9 times. Russia is the largest state of the world, has huge human resources and has no dependence on world raw material markets as a source of supply. It makes Russia one of the largest countries of the world in term of economical potential. The growth of the economy in Russia provides the conditions for expansion of the largest Russian companies in the world economy. The list of leading global corporations, made by Forbes and Fortune, includes also the largest Russian companies. We can see more often from year to year that large Russian companies organize conglomerates with their international peers and make expansion in the international capital markets.

Unfortunately, large Russian companies represent extracting industries. Russian companies from the manufacturing sector are worse represented in the global industrial environment. However, the share of high-tech sector is growing fast. High world prices of raw materials and crude oil create the base for advancing production growth both in extracting and manufacturing industries. It will allow in the near future to increase the numbers of Russian companies among the largest companies of the world and to improve the contribution of the Russian business to the global economy. It gives an opportunity for a rapid growth of the Russian stock market. The greatest potential of growth, from our point of view, have the metallurgical enterprises, telecommunication companies and oil and power generation companies.

Meanwhile, it is necessary to underline that there are several problems, which deter the development of Russian stock market. Low liquidity of the market, poor standards of corporate governance, lack of informational and financial transparency are some critical factors. However, there is a real progress in sphere of improving the standards of the corporate management in the largest Russian companies. We see the positive trends in solution of such sore problems of the corporate culture in Russia as the low information transparency, rights of minority shareholders, management abuse and etc. In many respects, such improvements are explained by the integration between international and the largest Russian companies, which accept more civilized rules of the game. At the same time, it is necessary to recognize, that constructive changes of corporate management in the middle and small-sized Russian companies are rare. However, we believe the situation will be getting better. The economic growth in Russia stimulates the companies from the real sector to become the participants of the financial market that gives favorable opportunities for effective portfolio management.

Operations of the Company in 2004.

The Company and Industry.

Different types of investment intermediaries represent the investment industry in Russia and execute like IC RUSS-INVEST dealing and brokerage operations. Thus company's management watches closely main competitors and the developments in the environment where investment companies operate in.

Positive political and economic development helped capital markets to grow. The growth of real disposable income and net income of Russian enterprises generated an increase in the gross savings and, as a result, growing investments in a form of securities. Such situation favoured operations of investment companies in Russia. According to NAUFOR combined net income of Russian investment companies amounted to 23 billion roubles in the third quarter of 2004 and increased by

7 times compared with the same period in 2003. The return on assets grew from 3.8% to 17.7%, and return on equity shot up from 15.7% to 84.4%. So, financial results of professional stock market participants reiterate their increased activity and profitability.

One of key characteristics of investment industry in Russia is oligopolistic structure. After three quarters of 2004 twenty biggest investment companies controlled 85% of turnover, 65% of equity and reserves, and 68% of total assets belonged to all Russian investment companies. Moreover, most of 200 largest investment companies represent Moscow and Moscow region.

In these circumstances main strategic goal of IC RUSS-INVEST is preservation and increase of its market share. According to NAUFOR data IC RUSS-INVEST concentrated 2.7% of total assets and 12.9% of capital and reserves of 150 biggest Russian investment companies by the end of the first 9 months of 2004. As for net income, the company accumulated 11.5% of net income of top 100 Russian investment companies. One year ago those shares were equal to 3.3%, 11.1%, and 16.1%. Table 1 contains information about the place of IC RUSS-INVEST among other Russian investment companies. As we can see, IC RUSS-INVEST managed to keep the leading position. But, the company failed to increase the market share.

Table 1. The Rank of RUSS-INVEST among All Russian Investment Companies, (2001-2004).

| | 2001 | 2002 | 2003 | 2004 |
|--------------------------|------|------|------|------|
| Sales (turnover) | 82 | 77 | 67 | 60 |
| Turnover on the exchange | | 40 | 35 | 40 |
| Dealer's turnover | | 47 | 26 | 20 |
| Assets size | 23 | 5 | 7 | 10 |
| Equity & Reserves | 3 | 2 | 3 | 1 |
| Profitability | 3 | 1 | 3 | 4 |

Source: NAUFOR

In the second half of 2004 IC RUSS-INVEST established Management Company RUSS-INVEST and launched two unit investment funds. It is too early to make conclusions about the results of their operations, but it is obvious the competition is tough in this industry. Also, IC RUSS-INVEST actively participated as lead-manager and underwriter of corporate bonds of Russian enterprises. According to information agency C-bonds the company seized 43rd place among all Russian underwriters.

One of competitive advantages of IC RUSS-INVEST is the size of capital and net assets and financial stability. As we can see in the table 1, IC RUSS-INVEST is well placed among leading investment companies in Russia, though they have bigger clientele base. To keep this place the company must to diversify business, use new technologies and effective management practice, make tariffs more competitive, create new products and services for the clients.

The Operations of the Company at the Securities Market.

During past financial year the company actively conducted operations with corporate bonds and shares of Russian enterprises. Practically all operations were carried out on major Russian exchanges like MICEX, RTS and Stock Exchange Saint-Petersburg. Like in 2003 last year IC RUSS-INVEST several times was presented on the list of 50 largest operators in the MICEX stock exchange. The gross income, generated by Russian stock sales, compounded 654.5 million roubles and grew by 6.8% (see table 2). So, this gross income has been risen for the fifth straight year.

The company also expanded operations at corporate bond market. At the end of 2004 the portfolio of corporate bonds increased by 2.1 times and amounted to 1.27 billion roubles. Such a drastic growth was caused, first, by the company's strategy to change the structure of the assets in favour of short-term bonds because of rate increase in the world. Second, that growth was also a logic result of company's underwriting policy. Gross income, generated by bond operations, was equal to 120.2 million roubles and grew by 2.2 times.

Money market operations were sporadic and the main goal of those operations was support of high liquidity and more effective use of temporarily available money.

Table 2. The Structure of RUSS-INVEST Gross Income by the types of assets.

| | 2003 | 2004 | Change, % |
|-------------------------------|---------|---------|-----------|
| Stocks | 612 737 | 654 540 | 6.82% |
| Corporate Bonds | 54 199 | 120 233 | 121.84% |
| State Bonds | 44 371 | 7 349 | -83.44% |
| Interest Income From Deposits | 7 972 | 283 | -96.45% |
| Minorities Income | 12 391 | 29 887 | 141.18% |

Source: RUSS-INVEST

Brokerage and Custodian Services

Since 2003 IC RUSS-INVEST has been increasing its clientele base. The priority is to provide services to Russian corporations and organizations. The client's turnover in 2004 amounted 792.5 mln. roubles and grew by 128 percent in compare to results of 2003.

In near future the company is planning to widen a list of the services to attract new clients. Working with the clients IC RUSS-INVEST pay attention mainly to the professional reputation, individual approach and friendly advertising.

Corporate Finance and Financial Consulting

Structural changes in Russian economy, that stimulated the entities to find new instruments and sources of the financing, was the main reason to organize Corporate Finance and Finance Consulting Department in IC RUSS-INVEST. One of the main goals of the company was a development of a new business direction for the purpose of achieving an additional fees and strengthening position of the Company in the local securities market. Also, attraction of new clients and expansion of the product line for existing clients became an extremely important issue for the strategy of development. Nowadays the purpose of the Company is to provide the full range of the Corporate Finance and Financing Consulting services.

IC RUSS-INVEST provides the consulting services to the Russian and foreign entities in the following areas:

- Attraction of the capital for Russian companies by issuing shares, bonds and derivatives including:
 - Initial Public Offerings;
 - Underwriting, including shares and corporate bonds issuing.
- Attraction of the portfolio and strategic investors.

- Mergers and Acquisitions transactions:
 - Deals consultations;
 - Choosing the form of financing.
- Corporate restructuring.
- Financial consulting.
- Investment consulting, including, development and the analysis business-plans of investment projects.

The Company won the tender on providing financial consulting services of IPO "Siberian Mining-Metallurgical Alliance" in 2004. In the second half-year the Company has started performance of the duties. RUSS-INVEST also appeared as co-underwriter and underwriter on the IPO auctions of 10 corporate bonds issues of the leading Russian companies: SverdlovEnergo, Volga, TatTelecom, BaykallInvestkom, SouthTelecom, SevKabel, Mechel, LMZ Svobodny Sokol, TransMashHolding, RosHleboProduct and Krasnodarsky Kray (municipal bonds). Total amount of the fixed income securities syndicated with participation of "RUSS-INVEST" in 2004 has exceeded 13 billion roubles. In a process of financing real sector of economy, RUSS-INVEST acted as an agent of AltayEnergo put-option.

On March 22, 2004 The Federal Securities Commission confirmed that IC RUSS-INVEST complies with the requirements for a licensed Financial Advisor on the stock market. In the same year, the tender for providing financial consulting services has been won of agrarian and industrial complex "Arcade". The Issue has been registered by the Federal Financial Market Services in 2004. Considering significant demand for financial consulting services, the Company plans to improve this direction and to provide the necessary assistance to the operators of the Russian capital market. The package of the services includes:

1. Providing the financial advisor services during organization of the securities' issues, including:
 - Preparation of the drafts of the Decision and the Prospectus on the securities issue and the Report on the results of the securities issue;
 - Drafting of all documents by proper issuer's bodies;
 - Signing of Prospectus after all necessary procedures and the Report on Securities issued;
 - Signing of a list of submitted orders for Securities purchase at a Stock Exchange and the final Register of the submitted orders for Securities purchase formed by the Organiser of the trade;
 - Consulting on the questions of the securities issues.
2. Monitoring of the information disclosure that is must comply with the relevant Regulation on information disclosure by the official documents.
3. Drafting of quarterly reports by an issuer, substantial facts reports and company's releases on information disclosure.
4. Preparations of all the necessary documents for a listing on a Stock Exchange.

Trust Services and Mutual Funds (PIF).

The closed joint-stock company "Management Company RUSS-INVEST" was established by the opened joint-stock company "Investment Company IC RUSS-INVEST". The use of the same brand gives an obvious advantage. In the same time MC RUSS-INVEST is obliged to provide high standards of services, to make effective investment decisions for future growth of the client's base. The strategy of the company is providing the individual approach to each client and using rational

and economical effective asset management models. The main slogan of the company "Management Company RUSS-INVEST": "Our success – is your success".

The company "Management Company RUSS-INVEST" provides following services:

- Trust management.
- Management of unit investment funds.

Management Company RUSS-INVEST has two unit investment funds under management:

- Opened unit investment fund named «RUSS-INVEST Stock and Bond Unit Fund».
- Opened unit investment fund «RUSS-INVEST Stock Unit Fund».

Net assets of «RUSS-INVEST Stock Unit Fund» at the end of 2004 amounted to 28,493,44 roubles.

Net assets of «RUSS-INVEST Stock and Bond Unit Fund» amounted to 32,429,465 roubles.

Financial Results.

The financial results of RUSS-INVEST in 2004 were successful. Operational and financial position of the company was growing that reflected the progress in diversification of the company's business. At the end of 2004 total assets of the company grew by 13.5% and reached 3.37 billion roubles. The sales of securities increased by 44.6% and compounded 9.96 billion roubles. The cumulative annual turnover amounted 688 million roubles that exceeded the volume of 2003 almost by 7.5%. The company is among the leaders in industry by net income. Gross income of the company reached 412 million roubles.

It is necessary to underline sharp growth of long-term financial investments in the structure of RUSS-INVEST's balance sheet, which was caused by the company's decision to make strategic investments. The growth of the retained earnings was also considerable. A large part of the net income that was not distributed in the form of dividends was left at company's disposal because the total distribution of income would decrease the capital and, thereby, sharply diminish the possibility to generate profits in the future.

The financial position of the company is stable according to the financial ratios presented in table 3. The share of corporate securities in company's turnover increased for the last year. The share of treasury bonds in the turnover decreased almost by 5 times in 2004 because of the tremendous drop of the yield. At the same time the corporate bonds turnover grew by 64%. The structure of the Balance Sheet reflects favourable financial position. The company's liquidity is extremely high too. The share of non-fixed assets compounded 84.4% of the total assets against 87.3% in 2003. The share of the long-term assets was up from 12.3% to 15.1% in 2004 that reflects participation of the company in the long-term investment's projects.

The value of the most liquid assets (cash and short-term financial investments) increased in 2004 by 190 million roubles – to 2.74 billion roubles. In other words, the share of liquid assets is 84.4% of the total assets that reflects good reserves for new investments. The share of the payables and receivables in the structure of the balance sheet of the company is still minimal. By the end of 2004 accounts receivables increased from 1.2% to 2.8%, and accounts payable has decreased from 11.9% to 10.1% of the amount of total liabilities, equity and reserves. The liabilities to shareholders for dividend's payment are the largest share in the company's liabilities. However, the figures show that debt before shareholders decreased in 2004 almost by 10.9%. Low debt ratio and effective structure of the company provide an opportunity for dynamic growth of the client's base of the company and further diversification of the investment business and services.

Table 3. Financial Ratios of IC RUSS-INVEST 2001-2004

| | 2001 | 2002 | 2003 | 2004 |
|--------------------------|--------|--------|--------|--------|
| Profitability | | | | |
| Gross Margin Ratio | 19.2% | 39.2% | 9.0% | 6.7% |
| Net Income Margin Ratio | 16.7% | 29.6% | 10.9% | 4.1% |
| ROE | 32.3% | 69.8% | 27.5% | 13.6% |
| ROA | 31.2% | 68.8% | 25.4% | 12.2% |
| Asset Utilization Ratio | | | | |
| Total Assets Turnover | 186.6% | 232.8% | 232.1% | 295.7% |
| Liquidity Ratios | | | | |
| Current Ratio | 25.9 | 65.4 | 11.2 | 8.3 |
| Quick (Acid) Ratio | 25.9 | 65.4 | 11.1 | 6.5 |
| Cash Turnover | 92.3 | 50.0 | 26.2 | 28.5 |
| Solvency Ratios | | | | |
| Debt Ratio (%) | 3.4% | 1.5% | 7.8% | 10.1% |
| Debt-to-Equity Ratio (%) | 3.5% | 1.5% | 8.4% | 11.3% |
| Market Value Ratios | | | | |
| EPS (US dollars) | 0.16 | 1.06 | 0.37 | 0.20 |
| Dividend yield (%) | 0.0% | 350% | 175% | n.a. |
| P/E | 0.2 | 0.00 | 0.1 | n.a. |
| Book Value | 0.49 | 1.51 | 1.29 | 1.49 |
| P/BV | 0.07 | 0.02 | 0.027 | 0.023 |

Source: RUSS-INVEST

In 2004 the operational profitability and assets turnover ratio were high that characterize active investment strategy of the company. In 2004 return on assets was 12.2% and return on equity amounted to 13.6%. The growth of the RTS Index, that is the main index of the Russian stock market, compounded 8.25% last year. In other words an annual profitability of the company's assets was above the average market return by 1.48 times. Such result was achieved because of the faster turnover of the short-term financial assets and improved effectiveness of such operations. So, assets turnover ratio, which is calculated as Sales-to-Assets multiple, grew during past year from 232.1% up to 295.7%. RUSS-INVEST became one of the largest taxpayers among all Russian companies in the industry. In 2002, the effective tax rate (taxes/EBITDA) decreased in 2004 from 29.3% to 23.1%.

Retained earnings are the main source of the company's assets. Its share increased from 70.7% to 74.5% of assets in 2004. Such significant result was reached due to the cost cutting policy provided by the management of the company, which helped to manage company's assets more rationally. This policy corresponds to the interests of RUSS-INVEST's shareholders. The ratio of share of commercial and administrative expenses in the gross margin is not higher of 11%.

In 2004 earnings per share (EPS) of the company amounted to 5.89 roubles or 0.2 US dollar. The Shareholder's equity and reserves in 2004 compounded 43.24 roubles or 1.49 US dollar against 37.36 roubles (1.29 US dollars) in 2003.

The company has the lowest market ratios, which reveal an absence of the liquid market of its shares and high undervaluation. So, RUSS-INVEST share has a good growth potential in a long run. Price-to-Earnings (P/E) ratio amounts to 0.1 - 0.2 and is ten times lower most of Russian «blue

chips». The ratio of the stock price to book value of the company (P/BV ratio) decreased to 2.3% by the end of 2004.

Current dynamics of Russian financial market is difficult to forecast. The competition in the financial industry is severe. There is a necessity for our company to diversify business, to increase the range of investments services, to expand the client's base, to develop the brokerage operations, to update the investment process and its procedures. This work could cause extra costs that in a short-term outlook could lower profitability of operations. However, only such aggressive policy oriented in the future can lead to an accomplishment of long-term growth for the each RUSS-INVEST's shareholder benefit.

Transactions, in relation to which an interest exists.

During last year the board of directors of IC RUSS-INVEST approved transactions with interested parties. Several transactions were approved at the RUSS-INVEST's meeting of the board of directors that was held on March 2, 2004 (protocol № 17/03-04 as of March 3, 2004). The transactions were:

1. The brokerage agreement # 28B with CJSC "Management Company RUSS-INVEST" as of March 2, 2004. An income of the transaction was 7 989.55 roubles including VAT (for the period from 02.03.2004 to 31.12.2004);

2. The custodian agreement # 015 with CJSC "Management Company RUSS-INVEST" as of March 4, 2004. An income of the transaction was 307.38 roubles including VAT (for the period from 04.03.2004 to 31.12.2004).

3. The brokerage agreement # 29B with CJSC "Naschokin" as of March 4, 2004. An income of the transaction was 1 392.21 roubles including VAT (for the period from 02.03.2004 to 31.12.2004);

4. The custodian agreement # 017 CJSC "Naschokin" as of March 4, 2004. An income of the transaction was 21.11 roubles including VAT (for the period from 02.03.2004 to 31.12.2004).

5. The brokerage agreement # 30B with CJSC "Novodevichiy" as of March 4, 2004. An income of the transaction was 6 089.89 roubles including VAT (for the period from 02.03.2004 to 31.12.2004);

6. The custodian agreement # 016 with CJSC "Novodevichiy" as of March 4, 2004. An income of the transaction was 91.78 roubles including VAT (for the period from 04.03.2004 to 31.12.2004).

Several transactions were approved at the RUSS-INVEST's meeting of the board of directors that was held on August 18, 2004 (protocol № 4/04-05). The transactions were:

7. The brokerage agreement # 32B with CJSC "Management Company RUSS-INVEST" that is a Manager of the Opened Mutual Investment Fund «RUSS-INVEST mutual stock fund» as of August 18, 2004. An income of the transaction was 5 912.20 roubles including VAT (for the period from 18.08.2004 to 31.12.2004);

8. The brokerage agreement # 33B with CJSC "Management Company RUSS-INVEST" that is a Manager of the Opened Mutual Investment Fund «RUSS-INVEST mutual stock and bonds fund» as of August 18, 2004. An income of the transaction was 3 724.35 roubles including VAT (for the period from 18.08.2004 to 31.12.2004).

Several transactions were approved at the RUSS-INVEST's meeting of the board of directors that was held on September 20, 2004 (protocol № 5/04-05). The transactions were:

9. An order for purchasing by IC RUSS-INVEST of the shares of the Opened Mutual Investment Fund «RUSS-INVEST mutual stock fund» from Management Company RUSS-INVEST that is a Manager of the Opened Mutual Investment Fund «RUSS-INVEST mutual stock fund» An expenditure of the transaction was 15 150 000.00 roubles.

10. An order for purchasing by IC RUSS-INVEST of the shares of the Opened Mutual Investment Fund «RUSS-INVEST mutual stock and bonds fund» from Management Company

RUSS-INVEST that is a Manager of the Opened Mutual Investment Fund «RUSS-INVEST mutual stock and bonds fund». An expenditure of the transaction was 15 150 000.00 roubles.

11. The agreement with CJSC "Naschokin" as of October 18, 2004 about renting the office space for the period of 11 months. An expenditure of the transaction was 493 196.32 roubles including VAT (for the period from 30.10.2004 to 31.12.2004).

Several transactions were approved at the RUSS-INVEST's meeting of the board of directors that was held (Bychkov A.P.) on December 15, 2004 (protocol № 8/04-05). The transactions were:

12. The brokerage agreement #35B between IC RUSS-INVEST and CJSC "Management Company RUSS-INVEST" (M.A.) as of December 15, 2004

13. An order for purchasing by IC RUSS-INVEST of the shares of the Opened Mutual Investment Fund «RUSS-INVEST mutual stock fund» from Management Company RUSS-INVEST that is a Manager of the Opened Mutual Investment Fund «RUSS-INVEST mutual stock fund». An expenditure of the transaction was 15 150 000.00 roubles.

14. An order for purchasing by IC RUSS-INVEST of the shares of the Opened Mutual Investment Fund «RUSS-INVEST mutual stock and bonds fund» from Management Company RUSS-INVEST that is a Manager of the Opened Mutual Investment Fund «RUSS-INVEST mutual stock and bonds fund». An expenditure of the transaction was 15 850 000.00 roubles.

The Dividends.

In accordance with the dividend's policy statute of IC RUSS-INVEST the dividends are paid to the shareholders just if the company has a net profit at the end of the year, there are no limitations on dividend's payment, established by current legislation, and recommendation of the board of directors of the company to pay dividends. The board of directors during discussion of the recommendation about dividend's payment considers a financial position and growing prospects of the company. The general meeting of the shareholders approves the decision on dividends payment.

Within the last four years the company repeatedly paid the dividends to the shareholders. So, in 2000 the AGM of IC RUSS-INVEST approved dividends of 1.51 rouble per common share. The total amount of the dividends paid to the shareholders amounted to 67.64 million roubles. The were no in 2001. In 2002 the AGM of IC RUSS-INVEST approved dividends of 3.50 rouble per common share. The total amount of the dividends paid to the shareholders amounted to 195.97 million roubles. In 2003 the annual general meeting of the shareholders took a decision to pay dividends equal to 1 rouble 75 kopecks per one common share. Nominal value of the common share is 1 rouble. The total amount of the paid dividends compounded 122.48 million roubles. According to the charter of company, the payments of the dividends have begun since January 1, 2005.

Table 4. The Dynamics of IC RUSS-INVEST's Dividends.

| Year | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---------|--------|------|------|------|------|------|------|------|------|
| Dividends per share (denominated roubles) | 1,42028 | 0,1341 | - | - | - | - | 1.51 | - | 3.5 | 1.75 |

Source: RUSS-INVEST

Unfortunately, the post returned a large number of the dividend payments, because the shareholders did not inform the company's registrar about the change of their passports accounts and addresses.

As a result, the debt of RUSS-INVEST before the shareholders is growing and the expenditure of the company increases.

Current Risks and the Risk-Management.

The industry and thus IC RUSS-INVEST operate in the environment with many different risks such as market, credit, foreign exchange, operational risks and etc. Russian stock market is highly dependable on world economic development. The possible economic recession in the USA and other leading countries in the world, the fall of world indices and oil prices could worsen the situation in the industry and lead to depreciation of Russian assets. Under possible stagnation of economic situation in Russia some corporate borrowers could default, what would direct to a fall of net income of the company. There are risks of loosing liquidity because of decreasing the number of free floated shares because of the large purchases of the shares by strategic investors. The recession in the investment industry could cause the receivables to grow, because some counterparties would refuse to pay. Such situation could lead to the losses.

For the purpose of risk-management the company established Risk Management Committee, which is engaged in the process of creating and managing the procedures of risk-management. The committee has 3 members. It meets regularly to discuss current issues. The operation of the Committee is based on internal statute, which describes the rights of the members and internal procedures of risk controlling. The Committee controls the risks and discusses current procedures and the ways to improve them, the effectiveness of overall risk-management in the company and future recommendations for the top managers.

In the case of economic slump in the country the company, first, will change the structure of the portfolio. In this case the company will lessen the share of the stocks in the portfolio and increase its investments in treasuries and short-term deposits. Second, the company has established the limits on each corporate borrower aiming to cut possible losses in the case they would refuse to redeem issued bonds. If the situation in the industry worsens, IC RUSS-INVEST will cut the limits per borrower and cut the amount invested in the corporate bonds. In the same time it will begin the process of litigation against defaulted borrowers. Third, the company will continue the practice of periodical review of the limits per counterparts trying to control operational and credit risks. The limit for any investment company will be immediately closed, if financial situation of such company worsens. Fourth, in the circumstances of acceleration of rouble depreciation and rising foreign exchange risks the company will change the assets' structure and increase the investments in foreign exchange instruments. Also, under condition of existence of derivative market in Russia, the company will hedge the foreign exchange risks. In the case of nominal and real appreciation of the roubles the company will behave in opposite manner.

Communications with the Shareholders.

The company seriously concentrated on the communication with its shareholders. For a purpose of transparency and better communication the company created a site in Internet www.russ-invest.ru. A short annual report for 2004 was published in Trud newspaper. The Shareholders' Relation Commission of the company provided regular feedback to our shareholders.

The company worked hard to pay the dividends of 2002-2003 (the dynamic of the dividends is presented in table 4). We should note that, unfortunately, the post returned a large number of the dividend payments, because the shareholders did not inform the company's registrar about the change of their passports, accounts and addresses. Most of the shareholders did not inform the company and its registrar about changes in their personal details. It is necessary to underline that, if the shareholders do not inform the company about such changes (especially because there is an

ongoing change of passports in the country), they will not be able to receive the dividends in the future, as the company will not have their new details.

Corporate Code Adherence.

At present IC RUSS-INVEST has a Corporate Code that was developed in accordance with the recommendations of the Russian government. In particular, the procedure of appointment of the President-General Director of the company is fully in line with the recommendations of the government code, the company has two independent directors, the functions of the corporate secretary of company are essentially extended, four committees of board of directors were created and successfully work (committee on the finance and audit, committee on strategic planning, committee on risks management, committee on the human resources and compensation), the functions of the corporate secretary were improved and the internal documents of the company were edited.

At the same time the board of directors does not think the work in corporate management has been completed fully and is going to make further improvements both in normative documents and internal procedures, which determine the cooperation of different levels of management and shareholders of the company, with the purposes of full protection of interests and rights of the shareholders. For the purposes several suggestions were prepared to improve the Corporate Code of IC RUSS-INVEST.

Audit Report

To an executive branch of
Investment Company IC RUSS-INVEST
On the statutory accounting reports of 2004.

We have audited attached 2004 financial statements of Investment Company IC RUSS-INVEST (prepared on March 5, 2005). The management of Investment Company IC RUSS-INVEST according to the mandatory requirements of Russian Federation prepared these financial statements.

Financial statements of Investment Company IC RUSS-INVEST consists of:

- Balance Sheet.
- Income Statement.
- Different Balance Sheet applications and resume.
- Explanation notes.

The management of Investment Company IC RUSS-INVEST accepted the sole responsibility for a preparation of these statutory reports. Our duty is to express an opinion on these financial statements based on our audit.

We conducted the audit in accordance with:

- Russian Federal Audit Law # 119-FZ dated by August 7, 2001.
- Federal Rules (Standards) of Audit.
- Internal Rules (Standards) of Audit of Institute of Professional Auditors,
- Internal Rules of Audit of BAKER TILLY RUSAUDIT,
- The Statutes of Russian Ministry of Finance and on the basis of the contract signed between our firm and Investment Company IC RUSS-INVEST # 762/2004A dated by July 27, 2004.

The audit was planned and conducted to obtain reasonable assurance that attached statutory financial statements are free of material misstatements. The audit consisted of an examination of amounts and disclosures in the financial statements on a test basis. We believe that our audit provides a reasonable basis for our opinion.

To our opinion, the attached financial statements for 2004 are true and give fair view of company's assets and liabilities and income statement for the year ended December 31, 2004 in all material aspects according to Russian Federal Accounting Law # 129-FZ dated by November 21, 1996.

Moscow

March 10, 2005

BAKER TILLY RUSAUDIT

Deputy
General Director

M.B.Pavlova

Auditor

E.P.Koryagina

**OPEN JOINT-STOCK COMPANY
“INVESTMENT COMPANY IC RUSS-
INVEST”**

**Consolidated Financial Statements for
the year ended 31 December 2004**

Contents

| | |
|---|----|
| Independent Auditor's Report | 25 |
| Consolidated Income Statement | 26 |
| Consolidated Balance Sheet | 27 |
| Consolidated Statement of Cash Flows | 28 |
| Consolidated Statement of Changes in Shareholders' Equity | 29 |
| Notes to the Consolidated Financial Statements | 30 |

Independent Auditor's Report

To the Management of Open Joint-Stock Company
"INVESTMENT COMPANY IC RUSS-INVEST" (further
OJSC "INVESTMENT COMPANY IC RUSS-INVEST")

We have audited the accompanying consolidated balance sheet of OJSC "INVESTMENT COMPANY IC RUSS-INVEST" and its subsidiaries (the "Group") as of 31 December 2004, and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Group's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Limited
27 September 2005

OJSC “INVESTMENT COMPANY IC RUSS-INVEST”
 Consolidated Income Statement for the year ended 31 December 2004

| | Notes | 2004 RUR'000 | 2003 RUR'000 |
|---|-------|-------------------------------|-------------------------------|
| Interest income | 5 | 135,334 | 102,361 |
| Net securities trading income | 6 | 166,830 | 501,459 |
| Net gain on non-trading financial instruments | 7 | 301,249 | 152,995 |
| Net foreign exchange loss | 8 | (1,982) | (10,196) |
| Dividend income | | 29,916 | 12,391 |
| Other income | 9 | 37,773 | 3,445 |
| Operating income | | 669,120 | 762,455 |
| Reversal of impairment losses/(impairment losses) | 10 | 35,057 | (7,952) |
| General administrative expenses | 11 | (94,187) | (66,078) |
| Operating expenses | | (59,130) | (74,030) |
| Income before income taxes and minority interest | | 609,990 | 688,425 |
| Income tax expense | 12 | (135,974) | (159,741) |
| Minority interest | | (224) | - |
| Net income | | 473,792 | 528,684 |

The consolidated financial statements as set out on pages 1 to 26 were approved by the Board of Directors of the Company on 27 September 2005.

President-General Director

 Alexander P. Bychkov

Chief Accountant

 Nelly A. Karabanova

The consolidated income statement is to be read in conjunction with the notes to, and forming part of, the financial statements.

OJSC “INVESTMENT COMPANY IC RUSS-INVEST”
Consolidated Balance Sheet as at 31 December 2004

| | Notes | 2004 RUR'000 | 2003 RUR'000 |
|--|-------|-------------------------------|-------------------------------|
| ASSETS | | | |
| Cash | | 5 | 7 |
| Placements with banks and other financial institutions | 13 | 484,510 | 578,054 |
| Financial instruments held for trading | 14 | 2,212,495 | 2,069,808 |
| Investments available-for-sale | 15 | 464,368 | 179,487 |
| Other assets | 16 | 100,097 | 36,436 |
| Property and equipment | 17 | 152,226 | 74,657 |
| Deferred tax asset | 20 | 295 | 737 |
| Total Assets | | 3,413,996 | 2,939,186 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Dividends payable | 18 | 291,511 | 210,746 |
| Other liabilities | 19 | 25,903 | 23,266 |
| Deferred tax liability | 20 | 76,093 | 57,047 |
| Total Liabilities | | 393,507 | 291,059 |
| Minority interest | | 12,715 | - |
| Shareholders' Equity | 21 | | |
| Share capital | | 1,453,365 | 1,453,365 |
| Revaluation surplus | | 8,334 | - |
| Retained earnings | | 1,546,075 | 1,194,762 |
| Total Shareholders' Equity | | 3,007,774 | 2,648,127 |
| Total Liabilities, Shareholders' Equity and Minority interest | | 3,413,996 | 2,939,186 |
| Contingencies | 23 | | |

The consolidated balance sheet is to be read in conjunction with the notes to, and forming part of, the financial statements.

OJSC "INVESTMENT COMPANY IC RUSS-INVEST"

Consolidated Statement of Cash Flows for the year ended 31 December 2004

| | Notes | 2004 RUR'000 | 2003 RUR'000 |
|---|-------|------------------|-----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income | | 473,792 | 528,684 |
| Provision for impairment losses | | (35,057) | 7,952 |
| Depreciation and amortisation | | 6,809 | 3,809 |
| Unrealised loss/(gain) on securities | | 197,554 | (33,435) |
| Net change in accruals | | (4,351) | 1,838 |
| Negative goodwill | | (23,455) | - |
| Net unrealised foreign exchange loss | | 1,982 | 9,732 |
| Minority interest | | 224 | - |
| Deferred taxation | | 1,895 | 7,569 |
| Operating cash flow before changes in operating assets and liabilities | | 619,393 | 526,149 |
| Changes in operating assets and liabilities | | | |
| Placements with banks and other financial institutions | | (119,487) | (1,038) |
| Trading securities | | (382,672) | (344,201) |
| Investments available-for-sale | | (231,719) | 10,132 |
| Other operating assets | | (60,730) | (15,635) |
| Other operating liabilities | | (1,465) | 18,204 |
| Net cash from operating activities | | (176,680) | 193,611 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Net purchase of subsidiaries, net of cash received of RUR'000 39 | | 39 | - |
| Net sales of minority interest in subsidiary | | 11,220 | - |
| Purchases of property, plant and equipment | | (9,644) | (2,240) |
| <u>Proceeds from sale of fixed assets</u> | | 700 | 18 |
| <u>Net cash from investing activities</u> | | <u>2,315</u> | <u>(2,222)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issuance of common shares | | - | 13,997 |
| Dividends paid | | (41,714) | (2,625) |
| <u>Net cash from financing activities</u> | | <u>(41,714)</u> | <u>11,372</u> |
| Net (decrease)/increase in cash and cash equivalents | | (216,079) | 202,761 |
| Cash and cash equivalents at the beginning of the year | | 507,551 | 309,664 |
| Effect of changes in foreign currency exchange rates on cash and cash equivalents | | (607) | (4,874) |
| Cash and cash equivalents at the end of the year | 25 | 290,865 | 507,551 |

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements.

OJSC “INVESTMENT COMPANY IC RUSS-INVEST”
 Consolidated Statement of Changes in Shareholders’ equity
 for the year ended 31 December 2004

| | Share Capital | Retained earnings | Revaluation surplus | Total |
|--|------------------|----------------------|------------------------|------------------|
| | RUR’000 | RUR’000 | RUR’000 | RUR’000 |
| Balance at 1 January 2003 | 1,427,760 | 862,049 | - | 2,289,809 |
| Net income for the year | - | 528,684 | - | 528,684 |
| Shares issued | 25,605 | - | - | 25,605 |
| Dividends declared | - | (195,971) | - | (195,971) |
| Balance at 31 December 2003 | 1,453,365 | 1,194,762 | - | 2,648,127 |
| Net income for the year | - | 473,792 | - | 473,792 |
| Dividends declared | - | (122,479) | - | (122,479) |
| Group’s share in revaluation surplus of acquired subsidiary | - | - | 8,334 | 8,334 |
| Balance at 31 December 2004 | 1,453,365 | 1,546,075 | 8,334 | 3,007,774 |

OJSC "INVESTMENT COMPANY IC RUSS-INVEST"

Notes to, and forming part of, the consolidated financial statements
for the year ended 31 December 2004

Background

Principal activities

The operating companies of the INVESTMENT COMPANY IC RUSS-INVEST Group (the "Group") are the parent company, Open Joint-Stock Company "INVESTMENT COMPANY IC RUSS-INVEST", and its subsidiaries, Closed Joint-Stock Company "NASCHOKIN", Closed Joint-Stock Company "RUSS-INVEST Asset Management Company", Closed Joint-Stock Company "NOVODEVICHY" and Open Joint-Stock Company "BERIOZKA IN LUZHNIKY".

A description of the operations of principal operating companies is as follows:

- OJSC "INVESTMENT COMPANY IC RUSS-INVEST" (the "Company") was established in the Russian Federation as an open joint stock voucher investment fund and in 1993 obtained a license to operate in the stock markets. Later in 1998 it was renamed to open joint stock investment company. Currently the company holds licenses for brokerage, dealership and depository operations issued in 2002 by the Federal Securities Commission. Besides that the Company meets the requirements for financial consultant on the securities market. The principal activity of the company is investment in debt and equity securities. It also conducts broker operations on behalf of its clients. The company has no branches. All of the company's assets and liabilities are located in the Russian Federation. The average number of persons employed by the company during the year 2004 was 43 (2003: 52).
- CJSC "NASCHOKIN" was found in the Russian Federation in 2000 as a closed joint stock company. The principal activity of the company is renting out of real estate owned by the company. The average number of persons employed by the company during the year 2004 was 3 (2003: 4). As of 31 December 2004 OJSC "INVESTMENT COMPANY IC RUSS-INVEST" controlled 80.32% of the company's common stock (2003: 100%).
- CJSC "NOVODEVICHY" was found in the Russian Federation in 2003 as a closed joint stock company. The principal activity of the company is investment in debt and equity securities. The average number of persons employed by the company during the year 2004 was 1 (2003: 1). The company is wholly owned by OJSC "INVESTMENT COMPANY IC RUSS-INVEST".
- CJSC "RUSS-INVEST Asset Management Company" was founded in February 2004. The principal activity of the company is management of two unit investment funds. The average number of persons employed by the company during the year 2004 was 5. The company is wholly owned by OJSC "INVESTMENT COMPANY IC RUSS-INVEST".
- OJSC "BERIOZKA IN LUZHNIKY" was purchased by the Group in September 2004. The principal activities of the company are trade and renting out of real estate owned by the company. The average number of persons employed by the company during the year 2004 was 27. As of 31 December 2004 the Group controlled 99.99% of the company's common stock.

Russian business environment

The Russian Federation has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks which do not typically exist in other markets. The accompanying consolidated financial statements reflect management's assessment of the impact of the Russian business

OJSC “INVESTMENT COMPANY IC RUSS-INVEST”

Notes to, and forming part of, the consolidated financial statements
for the year ended 31 December 2004

environment on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

Basis of preparation

Statement of compliance

The Group maintains its accounting records in accordance with the legislative requirements of the Russian Federation. The accompanying consolidated financial statements have been prepared from those accounting records and adjusted as necessary to comply with the requirements of International Financial Reporting Standards (“IFRS”) promulgated by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Reporting Interpretations Committee of the IASB.

Basis of measurement

The consolidated financial statements are prepared on a fair value basis for financial assets and liabilities held for trading and available-for-sale, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost and have been restated for the effects of inflation as described in note 3(b).

Measurement and Presentation Currency

The national currency of the Russian Federation is the Russian Rouble (“RUR”). Management have determined the Group’s measurement currency to be the RUR as it reflects the economic substance of the underlying events and circumstances of the Group. The RUR is also the Group’s presentation currency for the purposes of these consolidated financial statements.

Financial information presented in RUR has been rounded to the nearest thousand.

Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises controlled by the OJSC “INVESTMENT COMPANY IC RUSS-INVEST”. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Bank’s interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains except that they are only eliminated to the extent that there is no evidence of impairment.

Going concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Group’s assets, as well as the future operation of the Group, may be significantly affected by the current and future economic environment (refer note 1(b)). The accompanying consolidated financial statements do not include any adjustments should the Group be unable to continue as a going concern.

Significant accounting policies

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. The accounting policies have been consistently applied.

Foreign currency transactions

Transactions in foreign currencies are translated to the appropriate measurement currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the measurement currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income

Notes to, and forming part of, the consolidated financial statements
for the year ended 31 December 2004

statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the measurement currency at the foreign exchange rate ruling at the date of the transaction.

Inflation accounting

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments for hyperinflation have been made for periods subsequent to this date. The hyperinflation-adjusted carrying amounts of the Group's assets and equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

Cash and cash equivalents

The Group considers cash and current accounts with banks and other financial institutions to be cash and cash equivalents.

Financial instruments

Classification

Trading instruments are those that the Group principally holds for the purpose of short-term profit taking.

Originated loans and receivables are loans and receivables created by the Group providing money to a debtor other than those created with the intention of short-term profit taking. Originated loans and receivables comprise loans and advances to banks and customers other than purchased loans.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity.

Available-for-sale assets are financial assets that are not held for trading purposes, originated by the Group, or held to maturity.

Recognition

The Group recognizes financial instruments held for trading and available-for-sale assets on the date it commits to purchase the assets.

Held-to-maturity assets and originated loans and receivables are recognized on the day they are transferred to or originated by the Group.

Measurement

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all trading and all available-for-sale instruments are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortized cost less impairment losses. Amortized cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of all trading instruments and available-for-sale securities trading are recognized in the income statement.

Derecognition

A financial asset is derecognized when the Group loses control over contractual rights that comprise that asset. This occurs when the rights are realized, expire or are surrendered. A financial liability is derecognized when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as of the date the Group commits to sell the asset.

OJSC “INVESTMENT COMPANY IC RUSS-INVEST”

Notes to, and forming part of, the consolidated financial statements
for the year ended 31 December 2004

Held-to-maturity instruments and originated loans and receivables are derecognized on the day they are transferred by the Group.

Investments in associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group’s share of the total recognized gains and losses of associates on an equity accounted basis, from the date that significant influence effectively commences until the date that significant influence effectively ceases.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Property and equipment

Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Operating leases, the terms of which the Group does not assume substantially all the risks and rewards of ownership are expensed.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences the date of acquisition. The estimated useful lives are as follows:

| | |
|------------------------|----------|
| Buildings | 50 years |
| Equipment and software | 3 years |
| Fixtures and fittings | 5 years |
| Vehicles | 10 years |

Intangible assets and negative goodwill

Goodwill

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired.

Goodwill arising on acquisitions that occurred prior to 31 March 2004 is stated at cost less accumulated amortisation and impairment losses. Goodwill arising on or after that date is stated at cost less impairment losses.

In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill

Negative goodwill arising on an acquisition represents the excess of the fair value of the net identifiable assets acquired over the cost of acquisition.

Negative goodwill arising on acquisitions that occurred prior to 31 March 2004 is accounted for as follows: To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the weighted average useful life of those assets. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the income statement. In respect of associates, the carrying amount of negative goodwill is included in the carrying amount of the investment in the associate. The carrying amount of other negative goodwill is deducted from the carrying amount of intangible assets.

OJSC "INVESTMENT COMPANY IC RUSS-INVEST"

Notes to, and forming part of, the consolidated financial statements
for the year ended 31 December 2004

Negative goodwill arising on or after 31 March 2004 is recognised immediately in the income statement.

Other intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortization and impairment losses. Expenditure on internally generated goodwill and brands is recognized in the income statement as an expense as incurred.

Amortisation

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives of intangible assets are from 3 to 5 years.

Impairment

The carrying amounts of the Group's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

Calculation of recoverable amount

The recoverable amount of receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. The recoverable amount of the Group's trading investments and investments available-for-sale is their fair value.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of a receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Interest bearing borrowings

Interest-bearing borrowings are recognized initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings.

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the income statement.

Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Share capital

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a decrease in equity.

Dividends

The ability of the Group to declare and pay dividends is subject to the Russian legislation.

Dividends in relation to ordinary shares are reflected as an appropriation of retained earnings as and when declared.

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

OJSC “INVESTMENT COMPANY IC RUSS-INVEST”

Notes to, and forming part of, the consolidated financial statements
for the year ended 31 December 2004

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries, where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Interest income and expense

Interest income and expense are recognised in the income statement as they accrue, taking into account the effective yield of the asset/liability or an applicable floating rate.

Net gain/(loss) on non-trading financial instruments

Net gain/(loss) on non-trading financial instruments includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities available-for-sale and held for maturity.

Fee and commission income

Fee and commission income is recognised when the corresponding service is provided.

Net securities trading income

Net trading income includes gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading.

Dividend income

Dividend income from investments in companies where the Group does not have control or significant influence is recognised in the income statement on the date that the dividend is declared.

OJSC “INVESTMENT COMPANY IC RUSS-INVEST”

Notes to, and forming part of, the consolidated financial statements
for the year ended 31 December 2004

Acquisition and disposals of subsidiaries

Prior to 2004 the Group owned 14.96% of shares of OJSC “BERIOZKA IN LUZHNIKY”. On 10 September 2004 the Group acquired 99.99% effective interest in OJSC “BERIOZKA IN LUZHNIKY” through participation in 100% of the new share issue of RUR 125,000 thousand. The impact of acquiring the subsidiary was to decrease net consolidated profit for the year by RUR 1,520 thousand.

The net assets of the acquired subsidiary were as follows at the date of acquisition:

| RUR'000 | Recognised fair value on acquisition | Fair value adjustment (Group's share) | Carrying amount on an IFRS basis |
|---|---|--|---|
| Assets | | | |
| Property, plant and equipment | 2,131 | 73,303 | 75,434 |
| Placements with banks and other financial institutions | 125,039 | - | 125,039 |
| Investments | 11 | - | 11 |
| Other assets | 2,931 | - | 2,931 |
| Liabilities | | | |
| Loans and borrowings | (3,508) | - | (3,508) |
| Other liabilities | (594) | - | (594) |
| Deferred tax liability | | (17,593) | (17,593) |
| Net identifiable assets and liabilities at the date of acquisition | 126,010 | 55,710 | 181,720 |
| Share in net assets already held prior to acquisition | | | (8,486) |
| Net assets acquired | | | 173,234 |
| Negative goodwill on acquisition | | | (23,455) |
| Consideration paid (including 24,779 in prior periods) | | | (149,779) |
| Cash acquired | | | 125,039 |
| Net cash inflow this year | | | 39 |

Negative goodwill arose on the acquisition because other shareholders did not participate in the share issue.

OJSC "INVESTMENT COMPANY IC RUSS-INVEST"

Notes to, and forming part of, the consolidated financial statements
for the year ended 31 December 2004

Interest income

| | 2004 RUR '000 | 2003 RUR '000 |
|--|--------------------------------|--------------------------------|
| Securities interest | 122,759 | 90,286 |
| Placements with banks and other financial institutions | 12,575 | 12,075 |
| | 135,334 | 102,361 |

Net securities trading income

| | 2004 RUR '000 | 2003 RUR '000 |
|--------------------|--------------------------------|--------------------------------|
| Equity instruments | 179,256 | 443,838 |
| Debt instruments | (12,426) | 57,621 |
| | 166,830 | 501,459 |

Net gain on non-trading financial instruments

| | 2004 RUR '000 | 2003 RUR '000 |
|---|--------------------------------|--------------------------------|
| Realized gains on assets available-for-sale | 257,547 | 92,049 |
| Net unrealized gains on assets available-for-sale | 43,702 | 60,946 |
| | 301,249 | 152,995 |

Net foreign exchange loss

| | 2004 RUR '000 | 2003 RUR '000 |
|---|--------------------------------|--------------------------------|
| Loss from revaluation of financial assets and liabilities | 1,942 | 10,151 |
| Loss on spot transactions | 40 | 45 |
| | 1,982 | 10,196 |

OJSC “INVESTMENT COMPANY IC RUSS-INVEST”

Notes to, and forming part of, the consolidated financial statements
for the year ended 31 December 2004

Other Income

| | 2004 | 2003 |
|--|-----------------|-----------------|
| | RUR '000 | RUR '000 |
| Negative goodwill on acquisition of “BERIOZKA IN LUZHNIKY” | 23,455 | - |
| Rentals | 10,535 | 3,008 |
| Underwriting services | 1,925 | - |
| Sales revenue | 848 | - |
| Consulting services | 630 | - |
| Other | 380 | 437 |
| | 37,773 | 3,445 |

Reversal of impairment losses/(impairment losses)

| | 2004 | 2003 |
|--|-----------------|-----------------|
| | RUR '000 | RUR '000 |
| Investments | 34,380 | (4,890) |
| Placements with banks and other financial institutions | 677 | (3,062) |
| | 35,057 | (7,952) |

General administrative expenses

| | 2004 | 2003 |
|--|-----------------|-----------------|
| | RUR '000 | RUR '000 |
| Employee compensation | 46,512 | 35,296 |
| Depreciation | 6,809 | 3,809 |
| Professional services | 6,341 | 3,070 |
| Marketing and advertising | 5,643 | 5,564 |
| Travel and representation services | 5,293 | 2,317 |
| Communication and information services | 4,186 | 2,283 |
| Taxes other than income tax | 3,475 | 3,670 |
| Brokerage and depositary services | 3,131 | 3,229 |
| Rent | 2,695 | 392 |
| Security | 2,315 | 1,687 |
| Shareholders' meeting expenses | 1,091 | 1,448 |
| Other | 6,696 | 3,313 |
| | 94,187 | 66,078 |

Income tax expense

| | 2004 | 2003 |
|----------------------|-----------------|-----------------|
| | RUR '000 | RUR '000 |
| Current tax expense | 134,079 | 152,172 |
| Deferred tax expense | 1,895 | 7,569 |
| | 135,974 | 159,741 |

The Group’s applicable tax rate for current and deferred tax is 24% (2003 : 24%).

Reconciliation of effective tax rate:

| | 2004 | 2003 |
|--|-----------------|-----------------|
| | RUR '000 | RUR '000 |
| | 609,990 | 688,425 |

OJSC "INVESTMENT COMPANY IC RUSS-INVEST"

Notes to, and forming part of, the consolidated financial statements
for the year ended 31 December 2004

| | | |
|---|-----------------------------|-----------------------------|
| Income before tax | <u> </u> | <u> </u> |
| Income tax at the applicable tax rate | 146,398 | 165,222 |
| Net non-taxable income | (9,932) | (2,280) |
| Income taxed at 15% tax rate (income from governmental bonds) | <u> (492)</u> | <u> (3,201)</u> |
| | <u>135,974</u> | <u>159,741</u> |
| Placements with banks and other financial institutions | | |
| | 2004 | 2003 |
| | RUR '000 | RUR '000 |
| Current accounts | 291,049 | 507,544 |
| Term deposits | <u>197,601</u> | <u>75,327</u> |
| | 488,650 | 582,871 |
| Provision for impairment | <u> (4,140)</u> | <u> (4,817)</u> |
| | <u>484,510</u> | <u>578,054</u> |

Analysis of movements in the provision for impairment

| | | |
|--------------------------------------|------------------------|------------------------|
| | 2004 | 2003 |
| | RUR '000 | RUR '000 |
| Balance at the beginning of the year | 4,817 | 1,755 |
| Net (recovery)/charge for the year | <u> (677)</u> | <u> 3,062</u> |
| Balance at the end of the year | <u>4,140</u> | <u>4,817</u> |

As at 31 December 2004, the Group had no balances with banks and financial institutions, which individually comprised more than 10% of total shareholders' equity (31 December 2003: balance with one counterparty of RUR'000 284,038).

OJSC "INVESTMENT COMPANY IC RUSS-INVEST"

Notes to, and forming part of, the consolidated financial statements
for the year ended 31 December 2004

Financial instruments held for trading

| | 2004 | 2003 |
|--|------------------|------------------|
| | RUR '000 | RUR '000 |
| Debt and other fixed-income instruments | | |
| <i>Corporate bonds</i> | | |
| LOMO | 146,850 | 164,505 |
| Sevkabel-Finance | 101,933 | - |
| SG Mechel | 101,074 | - |
| Volga | 66,364 | - |
| Sverdlovenego | 65,941 | - |
| Irkutskpishprominvest | 61,624 | - |
| UTK | 61,005 | 52,390 |
| NK Lukoil | 60,465 | - |
| Severo-Zapadnyy Telecom | 52,987 | 57,053 |
| BVK | 48,845 | - |
| Sibirtelecom | 44,850 | 56,818 |
| Uralsvyazinform | 44,702 | 53,509 |
| Tattelecom | 44,005 | - |
| Baltika | 39,964 | - |
| Gazprom | 29,499 | 59,211 |
| Altaienergo | 26,943 | - |
| Rosinter Restaurants | 24,411 | - |
| Akron | 10,368 | 30,029 |
| Centertelecom | 3,401 | 64,397 |
| Sun InterBrew | 3,268 | 40,835 |
| Other | 58,752 | 52,870 |
| <i>Governmental and municipal bonds</i> | | |
| Krasnodarskiy krai | 69,970 | - |
| Russian Government GKO/OFZ | - | 158,130 |
| | 1,167,221 | 789,747 |
| Equity investments | | |
| Surgutneftegaz | 172,022 | 144,772 |
| Rostelecom | 151,916 | 133,837 |
| Lukoil | 148,971 | 193,752 |
| Norilsk Nickel | 132,935 | 75,605 |
| Gazprom | 101,431 | 157,764 |
| RAO UES | 69,353 | 28,280 |
| Uralsvyazinform | 66,067 | 14,781 |
| Tatneft | 59,365 | 102,347 |
| Sibneft | 44,658 | - |
| Transneft | 29,063 | 23,083 |
| Sberbank | 21,061 | 151,488 |
| Sibirtelecom | - | 15,535 |
| YKOS | 8,738 | 108,161 |
| MosEnergo | 8 | 81,020 |
| Severo-Zapadnyy Telecom | - | 19,202 |
| Other | 39,686 | 30,434 |
| | 1,045,274 | 1,280,061 |
| | 2,212,495 | 2,069,808 |

OJSC "INVESTMENT COMPANY IC RUSS-INVEST"

Notes to, and forming part of, the consolidated financial statements
for the year ended 31 December 2004

Gains and losses arising due to changes in fair value of trading instruments are recognized in net securities trading income/(loss).

| | Investments available-for-sale | |
|--|---------------------------------------|-----------------|
| | 2004 | 2003 |
| | RUR '000 | RUR '000 |
| Equity instruments – listed | | |
| Rosneft-Sakhalinmorneftegaz | 181,200 | 137,880 |
| Avtovaz | 16,686 | 16,469 |
| Equity instruments – unlisted | | |
| Severstal | 29,485 | - |
| LOMO | 7,806 | - |
| Ryazanskiy NPZ | - | 34,388 |
| Berioska in Luzhniky | - | 24,779 |
| Nizhnevartovskneftegaz | 1,481 | 1,481 |
| Other | 1,604 | 359 |
| Debt instruments – unlisted | | |
| Transmashholding | 101,171 | - |
| LMZ Svobodnyi Sokol | 76,017 | - |
| Roshlebproduct | 50,399 | - |
| Promissory notes of Bank "Rossiyskiy Credit" | 60 | 52 |
| | 465,909 | 215,408 |
| Provision for impairment of unlisted financial instruments | (1,541) | (35,921) |
| | 464,368 | 179,487 |

Analysis of movements in the provision for impairment

| | 2004 | 2003 |
|--------------------------------------|-----------------|-----------------|
| | RUR '000 | RUR '000 |
| Balance at the beginning of the year | 35,921 | 31,031 |
| Net (recovery)/charge for the year | (34,380) | 4,890 |
| Balance at the end of the year | 1,541 | 35,921 |

Other assets

| | 2004 | 2003 |
|---|-----------------|-----------------|
| | RUR '000 | RUR '000 |
| Income tax prepayments | 89,612 | 30,891 |
| Settlements with budget on taxes other than on income | 3,938 | 3,021 |
| Settlements with suppliers and contractors | 3,890 | 906 |
| Prepaid expenses | 1,233 | 601 |
| Settlements with other debtors | 1,424 | 1,017 |
| | 100,097 | 36,436 |

Property and equipment

| | Buildings | Vehicles | Equipment and software | Fixtures and fittings | Total |
|-------------------|------------------|-----------------|-------------------------------|------------------------------|----------------|
| | RUR'000 | RUR'000 | RUR'000 | RUR'000 | RUR'000 |
| Cost | | | | | |
| At 1 January 2004 | 70,882 | 3,356 | 24,482 | 5,510 | 104,230 |
| Additions | 74,155 | 8,005 | 2,944 | 767 | 85,871 |

OJSC "INVESTMENT COMPANY IC RUSS-INVEST"

Notes to, and forming part of, the consolidated financial statements
for the year ended 31 December 2004

| | | | | | |
|-----------------------|----------------|--------------|-----------------|----------------|-----------------|
| Disposals | - | (2,401) | - | - | (2,401) |
| At 31 December 2004 | <u>145,037</u> | <u>8,960</u> | <u>27,426</u> | <u>6,277</u> | <u>187,700</u> |
| Depreciation | | | | | |
| At 1 January 2004 | (3,780) | (868) | (21,881) | (3,044) | (29,573) |
| Depreciation charge | (3,733) | (490) | (1,768) | (818) | (6,809) |
| Disposals | - | 908 | - | - | 908 |
| At 31 December 2004 | <u>(7,513)</u> | <u>(450)</u> | <u>(23,649)</u> | <u>(3,862)</u> | <u>(35,474)</u> |
| Carrying value | | | | | |
| At 31 December 2004 | <u>137,524</u> | <u>8,510</u> | <u>3,777</u> | <u>2,415</u> | <u>152,226</u> |
| At 31 December 2003 | <u>67,102</u> | <u>2,488</u> | <u>2,601</u> | <u>2,466</u> | <u>74,657</u> |

OJSC "INVESTMENT COMPANY IC RUSS-INVEST"

Notes to, and forming part of, the consolidated financial statements
for the year ended 31 December 2004

Dividends payable

| | 2004 | 2003 |
|--|-----------------|-----------------|
| | RUR '000 | RUR '000 |
| Dividends payable in respect of 2003 | 122,479 | - |
| Dividends payable in respect of 2002 | 151,712 | 193,378 |
| Dividends payable in respect of previous years | 17,320 | 17,368 |
| | 291,511 | 210,746 |

Other liabilities

| | 2004 | 2003 |
|--|-----------------|-----------------|
| | RUR '000 | RUR '000 |
| Customer balances on broker operations | 18,481 | 15,914 |
| Settlements with other creditors | 3,739 | 4,043 |
| Income tax payable | 213 | 667 |
| Taxes other than on income payable | 3,370 | 2,622 |
| Other | 100 | 20 |
| | 25,903 | 23,266 |

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to deferred tax assets and liabilities as of 31 December 2004 and 2003. These temporary differences, which have no expiry dates, are listed below at their tax effected accumulated values:

| RUR'000 | Assets | | Liabilities | | Net | |
|--|---------------|---------------|--------------------|-----------------|-----------------|-----------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Placements with banks and other financial institutions | 996 | 1,156 | - | - | 996 | 1,156 |
| Financial instruments held for trading | 280 | 592 | (53,840) | (60,770) | (53,560) | (60,178) |
| Investments available-for-sale | 357 | 9,075 | - | - | 357 | 9,075 |
| Property and equipment | 1,246 | 4,937 | (24,837) | (11,300) | (23,591) | (6,363) |
| Net tax asset/(liabilities) | 2,879 | 15,760 | (78,677) | (72,070) | (75,798) | (56,310) |

Out of which:

| | | |
|---------------------------------------|----------|----------|
| Net asset (by individual company) | 295 | 737 |
| Net liability (by individual company) | (76,093) | (57,047) |

The rate of tax applicable for deferred taxes was 24% (2003: 24%).

OJSC “INVESTMENT COMPANY IC RUSS-INVEST”

Notes to, and forming part of, the consolidated financial statements
for the year ended 31 December 2004

Movement in temporary differences during the year

| RUR'000 | Balance 1 January 2004 | Recognised in income | Acquired | Balance 31 December 2004 |
|---|------------------------------|-------------------------|-----------------|--------------------------------|
| Placements with banks and other financial institutions | 1,156 | (160) | - | 996 |
| Financial instruments held for trading | (60,178) | 6,618 | - | (53,560) |
| Investments available-for-sale | 9,075 | (8,718) | - | 357 |
| Property and equipment | (6,363) | 365 | (17,593) | (23,591) |
| | (56,310) | (1,895) | (17,593) | (75,798) |
| | | Share capital | | |

Issued capital

The authorised, issued and outstanding share capital comprises 69,989,000 ordinary shares (2003: 69,989,000). All shares have a par value of RUR 1.

Contributions to share capital made prior to 1 January 2003 have been restated by the amount of RUR 1,383,376 thousands to account for changes in the general purchasing power of the RUB in accordance with IAS No. 29 *Financial Reporting in Hyperinflationary Economies*.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at annual and general meetings of the Company.

Dividends

Dividends payable are restricted to the maximum retained earnings of the Group, which are determined according to legislation in the Russian Federation. In accordance with the legislation of the Russian Federation, as of the balance sheet date, retained earnings available for distribution amount to RUR 2,510,439 thousand (2003: RUR 2,234,857 thousand).

Risk management

Management of risk is fundamental to the business of Investment Company and is an essential element of the Company's operations. The major risks faced by the Company are those related to movements in debt and capital markets. These risks are managed in the following manner: the Company has established policies and procedures for the management of financial investment portfolio, including preparing monthly fundamental analysis and daily technical analysis of Russian securities markets, evaluation of liquidity and profitability of the financial instruments held by the Company and assessment of fair value of shares in the Company's portfolio using methods other than quoted market prices (evaluation of net assets, EPS and others). The risk management committee implements the Company's strategy in market risk management.

Contingencies

Insurance

The Group does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

Litigation

Group management is unaware of any significant actual, pending or threatened claims against the Group.

Notes to, and forming part of, the consolidated financial statements
for the year ended 31 December 2004

Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these IFRS consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Related party transactions

Transactions with Directors and senior management

Directors and senior management of the Group and their immediate relatives control 0,12% of the voting shares of the Group.

Total remuneration to Directors and senior management of the Group included in employee compensation (refer note 11) is RUR'000 11,830 (2003: RUR'000 10,455).

OJSC “INVESTMENT COMPANY IC RUSS-INVEST”

Notes to, and forming part of, the consolidated financial statements
for the year ended 31 December 2004

The outstanding balances as of 31 December 2004 and 2003 with Directors and senior management are as follows:

| | 2004 RUR '000 | 2003 RUR '000 |
|--|------------------|------------------|
| Liabilities | | |
| Dividends payable | 143 | 222 |
| The Group did not earn any income or incur any losses on operations with Directors or senior management during 2004. | | |

Transactions with other related parties

Other related parties are those shareholders of the Group which hold more than 5% of shares. The outstanding balances as of 31 December 2004 and 2003 with other related parties are as follows:

| | 2004 RUR '000 | 2003 RUR '000 |
|---|------------------|------------------|
| Liabilities | | |
| Dividends payable | 43,593 | 68,010 |
| Other liabilities | 17,013 | 12,358 |
| The Group did not earn any income or incur any losses on operations with related parties during 2004. | | |

Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flow is composed of the following items:

| | 2004 RUR '000 | 2003 RUR '000 |
|--|------------------|------------------|
| Cash | 5 | 7 |
| Current accounts in banks and other financial institutions | 290,860 | 507,544 |
| | 290,865 | 507,551 |

Fair value of financial instruments

The Group has performed an assessment of its financial instruments, as required by IAS 32 *Financial Instruments: Disclosure and Presentation*, to determine whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability.

Based on this assessment the Group has concluded that due to the lack of liquidity and published “indicator interest rates” in the Russian markets, it is not possible to determine the fair value of some of its financial assets and financial liabilities.

The financial assets and financial liabilities that the Group does believe it is able to estimate fair values for include cash, financial instruments held for trading and placements with banks and other financial institutions. The Group estimates the fair value of these assets to be not materially different from their carrying values.

This estimate of fair value is intended to approximate the amount at which the above listed assets could be exchanged in a current transaction between willing parties. However given the uncertainties and the use of subjective judgement, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

Average effective interest rates

The table below displays the Group’s interest bearing assets as at 31 December 2004 and their corresponding average effective interest rates as at that date. These interest rates are an approximation of the yields to maturity of these assets.

| | 2004 Average Effective Interest | | 2003 Average Effective Interest |
|-------------------|--|-------------------|--|
| Value RUR '000 | | Value RUR '000 | |
| | | | |

OJSC "INVESTMENT COMPANY IC RUSS-INVEST"

Notes to, and forming part of, the consolidated financial statements
for the year ended 31 December 2004

| Interest Bearing Assets | <u>Rate</u> | <u>Rate</u> |
|---|-------------|-------------|
| <i>Placements with banks and other financial institutions</i> | | |
| <i>Current accounts</i> | | |
| - RUR | 289,053 | 498,642 |
| - USD | 1,807 | 5,591 |
| - other currencies | - | - |
| <i>Term deposits</i> | | |
| - RUR | 189,562 | - |
| - USD | 4,088 | 73,821 |
| <i>Financial instruments held for trading</i> | | |
| - RUR | 1,167,221 | 789,747 |
| <i>Investments</i> | | |
| - RUR | 227,587 | - |

OJSC “INVESTMENT COMPANY IC RUSS-INVEST”

Notes to, and forming part of, the consolidated financial statements
for the year ended 31 December 2004

Maturity analysis

The following table shows Group’s assets and liabilities by remaining contractual maturity dates as at 31 December 2004. Due to the fact that substantially all the financial instruments of by the Group are fixed rated contracts, these remaining contractual maturity dates also represent the contractual interest rate repricing dates.

| | Less than 1 month RUR '000 | 1 to 3 months RUR '000 | 3 months to 1 year RUR '000 | 1year to 5 years RUR '000 | More than 5 years RUR '000 | No maturity RUR '000 | Total RUR '000 |
|--|---|---------------------------------------|--|--|---|-------------------------------------|---------------------------|
| Assets | | | | | | | |
| Cash | 5 | - | - | - | - | - | 5 |
| Placements with banks and other financial institutions | 298,197 | 182,370 | 3,943 | - | - | - | 484,510 |
| Financial instruments held for trading | 9,844 | 4,340 | 121,664 | 1,032,616 | - | 1,044,031 | 2,212,495 |
| Investments available-for-sale | - | - | 52,553 | 175,035 | - | 236,780 | 464,368 |
| Other assets | 3,220 | 3,241 | 93,458 | 178 | - | - | 100,097 |
| Property and equipment | - | - | - | - | - | 152,226 | 152,226 |
| Deferred tax asset | - | - | - | - | - | 295 | 295 |
| Total assets | 311,266 | 189,951 | 271,618 | 1,207,829 | - | 1,433,332 | 3,413,996 |
| Liabilities | | | | | | | |
| Dividends payable | 291,511 | - | - | - | - | - | 291,511 |
| Other liabilities | 19,669 | 5,510 | 724 | - | - | - | 25,903 |
| Deferred tax liability | - | - | - | - | - | 76,093 | 76,093 |
| Total liabilities | 311,180 | 5,510 | 724 | - | - | 76,093 | 393,507 |
| Net position as at 31 December 2004 | 86 | 184,441 | 270,894 | 1,207,829 | - | 1,357,239 | 3,020,489 |
| Net position as at 31 December 2003 | 344,946 | 14,524 | 208,945 | 601,800 | 62 | 1,477,850 | 2,648,127 |

Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2004:

| | RUR | USD | Total |
|--|--------------------------------|-----------------------------|--------------------------------|
| | <u>RUR '000</u> | <u>RUR '000</u> | <u>RUR '000</u> |
| Assets | | | |
| Cash | 5 | - | 5 |
| Placements with banks and other financial institutions | 478,615 | 5,895 | 484,510 |
| Financial instruments held for trading | 2,212,495 | - | 2,212,495 |
| Investments available-for-sale | 464,368 | - | 464,368 |
| Other assets | 100,097 | - | 100,097 |
| Property and equipment | 152,226 | - | 152,226 |
| Deferred tax asset | 295 | - | 295 |
| Total assets | <u>3,408,101</u> | <u>5,895</u> | <u>3,413,996</u> |
| Liabilities | | | |
| Dividends payable | 291,511 | - | 291,511 |
| Other liabilities | 25,902 | - | 25,902 |
| Deferred tax liability | 76,093 | - | 76,093 |
| Total liabilities | <u>393,507</u> | <u>-</u> | <u>393,507</u> |
| Net position as of 31 December 2004 | <u>3,014,594</u> | <u>5,895</u> | <u>3,020,489</u> |
| Net position as of 31 December 2003 | <u><u>2,568,715</u></u> | <u><u>79,412</u></u> | <u><u>2,648,127</u></u> |

Events subsequent to the balance sheet

At the annual shareholders' meeting in April 2005 dividends in respect of 2004 financial year were declared in the amount RUR 1 per one share in the total amount RUR'000 69,989.

In January 2005 the Board of Directors of the Group approved the decision to issue additional 17,497,250 shares with RUR 1 nominal value. The issue would increase the Group's share capital by 25%.