

Group of 000 BrokerCreditService Company

Independent Auditors' Report

Consolidated Financial Statements
For the Year Ended 31 December 2005

GROUP OF OOO BROKER CREDIT SERVICE COMPANY

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GROUP OF OOO BROKERCREDITSERVICE COMPANY

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the report of the independent auditors set out on page 2, is made with a view to distinguishing the respective responsibilities of the management and those of the independent auditors in relation to the consolidated financial statements of the Group of OOO BrokerCreditService Company ("Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly in all material respects the financial position of the Group as of 31 December 2005, the results of its operations and cash flows for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- the design, implementation and maintenance of an effective and sound system of internal controls, throughout the Group;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

These consolidated financial statements for the year ended 31 December 2005 were approved on 7 November 2006 by the Group's Management Board.

On behalf of the Management Board:

Mikhasenko O.V.



Director of OOO BrokerCreditService Company

Tsygankova E.V.

Chief Accountant of OOO BrokerCreditService Company

20 November 2006

INDEPENDENT AUDITORS' REPORT

To the stakeholders of OOO BrokerCreditService Company:

We have audited the accompanying consolidated balance sheet of OOO BrokerCreditService Company and its subsidiaries (the "Group") as of 31 December 2005 and the related consolidated income statement and consolidated statement of 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall consolidated 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 2005, and the results of its operations and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Without modifying our opinion we draw your attention to Note 3 to the consolidated financial statements. Consolidated financial statements for year ended 31 December 2004 have been restated.



20 November 2006
Moscow

GROUP OF OOO BROKERCREDITSERVICE COMPANY

CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2005

	Notes	31 December 2005 RUR'000	31 December 2004 RUR'000 (restated)
ASSETS:			
Cash and cash equivalents	4	552,312	211,373
Cash deposited at brokerage customer accounts	5	1,150,010	377,381
Loans to customers, less allowance for impairment losses	6,24	147,390	109,107
Securities at fair value through profit or loss	7	294,385	143,658
Investments available-for-sale	8,24	12,744	10,668
Accounts receivable and other assets, less allowance for impairment losses	9,24	1,291,782	366,663
Current income tax assets		2,197	3,541
Investment property	10	695,670	695,670
Fixed assets, less accumulated depreciation	11	279,564	148,626
TOTAL ASSETS		4,426,054	2,066,687
LIABILITIES:			
Customer funds under brokerage purchase and sale transactions in securities effected on organized markets	24	2,751,162	757,010
Accounts payable and other liabilities	12	79,106	108,109
Loans received	13	149,044	799
Deferred income tax liabilities	22	216,736	170,385
Current income tax liabilities		-	39
Minority interest	14	692,601	548,734
		3,888,649	1,585,076
Net assets attributable to the members of the Group	15	537,405	481,611

Signed and authorised for release on behalf of the Management Board of the Group:

Mikhasenko O.V.

Director of OOO BrokerCreditService Company

Tsygankova E.V.

Chief Accountant of OOO BrokerCreditService Company

The notes on pages 7 to 34 form an integral part of these consolidated financial statements. The independent auditor's report is presented on page 2.

GROUP OF OOO BROKERCREDITSERVICE COMPANY

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000 (restated)
OPERATING INCOME:			
Income from brokerage activities and asset management	16,24	144,124	83,018
Rental income		84,191	-
Fair value adjustment on securities at fair value through profit or loss		60,804	57,147
Net gain on assets at fair value through profit or loss		58,831	-
Revenue from the sale of goods produced		17,537	10,019
Income from scientific activities		15,857	-
Interest income on loans granted		7,801	1,988
Income from depositary activities		7,561	5,166
Income from consulting activities		5,788	2,583
Recovery of allowance for impairment losses on accounts receivable and other assets	9	4,769	4,624
Dividends received		4,103	1,395
Recovery of allowance for impairment losses on loans	6	1,883	381
Other income		9,765	1,421
Total operating income		<u>423,014</u>	<u>167,742</u>
OPERATING EXPENSES:			
Salaries and employees' benefits	17,24	105,780	13,001
Administrative and other operating expenses	18	174,479	55,747
Interest expenses on loans received		123	888
Discounting of loans granted at below-market rates		1,558	3,762
Costs of raw materials		10,829	13,530
Net loss on assets at fair value through profit or loss		-	8,243
Total operating expenses		<u>292,769</u>	<u>95,171</u>
OPERATING PROFIT		<u>130,245</u>	<u>72,571</u>
Net loss on sale of investment in a subsidiary	19,24	(18,054)	(6,782)
Goodwill written off	20	(10,315)	-
Write-off of negative goodwill resulting from purchase of a subsidiary	21	-	79,976
PROFIT BEFORE INCOME TAX		<u>101,876</u>	<u>145,765</u>
Income tax expense	22	<u>(29,489)</u>	<u>(10,861)</u>
Income after tax		72,387	134,904
Minority interest	14	<u>(45,354)</u>	<u>(18,269)</u>
CHANGE IN NET ASSETS ATTRIBUTABLE TO MEMBERS OF THE GROUP		<u><u>27,033</u></u>	<u><u>116,635</u></u>

Signed and authorised for release on behalf of the Management Board of the Group:

Mikhasenko O.V.

Director of OOO BrokerCreditService Company

Tsygankova E.V.

Chief Accountant of OOO BrokerCreditService Company

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GROUP OF OOO BROKER CREDIT SERVICE COMPANY

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax and minority interest		101,876	145,765
Adjustments for:			
Recovery of allowance for impairment losses on accounts receivable and other assets		(4,769)	(4,624)
Discounting of loans granted at below-market rates		1,558	3,762
Recovery of allowance for impairment losses on loans to customers		(1,883)	(381)
Dividends received		(4,103)	(1,395)
Loss on sale of investment in a subsidiary		18,054	6,782
Loss on write off of goodwill on purchase of subsidiary		10,315	-
Write-off of negative goodwill		-	(79,976)
Fair value adjustment of securities at fair value through profit or loss		(60,804)	(57,147)
Depreciation of fixed assets		10,649	6,554
Interest expense on loans received		123	888
Interest income on loans granted		<u>(7,801)</u>	<u>(1,988)</u>
Operating profit before changes in operating assets and liabilities		63,215	18,240
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Cash deposited at brokerage customer accounts		(772,629)	12,581
Securities at fair value through profit or loss		(89,923)	51,168
Accounts receivable and other assets		(915,763)	87,761
Increase in operating liabilities:			
Customer funds under brokerage purchase and sale transactions in securities effected on organized markets		1,978,425	243,929
Accounts payable and other liabilities		<u>(29,003)</u>	<u>(149,608)</u>
Cash inflow from operating activities before income tax		234,322	264,071
Income tax paid		<u>(4,730)</u>	<u>(5,760)</u>
Net cash inflow from operating activities		<u>229,592</u>	<u>258,311</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of securities available-for-sale, net		(2,076)	(4,168)
Acquisition of subsidiaries, less cash acquired		(57,784)	(36,864)
Dividends received		4,103	1,395
Loans to customers		(35,448)	(99,712)
Interest income on loans granted		6,659	2,049
Purchase of fixed assets		<u>(39,491)</u>	<u>(33,775)</u>
Net cash outflow from investing activities		<u>(124,037)</u>	<u>(171,075)</u>

GROUP OF OOO BROKERCREDITSERVICE COMPANY

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005 (CONTINUED)

	Notes	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000 (restated)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Loans received/repaid, net		147,841	(6,587)
Interest payable on loans		(123)	(1,593)
Proceeds on sale of interest in a subsidiary		500	274
Purchase of investment unit in the closed-end fund of the Group		87,166	-
		<u>235,384</u>	<u>(7,906)</u>
Net cash inflow/(outflow) from financing activities			
		<u>235,384</u>	<u>(7,906)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		340,939	79,330
CASH AND CASH EQUIVALENTS at beginning of the period	4	<u>211,373</u>	<u>132,043</u>
CASH AND CASH EQUIVALENTS at the end of the period	4	<u><u>552,312</u></u>	<u><u>211,373</u></u>

Signed and authorised for release on behalf of the Management Board of the Group:

Mikhasenko O.V.

Director of OOO BrokerCreditService Company

Tsygankova E.V.

Chief Accountant of OOO BrokerCreditService Company

The notes on pages 7 to 34 form an integral part of these consolidated financial statements. The independent auditor's report is presented on page 2.

GROUP OF OOO BROKERCREDITSERVICE COMPANY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

1. ORGANISATION

OOO BrokerCreditService Company (the “Company”) is a limited liability company, which was incorporated in the Russian Federation in 1995. The Company is registered at: 3, Mostovaya St., Novosibirsk, Russian Federation. The Company’s office is located at: 37, Sovetskaya St., Novosibirsk, Russian Federation. The Company provides a range of brokerage, depositary and trust management services to corporate clients of various legal forms and industries and individual customers. The Company holds licenses issued by the Federal Securities Market Commission (“FSMC”) for securities management, dealership, brokerage, for acting as a specialized depositary of investment funds, mutual funds and non-governmental pension funds, and a license of an intermediary for dealing in futures and options on stock exchanges in the Russian Federation issued by the Commission for Commodity Exchanges under the Federal Financial Markets Service (FFMS).

The Company is a member of the following financial associations and organizations: Non-for-profit Partnership RTS Stock Exchange, National Association of Stock Market Participants (NAUFOR). The Company is accredited with the following financial associations and organizations: MICEX Stock Exchange, Moscow Stock Exchange, Saint-Petersburg Stock Exchange, Siberian Interbank Currency Exchange, St.-Petersburg Currency Exchange, and is a dealer in government securities on Moscow Interbank Currency Exchange.

As of 31 December 2005, the Company has 17 branches in the Russian Federation.

The Company is the parent company of the Group (the “Group”) which includes the following enterprises consolidated in the financial statements as of 31 December 2005 and 2004:

Name	Country of operation	Type of activity	Ownership/controlling interest	
			31 December 2005	31 December 2004
OOO BrokerCreditService Consulting	Russian Federation	Consulting	100.00%/100.00%	80.00%/80.00%
ZAO Managing Company BrokerCreditService	Russian Federation	Trust management	19.23%/100.00%	38.46%/100.00%
OAO Central Scientific Research Institute of Radioelectronic Systems	Russian Federation	Research and Development	50.04%/94.34%	19.42%/100.00%
OOO Rufikom	Russian Federation	Leasing	50.04%/94.34%	19.42%/100.00%
ZPIFN BCS Real Estate Fund	Russian Federation	Real estate	43.58%/96.86%	100.00%/100.00%
OAO Bastra Insurance Company	Russian Federation	Insurance	100.00%/100.00%	-
OOO IT Service	Russian Federation	Programming	80.00%/80.00%	-
OOO Sibmaster	Russian Federation	Manufacturing and trade	100.00%/100.00%	100.00%/100.00%
OOO Plastservice	Russian Federation	Manufacturing	100.00%/100.00%	100.00%/100.00%

OOO BrokerCreditService Consulting was incorporated by the Company as a limited liability company under the laws of the Russian Federation on 18 December 2001. The address of its registered office is as follows: 37, Sovetskaya St., Novosibirsk, Russian Federation. The principal activity of the company is consulting services in stock market investments. Financial statements of OOO BrokerCreditService Consulting are included into the Group’s consolidated financial statements from date of inception, after elimination of intercompany transactions.

ZAO Managing Company BrokerCreditService was incorporated as a closed joint stock company under the laws of the Russian Federation on 29 January 1998. Its registered office is located at: 37, Sovetskaya St., Novosibirsk, Russian Federation. The principal activities of the company consist of trust management of investments on the stock market under FSMC license to perform management of investment funds, mutual funds and non-government pension funds. Financial statements of ZAO Managing Company BrokerCreditService are included into the Group's consolidated financial statements from date of inception, after elimination of intercompany transactions.

OAO Central Scientific Research Institute of Radioelectronic Systems was incorporated as an open joint-stock company under the laws of the Russian Federation in 1993. The address of its registered office is as follows: 69, Prospect Mira, Moscow, Russian Federation. Its principal activities are research and development of radioelectronic systems. Financial statements of OAO Central Scientific Research Institute of Radioelectronic Systems are included into the Group's consolidated financial statements from the date of acquisition of a controlling stake in the share capital of the company by OOO BrokerCreditService.

OOO Rufikom was incorporated by OAO Central Scientific Research Institute of Radioelectronic Systems as a limited liability company under the laws of the Russian Federation in 2004. Its registered office is located at 69, Prospect Mira, Moscow, Russian Federation. The principal activity of the company is renting out a building it owns. Financial statements of OOO Rufikom are included into the Group's consolidated financial statements from the date of acquisition of a controlling stake in the share capital of OAO Central Scientific Research Institute of Radioelectronic Systems by OOO BrokerCreditService. As of 31 December 2005 and 2004 OAO Central Scientific Research Institute of Radioelectronic Systems was the single owner of OOO Rufikom.

Closed-End Investment Fund BCS Real Estate Fund was incorporated under the laws of the Russian Federation in December 2004. The fund is managed by ZAO Managing Company BrokerCreditService. The aim of the managing company's investment policy is to purchase real estate with a view to further resale, reconstruction and further resale, change of the asset's profile and further resale and (or) lease or sublease. As of 31 December 2005, the investment units are held by OOO BrokerCreditService Company (2.05378 pcs), OOO Rufikom (110.7810 pcs) and BrokerCreditService Inc. (87.1655 pcs).

OAO Bastra Insurance Company was incorporated as an open joint-stock company under the laws of the Russian Federation in 1992. Its registered office is located at 16, October Prospect, Ufa, Russian Federation. The principal activity of the company is voluntary medical insurance and property insurance. Financial statements of OAO Bastra Insurance Company are included into the Group's consolidated financial statements from the date of acquisition of a controlling stake in the share capital by OOO BrokerCreditService.

OOO IT Service was incorporated as a limited liability company under the laws of the Russian Federation in 2003. Its registered office is located at 6, Lavrentyeva St., Novosibirsk, Russian Federation. The principal activity of the company is development and implementation of software. Financial statements of OOO IT Service are included into the Group's consolidated financial statements from the date of acquisition of a controlling stake in the equity by OOO BrokerCreditService.

OOO Sibmaster was incorporated by the Company as a limited liability company under the laws of the Russian Federation on 9 February 2001. The address of its registered office is as follows: 1A, Irtyshskaya St., Beregovoy town, Omsk region, Russian Federation. Principal operations of the company consist of manufacturing and trade in construction materials. Financial statements of OOO Sibmaster are included into the Group's consolidated financial statements from date of inception, after elimination of intercompany transactions.

OOO Plastservice was incorporated by the Company as a limited liability company under the laws of the Russian Federation on 21 June 2000. The address of its registered office is as follows: 37, Sovetskaya St., Novosibirsk, Russian Federation. The company's principal activities are manufacturing of polythene terephthalate granulate (used in production of plastic containers) from recycled materials. Financial statements of OOO Plastservice are included into the Group's consolidated financial statements from date of inception, after elimination of intercompany transactions.

As OOO BrokerCreditService Company owns less than 100% of shares in ZAO Managing Company BrokerCreditService, OOO IT Service, OAO Central Scientific Research Institute of Radioelectronic Systems and OOO Rufikom, there is a minority interest disclosed in the consolidated financial statements. Financial statements of ZAO Managing Company BrokerCreditService, OAO Central Scientific Research Institute of Radioelectronic Systems and OOO Rufikom are included into the Group's consolidated financial statements, as OOO BrokerCreditService Company controls their financial and operating policies, and receives economic benefits from the activities of ZAO Managing Company BrokerCreditService, OAO Central Scientific Research Institute of Radioelectronic Systems and OOO Rufikom and certain minority shareholders and members hold their shares in favor of OOO BrokerCreditService Company.

As of 31 December 2005 and 2004 the following shareholders owned the outstanding shares in the Company.

	31 December 2005 %	31 December 2004 %
Direct members of the Group		
OOO Sibirskiye Investitsii	98.18	98.18
Company's management	1.82	1.82
Total	<u><u>100.00</u></u>	<u><u>100.00</u></u>
Ultimate owners of the Group		
Mr. Mikhasenko Oleg Vladimirovich	90.00	90.00
Mr. Shelikhovsky Vitaliy Alexandrovich	5.00	5.00
Ms. Tsygankova Elena Vladimirovna	5.00	5.00
Total	<u><u>100.00</u></u>	<u><u>100.00</u></u>

These consolidated financial statements were approved by the Management Board of the Group on 7 November 2006.

2. BASIS OF PRESENTATION

Accounting basis – These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”). These financial statements are presented in thousands of Russian roubles (“RUR”), unless otherwise indicated. These financial statements are prepared on an accrual basis under the historical cost convention modified for the measurement at fair value of available-for-sale investment securities, revaluation of buildings, financial assets and financial liabilities held for trading, and according to IAS 29 “Financial Reporting in Hyperinflationary Economies”.

The Group maintains its accounting records in accordance with Russian law. These consolidated financial statements have been prepared from the Russian statutory accounting records and have been adjusted to conform to International Financial Recording Standards.

The principal changes in the net assets attributable to the members (equity) as of 31 December 2005 and 2004 and in the profit for the years then ended, in accordance with IFRS and statutory accounting standards, are as follows:

	31 December 2005	Year ended 31 December 2005	31 December 2004	Year ended 31 December 2004
	RUR'000	RUR'000	RUR'000	RUR'000
	Net assets attributable to the members of the Group	Changes in net assets attributable to the members of the Group	Net assets attributable to the members of the Group	Changes in net assets attributable to the members of the Group
Statutory accounting standards:				
OOO BrokerCreditService Company Subsidiaries of the Group of OOO BrokerCreditService Consulting (unaudited)	391,836	40,432	351,660	8,496
	<u>590,553</u>	<u>69,741</u>	<u>387,756</u>	<u>32,332</u>
	982,389	110,173	739,416	40,828
Fair value adjustments, net	(4,830)	(4,830)	30,188	20,311
Allowances for impairment losses	6,620	6,652	(8,187)	7,099
Deferred income tax	(31,320)	(11,074)	(9,899)	(3,409)
Inflation adjustments on non- monetary items	4,971	-	4,870	-
Revaluation of buildings	84,360	-	-	-
Effect of consolidation	(519,463)	(78,329)	(275,746)	51,234
Depreciation of fixed assets	3,350	3,350	3,122	2,456
Other	11,328	1,091	(2,153)	(1,884)
International Financial Reporting Standards	<u>537,405</u>	<u>27,033</u>	<u>481,611</u>	<u>116,635</u>

The preparation of consolidated financial statements in accordance with IFRS requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses of the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for impairment losses and the fair value of financial instruments.

Key assumptions – Key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period include:

	31 December 2005	31 December 2004
	RUR'000	RUR'000
Loans to customers, less allowance for impairment losses	147,390	109,107
Accounts receivable and other assets	1,291,782	366,663
Investments available-for-sale	12,744	10,668

Loans to customers, accounts receivable and other assets and investments available-for-sale are measured at amortised cost less allowance for impairment losses. The estimation of allowance for impairment losses involves an exercise of judgment. It is impracticable to assess the extent of the possible effects of key assumptions or other sources of uncertainty on these balances at the balance sheet date.

Functional currency – The functional currency of these financial statements is the Russian Rouble.

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of majority-owned subsidiaries. Control is achieved where the Group has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

On acquisition, the assets and liabilities, as well as contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of the acquisition over the fair values of identifiable net assets is recognized as goodwill. The amount by which the cost of acquisition of identifiable net assets is less than their fair value (i.e. discount on acquisition) is charged to the income statement at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognized. Subsequently any losses relating to the minority interest in excess of such interest are charged to the parent.

In case of acquisition of subsidiaries from the Group's shareholders or companies under common control, the difference between the carrying value of their identifiable net assets as they were previously reported in the financial statements of the former parent and the amount of the consideration paid is recorded in the net assets attributable to the members of the Group.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies in line with those used by the Company.

All significant intercompany transactions and balances have been eliminated. The actual ownership and controlling interest of OOO BrokerCreditService Company in the Group's companies as of 31 December 2005 and 2004 is presented in Note 1.

Goodwill and negative goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

The Group tests goodwill for impairment at least annually.

If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the acquisition, the Group:

- (a) initially reassess the identification and measurement of the Group's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the acquisition; and
- (b) recognises immediately in the income statement any excess remaining after that reassessment.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of unamortized goodwill is included in the determination of the profit or loss on disposal.

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument. Regular way purchase and sale of financial assets and liabilities are recognized using settlement date accounting.

Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively. The accounting policies for subsequent measurement of these items are disclosed in the respective accounting policies set out below.

Cash and cash equivalents

Cash and cash equivalents are assets that can be converted into cash within 90 days. Cash and cash equivalents are cash, current accounts and short-term deposits with banks.

Cash at brokerage customer accounts

Cash at brokerage customer accounts, clearing houses of stock exchanges and on current accounts at banks are measured of amortized cost using the effective interest rate method. This cash can be used upon customer's instructions only.

Securities at fair value through profit or loss

Securities at fair value through profit or loss represent assets acquired principally for the purpose of selling them in the near term, or classified as such at acquisition and stated at fair value. The Group uses quoted market prices to determine fair value for the assets at fair value through profit or loss with fair value adjustment recorded in the consolidated income statement for the period.

Repurchase and reverse repurchase agreements

The Group enters into sale and repurchase agreements ("repos") and purchase and resale agreements ("reverse repos") in the normal course of its business. Repurchase and reverse repurchase agreements are utilized by the Group as an element of its treasury management and trading business.

A repo is an agreement to transfer a financial asset to another party in exchange for cash or other consideration and a concurrent obligation to reacquire the financial assets at a future date for an amount equal to the cash or other consideration exchanged plus interest. These agreements are accounted for as financing transactions. Financial assets sold under repo are retained in consolidated financial statements and consideration received under these agreements are recorded as collateralized deposit received.

Assets purchased under reverse repos are recorded in the consolidated financial statements as cash placed on deposit which is collateralized by securities and other assets.

In the event that assets purchased under reverse repo agreements are sold to third parties, the results are recognized, with any resulting gain or loss included in net gains/(losses) on respective assets. Any related income or expense arising from pricing spreads of the underlying securities is recognized as interest income or expense.

Investments available-for-sale

Securities available-for-sale represent debt and equity investments that are intended to be held for an indefinite period of time. Such securities are initially recorded at cost, which approximates the fair value of the consideration given. Subsequently the securities are measured at fair value, with such re-measurement recognized directly in the net assets attributable to the members of the Group and minority interest as appropriate, plus accrued interest income. The Group applies quoted market prices to determine fair value for securities available-for-sale. In case the fair value cannot be determined, securities are carried at cost, less allowance for impairment losses.

Investments in corporate shares where the Group owns more than 20% of share capital, but does not have ability or intent to control or exercise significant influence over operating and financial policies, or consolidation of such companies does not significantly affect the financial statements of the Group as a whole, or the Group has an intention to resell such investments in the nearest future, as well as investments in corporate shares where the Group owns less than 20% of share capital, are accounted for at fair value or at approximate fair value, or at historic cost where such fair value may not be determined. Management periodically assesses the carrying values of such investments and provides allowances for impairment, if necessary. Such investments are accounted for as available-for-sale.

Loans granted

Loans granted by the Group are financial assets that are created by the Group by providing money to a borrower, other than those that are originated with the intent to be sold immediately or in the short term, which are classified as trading assets. Loans are carried at amortized cost, less allowance for impairment losses.

Accounts receivable

Accounts receivable, including advances given, include funds transferred in exchange for securities until the title to the securities passes. Accounts receivable are measured at amortized cost using the effective interest rate method.

Allowance for impairment on accounts receivable and loans granted

The Group establishes an allowance for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. The allowance for impairment losses is measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate, for financial assets which are carried at amortized cost.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognized impairment loss is reversed by adjusted an allowance account. For financial assets carried at cost the allowance for impairment losses is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

The determination of the allowance for impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Provisions are made as a result of an individual appraisal of risk for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

The change in the allowance for impairment losses is charged to the consolidated income statement and the total of the allowance for impairment losses is deducted in arriving at assets as shown in the consolidated balance sheet. Factors that the Group considers in determining whether it has objective evidence that an impairment loss has been incurred include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures, levels of and trends in delinquencies for similar financial assets, national and local economic trends and conditions, and the fair value of collateral and guarantees. These and other factors may, either individually or taken together, provide sufficient objective evidence that an impairment loss has been incurred in a financial asset or group of financial assets.

It should be understood that estimates of losses involve an exercise of judgment. While it is possible that in particular periods the Group may sustain losses, which are substantial relative to the allowance for impairment losses, it is the judgment of management that the allowance for impairment losses is adequate to absorb losses incurred on the risk assets

Impairment loss

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable value. The difference being an impairment loss is recognized as an expense in the income statement for the year in which it arises.

Fixed assets

Fixed assets (other than buildings and indoor premises), acquired after 1 January 2003 are carried at historical cost less accumulated depreciation and any accumulated impairment loss. Fixed assets

(except for buildings and indoor premises) acquired before 1 January 2003 are carried at historical cost restated for inflation less accumulated depreciation and accumulated impairment loss, if any.

The carrying amounts of fixed assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts. Where carrying values exceed this estimated recoverable amount, fixed assets are written down to their recoverable amount. An impairment of fixed assets (except for buildings) is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for fixed assets is adjusted in future periods to allocate the assets' revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

Buildings and indoor premises are carried at revalued cost which represents their fair value at the revaluation date less subsequent accumulated depreciation and accumulated impairment losses, if any.

The results of a subsequent revaluation of buildings and indoor premises are recognized as follows:

- increase in the value of buildings is recognized in equity as increase in the fixed assets revaluation provision. However, a revaluation increase is recognized as income to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense;
- decrease in the value of buildings is recognized as an expense. However, a revaluation decrease is recognized as decrease in the revaluation provision to the extent that it does not increase the balance of such provision in respect of the building.

Depreciation of fixed assets is designed to write off assets over their useful economic lives. It is calculated on a straight-line basis at the following annual prescribed rates:

Office premises	2%
Computers and office equipment	25%
Furniture and other equipment	14%
Other	25%

Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Expenses related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

Investment property

Investment property includes a building owned by the Group with a view to generating income from leasing in subsequent periods. Investment property is carried at fair value determined on the basis of market prices.

Any increase or decrease in the value of investment property as a result of revaluation is charged to the consolidated income statement for the respective period.

Accounts payable

Accounts payable are stated at the amortized cost using the effective interest rate method and relate to the Group's brokerage and trading activities.

Customer funds under brokerage purchase and sale transactions in securities effected on organized markets

Customer funds under brokerage purchase and sale transactions in securities effected on organized markets represent cash on customers' accounts and settlements on customers' operations with securities. Accounts receivable are stated at the amortized cost using the effective interest rate method.

Loans received

Loans received are initially recognized at cost, which amounts to the issue proceeds less transaction costs incurred. Subsequently, amounts due to customers are stated at cost or amortized cost and any difference between net proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest rate method.

Contributions by members in the charter and additional paid-in capital

Contributions by members in the charter and additional paid-in capital made before 1 January 2003 are recognised at their cost restated for inflation. Contributions made after 1 January 2003 are recognised at cost. Contributions made in the form of assets other than cash are stated at their fair value at the date of contribution. Additional paid-in capital represents funds received free-of-charge from the Group's related party. Additional paid-in capital is recorded at the market value of assets received free-of-charge, less minority interest.

Retirement and other benefit obligations

The Group does not have any pension arrangements separate from the state pension system of the Russian Federation, which requires current contributions by employer calculated as a percentage of current gross salary payments. Such expense is charged in the period when the related salaries are earned. In addition, the Group has no post-retirement benefits or significant other compensated benefits requiring accrual.

Contingent liabilities

Contingent liabilities are not recognized in the financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made.

Income and expense recognition

Purchases and sales of securities and the related operating and commission income and expense are recognized on the date of the title transfer.

Interest income and expense are recognized in the consolidated income statement on an accrual basis.

Commissions and other income are recognized when related transactions are complete and income is measured appropriately.

Rental income, income from depositary and consulting activities are recorded on an accrual basis at the time services are rendered.

Revenue from sale of goods produced is recognized on the date of the title transfer.

Cost of raw materials are recognized at the time of recognition of revenue from the sale of respective goods.

Income from scientific activities is recognized on an accrual basis at the time the services are rendered.

Non-interest expenses are charged to the consolidated income statement at the time the transaction occurs, except for expenses incurred on acquisition of investments which are included in the cost of these investments, and expenses arising on the disposal of investments which are deducted from the disposal proceeds.

Operating leases

Leases of assets under which the risks and rewards of ownership are effectively retained with the lessor are classified as operating leases. Lease payments under operating lease are recognized as expenses on a straight-line basis over the lease term and included into operating expenses.

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the balance sheet when the Group has a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Russian Rubles at the appropriate spot rates of exchange ruling at the balance sheet date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of transaction. Profits and losses arising from these translations are included in other operating expenses.

Rates of exchange

The exchange rates at year-end used by the Group in the preparation of the consolidated financial statements are as follows:

	31 December 2005	31 December 2004
RUR/USD	28.7825	27.7487
RUR/EUR	34.1850	37.8104

Taxation

Income tax expense represents the sum of the current and deferred tax expense.

Income tax expense for the current period is determined on the basis of the taxable profit received in the year. Taxable profit is different from net profit shown on the income statement as it does not include income and expense items taxable or deductible in other years, and also does not include non-taxable and non-deductible items. The Group's current tax expense is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Russia also has various other taxes, which are assessed on the Group's activities. These taxes are included as a component of operating expenses in the income statement.

Trust operations and depositary activities

The Group provides trustee services to its customers. Also the Group provides depositary services to its customers, that include maintenance and transactions in securities on their depo accounts. Assets accepted and liabilities incurred under the trust and fiduciary activities are not included in the Group's consolidated financial statements. The Group accepts operating risks on trust and fiduciary activities, but it does not bear credit or market risks.

Prior period adjustments

The Group has revised the accounting policy with regard to loan extension under commission agreements as of 31 December 2004. Related party information was restated accordingly (Note 24). The following adjustments have been made in the 2004 financial statements:

Adjustment	Amount RUR'000	Period	Balance sheet item affected	Carrying value as previously reported	Carrying value as adjusted
Change in accounting policy on recognition of loans under commission agreements	86,177	31 December 2004	Loans to customers	195,284	109,107
Change in accounting policy on recognition of loans under commission agreements	86,177	31 December 2004	Loans received	86,976	799

Restatements due to changes in IFRS

Certain restatements have been made to the financial statements as at 31 December 2004 and for the year then ended to comply with the changes in IAS 1 "Presentation of Financial Statements", IAS 24 "Related Party Disclosures", IAS 32 "Financial Instruments: Disclosure and Presentation", and IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39") effective for the periods beginning on or after 1 January 2005. Such restatements have been done retrospectively to the earliest financial statements period presented.

In accordance with the revised IAS 24 "Related Party Disclosures" additional information is disclosed as of 31 December 2004 and for the year then ended (see Note 24).

In accordance with interpretations presented in the revised IFRS 27 "Consolidated and Separate Financial Statements" financial statements of closed-end investment funds under common control and ownership of the parent company should be included into the consolidated financial statements of the parent company for reporting periods beginning 1 January 2005.

In accordance with the revised IAS 39 "Financial Instruments: Recognition and Measurement", securities available-for-sale with carrying and fair value of RUR 143,658 thousand were classified into the category of securities at fair value through profit or loss. Net loss on securities held for trading amounting to RUR 8,243 thousand was reclassified as net loss on assets at fair value through profit or loss.

Balance sheet item as of 31 December 2004	Amount as per the previous report RUR'000	Amount as per the current report RUR000	Effect on the financial statements items RUR'000
Securities at fair value through profit or loss	-	143,658	143,658
Investment property	-	695,670	695,670
Investments available-for-sale	677,715	10,668	(667,047)
Fixed assets, less accumulated depreciation	320,907	148,626	(172,281)

Related party information was restated accordingly (Note 24).

4. CASH AND CASH EQUIVALENTS

	31 December 2005 RUR'000	31 December 2004 RUR'000
Cash on accounts of market participants in clearing houses and settlement centers of stock exchanges	460,523	188,692
Current bank accounts – roubles	87,707	17,872
Cash	4,082	2,513
Deposit accounts with banks with maturity within 90 days	-	2,296
Total cash and cash equivalents	552,312	211,373

5. CASH DEPOSITED AT BROKERAGE CUSTOMER ACCOUNTS

	31 December 2005 RUR'000	31 December 2004 RUR'000
Cash on accounts of market participants in the clearing house of the Moscow Interbank Currency Exchange	981,690	302,250
Brokerage accounts with banks	168,320	75,131
Total cash deposited at brokerage customer accounts	1,150,010	377,381

Transactions on brokerage accounts with banks are performed by the Group according to instructions of the customers.

6. LOANS TO CUSTOMERS

	31 December 2005 RUR'000	31 December 2004 RUR'000 (restated)
Loans to customers	149,751	114,493
Interest income accrued on loans to customers	1,226	84
Total loans to customers	150,977	114,577
Less allowance for impairment of loans to customers	(3,587)	(5,470)
Total loans to customers, net	147,390	109,107

Allowance for impairment of loans granted:	31 December 2005 RUR'000	31 December 2004 RUR'000 (restated)
At the beginning of the period	5,470	5,851
Recovery of provision for the period	(1,883)	(381)
At the end of the period	<u>3,587</u>	<u>5,470</u>

Interest rates on loans to customers range from 0% to 27.5% p.a. As of 31 December 2005 and 2004 included into loans to customers were loans granted to customers at preferential rates, amounting to RUR 35,917 thousand and RUR 113,996 thousand, respectively.

7. SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2005 RUR'000	31 December 2004 RUR'000
Corporate shares:		
OAO Sibirtelecom – ordinary shares	170,024	116,937
OAO Sibirtelecom – preferred shares	65,696	6,439
OAO Dalsvyaz – preferred shares	42,005	-
OAO Yakutskenergo – preferred shares	15,307	-
OAO Novosibirsk chemical concentrates plant – preferred shares	-	9,329
OAO “Omskshina” – ordinary shares	-	6,410
Other	1,353	4,543
Total securities at fair value through profit or loss	<u>294,385</u>	<u>143,658</u>

As of 31 December 2005 securities at fair value through profit or loss included shares of OAO Sibirtelecom (ordinary and preferred) of RUR 127,332 thousand sold under repurchase agreements to a Group’s customer (see Note 14).

8. INVESTMENTS AVAILABLE-FOR-SALE

	31 December 2005 RUR'000	31 December 2004 RUR'000
Corporate shares (unquoted):		
OAO RTS Stock Exchange	3,320	1,600
MICEX	2,372	2,372
Other	465	35
	<u>6,157</u>	<u>4,007</u>
Units of mutual funds (unquoted):		
OPIFO BCS – National Bonds Fund	1,955	2,256
OPIFSI BCS – Optimal Fund	1,950	1,997
OPIF BCS – Perspective Shares Fund	885	2,004
OPIF BCS – Blue Chips Fund	15	-
	<u>4,805</u>	<u>6,257</u>
Promissory notes (unquoted):	1,389	11
Investments into the capital of OOO Plus 7	393	393
Total investments available-for-sale	<u>12,744</u>	<u>10,668</u>

Unquoted corporate shares include investments in equities of Russian companies. These shares are recognized at cost.

OPIF Blue Chips Fund consists of securities included in MICEX-10 index plus the shares of OAO Gazprom. Investment in securities is effected in equal proportion, i.e. the share of one issuer amounts to 1/11 of the fund's assets (from 8 to 10%).

OPIFSI BCS – Optimal Fund consists of the most liquid shares of Russian issuers traded on MICEX and RTS (so-called “blue chips” – RAO UES of Russia, Gazprom, Lukoil, Surgutneftegaz, Sberbank, MMC NorNickel, Rostelecom, Mosenergo, etc.) and fixed income instruments of Russian corporate issuers, municipal organizations and government securities.

OPIF BCS – Perspective Shares Fund consists of the most liquid securities of Russian issuers traded on MICEX and RTS (so-called “blue chips” – RAO UES of Russia, Gazprom, Lukoil, Surgutneftegaz, Sberbank, MMC NorNickel, Rostelecom, Mosenergo, etc.)

OPIFO BCS – National Bonds Fund consists of the issues of corporate and subfederal bonds meeting the following requirements:

- High reliability;
- Sufficient liquidity of secondary market;
- Market maker of the issue.

Issues of government bonds are selected on the basis of the following principles:

- High liquidity;
- Maximum coupon income rate.

As of 31 December 2005 and 2004 the Group owned 33% in OOO Polus 7. Currently, it is not possible to reasonably estimate fair value of these investments, therefore they are stated at cost.

9. ACCOUNTS RECEIVABLE AND OTHER ASSETS

	31 December 2005 RUR'000	31 December 2004 RUR'000
Accounts receivable from customers under brokerage operations with securities	1,236,565	238,664
Receivable from employees	27,043	112,607
Value-added tax receivable	3,016	1,437
Prepaid expenses	1,791	1,304
Advances to suppliers and contractors	1,357	3,578
Amounts receivable for fixed assets sold	-	2,797
Other assets	22,143	11,178
Total accounts receivable and other assets	<u>1,291,915</u>	<u>371,565</u>
Less allowance for impairment losses on accounts receivable and other assets	<u>(133)</u>	<u>(4,902)</u>
Total accounts receivable and other assets, net	<u>1,291,782</u>	<u>366,663</u>

Allowance for impairment losses on accounts receivable and other assets:	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000
At the beginning of the period	4,902	9,435
Recovery of provision for the period	(4,769)	(4,624)
Allowances for impairment of accounts receivable acquired companies	-	91
At the end of the period	133	4,902

Amounts receivable from customers under brokerage operations include cash and securities of counterparties resulted from operations on securities under commission agreements both on the exchange and over-the-counter markets.

Advances to employees are cash paid to employees for operations with securities under commission agreements.

10. INVESTMENT PROPERTY

As of 31 December 2005 and 2004 included in investment property is a part of the building owned by the Group which is used for operating lease. As of 31 December 2004 the fair value of investment property determined on the basis of the independent appraisal amounted to RUR 695,670 thousand. The Group believes that as of 31 December 2005 the investment property has not significantly changed in value.

The following methods were used to derive the fair value of the asset:

1. discounted cash flow method (income approach);
2. comprehensive cost method (cost approach);
3. sales comparison method (market approach).

To obtain the final value the estimations derived using various approaches were assigned weights based on the extent to which the estimates achieved the following: completeness and reliability of information, reflection of the individual nature of the subject property, and other.

11. FIXED ASSETS

	Land and office premises RUR'000	Computers and office equipment RUR'000	Furniture and other equipment RUR'000	Construc- tion in progress RUR'000	Other RUR'000	Total RUR'000
At initial/inflated or revalued cost						
31 December 2003	41,114	13,587	9,390	5,731	-	69,822
Additions	2,278	9,591	2,675	19,231	-	33,775
Fixed assets of acquired subsidiaries (restated)	68,059	4,573	6,278	1,140	686	80,736
31 December 2004 (restated)	111,451	27,751	18,343	26,102	686	184,333
Additions	3,287	9,517	9,627	31,254	-	53,685
Disposals	-	(8)	(11)	(14,411)	-	(14,430)
Fixed assets of acquired subsidiaries	16,225	1,971	1,890	-	-	20,086
Revaluation of office premises	94,515	-	-	-	-	94,515
31 December 2005	225,478	39,231	29,849	42,945	686	338,189

	Land and office premises RUR'000	Computers and office equipment RUR'000	Furniture and other equipment RUR'000	Construc- tion in progress RUR'000	Other RUR'000	Total RUR'000
Accumulated depreciation						
31 December 2003	2,788	5,822	2,110	-	-	10,720
Charge for the period	861	4,379	1,314	-	-	6,554
Depreciation and amortization of fixed and intangible assets of acquired subsidiaries (restated)	10,633	4,041	3,488	-	271	18,433
31 December 2004 (restated)	14,282	14,242	6,912	-	271	35,707
Charge for the period	2,234	6,151	2,196	-	68	10,649
Write-off of depreciation on fixed assets sold	-	(6)	(2)	-	-	(8)
Depreciation and amortization of fixed assets of acquired subsidiaries	286	1,036	800	-	-	2,122
Revaluation of office premises	10,155	-	-	-	-	10,155
31 December 2005	26,957	21,423	9,906	-	339	58,625
Net carrying value						
31 December 2005	198,521	17,808	19,943	42,945	347	279,564
31 December 2004 (restated)	97,169	13,509	11,431	26,102	415	148,626

Office premises owned by the Group were revaluated on the basis of the independent appraisal as of 31 December 2005.

The following methods were used to derive the fair value of the asset:

1. discounted cash flow method (income approach);
2. comprehensive cost method (cost approach);
3. sales comparison method (market approach).

To obtain the final value the estimations derived using various approaches were assigned weights based on the extent to which the estimates achieved the following: completeness and reliability of information, reflection of the individual nature of the subject property, and other.

If the land and office premises had been stated at initial/inflated cost, less accumulated depreciation their net carrying amount as of 31 December 2005 and 2004 would have amounted to RUR 99,502 thousand and RUR 93,272 thousand, respectively.

As of 31 December 2005 and 2004 included in fixed assets of the Group under caption "Land and office premises" is land owned by the Group, carried in the amount of RUR 5,718 thousand. No depreciation is charged on this asset.

Included in fixed assets are office premises at fair value of RUR 15,500 thousand that was determined on a provisional basis (Note 20).

12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	31 December 2005 RUR'000	31 December 2004 RUR'000
Taxes, other than income tax	40,006	19,482
Insurance reserves	15,177	-
Trade payables	9,895	3,455
Payables to employees	3,260	-
Payables to customers under brokerage purchase and sale transactions in securities effected on over-the-counter market	-	79,720
Other liabilities	10,768	5,452
Total accounts payable and other liabilities	79,106	108,109

13. LOANS RECEIVED

	31 December 2005 RUR'000	31 December 2004 RUR'000 (restated)
Loans received under repurchase agreements	103,894	-
Other short-term loans	45,150	799
Total loans received	149,044	799

14. MINORITY INTEREST

The movements in minority interest during the years ended 31 December 2005 and 2004 comprise:

	RUR'000
31 December 2003	33,989
Share in the income after tax	18,269
Acquisition of subsidiaries	489,420
Sale of investment in a subsidiary	7,056
31 December 2004	548,734
Share in the income after tax	45,354
Purchase of additional shareholding in a subsidiary	(187,032)
Sale of interest in a subsidiary (Note 20)	18,554
Purchase of investment unit in the Group's mutual fund at below-market rate by a related party	266,991
31 December 2005	692,601

During year ended 31 December 2005 the Group sold to the minority interest 87.1655 pcs in the Closed-End Investment for RUR 87,166 thousand. At the time of purchase fair value of the purchased pieces amounted to RUR 266,991 thousand that exceeded the purchase price by RUR 179,825 thousand. The difference was recorded in the net assets attributable to the members of the Group (Note 15).

15. NET ASSETS ATTRIBUTABLE TO THE MEMBERS OF THE GROUP

	Charter capital RUR'000	Additional paid-in capital RUR'000	Fixed assets revaluation surplus RUR'000	Retained earnings RUR'000	Total net assets attributable to the members of the Group RUR'000
Balance as of 31 December 2003	328,670	24,347	9,894	2,065	364,976
Changes in net assets attributable to members of the Group per consolidated income statement	-	-	-	116,635	116,635
Balance as of 31 December 2004	328,670	24,347	9,894	118,700	481,611
Changes in net assets attributable to members of the Group per consolidated income statement	-	-	-	27,033	27,033
Acquisition of subsidiaries (Note 18)	-	-	-	144,472	144,472
Purchase of investment unit in the Group's mutual fund at below-market rate by a related party	-	-	-	(179,825)	(179,825)
Fixed assets revaluation (net of deferred income tax of RUR 20,246 thousand)	-	-	64,114	-	64,114
Balance as of 31 December 2005	328,670	24,347	74,008	110,380	537,405

As of 31 December 2005 and 2004 contributions of the members are divided in two unequal shares amounting to 0.0182 and 0.9818, respectively.

The Group's members may sell or otherwise transfer their stakes in the Group's share capital. The Group is obliged to pay them the actual value of the stake or give them property of the same value during a year from the moment the stake is transferred to the Group, unless a shorter period is stipulated by a unanimous decision of the general shareholders' meeting.

Additional paid-in capital of RUR 24,347 thousand was formed by the ordinary shares of OAO Sibirtelecom that were transferred by a related party to the Group free of charge in 2003.

16. INCOME FROM BROKERAGE ACTIVITIES AND ASSET MANAGEMENT

	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000
Agency fee	137,802	78,268
Use of POS terminal	4,066	2,724
Information services	1,260	614
Use of trading floor	996	1,412
Total income from brokerage activities and asset management	144,124	83,018

17. SALARIES AND EMPLOYEES' BENEFITS

Salaries and employees' benefits comprise:

	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000
Salaries and employees' bonuses	88,312	9,625
Social security costs	17,468	3,376
Total salaries and employees' benefits	105,780	13,001

The average salary of the Group staff for the year ended 31 December 2004 was RUR 4,500 per month, which significantly differs from the average salary in the industry where the Group operates.

18. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000
Advertising and marketing costs	36,989	10,909
Rental expenses	20,837	5,083
Information services	12,165	4,363
Communication services	11,350	6,213
Depreciation of fixed assets	10,649	6,554
Utilities	9,656	1,346
Security expenses	5,741	849
Stock exchange services	5,531	5,665
Depositary services	3,626	2,400
Repairs and maintenance expenses	3,558	804

	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000
Cash settlement services	3,307	1,247
Consulting services	2,956	3,663
Taxes, other than income tax	2,845	1,530
Other	45,269	5,121
Total administrative and other operating expenses	174,479	55,747

19. NET LOSS ON SALE OF INVESTMENT IN A SUBSIDIARY

Net loss on sale of the investment in ZAO Managing Company BrokerCreditService for years ended 31 December 2005 and 2004 amounted to RUR 18,054 thousand and RUR 6,782 thousand, respectively. Aggregate financial statements data of ZAO Managing Company BrokerCreditService as of the date of the control transfer are represented below:

	January 2005 RUR'000	January 2004 RUR'000
ASSETS:		
Cash	2,590	1,520
Accounts receivable	4,176	4,878
Investments available-for-sale	96,636	64,456
Other assets	916	11
Total assets	<u>104,318</u>	<u>70,865</u>
LIABILITIES:		
Accounts payable	468	202
Income tax liability	7,170	3,250
Other liabilities	195	468
Total liabilities	<u>7,833</u>	<u>3,920</u>
Net assets	96,485	66,945
Share of net assets sold (19.23% – 2005 and 10.54% – 2004)	<u>18,554</u>	<u>7,056</u>
Proceeds from sale of investment	<u>500</u>	<u>274</u>
Loss from sale of investment	18,054	6,782

20. LOSS ON WRITE OFF OF GOODWILL ON PURCHASE OF SUBSIDIARY

On 31 December 2005 the Group acquired a control over ZAO Bastra Insurance Company.

As of 31 December 2005 fair value of identifiable net assets is presented below. Fair value was determined provisionally. Fair value of the office premises acquired can be revised within twelve months from the acquisition date.

	31 December 2005 RUR'000
ASSETS:	
Cash	9,014
Loans to customers, less allowance for impairment	1,368
Investments available-for-sale	39,950
Accounts receivable and other assets	4,392
Fixed assets, less accumulated depreciation	<u>17,036</u>
Total assets	<u>72,460</u>

**31 December
2005
RUR'000**

LIABILITIES:

Accounts payable and other liabilities	15,573
Deferred tax liability	2,651
Total liabilities	18,224

Net assets

Groups' interest in the net assets (100%)	54,236
Cost of investment	64,551
Goodwill	10,315
Less impairment goodwill	(10,315)
	-

Goodwill was tested for impairment and was written of to the consolidated income statement.

21. INCOME FROM WRITE-OFF OF NEGATIVE GOODWILL

As a result of the acquisition of OAO Central Scientific Research Institute of Radioelectronic Systems (see Note 1) by the Group, the difference between the fair value of the acquired net assets of OAO Central Scientific Research Institute of Radioelectronic Systems and the amount of cash paid by the Group, was recorded as negative goodwill in the consolidated financial statements.

As of 31 December 2004 the fair value of the acquired net assets of OAO Central Scientific Research Institute of Radioelectronic Systems amounts to RUR 607,371 thousand. Aggregate financial statements data of OAO Central Scientific Research Institute of Radioelectronic Systems as of the date of the control transfer are represented below:

**31 December
2004
RUR'000**

ASSETS:

Cash	1,111
Accounts receivable	5,510
Securities at fair value through profit or loss	525,392
Fixed and intangible assets, less accumulated depreciation	232,581
Other assets	3,641
Total assets	768,235

LIABILITIES:

Accounts payable	968
Deferred income tax liabilities	153,316
Other liabilities	6,580
Total liabilities	160,864

Net assets

Minority interest (80.58% of net assets)	489,420
Share of net assets, attributable to the Group	117,951
Cost of investment	37,975
Negative goodwill	79,976

During the year ended 31 December 2005 the Group acquired 30.62% of shares in OAO Central Scientific Research Institute of Radioelectronic Systems from a company under common control. The difference between the cost of acquisition of RUR 42,560 thousand and the carrying value of the share in the company's net assets of RUR 187,032 thousand amounted to RUR 144,472 thousand and was recorded in net assets attributable to the members of the Group under the caption "Acquisition of subsidiaries" (Note 15).

22. INCOME TAX

The Group provides for taxes based on the statutory tax accounts maintained and prepared in accordance with the Russian statutory tax regulations which may differ from International Financial Reporting Standards. During the years ended 31 December 2005 and 2004, the Russian income tax rate for corporations, other than interest income on government securities, was 24%. The tax rate for interest income on government securities was 15%.

The Group is subject to certain permanent tax differences due to non-tax deductibility of certain income and expenses under local tax regulations.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of 31 December 2005 and 2004 relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

Temporary differences as of 31 December 2005 and 2004 comprise:

	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000
Deferred assets:		
Loans granted	5,145	9,232
Other liabilities	2,418	1,554
Other assets	1,630	5,753
Total deferred assets	9,193	16,539
Deferred liabilities:		
Investment property	449,359	433,187
Fixed assets	296,045	212,724
Securities at fair value through profit or loss	151,072	80,564
Total deferred liabilities	896,476	726,475
Net deferred liabilities	<u>(887,283)</u>	<u>(709,936)</u>
Estimated deferred income tax at 24% rate	(212,948)	(170,385)
Unrecognised deferred tax asset	(3,788)	-
Deferred tax liabilities at 24% rate	<u>(216,736)</u>	<u>(170,385)</u>

Relationships between tax expenses and accounting profit for the years ended 31 December 2005 and 2004 are explained as follows:

	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000
Profit before income tax and minority interest	101,876	145,765
Statutory tax rate	24%	24%
Amount of tax at the statutory tax rate	24,450	34,984
Tax effect of permanent differences	1,251	(24,123)
Change in unrecognised deferred tax assets	3,788	-
Income tax expense	29,489	10,861
Current income tax expense	6,035	3,532
Deferred income tax expense	23,454	7,329
Income tax expense recognized in income statement	29,489	10,861
	Year ended 31 December 2005 RUR'000	Year ended 31 December 2004 RUR'000
Deferred income tax liabilities		
At the beginning of the year	170,385	9,740
Increase in deferred income tax liabilities for the period recorded in the income statement	23,454	7,329
Increase in deferred tax liability recognized in net assets attributable to the members of the Group's parent company	20,246	-
Increase in deferred income tax liabilities resulting from acquisition of subsidiaries	2,651	153,316
At the end of the year	216,736	170,385

23. FINANCIAL COMMITMENTS AND CONTINGENCIES

Operating leases – The Group's future minimum rental payments under non-cancelable operating leases of buildings in effect at 31 December 2005 and 2004 are presented in the table below:

	31 December 2005 RUR'000	31 December 2004 RUR'000
Not later than one year	3,625	3,644
Total operating lease	3,625	3,644

Operating environment – The Group's business activities are within the Russian Federation. Laws and regulations affecting business environment in the Russian Federation are subject to rapid changes and the Group's assets and operations could be at risk due to negative changes in the political and business environment.

Taxation – Due to the presence in Russian commercial legislation, and tax legislation in particular, of provisions allowing more than one interpretation, and also due to the practice developed by the tax authorities of making arbitrary judgment of taxpayer activities, if a particular treatment based on management's judgment of the Group's business activities was to be challenged by the tax authorities, the Group may be assessed additional taxes, penalties and interest. Such uncertainty may, in particular, relate to the measurement of financial instruments, recognition of allowances for impairment losses,

and determining the market level of prices for transactions. The Group believes now that it has already complied with them, and therefore has not provided for in the financial statements. Tax years remain open to review by the tax authorities for three years.

Trust management and depositary activities – In the normal course of business the Group enters into non-discretionary agreements with clients in order to manage clients' funds in accordance with certain criteria established by them. The Group may be held responsible for impairment losses or default until the time that such fund or securities are returned to the client. The maximum potential financial risk of the Group at any point in time is equal to clients' funds plus/minus any unrealized gains/losses on the client's securities position.

In the judgment of management, as of 31 December 2005 and 2004 the maximum potential financial risk on securities accepted by the Group on behalf of its clients does not exceed RUR 37,471 thousand and RUR 96,891 thousand, respectively. These amounts are the balance of the customers' funds under the management of the Group as of 31 December 2005 and 2004, respectively.

The Group also provides depositary services to its customers. As at 31 December 2005 and 2004, the Group held the customers' securities on its accounts for nominal and trust holding in the following amounts (pieces):

	31 December 2005 (pcs)	31 December 2004 (pcs)
Securities on trustee accounts		
Corporate shares	260,000	775,413
Russian corporate bonds	-	8,199
Municipal bonds	-	2,701
Bonds issued by Russian banks	292	782
Total	260,292	787,095

	31 December 2005 (pcs)	31 December 2004 (pcs)
Securities on nominal holder accounts		
Corporate shares	1,575,711,299	673,136,545
Russian corporate bonds	299,154	322,680
Municipal bonds	19,812	66,783
Bonds issued by Russian banks	38,028	22,096
Units in mutual funds	4,845	3,587
Total	1,576,073,138	673,551,691

Legal proceedings – From time to time and in the normal course of business, claims against the Group are received from customers. The management is of the opinion that no material unaccrued losses will be incurred and accordingly no provision has been made in these financial statements.

Pensions and retirement plans – Employees receive pension benefits in accordance with the laws and regulations of the Russian Federation. As at 31 December 2005 and 2004, the Group was not liable for any supplementary pensions, post-retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

24. RELATED PARTY TRANSACTIONS

Related parties, as defined by IAS 24 “Related Party Disclosures”, are those counter parties that represent:

- (a) Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Group;
- (b) Associates – enterprises in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor;
- (c) Individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group;
- (d) Key management personnel, i.e. persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and officers of the Group and close members of the families of such individuals;
- (e) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Group and enterprises that have a member of key management in common with the Group;
- (f) Parties with joint control over the Group;
- (g) Joint ventures in which the Group is a venturer; and
- (h) Post-employment benefit plans for the benefit of employees of the Group, or of any entity that is a related party to the Group.

Included in the consolidated balance sheet for the years ended 31 December 2005 and 2004 are the following amounts which arose due to transactions with related parties:

	31 December 2005		31 December 2004	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption (restated)
Loans to customers, gross	16,650	150,977	4,233	114,577
- other	16,650		4,233	
Allowance for impairment losses	-	(3,587)	(858)	(5,470)
- other	-		(858)	
Investments available-for-sale	5,198	12,744	6,650	10,668
- other	5,198		6,650	
Accounts receivable and other assets, gross	26,306	1,291,915	21,106	371,565
- shareholders	25,816		19,501	
- other	490		1,605	
Customers’ funds under brokerage operations of securities’ sale/purchase on organized markets	417,188	2,751,162	1,211	757,010
- other	417,188		1,211	

Included in the consolidated income statement for the years ended 31 December 2005 and 2004 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2005		Year ended 31 December 2004	
	RUR'000		RUR'000	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption (restated)
Income from brokerage activities and asset management	1,276	144,124	1,627	83,018
- <i>other</i>	1,276		1,627	
Net loss on sale of investment in a subsidiary	(18,054)	(18,054)	(6,782)	(6,782)
- <i>other</i>	(18,054)		(6,782)	
Short-term remuneration of key management personnel	(2,576)	(105,780)	(291)	(13,001)
- <i>shareholders</i>	(919)		(161)	
- <i>other</i>	(1,657)		(130)	

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement". As no readily available market exists for a large part of the Group's financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

As of 31 December 2005, the following methods and assumptions were used by the Group to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and cash equivalents – For these short-term instruments the carrying amount is a reasonable estimate of the fair value.

Cash at brokerage customer accounts – For these short-term instruments the carrying amount is a reasonable estimate of the fair value.

Securities available-for-sale – As of 31 December 2005 and 2004, non-marketable securities in the amount of RUR 12,744 thousand and RUR 10,668 thousand, respectively, are stated at cost, as there are no other suitable and effective methods to reasonably determine their fair value.

Loans to customers and accounts receivable – The fair value of loans to customers and accounts receivable is based on the characteristics of borrowers and receivables. The estimation of allowances for impairment losses on loans and accounts receivable includes consideration of risk premiums applicable to various types of loans based on factors such as the current situation of the economic sector in which the borrower/debtor operates, the economic situation of each borrower, and guarantees obtained. Accordingly, the allowance for impairment losses on accounts receivable and loans reflects a reasonable estimate of the carrying value adjustment required to reflect the impact of credit risk.

Accounts payable and other liabilities – As of 31 December 2005 and 2004, the carrying amount of accounts payable and other liabilities of the Group is a reasonable estimate of their fair value.

Loans received – As of 31 December 2005 and 2004, the carrying amount of loans received is a reasonable estimate of their fair value.

26. SUBSEQUENT EVENTS

Subsequent to 31 December 2005 the Group received loans from a related party in the amount RUR 2,000 million maturing in more than one year. Interest rates for such loans were set from 6% to 10% per annum.

27. RISK MANAGEMENT POLICY

The Group manages the following risks:

Credit risk

Credit risk is the risk of losses caused by deterioration of the position/default of a debtor, counterparty, or borrower. Two main types of credit risk the Group is exposed to relate to:

1. granting loans to customers under commission agreements in accordance with which the Group as a commissioner bears the credit risk (credit risk is reduced when transactions are collateralized with securities);
2. purchases/sales of assets without advance supply and/or prepayment by the counterparty and guarantees issued by third parties (payment risk). Finance Department controlled by the Deputy Director for Internal Control of the Group continually monitors the financial position of borrowers based on the analysis of parameters of their creditworthiness and paying capacity.

Payment risk is managed through evaluating the reliability of counterparties and customers based on the analysis of their financial statements and non-financial indicators (the latter are largely examined by experts). The Group's methodology allows to set credit risk limits for aggregate liabilities of a counterparty and group of companies which incorporates the counterparty, based on the nature of transactions and risk mitigation due to available collateral (if any). Risk limits allow to take into account market and liquidity risks in addition to credit risk, including in the case when they are derivative from the credit risk, i.e. are realized only if the counterparty fails to perform his contractual obligations. Risk limits are reviewed each time the solvency of counterparties changes, but at least quarterly.

Market risk

The Group considers the market risk as the risk of losses caused by unfavorable changes in prices of financial instruments. The Group owns a considerable share portfolio of Russian companies and it is consequently exposed to the market risk connected to decrease of the shares' market value.

Market risk is managed with regard to particular instruments and portfolios of instruments. Key concept used in measuring and managing market risk is volatility. Evaluating the volatility of financial indices and instruments is the key element of the Value-at-Risk (VaR) approach used by the Group to measure its risks. If there is no representative statistics, expert opinion is additionally used.

Such opinion is used for determining investment and trade limits. Additionally, "Stop-loss" and "Take-profit" limits are used, compliance with which is controlled by the managers who are furnished with comprehensive reports on trading activity.

Liquidity risk of financial instruments

Liquidity risk of financial instruments is attributed to:

1. transactions of the Group in non-liquid securities when there is a need to buy securities on the market for the purposes of supplying them to a customer/counterparty in the case of the failure to fulfill the commitments related to the supply of securities by another customer/counterparty;
2. investment of the Group's funds in securities which are not highly liquid.

When the limits are established, the Group takes into account characteristics of the instruments' liquidity, such as the spread between best demand and offer prices of an instrument, number and frequency of transactions, volume of transactions.

The Group also assesses expected maturities and discounts that may arise in the sale of securities (or premium in the purchase of securities required for the fulfillment of the contractual commitments of the Group to a customer/counterparty in the case of another customer/counterparty's failure to fulfill commitments to the Group).

Asset liquidity risk is managed by considering liquidity factor when setting credit, trade and investment limits.

Liquidity and cash flow risks

The Group considers that the liquidity risk arises to its assets when the Group does not have full ability to finance its positions when such positions should be liquidated and to cover liabilities to its counterparties. That is the liquidity risk is the risk that the solvency of the Group as a whole decreases. The Group manages the liquidity risk on a daily basis by constantly monitoring the balance sheet structure and parameters in order to timely identify and ensure required regulation of liquidity gaps.

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The management of the Group assumes that the financial position and cash flows of the Group are not subject to exchange rate fluctuations, since the value of foreign currency transactions is insignificant. Despite of the fact that currency risk is insignificant for the Group, it is managed using the tools applied for market risk management.

Operating risk

The Group is exposed to the operating risk, because the Group carries out trading operations on behalf of customers and provides various services. The Groups treats the operating risk as the risk of direct and indirect losses due to deficiencies in management, support and control systems and procedures, breakdowns in automated systems, including those external to the Group (for example, settlement and trading systems).

The principal type of operating risks the Group faces is the risk of faults in trading, settlement and payment systems, which can lead to inability to enter into transaction on favorable conditions, close position or fulfill the liabilities in due time. This risk is characteristic for professional securities market participants in industrialized and developing countries. The Group seeks to use the most secure methods of recording, processing and communication of information related to its activities on securities market.

The Group decreases the risk of unauthorized actions by employees and third parties by complying with the laws of the Russian Federation on internal control of professional securities market participants and requirements to initial and subsequent identification of customers, regulation of business processes of the Group and strict control over the fulfillment of regulations, use of up-to-date (including automated) controls, system of segregation of duties by units and specialists and clear system of distribution of access to insider information.

The Group exercises control over observance of limits, other limitations on transactions and investment on ongoing basis.

In order to ensure the readiness of the Group to negative (including crisis) scenarios, the Group conducts regular stress testing of risk factors and risk management system behaviour, which serves as the basis for decisions allowing to safeguard the Group from highly unstable situations, including securities market crises, to a considerable extent.

The Group conducts internal audits of the risk management system with a view to determine its operating efficiency, including with regard to identification of new risks arising in the course of the Group's operations, including the risks caused by the launch of new products. Based on the results of the audit the Group derives an opinion on the operating efficiency of the risk management system and, when necessary, introduces changes and amendments to the regulations and business processes, which insures adaptability of the risk management system to changes in the internal and external environments of the Group.