RBC Information Systems

Financial Statements

for the period ended 31 December 2001

Contents

Auditor's Report

To the Management of
OAO RBC Information Systems

We have audited the accompanying consolidated balance sheet of OAO RBC Information Systems and its subsidiaries (the "Successor") as of 31 December 2001 and the related statements of income, changes in equity and cash flows for the three-month period then ended. We have also audited the combined financial statements of the entities comprising the RosBusinessConsulting Group ("the Predecessor") as of and for the nine-month period ended 30 September 2001. These financial statements, as set out on pages 4 to 32, are the responsibility of the management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing as issued by the International Federation of Accountants. 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 financial statements present fairly, in all material respects, the financial position of the Successor as of 31 December 2001, and the results of its operations, changes in equity and its cash flows for the three-month period then ended and present fairly, in all material respects, the financial position of the Predecessor as of 30 September 2001, and the results of its operations, changes in equity and cash flows for the nine-month period then ended in accordance with International Accounting Standards as adopted by the International Accounting Standards Board.

Without qualifying our opinion, we draw attention to note 1(b) to the financial statements regarding the basis of preparation of the financial statements of the Successor and the Predecessor.

KPMG Limited
Moscow, Russian Federation
22 March 2002

		Successor	Predecessor	
	Note	As at 31.12.2001	As at 30.09. 2001	As at 31.12.2000
		'000 RUR	'000 RUR	'000 RUR
ASSETS				
Non-current assets				
Property, plant and equipment	8	63,385	49,051	37,334
Intangible assets	9	56,862	34,360	6,006
Available for sale investments	10	232	241	29
		120,479	**83,652**	**43,369**
Current assets				
Inventories	11	9,141	13,261	7,592
Trade and other receivables	12	42,533	147,501	58,343
Other assets	13	60,003	29	12,800
Cash and cash equivalents		244,342	17,715	7,426
		356,019	**178,506**	**86,161**
Total assets		**476,498**	**262,158**	**129,530**
EQUITY AND LIABILITIES				
Equity				
Issued capital	14	100	804	804
Share Premium	14	198,905	-	-
Retained earnings		61,616	198,201	69,863
		260,621	**199,005**	**70,667**
Non-current liabilities				
Loans and borrowings	15	135,630	-	-
Deferred tax liability	16	11,058	3,689	4,893
Other payables	18	2,206	-	-
		148,894	**3,689**	**4,893**
Current liabilities				
Trade and other payables	18	66,983	59,464	53,970
Total equity and liabilities		**476,498**	**262,158**	**129,530**

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 32.

		Successor	Predecessor	
		As at 31.12.2001 '000 USD*	As at 30.09.2001 '000 USD*	As at 31.12.2000 '000 USD*
ASSETS				
Non-current assets				
Property, plant and equipment	8	2,103	1,627	1,239
Intangible assets	9	1,887	1,140	199
Available for sale investments	10	7	8	1
		3,997	**2,775**	**1,439**
Current assets				
Inventories	11	303	440	252
Trade and other receivables	12	1,411	4,894	1,936
Other assets	13	1,991	1	425
Cash and cash equivalents		8,107	588	246
		11,812	**5,923**	**2,859**
Total assets		**15,809**	**8,698**	**4,298**
EQUITY AND LIABILITIES				
Equity				
Issued capital	14	3	27	27
Share Premium	14	6,600	-	-
Retained earnings		2,044	6,576	2,318
		8,647	**6,603**	**2,345**
Non-current liabilities				
Loans and borrowings	15	4,500	-	-
Deferred tax liability	16	367	122	162
Other payables	18	73	-	-
		4,940	**122**	**162**
Current liabilities				
Trade and other payables	18	2,222	1,973	1,791
Total equity and liabilities		**15,809**	**8,698**	**4,298**

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 32.

** The measurement currency is the Russian ruble. Amounts in USD are presented for information purposes only. Refer note 2(e).*

	Note	Successor	Predecessor	
		3 months ended 31 December 2001 '000 RUR	9 months ended 30 September 2001 '000 RUR	12 months ended 31 December 2000 '000 RUR
Revenues	4	174,336	336,658	266,064
Cost of sales	5	(87,060)	(164,367)	(118,546)
Gross profit		**87,276**	**172,291**	**147,518**
Distribution costs		(6,874)	(25,510)	(3,022)
Administrative expenses	6	(7,231)	(7,626)	(35,415)
Taxes, other than on profit		(975)	(3,051)	(12,354)
Other operating expenses		(605)	-	-
Profit from operations		**71,591**	**136,104**	**96,727**
Other non-operating expenses		-	-	(10,930)
Gain/(loss) on net monetary position		(1,639)	(8,732)	374
Profit before tax		**69,952**	**127,372**	**86,171**
Income tax (expense)/benefit	7	(8,336)	966	(6,679)
Net profit		**61,616**	**128,338**	**79,492**

	Note	Successor	Predecessor	
		3 months ended 31 December 2001 '000 USD*	9 months ended 30 September 2001 '000 USD*	12 months ended 31 December 2000 '000 USD*
Revenues	4	5,784	11,170	8,828
Cost of sales	5	(2,889)	(5,454)	(3,933)
Gross profit		**2,895**	**5,716**	**4,895**
Distribution costs		(228)	(846)	(100)
Administrative expenses	6	(240)	(253)	(1,175)
Taxes, other than on profit		(32)	(101)	(410)
Other operating expenses		(20)	-	-
Profit from operations		**2,375**	**4,516**	**3,210**
Other non-operating expenses		-	-	(363)
Gain/(loss) on net monetary position		(54)	(290)	12
Profit before tax		**2,321**	**4,226**	**2,859**
Income tax expense/(benefit)	7	(277)	32	(222)
Net profit		**2,044**	**4,258**	**2,637**

The income statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 32.

** The measurement currency is the Russian ruble. Amounts in USD are presented for information purposes only. Refer note 2(e).*

	Note	Successor	Predecessor	
		3 months ended 31 December 2001 '000 RUR	9 months ended 30 September 2001 '000 RUR	12 months ended 31 December 2000 '000 RUR
OPERATING ACTIVITIES				
Net profit		61,616	128,338	79,492
Adjustments for:				
Non-cash sales (net)		-	(11,921)	(35,779)
Depreciation and amortisation		9,627	27,049	7,594
Gain on disposal of property, plant and equipment		-	273	-
Income tax expense/(benefit)		8,336	(966)	6,679
Operating profit before changes in working capital and provisions		**79,579**	**142,773**	**57,986**
Increase/(decrease) in inventories		4,120	(5,669)	(6,778)
Increase/(decrease) in trade and other receivables		104,968	(89,158)	(42,958)
Increase in other assets		(59,974)	12,771	8,867
Increase/(decrease) in trade and other payables		11,720	5,255	4,845
Cash flows from operating activities before income taxes		**140,413**	**65,972**	**21,962**
Income tax paid		(2,962)	-	-
Cash flows from operating activities		**137,451**	**65,972**	**21,962**
INVESTING ACTIVITIES				
Purchase of property, plant and equipment		(17,096)	(9,956)	(4,821)
Proceeds from disposal of property, plant and equipment and investments		279	1,600	-
Purchase of investments		-	(212)	-
Purchase of intangible assets		(29,637)	(47,115)	(10,142)
Cash flows from investing activities		**(46,454)**	**(55,683)**	**(14,963)**
FINANCING ACTIVITIES				
Increase in borrowings		135,630	-	-
Cash flows from financing activities		**135,630**	**-**	**-**
Net increase in cash and cash equivalents		**226,627**	**10,289**	**6,999**
Cash and cash equivalents at beginning of period		0	7,426	427
Cash acquired from Predecessor		17,715	-	-
Cash and cash equivalents at end of period		**244,342**	**17,715**	**7,426**

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 32.

	Note	Successor	Predecessor	
		3 months ended 31 December 2001 '000 USD*	9 months ended 30 September 2001 '000 USD*	12 months ended 31 December 2000 '000 USD*
OPERATING ACTIVITIES				
Net profit		2,044	4,258	2,637
Adjustments for:				
Non-cash sales (net)		-	(395)	(1,187)
Depreciation and amortisation		319	897	252
Gain on disposal of property, plant and equipment		-	9	-
Income tax expense/(benefit)		277	(32)	222
Operating profit before changes in working capital and provisions		**2,640**	**4,737**	**1,924**
(Increase)/decrease in inventories		137	(188)	(225)
(Increase)/decrease in trade and other receivables		3,482	(2,958)	(1,425)
Increase in other assets		(1,990)	424	294
Increase/(decrease) in trade and other payables		389	174	161
Cash flows from operating activities before income taxes		**4,658**	**2,189**	**729**
Income tax paid		(98)	-	-
Cash flows from operating activities		**4,560**	**2,189**	**729**
INVESTING ACTIVITIES				
Purchase of property, plant and equipment		(567)	(330)	(160)
Proceeds from disposal of property, plant and equipment and investments		9	53	-
Purchase of investments		-	(7)	-
Purchase of intangible assets		(983)	(1,563)	(336)
Cash flows from investing activities		**(1,541)**	**(1,847)**	**(496)**
FINANCING ACTIVITIES				
Increase in borrowings		4,500	-	-
Cash flows from financing activities		**4,500**	-	-
Net increase in cash and cash equivalents		**7,519**	**342**	**233**
Cash and cash equivalents at beginning of period		-	246	13
Cash acquired from Predecessor		588	-	-
Cash and cash equivalents at end of period		**8,107**	**588**	**246**

The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 32.

** The measurement currency is the Russian ruble. Amounts in USD are presented for information purposes only. Refer note 2(e).*

'000 RUR	Issued capital	Share Premium	Retained earnings	Total
Predecessor				
Balance at 1 January 2000	804	-	(9,629)	(8,825)
Net profit for the year	-	-	79,492	79,492
Balance at 1 January 2001	804	-	69,863	70,667
Net profit for the 9 months	-	-	128,338	128,338
Balance at 30 September 2001	**804**	**-**	**198,201**	**199,005**
Successor				
Shares issued	100	198,905	-	199,005
Net profit for the 3 months	-	-	61,616	61,616
Balance at 31 December 2001	**100**	**198,905**	**61,616**	**260,621**

'000 USD*	Issued capital	Share Premium	Retained earnings	Total
Predecessor				
Balance at 1 January 2000	27	-	(319)	(292)
Net profit for the year	-	-	2,637	2,637
Balance at 1 January 2001	27	-	2,318	2,345
Net profit for the 9 months	-	-	4,258	4,258
Balance at 30 September 2001	**27**	**-**	**6,576**	**6,603**
Successor				
Shares issued	3	6,600	-	6,603
Net profit for the 3 months	-	-	2,044	2,044
Balance at 31 December 2001	**3**	**6,600**	**2,044**	**8,647**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 32.

** The measurement currency is the Russian ruble. Amounts in USD are presented for information purposes only. Refer note 2(e).*

1. Background

(a) Background

OAO RBC Information systems (together with its subsidiaries referred to as the Successor) is a Russian Federation open joint stock company as defined in the Civil Code of the Russian Federation. The Successor was formed in September 2001 as described in note 1(b) and includes the following companies: ZAO RBC, ZAO PH RBC, ZAO RBC-Soft, ZAO RBC-Holding and OOO RBC-Centre.

The Successor's and Predecessor's principal activities are software development, advertising and information services. These services are rendered in the Russian Federation.

(b) Basis of preparation of Predecessor and Successor financial statements

In September 2001, OAO RBC Information Systems acquired 100 per cent of the equity in each of ZAO RBC, OOO RBC Centre and ZAO Publishing House RBC (together – the Predecessor). The Successor had been a dormant company prior to the transaction and its current principal activity is the holding of investments in its subsidiary companies.

Prior to the above acquisition, 100 per cent of the beneficial ownership of the Predecessor was held by five individual shareholders who together became entitled to 96,37 per cent of the equity of OAO RBC Information Systems after its acquisition of the Predecessor companies.

The purpose of the acquisition of the Predecessor companies by OAO RBC Information Systems was to consolidate the ownership of those companies into one vehicle in preparation for a planned initial public offering of the shares of the Successor on the Moscow stock exchange in 2002.

Although the shareholders paid cash for shares in the Successor, and the Successor in turn paid cash to acquire the shares of the Predecessor, in substance OAO RBC Information System issued shares as consideration for the shares in the Predecessor.

Taking into consideration that the shareholders and business of the Successor are substantially the same as the beneficial owners and business of the Predecessor prior to the acquisition, management considers that presentation of combined financial statements of the Predecessor for the periods ended 31 December 2000 and 30 September 2001 as comparative information in these financial statements provides relevant and meaningful information regarding the past performance of the enterprises comprising the Successor.

(c) 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 financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Successor. The future business environment may differ from management's assessment. The impact of such differences on the operations and the financial position of the Successor may be significant.

** The measurement currency is the Russian ruble. Amounts in USD are presented for information purposes only. Refer note 2(e).*

** The measurement currency is the Russian ruble. Amounts in USD are presented for information purposes only. Refer note 2(e).*

2. Basis of preparation

(a) Statement of compliance

The Successor and Predecessor maintain their accounting records in accordance with the legislative requirements of the Russian Federation. The accompanying financial statements have been prepared from those accounting records and adjusted as necessary to comply with the requirements of International Accounting Standards ("IAS"), as adopted by the International Accounting Standards Board ("IASB").

(b) Basis of preparation

The financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities held for trading, and available for sale assets, except those for which a reliable measure of fair value is not available. Recognised assets and liabilities that are hedged are stated at fair value in respect of the risk that is hedged. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost.

All amounts in the financial statements have been restated for the effects of inflation as described in note 3(b).

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the parent company. Control exists when the parent 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. Where material, 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.

(ii) Transactions eliminated on consolidation

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

(d) The basis of preparation of the combined financial statements

In preparing combined financial statements of Predecessor the financial statements of each company have been added. Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are have been eliminated.

(e) Measurement and presentation currency

The national currency of the Russian Federation is the Russian ruble. The measurement and presentation currency for the purposes of these financial statements is the Russian ruble as management considers that the ruble reflects the economic substance of the underlying events and circumstances of the Successor and Predecessor.

For the purposes of presenting additional information to the users of the financial statements, management has also presented financial information expressed in United States dollars ("US dollar") in the financial statements. As the Russian ruble is the currency of a hyperinflationary economy, all financial statements items presented in US dollars have been translated from rubles at the Central Bank of the Russian Federation exchange rate effective at the close of business on 31 December 2001.

The Central Bank of the Russian Federation exchange rate as of 31 December 2001 was 30.14 rubles to one US dollar.

Due to a divergence in the movement in the ruble / US dollar exchange rate and inflation rates in Russia, the US dollar amounts for items other than monetary assets and liabilities as at 31 December 2001 presented in these financial statements may differ significantly from the US dollar amounts which would have been determined if the US dollar was the Successor's and Predecessor's measurement currency.

(f) Going concern

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

3. Significant accounting policies

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

(a) Foreign currency transactions

Transactions in foreign currencies are translated to rubles 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 rubles at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to rubles at the foreign exchange rate ruling at the date of the transaction.

(b) Inflation accounting

The economy of the Russian Federation is considered to be a hyperinflationary economy. In order to comply with IAS 29 *Financial Reporting in Hyperinflationary Economies*, financial statements need to be expressed in terms of the measuring unit current at the balance sheet date. Accordingly, the accompanying financial statements, including comparatives, have been restated to account for changes in the general purchasing power of the ruble. The restatement is based on the consumer price index at the balance sheet date. The indices are derived from the inflation rates which are issued by the State Statistical Committee of the Russian Federation ("Goskomstat"). The indices used were as follows:

	Indices
31 December 1991	100
31 December 1992	2,642
31 December 1993	25,023
31 December 1994	78,470
31 December 1995	182,046
31 December 1996	221,597
31 December 1997	245,949
31 December 1998	501,689
31 December 1999	685,864
31 December 2000	823,917
31 December 2001	978,955

The indices have been applied to the historical costs of transactions and balances as follows:

- All comparative figures as of 30 September 2001 and 31 December 2000 have been restated by applying the change in the index to 31 December 2001.
- Income statement transactions have been restated by applying the change in the index from the approximate date of the transactions to 31 December 2001.
- Gains and losses arising from the monetary asset or liability positions have been included in the income statement.
- Non-monetary assets and liabilities have been restated by applying the change in the index from the date of the transaction, or if applicable from the date of their most recent revaluation, to 31 December 2001.

(c) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

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

(ii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

(iv) Depreciation

Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use. The estimated useful lives are as follows:

Computer equipment	3 to 5 years
Office equipment	5 years
Other assets	5 years

(d) Intangible Assets

(i) Web site

Costs relating to the development of a web site are capitalized if the site is functional in nature (i.e. it is designed to generate revenue from online sales).

Expenditure on design, content and appearance of the site is expensed as incurred.

(ii) *Software*

Software acquired is carried at historical cost less any accumulated amortisation and any accumulated impairment losses.

(iii) *Research and development costs*

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the enterprise has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

(iv) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

(v) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets from the date the asset is available for use. The estimated useful lives are as follows:

Capitalised development costs	3 years
Web site	3 years
Software	3 years

(e) Financial instruments

(i) Classification

Trading instruments are those that are held for the purpose of short term profit taking. These include investments, certain purchased loans and derivative contracts that are not designated and effective hedging instruments, and liabilities from short sales of financial instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as trading liabilities.

Originated loans and receivables are loans and receivables created by 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 as well as bonds purchased at original issuance and not held for sale in the short term.

Held to maturity assets are financial assets with fixed or determinable payments and fixed maturity that intended and are able to be held to maturity. These include certain purchased loans and advances to banks and customers and certain debt instruments.

Available for sale assets are financial assets that are not held for trading purposes, originated by loans and receivables, or held to maturity. Available for sale instruments include certain debt and equity investments including investments in unconsolidated subsidiaries and associates.

(ii) Recognition

Financial assets held for trading and available for sale assets on the date it commits to the purchase the assets. From this date any gains and losses arising from changes in fair value of the assets are recognised.

Held to maturity debt instruments and originated loans and receivables are recognised on the day ownership is transferred.

(iii) Measurement

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

Subsequent to initial recognition all trading instruments and available for sale assets 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 amortised cost less impairments losses (except for trading financial liabilities). Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

(iv) 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 quote 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.

The fair value of derivatives that are not exchange traded is estimated at the amount that would be received or paid to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

(iv) Gains and losses on subsequent measurement

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

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

(g) Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses.

(h) Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdrafts.

(i) Impairment

The carrying amounts of assets, other than inventories and 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.

For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. An impairment loss in respect of investment property is recognised in the same way as a revaluation decrease. All other impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of investments in non current debt securities and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted. The recoverable amount of current investments 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.

(ii) Reversals of impairment

An impairment loss in respect of a held-to-maturity security, trading investment, investment available-for-sale or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

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 amortisation, if no impairment loss had been recognised.

(j) Share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are presented as a deduction from total equity.

** The measurement currency is the Russian ruble. Amounts in USD are presented for information purposes only. Refer note 2(e).*

(k) Loans and borrowings

Loans and borrowings are recognised initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, loans and 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.

(l) Trade and other payables

Trade and other payables are stated at their cost.

(m) Income tax

Income tax on the profit or loss for the year 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.

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, initial recognition of assets or liabilities that affect neither accounting nor taxable profit. 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 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.

(n) Revenues

(i) Goods sold and services rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(ii) Long term contracts

When the outcome of the contract cannot be estimated reliably, contract revenue is recognised only to the extent of costs incurred that are expected to be recoverable. As the outcome of the contract cannot be estimated reliably, no profit is recognised.

When the outcome of the contract cannot be estimated reliably, and total contract costs will exceed total contract revenues, any expected excess of total contract costs over contract revenue for the contract is recognised as an expense immediately.

(iii) Non-cash transactions

As is common with many Russian companies, the Successor and the Predecessor entered into a significant level of non-cash transactions. Non-cash transactions consist of mutual settlements arising from the exchange of goods and services, and transactions which are settled by means of promissory notes. The non-cash transactions mainly involve advertising services.

Non-cash transactions involving advertising services are recognised in the financial statements when, amongst other criteria, the services exchanged are dissimilar and the fair value of the advertising provided can be measured reliably.

Mutual settlement transactions are centrally managed by the Successor and Predecessor. Prices are usually fixed in contracts with the mutual settlement transactions valued and recorded at the market prices for the advertising involved in the transaction. Non-cash sales and purchases are accounted for on an accruals basis in the same manner as traditional cash transactions.

(o) Expenses

Net financing costs comprise interest payable on borrowings, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on the net monetary position that are recognised in the income statement.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of net financing costs.

4. Revenues

	Successor	Predecessor	
	3 months ended 31 December 2001 '000 RUR	9 months ended 30 September 2001 '000 RUR	12 months ended 31 December 2000 '000 RUR
Revenues from advertising services	72,095	161,583	125,051
Revenues from software development	88,794	115,890	85,140
Revenues from information services	12,251	50,505	55,873
Revenue from long-term contracts	1,196	8,680	-
	174,336	**336,658**	**266,064**

* The measurement currency is the Russian ruble. Amounts in USD are presented for information purposes only. Refer note 2(e).

	Successor	Predecessor	
	3 months ended 31 December 2001 '000 USD*	9 months ended 30 September 2001 '000 USD*	12 months ended 31 December 2000 '000 USD*
Revenues from advertising services	2,392	5,361	4,149
Revenues from software development	2,946	3,845	2,825
Revenues from information services	406	1,676	1,854
Revenue from long-term contracts	40	288	-
	5,784	**11,170**	**8,828**

5. Cost of sales

	Successor	Predecessor	
	3 months ended 31 December 2001 '000 RUR	9 months ended 30 September 2001 '000 RUR	12 months ended 31 December 2000 '000 RUR
Outsourced labour costs	66,368	131,116	75,981
Depreciation and amortisation	9,627	27,049	7,594
Other	11,065	6,202	34,971
	87,060	**164,367**	**118,546**

	Successor	Predecessor	
	3 months ended 31 December 2001 '000 USD*	9 months ended 30 September 2001 '000 USD*	12 months ended 31 December 2000 '000 USD*
Outsourced labour costs	2,202	4,350	2,521
Depreciation and amortisation	320	897	252
Other	367	207	1,160
	2,889	**5,454**	**3,933**

6. Administrative expenses

	Successor	Predecessor	
	3 months ended 31 December 2001 '000 RUR	9 months ended 30 September 2001 '000 RUR	12 months ended 31 December 2000 '000 RUR
Telecommunication services	3,486	1,404	-
Provision for bad debts	849	923	20,574
Wages, salaries and related social costs	374	1,333	3,992
Other expenses	2,522	3,966	10,849
	7,231	**7,626**	**35,415**

** The measurement currency is the Russian ruble. Amounts in USD are presented for information purposes only. Refer note 2(e).*

	Successor	Predecessor	
	3 months ended 31 December 2001 '000 USD*	9 months ended 30 September 2001 '000 USD*	12 months ended 31 December 2000 '000 USD*
Telecommunication services	116	46	-
Provision for bad debts	28	31	683
Wages, salaries and related social costs	13	44	132
Other expenses	83	132	360
	240	**253**	**1,175**

7. Income tax expense

	Successor	Predecessor	
	3 months ended 31 December 2001 '000 RUR	9 months ended 30 September 2001 '000 RUR	12 months ended 31 December 2000 '000 RUR
Current tax expense	(967)	(239)	(1,786)
Deferred tax expense:			
Origination and reversal of temporary differences	(4,471)	1,205	(4,893)
Increase in tax rate	(2,898)	-	-
	(7,369)	1,205	(4,893)
Total income tax expense/(benefit) in the income statement	**(8,336)**	**966**	**(6,679)**

	Successor	Predecessor	
	3 months ended 31 December 2001 '000 USD*	9 months ended 30 September 2001 '000 USD*	12 months ended 31 December 2000 '000 USD*
Current tax expense	(32)	(8)	(60)
Deferred tax expense:			
Origination and reversal of temporary differences	(149)	40	(162)
Increase in tax rate	(96)	-	-
	(245)	40	(162)
Total income tax expense/(benefit) in the income statement	(277)	32	(222)

The Successor's and Predecessor's applicable tax rate is the corporate income tax rate of 30% (2000 - 30%) and 20% for measuring deferred taxes (for 9 months ended 30 September 2001 and for 2000 – 11%). Temporary differences primarily relate to ZAO PH RBC which has an applicable tax rate of 20% due to profit tax exemptions.

** The measurement currency is the Russian ruble. Amounts in USD are presented for information purposes only. Refer note 2(e).*

Reconciliation of effective tax rate:

	Successor		Predecessor			
	3 months ended 31 December 2001 '000 RUR	%	9 months ended 30 September 2001 '000 RUR	%	12 months ended 31 December 2000 '000 RUR	%
Profit before tax	69,952	100	127,372	100	86,171	100
Income tax at applicable tax rate	(20,986)	(30)	(38,212)	(30)	(25,851)	(30)
Non-deductible and other non-taxable items	12,650	16	39,178	31	19,172	22
	(8,336)	(14)	966	1	(6,679)	(8)

	Successor		Predecessor			
	3 months ended 31 December 2001 '000 USD*	%	9 months ended 30 September 2001 '000 USD*	%	12 months ended 31 December 2000 '000 USD*	%
Profit before tax	2,321	100	4,226	100	2,859	100
Income tax at applicable tax rate	(696)	(30)	(1,268)	(30)	(858)	(30)
Non-deductible and other non-taxable items	419	16	1,300	31	636	22
	(277)	(14)	32	1	(222)	(8)

8. Property, plant and equipment

'000 RUR	Computer Equipment	Office Equipment	Other assets	Construction in progress	Total
Cost					
Predecessor					
At 1 January 2001	36,184	2,207	2,046	375	40,812
Additions	16,687	1,867	1,211	2,112	21,877
Disposals	(1,895)	-	-	-	(1,895)
At 30 September 2001	**50,976**	**4,074**	**3,257**	**2,487**	**60,794**
Successor					
Acquired from Predecessor	50,976	4,074	3,257	2,487	60,794
Additions	17,096	-	-	-	17,096
Disposals	-	-	(270)	-	(270)
Transfers	211	-	-	(211)	-
At 31 December 2001	**68,283**	**4,074**	**2,987**	**2,276**	**77,620**
Depreciation					
Predecessor					
At 1 January 2001	(3,277)	(83)	(118)	-	(3,478)

** The measurement currency is the Russian ruble. Amounts in USD are presented for information purposes only. Refer note 2(e).*

Depreciation charge for the 9 months	(7,137)	(618)	(533)	-	(8,288)
Disposals	23	-	-	-	23
At 30 September 2001	**(10,391)**	**(701)**	**(651)**	**-**	**(11,743)**

'000 RUR	Computer Equipment	Office Equipment	Other assets	Construction in progress	Total
Successor					
Acquired from Predecessor	(10,391)	(701)	(651)	-	(11,743)
Depreciation charge for the 3 months	(2,125)	(204)	(163)	-	(2,492)
Disposals	-	-	-	-	-
At 31 December 2001	**(12,516)**	**(905)**	**(814)**	**-**	**(14,235)**
Net book value					
At 1 January 2001	**32,907**	**2,124**	**1,928**	**375**	**37,334**
At 30 September 2001	**40,585**	**3,373**	**2,606**	**2,487**	**49,051**
At 31 December 2001	**55,767**	**3,169**	**2,173**	**2,276**	**63,385**

'000 USD*	Computer Equipment	Office Equipment	Other assets	Construction in progress	Total
Cost					
Predecessor					
At 1 January 2001	1,201	73	68	12	1,354
Additions	554	62	40	70	726
Disposals	(63)	-	-		(63)
At 30 September 2001	**1,692**	**135**	**108**	**82**	**2,017**
Successor					
Acquired from Predecessor	1,692	135	108	82	2,017
Additions	567	-	-	-	567
Disposals	-	-	(9)	-	(9)
Transfers	7	-	-	(7)	-
At 31 December 2001	**2,266**	**135**	**99**	**75**	**2,575**
Depreciation					
Predecessor					
At 1 January 2001	(109)	(2)	(4)	-	(115)
Depreciation charge for the 9 months	(237)	(21)	(18)	-	(276)
Disposals	1	-	-	-	1
At 30 September 2001	**(345)**	**(23)**	**(22)**	**-**	**(390)**
Successor					
Acquired from Predecessor	(345)	(23)	(22)	-	(390)
Depreciation charge for the 3 months	(70)	(7)	(5)	-	(82)
Disposals	-	-	-	-	-
At 31 December 2001	**(415)**	**(30)**	**(27)**	**-**	**(472)**

Net book value

** The measurement currency is the Russian ruble. Amounts in USD are presented for information purposes only. Refer note 2(e).*

At 1 January 2001	**1,092**	**71**	**64**	**12**	**1,239**
At 30 September 2001	**1,347**	**112**	**86**	**82**	**1,627**
At 31 December 2001	**1,851**	**105**	**72**	**75**	**2,103**

** The measurement currency is the Russian ruble. Amounts in USD are presented for information purposes only. Refer note 2(e).*

9. Intangible assets

'000 RUR	Software	Web site	Development costs	Total
Cost				
Predecessor				
At 1 January 2001	-	10,141	-	10,141
Additions	-	18,013	29,102	47,115
At 30 September 2001	**-**	**28,154**	**29,102**	**57,256**
Successor				
Acquired from the Predecessor	-	28,154	29,102	57,256
Additions	9,632	-	20,005	29,637
At 31 December 2001	**9,632**	**28,154**	**49,107**	**86,893**
Amortisation				
Predecessor				
At 1 January 2001	-	(4,135)	-	(4,135)
Amortisation charge for the 9 months	-	(7,038)	(11,723)	(18,761)
At 30 September 2001	-	**(11,173)**	**(11,723)**	**(22,896)**
Successor				
Acquired from the Predecessor	-	(11,173)	(11,723)	(22,896)
Amortisation charge for the 3 months	-	(2,346)	(4,789)	(7,135)
At 31 December 2001	-	**(13,519)**	**(16,512)**	**(30,031)**
Net book value				
At 1 January 2001	**-**	**6,006**	**-**	**6,006**
At 30 September 2001	**-**	**16,981**	**17,379**	**34,360**
At 31 December 2001	**9,632**	**14,635**	**32,595**	**56,862**

** The measurement currency is the Russian ruble. Amounts in USD are presented for information purposes only. Refer note 2(e).*

'000 USD*	Software	Web site	Development costs	Total
Cost				
Predecessor				
At 1 January 2001	-	336	-	336
Additions	-	598	965	1,563
At 30 September 2001	**-**	**934**	**965**	**1,899**
Successor				
Acquired from Predecessor	-	934	965	1,899
Additions	320	-	664	984
At 31 December 2001	**320**	**934**	**1,629**	**2,883**
Amortisation				
Predecessor				
At 1 January 2001	-	(137)	-	(137)
Amortisation charge for the 9 months	-	(234)	(388)	(622)
At 30 September 2001	**-**	**(371)**	**(388)**	**(759)**
Successor				
Acquired from Predecessor	-	(371)	(388)	(759)
Amortisation charge for the 3 months	-	(77)	(160)	(237)
At 31 December 2001	**-**	**(448)**	**(548)**	**(996)**
Net book value				
At 1 January 2001	**-**	**199**	**-**	**199**
At 30 September 2001	**-**	**563**	**577**	**1,140**
At 31 December 2001	**320**	**486**	**1,081**	**1,887**

** The measurement currency is the Russian ruble. Amounts in USD are presented for information purposes only. Refer note 2(e).*

10. Available for sale investments

The Company's available for sale investments comprise the following investments in associates and subsidiaries:

	Country	Ownership
OOO Niken	Russia	60%
OOO Telli	Russia	50%
ZAO RBC Engineering	Russia	100%
ZAO RBC Soft	Russia	100%
OOO RBC-Pro	Russia	51%
OOO Dom for PC	Russia	50%
OOO Merkot	Russia	60%
ZAO RBC Holding	Russia	100%

The above companies were not consolidated in the Predecessor or Successor financial statements as the impact of consolidation would not be material to the Predecessor or Successor financial statements.

11. Inventories

Inventories primarily include goods for resale acquired under barter transactions. The Successor and Predecessor recognise the net gain on disposal in the income statement.

12. Trade and other receivables

	Successor	Predecessor	
	As at 31.12. 2001 '000 RUR	As at 30.09.2001 '000 RUR	As at 31.12.2000 '000 RUR
Short-term loan given	13,471	-	-
Accounts receivable – trade	11,244	18,307	5,877
Advances paid	6,651	123,358	51,534
Other receivables	11,167	5,836	932
	42,533	**147,501**	**58,343**

	Successor	Predecessor	
	As at 31.12. 2001 '000 USD*	As at 30.09.2001 '000 USD*	As at 31.12.2000 '000 USD*
Short-term loan given	447	-	-
Accounts receivable – trade	373	607	195
Advances paid	221	4,093	1,710
Other receivables	370	194	31
	1,411	**4,894**	**1,936**

** The measurement currency is the Russian ruble. Amounts in USD are presented for information purposes only. Refer note 2(e).*

13. Other assets

	Successor	Predecessor	
	As at 31.12. 2001 '000 RUR	As at 30.09.2001 '000 RUR	As at 31.12.2000 '000 RUR
Loans and receivables from banks	60,003	-	-
Equity securities available for sale	-	-	7,841
Other	-	29	4,959
	60,003	**29**	**12,800**

	Successor	Predecessor	
	As at 31.12. 2001 '000 USD*	As at 30.09.2001 '000 USD*	As at 31.12.2000 '000 USD*
Loans and receivables from banks	1,991	-	-
Equity securities available for sale	-	-	260
Other	-	1	165
	1,991	**1**	**425**

Loans and receivables from banks represent ruble term deposits with banks earning 3% interest and maturing in March 2002.

14. Equity

Issued capital

The authorized share capital of the Successor as of 31 December 2001 comprised 84,000,000 ordinary shares at a nominal value of RUR 0,001.

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 Group.

Share premium

Share Premium represents the difference between the fair value of the net assets of the Predecessor companies and the nominal value of the shares issued by the Successor in exchange for control over the net assets of the Predecessor (refer note 19).

15. Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, refer note 17.

** The measurement currency is the Russian ruble. Amounts in USD are presented for information purposes only. Refer note 2(e).*

	Successor	Predecessor	
	As at 31.12. 2001 '000 RUR	As at 30.09.2001 '000 RUR	As at 31.12.2000 '000 RUR
Secured borrowings:			
USD – fixed at 5,25%	135,630	-	-

	Successor	Predecessor	
	As at 31.12. 2001 '000 USD*	As at 30.09.2001 '000 USD*	As at 31.12.2000 '000 USD*
Secured borrowings:			
USD – fixed at 5,25%	4,500	-	-

Terms and debt repayment schedule

	1-5 years '000 RUR	1-5 years '000 USD*
Secured borrowings:		
USD – fixed at 5,25%	**135,630**	**4,500**

The secured long-term borrowing was received from RBC Investments (Cyprus) Limited in December 2001. This loan was received after issue of long-term 5% bonds with maturity date of 15 December 2004 by RBC Investments (Cyprus) Limited in 2001. The loan will be payable on 30 June and 31 December in each year.

These bonds were issued for financing Successor's operations and give the holder the option to convert the bonds into ordinary shares of OAO RBC Information Systems when the Successor's shares are publicly offered. If no public offering takes place prior to 17 December 2002 the Loan will be redeemed in three annual installments i.e. 33% on 31 December 2002; 33% on 31 December 2003; and 34% on 31 December 2004 at principal amount plus a premium so as to give RBC Investments (Cyprus) Limited a gross yield to maturity date of 12% per annum in respect of the loan.

RBC Investments (Cyprus) Limited was organised only for purposes of issue these bonds and is not a related party of the Successor.

** The measurement currency is the Russian ruble. Amounts in USD are presented for information purposes only. Refer note 2(e).*

16. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

	Assets			Liabilities			Net		
	Successor	Predecessor		Successor	Predecessor		Successor	Predecessor	
'000 RUR	As at 31.12. 2001	As at 30.09. 2001	As at 31.12. 2000	As at 31.12. 2001	As at 30.09. 2001	As at 31.12. 2000	As at 31.12. 2001	As at 30.09. 2001	As at 31.12. 2000
Property, plant and equipment	-	-	-	543	756	225	543	756	225
Intangible assets	-	-	-	9,442	4,190	652	9,442	4,190	652
Inventories	(2,219)	(688)	-	-	-	459	(2,219)	(688)	459
Accounts receivables	(1,344)	-	-	-	-	-	(1,344)	-	-
Accounts payables	-	(569)	-	4,636	-	3,557	4,636	(569)	3,557
Net tax assets/(liabilities)	**(3,563)**	**(1,257)**	**-**	**14,621**	**4,946**	**4,893**	**11,058**	**3,689**	**4,893**

	Assets			Liabilities			Net		
	Successor	Predecessor		Successor	Predecessor		Successor	Predecessor	
'000 USD*	As at 31.12. 2001	As at 30.09. 2001	As at 31.12. 2000	As at 31.12. 2001	As at 30.09. 2001	As at 31.12. 2000	As at 31.12. 2001	As at 30.09. 2001	As at 31.12. 2000
Property, plant and equipment	-	-	-	18	25	7	18	25	7
Intangible assets	-	-	-	313	139	22	313	139	22
Inventories	(73)	(23)	-	-	-	15	(73)	(23)	15
Accounts receivables	(45)	-	-	-	-	-	(45)	-	-
Accounts payables	-	(19)	-	154	-	118	154	(19)	118
Net tax assets/(liabilities)	**(118)**	**(42)**	**-**	**485**	**164**	**162**	**367**	**122**	**162**

17. Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Successor's business.

(i) Credit risk

The Successor does not require collateral in respect of financial assets. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount.

At balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

** The measurement currency is the Russian ruble. Amounts in USD are presented for information purposes only. Refer note 2(e).*

(ii) Interest rate risk

The Successor adopts a policy of ensuring that interest rates on its loans and borrowings are on a fixed rate basis.

(iii) Foreign currency risk

The Successor incurs foreign currency risk on borrowings that are denominated in a currency other than rubles. The currency giving rise to this risk is USD.

The Successor does not hedge against its foreign currency risk exposures.

18. Trade and other payables

	Successor	Predecessor	
	As at 31.12. 2001 '000 RUR	As at 30.09.2001 '000 RUR	As at 31.12.2000 '000 RUR
Other taxes payable	35,368	8,939	15,063
Advances received	26,588	6,507	6,774
Accruals	2,893	9,162	11,418
Accounts payable – trade	1,921	7,619	-
Income taxes payable	30	2,025	1,786
Payables to shareholders	-	7,513	18,420
Other payables	183	17,699	509
	66,983	**59,464**	**53,970**

	Successor	Predecessor	
	As at 31.12. 2001 '000 USD*	As at 30.09.2001 '000 USD*	As at 31.12.2000 '000 USD*
Other taxes payable	1,173	297	500
Advances received	882	216	225
Accruals	96	304	379
Accounts payable – trade	64	253	-
Income taxes payable	1	67	59
Payables to shareholders	-	249	611
Other payables	6	587	17
	2,222	**1,973**	**1,791**

Other non-current payables of RUR 2,206 thousand (USD 73 thousand) represent advanced payments received from customers.

** The measurement currency is the Russian ruble. Amounts in USD are presented for information purposes only. Refer note 2(e).*

19. Acquisition of Predecessor companies by Successor

Contractually, the Successor acquired 100 per cent of the equity of the Predecessor companies for cash consideration of 000'RUR 49. However, in substance there was a simultaneous exchange of the shares in the Successor for control of the net assets of the Predecessor companies. Accordingly, management has valued the shares issued by the Successor at a value equal to the net assets of the Predecessor companies at the time of the exchange. The difference between the nominal of the shares issued by the Successor and the net assets of the Predecessor companies has been recorded as Share Premium. The Share Premium is determined as follows:

	'000 RUR	'000 USD*
Net assets of Predecessor as at 30 September 2001	199,005	6,603
Nominal value of shares of Successor issued	(100)	(3)
Share premium	**198,905**	**6,600**

20. Commitments

(i) Social commitments

The Successor makes contributions to mandatory and voluntary social programs. The Successor's social assets, as well as local social programs, benefit the community at large and are not normally restricted to the Successor's employees.

21. Contingencies

(i) Insurance

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Successor does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Successor's property or relating to the Successor's operations. Until the Successor obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Successor's operations and financial position.

(ii) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by numerous taxes and frequently changing legislation, which may be applied retroactively and is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in Russia substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

(iii) Licences

The Successor is in the process of securing a licence for mass media activity, although as at 31 December 2001 this license had not yet been obtained.

Although the Russian legislation does not clearly determine the requirement for a mass media licence for Internet companies, the inability to obtain the license, may threaten the integrity of the other operating licences that the Successor currently uses and also result in potential tax penalties up to RUR 48,8 million.

***