**RBC Information Systems**

# Consolidated Financial Statements

for year ended 31 December 2002

# Contents

# Independent 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 "Group") as of 31 December 2002 and the related statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements, as set out on pages 4 to 26, are the responsibility of the Group's management. Our responsibility is to express an opinion on these 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2002, and the results of its operations, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

KPMG Limited
Moscow, Russian Federation
30 May 2003

| | Note | 2002 '000 RUR | 2001 '000 RUR | 2002 '000 USD* | 2001 '000 USD* |
|---|---|---|---|---|---|
| **Revenues** | 4 | 926,533 | 588,277 | 29,151 | 18,508 |
| Cost of sales | 5 | (421,674) | (261,017) | (13,267) | (8,212) |
| **Gross profit** | | **504,859** | **327,260** | **15,884** | **10,296** |
| Distribution costs | | (116,474) | (43,696) | (3,664) | (1,375) |
| Administrative expenses | 6 | (65,314) | (52,931) | (2,055) | (1,665) |
| Taxes, other than on profit | | (9,384) | (4,635) | (295) | (146) |
| Other operating income | 7 | 48,930 | 13,108 | 1,539 | 413 |
| **Profit from operations** | | **362,617** | **239,106** | **11,409** | **7,523** |
| Net financing income/(expenses) | 8 | 839 | (11,049) | 26 | (348) |
| **Profit before tax** | | **363,456** | **228,057** | **11,435** | **7,175** |
| Income tax expense | 9 | (70,796) | (9,375) | (2,228) | (295) |
| **Net profit for the year** | | **292,660** | **218,682** | **9,207** | **6,880** |
| Basic earnings per share (RUR/USD) | 16 | 3.1 | | 0.1 | |

The consolidated income statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 26.

The consolidated financial statements as set on pages 4 to 26 were approved by:

Chief Executive Officer

German Kaplun

Chief Financial Officer

Dmitry Belik

** The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements - refer note 2 (d).*

| | Note | 2002 '000 RUR | 2001 '000 RUR | 2002 '000 USD* | 2001 '000 USD* |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 10 | 325,879 | 72,971 | 10,253 | 2,296 |
| Intangible assets | 11 | 165,325 | 65,462 | 5,201 | 2,060 |
| Available for sale investments | 12 | 389 | 267 | 12 | 8 |
| | | **491,593** | **138,700** | **15,466** | **4,364** |
| **Current assets** | | | | | |
| Inventories | 13 | 59,095 | 10,523 | 1,859 | 331 |
| Trade and other receivables | 14 | 235,560 | 48,966 | 7,411 | 1,541 |
| Other assets | | - | 69,078 | - | 2,173 |
| Cash and cash equivalents | 15 | 634,215 | 281,296 | 19,954 | 8,850 |
| | | **928,870** | **409,863** | **29,224** | **12,895** |
| **Total assets** | | **1,420,463** | **548,563** | **44,690** | **17,259** |
| **EQUITY AND LIABILITIES** | | | | | |
| **Equity** | | | | | |
| Issued capital | 16 | 134 | 116 | 4 | 4 |
| Share Premium | 16 | 645,273 | 228,987 | 20,302 | 7,204 |
| Retained earnings | | 363,595 | 70,935 | 11,439 | 2,232 |
| | | **1,009,002** | **300,038** | **31,745** | **9,440** |
| **Non-current liabilities** | | | | | |
| Loans and borrowings | 17 | 132,968 | 156,143 | 4,183 | 4,912 |
| Deferred tax liability | 18 | 77,354 | 12,731 | 2,434 | 401 |
| Other payables | | - | 2,540 | - | 80 |
| | | **210,322** | **171,414** | **6,617** | **5,393** |
| **Current liabilities** | | | | | |
| Trade and other payables | 20 | 201,139 | 77,111 | 6,328 | 2,426 |
| **Total equity and liabilities** | | **1,420,463** | **548,563** | **44,690** | **17,259** |

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 26.

** The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements - refer note 2 (d).*

| | 2002 '000 RUR | 2001 '000 RUR | 2002 '000 USD* | 2001 '000 USD* |
|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | |
| **Net profit for the year** | 292,660 | 218,682 | 9,207 | 6,880 |
| Adjustments for: | | | | |
| Non-cash sales | (7,627) | (13,723) | (240) | (432) |
| Depreciation and amortisation | 74,460 | 34,373 | 2,343 | 1,081 |
| Loss/(gain) on disposal of property, plant and equipment | (923) | 314 | (29) | 10 |
| Monetary gain related to deferred tax | (1,672) | (891) | (53) | (28) |
| Interest expense | 7,570 | - | 238 | - |
| Interest income | (67,614) | - | (2,127) | - |
| Deferred tax expense | 66,295 | 7,996 | 2,086 | 252 |
| Income tax expense | 4,501 | 1,379 | 142 | 43 |
| **Operating profit before changes in working capital and provisions** | **367,650** | **248,130** | **11,567** | **7,806** |
| Increase in inventories | (45,401) | (1,783) | (1,428) | (56) |
| (Increase)/decrease in trade and other receivables | (174,594) | 18,201 | (5,493) | 573 |
| (Increase)/decrease in other assets | 69,078 | (54,342) | 2,173 | (1,710) |
| Increase/(decrease) in trade and other payables | (13,056) | 19,542 | (411) | 615 |
| **Cash flows from operations before income taxes and interest paid** | **203,677** | **229,748** | **6,408** | **7,228** |
| Income taxes paid | (4,501) | (3,410) | (142) | (107) |
| Interest paid | (7,570) | - | (238) | - |
| **Cash flows from operating activities** | **191,606** | **226,338** | **6,028** | **7,121** |
| **INVESTING ACTIVITIES** | | | | |
| Proceeds from disposal of property, plant and equipment | 1,560 | 2,163 | 49 | 68 |
| Interest received | 55,614 | - | 1,750 | - |
| Purchase of property, plant and equipment | (156,860) | (31,143) | (4,935) | (980) |
| Purchase of intangible assets | (132,008) | (80,510) | (4,153) | (2,533) |
| Acquisition of other investments | (122) | (244) | (4) | (8) |
| **Cash flows from investing activities** | **(231,816)** | **(109,734)** | **(7,293)** | **(3,453)** |

** The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements - refer note 2 (d).*

| | 2002 '000 RUR | 2001 '000 RUR | 2002 '000 USD* | 2001 '000 USD* |
|---|---|---|---|---|
| **FINANCING ACTIVITIES** | | | | |
| Proceeds from issuance of share capital net of transaction costs | 416,304 | - | 13,098 | - |
| Increase/(decrease) in borrowings | (23,175) | 156,143 | (729) | 4,913 |
| **Cash flows from financing activities** | **393,129** | **156,143** | **12,369** | **4,913** |
| **Net increase/(decrease) in cash and cash equivalents** | **352,919** | **272,747** | **11,104** | **8,581** |
| Cash and cash equivalents at beginning of year | 281,296 | 8,549 | 8,850 | 269 |
| **Cash and cash equivalents at end of year** | **634,215** | **281,296** | **19,954** | **8,850** |

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 26.

** The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements - refer note 2 (d).*

| '000 RUR | Issued capital | Share Premium | Retained earnings | Total |
|---|---|---|---|---|
| Balance at 1 January 2001 | 927 | - | 80,429 | 81,356 |
| Shares issued | (811) | 228,987 | (228,176) | - |
| Net profit | - | - | 218,682 | 218,682 |
| **Balance at 31 December 2001** | **116** | **228,987** | **70,935** | **300,038** |
| Shares issued | 18 | 446,219 | - | 446,237 |
| Transaction costs | - | (29,933) | - | (29,933) |
| Net profit | - | - | 292,660 | 292,660 |
| **Balance at 31 December 2002** | **134** | **645,273** | **363,595** | **1,009,002** |

| '000 USD* | Issued capital | Share Premium | Retained earnings | Total |
|---|---|---|---|---|
| Balance at 1 January 2001 | 29 | - | 2,531 | **2,560** |
| Shares issued | (25) | 7,204 | (7,179) | **-** |
| Net profit | - | - | 6,880 | **6,880** |
| **Balance at 31 December 2001** | **4** | **7,204** | **2,232** | **9,440** |
| Shares issued | - | 14,039 | - | 14,039 |
| Transaction costs | - | (941) | - | (941) |
| Net profit | - | - | 9,207 | 9,207 |
| **Balance at 31 December 2002** | **4** | **20,302** | **11,439** | **31,745** |

The consolidated statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 9 to 26.

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# 1. Background

## (a) Background

OAO RBC Information systems (together with its subsidiaries referred to as the Group) is a Russian Federation open joint stock company as defined in the Civil Code of the Russian Federation. The Group was formed in September 2001 and includes principally the following companies: OAO RBC Information Systems, ZAO RBC, ZAO PH RBC, ZAO RBC-Soft, OOO RBC-Centre, OOO Art-Systems, RBC Information Systems N.V.(Holland).

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

## (b) Russian business environment

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

# 2. Basis of preparation

## (a) Statement of compliance

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

## (b) Basis of preparation

The consolidated financial statements are prepared on the historical cost basis except for the restatement of non-monetary assets, liabilities and equity to account for the effects of inflation as described in the accounting policies set out in note 3 (b), and except for the following assets and liabilities that are stated at their fair value: derivative financial instruments, instruments held for trading and investments available-for-sale.

## (c) Basis of consolidation

### *(i) Subsidiaries*

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

### *(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.

## (d) Measurement and presentation currency

The national currency of the Russian Federation is the ruble ("RUR"). Management have determined the Group's measurement currency to be the RUR as it reflects the economic substance of the underlying events and circumstances of the Group. The RUR is also the presentation currency of these financial statements.

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

For the purpose of presenting supplementary information for the convenience of users of the financial statements, management have included in these financial statements information presented in US dollars (USD). All amounts presented in USD have been translated from the RUR amounts which have been adjusted for the effects of inflation (refer note 3(b)) at the Central Bank of the Russian Federation ("CBR") exchange rate of 31.78 RUR to one USD effective at the close of business on 31 December 2002.

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

## (e) Going concern

The accompanying consolidated 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 Group's assets, as well as the future operations of the Group, may be significantly affected by the current and future economic environment (refer note 1 (b)). The accompanying consolidated financial statements do not include any adjustments should the Group be unable to continue as a going concern.

## (f) Use of estimates

Management of the Group have made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with IFRS. Actual results could differ from those estimates.

### (g) Comparative amounts

Prior year amounts have been reclassified, where applicable to conform with presentation for current year. To improve presentation, the following reclassifications have been made:

| | |
|---|---|
| *Income statement* | |
| Cost of sales | (28,436) |
| Distribution expenses | 6,414 |
| Administrative expenses | 35,827 |
| Other operating expenses | (13,805) |

## 3. Significant accounting policies

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

### (a) Foreign currency transactions

Transactions in foreign currencies are translated to RUR 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 RUR 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 RUR 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, the consolidated financial statements need to be expressed in terms of the measuring unit current at the balance sheet date. Accordingly, the consolidated financial statements, including comparatives, have been restated to account for changes in the general purchasing power of the RUR. 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:

| | Index |
|---|---|
| 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 | 453,704 |
| 31 December 1999 | 619,691 |
| 31 December 2000 | 744,425 |
| 31 December 2001 | 884,504 |
| 31 December 2002 | 1,018,277 |

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

- All comparatives as of and for the year ended 31 December 2001 have been restated by applying the change in the index to 31 December 2002.
- Income statement transactions have been restated by applying the change in the index from the approximate date of the transactions to 31 December 2002.
- Non-monetary assets and liabilities have been restated by applying the change in the index from the date of the transaction to 31 December 2002.
- The gain or loss arising from the net monetary position has been included in the income statement.
- Share capital and share premium have been restated by applying the change in the index from the dates the components were contributed to 31 December 2002.

## (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 | 5 years |
| Office equipment | 5 years |
| Other assets | 5 years |

## (d) Intangible Assets

### *(i) Web sites*

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 development costs | 3 years |
| Software | 3 years |

## (e) Investments

Investments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the income statement. Other investments held by the Group are classified as available-for-sale with any resultant gain or loss being recognised in the income statement.

The fair value of investments held for trading and investments available-for-sale is their quoted bid price at the balance sheet date.

Investments held for trading and available-for-sale investments are recognised/derecognised by the Group on the date it commits to purchase/sell the investments.

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## (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 is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

## (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 on hand, balances with banks and highly liquid bank promissory notes.

## (i) Impairment

The carrying amounts of the Group's 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.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

### *(i) Calculation of recoverable amount*

The recoverable amount of investments in 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.

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 receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

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.

### (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 on an effective interest basis.

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 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 and investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset 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) Interest income*

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

### *(iv) Non-cash transactions*

As is common with many Russian companies, the Group 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 Group. 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) Net financing costs

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

| | 2002 '000 RUR | 2001 '000 RUR | 2002 '000 USD* | 2001 '000 USD* |
|---|---|---|---|---|
| Revenues from developed software | 430,300 | 235,641 | 13,538 | 7,414 |
| Revenues from advertising services | 409,062 | 269,020 | 12,870 | 8,464 |
| Revenues from information services | 80,802 | 72,247 | 2,542 | 2,273 |
| Revenue from long-term contracts | 6,369 | 11,369 | 201 | 357 |
| | **926,533** | **588,277** | **29,151** | **18,508** |

## 5. Cost of sales

| | 2002 '000 RUR | 2001 '000 RUR | 2002 '000 USD* | 2001 '000 USD* |
|---|---|---|---|---|
| Information services | 38,771 | 17,001 | 1,220 | 535 |
| Outsourced cost of programming | 82,692 | - | 2,602 | - |
| Cost of goods for trading | 65,524 | 75,024 | 2,061 | 2,360 |
| Depreciation and amortization | 74,460 | 34,373 | 2,343 | 1,081 |
| Outsourced labour costs | 122,556 | 103,484 | 3,856 | 3,256 |
| Labour costs | 24,063 | 3,312 | 757 | 104 |
| Communication services | 4,917 | 7,475 | 155 | 235 |
| Other | 8,691 | 20,348 | 273 | 641 |
| | **421,674** | **261,017** | **13,267** | **8,212** |

## 6. Administrative expenses

| | 2002 '000 RUR | 2001 '000 RUR | 2002 '000 USD* | 2001 '000 USD* |
|---|---|---|---|---|
| Wages, salaries and related social expenses | 28,817 | 21,240 | 907 | 668 |
| Consulting and legal | 10,343 | 1,258 | 325 | 40 |
| Provision for Bad Debts | - | 2,114 | - | 66 |
| Rent | 1,397 | 1,213 | 44 | 38 |
| Repair | 3,904 | 15,125 | 123 | 476 |
| Communication | 4,415 | 5,833 | 139 | 183 |
| Housing | 1,123 | 528 | 35 | 17 |
| Recruitment services | 5,220 | - | 164 | - |
| Stationary | 2,846 | 2,130 | 90 | 67 |
| Other | 7,249 | 3,490 | 228 | 110 |
| | **65,314** | **52,931** | **2,055** | **1,665** |

## 7. Other operating income

| | 2002 '000 RUR | 2001 '000 RUR | 2002 '000 USD* | 2001 '000 USD* |
|---|---|---|---|---|
| Reversal of provisions | 31,348 | 10,300 | 986 | 324 |
| Income from renegotiation of liability | 15,505 | - | 488 | - |
| Rental income | 4,650 | - | 146 | - |
| Other | (2,573) | 2,808 | (81) | 89 |
| | **48,930** | **13,108** | **1,539** | **413** |

** The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements - refer note 2 (d).*

## 8. Net financing income/(expenses)

| | 2002 '000 RUR | 2001 '000 RUR | 2002 '000 USD* | 2001 '000 USD* |
|---|---|---|---|---|
| Borrowing and transaction costs | (11,226) | - | (353) | - |
| Interest expense | (7,570) | - | (238) | - |
| Interest income | 67,614 | - | 2,127 | - |
| Loss on net monetary position | (44,723) | (11,049) | (1,407) | (348) |
| Foreign exchange loss | (3,256) | - | (103) | - |
| | **839** | **(11,049)** | **26** | **(348)** |

## 9. Income tax expense

| | 2002 '000 RUR | 2001 '000 RUR | 2002 '000 USD* | 2001 '000 USD* |
|---|---|---|---|---|
| Current tax expense | (4,501) | (1,379) | (142) | (43) |
| Deferred tax expense: | | | | |
| Origination and reversal of temporary differences | (66,295) | (4,651) | (2,086) | (146) |
| Increase in tax rate | - | (3,345) | - | (106) |
| **Total income tax expense in the income statement** | **(70,796)** | **(9,375)** | **(2,228)** | **(295)** |

The Group's applicable tax rate is the corporate income tax rate of 20% and 20% for measuring deferred taxes (year ended 31 December 2002 and for 2001 – 20%).

Reconciliation of effective tax rate:

| | 2002 '000 RUR | % | 2001 '000 RUR | % |
|---|---|---|---|---|
| Profit before tax | 363,456 | 100 | 228,057 | 100 |
| Income tax at applicable tax rate | (72,691) | (20) | (45,611) | (20) |
| Income tax at lower tax rate | (5,457) | (1) | - | - |
| Non-deductible/non-taxable items | 7,352 | 2 | 36,236 | 16 |
| | **(70,796)** | **(19)** | **(9,375)** | **(4)** |

| | 2002 '000 USD* | % | 2001 '000 USD* | % |
|---|---|---|---|---|
| Profit before tax | 11,435 | 100 | 7,175 | 100 |
| Income tax at applicable tax rate | (2,287) | (20) | (1,435) | (20) |
| Income tax at lower tax rate | (172) | (1) | - | - |
| Non-deductible/non-taxable items | 231 | 2 | 1,140 | 16 |
| | **(2,228)** | **(19)** | **(295)** | **(4)** |

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# 10. Property, plant and equipment

| ‘000 RUR | Computer Equipment | Office Equipment | Other assets | Construction in progress | Total |
|---|---|---|---|---|---|
| *Cost* | | | | | |
| At 1 January 2002 | 78,610 | 4,690 | 3,439 | 2,620 | 89,359 |
| Additions | 165,287 | 6,926 | 12,067 | 111,580 | 295,860 |
| Transfer | 2,620 | - | - | (2,620) | - |
| Disposals | (1,385) | - | - | - | (1,385) |
| At 31 December 2002 | **245,132** | **11,616** | **15,506** | **111,580** | **383,834** |
| *Depreciation* | | | | | |
| At 1 January 2002 | (14,409) | (1,041) | (938) | - | (16,388) |
| Depreciation charge for the year | (38,080) | (1,814) | (2,421) | - | (42,315) |
| Disposals | 748 | - | - | - | 748 |
| At 31 December 2002 | **(51,741)** | **(2,855)** | **(3,359)** | **-** | **(57,955)** |
| *Net book value* | | | | | |
| **At 1 January 2002** | **64,201** | **3,649** | **2,501** | **2,620** | **72,971** |
| **At 31 December 2002** | **193,391** | **8,761** | **12,147** | **111,580** | **325,879** |

| ‘000 USD* | Computer Equipment | Office Equipment | Other assets | Construction in progress | Total |
|---|---|---|---|---|---|
| *Cost* | | | | | |
| At 1 January 2002 | 2,473 | 148 | 108 | 82 | 2,811 |
| Additions | 5,200 | 218 | 380 | 3,511 | 9,309 |
| Transfers | 82 | - | - | (82) | - |
| Disposals | (43) | - | - | - | (43) |
| At 31 December 2002 | **7,712** | **366** | **488** | **3,511** | **12,077** |
| *Depreciation* | | | | | |
| At 1 January 2002 | (453) | (33) | (29) | - | (515) |
| Depreciation charge for the year | (1,198) | (57) | (77) | - | (1,332) |
| Disposals | 23 | - | - | - | 23 |
| At 31 December 2002 | **(1,628)** | **(90)** | **(106)** | **-** | **(1,824)** |
| *Net book value* | | | | | |
| **At 1 January 2002** | **2,020** | **115** | **79** | **82** | **2,296** |
| **At 31 December 2002** | **6,084** | **276** | **382** | **3,511** | **10,253** |

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# 11. Intangible assets

| ‘000 RUR | Software | Web site | Development costs | Total |
|---|---|---|---|---|
| _Cost_ | | | | |
| At 1 January 2002 | 11,089 | 32,412 | 56,534 | 100,035 |
| Additions | - | 68,796 | 79,829 | 148,625 |
| At 31 December 2002 | **11,089** | **101,208** | **136,363** | **248,660** |
| _Amortisation_ | | | | |
| At 1 January 2002 | - | (15,564) | (19,009) | (34,573) |
| Amortisation charge for the year | (3,689) | (13,706) | (31,367) | (48,762) |
| At 31 December 2002 | **(3,689)** | **(29,270)** | **(50,376)** | **(83,335)** |
| _Net book value_ | | | | |
| **At 1 January 2002** | **11,089** | **16,848** | **37,525** | **65,462** |
| **At 31 December 2002** | **7,400** | **71,938** | **85,987** | **165,325** |

| ‘000 USD* | Software | Web site | Development costs | Total |
|---|---|---|---|---|
| _Cost_ | | | | |
| At 1 January 2002 | 349 | 1,020 | 1,779 | 3,148 |
| Additions | - | 2,164 | 2,511 | 4,675 |
| At 31 December 2002 | **349** | **3,184** | **4,290** | **7,823** |
| _Amortisation_ | | | | |
| At 1 January 2002 | - | (490) | (598) | (1,088) |
| Amortisation charge for the year | (116) | (431) | (987) | (1,534) |
| At 31 December 2002 | **(116)** | **(921)** | **(1,585)** | **(2,622)** |
| _Net book value_ | | | | |
| **At 1 January 2001** | **349** | **530** | **1,181** | **2,060** |
| **At 31 December 2002** | **233** | **2,263** | **2,705** | **5,201** |

_* The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements - refer note 2 (d)._

## 12. Available for sale investments

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

| | Country | Ownership |
|---|---|---|
| ZAO SK Garant | Russia | 100% |
| ZAO RBC-TV | Russia | 100% |
| ZAO RBC Holding | Russia | 100% |
| ZAO RBC Engineering | Russia | 100% |
| OOO RBC Programmny Product | Russia | 100% |
| OOO Merkot | Russia | 60% |
| OOO Niken | Russia | 60% |
| OOO RBC Pro | Russia | 51% |
| OOO Telli | Russia | 50% |
| OOO Roverst | Russia | 50% |
| OOO Dom for PC | Russia | 50% |
| OOO Computer and office | Russia | 20% |

The above subsidiary companies were not consolidated in the Group financial statements as the impact of consolidation would not be material to the Group financial statements. The above associated companies were not accounted using equity method in the Group financial statements as the impact of this would not be material.

## 13. Inventories

| | 2002 '000 RUR | 2001 '000 RUR | 2002 '000 USD* | 2001 '000 USD* |
|---|---|---|---|---|
| Raw materials | 5,755 | - | 181 | - |
| Work in progress | 13,900 | - | 437 | - |
| Finished goods and goods for resale | 39,440 | 10,523 | 1,241 | 331 |
| | **59,095** | **10,523** | **1,859** | **331** |

## 14. Trade and other receivables

| | 2002 '000 RUR | 2001 '000 RUR | 2002 '000 USD* | 2001 '000 USD* |
|---|---|---|---|---|
| Short-term loans | 93,871 | 15,508 | 2,953 | 488 |
| Advances paid | 56,662 | 7,657 | 1,783 | 241 |
| Accounts receivable – trade | 36,724 | 12,944 | 1,155 | 407 |
| VAT receivable | 30,092 | 11,993 | 947 | 377 |
| Interest receivable | 12,000 | - | 378 | |
| Other receivables | 6,211 | 864 | 195 | 28 |
| | **235,560** | **48,966** | **7,411** | **1,541** |

## 15. Cash and cash equivalents

| | 2002 '000 RUR | 2001 '000 RUR | 2002 '000 USD* | 2001 '000 USD* |
|---|---|---|---|---|
| Cash on hand | 398 | 16 | 13 | 1 |
| Rouble bank account | 514,580 | 123,418 | 16,190 | 3,883 |
| Foreign currency bank account | 38,141 | 157,862 | 1,200 | 4,966 |
| Cash equivalents | 81,096 | - | 2,551 | - |
| | **634,215** | **281,296** | **19,954** | **8,850** |

## 16. Equity

The authorized and issued share capital of the Group as of 31 December 2002 comprised 100,000,000 ordinary shares at a nominal value of RUR 0,001, fully paid.

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.

In April 2002 the Group issued 16,000,000 ordinary shares at RUR 25.86 per share to allow for the continued expansion of the Group without substantially increasing external debt. Each share was issued at a premium of RUR 25.859. The issued shares are fully paid.

### Basic earnings per share

The calculation of basic earnings per share at 31 December 2002 was based on the net profit attributable to ordinary shareholders of RUR 292,660 thousand/USD* 9,207 thousand and a weighted average number of ordinary shares outstanding during the year ended 31 December 2002 of 94,666,667.

***Weighted average number of ordinary shares***

| *In thousands of shares* | 2002 |
|---|---|
| Issued ordinary shares at 1 January | 84,000 |
| Effect of shares issued in April 2002 | 10,667 |
| **Weighted average number of ordinary shares at 31 December** | **94,667** |

## 17. 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 19.

| | 2002 '000 RUR | 2001 '000 RUR | 2002 '000 USD* | 2001 '000 USD* |
|---|---|---|---|---|
| Unsecured borrowings: | | | | |
| USD – fixed at 5,25% | 132,968 | 156,143 | 4,183 | 4,912 |

** The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements - refer note 2 (d).*

### Terms and debt repayment schedule

| | 1-5 years '000 RUR | 1-5 years '000 USD* |
|---|---|---|
| Unsecured borrowings: | | |
| USD – fixed at 5,25% | 132,968 | 4,183 |

The unsecured long-term borrowing was received from RBC Investments (Cyprus) Limited in December 2001 which became a part of the Group in the beginning of the year 2003, refer note 23. 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 interest of the loan are repayable on 30 June and 31 December in each year starting from 30 June 200.

## 18. Deferred tax assets and liabilities

### Recognised deferred tax assets and liabilities

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| '000 RUR | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 |
| Property, plant and equipment | - | - | 43,945 | 626 | 43,945 | 626 |
| Intangible assets and investments | - | - | 31,587 | 10,870 | 31,587 | 10,870 |
| Inventories | - | (2,554) | 3,353 | - | 3,353 | (2,554) |
| Long term loans | - | - | 2,012 | - | 2,012 | - |
| Accounts receivables | | (1,548) | 1,686 | - | 1,686 | (1,548) |
| Accounts payables | (5,229) | - | - | 5,337 | (5,229) | 5,337 |
| **Net deferred tax (assets)/ liabilities** | **(5,229)** | **(4,102)** | **82,583** | **16,833** | **77,354** | **12,731** |

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| '000 USD* | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 |
| Property, plant and equipment | - | - | 1,383 | 20 | 1,383 | 20 |
| Intangible assets and investments | - | - | 994 | 342 | 994 | 342 |
| Inventories | - | (80) | 105 | - | 105 | (80) |
| Long term loans | - | - | 63 | - | 63 | - |
| Accounts receivables | | (49) | 53 | - | 53 | (49) |
| Accounts payables | (164) | - | - | 168 | (164) | 168 |
| **Net deferred tax (assets)/ liabilities** | **(164)** | **(129)** | **2,598** | **530** | **2,434** | **401** |

**Movement in temporary differences during the year**

| '000 RUR | 31 December 2001 | Recognised in net monetary gain/(loss) | Recognised in income tax expense | 31 December 2002 |
|---|---|---|---|---|
| Property, plant and equipment | 626 | (82) | 43,401 | 43,945 |
| Intangible assets and investments | 10,870 | (1,428) | 22,145 | 31,587 |
| Inventories | (2,554) | 335 | 5,572 | 3,353 |
| Long term loans | - | - | 2,012 | 2,012 |
| Accounts receivables | (1,548) | 204 | 3,030 | 1,686 |
| Accounts payables | 5,337 | (701) | (9,865) | (5,229) |
| **Net deferred tax (assets)/liabilities** | **12,731** | **(1,672)** | **66,295** | **77,354** |

| '000 USD* | 31 December 2001 | Recognised in net monetary gain/(loss) | Recognised in income tax expense | 31 December 2002 |
|---|---|---|---|---|
| Property, plant and equipment | 20 | (3) | 1,366 | 1,383 |
| Intangible assets and investments | 342 | (45) | 697 | 994 |
| Inventories | (80) | 10 | 175 | 105 |
| Long term loans | - | - | 63 | 63 |
| Accounts receivables | (49) | 7 | 95 | 53 |
| Accounts payables | 168 | (22) | (310) | (164) |
| **Net deferred tax (assets)/liabilities** | **401** | **(53)** | **2,086** | **2,434** |

# 19. Financial instruments

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

## *(i) Credit risk*

The Group 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.

## *(ii) Interest rate risk*

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

## *(iii) Foreign currency risk*

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

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

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### *(iv) Fair value*

The Company's financial instruments include cash and cash equivalents, receivables, payables and long-term debt. The carrying amounts of cash and cash equivalents, receivables and payables approximate their fair value due to the short-term nature of these instruments.

## 20. Trade and other payables

| | 2002 '000 RUR | 2001 '000 RUR | 2002 '000 USD* | 2001 '000 USD* |
|---|---|---|---|---|
| Accounts payable – trade | 144,346 | 2,211 | 4,541 | 69 |
| Advances received | 46,768 | 30,609 | 1,472 | 963 |
| Accruals | 1,144 | 3,331 | 36 | 105 |
| Taxes payable | 6,143 | 40,750 | 193 | 1,282 |
| Other payables | 2,738 | 210 | 86 | 7 |
| | **201,139** | **77,111** | **6,328** | **2,426** |

## 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 Group 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 Group's property or relating to the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

### *(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.

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## 22. Related party transactions

The Group had an outstanding loan to OOO Soft Group at an interest rate of 1% for RUR 89,901 thousand/USD* 2,828 thousand and to other related parties at an interest rate of 6% RUR 3,970 thousand/USD* 125 thousand at 31 December 2002.

The Group had an outstanding long-term borrowing payable to RBC Investments (Cyprus) Limited at 5,25% interest rate for RUR 132,968 thousand/USD* 4,183 thousand (2001: RUR 156,143 thousand/USD* 4,912 thousand), refer note 17.

## 23. Subsequent events

In the beginning of the year 2003 the Group obtained 100% ownership of RBC Investments (Cyprus) Limited, refer note 17. The consideration paid was 2 USD and the net assets of the company nil.

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