OAO RBC Information Systems

Consolidated Financial Statements
for the year ended 31 December 2004

Contents

Independent Auditors' Report

To the shareholders 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 2004 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Without qualifying our opinion, we draw attention to the fact that we have not audited the USD amounts in the accompanying consolidated financial statements, which have been presented solely for the convenience of users as described in note 2(d) to the consolidated financial statements.

KPMG Limited

1 August 2005

	Note	2004 '000 RUR	2003 '000 RUR	2004 '000 USD*	2003 '000 USD*
Revenues	6	2,212,872	1,429,111	79,747	51,502
Cost of sales	7	(1,479,852)	(948,122)	(53,330)	(34,168)
Gross profit		733,020	480,989	26,417	17,334
Distribution expenses	8	(268,881)	(275,088)	(9,690)	(9,914)
Administrative expenses	9	(166,073)	(114,336)	(5,985)	(4,120)
Other operating expenses, net	10	(8,451)	(24,713)	(305)	(891)
Profit from operations		289,615	66,852	10,437	2,409
Net financial income	12	50,936	72,715	1,836	2,621
Profit before tax		340,551	139,567	12,273	5,030
Income tax expense	13	(51,585)	(30,552)	(1,859)	(1,101)
Net profit for the year		288,966	109,015	10,414	3,929
Basic earnings per share	25	2.80	1.09	0.10	0.04
Diluted earnings per share	25	2.79	1.07	0.10	0.04

The consolidated financial statements were approved on 1 August 2005:

Chief Executive Officer

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German Kaplun

Chief Financial Officer

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Dmitry Belik

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 11 to 40.

* *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	2004 ’000 RUR	2003 ’000 RUR	2004 ’000 USD*	2003 ’000 USD*
ASSETS					
Non-current assets					
Property, plant and equipment	14	660,991	716,719	23,821	25,829
Intangible assets	15	331,273	211,935	11,938	7,638
Loans granted	17	4,440	-	160	-
Other investments	16	-	20	-	1
		996,704	928,674	35,919	33,468
Current assets					
Other investments	16	504,024	-	18,164	-
Loans granted	17	77,832	108,993	2,805	3,927
Inventories	18	85,984	22,655	3,099	816
Deferred expenses	19	7,387	-	265	-
Trade and other receivables	20	980,687	291,181	35,342	10,494
Cash and cash equivalents	21	569,476	423,550	20,523	15,264
		2,225,390	846,379	80,198	30,501
Total assets		3,222,094	1,775,053	116,117	63,969

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 11 to 40.

* *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	2004 '000 RUR	2003 '000 RUR	2004 '000 USD*	2003 '000 USD*
EQUITY AND LIABILITIES					
Equity	22				
Share capital		149	134	6	5
Share premium		1,464,267	679,847	52,768	24,500
Treasury shares		(3,573)	-	(129)	-
Retained earnings		761,576	472,610	27,446	17,032
		2,222,419	1,152,591	80,091	41,537
Non-current liabilities					
Loans and borrowings	23	322,563	163,816	11,625	5,903
Deferred tax liabilities	24	112,329	88,677	4,048	3,196
		434,892	252,493	15,673	9,099
Current liabilities					
Loans and borrowings	23	40,731	-	1,468	-
Deferred income	19	29,645	-	1,068	-
Trade and other payables	26	494,407	369,969	17,817	13,333
		564,783	369,969	20,353	13,333
Total equity and liabilities		3,222,094	1,775,053	116,117	63,969

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 11 to 40.

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	2004 '000 RUR	2003 '000 RUR	2004 '000 USD*	2003 '000 USD*
OPERATING ACTIVITIES				
Net profit for the year	288,966	109,015	10,414	3,92 9
Adjustments for:				
Non-cash transactions	22,258	-	802	-
Depreciation and amortisation	259,414	165,300	9,349	5,957
Loss/(gain) on disposal of property, plant and equipment	(880)	18,306	(32)	660
Loss on disposal of intangible assets	-	9,888	-	356
Gain on disposal of promissory notes	(58,615)	(101,124)	(2,112)	(3,644)
Interest expense	77,064	47,580	2,777	1,714
Interest income	(34,980)	(32,687)	(1,261)	(1,178)
Revaluation to fair value of trading investments	(10,609)	-	(382)	-
Income tax expense	51,585	30,552	1,859	1,101
Operating profit before changes in working capital	594,203	246,830	21,414	8,895
(Increase)/decrease in inventories	(63,329)	36,440	(2,282)	1,313
Increase in trade and other receivables	(682,793)	(65,212)	(24,606)	(2,350)
Increase/(decrease) in trade and other payables	109,063	(2,054)	3,930	(74)
Cash flows (used in)/from operations before income taxes and interest paid	(42,856)	216,004	(1,544)	7,784
Income taxes paid	(12,558)	(12,252)	(453)	(441)
Interest paid	(51,384)	(29,905)	(1,852)	(1,078)
Cash flows (used in)/from operating activities	(106,798)	173,847	(3,849)	6,265

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 11 to 40.

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	2004 '000 RUR	2003 '000 RUR	2004 '000 USD*	2003 '000 USD*
INVESTING ACTIVITIES				
Proceeds from disposal of property, plant and equipment	33,171	3,891	1,195	140
Proceeds from disposal of investments	58,615	101,493	2,112	3,658
Repayment of loans granted	108,993	-	3,927	-
Loans provided	(82,272)	(108,993)	(2,964)	(3,928)
Interest received	28,267	42,278	1,019	1,524
Acquisition of property, plant and equipment	(129,318)	(467,583)	(4,660)	(16,851)
Acquisition of intangible assets	(225,997)	(126,918)	(8,144)	(4,574)
Acquisition of investments	(493,395)	-	(17,781)	-
Cash flows used in investing activities	(701,936)	(555,832)	(25,296)	(20,031)
FINANCING ACTIVITIES				
Proceeds from issue of share capital	807,698	-	29,108	-
Transaction costs	(14,616)	-	(527)	-
Proceeds from borrowings	173,798	151,176	6,263	5,448
Warrants redeemed	(17,317)	-	(624)	-
Acquisition of treasury shares	(749,216)	-	(27,000)	-
Net proceeds from sale of treasury shares	754,313	-	27,184	-
Proceeds from issuance of warrants	-	20,144	-	726
Cash flows from financing activities	954,660	171,320	34,404	6,174
Net increase/(decrease) in cash and cash equivalents	145,926	(210,665)	5,259	(7,592)
Cash and cash equivalents at beginning of year	423,550	634,215	15,264	22,856
Cash and cash equivalents at end of year (note 21)	569,476	423,550	20,523	15,264

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 11 to 40.

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’000 RUR	**Share capital**	**Share premium**	**Treasury shares**	**Retained earnings**	**Total**
Balance at 1 January 2003	134	645,273	-	363,595	1,009,002
Net profit for the period	-	-	-	109,015	109,015
Warrants issued	-	18,612	-	-	18,612
Contribution by shareholders	-	15,962	-	-	15,962
Acquisition of treasury shares	-	-	(63,327)	-	(63,327)
Issuance of treasury shares	-	-	63,327	-	63,327
Balance at 31 December 2003	134	679,847	-	472,610	1,152,591
Net profit for the period	-			288,966	288,966
Warrants redeemed	-	(17,317)	-	-	(17,317)
Shares issued	15	807,683	-	-	807,698
Transaction costs	-	(14,616)	-	-	(14,616)
Surplus on issue of treasury shares	-	8,670	-	-	8,670
Acquisition of treasury shares	-	-	(749,216)	-	(749,216)
Issuance of treasury shares	-	-	745,643	-	745,643
Balance at 31 December 2004	149	1,464,267	(3,573)	761,576	2,222,419

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 11 to 40.

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’000 USD*	**Share capital**	**Share premium**	**Treasury shares**	**Retained earnings**	**Total**
Balance at 1 January 2003	5	23,254	-	13,103	36,362
Net profit for the period	-	-	-	3,929	3,929
Warrants issued	-	671	-	-	671
Contribution by shareholders	-	575	-	-	575
Acquisition of treasury shares	-	-	(2,282)	-	(2,282)
Issuance of treasury shares	-	-	2,282	-	2,282
Balance at 31 December 2003	5	24,500	-	17,032	41,537
Net profit for the period	-	-	-	10,414	10,414
Warrants redeemed	-	(624)	-	-	(624)
Shares issued	1	29,107	-	-	29,108
Transaction costs	-	(527)	-	-	(527)
Surplus on issue of treasury shares	-	312	-	-	312
Acquisition of treasury shares	-	-	(27,000)	-	(27,000)
Issuance of treasury shares	-	-	26,871	-	26,871
Balance at 31 December 2004	6	52,768	(129)	27,446	80,091

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 11 to 40.

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1 Background

(a) Organisation and operations

OAO RBC Information Systems (the "Parent Company") and its subsidiaries (together referred to as the "Group") comprise Russian Federation open joint stock companies as defined in the Civil Code of the Russian Federation, and companies located abroad. The Parent Company's shares are traded on the Moscow Stock Exchange and RTS.

The Parent Company's registered office is at Russian Federation, Moscow, Profsoyuznaya street, 78.

The Group's principal activities are advertising and information services, operation of a TV channel and development and sale of software. These services are rendered in the Russian Federation.

(b) Russian business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not 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

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and related interpretations adopted by the International Accounting Standards Board ("IASB").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that instruments held for trading and available for sale are stated at fair value; and the carrying amounts of assets, liabilities and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, *GosKomStat*. Russia ceased to be hyperinflationary for IFRS purposes as of 1 January 2003.

(c) Measurement and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUR"), which is the Parent Company's measurement currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUR has been rounded to the nearest thousand.

(d) Convenience translation

The Parent Company's measurement currency is RUR because it reflects the economic substance of the underlying events and circumstances of the company. In addition to presenting the consolidated financial statements in RUR, supplementary information in USD has been prepared for the convenience of users of the financial statements.

The supplementary information has been prepared by translating from RUR to USD at the Official rate of the Central Bank of the Russian Federation as at 31 December 2004 of RUR 27.7487 to USD 1.

All financial information presented in USD has been rounded to the nearest thousand, unless stated otherwise.

(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 (see 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 has 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.

3 Significant accounting policies

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

(a) 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

Intragroup balances and transactions, and any unrealised gains arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. 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.

(b) Foreign currencies

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

(c) Property, plant and equipment

(i) Owned assets

Property, plant and equipment is 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) Leased assets

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

(iii) 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:

- TV equipment 5 years
- Computer equipment 5 years
- Office equipment 5 years
- Other assets 5 years

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(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

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 Group 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) Amortisation

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

The estimated useful lives are as follows:

- Trade marks 7 years
- Software 3 years
- Web-site 3 years
- Development costs 3 years

(e) Investments

Investments are recognised (derecognised) when the Group obtains (loses) control over the contractual rights inherent in that asset.

Except as outlined below, investments are accounted for as follows:

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

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The fair value of investments held for trading and available for sale is their quoted bid price at the balance sheet date. Investments in equity securities that are not quoted on a stock exchange, and where fair value cannot be estimated on a reasonable basis by other means, are stated at cost less impairment losses.

(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 weighted average principle and 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 cost less impairment losses.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

(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 when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of the Group's loans 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 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.

(j) Share capital

(i) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is deducted from equity.

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(ii) Convertible notes

Convertible notes that can be converted to share capital at the option of the holder or give right to receive shares, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments, net of attributable transaction costs. The equity component of the convertible notes is calculated as the excess of the issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The interest expense recognised in the income statement is calculated using the effective interest rate.

(k) Loans and borrowings

Loans and borrowings are recognised initially at cost. 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.

(l) Employee benefits

The Group makes contributions for the benefit of employees to Russia's State pension fund. The contributions are expensed as incurred.

(m) Trade and other payables

Trade and other payables are stated at cost.

(n) 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 in 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 substantively 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: initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and investments in subsidiaries where the Parent Company 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 substantively 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.

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(o) Revenues

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.

Revenue from non-cash transactions is recognised when goods or services are exchanged for dissimilar goods and services. Revenue is measured at the fair value of the goods or services rendered, including any cash or cash equivalents received. However, when goods or services are exchanged for goods and services that are similar in nature and value, the exchange is considered as a transaction that does not generate revenue.

(p) Financial income and expenses

Financial income and expenses comprise interest expense on borrowings, interest income on funds invested, foreign exchange gains and losses, and gains and losses on the revaluation and disposal of investments held for trading and available-for-sale.

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

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

(q) Other expenses

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease payments.

(r) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(s) Comparative information

During the current year the Group modified the classification of loans granted in the balance sheet. Comparatives were reclassified for consistency, which resulted in RUR 108,993 thousand/USD* 3,927 thousand of loans provided being reclassified from trade and other receivables to loans granted.

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4 Segment reporting

Segment information is presented in respect of the Group's business segments. The primary format, business segments, is based on the Group's management and internal reporting structure. Segment information is not presented in respect of the Group's geographical segment as the Group operates in one economic environment.

Inter-segment pricing is not determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

(a) Business segments

Management runs the Group by distinguishing between two main segments: the Group's core business and its TV business. The Group's core business includes the provision of internet advertising services and information services; and the development and sale of software products. Although the two elements of the core business have distinct revenue streams, they use the same assets and infrastructure. Consequently, management is not able to reasonably split expenses, assets and liabilities between the two elements of the core business. The separate revenue amounts are disclosed in note 6.

The Group comprises the following main business segments:

Core-business. Provision of internet advertising, information services, developing and selling software products.

TV. Operation of a satellite TV-channel and related services.

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(i) Business segments

	Core business		TV		Eliminations		Consolidated	
'000 RUR	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
Revenue from external customers	1,737,302	1,262,603	475,570	166,508	-	-	2,212,872	1,429,111
Inter-segment revenue	84,626	23,429	44,210	4,611	(128,836)	(28,040)	-	-
Total revenue	1,821,928	1,286,032	519,780	171,119	(128,836)	(28,040)	2,212,872	1,429,111
Segment result	772,717	583,850	66,239	(96,941)	(20,127)	(5,920)	818,829	480,989
Unallocated expenses							(529,214)	(414,137)
Profit from operations							289,615	66,852
Net financial income							50,936	72,715
Income tax expense							(51,585)	(30,552)
Net profit for the year							288,966	109,015
Segment assets	2,181,925	1,329,036	605,061	593,750	(301,812)	(147,733)	2,485,174	1,775,053
Unallocated assets							736,920	-
Total assets							3,222,094	1,775,053
Segment liabilities	483,557	547,095	343,321	217,180	(273,366)	(141,813)	553,512	622,462
Unallocated liabilities							446,163	-
Total liabilities							999,675	622,462
Capital expenditure	157,891	257,963	157,226	395,748	-	-	315,117	653,711

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(i) Business segments

	Core business		TV		Eliminations		Consolidated	
'000 USD*	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
Revenue from external customers	62,609	45,501	17,138	6,001	-	-	79,747	51,502
Inter-segment revenue	3,049	845	1,594	166	(4,643)	(1,011)	-	-
Total revenue	65,658	46,346	18,732	6,167	(4,643)	(1,011)	79,747	51,502
Segment result	27,847	21,041	2,387	(3,494)	(725)	(213)	29,509	17,334
Unallocated expenses							(19,072)	(14,925)
Profit from operations							10,437	2,409
Net financial income							1,836	2,621
Income tax expense							(1,859)	(1,101)
Net profit for the year							10,414	3,929
Segment assets	78,632	47,895	21,805	21,397	(10,877)	(5,323)	89,560	63,969
Unallocated assets							26,557	-
Total assets							116,117	63,969
Segment liabilities	17,426	19,716	12,373	7,827	(9,852)	(5,111)	19,947	22,432
Unallocated liabilities							16,079	-
Total liabilities							36,026	22,432
Capital expenditure	5,690	9,296	5,6	14,262	-	-	11,3	23,558

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

5 Acquisition and disposals of subsidiaries

In 2003 the Group acquired 100% in RBC Investments Cyprus for a consideration of RUR 52 thousand/USD* 2 thousand. Negative net identifiable assets of the acquired company amounted to RUR 235 thousand/USD* 8 thousand.

In 2003 the Group disposed of 100% of ZAO Publishing House RBC for nil. The majority of the assets and liabilities of ZAO Publishing House RBC were transferred to other companies of the Group before disposal. At the date of the disposal the net identifiable assets of the company amounted to RUR 657 thousand/USD* 24 thousand.

6 Revenues

	2004 '000 RUR	2003 '000 RUR	2004 '000 USD*	2003 '000 USD*
Revenues from advertising services	1,380,714	863,314	49,758	31,112
Revenues from developed software	701,787	468,136	25,291	16,871
Revenues from information services	113,199	94,808	4,079	3,417
Revenues from other activities	17,172	2,853	619	102
	2,212,872	1,429,111	79,747	51,502

Revenue from non-cash transactions amounted to RUR 38,420 thousand/USD* 1,385 thousand (2003: nil).

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

7 Cost of sales

	2004 '000 RUR	2003 '000 RUR	2004 '000 USD*	2003 '000 USD*
Depreciation and amortisation	(259,414)	(165,300)	(9,349)	(5,957)
Outsourced cost of programming	(248,081)	(187,322)	(8,940)	(6,751)
Labour costs	(247,112)	(125,090)	(8,905)	(4,508)
Cost of goods sold	(241,205)	(87,073)	(8,692)	(3,138)
Marketing communication	(105,848)	(89,592)	(3,815)	(3,229)
Cost of advertising services	(104,757)	(57,603)	(3,775)	(2,076)
Information services	(85,809)	(58,504)	(3,092)	(2,108)
Outsourced labour costs	(72,181)	(93,435)	(2,601)	(3,367)
Content costs	(49,841)	-	(1,796)	-
Signal network distribution	(42,832)	(28,781)	(1,544)	(1,037)
Other	(22,772)	(55,422)	(821)	(1,997)
	(1,479,852)	(948,122)	(53,330)	(34,168)

8 Distribution expenses

Distribution expenses include services received from non-cash transactions amounting to RUR 16,162 thousand/USD* 582 thousand (2003: nil).

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

9 Administrative expenses

	2004 '000 RUR	2003 '000 RUR	2004 '000 USD*	2003 '000 USD*
Wages and salaries	(55,334)	(43,966)	(1,994)	(1,584)
Consulting and legal	(37,291)	(8,635)	(1,344)	(311)
Communication	(13,942)	(7,511)	(502)	(271)
Rent	(11,338)	(4,529)	(409)	(163)
Insurance	(10,518)	(3,331)	(379)	(120)
Repair	(6,637)	(15,724)	(239)	(566)
Housing	(6,140)	(3,321)	(221)	(120)
Maintenance of cars	(3,355)	(1,706)	(121)	(62)
Representation costs	(2,664)	(2,312)	(96)	(83)
Stationary	(1,960)	(3,985)	(71)	(144)
IT outsourced services	(1,707)	-	(62)	-
Recruitment services	(866)	(2,016)	(31)	(73)
Other	(14,321)	(17,300)	(516)	(623)
	(166,073)	(114,336)	(5,985)	(4,120)

10 Other operating expenses, net

	2004 '000 RUR	2003 '000 RUR	2004 '000 USD*	2003 '000 USD*
Taxes, other than on profit	(4,451)	(5,846)	(160)	(211)
Depository services	(3,982)	(258)	(144)	(9)
Penalties	(2,016)	-	(73)	-
Bank and other charges	(1,743)	(1,092)	(63)	(40)
Rental income	3,869	4,861	139	175
Gain/(loss) from disposal of property, plant and equipment	880	(18,306)	32	(660)
Loss on disposal of intangible assets	-	(9,888)	-	(356)
Other operating (expenses)/income	(1,008)	5,816	(36)	210
	(8,451)	(24,713)	(305)	(891)

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

11 Total personnel costs

The average number of employees during 2004 was 1,403 (2003: 1,160).

Total staff costs for the year amounted to 388,726 thousand RUR/ 14,009 thousand USD* (2003: 339,144 thousand RUR/ 12,222 thousand USD*).

12 Net financial income

	2004 ’000 RUR	2003 ’000 RUR	2004 ’000 USD*	2003 ’000 USD*
Interest expense	(77,064)	(47,580)	(2,777)	(1,714)
Gain on disposal of promissory notes	58,615	101,124	2,112	3,644
Interest income	34,980	32,687	1,261	1,178
Foreign exchange gain/(loss)	12,953	(13,516)	467	(487)
Revaluation to fair value of trading investments	10,609	-	382	-
Gain from trading investments	10,843	-	391	-
	50,936	72,715	1,836	2,621

13 Income tax expense

	2004 ’000 RUR	2003 ’000 RUR	2004 ’000 USD*	2003 ’000 USD*
Current tax expense				
Current year	(27,933)	(20,761)	(1,007)	(748)
	(27,933)	(20,761)	(1,007)	(748)
Deferred tax expense				
Origination and reversal of temporary differences	(23,652)	5,680	(852)	205
Change in tax rate	-	(15,471)	-	(558)
	(23,652)	(9,791)	(852)	(353)
	(51,585)	(30,552)	(1,859)	(1,101)

The Parent Company’s applicable tax rate is 24%. The subsidiaries pay income tax in accordance with the legislative requirement of their tax jurisdictions. For the entities located in Cyprus, the applicable tax rate is the corporate income tax rate of 4.25%. The same rates were used for measuring deferred taxes.

The Group’s applicable tax rate is the corporate income tax rate of 24% (2003: 24%).

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

Reconciliation of effective tax rate:

	2004 '000 RUR	%	2003 '000 RUR	%
Profit before tax	340,551	100	139,567	100
Income tax at applicable tax rate	(81,732)	(24)	(33,496)	(24)
Income taxed at lower rates	110,725	33	72,643	52
Change in tax rate	-	-	(15,471)	(11)
Non-deductible/non-taxable items	(80,578)	(24)	(54,228)	(39)
	(51,585)	(15)	(30,552)	(22)

	2004 '000 USD*	%	2003 '000 USD*	%
Profit before tax	12,273	100	5,030	100
Income tax at applicable tax rate	(2,945)	(24)	(1,207)	(24)
Income taxed at lower rates	3,990	33	2,618	52
Change in tax rate	-	-	(558)	(11)
Non-deductible/non-taxable items	(2,904)	(24)	(1,954)	(39)
	(1,859)	(15)	(1,101)	(22)

14 Property, plant and equipment

'000 RUR	TV equipment	Computer equipment	Office equipment	Other assets	Equipment for installation	Total
Cost						
At 1 January 2004	377,424	354,059	20,223	10,853	86,027	848,586
Additions	66,005	53,143	1,762	2,426	5,982	129,318
Disposals	(120)	-	-	(1,387)	(31,396)	(32,903)
Transfers	4,660	1,430	-	-	(6,090)	-
At 31 December 2004	447,969	408,632	21,985	11,892	54,523	945,001

∗ *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	**TV equipment**	**Computer equipment**	**Office equipment**	**Other assets**	**Equipment for installation**	**Total**
Depreciation						
At 1 January 2004	(43,979)	(74,912)	(8,431)	(4,545)	-	(131,867)
Depreciation charge	(74,481)	(70,575)	(4,414)	(3,285)	-	(152,755)
Disposals	12	-	-	600	-	612
At 31 December 2004	(118,448)	(145,487)	(12,845)	(7,230)	-	(284,010)
Net book value						
At 1 January 2004	333,445	279,147	11,792	6,308	86,027	716,719
At 31 December 2004	329,521	263,145	9,140	4,662	54,523	660,991

'000 USD	**TV equipment**	**Computer equipment**	**Office equipment**	**Other assets**	**Equipment for installation**	**Total**
Cost						
At 1 January 2004	13,602	12,759	729	391	3,100	30,581
Additions	2,379	1,915	63	87	216	4,660
Disposals	(4)	-	-	(50)	(1,131)	(1,185)
Transfers	168	52	-	-	(220)	-
At 31 December 2004	16,145	14,726	792	428	1,965	34,056
Depreciation						
At 1 January 2004	(1,585)	(2,699)	(304)	(164)	-	(4,752)
Depreciation charge	(2,684)	(2,544)	(159)	(118)	-	(5,505)
Disposals	-	-	-	22	-	22
At 31 December 2004	(4,269)	(5,243)	(463)	(260)	-	(10,235)
Net book value						
At 1 January 2004	12,017	10,060	425	227	3,100	25,829
At 31 December 2004	11,876	9,483	329	168	1,965	23,821

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

(a) Depreciation charge

Depreciation charge of RUR 10,922 thousand/USD* 394 thousand (2003: RUR 18,876 thousand/USD* 680 thousand) is capitalised as web-site and development costs.

(b) Security

TV equipment with a carrying amount of RUR 118,185 thousand / USD* 4,259 thousand (2003: nil) is subject to a registered debenture to secure bank loans (see note 23).

15 Intangible assets

’000 RUR	Trade marks	Software	Web-site	Development costs	Total
Cost					
At 1 January 2004	-	50,464	153,086	179,083	382,633
Additions	51,120	91,221	35,460	59,118	236,919
At 31 December 2004	51,120	141,685	188,546	238,201	619,552
Amortisation					
At 1 January 2004	-	(5,499)	(65,617)	(99,582)	(170,698)
Amortisation charge	(4,538)	(18,847)	(44,133)	(50,063)	(117,581)
At 31 December 2004	(4,538)	(24,346)	(109,750)	(149,645)	(288,279)
Net book value					
At 1 January 2004	-	44,965	87,469	79,501	211,935
At 31 December 2004	46,582	117,339	78,796	88,556	331,273

∗ *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 USD*	Trade marks	Software	Web-site	Development costs	Total
Cost					
At 1 January 2004	-	1,819	5,517	6,454	13,790
Additions	1,842	3,287	1,278	2,130	8,537
At 31 December 2004	1,842	5,106	6,795	8,584	22,327
Amortisation					
At 1 January 2004	-	(198)	(2,365)	(3,589)	(6,152)
Amortisation charge	(164)	(679)	(1,590)	(1,804)	(4,237)
At 31 December 2004	(164)	(877)	(3,955)	(5,393)	(10,389)
Net book value					
At 1 January 2004	-	1,621	3,152	2,865	7,638
At 31 December 2004	1,678	4,229	2,840	3,191	11,938

(a) Amortisation charge

The amortisation charge for the year is included in "cost of sales".

(b) Trade marks

During 2004 the Group acquired two trade marks: "Company of the year" and "Brand of the year". Crosby Group Corporation, the Company that sold the trade mark "Company of the year" to the Group, was involved in a law suit with another party over the ownership of this brand. Due to an infringement of Crosby Group Corporation's right, on 18 March 2005 the Moscow Arbitration Court cancelled the registration of the Trade Mark. However, in July 2005 Crosby Group Corporation won an appeal in respect of this case (see note 32).

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

16 Other investments

	2004 ’000 RUR	2003 ’000 RUR	2004 ’000 USD*	2003 ’000 USD*
Non-current				
Available for sale investments	-	20	-	1
Current				
Trading investments	166,295	-	5,993	-
Bank promissory notes available for sale	337,729	-	12,171	-
	504,024	-	18,164	-

The fair value of trading investments with a carrying amount of RUR 166,295 / USD* 5,993, was determined by reference to their quoted market prices; these investments are listed on the RTS.

Bank promissory notes available for sale include RUR 151,700 thousand/USD* 5,467 thousand of promissory notes repayable in February 2005 and bearing no interest and RUR 147,829 thousand/USD* 5,327 thousand of bank promissory notes repayable in March 2005 bearing 14% interest. Also, they include bank promissory notes of RUR 34,900 thousand/USD* 1,258 thousand with a maturity date 2006-2007 and bearing 14% interest and USD bank promissory notes of RUR 3,300 thousand/USD* 119 thousand with a maturity date 2007 and bearing 9% interest. These promissory notes were repaid in January 2005.

Available for sale investments as at 31 December 2003 stated at cost comprised unquoted equity securities in associates and subsidiaries. These subsidiary companies were not consolidated in the Group financial statements as of and for the year ended 31 December 2003 as the impact of consolidation would not be material to the Group financial statements. The associated companies were not accounted using the equity method in the Group financial statements as of and for the year ended 31 December 2003 as the impact of this would not be material. As at 31 December 2004 these subsidiaries are consolidated and the associated companies were disposed of.

17 Loans granted

Non-current loans granted represent a loan provided to the executive director (see note 30(b)). The loan is repayable in 2010 and bears 6% interest.

Current loans granted include RUR 8,360 thousand/USD* 301 thousand of 9.75% interest bearing loans provided to the shareholders (see note 30(b)); RUR 53,508 thousand/USD* 1,928 thousand of 5-6% interest bearing loans provided to third parties and 13,840 thousand/USD* 499 thousand of short-term loans granted to related parties at an effective interest rate of 4% pledged by flats in Moscow (see note 30(c)). In 2003 the current loans granted represented loans provided to a related party bearing 0.5% interest and repayable in March 2004.

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

18 Inventories

	2004 '000 RUR	2003 '000 RUR	2004 '000 USD*	2003 '000 USD*
Raw materials and consumables	7,908	3,164	285	114
Work in progress	2	382	-	14
Goods for resale	78,074	19,109	2,814	688
	85,984	22,655	3,099	816

19 Deferred expenses and deferred income

Deferred expenses represent future advertising expenses and deferred income represent future revenue from advertising services. Such expenses and income result from barter transactions.

20 Trade and other receivables

	2004 '000 RUR	2003 '000 RUR	2004 '000 USD*	2003 '000 USD*
Accounts receivables – trade	536,055	52,662	19,318	1,898
Prepayments	124,196	123,171	4,476	4,439
VAT receivable	82,759	79,713	2,982	2,873
Interest receivable	9,122	2,409	329	87
Other receivables	228,555	33,226	8,237	1,197
	980,687	291,181	35,342	10,494

Other receivables include a receivable for the sale of treasury shares of RUR 169,397 thousand /USD* 6,105 thousand (2003: nil) and a receivable for the sale of trading investments of RUR 46,063 thousand/USD* 1,660 thousand (2003: nil).

21 Cash and cash equivalents

	2004 '000 RUR	2003 '000 RUR	2004 '000 USD*	2003 '000 USD*
Cash in bank and on-hand	129,969	423,550	4,684	15,264
Cash held by brokers	439,507	-	15,839	-
Cash and cash equivalents in the statement of cash flows	569,476	423,550	20,523	15,264

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

Cash held by brokers represents cash expected to be used for the purchase of trading investments. This cash could be received at any time with a 10 days' notification.

22 Equity

(a) Share capital and share premium

Number of shares unless otherwise stated	**Ordinary shares 2004**	**Ordinary shares 2003**
Authorised shares	115 000 000	100 000 000
Par value	RUR 0.001	RUR 0.001
Issued at beginning of year	100 000 000	100 000 000
Issued for cash	15 000 000	-
Issued at end of year, fully paid	115 000 000	100 000 000

(b) Treasury shares

At the balance sheet date the Group held 150 000 (2003: nil) of its own shares.

(c) Dividends

In accordance with the Russian legislation the Parent Company's distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Parent Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As of 31 December 2004 the Parent Company had a cumulative retained loss, including the loss for the current year, of RUR 3,687 thousand (USD 133 thousand converted at the closing exchange rate of 27.7487). As of 31 December 2003 the Parent Company had cumulative retained earnings, including the profit for the year, of RUR 1,940 thousand (USD 70 thousand converted at the closing exchange rate of 27.7487).

(d) Warrants

No new shares were issued in order to settle the warrants. For this purpose, the Group acquired and issued treasury shares.

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

23 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings.

	2004 '000 RUR	2003 '000 RUR	2004 '000 USD*	2003 '000 USD*
Non-current				
Secured bank loans	154,883	-	5,582	-
Unsecured bond issue	167,680	163,816	6,043	5,903
	322,563	163,816	11,625	5,903
Current				
Current portion of secured bank loans	31,052		1,119	
Unsecured borrowings	9,679	-	349	-
	40,731	-	1,468	-

For more information about the Group's exposure to interest rate and foreign currency risk, see note 28.

(a) Terms and debt repayment schedule

'000 RUR	**Total**	**Under 1 year**	**1-5 years**
Secured bank loans:			
USD – fixed at 13.25%	185,935	31,052	154,883
Unsecured bond issues			
USD – fixed at 15.25%	167,680	-	167,680
Unsecured borrowings			
USD – fixed at 9%	9,679	9,679	-
	363,294	40,731	322,563

∗ *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 USD*	Total	Under 1 year	1-5 years
Secured bank loans:			
USD – fixed at 13.25%	6,701	1,119	5,582
Unsecured bond issue			
USD – fixed at 15.25%	6,043	-	6,043
Unsecured borrowings			
USD – fixed at 9%	349	349	-
	13,093	1,468	11,625

The secured bank loans are received from KB OOO Moskommerzbank. The bank loans are denominated in USD and have an effective interest rate of 13.25%. They are secured by TV equipment with a carrying amount of RUR 118,185 thousand /USD* 4,259 thousand (see note 14(b)) and 3,661,774 shares of RBC Information Systems pledged by shareholders (see note 30).

In February 2003, the Group issued long term 15.25% bonds with a par value of USD 6 million and a maturity date of February 2006. The bonds have an effective interest rate of 19.25%. Subscribers to the bonds received a warrant to acquire 10,000 shares in RBC Information Systems for every bond held exercisable at any time after a 12 month period from issue of the bonds. The warrant exercise price is nil. Following their issue, the warrants are detachable from the bonds. At 31 December 2004 there are 15 warrant unexercised, equal to 150 000 shares. The interest on the bonds is payable on 30 June and 31 December in each year starting from 30 June 2003.

24 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

’000 RUR	Assets		Liabilities		Net	
	2004	2003	2004	2003	2004	2003
Property, plant and equipment	-	-	(70,259)	(61,471)	(70,259)	(61,471)
Intangible assets	-	-	(38,719)	(29,493)	(38,719)	(29,493)
Inventories	-	-	-	(2,394)	-	(2,394)
Trade and other receivables	1,199	1,505	-	-	1,199	1,505
Loans and borrowings	-	-	(5,549)	(3,956)	(5,549)	(3,956)
Trade and other payables	999	6,276	-	-	999	6,276
Tax loss carry-forwards	-	856	-	-	-	856
Tax assets/(liabilities)	2,198	8,637	(114,527)	(97,314)	(112,329)	(88,677)

* *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 USD*	**Assets**		**Liabilities**		**Net**	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**
Property, plant and equipment	-	-	(2,532)	(2,215)	(2,532)	(2,215)
Intangible assets	-	-	(1,395)	(1,063)	(1,395)	(1,063)
Inventories	-	-	-	(86)	-	(86)
Trade and other receivables	43	54	-	-	43	54
Loans and borrowings	-	-	(200)	(143)	(200)	(143)
Trade and other payables	36	226	-	-	36	226
Tax loss carry-forwards	-	31	-	-	-	31
Tax assets/(liabilities)	79	311	(4,127)	(3,507)	(4,048)	(3,196)

(b) Movement in temporary differences during the year

’000 RUR	**1 January 2004**	**Recognised in income**	**31 December 2004**
Property, plant and equipment	(61,471)	(8,788)	(70,259)
Intangible assets	(29,493)	(9,226)	(38,719)
Inventories	(2,394)	2,394	-
Trade and other receivables	1,505	(306)	1,199
Loans and borrowings	(3,956)	(1,593)	(5,549)
Trade and other payables	6,276	(5,277)	999
Tax value of loss carry-forwards recognised	856	(856)	-
	(88,677)	(23,652)	(112,329)

* *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 USD*	**1 January 2004**	**Recognised in income**	**31 December 2004**
Property, plant and equipment	(2,215)	(317)	(2,532)
Intangible assets	(1,063)	(332)	(1,395)
Inventories	(86)	86	-
Trade and other receivables	54	(11)	43
Loans and borrowings	(143)	(57)	(200)
Trade and other payables	226	(190)	36
Tax value of loss carry-forwards recognised	31	(31)	-
	(3,196)	(852)	(4,048)

25 Earnings per share

The calculation of basic earnings per share at 31 December 2004 was based on the net profit for the year and the weighted average number of ordinary shares outstanding during the year of 103,347,500 (2003: 100,000,000) calculated as follows:

In thousands of shares	**2004**	**2003**
Issued ordinary shares at 1 January	100,000	100,000
Effect of own shares held	(403)	-
Effect of shares issued in October	3,750	-
Weighted average number of ordinary shares at 31 December	103,347	100,000

A weighted average number of dilutive potential shares (warrants) of 402,500 (2003: 1,130,000) was taken into account in the calculation of diluted earnings per share. The assumed issue of warrants had no effect on the net profit for the year.

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

26 Trade and other payables

	2004 '000 RUR	2003 '000 RUR	2004 '000 USD*	2003 '000 USD*
Accounts payable – trade	136,062	93,143	4,903	3,357
Advances received	40,348	120,405	1,454	4,339
Payables to shareholders	135,070	136,347	4,868	4,914
Income tax payable	23,884	8,509	860	306
Other payables and accrued expenses	159,043	11,565	5,732	417
	494,407	369,969	17,817	13,333

Other payables and accrued expenses include RUR 114,261 thousand/USD* 4,118 thousand of payables for the purchase of treasury shares (2003: nil).

27 Share options

In July 2002, the compensation committee of the Group set up an option program for the members of the Board of directors. Under this program within a 3-year period a performance assessment needs to be made of each member. The result of the performance assessment will determine the number of shares to be granted to each of the members. The following maximum number of shares to be granted were determined by the compensation committee:

German Kaplun	500,000
Alexander Morgulchik	500,000
Dmitry Belik	500,000
Sergei Lukin	250,000
Oleg Diatlov	250,000
Yuri Mostovoy	250,000
Givi Topchishvili	250,000
Hans-Joerg Rudloff	250,000
Neil Osborn	250,000
Michael Hammond	250,000

The shares will be exercisable at 130% of the $0.83 share price at which the Parent Company's ordinary shares were initially offered to the public in April 2002.

As at 31 December 2004 the performance assessments had not been made and the number of shares to be granted to each member of the Board of directors had not been determined. The total number of shares reserved for the share option program for Board members amounts to 3% of the Company's total issued shares.

At present the Group does not have a share option program for middle management but the Board of directors is considering such a program. After introduction of such program the total number of shares reserved for share option programs may reach up to 5%.

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

28 Financial instruments

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

(a) Credit risk

The Group does not require collateral in respect of financial assets. Credit evaluations are performed for all customers, other than related parties, requiring credit over a certain amount.

At the 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 in the balance sheet.

(b) Interest rate risk

The Group adopts a policy of ensuring that the major part of its exposure to changes in interest rates on loans and borrowings is on a fixed rate basis.

(c) Foreign currency risk

The Group incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than RUR. The currencies giving rise to this risk are primarily USD and Euro. Management does not hedge the Group's exposure to foreign currency risk.

(d) Fair values

The fair value of investments is discussed in note 16.

In other cases fair value has been determined as of the balance sheet date by discounting the estimated future cash flows using market interest rates for similar instruments. As a result management believes that the fair value of its financial assets and liabilities approximates their carrying amounts.

29 Contingencies

(a) Insurance

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

(b) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear,

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

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

The way in which the Group structured its activities within the Group may possibly be challenged by the tax authorities of the Russian Federation. In addition, some transactions of the Group, aimed at reduction of tax costs, may be not in compliance with the transfer pricing provisions of Russian tax legislation. In case of successful challenge by the tax authorities, additional tax payments, including fines and penalties, could be assessed.

Based on the facts available, no provision for potential tax liabilities has been made in these consolidated financial statements, as management believes that it is not likely that an outflow of funds will be required to settle such obligations.

Management has determined that it is not practicable to estimate the amount of potential tax liabilities, relating to the current and previous financial years, which could be imposed on the Group as a result of the above.

30 Related party transactions

(a) Control relationships

The Parent Company is owned by individuals. Top management control 65.54% of the voting shares of the Parent Company. In addition, the Group has a controlling relationship with all of its subsidiaries (see note 31 for a list of subsidiaries).

(b) Transactions with management and close family members

Loans to executive directors amounting to RUR 4,440 thousand / USD* 159 thousand (2003: nil) are included in "non-current loans granted" and RUR 8,360/USD* 301 thousand (2003: nil) included in "current loans granted" (see note 17). The non-current loan granted bears 6% interest and is repayable in 2010. Current loans granted bear 9.75% interest and are repayable in 2005.

In addition 3,661,774 shares of RBC Information Systems owned by shareholders were pledged under the non-current secured bank loan (see note 23(a)).

(c) Transactions with other related parties

Related parties comprise the shareholders of the Parent Company and all other companies in which those shareholders, either individually or together, have a controlling interest.

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During 2004 the Group received financial services from its related parties for RUR 3,080 thousand/USD* 111 thousand (2003: nil).

During 2004 the Group received IT services from their related parties for RUR 10,169 thousand/USD* 366 thousand (2003: nil).

As at 31 December 2004 the Group has granted loans of RUR 13,840 thousand/USD* 499 thousand to its related parties at an effective interest rate of 4%. The loans are pledged by flats in Moscow (see note 17).

During 2004 the Group received bridge financing from its related parties of RUR 110,995/USD* 4, 000 thousand at effective interest rate of 12% (2003: nil).

During 2004 the Group received an interest free loan from the shareholders of RUR 641,700 thousand/USD* 23,125 thousand. The loan was repaid close to the year end. Also in 2004 the Group provided a loan at effective interest rate of 9,75% of RUR 572,161 thousand/USD* 20,619 thousand to its shareholders. The loan was repaid in 2004.

(d) Pricing policies

Prices for related party transactions are determined by the Group on an ongoing basis.

31 Significant subsidiaries

	Country of incorporation	Ownership/voting	
		2004	**2003**
ZAO “RosBusinessConsulting”	Russia	100%	100%
“RBC-Publishing” Ltd.	Russia	100%	-
“RBC Information Systems (Europe)” N.V.	The Netherlands	100%	100%
RBC Investments (Cyprus) Limited	Cyprus	100%	100%
OOO “It Grupp”	Russia	100%	-
ZAO “RBC Soft”	Russia	100%	100%
OOO “RBC Center”	Russia	100%	100%
Information Research Center PECOM Politics, Economics, Marketing	Russia	100%	-
OOO “Art Systems”	Russia	100%	100%
OOO “Art Reclama”	Russia	100%	100%
OOO “RBC-Reclama”	Russia	100%	-
ZAO “RBC-TV”	Russia	100%	100%
OOO “RBC-TV Production”	Russia	100%	100%
ZAO “RBC Holding”	Russia	100%	-
OOO “Niken”	Russia	60%	60%
OOO “Merkot”	Russia	60%	-

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OOO Niken and OOO Merkot are consolidated based on 100% ownership as 40% of their shares is held by nominal shareholders for the benefit of the Group.

32 Events subsequent to the balance sheet date

The Group established a Level-1 ADR program (ticker symbol: RINFY, CUSIP number: 75523Q102) for its common stock on March 24, 2005. One ADR represents four ordinary shares. ADRs are tradable on the OTC market. The main goal of the issue is to enable international retail and institutional investors to participate in the share capital of RBC.

The Group purchased the trademark “Company of the year” from Crosby Group Corporation (see note 15(b)). However, due to an infringement of Crosby Group Corporation’s right, on 18 March 2005 the Moscow Arbitration Court cancelled the registration of the trade mark. Crosby Group Corporation filed an appeal against the decision of the court, which it won in July 2005. The next appeal is not expected until the end of 2005.

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