OJSC RBC Information Systems

Consolidated Financial Statements for the year ended 31 December 2005

Contents

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Independent Auditors' Report

To the shareholders of OJSC RBC Information Systems

We have audited the accompanying consolidated balance sheet of OJSC RBC Information Systems (the "Company") and its subsidiaries (the "Group") as at 31 December 2005, 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 Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2005, 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 your attention to the fact that the USD amounts in the accompanying consolidated financial statements, which are presented solely for the convenience of users as described in note 2(d) and do not form a part of the consolidated financial statements, are unaudited.

KPMG Limited

30 June 2006

	Note	2005 '000 RUR	2004 '000 RUR	2005 '000 USD*	2004 '000 USD*
Revenues	6	3,149,764	2,212,872	109,433	76,883
Cost of sales		(2,089,317)	(1,479,852)	(72,590)	(51,415)
Gross profit		1,060,447	733,020	36,843	25,468
Other income	7	5,983	4,749	208	165
Distribution expenses		(339,588)	(268,881)	(11,798)	(9,342)
Administrative expenses	8	(162,479)	(166,073)	(5,645)	(5,770)
Taxes, other than on profit		(7,263)	(4,451)	(252)	(155)
Other expenses	9	(28,295)	(8,749)	(983)	(304)
Financial income	11	145,785	128,000	5,065	4,447
Financial expenses	11	(99,929)	(77,064)	(3,472)	(2,677)
Profit before tax		574,661	340,551	19,966	11,832
Income tax benefit/(expense)	12	24,211	(51,585)	841	(1,792)
Net profit for the year		598,872	288,966	20,807	10,040
Basic and diluted earnings per share	24				
		RUR	RUR	USD*	USD*
Basic earnings per share		5.22	2.80	0.18	0.10
Diluted earnings per share		5.06	2.79	0.18	0.10

The consolidated financial statements were approved on 30 June 2006:

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 4.

** 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	2005 '000 RUR	2004 '000 RUR	2005 '000 USD*	2004 '000 USD*
ASSETS					
Non-current assets					
Property, plant and equipment	13	573,886	660,991	19,939	22,965
Intangible assets	14	683,031	331,273	23,732	11,511
Loans	15	33,205	4,440	1,154	154
Other assets	16	37,687	10,990	1,309	382
Lease receivables		9,713	-	337	-
		1,337,522	1,007,694	46,471	35,012
Current assets					
Other investments	17	301,869	504,024	10,488	17,511
Loans	15	26,672	77,832	926	2,704
Inventories	19	20,282	85,984	705	2,987
Trade and other receivables	20	872,690	977,084	30,320	33,947
Cash and cash equivalents	21	1,367,674	569,476	47,518	19,785
		2,589,187	2,214,400	89,957	76,934
Total assets		3,926,709	3,222,094	136,428	111,946

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 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).*

	Note	2005 ’000 RUR	2004 ’000 RUR	2005 ’000 USD*	2004 ’000 USD*
EQUITY AND LIABILITIES					
Equity	22				
Share capital		149	149	5	5
Share premium		1,492,929	1,464,267	51,870	50,874
Treasury shares		(89,837)	(3,573)	(3,121)	(124)
Retained earnings		1,360,448	761,576	47,267	26,460
Total equity		2,763,689	2,222,419	96,021	77,215
Non-current liabilities					
Loans and borrowings	23	304,556	322,563	10,581	11,207
Deferred tax liabilities	18	85,489	112,329	2,971	3,902
		390,045	434,892	13,552	15,109
Current liabilities					
Loans and borrowings	23	175,440	40,731	6,095	1,415
Trade and other payables	25	587,983	500,168	20,428	17,378
Income tax payable		9,552	23,884	332	829
		772,975	564,783	26,855	19,622
Total equity and liabilities		3,926,709	3,222,094	136,428	111,946

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 6.

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

	2005 '000 RUR	2004 '000 RUR	2005 '000 USD*	2004 '000 USD*
OPERATING ACTIVITIES				
Net profit for the year	598,872	288,966	20,807	10,040
Adjustments for:				
Depreciation and amortisation	324,021	259,414	11,258	9,012
Unrealised foreign exchange loss/(gain)	3,242	(9,761)	113	(339)
Loss/(gain) on disposal of property, plant and equipment	6,512	(880)	226	(31)
Gain on disposal of investments, net	(90,908)	(58,615)	(3,158)	(2,036)
Revaluation to fair value of investments held for trading	(14,869)	(10,609)	(517)	(369)
Discount on transfer of debt	3,711	-	129	-
Interest expense	66,496	77,064	2,310	2,677
Interest income	(35,893)	(34,980)	(1,247)	(1,215)
Income tax (benefit)/expense	(24,211)	51,585	(841)	1,792
Operating profit before changes in working capital and provisions	836,973	562,184	29,080	19,531
Decrease/(increase) in inventories	65,702	(63,329)	2,283	(2,200)
Decrease/(increase) in trade and other receivables	90,970	(679,828)	3,161	(23,619)
(Decrease)/increase in trade and other payables	(164,261)	109,063	(5,707)	3,789
Cash flows from/(utilised by) operations before income taxes and interest paid	829,384	(71,910)	28,817	(2,499)
Income taxes paid	(26,238)	(12,558)	(912)	(436)
Interest paid	(55,909)	(53,809)	(1,942)	(1,870)
Cash flows from/(utilised by) operating activities	747,237	(138,277)	25,963	(4,805)

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 7.

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

	2005 '000 RUR	2004 '000 RUR	2005 '000 USD*	2004 '000 USD*
INVESTING ACTIVITIES				
Proceeds from disposal of property, plant and equipment	42,940	33,171	1,491	1,153
Proceeds from disposal of investments	1,949,600	7,874,363	67,736	273,581
Loans granted	(35,555)	(82,272)	(1,235)	(2,858)
Repayment of loans granted	57,950	108,993	2,013	3,786
Interest received	28,670	28,267	996	982
Acquisition of property, plant and equipment	(138,265)	(129,318)	(4,804)	(4,493)
Acquisition of intangible assets	(363,898)	(225,997)	(12,643)	(7,852)
Acquisition of investments	(1,634,445)	(8,302,430)	(56,786)	(288,454)
Acquisition of investment contracts	(26,697)	(4,760)	(927)	(165)
Cash flows utilised in investing activities	(119,700)	(699,983)	(4,159)	(24,320)
FINANCING ACTIVITIES				
Proceeds from issue of share capital, net of transaction costs	-	793,105	-	27,555
Proceeds from borrowings	173,893	296,978	6,042	10,318
Prepayment for shares issued in 2006	116,113	-	4,034	-
Acquisition of treasury shares	(237,309)	(749,216)	(8,245)	(26,030)
Repayment of borrowings	(71,020)	(110,994)	(2,467)	(3,856)
Proceeds from sale of treasury shares	188,984	754,313	6,565	26,207
Cash flows from financing activities	170,661	984,186	5,929	34,194
Net increase in cash and cash equivalents	798,198	145,926	27,733	5,069
Cash and cash equivalents at beginning of year	569,476	423,550	19,785	14,716
Cash and cash equivalents at end of year (note 21)	1,367,674	569,476	47,518	19,785

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 8.

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'000 RUR	Share capital	Share premium	Treasury shares	Retained earnings	Total
Balance at 1 January 2004	134	679,847	-	472,610	1,152,591
Net profit for the year	-	-	-	288,966	288,966
Warrants exercised	-	(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
Treasury shares acquired	-	-	(749,216)	-	(749,216)
Treasury shares sold, net of tax	-	-	745,643	-	745,643
Balance at 31 December 2004	149	1,464,267	(3,573)	761,576	2,222,419

'000 RUR	Share capital	Share premium	Treasury shares	Retained earnings	Total
Balance at 1 January 2005	149	1,464,267	(3,573)	761,576	2,222,419
Net profit for the year	-	-	-	598,872	598,872
Treasury shares acquired	-	-	(237,309)	-	(237,309)
Treasury shares sold, net of tax	-	29,377	150,330	-	179,707
Warrants exercised	-	(715)	715	-	-
Balance at 31 December 2005	149	1,492,929	(89,837)	1,360,448	2,763,689

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 9.

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'000 USD*	**Share capital**	**Share premium**	**Treasury shares**	**Retained earnings**	**Total**
Balance at 1 January 2004	5	23,620	-	16,420	40,045
Net profit for the year	-	-	-	10,040	10,040
Warrants exercised	-	(602)	-	-	(602)
Shares issued	-	28,062	-	-	28,062
Transaction costs	-	(508)	-	-	(508)
Surplus on issue of treasury shares	-	302	-	-	302
Treasury shares acquired	-	-	(26,030)	-	(26,030)
Treasury shares sold, net of tax	-	-	25,906	-	25,906
Balance at 31 December 2004	5	50,874	(124)	26,460	77,215

'000 USD*	**Share capital**	**Share premium**	**Treasury shares**	**Retained earnings**	**Total**
Balance at 1 January 2005	5	50,874	(124)	26,460	77,215
Net profit for the year	-	-	-	20,807	20,807
Treasury shares acquired	-	-	(8,245)	-	(8,245)
Treasury shares sold, net of tax	-	1,021	5,223	-	6,244
Warrants exercised	-	(25)	25	-	-
Balance at 31 December 2005	5	51,870	(3,121)	47,267	96,021

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 10.

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1 Background

(a) Organisation and operations

OJSC RBC Information Systems (the "Company") and its subsidiaries (together referred to as the "Group") comprise Russian joint stock companies and limited liability companies as defined in the Civil Code of the Russian Federation, and companies located abroad. The Company was established as an open joint stock company in 2000. The Company's shares are traded in Russia on the Moscow Stock Exchange and Russian Trading System (RTS), and in the United States of America through a Level-1ADR program.

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

The Group's principal activities are advertising, provision of information services, operation of a business TV channel, development and selling software, magazine edition. These services and products are sold mainly 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 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").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that investments held for trading 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 at 1 January 2003.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUR"), which is the Company's functional currency and the currency in which these consolidated financial statements

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are presented. All financial information presented in RUR has been rounded to the nearest thousand.

(d) Convenience translation

The Company's functional 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 presented for the convenience of users of the consolidated financial statements.

All amounts in the consolidated financial statements, including comparatives, are translated from RUR to USD at the closing exchange rate at 31 December 2005 of RUR 28.7825 to USD 1. All financial information presented in USD has been rounded to the nearest thousand.

(e) Use of estimates and judgments

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 consolidated financial statements in conformity with IFRSs. Actual results could differ from those estimates.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are described in the following notes:

- note 14(b) – estimation of useful lives of intangible assets, and
- note 29 – contingencies.

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

Intra-group balances and transactions, and any unrealised gains arising from intra-group 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.

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(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. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to RUR at the foreign exchange rate ruling at the dates the fair values were determined. 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) 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 if future economic benefits will arise from the expenditure. All other expenditure, including repairs and maintenance expenditure, is recognised in the income statement as an expense as incurred.

(iii) 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 development costs

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

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

(ii) Software

Acquired software is stated at historical cost less any accumulated amortisation and any 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) Trade marks

Trade marks acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

(v) Brands

Brands acquired by the Group in connection with the acquisition of internet resources (see note 14), are stated at cost less accumulated amortisation and impairment losses. Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

(vi) Other intangible assets

Other intangible assets, which are acquired by the Group and which have finite useful lives, are stated at cost less accumulated amortisation and impairment losses.

(vii) Amortisation

Intangible assets are amortised on a straight-line basis over their estimated useful lives from the date the asset is available for use. The estimated useful lives are as follows:

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• Web-site development costs	3 years
• Software	3 years
• Capitalised development costs	3 years
• Trade marks	7 years
• Brands	12 years
• Other intangible assets	3 years.

(e) Investments

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

Investments held for trading are stated at fair value, with any resultant gain or loss recognised in the income statement.

Investments held-to-maturity are stated initially at cost. Subsequent to initial recognition they are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period to maturity on an effective interest basis.

The fair value of investments 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 amortised cost less impairment losses.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash held by the broker and call deposits. Cash held by the brokers can be received at any time with a 10 days' notification.

(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.

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An impairment loss is recognised when 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 the Group's held-to-maturity investments, and 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 fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

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

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

An impairment loss is reversed only 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

(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.

(ii) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(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.

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(l) Trade and other payables

Trade and other payables are stated at cost.

(m) Provisions

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

(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 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 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: the initial recognition of goodwill; 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.

(o) Revenues

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 the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Where the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

Revenue from non-cash transactions is recognised when goods or services are exchanged for dissimilar goods and services. Advertising services involving different media are considered to be dissimilar services. Revenue is measured at the fair value of the goods or services rendered,

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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, gains and losses on the revaluation and disposal of investments held for trading, and interest and discount on bank promissory notes.

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) Operating leases

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 made.

(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) New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2005, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- IFRS 7 *Financial Instruments: Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Group's financial instruments.
- Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures*, which is effective for annual periods beginning on or after 1 January 2007. The Standard will require increased disclosure in respect of the Parent Company's capital.
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions*, which is effective for annual periods beginning on or after 1 January 2006. The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item if certain criteria are met.
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – The Fair Value Option*, which is effective for annual periods beginning on or after 1 January 2006. The

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amendment restricts the designation of financial instruments as "at fair value through profit or loss".

- IFRIC 4 *Determining whether an Arrangement contains a Lease*, which is effective for annual periods beginning on or after 1 January 2006. The Interpretation requires certain arrangements to be accounted for as a lease even if they are not in the legal form of a lease.

(t) Changes in classification

During the current year the Group modified the presentation of comparative information in the consolidated statement of cash flows. In the prior year, proceeds from disposal of investments and cash used in the acquisition of investments, proceeds from borrowings and repayment of borrowings were presented net in the consolidated statement of cash flows. In 2005, such items have been presented gross. Presentation of comparative information has been modified accordingly.

4 Segment reporting

Segment information is presented in respect of the Group's business. The business segments is based on the Group's management and internal reporting structure.

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

The Group comprises the following main business segments:

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

TV. Operation of business TV channel, as well as related services.

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(i) Business segments

	Core business		TV		Eliminations		Consolidated	
'000 RUR	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Revenue from external customers	2,451,414	1,737,302	698,350	475,570	-	-	3,149,764	2,212,872
Inter-segment revenue	144,572	84,626	140,510	44,210	(285,082)	(128,836)	-	-
Total revenue	2,595,986	1,821,928	838,860	519,780	(285,082)	(128,836)	3,149,764	2,212,872
Segment result	816,924	772,717	274,163	66,239	(30,181)	(20,127)	1,060,906	818,829
Unallocated expenses							(532,101)	(529,214)
Financial income							145,785	128,000
Financial expenses							(99,929)	(77,064)
Income tax benefit/(expense)							24,211	(51,585)
Net profit for the year							598,872	288,966
Segment assets	2,075,633	2,181,925	610,221	605,061	(421,295)	(301,812)	2,264,559	2,485,174
Unallocated assets							1,662,150	736,920
Total assets							3,926,709	3,222,094

	Core business		TV		Eliminations		Consolidated	
'000 RUR	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Segment liabilities	813,178	483,557	277,094	343,321	(130,580)	(273,366)	959,692	553,512
Unallocated liabilities							203,328	446,163
Total liabilities							1,163,020	999,675
Depreciation and amortisation	251,708	195,855	86,771	74,481	-	-	338,479	270,336
Capital expenditure	539,194	157,891	113,390	157,226	-	-	652,584	315,117

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	Core business		TV		Eliminations		Consolidated	
’000 USD*	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Revenue from external customers	85,170	60,360	24,263	16,523	-	-	109,433	76,883
Inter-segment revenue	5,023	2,940	4,882	1,536	(9,905)	(4,476)	-	-
Total revenue	90,193	63,300	29,145	18,059	(9,905)	(4,476)	109,433	76,883
Segment result	28,383	26,847	9,525	2,301	(1,048)	(699)	36,860	28,449
Unallocated expenses							(18,487)	(18,387)
Financial income							5,065	4,447
Financial expenses							(3,472)	(2,677)
Income tax benefit/(expense)							841	(1,792)
Net profit for the year							20,807	10,040
Segment assets	72,114	75,807	21,201	21,022	(14,637)	(10,486)	78,678	86,343
Unallocated assets							57,750	25,603
Total assets							136,428	111,946

	Core business		TV		Eliminations		Consolidated	
’000 USD*	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Segment liabilities	28,253	16,800	9,627	11,928	(4,537)	(9,498)	33,343	19,230
Unallocated liabilities							7,064	15,501
Total liabilities							40,407	34,731
Depreciation and amortisation	8,747	6,805	3,014	2,588	-	-	11,761	9,393
Capital expenditure	18,733	5,486	3,940	5,463	-	-	22,673	10,949

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5 Changes in the Group structure

(a) Disposal of subsidiary

In the first quarter of 2005 the Group disposed of a 60% subsidiary. Consideration received, financial result and disposed assets and liabilities of this subsidiary were insignificant.

(b) Incorporation of subsidiaries

In 2005 the Group incorporated the following subsidiaries:

	Country of Incorporation	**Ownership**
OOO Media Business Inform	Ukraine	100%
OOO Mass Media Group	Ukraine	100%
OOO Media Mir	Russian Federation	100%
OOO RBC Media	Russian Federation	100%
OOO MediaLand.ru	Russian Federation	99%
OOO TVR Production	Russian Federation	100%
OOO IPK Media Production	Russian Federation	100%
OOO SMTP Press	Russian Federation	100%
ZAO RBC-TV Moskva	Russian Federation	74%

6 Revenues

	2005	**2004**	**2005**	**2004**
	'000 RUR	**'000 RUR**	**'000 USD***	**'000 USD***
Revenues from sale of advertising services	2,187,518	1,380,714	76,002	47,971
Revenues from sale of developed software	843,196	701,787	29,295	24,382
Revenues from sale of information services	119,050	113,199	4,136	3,933
Revenues from other activities	-	17,172	-	597
	3,149,764	2,212,872	109,433	76,883

Revenues settled not by cash amounted to RUR 349,822 thousand / USD* 12,154 thousand (2004: RUR 38,420 thousand / USD* 1,385 thousand).

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7 Other income

	2005 '000 RUR	2004 '000 RUR	2005 '000 USD*	2004 '000 USD*
Rental income	2,122	3,869	74	134
Gain on disposal of property, plant and equipment	-	880	-	31
Penalties received	1,748	-	61	-
Other operating income	2,113	-	73	-
	5,983	4,749	208	165

8 Administrative expenses

	2005 '000 RUR	2004 '000 RUR	2005 '000 USD*	2004 '000 USD*
Wages and salaries	(58,576)	(55,334)	(2,035)	(1,922)
Consulting and legal expenses	(21,479)	(37,291)	(745)	(1,296)
Communication	(18,284)	(13,942)	(635)	(484)
Rent	(19,009)	(11,338)	(660)	(394)
Insurance	(3,792)	(10,518)	(132)	(365)
Repair	(4,163)	(6,637)	(145)	(231)
Housing	(4,407)	(6,140)	(153)	(213)
Maintenance of cars	(4,025)	(3,355)	(140)	(117)
Stationary	(1,930)	(1,960)	(67)	(68)
IT outsourced services	(1,722)	(1,707)	(60)	(59)
Other administrative expenses	(25,092)	(17,851)	(873)	(621)
	(162,479)	(166,073)	(5,645)	(5,770)

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9 Other expenses

	2005 '000 RUR	2004 '000 RUR	2005 '000 USD*	2004 '000 USD*
Bad debts provision	(9,137)	-	(317)	-
Loss on disposal of property, plant and equipment	(6,512)	-	(226)	-
Non-recoverable VAT	(4,529)	-	(157)	-
Discount on transfer of debt (see note 20)	(3,711)	-	(129)	-
Penalties	(2,162)	(2,016)	(75)	(70)
Depository services	(1,304)	(3,982)	(45)	(138)
Other expenses	(940)	(2,751)	(34)	(96)
	(28,295)	(8,749)	(983)	(304)

10 Total personnel costs

The average number of employees during 2005 was 1,620 (2004: 1,403).

Total personnel costs for the year amounted to RUR 590,837 thousand/ USD* 20,527 thousand (2004: 388,726 thousand RUR/ USD* 13,506 thousand).

11 Financial income and expenses

	2005 '000 RUR	2004 '000 RUR	2005 '000 USD*	2004 '000 USD*
Financial income				
Interest income	35,893	34,980	1,247	1,215
Gain on disposal of promissory notes	5,789	58,615	201	2,036
Foreign exchange gain, net	-	12,953	-	450
Gain from trading investments	89,234	10,843	3,100	377
Revaluation to fair value of investments held for trading	14,869	10,609	517	369
	145,785	128,000	5,065	4,447

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	2005 '000 RUR	2004 '000 RUR	2005 '000 USD*	2004 '000 USD*
Financial expenses				
Interest expense	(66,496)	(77,064)	(2,310)	(2,677)
Foreign exchange loss, net	(24,706)	-	(858)	-
Loss on disposal of investments held for trading	(4,115)	-	(143)	-
Other	(4,612)	-	(161)	
	(99,929)	(77,064)	(3,472)	(2,677)

12 Income tax benefit/(expense)

	2005 '000 RUR	2004 '000 RUR	2005 '000 USD*	2004 '000 USD*
Current tax expense				
Current year	(25,033)	(27,933)	(869)	(970)
Overprovided in prior years	22,404	-	779	-
	(2,629)	(27,933)	(90)	(970)
Deferred tax benefit/(expense)				
Origination and reversal of temporary differences	26,840	(23,652)	931	(822)
	24,211	(51,585)	841	(1,792)

In prior periods, two Group companies recognized a provision of RUR 22,404 thousand/ USD* 778 thousand for potential additional income tax liabilities relating to the tax deductibility of certain expenses, which were under review by the tax authorities. In 2005, tax audits of these subsidiaries were finalized and no additional tax was required to be paid to the budget. Consequently, the Group released the provisions.

The Company's applicable tax rate is 24%. The subsidiaries pay income tax in accordance with the legislative requirements of their tax jurisdictions. For the entities located in Cyprus, the applicable tax rate is the corporate income tax rate of 4.25%.

Subsequent to the balance sheet date there has been a change in the enacted income tax rate in Cyprus from 4.25% to 10%.

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Reconciliation of effective tax rate:

	2005 '000 RUR	%	2004 '000 RUR	%
Profit before tax	574,661	100	340,551	100
Income tax at applicable tax rate	(137,919)	(24)	(81,732)	(24)
Income taxed at lower rates (see note 29(c))	154,537	27	60,467	18
Non-deductible items	(14,811)	(2)	(30,320)	(9)
Overprovided in prior years	22,404	3	-	-
	24,211	4	(51,585)	(15)

	2005 '000 USD*	%	2004 '000 USD*	%
Profit before tax	19,966	100	11,832	100
Income tax at applicable tax rate	(4,792)	(24)	(2,840)	(24)
Income taxed at lower rates (see note 29(c))	5,369	27	2,101	18
Non-deductible items	(515)	(2)	(1,053)	(9)
Overprovided in prior years	779	3	-	-
	841	4	(1,792)	(15)

13 Property, plant and equipment

'000 RUR	TV equipment	Computer equipment	Office equipment	Other assets	Construction in progress	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
Additions	88,933	38,840	1,430	4,846	4,216	138,265
Disposals	(5,436)	(2,656)	(376)	(2,967)	(39,286)	(50,721)
Transfers	-	-	-	3,747	(3,747)	-
At 31 December 2005	531,466	444,816	23,039	17,518	15,706	1,032,545

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'000 RUR	TV equipment	Computer equipment	Office equipment	Other assets	Construction in progress	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)
Depreciation charge	(86,771)	(78,728)	(6,125)	(4,294)	-	(175,918)
Disposals	469	-	-	800	-	1,269
At 31 December 2005	(204,750)	(224,215)	(18,970)	(10,724)	-	(458,659)
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
At 31 December 2005	326,716	220,601	4,069	6,794	15,706	573,886

'000 USD*	TV equipment	Computer equipment	Office equipment	Other assets	Construction in progress	Total
Cost						
At 1 January 2004	13,113	12,301	703	377	2,989	29,483
Additions	2,293	1,846	62	84	208	4,493
Disposals	(4)	-	-	(48)	(1,091)	(1,143)
Transfers	162	50	-	-	(212)	-
At 31 December 2004	15,564	14,197	765	413	1,894	32,833
Additions	3,090	1,349	51	168	146	4,804
Disposals	(189)	(92)	(13)	(103)	(1,365)	(1,762)
Transfers	-	-	-	130	(130)	-
At 31 December 2005	18,465	15,454	803	608	545	35,875

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'000 USD*	TV equipment	Computer equipment	Office equipment	Other assets	Construction in progress	Total
Depreciation						
At 1 January 2004	(1,528)	(2,603)	(293)	(158)	-	(4,582)
Depreciation charge	(2,588)	(2,452)	(153)	(114)	-	(5,307)
Disposals	-	-	-	21	-	21
At 31 December 2004	(4,116)	(5,055)	(446)	(251)	-	(9,868)
At 1 January 2005	(4,116)	(5,055)	(446)	(251)	-	(9,868)
Depreciation charge	(3,014)	(2,735)	(214)	(150)	-	(6,113)
Disposals	16	-	-	29		45
At 31 December 2005	(7,114)	(7,790)	(660)	(372)	-	(15,936)
Net book value						
At 1 January 2004	11,585	9,698	410	219	2,989	24,901
At 31 December 2004	11,448	9,142	319	162	1,894	22,965
At 31 December 2005	11,351	7,664	143	236	545	19,939

(a) Security

Equipment with a carrying amount of RUR 98,171 thousand/ USD* 3,411 thousand (2004: RUR 118,185 thousand/USD* 4,106 thousand) is pledged in security of bank loans (see note 23).

(b) Depreciation

During the year, depreciation of RUR 14,458 thousand/ USD* 503 thousand (2004: RUR 10,922 thousand/ USD* 379 thousand) was capitalised as a part of web-site and development costs.

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14 Intangible assets

’000 RUR	Trade marks	Software	Web-site	Capitalised development costs	Brands	Other	Prepayments	Total
Cost								
At 1 January 2004	-	50,464	153,086	179,083	-	-	-	382,633
Additions	51,120	54,360	35,460	59,118	-	36,861	-	236,919
At 31 December 2004	51,120	104,824	188,546	238,201	-	36,861	-	619,552
Additions	-	66,066	28,543	33,763	374,820	8,252	2,875	514,319
At 31 December 2005	51,120	170,890	217,089	271,964	374,820	45,113	2,875	1,133,871
Amortisation								
At 1 January 2004	-	(5,499)	(65,617)	(99,582)	-		-	(170,698)
Amortisation charge	(4,538)	(7,122)	(44,133)	(50,063)	-	(11,725)	-	(117,581)
At 31 December 2004	(4,538)	(12,621)	(109,750)	(149,645)	-	(11,725)	-	(288,279)
Amortisation charge	(7,384)	(33,137)	(41,047)	(62,125)	(2,672)	(16,196)	-	(162,561)
At 31 December 2005	(11,922)	(45,758)	(150,797)	(211,770)	(2,672)	(27,921)	-	(450,840)
Net book value								
At 1 January 2004	-	44,965	87,469	79,501	-	-	-	211,935
At 31 December 2004	46,582	92,203	78,796	88,556	-	25,136	-	331,273
At 31 December 2005	39,198	125,132	66,292	60,194	372,148	17,192	2,875	683,031

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'000 USD*	Trade marks	Software	Web-site	Capitalised development costs	Brands	Other	Prepayments	Total
Cost								
At 1 January 2004	-	1,753	5,319	6,222	-	-	-	13,294
Additions	1,776	1,889	1,232	2,054	-	1,281	-	8,232
At 31 December 2004	1,776	3,642	6,551	8,276	-	1,281	-	21,526
Additions	-	2,295	992	1,173	13,022	287	100	17,869
At 31 December 2005	1,776	5,937	7,543	9,449	13,022	1,568	100	39,395
Amortisation								
At 1 January 2004	-	(191)	(2,280)	(3,460)	-	-	-	(5,931)
Amortisation charge	(158)	(247)	(1,533)	(1,739)	-	(407)	-	(4,084)
At 31 December 2004	(158)	(438)	(3,813)	(5,199)	-	(407)	-	(10,015)
Amortisation charge	(257)	(1,151)	(1,426)	(2,158)	(93)	(563)	-	(5,648)
At 31 December 2005	(415)	(1,589)	(5,239)	(7,357)	(93)	(970)	-	(15,663)
Net book value								
At 1 January 2004	-	1,562	3,039	2,762	-	-	-	7,363
At 31 December 2004	1,618	3,204	2,738	3,077	-	874	-	11,511
At 31 December 2005	1,361	4,348	2,304	2,092	12,929	598	100	23,732

** 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) Acquisition of internet resources

In 2005 the Group acquired exclusive rights to operate several web sites for RUR 388,563 thousand/ USD*13,500 thousand. The purchase price was allocated among software, databases and brands which comprised the exclusive rights to operate the domain name and audience loyalty. The purchase cost allocation was made based on the assessment of their relative fair values.

(b) Amortisation charge

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

15 Loans

The Group has granted the following loans:

	2005 '000 RUR	2004 '000 RUR	2005 '000 USD*	2004 '000 USD*
Non-current				
Loan granted to a related party in 2004, maturing in 2010, at 6% effective interest rate	4,605	4,440	160	154
Loan granted to a related party in 2005, maturing in 2007, at 7.34% effective interest rate	28,600	-	994	-
	33,205	4,440	1,154	154

	2005 '000 RUR	2004 '000 RUR	2005 '000 USD*	2004 '000 USD*
Current				
Loan granted to a third party, at 5% effective interest rate	14,777	15,507	513	539
Loans granted to third parties, at 6% effective interest rate	-	40,125	-	1,394
Loans granted to executive directors, at 9.0 - 9.75% effective interest rate (see note 30(b))	11,895	8,360	413	290
Loan granted to related parties, at 4% effective interest rate (see note 30(b))	-	13,840	-	481
	26,672	77,832	926	2,704

The loans are at fixed rates of interest, unsecured and not guaranteed by third parties.

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16 Other assets

Other assets in the amount of RUR 37,687 thousand/ USD*1,309 thousand (2004: RUR 10,990 thousand/ USD*382 thousand) include investment contracts for construction of apartments in residential buildings in Moscow and Moscow region and are stated at their purchase cost. The Group management assessed their fair value as at 31 December 2005 to be RUR 55,090 thousand/ USD*1,914 thousand. The fair value has been determined with reference to the market prices.

17 Other investments

	2005	2004	2005	2004
	'000 RUR	**'000 RUR**	**'000 USD***	**'000 USD***
Current				
Investments held for trading	64,253	166,295	2,232	5,778
Bank promissory notes held to maturity	237,616	337,729	8,256	11,733
	301,869	504,024	10,488	17,511

Investments held for trading with a carrying amount of RUR 64,253 thousand/ USD*2,232 thousand include shares and promissory notes of Russian companies and are stated at their fair values, which were determined by reference to their quoted market prices. These investments are listed on the RTS and Moscow Stock Exchange.

The bank promissory notes were issued with a discount of up to 3.5% and were redeemed in January and February 2006.

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18 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**	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
Property, plant and equipment	6,337	-	(61,934)	(70,259)	(55,597)	(70,259)
Intangible assets	-	-	(42,100)	(38,719)	(42,100)	(38,719)
Trade and other receivables	-	1,199	(12,498)	-	(12,498)	1,199
Investments	-	-	(1,130)	-	(1,130)	-
Loans and borrowings	-	-	-	(5,549)	-	(5,549)
Trade and other payables	-	999	-	-	-	999
Prepaid expenses	12,642	-	(2,353)	-	10,289	-
Tax loss carry-forwards	15,547	-	-	-	15,547	-
Tax assets/(liabilities)	34,526	2,198	(120,015)	(114,527)	(85,489)	(112,329)
Set off of tax	-	-	-	-	-	-
Net tax assets/(liabilities)	34,526	2,198	(120,015)	(114,527)	(85,489)	(112,329)

’000 USD*	**Assets**		**Liabilities**		**Net**	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
Property, plant and equipment	220	-	(2,152)	(2,441)	(1,932)	(2,441)
Intangible assets	-	-	(1,463)	(1,345)	(1,463)	(1,345)
Trade and other receivables	-	42	(434)	-	(434)	42
Investments	-	-	(39)	-	(39)	-
Loans and borrowings	-	-	-	(193)	-	(193)
Trade and other payables	-	35		-	-	35
Prepaid expenses	439	-	(82)	-	357	-
Tax loss carry-forwards	540	-	-	-	540	-
Tax assets/(liabilities)	1,199	77	(4,170)	(3,979)	(2,971)	(3,902)
Set off of tax	-	-	-	-	-	-
Net tax assets/(liabilities)	1,199	77	(4,170)	(3,979)	(2,971)	(3,902)

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

(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)

'000 RUR	1 January 2005	Recognised in income	31 December 2005
Property, plant and equipment	(70,259)	14,662	(55,597)
Intangible assets	(38,719)	(3,381)	(42,100)
Trade and other receivables	1,199	(13,697)	(12,498)
Loans and borrowings	(5,549)	5,549	-
Investments	-	(1,130)	(1,130)
Trade and other payables	999	(999)	-
Prepaid expenses	-	10,289	10,289
Tax value of loss carry-forwards recognised	-	15,547	15,547
	(112,329)	26,840	(85,489)

** 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	(2,135)	(306)	(2,441)
Intangible assets	(1,024)	(321)	(1,345)
Inventories	(83)	83	-
Trade and other receivables	52	(10)	42
Loans and borrowings	(137)	(56)	(193)
Payables	218	(183)	35
Tax value of loss carry-forwards recognised	29	(29)	-
	(3,080)	(822)	(3,902)

’000 USD*	1 January 2005	Recognised in income	31 December 2005
Property, plant and equipment	(2,441)	509	(1,932)
Intangible assets	(1,345)	(118)	(1,463)
Trade and other receivables	42	(476)	(434)
Loans and borrowings	(193)	193	-
Investments	-	(39)	(39)
Trade and other payables	35	(35)	-
Prepaid expenses	-	357	357
Tax value of loss carry-forwards recognised	-	540	540
	(3,902)	931	(2,971)

19 Inventories

	2005 ’000 RUR	2004 ’000 RUR	2005 ’000 USD*	2004 ’000 USD*
Raw materials and consumables	7,947	7,908	276	275
Work in progress	494	-	17	-
Goods for resale	11,841	78,076	412	2,712
	20,282	85,984	705	2,987

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

20 Trade and other receivables

	2005 '000 RUR	2004 '000 RUR	2005 '000 USD*	2004 '000 USD*
Trade accounts receivable **(a)**	477,628	537,904	16,593	18,689
Prepayments	172,886	124,196	6,007	4,315
VAT receivable	62,909	82,759	2,186	2,875
Prepayments for the shares (see note 32)	40,852	-	1,419	-
Deferred expenses	17,121	5,538	595	192
Interest receivable	14,786	9,122	514	317
Short term lease receivable	2,003	-	70	-
Other receivables **(b)**	93,642	217,565	3,253	7,559
	881,827	977,084	30,637	33,947
Provision for doubtful debtors	(9,137)	-	(317)	-
	872,690	977,084	30,320	33,947

(a) Non-cash transactions

At 31 December 2005 it is anticipated that trade accounts receivable amounting to RUR 30,179 thousand/ USD* 1,049 thousand (2004: RUR 7,378 thousand/ USD* 256 thousand) will be settled through the exchange of services rather than in cash.

(b) Other receivables

In July 2005, bank accounts of several Group companies with the cash balances of RUR 74,813 thousand/ USD* 2,599 thousand were frozen in a Russian bank due to withdrawal of its license. The Group has entered in a preliminary agreement with a third party to transfer the right to claim the debts from the bank at a discount of RUR 3,711 thousand/ USD* 129 thousand (see note 9). The third party is a construction company, a subsidiary of a company providing brokerage services to the Group. Since the arrangements have not been agreed in terms of form and kind of settlement, the deal has not been finalised and is secured with the pledge of apartments located in the center of Moscow, transferred to the ownership of this construction company. As at 31 December 2005 the market value of the apartments exceeded the value of the frozen cash. The related receivable balance of RUR 71,102 thousand/ USD*2,470 thousand is included in other receivables.

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

21 Cash and cash equivalents

	2005 '000 RUR	2004 '000 RUR	2005 '000 USD*	2004 '000 USD*
Cash in bank and on-hand	917,714	129,969	31,885	4,515
Deposits	57,565	-	2,000	-
Cash held by brokers	392,395	439,507	13,633	15,270
Cash and cash equivalents in the statement of cash flows	1,367,674	569,476	47,518	19,785

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

22 Equity

(a) Share capital and share premium

Number of shares unless otherwise stated	Ordinary shares 2005	Ordinary shares 2004
Authorised shares	115 000 000	115 000 000
Par value	RUR 0.001	RUR 0.001
On issue at beginning of year	115 000 000	115 000 000
Issued for cash	-	-
On issue at end of year, fully paid	115 000 000	115 000 000

(b) Treasury shares

At the balance sheet date the Group held 580,800 (2004: 150,000) of its own shares.

(c) Dividends

In accordance with 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 at 31 December 2005, the Parent Company had accumulated retained earnings, including the profit for the current year, of RUR 253 thousand/ USD* 9 thousand.

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(d) ADR issue

The Group established a Level-1 ADR program (ticker symbol: RINFY, CUSIP number: 75523Q102) for its common stock on 24 March 2005 through Bank of New York. 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 the Company. As of 31 December 2005, 11,937,928 of the Company's shares were reserved for ADR in depositary by Bank of New York.

23 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, see note 27.

	2005 '000 RUR	2004 '000 RUR	2005 '000 USD*	2004 '000 USD*
Non-current				
Secured bank loans	160,644	154,883	5,581	5,381
Unsecured borrowings	143,912	-	5,000	-
Unsecured bonds issue	-	167,680	-	5,826
	304,556	322,563	10,581	11,207
Current				
Current portion of secured bank loans	-	31,052	-	1,079
Unsecured borrowings	-	9,679	-	336
Unsecured bonds issue	175,440	-	6,095	
	175,440	40,731	6,095	1,415

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 98,171 thousand/ USD* 3,411 thousand (see note 13(a)) and 3,661,774 shares of the Company pledged by shareholders (see note 30). The loans mature in 2009.

The unsecured bank loan is received from ABN-AMRO Bank. The loan is denominated in USD and has an interest rate LIBOR + 5%. The loan matures in 2007.

In February 2003, the Group issued long term 15.25% bonds with a par value of USD 3.2 million and EUR 2.5 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 the Company 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 2005 there are 12 warrants unexercised, equal to 120,000 shares. The

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interest on the bonds is payable on 30 June and 31 December in each year starting from 30 June 2003.

In February 2006 the Group repaid the bonds in full. Subsequent to 31 December 2005 the Group additionally redeemed 3 warrants.

24 Earnings per share

The calculation of basic earnings per share as at 31 December 2005 was based on the net profit for the year and the weighted average number of ordinary shares outstanding during the year of 114,717 thousand (2004: 103,347 thousand) calculated as follows:

In thousands of shares	**2005**	**2004**
Issued shares at 1 January	115,000	100,000
Effect of own shares held	(150)	(403)
Effect of warrants exercised in February	28	-
Effect of shares issued in October	-	3,750
Effect of shares acquired in November	(161)	-
Weighted average number of shares at 31 December	114,717	103,347

The weighted average number of potentially dilutive shares (share options and warrants) of 3,623,295 (2004: 402,500) was taken into account in the calculation of diluted earnings per share. The weighted average number of ordinary shares including dilutive potential shares outstanding during 2005 of 118,340 thousand (2004: 103,750 thousand) was calculated as follows:

In thousands of shares	**2005**	**2004**
Issued shares at 1 January	115,000	100,000
Effect of own shares held	(150)	(403)
Effect of potentially dilutive shares	3,623	403
Effect of warrants exercised in February	28	-
Effect of shares issued in October	-	3,750
Effect of shares acquired in November	(161)	-
Weighted average number of shares at 31 December	118,340	103,750

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

25 Trade and other payables

	2005 '000 RUR	2004 '000 RUR	2005 '000 USD*	2004 '000 USD*
Trade accounts payable **(a)**	217,645	165,707	7,561	5,757
Advances received for additional shares **(b)**	116,113	-	4,034	-
Advances received	73,704	40,348	2,561	1,402
Accounts payable to shareholders **(c)**	-	135,070	-	4,693
Other taxes payable	1,081	-	38	-
Other payables and accrued expenses	179,440	159,043	6,234	5,526
	587,983	500,168	20,428	17,378

(a) Non-cash transactions

At 31 December 2005 it is anticipated that trade accounts payable amounting to RUR 21,222 thousand/ USD* 737 thousand (2004: RUR 29,645 thousand/ USD* 1,030 thousand) will be settled through the exchange of services rather than in cash.

(b) Advances received for additional shares

In 2005 the Group received RUR 116,113 thousand/ USD* 4,034 thousand from the existing shareholders of the Company for the shares additionally issued in 2006 (see note 32).

(c) Accounts payable to shareholders

In 2004 the shareholders transferred to the Group shares of the Company amounting to RUR 135,070 thousand/ USD* 4,693 thousand. The Group used the shares to exercise conversion of bonds issued in 2001. In 2005 the Group settled the payable to the shareholders in cash (see note 30).

26 Share options

In July 2002, the compensation committee of the Group set up an option program for the members of the Board of Directors and senior management.

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Under this program within a 3-year period the members of the Board of directors subject to their service had an option to purchase maximum 3,250,000 shares for 130% of the USD 0.83 share price at which the Company's ordinary shares were initially offered to the public in April 2002.

In addition, under this program senior managers have right to receive 1,260,000 shares subject to their 3-year period of service with the Group. The share options granted to the senior managers are exercisable for no consideration.

As at 31 December 2005 the market quote of the shares was USD 6.95 per share (2004: USD 2.61 per share).

In 2005 the compensation committee approved the final number of shares to be granted to each participant in the program based on their service period: 2,750,000 shares to the Board of Directors and 1,260,000 shares to the senior managers. The options are intended to be exercised in 2006.

At present the Group does not have a share option program for the middle management but the Board of Directors is considering such a program.

27 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. The Group works with a majority of its customers on prepayment terms. Credit evaluations are performed on all customers, other than related parties, requiring credit over a certain amount.

At the balance sheet date there have been a significant concentration of credit risk represented by the cash frozen in a Russian bank (see note 20).

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

(b) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). The interest rate and terms of repayment of loans are disclosed in note 23. The Group borrows on both a fixed and variable interest rate basis. Variable interest rate loans and borrowings are re-priced on a monthly basis.

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings, management uses its judgement to decide whether it believes that a fixed or variable rate would be more appropriate to the Group over the expected period to maturity.

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(c) Foreign currency risk

The Group incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than the Russian Rouble. 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 Group estimates the fair value of its financial assets and liabilities to not be materially different from their current values. The estimate of fair value is intended to approximate the amount at which the instruments could be exchanged in a current transaction between willing parties, and is subject to management judgment and economic uncertainties.

The fair value of investments is discussed in note 17.

28 Commitments

The Group has entered into a contract to purchase computer equipment for RUR 15,423 thousand/ USD* 535 thousand (2004: nil).

29 Contingencies

(a) 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 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) Litigation

The Group is defending a lawsuit from ZAO "Business News Media" and OOO "Baltic News Media" relating to an alleged breach of the authors rights by the Group. The plaintiffs are seeking damages of RUR 285 million/ USD* 9.9 million. In the opinion of management, after taking appropriate legal advice, the Group should be successful in defending this action. No provision for this litigation has been done in these consolidated financial statements as management believes that it is possible, but not probable, that an outflow of economic benefits will be required.

(c) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities

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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 significant.

The Group has entered into transactions with various intermediaries in which it does not hold any direct or indirect equity interest. The methods used by these entities to reduce taxes may be challenged by the tax authorities as they may view these methods as not being fully in compliance with the applicable tax legislation. Due to existing tax authorities' practice, this may result in additional tax risks for the Group. Should these intermediaries be successfully challenged, the Group may become liable to additional tax payments, although management of these entities is primarily responsible for the correctness and timeliness of the entities' tax payments.

The Group has a number of foreign subsidiaries. Structuring its operations through revenue and expense allocation arrangements among Group companies in different jurisdictions results in reduction of its overall tax liabilities, which may be challenged by the tax authorities of the Russian Federation. Should such challenge be successful, this would result in the income of foreign subsidiaries being taxed in Russia (see note 12).

The Group uses various remuneration plans for employees' compensation. Some of these may be challenged by the tax authorities of the Russian Federation for consistency with the applicable tax legislation. Should such challenge be successful, additional payments of related taxes may be imposed on the Group.

Based on the facts available and analysis of the current tax practice and legislation, no provisions for potential tax liabilities have been made in these consolidated financial statements, as management believes that it is possible, but not probable, that an outflow of economic benefits will be required to settle such obligations.

Management has determined that it is not practicable to estimate the financial effect of potential tax liabilities, in respect of current and previous years, which ultimately could be imposed on the Group. However, if such liabilities were imposed, the amounts involved, including penalties and interest, could be material.

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30 Related party transactions

(a) Control relationships

The Group has a controlling relationship with all of its subsidiaries (see note 31 for a list of significant subsidiaries).

Three top managers of the Group, German Kaplun, Alexander Morgulchik, Dmitry Belik, being major shareholders, have the power to direct transactions of the Group at their own discretion and for their own benefit. They also have a number of other business interests outside of the Group.

(b) Transactions with management and close family members

(i) Management remuneration

During the year key management received the remuneration in the form of salaries and bonuses in amount of RUR 10,459 thousand/ USD* 363 thousand (2004: RUR 8,488 thousand/ USD* 295 thousand) which are included in personnel costs (see note 10). Additionally, in 2005 there was an option program in place to remunerate key management (see note 26).

(ii) Other transactions

The Group has current loans granted to executive directors of RUR 11,895 thousand/ USD* 413 thousand (2004: RUR 8,360 thousand/ USD* 290 thousand) and a non-current loan granted to non-executive director of RUR 4,605 thousand/ USD* 160 thousand (2004: RUR 4,440 thousand/ USD* 154 thousand) (see note 15).

As at 31 December 2004, the Group granted loans of RUR 13,840 thousand/ USD* 481 thousand to certain of its related parties at an effective interest rate of 4% (see note 15). The loans were secured by pledge of apartments in Moscow. In 2005 the Group sold the apartments to a third party not on an arm-length basis. In 2005 the Group has also transacted with the third party in relation to the cash frozen in a bank (see note 20).

In 2005 the Group paid to the executive directors RUR 135,070 thousand/ USD* 4,693 thousand for the Company’s shares transferred by the directors to the Group in 2002-2003 (see note 25).

Additionally, executive directors have pledged 3,661,774 shares (2004: 3,661,774 shares) of the Company as security for a non-current bank loan (see note 23).

(c) Transactions with other related parties

The Group’s other related party transactions are disclosed below.

** 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	Transaction value 2005	Outstanding balance 2005	Transaction value 2004	Outstanding balance 2004
Advertising services provided	238,625	12,261	-	-
Programming services provided	3,549	-	-	-
Loans granted (see note 15)	28,765	33,205	18,280	4,440
Purchase of IT services	61,229	40,296	10,169	-
Purchase of advertising services	213,366	-	49,709	-

'000 USD*	Transaction value 2005	Outstanding balance 2005	Transaction value 2004	Outstanding balance 2004
Advertising services provided	8,290	426	-	-
Programming services provided	123	-	-	-
Loans granted (see note 15)	999	1,154	635	154
Purchase of IT services	2,127	1,400	353	-
Purchase of advertising services	7,413	-	1,727	-

All outstanding balances with related parties arising from the services provided or purchases of goods and services are to be settled in cash within six months of the balance sheet date. None of the balances are secured.

(d) Pricing policies

Prices for related party transactions, which are with the companies controlled by members of the Company's Board of Directors, are determined by the Group on an ongoing basis.

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

31 Significant subsidiaries

	Country of incorporation	Ownership/voting	
		2005	2004
CJSC “RosBusinessConsulting”	Russia	100%	100%
OOO “RBC Publishing” Ltd.	Russia	100%	100%
RBC Investments (Cyprus) Limited	Cyprus	100%	100%
CJSC “RBC Soft”	Russia	100%	100%
OOO “RBC Center”	Russia	100%	100%
CJSC “RBC-TV”	Russia	100%	100%

32 Events subsequent to the balance sheet date

(a) Acquisition of a subsidiary

Subsequent to 31 December 2005, the Group has acquired effective control over 51% voting rights in OOO Helios Computer (Russia) and Helios Operator Ltd (BVI), representing united business of IT integrator. The respective arrangements were made in 2005. Consideration was split into fixed amount of RUR 40,852 thousand/ USD* 1,419 thousand and a variable amount depending on the financial results of the acquiree for 2005 and 2006. The fixed amount was prepaid by the Group in 2005 (see note 20), comprising cash in amount of RUR 28,591 thousand/ USD* 993 thousand, and advertising services provided to OOO Helios Computer in the amount of RUR 12,261 thousand/ USD* 426 thousand. The outstanding variable amount depends on the achievement by OOO Helios Computer of the predetermined financial results in 2006, and will lie in the range between zero and RUR 204,321 thousand/ USD* 7,099 thousand. Financial results of OOO Helios Computer for 2005 resulted in no additional payment to be made by the Group. The Group’s share of the net assets of the acquiree as at the date of acquisition amounted to RUR 3 million. In 2005 the Group also provided to OOO Helios Computer a USD-denominated loan at 7.34% per annum in the amount of RUR 28,600 thousand/ USD* 994 thousand (see note 15).

(b) Repayment of bonds

Subsequent to the balance sheet date, the Group repaid bonds of RUR 175,440 thousand/ USD*6,095 thousand in full.

(c) Prepayment for shares

Subsequent to the balance sheet date, the Group has entered into an agreement to purchase 60% of shares of a publishing house, and made a respective prepayment of RUR 336,755 thousand / USD *11,700 thousand in cash.

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(d) Credit Linked Notes issue

On 7 June 2006 a Group subsidiary, RBC Investments (Cyprus) Limited, placed 1,000,000 unsecured USD-denominated credit linked notes (CLNs) of RUR 2,878 million/ USD*100,000 thousand through Dresdner Bank AG. The CLNs are issued under the Credit Linked Note Program for Euro 4,000 million providing the noteholders with an enhanced spread in return for the noteholders assuming the credit risk of the Reference Obligation.

The CLNs have a maturity of 3 years and a fixed coupon rate of 9.5% pa payable each six months. The notes provide for the put option in 2 years at par and the call option at 103% of the par value from the issue date to 31 December 2006, 102.5% during the year 2007, 101.5 % from January 1, 2008 to June 7, 2008 and at par from June 7, 2008 onwards.

The CLNs are subject to financial covenant restrictions and conditions in events of default.

The first loan in the amount of USD 100,000 thousand was drawn down on 8 June 2006. The Group paid a transaction fee of USD 1,005 thousand on 7 June 2006.

A second loan for the amount of USD 50,000 thousand will be made available subject to the request of the Group but not later than 15 December 2008.

(e) Additional share issues

Subsequent to the balance sheet date, the Company issued 4,260,000 additional ordinary shares at a par value of RUR 0.001 for RUR 659,533 thousand in cash, including RUR 116,113 thousand / USD* 4,034 thousand received by the Group during 2005 (refer note 25), as the share issue was announced in 2005.

(f) Transactions with treasury shares

Subsequent to the balance sheet date, one of the Group subsidiaries acquired 230,000 shares of the Company for RUR 55,988 thousand/ USD* 1,945 thousand.

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