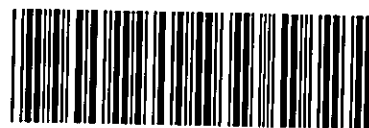


Registration number: 4249748

Kaspersky Labs Limited

Directors' Report
and
Consolidated Financial Statements
for the year ended 31 December 2008

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Contents

Directors' Report	2
Independent Auditors' Report	9
Consolidated Income Statement	11
Consolidated Statement of Recognised Income and Expense	12
Consolidated Balance Sheet	13
Consolidated Statement of Cash Flows	15
Consolidated Statement of Changes in Equity	17
Notes to the Consolidated Financial Statements	18
Company Balance Sheet	64
Company Statement of Cash Flows	66
Notes to the Company Financial Statements	68

Directors' Report

The Directors of Kaspersky Labs Limited present their annual report and the audited financial statements for the year ended 31 December 2008.

(a) Principal activities

Kaspersky Labs Limited (the "Company") and its subsidiaries (together referred to as the "Group") comprise private limited companies as defined in the Companies Act of 2006 of the United Kingdom of Great Britain and Northern Ireland (the "UK"), and companies located in Russia, Germany, France and other countries.

The Company's registered office is: 3rd floor, 7-10 Chandos Street, London, W1G 9DQ.

The Group develops, produces and distributes information security solutions that protect its customers from IT threats and allow enterprises to manage risk. The Group provides products that protect information from viruses, hackers and spam for home users and business customers, and also offers related consulting services and technical support.

Founded in 1997, Kaspersky Lab is an international information security software vendor. Kaspersky Lab is headquartered in Moscow, Russia and has regional offices in the UK, France, Germany and Sweden. Further expanding the Group's reach is its partner network comprising over 500 companies globally.

The Group's products regularly receive awards from leading IT publications and testing labs.

The Group's products for home users offer reactive and proactive protection against viruses, and protect against threats from email and Internet traffic. The Group also offers a wide range of solutions for corporate clients to protect not only workstations, but also file and email servers, email gateways, and proxy servers. The Group's solutions for business are modular and completely customisable. In addition to security solutions for computers, the Group also offers protection for Smartphones.

In addition to selling products using its own brands, certain Kaspersky Anti-Virus technologies are integrated into risk management solutions produced by other leading software vendors. This business activity is referenced as "technology licensing" throughout this report.

The Group also provides a range of services to meet specific customer needs in ensuring data security. It creates, implements, and supports enterprise solutions and provides on-going consulting services. The Group's extensive antivirus database is updated continuously, and round-the-clock technical support is provided to customers in several languages.

(b) Business review

The economic slowdown which took place in 2008 presented important challenges to the IT security industry. Despite the general economic downturn, the Group remained very successful during the reporting period. It issued a major upgrade of anti-virus and Internet security solutions. The Group significantly expanded its presence in the consumer market segment, becoming a leader on this segment in some regions, and also made significant progress in establishing the Kaspersky Lab brand as a global brand in the corporate market.

The Group measures its progress against goals using the following key performance indicators ("KPIs"): billings, revenue, operating cash flow and net profit.

The main KPI the Group uses in measuring performance of the business is billings. Billings represent the amounts of invoices issued for licences sold and services provided during a reporting period. Billings are the most accurate measure of the sales volumes and growth of business. International Financial Reporting Standards ("IFRS") and the Group's accounting policy require that software licence revenue is recognised rateably over the licence term, which therefore has the effect of deferring a portion of bookings to future periods. This ensures a future guaranteed revenue stream in the amount of the deferred revenue as at the end of the reporting period.

The Group experienced a growth in billings of 76% from USD 187,296 thousand in the period from 28 December 2006 to 31 December 2007 to USD 328,984 thousand in the reporting period. The growth of both consumer and corporate segments contributed to the overall increase of bookings. It is the Group's strategy to gradually substitute revenues from technology licensing operations with income from sales of consumer and corporate products. Technology licensing was the main driver of growth at earlier stages of the Group's operations, but became less attractive as the Kaspersky Lab brand gained market share.

Geographically, the increase of sales in Europe, Eastern Europe, Middle East and Africa ("EEMEA") contributed the most to the overall growth of billings. Geographical distribution of sales billings was as follows:

	2008	2007
	'000 USD	'000 USD
Europe	196,475	113,512
Eastern Europe, Middle East and Africa (EEMEA)	89,915	48,390
Asia Pacific (APAC)	21,689	11,497
North America and South America (Americas)	19,295	13,065
Japan	1,610	832
	328,984	187,296

The Group's revenue increased by 90% from USD 125,832 thousand in the period from 28 December 2006 to 31 December 2007 to USD 239,349 thousand in the reporting period. The growth rate of revenue is higher than the growth rate of billings mainly due to the weakening during 2008 of Russian Roubles ("RUR") and Sterling ("GBP"), in which the Group carries out a significant portion of its sales, against US dollars, as well as a reduction in the growth rate of billings due to the economic slowdown globally.

The Group's operating cash flows, as presented in the consolidated statement of cash flows, increased from USD 55,159 thousand in the period from 28 December 2006 to 31 December 2007 to USD 86,170 thousand in 2008 which is mainly driven by a growth of cash flows from sales.

During the reporting period the Group realised a net profit of USD 45,576 thousand, as opposed to a net profit of USD 14,756 thousand in the period from 28 December 2006 to 31 December 2007. This increase of profit is the result of the growth of both operating result (USD 55,131 thousand in 2008, as opposed to USD 21,052 thousand in the previous reporting period), as well as an increase in results from financial activities (net finance income of USD 13,197 thousand as opposed to USD 3,097 thousand in the period from 28 December 2006 to 31 December 2007). The main driver of the finance income is the strengthening of USD and euro against RUR. The Russian entity of the Group, whose functional currency is Russian Roubles had more assets in the form of trade accounts receivable and bank deposits in USD and euro than liabilities in these currencies. During 2008

USD and euro strengthened by 20% and 15%, respectively, against RUR. Foreign currency risk is addressed in section (c) "Principal risks and uncertainties" of this report.

The average number of employees increased from 683 in the period from 28 December 2006 to 31 December 2007 to 823 in 2008, the most significant percentage increases occurred in general and administrative and research and development departments reflecting efforts to strengthen control environment in the Group and enhance the product.

We expect that during next few years, the Group's billings and revenues will continue to grow. The Group's strategy is to achieve this growth by staying on the edge of the latest technology developments, as well as to expand the distribution network and gain market share in all segments. The Group will strengthen its positions in the corporate market segment via further enhancement of its corporate products and promoting the Kaspersky brand in this market. Particular emphasis will be placed on growth in American and Asia-Pacific regions, where the Group's positions are less established than in Europe and EEMEA.

(c) Principal risks and uncertainties

Certain risks and uncertainties may have a material impact on the performance of the Group.

The Group operates in a market where technology plays a key role. Keeping industry leadership positions is subject to a number of risks. Specifically, the Group may lack financial and other resources to maintain its positions. The Group's products are technologically complex and vulnerable to defects and error. Additionally, a possible infringement of the Group's intellectual property rights may negatively affect the Group's competitiveness on the market. The Group manages this risk by investing substantial resources in research and development activities, including those which are related to ensuring product quality and legal substantiation of its intellectual property rights.

The Group's policy in working with customers is focused on market penetration. As such, extended credit terms are granted to some of the Groups' major distributors. This results in a credit risk which the Group incurs on its trade accounts receivable. The Company manages this risk by developing a network of long-term reliable distributors and by day-to-day monitoring of exposure to individual customers. Refer to note 26(b) of the consolidated financial statements for a description of this risk.

The Group is exposed to foreign currency risk, mainly because some entities of the Group carry out sales and purchases in currencies different from the functional currencies of these entities. The resulting trade accounts receivable and cash in foreign currencies usually exceed balances of liabilities in those currencies. This risk is mitigated by a day-to-day monitoring of the Group's open foreign currency position, and currency structure of its financial resources. Refer to note 26(d)(i) of the consolidated financial statements for a description of this risk.

The Group historically used external debt financing very rarely and only on a short-term basis. The Group's most significant liability as at the reporting date is deferred income of USD 186,335 thousand (2007: USD 114,681 thousand), due to the Group's revenue recognition policy. The Group's monetary current assets at 31 December 2008 of USD 228,256 thousand (2007: USD 125,133 thousand), comprising the balance of cash and cash equivalents of USD 58,824 thousand (2007: 51,484 thousand) and easily convertible into cash term bank deposits of USD 60,784 thousand (2006: USD 3,357 thousand), exceed the Group's monetary current liabilities of USD 81,282 thousand (2007: USD 33,308 thousand). The Group does not use variable interest rate financial instruments. Therefore Management considers that the Group is not materially exposed to liquidity risk and cash flow risk. On a regular basis the cash position of the Group is monitored to

ensure sufficient cash resources to settle out liabilities – both in aggregate and in each individual currency.

One of the Group's material entities is based in Russia. As stated in note 1(b) of the consolidated financial statements, due to political and economic changes which Russia currently experiences, operations in the Russian Federation involve risks that typically do not exist in other markets. These tax risks are described in note 28(c) to the consolidated financial statements. The future business environment may differ from Management's assessment. The risk is managed by seeking regular tax and legal advice with leading audit and consulting companies, and a diversification of geographical structure of the Group's operations.

As indicated in note 28(c) to the consolidated financial statements one of the Group's entities based in the UK is currently in process of settlement of its tax liabilities with tax authorities. The amount of tax liability at 31 December 2008 of USD 10,750 thousand included in the consolidated financial statements reflect the Group's best estimate of the liability resulting from the settlement, but the outcome of the settlement may be materially different from those amounts. The risk is managed by seeking professional legal advice on the issue.

(d) Directors

The following directors held office during the year:

E. Kaspersky

N. Kaspersky

E. Buyakin

V. Bezrodnykh

H. Cheung

A. De-Monderik

G. Kondakov

A. Lamm

S. Orenberg

(e) Distribution to shareholders

No dividends were declared during 2008. Distributions to shareholders during the period from 28 December 2006 to 31 December 2007 of USD 2,534 thousand are payments made from profits of contracts acquired by the Group from an entity under common control of the shareholders, but not forming part of the Group's legal structure.

(f) Share grants to directors

During 2008 certain shareholders of the Group disposed the following number of shares in the Company to the following directors: Mr. H. Cheung – 400 shares, Mr. S. Orenberg – 300 shares.

The shares transferred to Mr. S. Orenberg were transferred to him for nominal consideration pursuant to an oral agreement entered into in 2004 and as compensation for services to be received by the Group from Mr. Orenberg during 2004-2008. The fair value of this remuneration was estimated at USD 18 thousand in 2008 (28 December 2006 – 31 December 2007: USD 124 thousand) based on the estimated fair value of the shares to be transferred when the oral agreement was entered into. The fair value of the shares was estimated by reference to the price of a sale of shares between the shareholders on an arm's length basis chronologically close to the date that the oral agreement was entered into.

The transfer of shares to Mr. H. Cheung was not a compensation for any services provided to the Group.

(g) Redemption of the Company's own shares

On 9 January 2008 at a request of one of the Company's shareholders the Company entered into a put option agreement with her for a consideration of USD 1, granting the shareholder the right to sell to the Company 4,800 of its own shares with par value of GBP 0.01 each in two equal tranches for a total consideration of USD 21,000 thousand. Upon entering into the contract the Group recognised a financial liability equal to the estimated fair value of the liability as at the date of the transaction of USD 18,800 thousand. The first tranche of 2,400 shares was purchased by the Company from the shareholder on 12 September 2008 for USD 9,000 thousand. The shares acquired were cancelled. The shareholder has the right to sell the second tranche of 2,400 shares during the period from 1 September to 15 September 2009 for a consideration of USD 12,000 thousand.

(h) Research and development

The Group undertakes research and development in connection with its principal activity. During 2008 significant investments were made in this critical area. For example, the average number of employees focusing on research and development increased from 219 during the period from 28 December 2006 to 31 December 2007 to 290 during 2008.

(i) Disabled employees

The Group hiring policies stipulate full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities. We provide continuing employment to those employees, who become disabled during their employment with the Group, and provide training, career development and promotion to disabled employees, where appropriate.

(j) Employee involvement

Employee involvement and commitment to the success of the business is an important element of the Group's culture. Management conducts regular communications and consultations with employees on key aspects of the Group's activities in the form of e-mail communications, annual meetings and informal events.

(k) Environment

The Group does not operate any plant or own property, but nevertheless it is conscious of its environmental responsibilities and aims at reducing any damage to the environment that might be caused by its activities, primarily by reducing energy consumption.

(l) Policy and practice on payment of creditors

The Group's policy is to pay creditors in accordance with the agreed payment terms.

Trade creditors of the Group at 31 December 2008 amounted to 43 days (31 December 2007: 34 days) of purchases, based on the average daily amount invoiced by suppliers during the year.

(m) Disclosure of information to auditors

Directors who hold the office at the date of this report confirm that, so far as they are each aware there is no relevant audit information of which the Group's auditor is unaware, and each Director has taken all the steps that he/she ought to have taken as a director in order to make him(her)self aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

(n) Statement of Directors' responsibilities in respect of the Directors' Report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and Parent Company Financial Statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with IFRSs as adopted by the EU and applicable laws.

The Group and parent company financial statements are required by law to present fairly the financial position of the group and the parent company and the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

(o) Auditors

In accordance with Section 485 of the Companies Act 2006, a resolution for the appointment or re-appointment of the auditors of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the board

Eugene Kaspersky
Chief Executive Officer

A handwritten signature in black ink, appearing to be 'E. Kaspersky', written over the printed name and title.

14 July 2009



KPMG Audit Plc

1 Forest Gate
Brighton Road
Crawley
RH11 9PT
United Kingdom

Independent auditors' report to the members of Kaspersky Labs Limited

We have audited the group and parent company financial statements (the "financial statements") of Kaspersky Labs Limited for the year ended 31 December 2008 which comprise the group and parent company balance sheets, the group and parent company cash flow statements, the group statement of changes in equity, the group statement of recognised income and expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 7.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

28 July 2009

1 Forest Gate
Brighton Road
Crawley
RH11 9PT

Kaspersky Labs Limited
Consolidated Income Statement for the year ended 31 December 2008

		2008	28 December 2006 to 31 December 2007
	Note	'000 USD	'000 USD
Billings	6	328,984	187,296
Billings deferred to future periods		(194,189)	(100,447)
Revenue from billings of prior periods		100,707	40,781
Translation difference		3,847	(1,798)
Revenue	6	239,349	125,832
Cost of sales	7	(23,075)	(13,090)
Gross profit		216,274	112,742
Distribution expenses	8	(103,753)	(51,619)
Administrative expenses	9	(29,842)	(23,586)
Research and development expenses	10	(27,396)	(16,356)
Other expenses		(152)	(129)
Results from operating activities		55,131	21,052
Financial income	13	14,909	3,482
Financial expenses	13	(1,712)	(385)
Share of loss of equity accounted investee (net of income tax)		(66)	-
Profit before income tax		68,262	24,149
Income tax expense	14	(22,686)	(9,393)
Profit for the year		45,576	14,756
Attributable to:			
Shareholders of the Company		45,362	14,667
Minority interest		214	89
		45,576	14,756
Earnings before interest, tax, depreciation and amortisation (EBITDA)	15	72,556	25,580

Kaspersky Labs Limited
Consolidated Statement of Recognised Income and Expense for the year ended 31 December 2008

	2008	28 December 2006 to 31 December 2007
	'000 USD	'000 USD
Foreign currency translation differences	(6,828)	(882)
Expense recognised in equity	(6,828)	(882)
Profit for the period	45,576	14,756
Total recognised income and expense for the period	38,748	13,874
Attributable to:		
Shareholders of the Company	38,562	13,785
Minority interest	186	89
	38,748	13,874

Kaspersky Labs Limited
Consolidated Balance Sheet as at 31 December 2008

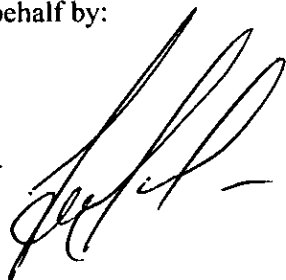
		2008	2007
	Note	'000 USD	'000 USD
ASSETS			
Non-current assets			
Property, plant and equipment	16	6,450	4,119
Intangible assets	17	1,536	2,353
Investments in equity accounted investees	18	132	225
Investments	19	122	-
Other receivables	20	184	1,329
Deferred tax assets	21	38,840	19,571
Total non-current assets		47,264	27,597
Current assets			
Inventories	22	2,295	1,035
Investments	19	1,221	713
Trade and other receivables	20	107,427	69,579
Prepayments for current assets		6,541	4,626
Bank deposits	19	60,784	3,357
Cash and cash equivalents	23	58,824	51,484
Total current assets		237,092	130,794
Total assets		284,356	158,391

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 18 to 63.

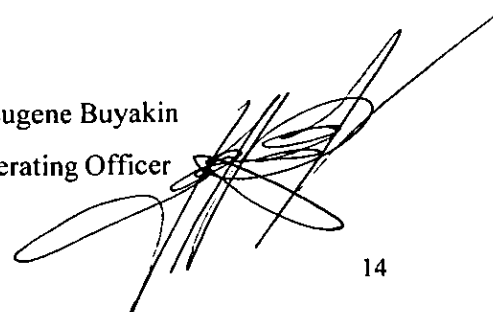
		2008	2007
	Note	'000 USD	'000 USD
EQUITY AND LIABILITIES			
Equity	24		
Share capital		1	1
Additional paid-in capital		1,017	-
Reserves		(8,292)	(1,492)
Retained earnings		22,612	(3,950)
Total equity attributable to shareholders of the Company		15,338	(5,441)
Minority interest		681	495
Total equity		16,019	(4,946)
Non-current liabilities			
Deferred income		17,428	9,848
Other payables	25	-	1,324
Deferred tax liabilities	21	243	136
Total non-current liabilities		17,671	11,308
Current liabilities			
Deferred income		168,907	104,833
Trade and other payables	25	42,895	27,792
Income tax payable		38,864	19,404
Total current liabilities		250,666	152,029
Total liabilities		268,337	163,337
Total equity and liabilities		284,356	158,391

These consolidated financial statements were approved by the Board of Directors on 14 July 2009 and were signed on its behalf by:

Eugene Kaspersky
Chief Executive Officer



Eugene Buyakin
Chief Operating Officer



Kaspersky Labs Limited
Consolidated Statement of Cash Flows for the year ended 31 December 2008

	2008	28 December 2006 to 31 December 2007
	'000 USD	'000 USD
Cash flows from operating activities		
Profit for the year	45,576	14,756
<i>Adjustments for:</i>		
Depreciation and amortisation	3,468	1,549
Impairment losses	1,661	-
Expenses paid for by the shareholders	1,017	-
Net finance income	(13,197)	(3,097)
Share of loss of equity accounted investee (net of income tax)	66	-
Income tax expense	22,686	9,393
Operating profit before changes in working capital and provisions	61,277	22,601
Change in deferred revenue	89,201	59,726
Change in trade and other payables	(6,777)	7,853
Change in inventories	(1,830)	(404)
Change in trade and other receivables	(34,449)	(25,550)
Cash flows from operations before income taxes and interest paid	107,422	64,226
Income taxes paid	(21,252)	(8,987)
Interest paid	-	(80)
Cash flows from operating activities	86,170	55,159

Kaspersky Labs Limited
Consolidated Statement of Cash Flows for the year ended 31 December 2008 continued

	2008	28 December 2006 to 31 December 2007
	'000 USD	'000 USD
INVESTING ACTIVITIES		
Cash from withdrawing bank deposits	25,440	-
Proceeds from disposal of other investments	225	592
Interest received	694	198
Placing bank deposits	(85,391)	(3,357)
Acquisition of other investments	(1,075)	-
Acquisition of property, plant and equipment	(5,733)	(2,711)
Acquisition of intangible assets	(1,815)	(570)
Disposal of subsidiaries, net of cash disposed of	-	(271)
Acquisition of subsidiaries, net of cash acquired	-	(276)
Cash flows used in investing activities	(67,655)	(6,395)
FINANCING ACTIVITIES		
Proceeds from borrowings	-	4,066
Repayment of borrowings	-	(4,066)
Distribution to shareholders	-	(2,534)
Redemption of own shares	(9,000)	-
Cash flows used in financing activities	(9,000)	(2,534)
Net increase in cash and cash equivalents	9,515	46,230
Cash and cash equivalents at beginning of year	51,484	3,942
Effect of exchange rate fluctuations on cash and cash equivalents	(2,175)	1,312
Cash and cash equivalents at end of year (note 23)	58,824	51,484

*000 USD	Attributable to shareholders of the Company				Minority interest	Total equity
	Share capital	Additional paid-in capital	Translation reserve	Retained earnings		
				Total		
Balance at 28 December 2006	1	-	(610)	(15,598)	67	(16,140)
Profit for the period	-	-	-	14,667	89	14,756
Foreign currency translation differences	-	-	(882)	-	-	(882)
Total recognised income and expense					89	13,874
Disposal of a subsidiary	-	-	-	(485)	(156)	(641)
Acquisition of a subsidiary	-	-	-	-	495	495
Distribution to shareholders	-	-	-	(2,534)	-	(2,534)
Balance at 31 December 2007	1	-	(1,492)	(3,950)	495	(4,946)
Balance at 1 January 2008	1	-	(1,492)	(3,950)	495	(4,946)
Profit for the year	-	-	-	45,362	214	45,576
Foreign currency translation differences	-	-	(6,800)	-	(28)	(6,828)
Total recognised income and expense					186	38,748
Put options granted to shareholder:						
- exercised in September 2008	-	-	-	(9,000)	-	(9,000)
- exercisable in September 2009	-	-	-	(9,800)	-	(9,800)
Put option exercised	-	-	-	(18,800)	-	(18,800)
Shares redeemed	-	-	-	9,000	-	9,000
Contribution from shareholders	-	1,017	-	(9,000)	-	(9,000)
			-	1,017	-	1,017
Balance at 31 December 2008	1	1,017	(8,292)	22,612	681	16,019

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 18 to 63.

Background

a) Organisation and operations

Kaspersky Labs Limited (the “Company”) and its subsidiaries (together referred to as the “Group”) comprise private limited companies as defined in the Companies Act of 2006 of the United Kingdom of Great Britain and Northern Ireland (the “UK”), and companies located in Russia, Germany, France and other countries.

The Group is ultimately controlled by a single individual, Eugene Kaspersky, who has the power to direct the transactions of the Group at his own discretion and for his own benefit.

The Company was established in 2001. Entities that became the Company’s subsidiaries effective 31 December 2006, were established during the period from 1999 to 2005. These entities were ultimately controlled by Eugene Kaspersky from 2005.

The Company’s registered office address is at 3rd floor, 7-10 Chandos Street, London, W1G 9DQ.

The Group’s principal activity is the development, production and distribution of anti-virus software and the provision of related services. The Group is headquartered in Moscow, Russia. The Group’s products are sold in the UK, Russia and other countries.

(b) Business environment

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. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. 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”). These consolidated financial statements are not the Group’s UK statutory financial statements.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that the carrying amounts of non-monetary assets, liabilities and equity items of the Russian subsidiaries of the Company 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 functional currencies of the Group's significant entities are presented below:

	Country of incorporation	Functional currency
Kaspersky Labs Limited	United Kingdom	United States Dollars
ZAO Kaspersky Lab	Russia	Russian Roubles
Kaspersky Lab UK Ltd.	United Kingdom	Euro
Kaspersky Labs GmbH	Germany	Euro
Kaspersky Lab France S.A.R.L.	France	Euro

Effective from 1 January 2008 Management changed the functional currency of Kaspersky Labs Limited and Kaspersky Lab UK Ltd. from Sterling ("GBP") to United States Dollars ("USD") and from GBP to euro ("EUR"), respectively. Due to the changes in operating structure of the Group during 2008, the above entities started operating predominantly in the relevant currencies and Management started measuring performance and financial position of Kaspersky Labs Limited and Kaspersky Lab UK Ltd. in USD and EUR, respectively.

These consolidated financial statements are presented in USD, which Management believes is more convenient for users. All financial information presented in USD has been rounded to the nearest thousand.

(d) Use of judgments, estimates and assumptions

Management has made a number of judgments, 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 may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 3(l) – revenue recognition policy
- Note 24(d) – share-based compensation; and
- Note 28 – contingencies.

(e) The Company's financial year

The Company's accounting reference date is 31 December. The preceding financial statements of the Company were prepared for a period from 28 December 2006 to 31 December 2007 and the comparative information in these consolidated financial statements is presented for the same

period. Management considers that the difference in durations of the reporting and the comparative periods does not materially affect comparability of information presented for the two periods.

3 Significant accounting policies

The significant accounting policies applied in the preparation of the consolidated financial statements are described in note 3(a) to 3(r). These accounting policies have been consistently applied.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of share premium. Any cash paid for the acquisition is recognised directly in equity.

(iii) Associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the

investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign currency differences arising in translation are recognised in the income statement.

(ii) Translation to presentation currency

The assets and liabilities of all Group entities, including goodwill and fair value adjustments arising on acquisition, are translated to the presentation currency at the exchange rate at the reporting date. The income and expenses of foreign operations are translated to the presentation currency at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in foreign currency translation reserve in equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to the income statement.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expenses is discussed in note 3(o).

(d) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognised as a deduction from equity. Repurchased and redeemed shares are presented as a deduction from total equity.

(e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs related to the acquisition or construction of qualifying assets are recognised in the income statement as incurred.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are recognised net in "other income" in the income statement.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(iii) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative periods are as follows:

- computer equipment 3-5 years
- fixtures and fittings 5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(f) Intangible assets

(i) Patents

Patents acquired by the Group are measured at cost less accumulated amortisation and accumulated impairment losses.

(ii) Research and development costs

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

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. This occurs when a product satisfies product trials in a live customer environment to establish technical and commercial feasibility. The capitalised expenditure includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Borrowing costs related to the development of qualifying assets are recognised in the income statement as incurred.

Capitalised development expenditure is measured at a cost less accumulated amortisation and accumulated impairment losses. Amortisation begins when development is complete and the product is available for sale. Capitalised development expenditure is amortised over the period of expected future sales.

Development expenditure incurred on minor or major upgrades and updates or other changes in software functionality does not meet the criteria for capitalisation, as the product is not substantially new in its design or functional characteristics. Such expenditure is, therefore, recognised as expense in the income statement as incurred.

The Group has not capitalised any development costs as the qualifying amounts are not significant. On the basis that a development project meets the technical and commercial feasibility requirements at the end of its development, subsequent costs that qualify for capitalization are not material to the consolidated financial statements.

(iii) Other intangible assets

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

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the income statement as incurred.

(v) Amortisation

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

- patents - 10 years
- other - 3 to 5 years

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future installments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future installments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the income and expenditure account on a straight line basis over the life of the lease.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost formula, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in the income statement.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For

goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business acquisition, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised in the income statement when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(k) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 the risks specific to the liability.

(l) Revenue

(i) Licence fees

Revenue from the sale of licences is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of licences can be estimated reliably, and there is no continuing Management involvement with the licences, and the amount of revenue can be measured reliably. Revenue is measured at fair value of the consideration received or receivable, net of returns, vendor and end-user discounts and taxes. The following specific criteria are also applied.

Licence agreements with end customers and resellers

Licence agreements with end-users and resellers involve the sale of a licence for multiple products and services: a software licence for a fixed period of time together with regular updates, upgrades of the software and other services under a fixed licence term. The portion of the revenue corresponding to each element of the arrangement cannot be identified and measured reliably, and the entire amount of revenue under a multiple element arrangement is recognised rateably over the duration of the licence, starting from the time of the delivery of the licence.

The Group offers the right of return of its products under various policies and programs with its distributors, resellers, and end-user customers. The Group estimates and recognizes provisions for estimated product returns as deduction from revenue.

Licence agreements with technology partners

Licence agreements with technology partners involve the sale of a licence for the use of the Group's software in a licensee's products together with regular updates, upgrades of the software and other services over a fixed term. Revenue is recognised rateably over the duration of the term specified in the licence agreement, upon sale of the technology partner's products as reported by the partner.

(ii) Services

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(m) Cost of sales

Cost of sales include expenses incurred in conducting the Group's main activities, including the cost of inventories sold, expenses related to geographical localisation of the Group's products, the cost of providing technical support and relevant overheads.

(n) Other expenses

(i) Lease payments

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 as an integral part of the total lease expense, over the term of the lease.

(ii) Social expenditure

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in the income statement as incurred.

(o) Finance income and expenses

Finance income comprises interest income on funds invested and foreign currency gains. Interest income is recognised as it accrues in the income statement, using the effective interest method.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions and foreign currency losses. All borrowing costs are recognised in the income statement using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(p) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense 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 is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at

each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

When the applicable tax law is not very clear, or in tax regimes where the amounts finally payable to the tax authorities are the outcome of lengthy negotiations involving a high degree of subjectivity and discretion, the Group's tax positions may be challenged by the tax authorities, which may result in additional taxes, penalties or late-payment interest, or in changes in the tax basis of assets or liabilities, or changes in the amount of available tax loss carry-forwards that would reduce a deferred tax asset or increase a deferred tax liability. If such tax positions are taken by the Group and Management believes that it is probable that an outflow of economic benefits will be required to settle an obligation due to the Group's specific tax positions, the Group recognises current/deferred tax liabilities in the balance sheet and income tax expense in the income statement for the estimated amount of the additional tax, penalties and late-payment interest.

(q) Earnings before interest, tax, depreciation and amortisation ("EBITDA")

EBITDA is a non-IFRS financial measure and different issuers of financial statements may use different formulas for calculating EBITDA. It was included in these consolidated financial statements for convenience of users. For the purposes of these consolidated financial statements EBITDA equals profit for the year, adjusted for the effect of interest income and interest expense (including unwinding of discounts on zero or low interest financial instruments and excluding foreign currency gains and losses), income tax expense/benefit, depreciation and impairment of property, plant and equipment, amortisation and impairment of intangible assets.

(r) 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 2008, 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.

- Revised IAS 1 *Presentation of Financial Statements* (2007) which becomes mandatory for the Group's 2009 consolidated financial statements is expected to have a significant impact on the presentation of the consolidated financial statements. The Standard introduces the concept of total comprehensive income and requires presentation of all owner changes in equity in the statement of changes in equity, separately from non-owner changes in equity.
- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group's 2009 consolidated financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. The new Standard will not have a material impact on the Group's financial position or performance.
- Amended IAS 27 *Consolidated and Separate Financial Statements* (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the

Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.

- Amendments to IFRS 1 First-time adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements – *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* which will come into effect on 1 July 2009. The Group has not yet determined the potential effect of the amendment.
- Amendment to IFRS 2 *Share-based Payment – Vesting conditions and cancellations* clarify the definition of vesting conditions, introduce the concept of non-vesting conditions, require non-vesting conditions to be reflected in grant-date fair value and provide the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Group's 2009 consolidated financial statements, with retrospective application. The Group has not yet determined the potential effect of the amendment.
- Revised IFRS 3 *Business Combinations* (2008) and amended IAS 27 (2008) *Consolidated and Separate Financial Statements*, which come into effect on 1 July 2009 (i.e. become mandatory for the Group's 2010 consolidated financial statements). The revisions address, among others, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require to recognise the effects of transactions with non-controlling interest directly in equity. It is not expected to have a material effect on the Group's consolidated financial statements.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purpose, will come into effect not earlier than 1 January 2009. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values, when possible. The market value of items of property, plant and equipment is based on quoted market prices for similar items.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

(b) Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(c) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(d) Non-derivative financial liabilities

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

5 Acquisition and disposals of subsidiaries and minority interests in the preceding reporting period

(a) Acquisition of subsidiary in the preceding reporting period

On 6 December 2007 the Group acquired 51% of the shares in Kaspersky Lab France S.A.R.L. for EUR 350 thousand, equivalent to USD 515 thousand at the exchange rate at the date of the transaction, which was settled in cash. The subsidiary did not contribute materially to the Group's profit for the year.

If the acquisition had occurred on 1 January 2007, it would not have materially affected the revenue of the Group and the profit for the year would have been USD 12,238 thousand. In determining this figure it has been assumed that the fair value adjustments at 1 January 2007 would have been the same as the fair value adjustments that arose on the date of acquisition.

The net assets of the acquired subsidiary were as follows at the date of acquisition:

'000 USD	Pre-acquisition carrying amounts on a comparable IFRS basis	Fair value adjustments	Recognised fair values on acquisition
Non-current assets			
Property, plant and equipment	86	-	86
Intangible assets	8	408	416
Current assets			
Investments	191	-	191
Trade and other receivables	4,634	-	4,634
Cash and cash equivalents	239	-	239
Current liabilities			
Loans and borrowings	(3,516)	-	(3,516)
Trade and other payables	(904)	-	(904)
Non-current liabilities			
Deferred tax liabilities	-	(136)	(136)
Net identifiable assets, liabilities and contingent liabilities	738	272	1,010
Minority interest			(495)
Goodwill/(negative goodwill) on acquisition			-
Consideration paid			515
Cash acquired			(239)
Net cash outflow			276

(b) Disposal of subsidiary in the preceding reporting period

On 22 December 2006 the Group disposed of 18% of its shares in ZAO Infowatch, one of its subsidiaries for no consideration. On 28 December 2007 the Group disposed of a further 56% of its shares in ZAO Infowatch to one of the Company's shareholders for no consideration. The subsidiary contributed USD 8 thousand to the Group's profit for the year. The loss from the disposal of the subsidiary in 2007 of USD 485 thousand was recorded directly in equity and the remaining investment is accounted for as set out in note 18.

The disposal of the subsidiary had the following effect on the Group's assets and liabilities at the date of disposal:

	Carrying amount at date of disposal '000 USD
Non-current assets	
Property, plant and equipment	75
Deferred tax assets	83
Current assets	
Inventories	18
Trade and other receivables	878
Cash and cash equivalents	271
Current liabilities	
Trade and other payables	(460)
Net identifiable assets and liabilities	865
Consideration received, satisfied in cash	-
Cash disposed of	(271)
Net cash outflow	(271)

6 Billings and revenue

(a) Definitions

Billings presented in the consolidated income statement represent the amounts of invoices issued by the Group for licences sold and services provided during a reporting period. Invoices are issued upon delivery of the products and services to the customers. The standard payment terms are 30 days after the issuance of the invoice, and individual payment terms may vary depending on the individual customer. Revenues are recognised in accordance with the Group's accounting policy set out in note 3(l). The difference between billings and revenues is due to the fact that income from sales of licences is included in billings when the respective invoice is issued; while revenue from a sale of the licence is recognised rateably over the duration of the licence, starting from the time of delivery of the licence. The reconciliation of billings and revenue determined in accordance with the Group's accounting policy set out in note 3(l) is presented on the face of the consolidated income statement.

(b) Segmental information for billings

The Group analyses and manages revenue and billings by geographical segments and by types of customers.

Geographical distribution of billings is presented below:

	2008	28 December 2006 to 31 December 2007
	'000 USD	'000 USD
Europe	196,475	113,512
Eastern Europe, Middle East and Africa (EEMEA)	89,915	48,390
Asia Pacific (APAC)	21,689	11,497
North America and South America (Americas)	19,295	13,065
Japan	1,610	832
	328,984	187,296

For management purposes the Group distinguishes billings of Kaspersky Lab products and services to consumers ("consumers"), billings of Kaspersky Lab products and services to institutional customers ("corporate"), billings for licensing of Kaspersky Lab technologies and products to other IT security software developers and original equipment manufacturers ("technology licensing") and other billings. Allocation of billings by type of customers is presented below:

	2008	28 December 2006 to 31 December 2007
	'000 USD	'000 USD
Consumer	199,744	109,044
Corporate	98,062	55,865
Technology Licensing	30,229	20,680
Other	949	1,707
	328,984	187,296

(c) Revenue

Revenue earned by the Group consists of the following types:

	2008	28 December 2006 to 31 December 2007
	'000 USD	'000 USD
Licence fees	236,616	120,653
Revenue from services provided	2,733	5,179
	239,349	125,832

7 Cost of sales

	2008	28 December 2006 to 31 December 2007
	'000 USD	'000 USD
Materials	11,116	8,151
Wages and salaries	4,896	2,656
Payroll taxes	877	418
Services	3,456	1,315
Impairment of intangible assets	1,661	-
Depreciation and amortisation	556	342
Rent	513	208
	23,075	13,090

8 Distribution expenses

	2008	28 December 2006 to 31 December 2007
	'000 USD	'000 USD
Advertising and marketing expenses	28,376	9,154
Wages and salaries	21,642	12,455
Payroll taxes	3,277	1,414
Financing of local offices	16,844	8,022
Sales commission	15,239	6,332
Services	7,750	7,242
Bad debt expense	5,055	3,654
Rent	1,764	902
Materials	1,741	1,134
Telecommunication expenses	1,051	297
Depreciation and amortisation	1,000	455
Other expenses	14	558
	103,753	51,619

9 Administrative expenses

	2008	28 December 2006 to 31 December 2007
	'000 USD	'000 USD
Wages and salaries	10,517	6,900
Payroll taxes	1,298	713
Services	10,691	4,785
Travel and entertainment	3,841	2,302
Company events	1,210	1,120
Rent	1,193	493
Depreciation and amortisation	640	263
Telecommunication expenses	452	175
Bank commissions	-	736
Termination benefits	-	6,099
	29,842	23,586

10 Research and development expenses

	2008	28 December 2006 to 31 December 2007
	'000 USD	'000 USD
Wages and salaries	16,133	10,796
Payroll taxes	1,594	978
Services	4,494	1,846
Depreciation and amortisation	1,272	489
Rent	2,207	1,248
Telecommunication expenses	624	444
Staff meals	572	430
Materials	500	125
	27,396	16,356

11 Personnel costs

(i) Personnel remuneration

	2008	28 December 2006 to 31 December 2007
	'000 USD	'000 USD
Wages and salaries	53,188	32,807
Payroll taxes	6,938	3,485
Contributions to non-mandatory defined contribution pension plans	108	38
Termination benefits	-	6,099
	60,234	42,429

Termination benefits were paid during the period from 28 December 2006 to 31 December 2007 pursuant to the obligation of the Group under a contract of employment with a former director of one of the Group's subsidiaries.

The average number of employees (including directors) for the Group during the year analyzed by function was as follows:

	2008	28 December 2006 to 31 December 2007
Cost of sales	54	45
Research and development	290	219
Sales and marketing	377	335
General and administrative	102	84
	823	683

(ii) Directors' emoluments

The average number of directors during 2008 was 9 (28 December 2006 – 31 December 2007: 5). Included in the personnel costs is remuneration of the Company's directors:

	2008	28 December 2006 to 31 December 2007
	'000 USD	'000 USD
Wages and salaries	3,307	1,219
Termination benefits	-	6,099
	3,307	7,318

The emoluments, excluding pension contributions, of the highest paid director were USD 1,334 thousand (2007: USD 6,722 thousand, including USD 6,099 thousand of termination benefits).

The contribution to the pension fund of this director during the year was USD 27 thousand (2007: USD 9 thousand).

12 Auditors' remuneration

	2008	28 December 2006 to 31 December 2007
	'000 USD	'000 USD
Audit of financial statements of the Company	410	295
Audit of financial statements of subsidiaries pursuant to legislation	197	47
Other services related to taxation	128	15
	735	357

13 Financial income and expenses

	2008	28 December 2006 to 31 December 2007
	'000 USD	'000 USD
Financial income		
Net foreign exchange gain	12,874	3,156
Interest income on bank deposits	2,035	198
Unwinding of discount	-	128
Finance income	14,909	3,482
Financial expense		
Unwinding of discount	(1,200)	(128)
Bank commissions	(512)	(177)
Interest expense on financial liabilities measured at amortised cost	-	(80)
Finance expense	(1,712)	(385)
Net finance income recognised in profit or loss	13,197	3,097

Recognised directly in equity

	2008 '000 USD	28 December 2006 to 31 December 2007 '000 USD
Foreign currency translation differences for foreign operations	(6,828)	(882)
Finance loss recognised directly in equity	(6,828)	(882)
Attributable to:		
Shareholders of the Company	(6,800)	(882)
Minority interest	(28)	-
Finance loss recognised directly in equity	(6,828)	(882)
Recognised in:		
Translation reserve	(6,828)	(882)
	(6,828)	(882)

14 Income tax expense

	2008 '000 USD	28 December 2006 to 31 December 2007 '000 USD
Current tax expense		
Current period	47,361	17,914
	47,361	17,914
Deferred tax expense		
Origination and reversal of temporary differences	(28,877)	(8,521)
Change in accounting estimate	1,836	-
Change in tax rate	1,504	-
Underprovided in previous years	862	-
	22,686	9,393

The applicable tax rate for the Group's UK companies is the income tax rate 28% (28 December 2006 to 31 December 2007: 30%).

The applicable tax rate for the Group's Russian subsidiaries is 24% (28 December 2006 to 31 December 2007: 24%). With effect from 1 January 2009, the income tax rate for Russian companies has been reduced to 20%. This rate has been used in the calculation of deferred tax assets and liabilities.

Reconciliation of effective tax rate:

	2008		28 December 2006 to 31 December 2007	
	'000 USD	%	'000 USD	%
Profit before income tax	68,262	100	24,149	100
Income tax at applicable tax rate	(19,113)	28	(7,245)	30
Effect of income taxed at higher rates	2,621	(4)	982	(4)
Non-deductible expenses/non-taxable income	(1,292)	2	(1,899)	8
Change in accounting estimate	(1,836)	3	-	-
Effect of change in tax rate	(1,504)	2	-	-
Underprovided in previous years	(862)	1	-	-
Provision for late-payment interest and penalties	(700)	1	(1,231)	5
	<u>(22,686)</u>	<u>33</u>	<u>(9,393)</u>	<u>39</u>

15 Earnings before interest, tax, depreciation and amortisation (EBITDA)

	2008	28 December 2006 to 31 December 2007
	'000 USD	'000 USD
Profit for the period	45,576	14,756
Adjusted for:		
Net interest income	(835)	(118)
Income tax expense	22,686	9,393
Depreciation and amortisation	3,468	1,549
Impairment of intangible assets	1,661	-
	<u>72,556</u>	<u>25,580</u>

The Group's accounting policy on calculating EBITDA is described in note 3(q).

16 Property, plant and equipment

'000 USD	Computer equipment	Fixtures and fittings	Total
<i>Cost</i>			
Balance at 28 December 2006	3,792	84	3,876
Acquisitions through business combinations	70	16	86
Additions	2,117	604	2,721
Disposals	(207)	(4)	(211)
Disposal of subsidiary	-	(99)	(99)
Translation differences	289	(201)	88
Balance at 31 December 2007	6,061	400	6,461
Balance at 1 January 2008	6,061	400	6,461
Additions	4,856	917	5,773
Disposals	(24)	(16)	(40)
Translation differences	(1,303)	(131)	(1,434)
Balance at 31 December 2008	9,590	1,170	10,760
<i>Depreciation</i>			
Balance at 28 December 2006	(1,373)	(31)	(1,404)
Depreciation charge	(862)	(417)	(1,279)
Disposals	207	4	211
Disposal of subsidiary	-	24	24
Translation difference	(57)	163	106
Balance at 31 December 2007	(2,085)	(257)	(2,342)
Balance at 1 January 2008	(2,085)	(257)	(2,342)
Depreciation charge	(2,299)	(411)	(2,710)
Translation differences	668	74	742
Balance at 31 December 2008	(3,716)	(594)	(4,310)
<i>Net book value</i>			
At 28 December 2006	2,419	53	2,472
At 31 December 2007	3,976	143	4,119
At 31 December 2008	5,874	576	6,450

Depreciation expense was charged as follows:

	2008 '000 USD	28 December 2006 to 31 December 2007 '000 USD
Cost of goods sold	234	72
Research and development	772	489
Distribution expenses	1,200	520
Administrative expenses	504	198
Total depreciation	2,710	1,279

17 Intangible assets

'000 USD	Patents	Other intangible assets	Total
<i>Cost</i>			
Balance at 28 December 2006	2,508	11	2,519
Acquisitions through business combinations	-	416	416
Additions	-	16	16
Translation differences	53	(35)	18
Balance at 31 December 2007	2,561	408	2,969
Balance at 1 January 2008	2,561	408	2,969
Additions	1,779	36	1,815
Translation differences	(275)	(21)	(296)
Balance at 31 December 2008	4,065	423	4,488
<i>Amortisation and impairment losses</i>			
Balance at 28 December 2006	(335)	(1)	(336)
Amortisation charge	(267)	(3)	(270)
Translation differences	(13)	3	(10)
Balance at 31 December 2007	(615)	(1)	(616)
Balance at 1 January 2008	(615)	(1)	(616)
Amortisation charge	(670)	(88)	(758)
Impairment losses	(1,661)	-	(1,661)
Translation differences	79	4	83
Balance at 31 December 2008	(2,867)	(85)	(2,952)

'000 USD	Patents	Other intangible assets	Total
<i>Net book value</i>			
At 28 December 2006	2,174	9	2,183
At 31 December 2007	1,946	407	2,353
At 31 December 2008	1,198	338	1,536

Impairment losses of USD 1,661 thousand represent a write-off of the full unamortised carrying value of a patent for anti-spam technology, which ceased to be used in the Group's products in 2008.

18 Equity accounted investees

The Group has an investment in 26% of shares in ZAO Infowatch, which it accounts for as an investment in an equity-accounted investee. ZAO Infowatch is incorporated in Russia and operates in the IT security industry.

The following is summarised financial information in respect of the equity accounted investee:

	2008	28 December 2006 to 31 December 2007
	'000 USD	'000 USD
Total assets	1,421	1,326
Total liabilities	(913)	(460)
Revenue	4,085	3,607
(Loss)/profit for the year	(255)	510

19 Investments

	2008 '000 USD	2007 '000 USD
<i>Non-current</i>		
Loans and receivables:		
Loans to employees	122	-
	122	-
<i>Current</i>		
Bank deposits:		
in EUR, fixed rates of 4.8-5% p.a.	50,086	191
in RUR, fixed rates of 7.8-9.8% p.a.	10,698	3,166
Loans and receivables:		
Loans to shareholders (refer to note 29(c)(iii))	1,130	541
Loans to other related parties (refer to note 29(c)(iii))	91	172
	62,005	4,070

Bank deposits as at 31 December 2008 denominated in euro and Russian Roubles mature in February-September 2009 and March-July 2009, respectively. The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 26.

Trade and other receivables

	2008 '000 USD	2007 '000 USD
<i>Non-current</i>		
Receivables from shareholders	-	1,329
Other receivables	184	-
	184	1,329
<i>Current</i>		
Trade receivables from third parties	101,626	63,813
Trade receivables from other related parties	7,243	7,918
Non-interest bearing receivables from shareholders payable on demand	3,500	1,900
Taxes receivable	1,730	478
Other receivables from related parties	176	-
Other receivables	961	335
Provision for bad and doubtful debts	(7,809)	(4,865)
	107,427	69,579

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 26.

21 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

'000 USD	Assets		Liabilities		Net	
	2008	2007	2008	2007	2008	2007
Property, plant and equipment	-	-	(68)	(109)	(68)	(109)
Intangible assets	-	-	(105)	(136)	(105)	(136)
Investments	7,187	2,786	-	-	7,187	2,786
Inventories	-	217	(60)	-	(60)	217
Trade and other receivables	-	-	(1,921)	(3,145)	(1,921)	(3,145)
Deferred revenue	27,352	15,353	-	-	27,352	15,353
Trade and other payables	3,810	4,789	-	-	3,810	4,789
Tax loss carry-forwards	2,290	182	-	-	2,290	182
Other items	112	-	-	(502)	112	(502)
Tax assets/(liabilities)	40,751	23,327	(2,154)	(3,892)	38,597	19,435
Set off of tax	(1,911)	(3,756)	1,911	3,756	-	-
Net tax assets/(liabilities)	38,840	19,571	(243)	(136)	38,597	19,435

(b) Unrecognised deferred tax liabilities and assets

Deferred tax liabilities of USD 9,960 thousand (2007: USD 1,477 thousand), relating to investments in subsidiaries have not been recognised as the Group is able to control the timing of reversal of the relevant differences, and reversal is not expected in the foreseeable future.

(c) Movement in temporary differences during the year

'000 USD	1 January 2008	Recognised in income	Translation difference	Acquired/ disposed of	31 December 2008
Property, plant and equipment	(109)	31	10	-	(68)
Intangible assets	(136)	25	6	-	(105)
Investments	2,786	6,281	(1,880)	-	7,187
Inventories	217	(277)	-	-	(60)
Trade and other receivables	(3,145)	453	771	-	(1,921)
Deferred revenue	15,353	15,047	(3,048)	-	27,352
Trade and other payables	4,789	210	(1,189)	-	3,810
Tax loss carry-forwards	182	2,108	-	-	2,290
Other items	(502)	797	(183)	-	112
	19,435	24,675	(5,513)	-	38,597

'000 USD	28 December 2006	Recognised in income	Translation difference	Acquired/ disposed of	31 December 2007
Property, plant and equipment	(160)	65	(14)	-	(109)
Intangible assets	-	-	-	(136)	(136)
Investments	639	2,135	12	-	2,786
Inventories	-	217	-	-	217
Trade and other receivables	1,209	(4,461)	125	(18)	(3,145)
Deferred revenue	7,425	7,454	474	-	15,353
Trade and other payables	1,251	3,509	94	(65)	4,789
Tax loss carry-forwards	-	182	-	-	182
Other items	74	(580)	4	-	(502)
	10,438	8,521	695	(219)	19,435

22 Inventories

	2008 '000 USD	2007 '000 USD
Finished goods and goods for resale	1,911	801
Raw materials and consumables	384	274
Provision for obsolete inventories	-	(40)
	2,295	1,035

23 Cash and cash equivalents

	2008 '000 USD	2007 '000 USD
Petty cash	106	428
Bank balances	31,920	51,056
Call deposits	26,798	-
Cash and cash equivalents in the balance sheet and the statement of cash flows	58,824	51,484

The call deposits are placed at the interest rates of up to 1.5% and are repayable on demand. The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 26.

24 Equity

(a) Share capital and additional paid-in capital

Number of shares unless otherwise stated

	Shares 2008	Shares 28 December 2006 to 31 December 2007
Authorised shares at beginning of period	110,000	1,000
Share split 1:100	-	99,000
Additional shares authorised, not paid	-	10,000
Authorised shares at end of period	110,000	110,000
Shares authorised, not issued at beginning of period	(10,000)	(10,000)
Share cancellation	(2,400)	-
Shares authorised, not issued at end of period	(12,400)	(10,000)
On issue at end of period, fully paid	97,600	100,000

<i>Number of shares unless otherwise stated</i>	Shares	Shares
	2008	28 December 2006 to 31 December 2007
Par value at beginning of period	USD 0.0145 (equivalent of 0.01 GBP)	USD 1.45 (equivalent of 1 GBP)
Par value at end of period	USD 0.0145 (equivalent of 0.01 GBP)	USD 0.0145 (equivalent of 0.01 GBP)

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

(b) Dividends

In accordance with UK legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with the UK accounting principles. As at 31 December 2008 and 2007 the Company had an accumulated deficit.

On 9 January 2008 the Company entered into a put option agreement with one of its shareholders for a consideration of USD 1, granting the shareholder the right to sell to the Company 4,800 of its own shares in two equal tranches for a total consideration of USD 21,000 thousand. Upon entering into the contract the Group recognised a financial liability equal to the estimated fair value of the liability as at the date of the transaction of USD 18,800 thousand. The first tranche of 2,400 shares was purchased by the Company from the shareholder on 12 September 2008 for USD 9,000 thousand. The shares acquired were cancelled. The shareholder has the right to sell the second tranche of 2,400 shares during the period from 1 September to 15 September 2009 for a consideration of USD 12,000 thousand.

Distributions to shareholders during the period from 28 December 2006 to 31 December 2007 of USD 2,534 thousand are payments made from profits of contracts acquired by the Group from an entity under common control of the shareholders, but not forming part of the Group's legal structure.

(c) Contributions from shareholders

During 2008 the Company's shareholders bore operating expenses of the Group in the amount of USD 1,017 thousand, which was recognised as a contribution from shareholders in the consolidated statement of changes in equity.

(d) Share-based compensation

During 2006-2008 certain shareholders of the Group disposed of some of their shares to representatives of key Management personnel of the Group for nominal consideration pursuant to an oral agreement entered into in 2004 and as compensation for services to be received by the Group from those individuals during 2004-2008. The fair value of this remuneration was estimated at USD 18 thousand in 2008 (28 December 2006 – 31 December 2007: USD 124 thousand) based on the estimated fair value of the shares to be transferred when the oral agreement was entered into. The fair value of the shares was estimated by reference to the price of a sale of shares between the shareholders on an arm's length basis chronologically close to the date that the oral agreement was entered into.

25 Trade and other payables

	2008 '000 USD	2007 '000 USD
<i>Non-current</i>		
Payables to shareholders	-	1,324
	-	1,324
<i>Current</i>		
Payables to shareholders	11,000	1,806
Trade advances received	4,508	13,888
Payables to employees	5,489	3,644
Trade payables to third parties	9,147	4,873
Trade payables to related parties	1,347	48
Other taxes payable	2,870	887
Social taxes payable	1,773	1,492
Provision for returns	1,967	-
Accrued expenses	4,580	1,039
Other payables	214	115
	42,895	27,792

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 26.

26 Financial risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors and its Risk Management and Audit Committee has the overall responsibility for establishing and overseeing the Group's risk management framework. Day-to-day risk management functions are carried out by the management of the Group.

The Group's risk management policies and procedures are established to identify and analyse the risks faced by the Group to set appropriate risk limits, and controls.

The Group's risk management policies are in the process of being formalised. The Group's Management carries out day-to-day monitoring of risks based on analysis of management reports regularly prepared by the financial department containing a wide range of data on various aspects of the Group's activities.

The Group, through its training and managerial standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments.

(i) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer, as well as the default risk of the industries and countries in which customers operate. There is no significant concentration of credit risk.

Management of the Group, together with the sales administration department and client service departments, monitors the balances due from individual customers. If there are significant past due amounts, transactions with the customer are suspended until the receivable has been reduced to a satisfactory level. The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(ii) Investments

The Group limits its exposure to credit risk by only placing deposits with banks with good credit rating. Given this, Management does not consider that the Group incurs significant credit risk in relation to investments.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

'000 USD	Carrying amount	
	2008	2007
Loans and receivables, including bank deposits	169,738	74,978
Cash and cash equivalents	58,718	51,056
	228,456	126,034

Included in the above maximum amounts of exposure to credit risk are cash and cash equivalents of USD 58,718 thousand (2007: USD 51,056 thousand) and bank deposits of USD 60,784 thousand (2007: USD 3,357 thousand), which are placed with financial institutions with good credit rating. Most of the balance of the exposure of credit risk is made of trade accounts receivable, which are described below.

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

'000 USD	Carrying amount	
	2008	2007
Europe	69,526	48,471
Far East and Pacific	10,435	7,520
CIS and Baltic	12,684	6,802
North America	8,261	6,425
Middle east and Africa	4,229	1,366
South America	3,734	1,147
	108,869	71,731

Impairment losses

	Gross	Impairment	Gross	Impairment
'000 USD	2008	2008	2007	2007
Debtor days are less or equal the standard payment terms				
- receivables from exclusive distributors	-	-	-	-
- receivables from other parties	37,305	-	6,151	-
Debtor days exceed the standard payment terms by 0-60 days				
- receivables from exclusive distributors	2,107	-	1,405	-
- receivables from other parties	25,308	(370)	17,521	-
Debtor days exceed the standard payment terms by 61-120 days				
- receivables from exclusive distributors	739	-	6,716	-
- receivables from other parties	16,916	(1,261)	16,851	(1,364)
Debtor days exceed the standard payment terms by 121-365 days				
- receivables from exclusive distributors	6,133	-	845	-
- receivables from other parties	10,473	(2,646)	19,948	(1,474)
Debtor days exceed the standard payment terms by more than 365 days				
- receivables from exclusive distributors	5,833	-	-	-
- receivables from other parties	4,055	(3,532)	2,294	(2,027)
	108,869	(7,809)	71,731	(4,865)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2008	28 December 2006 to 31 December 2007
	'000 USD	'000 USD
Balance at beginning of the period	4,865	2,146
Bad debt expense	5,055	3,654
Write-off	(2,111)	(935)
Balance at the end of the period	<u>7,809</u>	<u>4,865</u>

Based on historic default rates, the Group believes that generally no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 120 days; 45% of the remaining balance of trade receivables is due from exclusive distributors of the Group with a good track record.

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in respect of trade receivables. The main component of this allowance is the specific loss component relating to individually significant exposures. Doubtful accounts receivable are analysed individually, on a case by case basis. Special attention is paid to receivables past due by more than 60 days. Those balances which the Group considers to be irrecoverable are provided for. The allowance account in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted such as a natural disaster.

The Group's financial liabilities consist of non-interest bearing trade and other payables which are all due within six months of the reporting date.

(d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Russian

Rouble (RUR), U.S. Dollars (USD) and Euro. The currencies in which these transactions primarily are denominated are Sterling (GBP), USD and Euro.

The Group does not use foreign exchange hedges to manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities. Foreign currency hedging is not used by the Group partially as the current structure of the Group's operations provides natural cash flow hedge, in a sense that expected cash outflows in a currency do not exceed expected inflows in that currency.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

'000 USD	GBP- denominated 2008	USD- denominated 2008	Euro- denominated 2008	USD- denominated 2007	Euro- denominated 2007
Current assets					
Receivables	5,720	42,064	18,043	29,453	27,147
Cash and cash equivalents	1,603	13,773	4,625	11,387	26,343
Investments	637	-	-	-	-
Non-current assets					
Other receivables	119	3,500	-	3,225	-
Deferred tax assets	12,331	-	-	-	-
Current liabilities					
Payables	(7,669)	(3,750)	(2,810)	(385)	(389)
Non-current liabilities					
Other payables	(250)	(12)	-	(3,225)	-
	12,491	55,575	19,858	40,455	53,101

The following significant exchange rates applied during the year:

	1 RUR equals 2008	1 Euro equals 2008	1 GBP equals 2008	1 RUR equals 2007	1 Euro equals 2007	1 GBP equals 2007
USD	0.034	1.47	1.84	0.040	1.46	2.00

Sensitivity analysis

A 20% strengthening of the USD against the following currencies at 31 December would have increased/(decreased) equity and profit/(loss) expressed in the Group's presentational currency by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for the period from 28 December 2006 to 31 December 2007.

	Equity	Profit or (loss)
	'000 USD	'000 USD
2008		
EUR	(2,253)	(2,705)
RUR	(4,951)	1,325
GBP	24	24
28 December 2006 to 31 December 2007		
EUR	(6,844)	(7,438)
RUR	2,667	2,675
GBP	3,350	3,200

A 20% weakening of the USD against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(ii) **Interest rate risk**

The Group's interest rate risk arises from investments and bank deposits. Changes in interest rate impact primarily loans and borrowings by changing either their fair value (fixed rate financial assets or liabilities) or their future cash flows (variable rate assets or liabilities). 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 making an investment Management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Profile

At the reporting date the Group did not have any variable interest rate financial instruments. The only interest-bearing financial instruments the Group had were its bank deposits of USD 60,784 thousand (2007: USD 3,357 thousand).

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

(e) Fair values versus carrying amounts

Management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts.

The basis for determining fair values is disclosed in note 4.

(f) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the Group's net debt to capital ratio and the level of distribution to shareholders of the Company.

The Group determines the appropriate capital structure based on the risk of investment in a product or market and reassesses its capital structure at the time of making a new investment decision, or when economic conditions or risk characteristics of an underlying product or market change. In order to maintain or adjust the capital structure, the Group may adjust the return capital to shareholders, issue new shares and adjust the working capital.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

27 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2008	2007
	'000 USD	'000 USD
Less than one year	5,907	1,838
Between one and five years	19,897	4,373
More than five years	310	225
	26,114	6,436

The Group leases a number of warehouse and factory facilities under operating leases. The leases typically run for an initial period of five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals.

During the current year USD 5,677 thousand was recognised in the income statement in respect of operating leases (28 December 2006 to 31 December 2007: USD 2,852 thousand).

28 Contingencies

(a) Insurance

Some of the Group's significant subsidiaries operate in the Russian Federation. The insurance industry in Russia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. In Russia the Group does not have full coverage

for its facilities, business interruption, or third party liability in respect of damage relating to Group operations in Russia. 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

One of the Group's agents brought a claim against it for an alleged breach of the service agreement between it and the Group and is seeking damages of USD 246 thousand. At this time, the outcome of the litigation and the amount of damages that may be awarded cannot be predicted with any certainty. No provision for the potential liability has been recognised in these consolidated financial statements because Management believes that it is possible, but not probable, that an outflow of economic benefits will arise.

(c) Taxation contingencies

Some of the Group's significant subsidiaries operate in the Russian Federation. 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 during the three subsequent calendar years. Since the Group's most significant subsidiary in Russia was subject to a review by the tax authorities up to 31 December 2007, the only year this subsidiary is open for tax review as at the reporting date is the year ended 31 December 2008. However, under certain circumstances a tax year may remain open longer than the three subsequent calendar years and the tax authorities may revert to reviewing a tax year which was reviewed previously. 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. In particular, the Russian tax legislation was historically based upon the formal manner in which transactions are documented, looking to form rather than substance. However, currently the Russian tax authorities are increasingly taking a "substance over form" approach. In addition, the transfer pricing rules allowing the tax authorities to make transfer pricing adjustments and impose additional tax liabilities with respect to certain "controlled" transactions are more frequently used by the authorities as an additional revenue raising measure. Existing transfer pricing rules are vaguely drafted, generally leaving wide scope for interpretation by the Russian tax authorities and courts. There has been very little guidance (although some court practice is available) as to how these rules should be applied. However, the Ministry of Finance of the Russian Federation is in the process of drafting significant amendments to the transfer pricing legislation, which may come into force in the near future. The implementation of these amendments is expected to considerably toughen the existing law.

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.

Specific tax risks of the Group

Management considers that the following specific risks exist in respect of the Group's tax position:

- There is a risk that tax authorities may challenge the deductibility of certain expenses incurred by one of the Group's subsidiaries and claimed as a tax deduction. Management estimates that the possible additional tax liabilities could amount to USD 681 thousand (2007: USD 1,180 thousand). According to the Group's accounting policies (Note 3(p)) Management recognised an income tax provisions for the amounts stated above.
- The Group may be liable to pay profits tax on some of its profits arising in the UK and employment taxes on payments made to non-UK employees by one of its UK entities, described in the following paragraph. While this entity is incorporated in the UK, it carried out some of its activities outside the UK and there is a risk that tax authorities outside the UK may also seek to establish that the entity is liable for tax. Due to the unusual circumstances of this situation and the lack of developed procedures to establish any such liability, the directors are unable to assess the amount of tax which might be payable. Management believes that such a claim by a tax authority outside the UK is unlikely to be successful. According to the Group's accounting policies (Note 3(p)), Management has recognised no income tax provision in respect of this matter because Management believes that it is possible, but not probable, that an outflow of economic benefits will be required to settle the obligation. In addition, because of double tax treaties between the UK and the relevant countries, any profits tax payable in a jurisdiction other than the UK should be capable of being offset against the relevant UK tax liabilities.
- Certain personnel employed by one of the Group's non-UK subsidiaries received compensation from the UK entity and shareholders. These compensation payments were paid as independent contractor's fees, reflecting the services performed by these individuals. Should the respective tax authorities be successful in challenging such arrangements, the Group would be subject to additional payroll tax liabilities and penalties of USD 1,163 thousand (2007: USD 3,736 thousand). Management has not provided any amounts in respect of such obligations in these consolidated financial statements in compliance with the Group's accounting policy because, up to the date of approval of these consolidated financial statements, no challenge has been raised by the tax authorities. In the event of any subsequent challenge, Management believes that the Group's position would be successfully defended.
- The Group's profits include income from contracts acquired from an entity under common control. The entity was incorporated in the UK, but the place of Management and operations was elsewhere. Based on advice received, Management considered that the entity was not liable to corporation tax in the UK. In order to reconcile this position with the UK tax authorities and establish the amount of the possible tax liability, if any, during 2008 Management initiated an examination process by the UK tax authorities. Based on Management's best judgement, the subject entity's UK corporation tax liability as at 31 December 2008 is in a range between USD 10,100 thousand and USD 11,500 thousand (2007: between USD 9,500 thousand and USD 10,600 thousand). The liability of USD 10,750 thousand (2007: USD 10,050 thousand) is included in "income tax payable" caption of the consolidated balance sheet. Since this process was not completed by the date of the approval of these consolidated financial statements, the actual liability which will be agreed as a result of the official examination may materially differ from the above estimate. Specifically, the amounts of the tax liability stated above do not take into account possible tax efficiencies from possible different tax treatment of intercompany transactions, which could result in a material reduction in the Group's UK corporation tax liability and possible increase in tax liabilities in other jurisdictions.

29 Related party transactions

(a) Control relationships

The party with ultimate control over the Company is Eugene Kaspersky.

(b) Transactions with Management and close family members

All of the Group's shareholders are employees of the Group. Shareholders who hold in aggregate 95% of the Company's shares (2007: 94%) are part of the Group's key Management personnel.

(i) Management remuneration

Key Management received the following remuneration during the year, which is included in personnel costs (see note 11):

	2008	28 December 2006 to 31 December 2007
	'000 USD	'000 USD
Salaries and bonuses	5,533	3,249
Payroll taxes	273	42
Termination benefits	-	6,099
	5,806	9,390

Part of key Management remuneration was paid in form of share-based payments as described in note 24(d).

(ii) Other transactions

Refer to note 29(c) for other transactions with shareholders who are also part of key Management personnel.

(c) Transactions with other related parties

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

(i) Revenue

'000 USD	Transaction value	Transaction value	Outstanding balance	Outstanding balance
		28 December 2006 to 31 December 2007		
	2008	2007	2008	2007
Royalties from:				
Entities owned or managed by members of the Group's Board of Directors	8,550	3,530	7,243	7,918
Sale of shares in a subsidiary				
Shareholders/directors, who are part of key Management personnel (refer to note 29(d)(ii))	-	-	3,500	3,229
	8,550	3,530	10,743	11,147

All outstanding balances with related parties are to be settled in cash within six months of the balance sheet date. None of the balances are secured.

(ii) Expenses

'000 USD	Transaction value	Transaction value	Outstanding balance	Outstanding balance
		28 December 2006 to 31 December 2007		
	2008	2007	2008	2007
Services received:				
Services from entities owned or managed by members of the Group's Board of Directors	(18,427)	(12,941)	(1,347)	(48)
Purchase of own shares:				
Shareholder/director (refer to note 29(d)(i))	(21,000)	-	(11,000)	-
Purchase of shares in a subsidiary				
Shareholders (refer to note 29(d)(ii))	-	-	-	(3,130)
	(39,427)	(12,941)	(12,347)	(3,178)

Balances due to related parties for services received are to be settled in cash within six months of the balance sheet date. The balance due to the shareholder in relation to the acquisition of the Company's shares is expected to be settled in September 2009.

(iii) Loans

'000 USD	Amount loaned	Amount loaned	Outstanding balance	Outstanding balance
		28 December 2006 to 31 December 2007		
	2008	2007	2008	2007
Loans given to:				
Shareholders/directors (refer to note 29(d)(iii))	832	-	1,130	541
Other related party	-	-	91	172
	832	-	1,221	713

(d) Transactions with directors

The following directors had the following material interests in contracts with the Group.

(i) Acquisition of own shares

On 9 January 2008 the Company entered into a put option agreement with N. Kaspersky for a consideration of USD 1, granting the shareholder the right to sell to the Company 4,800 of its own shares in two equal tranches for a total consideration of USD 21,000 thousand. Upon entering into the contract the Group recognised a financial liability equal to the estimated fair value of the liability as at the date of the transaction of USD 18,800 thousand. The first tranche of 2,400 shares was purchased by the Company from N. Kaspersky on 12 September 2008 for USD 9,000 thousand. The shares acquired were cancelled. N. Kaspersky has the right to sell the second tranche of 2,400 shares during the period from 1 September to 15 September 2009 for a consideration of USD 12,000 thousand. The carrying value of the payable to N. Kaspersky as at 31 December 2008 amounting to USD 11,000 thousand is included in the balance payable to shareholders disclosed in note 29(c)(ii).

(ii) Sale and purchase of shares in a subsidiary

During 2006 one of the Group's subsidiaries purchased 10% its own shares from A. De-Monderik for USD 3,500 thousand repayable in tranches over a period ending in 2012. Subsequently 10% of the subsidiary's shares were sold to E. Kaspersky for USD 3,500 thousand repayable in tranches over a period ending in 2012. A re-sale of 10% of the subsidiary's shares was contracted with N. Kaspersky on the same terms. The following balances resulting from these transactions are outstanding as at the reporting date:

	2008 Receivable/(payable) '000 USD	2007 Receivable/(payable) '000 USD
E. Kaspersky	1,750	1,614
N. Kaspersky	1,750	1,615
A. De-Monderik	-	(3,130)
	3,500	99

These balances are included in the amounts receivable from and payable to shareholders disclosed in note 29(c)(i) and 29(c)(ii).

(iii) Loans given to directors

The Group provides interest free loans repayable on demand. The following are balances of these loans outstanding as at the reporting date included in loans to shareholders disclosed in note 29(c)(iii):

	2008 '000 USD	2007 '000 USD
A. De-Monderik	635	-
E. Kaspersky	488	533
N. Kaspersky	7	8
	1,130	541

(e) Pricing policies

Related party transactions are based on the Group's estimates of market prices.

30

Subsidiaries

		2008	2007
	Country of incorporation	Ownership/voting	Ownership/voting
ZAO Kaspersky Lab	Russia	100%	100%
Kaspersky Lab UK Ltd.	United Kingdom	100%	100%
Kaspersky Labs GmbH	Germany	100%	100%
Kaspersky Lab France S.A.R.L.	France	51%	51%
Kaspersky Labs (AB)	Sweden	100%	100%
ZAO Centre Kasperskogo	Russia	100%	100%
OOO Gruppa kompaniy Kasperskogo	Russia	100%	100%
Kaspersky Labs GmbH	Switzerland	100%	-

The share capitals of all the Group's subsidiaries consist of a single class of shares.

		2008	2007
	Notes	'000 USD	'000 USD
ASSETS			
Non-current assets			
Investments in subsidiaries	C1	719	719
Deferred tax assets	C2	170	182
Total non-current assets		889	901
Current assets			
Trade and other receivables	C3	119	162
Cash and cash equivalents		1,200	50
Total current assets		1,319	212
Total assets		2,208	1,113

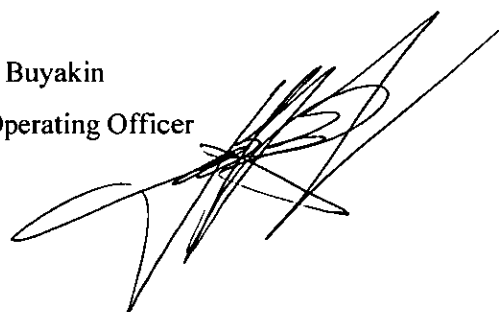
		2008	2007
	Note	'000 USD	'000 USD
EQUITY AND LIABILITIES			
Equity	C4		
Share capital		1	1
Translation reserve		-	(5)
Retained earnings		(10,738)	(414)
Total equity		(10,737)	(418)
Current liabilities			
Trade and other payables	C5	11,252	938
Loans and borrowings	C6	1,693	593
Total current liabilities		12,945	1,531
Total liabilities		12,945	1,531
Total equity and liabilities		2,208	1,113

These Company financial statements were approved by the Board of Directors on 14 July 2009 and were signed on its behalf by:

Eugene Kaspersky
Chief Executive Officer



Eugene Buyakin
Chief Operating Officer



Kaspersky Labs Limited
Company Statement of Cash Flows for the year ended 31 December 2008

	2008 '000 USD	28 December 2006 to 31 December 2007 '000 USD
Cash flows from operating activities		
Profit/(loss) for the period	8,481	(354)
<i>Adjustments for:</i>		
Net finance income	(7,913)	(88)
Income tax benefit	(613)	(171)
Operating loss before changes in working capital and provisions	(45)	(613)
Change in trade and other payables	(689)	800
Change in trade and other receivables	43	16
Cash flows (used in)/from operating activities	(691)	203

The Company statement of cash flows is to be read in conjunction with the notes to, and forming part of, the Company financial statements set out on pages 68 to 72.

	2008 '000 USD	28 December 2006 to 31 December 2007 '000 USD
INVESTING ACTIVITIES		
Dividends received	10,000	-
Acquisition of other investments	-	(515)
Cash flows from/(used in) investing activities	10,000	(515)
FINANCING ACTIVITIES		
Proceeds from borrowings	1,031	304
Repayment of borrowings	-	(4)
Redemption of own shares	(9,000)	-
Cash flows (used in)/from financing activities	(7,969)	300
Net increase in cash and cash equivalents	1,340	(12)
Cash and cash equivalents at beginning of year	50	62
Effect of exchange rate fluctuations on cash and cash equivalents	(190)	-
Cash and cash equivalents at end of year	1,200	50

The Company statement of cash flows is to be read in conjunction with the notes to, and forming part of, the Company financial statements set out on pages 68 to 72.

I. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

Under Section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account.

(b) Basis of measurement

The financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

The functional currency of the Company is the United States Dollar ("USD"). Effective from 1 January 2008 Management changed the functional currency of Kaspersky Labs Limited from Sterling ("GBP") to USD. Due to the changes in operating structure of the Group during 2008, the Company started operating predominantly in USD and Management started measuring performance and financial position of Kaspersky Labs Limited in USD. These financial statements are presented in USD, which Management believes is more convenient for users. All financial information presented in USD has been rounded to the nearest thousand.

(d) Use of judgments, estimates and assumptions

Management has made a number of judgments, 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 may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

I. Significant accounting policies

The significant accounting policies applied in the preparation of the Company's financial statements are consistent with the accounting policies used in preparation of the Group's consolidated financial statements, which are described in note 3(a) to 3(r) to the consolidated financial statements. These accounting policies have been consistently applied.

C1 Investments in subsidiaries

	31 December 2008	31 December 2007	31 December 2008	31 December 2007
	Cost of investment '000 USD	Cost of investment '000 USD	Ownership/ voting	Ownership/ voting
Kaspersky Lab France S.A.R.L.	515	515	51%	51%
Kaspersky Labs GmbH	197	197	100%	100%
OOO Kaspersky Group	4	4	100%	100%
Kaspersky Lab UK Ltd.	3	3	100%	100%
	719	719		

C2 Deferred tax assets

Deferred tax assets of USD 170 thousand as at 31 December 2008 (31 December 2007: USD 182 thousand) originated from tax losses carried forward. Management considers that the Company will have enough taxable profits in future to utilize these deferred tax assets.

C3 Trade and other receivables

	2008 '000 USD	2007 '000 USD
Receivables from subsidiary	103	162
Other receivables	16	-
	119	162

C4 Equity

(a) Share capital and additional paid-in capital

Number of shares unless otherwise stated

	Shares 2008
Authorised shares at beginning and end of the year	110,000
Share cancellation	(2,400)
Shares authorised, not paid at end of the year	(10,000)
On issue at end of the year, fully paid	97,600

Number of shares unless otherwise stated

Shares
2008

Par value at beginning of the year	USD 0.0145 (equivalent of 0.01 GBP)
Par value at end of the year	USD 0.0145 (equivalent of 0.01 GBP)

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

(b) Dividends

In accordance with UK legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with the UK accounting principles. As at 31 December 2008 and 2007 the Company had accumulate deficit.

(c) Share-based compensation

During 2006-2008 certain shareholders of the Group disposed of some of their shares to representatives of key Management personnel of the Group for nominal consideration pursuant to an oral agreement entered into in 2004 and as compensation for services to be received by the Group from those individuals during 2004-2008. The fair value of this remuneration was estimated at USD 18 thousand in 2008 (2007: USD 124 thousand) based on the estimated fair value of the shares to be transferred when the oral agreement was entered into. The fair value of the shares was estimated by reference to the price of a sale of shares between the shareholders on an arm's length basis chronologically close to the date that the oral agreement was entered into.

(d) Reserves

	Retained earnings '000 USD	Translation reserve '000 USD
Balance as at 31 December 2007	(414)	(5)
Profit for the year	8,481	-
Change of functional currency from GBP to USD (refer to note I(c))	(5)	5
Put options granted to shareholder	(18,800)	-
Put option exercised	9,000	-
Shares redeemed	(9,000)	-
Balance as at 31 December 2007	<u>(10,738)</u>	<u>-</u>

On 9 January 2008 the Company entered into a put option agreement with one of its shareholders for a consideration of USD 1, granting the shareholder the right to sell to the Company 4,800 of its own shares in two equal tranches for a total consideration of USD 21,000 thousand. Upon entering into the contract the Group recognised a financial liability equal to the estimated fair value of the liability as at the date of the transaction of USD 18,800 thousand. The first tranche of 2,400 shares was purchased by the Company from the shareholder on 12 September 2008 for USD 9,000 thousand. The shares acquired were cancelled and a capital redemption reserve created for the nominal value of the shares. The shareholder has the right to sell the second tranche of 2,400 shares during the period from 1 September to 15 September 2009 for a consideration of USD 12,000 thousand.

C5 Current trade and other payables

	2008 '000 USD	2007 '000 USD
Payables to shareholder	11,000	198
Other payables to related parties	144	431
Other payables and accrued expenses	108	309
	11,252	938

C6 Current loans and borrowings

Current loans and borrowings as at 31 December 2008 of USD 1,693 thousand (31 December 2007: USD 593 thousand) represent non-interest bearing loans from subsidiary repayable on demand.

C7 Staff numbers and costs

During the period of 28 December 2006 to 31 December 2007 the Company did not have employees other than directors and did not incur any personnel expenses. Information on the number and remuneration of directors is disclosed in note 11(ii) of the consolidated financial statements.

C8 Related party transactions

The company related party transactions are disclosed below.

(i) Revenue

'000 USD	Transaction value 2008	Transaction value 2007	Outstanding balance 2008	Outstanding balance 2007
Dividend income from:				
Subsidiary	10,000	-	-	-
Other revenue from:				
Subsidiaries	-	162	103	162
	10,000	162	103	162

(ii) Expenses

'000 USD	Transaction value 2008	Transaction value 2007	Outstanding balance 2008	Outstanding balance 2007
Services received:				
Services from other related party	-	-	(144)	(198)
Purchase of Company's shares				
Shareholder/director	(21,000)	-	(11,000)	-
Purchase of shares in subsidiaries				
Shareholder/director	-	(515)	-	(431)
	(21,000)	(515)	(11,144)	(629)

All outstanding balances with related parties are to be settled in cash within six to nine months of the balance sheet date. None of the balances are secured.

(iii) Loans

'000 USD	Amount loaned 2008	Amount loaned 2007	Outstanding balance 2008	Outstanding balance 2007
Loans received from:				
Subsidiaries	(1,031)	(300)	(1,693)	(593)
	(1,031)	(300)	(1,693)	(593)

The loans to related parties bear no interest and are repayable upon demand.