Registration number: 4249748

Kaspersky Labs Limited

Directors' Report
and
Consolidated Financial Statements
for the period from 28 December 2006 to
31 December 2007
Kaspersky Labs Limited

Contents

Directors' report

The directors of Kaspersky Labs Limited present their annual report and the audited financial statements for the period from 28 December 2006 to 31 December 2007.

(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 protections 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 customizable. 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 Group was very successful during the reporting period. It issued major upgrades of anti-virus and Internet security solutions for most of its product line. Notably, the Group launched an advanced version of its corporate security solution which offered full-scale protection to business customers.

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 are 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 of billings of 123% from USD 83,859 thousand in the period from 1 January 2006 to 27 December 2006 to USD 187,296 thousand in the reporting period. The most significant drivers of the growth of billings included the expansion of the Group's presence in the markets in Europe and Eastern Europe, Middle East and Africa ("EEMEA"), as well as the strengthening of the Group's positions on the consumer segment of the end-point security market. The Group's revenue increased by 135% from USD 53,634 thousand in 2006 to USD 125,832 thousand in the reporting period. The growth rate of revenue is consistent with the growth rate of billings.

The Group's operating cash flows, as presented in the consolidated statement of cash flows, increased from USD 2,366 thousand in 2006 to USD 55,159 thousand which is mainly driven by a growth of cash flows from sales.

During the reporting period the Group realised a net profit of USD 14,756 thousand, as opposed to a net loss of USD 8,048 thousand in 2006. The Group became profitable in IFRS terms during the reporting period because the business reached a scale, which allowed the Group's turnover (adjusted for deferred revenues) to cover its operating expenses. In fact, the Group had positive operating cash flow already in 2006 based on billings, but its revenue recognition policy of deferring part of revenues to future periods did not allow reaching a break-even point in terms of IFRS reporting.

The average number of employees increased from 474 in the period from 1 January 2006 to 28 December 2006 to 683 in the period from 28 December 2006 to 31 December 2007, the most significant increases occurred in sales and research and development departments reflecting efforts to widen market presence 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 Kaspersky brand on 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. Maintaining industry leadership 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 28(a) 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 28(c) 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 114,681 thousand (2006: USD 51,181 thousand), due to the Group's revenue recognition policy. The Group's monetary current assets as at 31 December 2007 of USD 125,133 thousand (2006: USD 45,197 thousand), comprising the balance of cash and cash equivalents of USD 51,484 thousand (2006: 3,942 thousand), exceed the Group's monetary current liabilities of USD 33,308 thousand (2006: USD 24,168 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 30(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 30(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 of as at 31 December 2007 of USD 10,050 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 period:

E. Kaspersky

N. Kaspersky

E. Buyakin (appointed on 8 August 2007)

V. Bezrodnykh (appointed on 8 August 2007)

H. Cheung (appointed on 8 August 2007)

A. De-Monderik (appointed on 8 August 2007)

G. Kondakov (appointed on 8 August 2007)

A. Lamm (appointed on 8 August 2007)

S. Orenberg (appointed on 8 August 2007)

On 24 September 2007 the Company performed a 1:100 share split which increased the Company's authorised capital from 1,000 shares to 100,000 shares and an increase of the authorised capital of 10,000 shares, which brought the number of authorised shares as at 31 December 2007 to 110,000, out of which 10,000 were unpaid.

As at 31 December 2007 N. Kaspersky also held 200 shares in Kaspersky Lab UK Limited, a subsidiary of the Company (28 December 2006: 1 share). The issued capital of Kaspersky Lab UK Limited consisted of 502 shares (28 December 2006: 502 shares).

(e) Share grants to directors

During 2007 certain shareholders of the Group disposed the following number of shares in the Company to the following directors: Mr. E. Buyakin – 500 shares, Mr. V. Bezrodnykh – 500 shares, Mr. A. Lamm – 400 shares.

The shares were transferred to the directors 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 124 thousand for the period from 28 December 2006 to 31 December 2007 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.

(f) Distribution to shareholders

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. Distributions to shareholders during the period from 1 January 2006 to 27 December 2006 of USD 166 thousand represent payments made by the Group to its shareholders for controlling shares in subsidiaries, which were previously controlled by the same ultimate controlling party as the Company (refer to note 3(a)(ii) to the consolidated financial statements).

(g) Research and development

The Group undertakes research and development in connection with its principal activity. For example, the average number of employees focusing on research and development increased from 170 during the period from 1 January 2006 to 27 December 2006 to 219 during the period from 28 December 2006 to 31 December 2007.

(h) 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.

(i) Employee involvement

Employee involvement and commitment to the success of the business is an important element of the 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.

(j) 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 damages to the environment that might be caused by its activities, primarily by reducing energy consumption.

(k) 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 as at 31 December 2007 amounted to 34 days (28 December 2006: 52 days) of purchases, based on the average daily amount invoiced by suppliers during the period.

(l) 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.

(m) 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.

(n) Auditors

During 2008 KPMG Audit Plc were appointed as auditors.

On behalf of the board

Eugene Kaspersky

Chief Executive Officer

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 period ended 31 December 2007 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 6.

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 2007 and of its profit for the period 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 2007;

- 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

28 July 2009

KPMG Audit Plc
Chartered Accountants
Registered Auditor

1 Forest Gate
Brighton Road
Crawley
RH11 9PT

	Note	28 December 2006 to 31 December 2007 '000 USD	1 January 2006 to 27 December 2006 '000 USD
Billings		**187,296**	**83,859**
Billings deferred to future periods		(100,447)	(54,880)
Revenue from billings of prior periods		40,781	24,807
Translation difference		(1,798)	(152)
Revenue	7	**125,832**	**53,634**
Cost of sales	8	(13,090)	(7,186)
Gross profit		**112,742**	**46,448**
Distribution expenses	9	(51,619)	(28,157)
Administrative expenses	10	(23,586)	(12,512)
Research and development expenses	11	(16,356)	(11,224)
Other expenses	12	(129)	(440)
Results from operating activities		**21,052**	**(5,885)**
Financial income	15	3,482	663
Financial expenses	15	(385)	(330)
Profit/(loss) before income tax		**24,149**	**(5,552)**
Income tax expense	16	(9,393)	(2,496)
Profit/(loss) for the period		**14,756**	**(8,048)**
Attributable to:			
Shareholders of the Company		14,667	(8,048)
Minority interest		89	-
		14,756	**(8,048)**

Earnings before interest, tax, depreciation and amortisation (EBITDA)	17	**25,580**	**(4,717)**

The consolidated income statement is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 17 to 61.

	28 December 2006 to 31 December 2007	**1 January 2006 to 27 December 2006**
	'000 USD	**'000 USD**
Foreign currency translation differences	(882)	(815)
Expense recognised in equity	**(882)**	**(815)**
Profit/(loss) for the period	14,756	(8,048)
Total recognised income and expense for the period	**13,874**	**(8,863)**
Attributable to:		
Shareholders of the Company	13,785	(8,863)
Minority interest	89	-
	13,874	**(8,863)**

The consolidated statement of recognised income and expense is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 17 to 61.

	Note	31 December 2007 '000 USD	27 December 2006 '000 USD
ASSETS			
Non-current assets			
Property, plant and equipment	18	4,119	2,472
Intangible assets	19	2,353	2,183
Investments in equity accounted investees	20	225	-
Other investments	21	-	606
Deferred tax assets	22	19,571	10,438
Other receivables	24	1,329	1,597
Total non-current assets		**27,597**	**17,296**
Current assets			
Inventories	23	1,035	619
Other investments	21	4,070	3,974
Trade and other receivables	24	69,579	37,281
Prepayments for current assets		4,626	2,719
Cash and cash equivalents	25	51,484	3,942
Total current assets		**130,794**	**48,535**
Total assets		**158,391**	**65,831**

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 17 to 61.

	Note	31 December 2007 '000 USD	27 December 2006 '000 USD
EQUITY AND LIABILITIES			
Equity	26		
Share capital		1	1
Reserves		(1,492)	(610)
Retained earnings		(3,950)	(15,598)
Total equity attributable to shareholders of the Company		**(5,441)**	**(16,207)**
Minority interest		495	67
Total equity		**(4,946)**	**(16,140)**
Non-current liabilities			
Deferred income		9,848	2,815
Other payables	27	1,324	1,597
Deferred tax liabilities	22	136	-
Total non-current liabilities		**11,308**	**4,412**
Current liabilities			
Deferred income		104,833	48,366
Trade and other payables	27	27,792	19,023
Income tax payable		19,404	10,170
Total current liabilities		**152,029**	**77,559**
Total liabilities		**163,337**	**81,971**
Total equity and liabilities		**158,391**	**65,831**

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

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 17 to 61.

	28 December 2006 to 31 December 2007 '000 USD	1 January 2006 to 27 December 2006 '000 USD
Cash flows from operating activities		
Profit/(loss) for the year	14,756	(8,048)
Adjustments for:		
Depreciation and amortisation	1,549	945
Net finance income	(3,097)	(333)
Income tax expense	9,393	2,496
Operating profit/(loss) before changes in working capital and provisions	22,601	(4,940)
Change in deferred revenue	59,726	24,620
Change in trade and other payables	7,853	6,901
Change in inventories	(404)	(93)
Change in trade and other receivables	(25,550)	(20,782)
Cash flows from operations before income taxes and interest paid	64,226	5,706
Income taxes paid	(8,987)	(3,328)
Interest paid	(80)	(12)
Cash flows from operating activities	55,159	2,366

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 17 to 61.

	28 December 2006 to 31 December 2007	1 January 2006 to 27 December 2006
	'000 USD	'000 USD
INVESTING ACTIVITIES		
Proceeds from disposal of investments	592	2,220
Acquisition of property, plant and equipment	(2,711)	(2,171)
Acquisition of intangible assets	(570)	(920)
Disposal of subsidiaries, net of cash disposed of	(271)	-
Acquisition of subsidiaries, net of cash acquired	(276)	-
Interest received	198	122
Acquisition of other investments	(3,357)	(4,964)
Cash flows utilised by investing activities	(6,395)	(5,713)
FINANCING ACTIVITIES		
Proceeds from borrowings	4,066	-
Repayment of borrowings	(4,066)	-
Distribution to shareholders	(2,534)	(166)
Cash flows utilised by financing activities	(2,534)	(166)
Net increase/(decrease) in cash and cash equivalents	46,230	(3,513)
Cash and cash equivalents at beginning of year	3,942	6,711
Effect of exchange rate fluctuations on cash and cash equivalents	1,312	744
Cash and cash equivalents at end of period (note 25)	51,484	3,942

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 17 to 61.

'000 USD	Attributable to shareholders of the Company				Minority interest	Total equity
	Share capital	Translation reserve	Retained earnings	Total		
Balance at 1 January 2006	1	205	(7,384)	(7,178)	-	(7,178)
Loss for the period	-	-	(8,048)	(8,048)	-	(8,048)
Foreign currency translation differences	-	(815)	-	(815)	-	(815)
Total recognised income and expense				(8,863)		(8,863)
Disposal of interest in a subsidiary	-	-	-	-	67	67
Distribution to shareholders	-	-	(166)	(166)	-	(166)
Balance at 27 December 2006	**1**	**(610)**	**(15,598)**	**(16,207)**	**67**	**(16,140)**
Balance at 28 December 2006	1	(610)	(15,598)	(16,207)	67	(16,140)
Profit for the period	-	-	14,667	14,667	89	14,756
Foreign currency translation differences	-	(882)	-	(882)	-	(882)
Total recognised income and expense				13,785	89	13,874
Disposal of a subsidiary	-	-	(485)	(485)	(156)	(641)
Acquisition of a subsidiary	-	-	-	-	495	495
Distribution to shareholders	-	-	(2,534)	(2,534)	-	(2,534)
Balance at 31 December 2007	**1**	**(1,492)**	**(3,950)**	**(5,441)**	**495**	**(4,946)**

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 17 to 61.

1 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 Companies Act 1985 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 which 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 throughout the whole period of their existence.

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 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. 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 and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). These are the Group's first full consolidated financial statements and IFRS 1 *First–time Adoption of International Financial Reporting Standards* has been applied. No previous consolidated financial statements of the Group under its previous GAAP have been prepared. Accordingly no reconciliation to previous GAAP consolidated financial statements is presented.

(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 entities are the national currencies of the countries, in which they are incorporated (Note 32). These consolidated financial statements are presented in United States Dollars ("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(k) – revenue recognition policy; and
- Note 30 – contingencies.

(e) The Company's financial year

The Company's accounting reference date is 31 December. The Company's directors elected to prepare the preceding financial statements of the Company for a period ending 27 December 2006. Pursuant to Section 390 of Companies Act 2006 the present consolidated financial statements are prepared for the period from 28 December 2006 to 31 December 2007. The comparative information is presented for the period from 1 January 2006 to 27 December 2006. 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(p). 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 of 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 were accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, the date when common control was established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in each entity's separate 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) 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 all Group entities 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.

Foreign exchange gains and losses arising from a monetary item received from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in the equity.

(c) Financial instruments

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(m).

(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.

(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 is expensed as incurred.

Development expenditure is recognised as an intangible asset when its future recoverability can reasonably be regarded as assured and technical feasibility and commercial viability can be demonstrated. This occurs when the product satisfies its product trials in live customer environment to establish technical and commercial feasibility.

During the period of development, the asset is tested for impairment annually. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses.

Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future sales.

Development expenditure incurred on minor or major upgrades and updates or other changes in software functionalities does not satisfy the criteria, 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 capitalized any development costs as the qualifying amounts are not significant. On the basis that development projects meet the technical and commercial feasibility requirements at the end of their 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 approximate 10 years.

(g) Leased assets

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. 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) *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.

(i) 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 and defined contribution pension plans, including Russia's state pension fund are recognised in the income statement when they are due.

(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.

(j) 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.

(k) Revenue

(i) Licence fees

Revenue from licence fees is recognised in the income statement to the extent that the economic benefits will flow to the Group and the revenue can be reliably measured. 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 a 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 the revenue under the multiple element arrangement is recognised rateably over the duration of the licence.

Licence agreements with technology partners

Licence agreements with technology partners involve a sale of licence for the usage of the Group's software in a licencee's products together with regular updates, upgrades of the software and other services under a fixed term. The entire amount of the revenue under the contract is recognised rateably over the duration of the term specified in the licence agreement.

(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.

(l) 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.

(m) Finance income and expenses

Finance income comprises interest income on funds invested, unwinding of the discount on receivables 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 liabilities 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.

(n) 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, 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 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.

(o) 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.

(p) 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 2007, 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*, which is effective for annual periods beginning on or after 1 January 2009, specifies how an entity should present changes in equity not resulting from transactions with owners and other changes in equity in its financial statements, and introduces certain other requirements in respect of presentation of information in the financial statements. The new Standard will not have a material impact on the Group's financial position or performance.

- 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.
- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*, which requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Group's 2008 consolidated financial statements, with retrospective application required. It is not expected to have any material effect on the Group's consolidated financial statements.
- Revised IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements*, which come into effect on 1 July 2009. 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 account for 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.

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 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. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

(b) Intangible assets

The fair value of patents 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 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. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 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 not formalised. The Group's Management carry 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 monitor 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 a good standing. Given this, Management does not consider that the Group incurs significant credit risk in relation to investments.

(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.

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

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.

(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.

(e) 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.

6 Acquisition and disposals of subsidiaries and minority interests

(a) Acquisition from entities under common control

During 2006 the Group acquired several subsidiaries and a business from entities under common control for no consideration. Such acquisitions were accounted for as if they had occurred on 1 January 2006. The net assets of the acquired entities as at 1 January 2006 were as follows:

	'000 USD
Non-current assets	
Property, plant and equipment	862
Intangible assets	2,418
Investments	871
Deferred tax assets	4,610
Current assets	
Inventories	453
Trade and other receivables	15,258
Investments	1,413
Cash and cash equivalents	6,711
Current liabilities	
Trade and other payables	(15,172)
Deferred revenue	(24,600)
Net identifiable assets, liabilities and contingent liabilities	7,176

(b) Acquisition of subsidiary

On 6 December 2007 the Group acquired 51% share 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 14,936 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

(c) Disposal of subsidiary

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 20.

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)

7 Revenue

	28 December 2006 to 31 December 2007	1 January 2006 to 27 December 2006
	'000 USD	'000 USD
Licence fees	120,653	50,835
Revenue from services provided	5,179	2,799
	125,832	**53,634**

8 Cost of sales

	28 December 2006 to 31 December 2007	1 January 2006 to 27 December 2006
	'000 USD	'000 USD
Materials	8,151	4,301
Wages and salaries	2,656	1,602
Payroll taxes	418	191
Services	1,315	655
Depreciation and amortisation	342	295
Rent	208	142
	13,090	**7,186**

9 Distribution expenses

	28 December 2006 to 31 December 2007	1 January 2006 to 27 December 2006
	'000 USD	'000 USD
Wages and salaries	12,455	7,464
Payroll taxes	1,414	766
Advertising and marketing expenses	9,154	5,394
Financing of local offices	8,022	4,292
Services	7,242	3,555
Sales commission	6,332	3,762
Bad debt expense	3,654	1,303
Materials	1,134	539
Rent	902	502
Depreciation and amortisation	455	146
Telecommunication expenses	297	217
Other expenses	558	217
	51,619	**28,157**

10 Administrative expenses

	28 December 2006 to 31 December 2007	1 January 2006 to 27 December 2006
	'000 USD	'000 USD
Wages and salaries	6,900	4,528
Payroll taxes	713	558
Termination benefits	6,099	-
Services	4,785	2,715
Travel and entertainment	2,302	2,763
Company events	1,120	276
Rent	493	311
Depreciation and amortisation	263	198
Telecommunication expenses	175	324
Bank commissions	736	839
	23,586	**12,512**

11 Research and development expenses

	28 December 2006 to 31 December 2007	1 January 2006 to 27 December 2006
	'000 USD	**'000 USD**
Wages and salaries	10,796	7,160
Payroll taxes	978	873
Rent	1,248	868
Services	1,846	1,350
Depreciation	489	305
Telecommunication expenses	444	336
Staff meals	430	214
Materials	125	118
	16,356	**11,224**

12 Other income and expenses

	28 December 2006 to 31 December 2007	1 January 2006 to 27 December 2006
	'000 USD	**'000 USD**
Loss from disposal of minority interest	-	67
Other expenses	199	382
Other income	(70)	(9)
	129	**440**

13 Personnel costs

(i) Personnel remuneration

	28 December 2006 to 31 December 2007	1 January 2006 to 27 December 2006
	'000 USD	'000 USD
Wages and salaries	32,807	20,754
Termination benefits	6,099	-
Payroll taxes	3,485	2,362
Contributions to non-mandatory defined contribution pension plans	38	26
	42,429	**23,142**

Termination benefits became payable 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 analysed by function was as follows:

	28 December 2006 to 31 December 2007	1 January 2006 to 27 December 2006
Cost of sales	45	35
Research and development	219	170
Sales and marketing	335	209
General and administrative	84	60
	683	**474**

(ii) Directors' emoluments

The average number of directors during the period from 28 December 2006 to 31 December 2007 was 5 (1 January 2006 – 27 December 2006: 2). Included in the personnel costs is remuneration of the Company's directors:

	28 December 2006 to 31 December 2007	1 January 2006 to 27 December 2006
	'000 USD	'000 USD
Wages and salaries	1,219	481
Termination benefits	6,099	-
	7,318	**481**

The emoluments, excluding pension contributions, of the highest paid director were USD 6,722 thousand (2006: USD 388 thousand), including USD 6,099 thousand of termination benefits. The contribution to the pension fund of this director during the year was USD9 thousand (2006: USD 5 thousand).

14 Auditors' remuneration

	28 December 2006 to 31 December 2007	1 January 2006 to 27 December 2006
	'000 USD	'000 USD
Audit of financial statements of the Company	295	5
Audit of financial statements of subsidiaries pursuant to legislation	47	48
Other services related to taxation	15	219
	357	**272**

15 Financial income and expenses

	28 December 2006 to 31 December 2007	1 January 2006 to 27 December 2006
	'000 USD	'000 USD
Financial income		
Net foreign exchange gain	3,156	393
Unwinding of discount	128	148
Interest income on bank deposits	198	122
Finance income	3,482	663
Bank commissions	(177)	(170)
Interest expense on financial liabilities measured at amortised cost	(80)	(12)
Unwinding of discount	(128)	(148)
Finance expense	(385)	(330)
Net finance expense recognised in income and expenses	**3,097**	**333**

Recognised directly in equity

	28 December 2006 to 31 December 2007	1 January 2006 to 27 December 2006
	'000 USD	'000 USD
Foreign currency translation differences for foreign operations	(882)	(815)
Finance income recognised directly in equity	**(882)**	**(815)**
Attributable to:		
Shareholders of the Company	(882)	(815)
Minority interest	-	-
Finance income recognised directly in equity	**(882)**	**(815)**
Recognised in:		
Translation reserve	(882)	(815)
	(882)	**(815)**

16 Income tax expense

	28 December 2006 to 31 December 2007	1 January 2006 to 27 December 2006
	'000 USD	'000 USD
Current tax expense		
Current year	17,914	7,669
	17,914	**7,669**
Deferred tax benefit		
Origination and reversal of temporary differences	(8,521)	(5,173)
	9,393	**2,496**

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

The applicable tax rate for the Group's Russian subsidiaries is 24% (2006: 24%).

Reconciliation of effective tax rate:

	28 December 2006 to 31 December 2007		1 January 2006 to 27 December 2006	
	'000 USD	%	'000 USD	%
Profit/(loss) before income tax	**24,149**	**100**	**(5,552)**	**100**
Income tax at applicable tax rate	(7,245)	30	1,666	(30)
Effect of income taxed at (lower)/higher rates	982	(4)	(232)	4
Interest and penalties included in tax charge	(1,231)	5	(706)	13
Non-deductible expenses / non-taxable income	(1,899)	8	(3,224)	58
	(9,393)	**39**	**(2,496)**	**45**

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

	28 December 2006 to 31 December 2007	1 January 2006 to 28 December 2006
	'000 USD	'000 USD
Profit/(loss) for the period	14,756	(8,048)
Adjusted for:		
Net interest income	(118)	(110)
Income tax expense	9,393	2,496
Depreciation and amortisation	1,549	945
	25,580	**(4,717)**

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

18 Property, plant and equipment

'000 USD	Computer equipment	Fixtures and fittings	Total
Cost			
Balance at 1 January 2006	1,454	28	1,482
Additions	2,109	62	2,171
Disposals	(273)	(6)	(279)
Translation differences	502	-	502
Balance at 27 December 2006	**3,792**	**84**	**3,876**
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**

'000 USD	Computer equipment	Fixtures and fittings	Total
Depreciation			
Balance at 1 January 2006	(601)	(19)	(620)
Depreciation charge	(676)	(17)	(693)
Disposals	273	6	279
Translation differences	(369)	(1)	(370)
Balance at 27 December 2006	**(1,373)**	**(31)**	**(1,404)**
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)**
Net book value			
At 1 January 2006	**853**	**9**	**862**
At 27 December 2006	**2,419**	**53**	**2,472**
At 31 December 2007	**3,976**	**143**	**4,119**

Depreciation expense was charged as follows:

	28 December 2006 to 31 December 2007 '000 USD	**1 January 2006 to 27 December 2006** '000 USD
Cost of goods sold	72	43
Research and development	489	305
Distribution expense	520	243
Administrative expenses	198	102
Total depreciation	**1,279**	**693**

19 Intangible assets

'000 USD	Patents	Other intangible assets	Total
Cost			
Balance at 1 January 2006	2,499	2	2,501
Additions	-	8	8
Translation differences	9	1	10
Balance at 27 December 2006	**2,508**	**11**	**2,519**
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**
Amortisation			
Balance at 1 January 2006	(83)	-	(83)
Amortisation charge	(251)	(1)	(252)
Translation differences	(1)	-	(1)
Balance at 27 December 2006	**(335)**	**(1)**	**(336)**
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)**
Net book value			
At 1 January 2006	**2,416**	**2**	**2,418**
At 27 December 2006	**2,174**	**9**	**2,183**
At 31 December 2007	**1,946**	**407**	**2,353**

20 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 aggregate, in respect of the equity accounted investee:

	28 December 2006 to 31 December 2007	1 January 2006 to 27 December 2006
	'000 USD	'000 USD
Total assets	1,326	928
Total liabilities	(460)	(592)
Revenues	3,607	2,308
Profit	510	259

The Group disposed of its controlling interest in ZAO Infowatch on 28 December 2007 (refer to note 6(c)). ZAO Infowatch did not earn any material revenues or incur any material expenses during the period from 28 to 31 December 2007.

21 Other investments

	31 December 2007	27 December 2006
	'000 USD	'000 USD
Non-current		
Loans and receivables:		
Loans to shareholders (refer to note 31(c)(iii))	-	606
	-	**606**
Current		
Loans and receivables:		
Bank deposits	3,357	76
Loans to other related parties (refer to note 31(c)(iii))	172	2,765
Loans to shareholders (refer to note 31(c)(iii))	541	1,133
	4,070	**3,974**

Bank deposits as at 31 December 2007 of USD 3,166 thousand and USD 191 thousand denominated in Russian Roubles and euro, respectively, mature in April and May 2008. The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 28.

22 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**	
	31 Dec. 2007	**27 Dec. 2006**	**31 Dec. 2007**	**27 Dec. 2006**	**31 Dec. 2007**	**27 Dec. 2006**
Property, plant and equipment	-	-	(109)	(160)	(109)	(160)
Intangible assets	-	-	(136)	-	(136)	-
Investments	2,786	639	-	-	2,786	639
Inventories	217	-	-	-	217	-
Trade and other receivables	-	1,209	(3,145)	-	(3,145)	1,209
Deferred revenue	15,353	7,425	-	-	15,353	7,425
Trade and other payables	4,789	1,251	-	-	4,789	1,251
Tax loss carry-forwards	182	-	-	-	182	-
Other items	-	74	(502)	-	(502)	74
Tax assets/(liabilities)	23,327	10,598	(3,892)	(160)	19,435	10,438
Set off of tax	(3,756)	(160)	3,756	160	-	-
Net tax assets/(liabilities)	**19,571**	**10,438**	**(136)**	-	**19,435**	**10,438**

(b) Movement in temporary differences during the year

'000 USD	1 January 2006	Recognised in income	Translation difference	Acquired/ disposed of	27 December 2006
Property, plant and equipment	(16)	(142)	(2)	-	(160)
Investments	-	639	-	-	639
Trade and other receivables	563	570	76	-	1,209
Deferred revenue	3,204	3,789	432	-	7,425
Trade and other payables	859	248	144	-	1,251
Other items	-	69	5	-	74
	4,610	**5,173**	**655**	**-**	**10,438**

'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**

(c) Unrecognised deferred tax liabilities and assets

Deferred tax liabilities of USD 1,477 thousand (27 December 2006: nil), 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.

23 Inventories

	31 December 2007 '000 USD	27 December 2006 '000 USD
Finished goods and goods for resale	801	391
Raw materials and consumables	274	228
Provision for obsolete inventories	(40)	-
	1,035	**619**

24 Trade and other receivables

	31 December 2007 '000 USD	27 December 2006 '000 USD
Non-current		
Receivables from shareholders	1,329	1,597
	1,329	**1,597**
Current		
Trade receivables from third parties	63,813	35,466
Trade receivables from other related parties	7,918	2,088
Receivables from shareholders	1,900	1,500
Taxes receivable	478	62
Other receivables	335	311
Provision for bad and doubtful debts	(4,865)	(2,146)
	69,579	**37,281**

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 28.

25 Cash and cash equivalents

	31 December 2007	27 December 2006
	'000 USD	'000 USD
Petty cash	428	2
Bank balances	51,056	3,940
Cash and cash equivalents in the balance sheet and the statement of cash flows	**51,484**	**3,942**

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 28.

26 Equity

(a) Share capital and share premium

Number of shares unless otherwise stated	Shares	Shares
	28 December 2006 to 31 December 2007	1 January 2006 to 27 December 2006
Authorised shares at beginning of the period, fully paid	1,000	1,000
Share split 1:100	99,000	-
Additional shares authorised, not paid	10,000	-
Authorised shares at end of period	110,000	1,000
Shares authorised, not paid at end of period	(10,000)	-
On issue at end of period, fully paid	**100,000**	**1,000**
Par value at beginning of period	USD 1.45 (equivalent of 1 GBP)	USD 1.45 (equivalent of 1 GBP)
Par value at end of period	USD 0.0145 (equivalent of 0.01 GBP)	USD 1.45 (equivalent of 1 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 the UK legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory consolidated financial statements prepared in accordance with the UK Accounting Principles. As at 31 December 2007 and 27 December 2006 the Company had accumulated losses.

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. Distributions to shareholders during the period from 1 January 2006 to 27 December 2006 of USD 166 thousand represent payments made by the Group to its shareholders for controlling shares in subsidiaries, which were previously controlled by the same ultimate controlling party as the Company (refer to note 3(a)(ii)).

27 Trade and other payables

	31 December 2007	27 December 2006
	'000 USD	'000 USD
Non-current		
Payables to shareholders	1,324	1,597
	1,324	**1,597**
Current		
Trade advances received	13,888	5,025
Trade payables to third parties	4,873	4,182
Payables to employees	3,644	3,104
Payables to shareholders	1,806	765
Social taxes payable	1,492	594
Other taxes payable	887	670
Trade payables to related parties	48	3,791
Other payables and accrued expenses	1,154	892
	27,792	**19,023**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 28.

28 Financial instruments

(a) Credit risk

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:

	Carrying amount	
'000 USD	**31 December 2007**	**27 December 2006**
Loans and receivables, including bank deposits	74,978	43,458
Cash and cash equivalents	51,056	3,942
	126,034	**47,400**

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

	Carrying amount	
'000 USD	**31 December 2007**	**27 December 2006**
Europe	48,471	20,512
Far East and Pacific	7,520	2,483
CIS and Baltic	6,802	4,197
North America	6,425	9,557
Middle east and Africa	1,366	331
South America	1,147	474
	71,731	**37,554**

A significant portion of the Group's customers are resellers of the Group's products.

Impairment losses

Below is presented an analysis of the Group's trade debtors' debtor days as at the reporting dates.

	Gross	Impairment	Gross	Impairment
'000 USD	31 Dec. 2007	31 Dec. 2007	27 Dec. 2006	27 Dec. 2006
Debtor days are less or equal the standard payment terms	6,151	-	1,564	-
Debtor days exceed the standard payment terms by 0-60 days	18,926	-	8,280	-
Debtor days exceed the standard payment terms by 61-120 days	23,567	(1,364)	11,230	(586)
Debtor days exceed the standard payment terms by 121-365 days	20,793	(1,474)	15,238	(572)
Debtor days exceed the standard payment terms by more than 365 days	2,294	(2,027)	1,242	(988)
	71,731	(4,865)	37,554	(2,146)

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

	28 December 2006 to 31 December 2007	1 January 2006 to 27 December 2006
	'000 USD	'000 USD
Balance at the beginning of the period	2,146	1,417
Impairment loss recognised	3,654	1,303
Write off	(935)	(574)
Balance at the end of the period	**4,865**	**2,146**

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of the receivables, the debtor days for which are less than the standard payment terms or exceed them by not more than 60 days. Substantially all the balance relates to customers have a good track record with the Group.

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.

Other receivables and loans

Most of the Group's other receivables and loans are due from the Company's shareholders and the credit risk in respect of these balances is mitigated by the shareholders' financial involvement in the Group.

(b) Liquidity risk

The Group's financial liabilities include non-interest bearing trade and other payables. Long-term payables to shareholders were discounted upon initial recognition at the rate of 8%.

(c) Currency risk

Exposure to currency risk

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

'000 USD	USD-denominated	Euro-denominated	USD-denominated	Euro-denominated
	31 Dec. 2007	31 Dec. 2007	27 Dec. 2006	27 Dec. 2006
Current assets				
Receivables	29,453	27,147	10,715	19,194
Cash and cash equivalents	11,387	26,343	345	1,493
Investments	-	-	-	2,595
Non-current assets				
Other receivables	3,225	-	3,097	-
Current liabilities				
Payables	(385)	(389)	(127)	(3,736)
Non-current liabilities				
Other payables	(3,225)	-	(3,097)	-
	40,455	**53,101**	**10,933**	**19,546**

The following significant exchange rates applied during the year:

	1 Euro equals	1 RUR equals	1 GBP equals	1 Euro equals	1 RUR equals	1 GBP equals
	31 Dec. 2007	**31 Dec. 2007**	**31 Dec. 2007**	**27 Dec. 2006**	**27 Dec. 2006**	**27 Dec. 2006**
USD	1.46	0.040	2.00	1.32	0.038	1.97

Sensitivity analysis

A 10% strengthening of the USD against the following currencies at the reporting dates 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 1 January 2006 to 27 December 2006.

	Equity	**Profit or (loss)**
28 December 2006 to 31 December 2007	**'000 USD**	**'000 USD**
EUR	(3,422)	(3,719)
RUR	1,333	1,337
GBP	1,675	1,600
1 January 2006 to 27 December 2006		
EUR	(923)	(1,038)
RUR	1,279	662
GBP	777	155

A 10% weakening of the USD against the above currencies at the reporting dates 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.

(d) Interest rate risk

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 3,357 thousand (27 December 2006: USD 76 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

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

29 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	31 December 2007	27 December 2006
	'000 USD	'000 USD
Less than one year	1,838	1,996
Between one and five years	4,373	7,813
More than five years	225	286
	6,436	**10,095**

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

During the period from 28 December 206 to 31 December 2007 USD 2,852 thousand was recognised in the income statement in respect of operating leases (1 January 2006 – 27 December 2006: USD 1,798 thousand).

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

30 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

As at the reporting date the Group was not involved in litigation which could result in material losses. Refer to note 33 for description of a claim brought against the Group subsequent to the balance sheet date.

(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; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

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

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 deductibility of certain expenses incurred by one of the Group's subsidiaries and claimed as a tax deduction. Management estimates that the possible additional profits tax, penalties and late-payment interest could amount to USD 1,180 thousand (27 December 2006: USD 564 thousand). According to the Group's accounting policies (Note 3(n)) 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 the 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(n)), Management has recognised no income tax provision in respect of this matter. 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. 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 3,736 thousand (27 December 2006: USD 3,423 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, subsequent to 31 December 2007 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 2007 is in a range between USD 9,500 thousand and USD 10,600 thousand (27 December 2006: between USD 5,700 thousand and USD 6,500 thousand). The liability of USD 10,050 thousand (27 December 2006: USD 6,100 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.

31 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 94% of the Company's shares (27 December 2006: 95%) 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 13):

	28 December 2006 to 31 December 2007	1 January 2006 to 27 December 2006
	'000 USD	'000 USD
Salaries and bonuses	3,249	2,261
Termination benefits	6,099	-
Payroll taxes	42	30
	9,390	**2,291**

(ii) ***Other transactions***

Refer to note 31(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 Dec. 2006 - 31 Dec. 2007	1 Jan. 2006 – 27 Dec. 2006	28 Dec. 2006 - 31 Dec. 2007	1 Jan. 2006 – 27 Dec. 2006
Royalties from:				
Entities owned or managed by members of the Group's Board of Directors	3,530	2,543	7,918	2,088
Sale of shares in a subsidiary				
Shareholders/directors, who are part of key management personnel (refer to note 31(d)(i))	-	3,500	3,229	3,097
	3,530	**6,043**	**11,147**	**5,185**

Royalties due from related parties are to be settled within six months of the balance sheet date. Receivables from the sale of shares in a subsidiary are to be settled in tranches during 2007-2012, and have been discounted using a market rate of interest as at the date of the transaction. None of the balances are secured.

(ii) *Expenses*

'000 USD	Transaction value 28 Dec. 2006 - 31 Dec. 2007	Transaction value 1 Jan. 2006 – 27 Dec. 2006	Outstanding balance 28 Dec. 2006 - 31 Dec. 2007	Outstanding balance 1 Jan. 2006 – 27 Dec. 2006
Services received:				
Financing of local offices, entities managed or owned by members of the Group's Board of Directors	(8,022)	(4,292)	-	-
Services from other entities managed or owned by members of the Group's Board of Directors	(4,919)	(3,791)	(48)	(3,791)
Purchase of shares in a subsidiary				
Shareholders/directors (refer to note 31(d)(i))	-	(3,500)	(3,130)	(2,362)
	(12,941)	**(11,583)**	**(3,178)**	**(6,153)**

All outstanding balances with related parties are to be settled in cash within six months of the balance sheet date. Payables from the purchase of shares in a subsidiary are to be settled in tranches during 2007-2012, and have been discounted using a market rate of interest as at the date of the transaction. None of the balances are secured.

(iii) *Loans*

'000 USD	Amount loaned 28 Dec. 2006 - 31 Dec. 2007	Amount loaned 1 Jan. 2006 – 27 Dec. 2006	Outstanding balance 28 Dec. 2006 - 31 Dec. 2007	Outstanding balance 1 Jan. 2006 – 27 Dec. 2006
Loans given to:				
Shareholders/directors (refer to note 31(d)(ii))	-	850	541	1,739
Entities managed or owned by members of the Group's Board of Directors	-	1,514	172	2,765
	-	**2,364**	**713**	**4,504**

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

(d) Transactions with directors

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

(i) *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:

	31 December 2007 Receivable/(payable) '000 USD	27 December 2006 Receivable/(payable) '000 USD
E. Kaspersky	1,614	1,548
N. Kaspersky	1,615	1,549
A. De-Monderik	(3,130)	(2,362)
	99	**735**

These balances are included in the amounts receivable from and payable to shareholders disclosed in note 31(c)(i) and 31(c)(ii).

(ii) 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 31(c)(iii):

	31 December 2007 '000 USD	27 December 2006 '000 USD
E. Kaspersky	533	1,020
N. Kaspersky	8	715
A. De-Monderik	-	4
	541	**1,739**

(e) Pricing policies

Related party transactions are not based on market prices.

32 Significant subsidiaries

	Country of incorporation	31 December 2007 Ownership/voting	27 December 2006 Ownership/voting
ZAO Kaspersky Lab*	Russia	100%	-
Kaspersky Lab UK Ltd.	United Kingdom	100%	100%
Kaspersky Labs GmbH	Germany	100%	100%
Kaspersky Lab France S.A.R.L.	France	51%	-
Kaspersky Labs (AB)	Sweden	100%	-
ZAO Centre Kasperskogo*	Russia	100%	-
OOO Gruppa kompaniy Kasperskogo	Russia	100%	100%

* As at 27 December 2006 the Company did not legally control ZAO Kaspersky Lab and ZAO Centre Kasperskogo, however these entities were consolidated in the comparative information for the period from 1 January 2006 to 27 December 2006. The Company acquired control over these entities on 29 December 2006. The ultimate controlling party of these two entities during the whole period from 1 January 2006 to 29 December 2006 was Mr. Eugene Kaspersky, who was also the Company's ultimate controlling party. Therefore, the acquisition by the Company of control over ZAO Kaspersky Lab and ZAO Centre Kasperskogo is a common control transaction. In this connection, the consolidated financial statements are presented as if ZAO Kaspersky Lab and ZAO Centre Kasperskogo were subsidiaries of the Group during the period from 1 January 2006 to 29 December 2006

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

33 Events subsequent to the balance sheet date

Subsequent to 31 December 2007 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.

	Notes	31 December 2007 '000 USD	27 December 2006 '000 USD
ASSETS			
Non-current assets			
Investments in subsidiaries	C1	719	204
Deferred tax assets	C2	182	-
Total non-current assets		**901**	**204**
Current assets			
Trade and other receivables	C3	162	2
Cash and cash equivalents		50	62
Total current assets		**212**	**64**
Total assets		**1,113**	**268**

The Company balance sheet is to be read in conjunction with the notes to, and forming part of, the Company financial statements set out on pages 66 to 70.

	Note	31 December 2007 '000 USD	27 December 2006 '000 USD
EQUITY AND LIABILITIES			
Equity	C4		
Share capital		1	1
Translation reserve		(5)	(7)
Retained earnings		(414)	(60)
Total equity		**(418)**	**(66)**
Current liabilities			
Trade and other payables	C5	938	200
Loans and borrowings	C6	593	134
Total current liabilities		**1,531**	**334**
Total liabilities		**1,531**	**334**
Total equity and liabilities		**1,113**	**268**

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

The Company balance sheet is to be read in conjunction with the notes to, and forming part of, the Company financial statements set out on pages 66 to 70.

	28 December 2006 to 31 December 2007	1 January 2006 to 27 December 2006
	'000 USD	'000 USD
Cash flows from operating activities		
Loss for the period	(354)	(7)
Adjustments for:		
Net finance income	(88)	-
Income tax benefit	(171)	-
Operating loss before changes in working capital and provisions	(613)	(7)
Change in trade and other payables	800	(112)
Change in trade and other receivables	16	117
Cash flows from operating activities	203	(2)

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 66 to 70.

	28 December 2006 to 31 December 2007	1 January 2006 to 27 December 2006
	'000 USD	'000 USD
INVESTING ACTIVITIES		
Acquisition of investments in subsidiaries	(515)	(201)
Cash flows utilised by investing activities	(515)	(201)
FINANCING ACTIVITIES		
Proceeds from borrowings	304	265
Repayment of borrowings	(4)	-
Cash flows from financing activities	300	265
Net (decrease)/increase in cash and cash equivalents	(12)	62
Cash and cash equivalents at beginning of period	62	-
Cash and cash equivalents at end of period	50	62

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 66 to 70.

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"). These are the Company's first financial statements and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The Company's transition to IFRS effective 1 January 2006 did not result in material adjustments to amounts previously reported under the Company's previous GAAP. Accordingly no reconciliation to previous GAAP financial statements is presented.

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 currencies of the Company is the Sterling (GBP). These financial statements are presented in United States Dollars ("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.

II. 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(p) to the consolidated financial statements. These accounting policies have been consistently applied.

C1 Investments in subsidiaries

	31 December 2007 Cost of investment '000 USD	27 December 2006 Cost of investment '000 USD	31 December 2007 Ownership/ voting	27 December 2006 Ownership/ voting
Kaspersky Lab France S.A.R.L.	515	-	51%	-
Kaspersky Labs GmbH	197	197	100%	100%
OOO Kaspersky Group	4	4	100%	100%
Kaspersky Lab UK Ltd.	3	3	100%	100%
	719	**204**		

C2 Deferred tax assets

Deferred tax assets of USD 182 thousand as at 31 December 2007 (27 December 2006: nil) 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

	2007 '000 USD	2006 '000 USD
Receivables from subsidiary	162	-
Other receivables	-	2
	162	**2**

C4 Equity

(e) Share capital and share premium

Number of shares unless otherwise stated	**Shares 28 December 2006 to 31 December 2007**
Authorised shares at beginning of the period, fully paid	1,000
Share split 1:100	99,000
Additional shares authorised, not paid	10,000
Authorised shares at end of period	110,000
Shares authorised, not paid at end of period	(10,000)
On issue at end of period, fully paid	**100,000**

Par value at beginning of period	USD 1.45 (equivalent of 1 GBP)
Par value at end of period	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.

(f) Dividends

In accordance with the UK legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory consolidated financial statements prepared in accordance with the UK Accounting Principles. As at 31 December 2007 and 27 December 2006 the Company had accumulated losses.

(g) Reserves

	Retained earnings '000 USD	**Translation reserve '000 USD**
Balance as at 28 December 2006	(60)	(7)
Loss for the year	(354)	-
Foreign currency translation differences	-	2
Balance as at 31 December 2007	**(414)**	**(5)**

C5 Current trade and other payables

	2007	2006
	'000 USD	'000 USD
Trade payables to related parties	198	194
Payables to related party for acquisition of shares	431	-
Other payables and accrued expenses	309	6
	938	**200**

C6 Current loans and borrowings

Current loans and borrowings as at 31 December 2007 of USD 593 thousand (27 December 2006: USD 134 thousand) represent non-interest bearing loans from a subsidiary repayable on demand.

C8 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 13 of the consolidated financial statements.

C9 Related party transaction

The company related party transactions are disclosed below.

(i) Revenue

'000 USD	Transaction value	Transaction value	Outstanding balance	Outstanding balance
	28 Dec. 2006 - 31 Dec. 2007	1 Jan. 2006 – 27 Dec. 2006	28 Dec. 2006 - 31 Dec. 2007	1 Jan. 2006 – 27 Dec. 2006
Other revenue from:				
Subsidiaries	162	-	162	-
	162	**-**	**162**	**-**

(ii) Expenses

'000 USD	Transaction value 28 Dec. 2006 - 31 Dec. 2007	Transaction value 1 Jan. 2006 – 27 Dec. 2006	Outstanding balance 28 Dec. 2006 - 31 Dec. 2007	Outstanding balance 1 Jan. 2006 – 27 Dec. 2006
Services received:				
Services from other related party	-	-	(198)	(194)
Purchase of shares in a subsidiary				
Shareholders/directors	(515)	-	(431)	-
	(515)	**-**	**(629)**	**(194)**

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.

(iii) Loans

'000 USD	Amount loaned 28 Dec. 2006 - 31 Dec. 2007	Amount loaned 1 Jan. 2006 – 27 Dec. 2006	Outstanding balance 28 Dec. 2006 - 31 Dec. 2007	Outstanding balance 1 Jan. 2006 – 27 Dec. 2006
Loans received from:				
Subsidiaries	(300)	(265)	(593)	(134)
	(300)	**(265)**	**(593)**	**(134)**

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