



Registration number 4249748

Kaspersky Labs Limited

Directors' Report

and

Consolidated Financial Statements

for the year ended 31 December 2011

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Directors' Report

The Directors of Kaspersky Labs Limited present their annual report and the audited consolidated financial statements for the year ended 31 December 2011

(a) Principal activities

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

The Company's registered office is New Bridge Street House, 30-34 New Bridge Street, London, EC4V 6BJ

The Group develops, produces and distributes information security solutions which protect its customers from a wide range of IT threats, including viruses and other forms of malicious software, spam, hackers, intrusions, and unauthorized use or disclosure of confidential information. The Group provides packaged and customized software as well as hosted security services for home users, small and medium businesses (SMB), large enterprises and public sector. It also offers related consulting and security system integration services, as well as technical support services.

Founded in 1997, Kaspersky Lab is an international information security software vendor. Kaspersky Lab's headquarters are in Moscow, Russia and has regional offices in the UK, US, China, France, Germany, Sweden and Hong Kong. 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 include multiple security technologies including anti-malware, device and application control, firewall, anti-spam, data backup, system tune-up, password management, and confidential data protection.

The Group offers its core endpoint security product family to SMB and large corporate customers. The Group's endpoint security products support a wide range of platforms and devices including desktops, laptops, network servers, and mobile devices. The Group additionally offers messaging and web security solutions delivered both as on-site products as well as hosted services.

In addition to selling products using its own brands, certain Kaspersky Anti-Virus technologies are integrated into security 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) Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review and the Principal Risks and Uncertainties on pages 6 to 8. In addition, note 27 to the consolidated financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

The Company and the Group has considerable financial resources together with long-standing relationships with a number of customers and suppliers across different geographic areas and industries. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully.

The directors remain confident that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

(c) Business review

(i) Overview

The endpoint security market during 2011 continued to grow quickly. The growth in the market can be attributed to the following key factors:

- the increased usage by consumers due to expansion of Internet
- the growing number of attacks directed toward endpoint devices
- the increasing scope of endpoint security with rapid expansion in the numbers and types of mobile computing devices

In order to improve the Group's position and capitalize on the expanding market's opportunities during 2011 the Group acquired several of its regional distributors, including Kaspersky Lab Inc (USA), KK Kaspersky Lab Japan (Japan), Kaspersky Technology Development (China) and several businesses in the Middle East and Eastern Europe. Note 5 sets out more details of acquisitions. The purpose of these acquisitions is to acquire better control over the distribution of the Group's products in the respective strategically important regions. The Group's financial performance was affected by these acquisitions as the profitability of the acquirees is lower than the profitability of the rest of the Group. Management considers that the future synergies between the new entities of the Group and the rest of the Group will have a significant overall positive effect on the Group's future earnings.

The Group measures its progress against goals using the following key performance indicators ("KPIs"): billings, revenue and profit and Earnings before interest, tax, depreciation and amortisation ("EBITDA").

The main short-term KPI the Group uses to track the progress of the business within a year as well as year-on-year growth is billings. Billings represent the total monetary value of products and services sold and delivered to the customers during a reporting period measured by the monetary amounts of invoices issued to the partners and customers. 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 some software licence revenue is recognised rateably over the licence term, which therefore has the effect of deferring a portion of billings 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's billings increased in 2011 by 23% from USD 520 million in 2010 to USD 638 million. While the Group achieved year-on-year growth in nearly all markets and segments, expansion was especially strong in Emerging Markets like Eastern Europe, Middle East and Africa ("EEMEA"). Also notable is the effect of the acquisition of its distributor in North and South America region – billings in these regions increased in 2011 year on year by 23% and 49%, respectively.

The Consumer segment remains the largest segment of the Group's sales, and experienced very healthy growth with an increase in consumer bookings of 24% in 2011 compared to 2010. The Corporate segment, while currently a smaller proportion of the Group's sales than Consumer, shows higher rates of growth and tremendous opportunity for Kaspersky. Especially in mature markets like Europe, North America and Japan the Group's market share realities and rapid customer acceptance provides huge growth opportunities. The Group continues to focus resource on Corporate segment growth.

Geographical and customer type distribution of sales billings is shown in note 6(b) to the consolidated financial statements.

The Group's revenue increased by 17% from USD 462 million in 2010 to USD 539 million in the reporting period. The growth rate of revenue is different from the growth rate of billings mainly due to the revenue deferral effect, which sees a portion of billings made in any one year being recognised as revenues in subsequent periods.

The Group continues to focus on sales growth and continues to invest heavily in its long-term success. The Group's operating and net profit margins in 2011 were 6% and 5%, respectively (2010: 16% and 12%, respectively).

(ii) Comparability of 2011 EBITDA vs 2010

The comparability of the Group's EBITDA for 2011 and 2010 is significantly affected by a number of factors, including the following:

- 1) Long-term incentive plan: during 2010 the Group launched a long-term incentive plan for its employees (refer to note 25(c) to the consolidated financial statements). The Group's 2010 result contains a charge related to services received before 2010 in the amount of USD 35,080 thousand. The Group's 2011 result contains the charge related to the services received during 2011 only. In the analysis below, to make the results for 2011 and 2010 comparable, the long-term incentive charge recorded in 2010 in relation to periods prior to 2010 is excluded from 2010 results.
- 2) Acquisitions of businesses: the Group's 2011 results include a part of the acquired businesses results in 2011, while 2010 results do not. Also, the Group incurred a loss on acquiring the businesses in China and Japan and recorded this loss by impairing the acquired goodwill and other intangible assets for the total amount of USD 7,788 thousand (refer to note 18(a) to the consolidated financial statements). To make the results for 2011 and 2010 comparable, in the analysis below full year results of the

acquired entities are added to 2011 and 2010 results, and the impairment charge of the acquired goodwill and intangible assets is excluded from the result for 2011

- 3) Other non-recurring expenses during 2011 the Group incurred other non-recurring expenses of various nature which it did not incur in 2010. The main item was a one-off adjustment for VAT relating to 2011 and before. In the analysis below an adjustment has been made to transfer costs from the current year to prior years

	2011 '000 USD (unaudited)	2010 '000 USD (unaudited)
EBITDA as stated in the consolidated financial statements	60,902	85,693
Comparability adjustments, including		
long-term incentive plan (note c(11)(1) above)	-	35,080
acquisition of businesses (note c(11)(2) above)	13,791	(23,660)
other non-recurring items (note c(11)(3) above)	15,021	(5,300)
EBITDA adjusted for comparability	89,714	91,813

Overall, the year-on year decrease in EBITDA demonstrates management's emphasis on and investment in development of the infrastructure and marketing required to drive growth. Management considers a significant portion of the increased expenditure as a business investment, even though it does not qualify for capitalisation under IFRS.

(d) 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 positions is subject to a number of risks. Specifically, the Group may lack financial and other resources to maintain its positions. Products in the Group's target market 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, as well as in legal substantiation of its intellectual property rights.

Some of the fastest-growing products in the endpoint security market (especially the consumer segment) are free. This trend is especially apparent in the Chinese and European markets. In most cases, the free products are only providing basic antivirus but customers are looking for a complete suite of security capability. The Group believes that free endpoint security software is not a detriment to the market but recognises that it has to manage the risk of market share loss to

free endpoint security solutions by ensuring the quality of its products to the maximum satisfaction of ever-changing customer needs

The Group's policy in working with customers is focused on rapid market penetration. As such, extended credit terms are granted to some of the Groups' major distributors. In addition, the Group invests in resellers incentives offering them volume rebates and other similar discounts. 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. The Group strengthened its Credit Committee early in 2012, which emphasises the Group's determination to lowering this risk even further. Note 27(b)(iii) of the consolidated financial statements sets out a description of this risk.

The Group is exposed to foreign currency risk, mainly because some entities of the Group need to 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 in nearly all cases 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. Note 27(e) of the consolidated financial statements sets out a description of this risk.

Since the Group's margins are healthy and cash flow is overwhelmingly positive in recent years, the Group uses external debt financing extremely rarely and only on a short-term basis. At the time of finalizing this report, the Group had no significant outstanding debt financing. The Group's most significant liability as at the reporting date is deferred income of USD 403,680 thousand (2010: USD 302,896 thousand) due to the Group's revenue recognition policy. The Group's monetary current assets¹ at 31 December 2011 of USD 566,982 thousand (2010: USD 494,985 thousand). These monetary current assets exceed the Group's monetary current liabilities² of USD 126,944 thousand (2010: USD 136,624 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 are available to settle liabilities as they fall due – both in aggregate and in each individual currency. Management carries out a thorough analysis of the Group's cash position before making any significant investment or financing decisions. As disclosed in note 32 to the consolidated financial statements, subsequent

¹ Monetary current assets as at 31 December 2011 include cash and cash equivalents of USD 215,427 thousand (2010: USD 79,647 thousand), bank deposits of USD 118,939 thousand (2010: USD 212,742 thousand), trade and other accounts receivable of USD 228,895 thousand (2010: USD 201,174 thousand), investments of USD 3,592 thousand (2010: USD 1,422 thousand) and prepaid current tax of USD 129 thousand (2010: nil).

² Monetary current liabilities as at 31 December 2011 include trade and other payables of USD 131,112 thousand (2010: USD 123,948 thousand), less advances received of USD 4,168 thousand (2010: USD 4,622 thousand), plus income tax payable of USD nil (2010: USD 17,298 thousand).

to the reporting period, in February 2012 the Group purchased a number of its own shares for the cash consideration of USD 288 million. Management is confident this transaction will not materially affect the Group's liquidity due to strong expected cash flows and continued growth of sales.

(e) Directors

The following directors held office during the year and subsequent to the year end

E Kaspersky

N Kaspersky until 1 July 2011

E Buyakın until 27 March 2012

A De-Monderik

S Orenberg

J Bernstein from 1 July 2011 to 29 February 2012

G Kondakov from 27 March 2012

A Tikhonov from 27 March 2012

A Given from 29 December 2011 to 29 February 2012

(f) Distribution to shareholders

During the year ended 31 December 2011 dividends of USD 15,000 thousand (GBP 0.1 per share) were approved and paid (2010: USD 10,000 thousand, GBP 67.92 per share).

(g) Issuance of new shares

During 2011 the Company issued 5,417,053 preference shares for a consideration of up to USD 75,000 thousand. The rights of the holders of preference shares are described in note 25(a) to the consolidated financial statements. All the preference shares were re-purchased and cancelled in February 2012.

(h) Share-based compensation

(i) Long-term incentive plan

During 2010 the Group introduced a long-term incentive plan for its employees and employees of certain party companies, which provide services to the Group. The purpose of the plan is to incentivise key employees to continue their long-term cooperation with the Group, link their personal financial interests with the financial interests of the Group, as well as reward long-serving employees who contributed significantly to the development of the Group's business.

According to the plan, participants are granted with options giving them the right to acquire a fixed quantity of the ordinary shares of Kaspersky Labs Limited to be issued by the Company when the options vest for a price fixed as at the option grant date. Simultaneously, the participants of the arrangement acquire the right for a fixed deferred cash compensation payable at the option vesting and exercise dates. Typically, the vesting periods of the options and the deferral period for the cash compensation equal three years from the grant date. The condition for the vesting of the options and payment of the deferred compensation is the continuing service during the vesting period. Effectively, the arrangement represents a compound financial instrument giving the participants of the arrangement the right to choose between a pre-determined amount of cash bonus and a fixed quantity of shares of the Group once they complete a period of continuing service for the Group. Under the plan up to 10% of outstanding shares of the Company can be awarded to the eligible participants of the plan over a ten-year period.

(i) Redemption of the Company's own shares

In January 2011, the Company repurchased 750,000 of its own ordinary shares from a shareholder for the cash consideration of USD 8 per share. The acquired shares were then cancelled.

In July 2011, the Company repurchased additional 150,000 of its ordinary shares from another shareholder for USD 8 per share. The acquired shares were then cancelled.

Subsequent to the reporting date in February 2012 the Company repurchased 26,725,901 of its ordinary shares for cash consideration of USD 10.2 per share and 5,417,053 of its preference shares for USD 12 per share.

(j) Research and development

The Group undertakes research and development in connection with its principal activity. During 2011 significant investments were made in this critical area. For example, the average number of employees focusing on research and development increased from 636 to 894.

(k) 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.

(l) Employee involvement

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

(m) Environment

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

(n) Charitable donations

During 2011 the Group made charitable donations of USD 1,504 thousand (2010 USD 670 thousand) to orphanages, hospitals and to Japan Red Cross in connection with March 2011 earthquake in Japan. No donations were made to political parties

(o) Policy and practice on payment of creditors

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

Trade creditors of the Group at 31 December 2011 amounted to 41 days (31 December 2010 48 days) of purchases, based on the average daily amount invoiced by suppliers during the year

(p) Disclosure of information to auditors

The 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

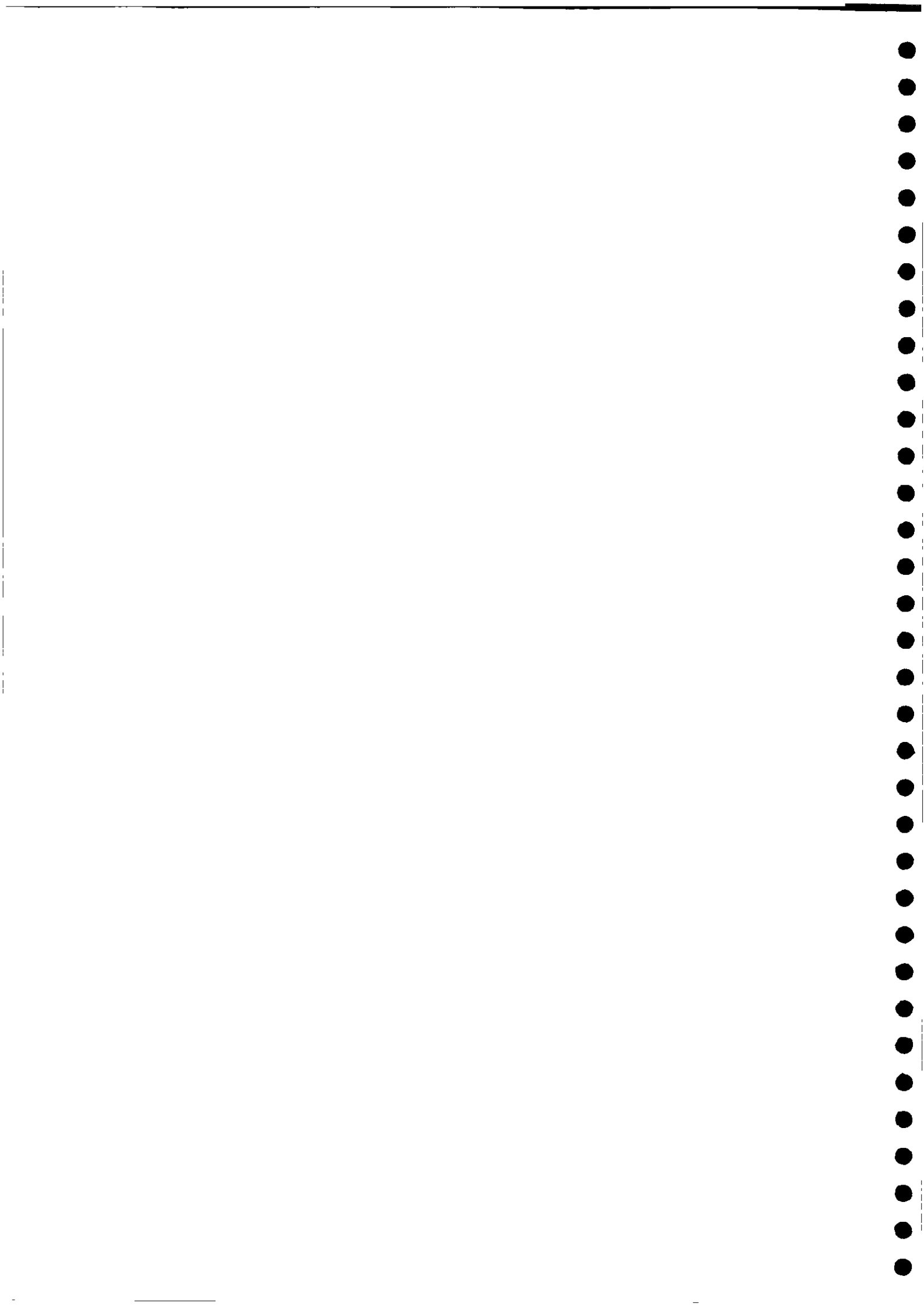
(q) Statement of Directors' responsibilities in respect of the Directors' Report and the financial statements

The Directors are responsible for preparing the Directors' Report and the 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 law

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. 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 judgments 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



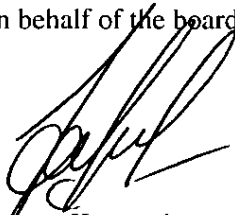
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. 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.

(r) Auditors

In accordance with Section 487 of the Companies Act 2006, a resolution for re-appointment of KPMG Audit Plc will be proposed at the forthcoming Annual General Meeting.

On behalf of the board



Eugene Kaspersky

Chief Executive Officer

1 June 2012

Independent auditor's report to the members of Kaspersky Labs Limited

We have audited the financial statements of Kaspersky Labs Limited for the year ended 31 December 2011 set out on pages 14 to 82. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on pages 10 and 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2011 and of the group's profit for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

P Gresham

P Gresham (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

*Chartered Accountants
1 Forest Gate
Brighton Road
Crawley, RH11 9PT
United Kingdom*

8 June 2012

Kaspersky Labs Limited
Registration number 4249748
Consolidated Statement of Financial Position as at 31 December 2011

'000 USD	Note	2011	2010
Assets			
Property, plant and equipment	17	20,784	16,768
Intangible assets	18	23,283	8,461
Investments in equity accounted investees		96	92
Other receivables		166	1,598
Bank deposits	20	12,120	9,062
Deferred tax assets	21	59,714	40,438
Non-current assets		116,163	76,419
Inventories	22	6,034	2,979
Other investments	20	3,592	1,422
Trade and other receivables	23	228,895	201,174
Prepayments		6,155	11,899
Prepaid current tax		129	-
Bank deposits	20	118,939	212,742
Cash and cash equivalents	24	215,427	79,647
Current assets		579,171	509,863
Total assets		695,334	586,282

Kaspersky Labs Limited
Registration number 4249748
Consolidated Statement of Financial Position as at 31 December 2011

'000 USD	Note	2011	2010
Equity			
Share capital		1	1
Additional paid-in capital		19,444	11,373
Translation reserve		(16,763)	(8,315)
Retained earnings		144,834	138,435
Equity attributable to owners of the Company		147,516	141,494
Non-controlling interests		1 478	641
Total equity	25	148,994	142,135
Liabilities			
Other payables	26	9,363	-
Non-current deferred income		54,078	37,109
Deferred tax liabilities	21	2,185	5
Non-current liabilities		65,626	37,114
Trade and other payables	26	131,112	123,948
Deferred income		349,602	265,787
Current tax liabilities		-	17,298
Current liabilities		480,714	407,033
Total liabilities		546,340	444,147
Total equity and liabilities		695,334	586,282

Kaspersky Labs Limited
Registration number 4249748
Consolidated Statement of Comprehensive Income for the year ended 31 December 2011

'000 USD	Note	2011	2010
Continuing operations			
Billings		638,347	519,565
Billings deferred to future periods		(387,763)	(275,920)
Revenue from billings of prior periods		288,834	217,793
Translation difference		(588)	416
Revenue	6	538,830	461,854
Cost of sales	7	(58,783)	(37,211)
Gross profit		480,047	424,643
Distribution expenses	8	(231,486)	(184,442)
Administrative expenses	9	(116,227)	(88,373)
Research and development expenses	10	(82,796)	(74,950)
Other income and expenses	11	(19,515)	(1,192)
Results from operating activities		30,023	75,686
Finance income	14	13,443	3,826
Finance costs	14	(1,874)	(778)
Net finance costs		11,569	3,048
Share of profit of equity accounted investees (net of income tax)		4	7
Profit before income tax		41,596	78,741
Income tax expense		(12,255)	(23,842)
Profit for the year		29,341	54,899
Other comprehensive income			
Foreign currency translation differences for foreign operations		(8,338)	(1,949)
Other comprehensive income for the year, net of income tax		(8,338)	(1,949)
Total comprehensive income for the year		21,003	52,950
Profit attributable to:			
Owners of the Company		28,599	55,193
Non-controlling interests		742	(294)
Profit for the year		29,341	54,899


Kaspersky Labs Limited
Registration number 4249748
Consolidated Statement of Comprehensive Income for the year ended 31 December 2011

'000 USD	Note	2011	2010
Total comprehensive income attributable to:			
Owners of the Company		20,151	53,321
Non-controlling interests		852	(371)
Total comprehensive income for the year		21,003	52,950

Earnings before interest, tax, depreciation and amortisation (EBITDA)	16	60,902	85,693
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These consolidated financial statements were approved by the Board of Directors on 1 June 2012 and were signed on its behalf by


Eugene Kaspersky
Chief Executive Officer


David Eggers
Chief Financial Officer

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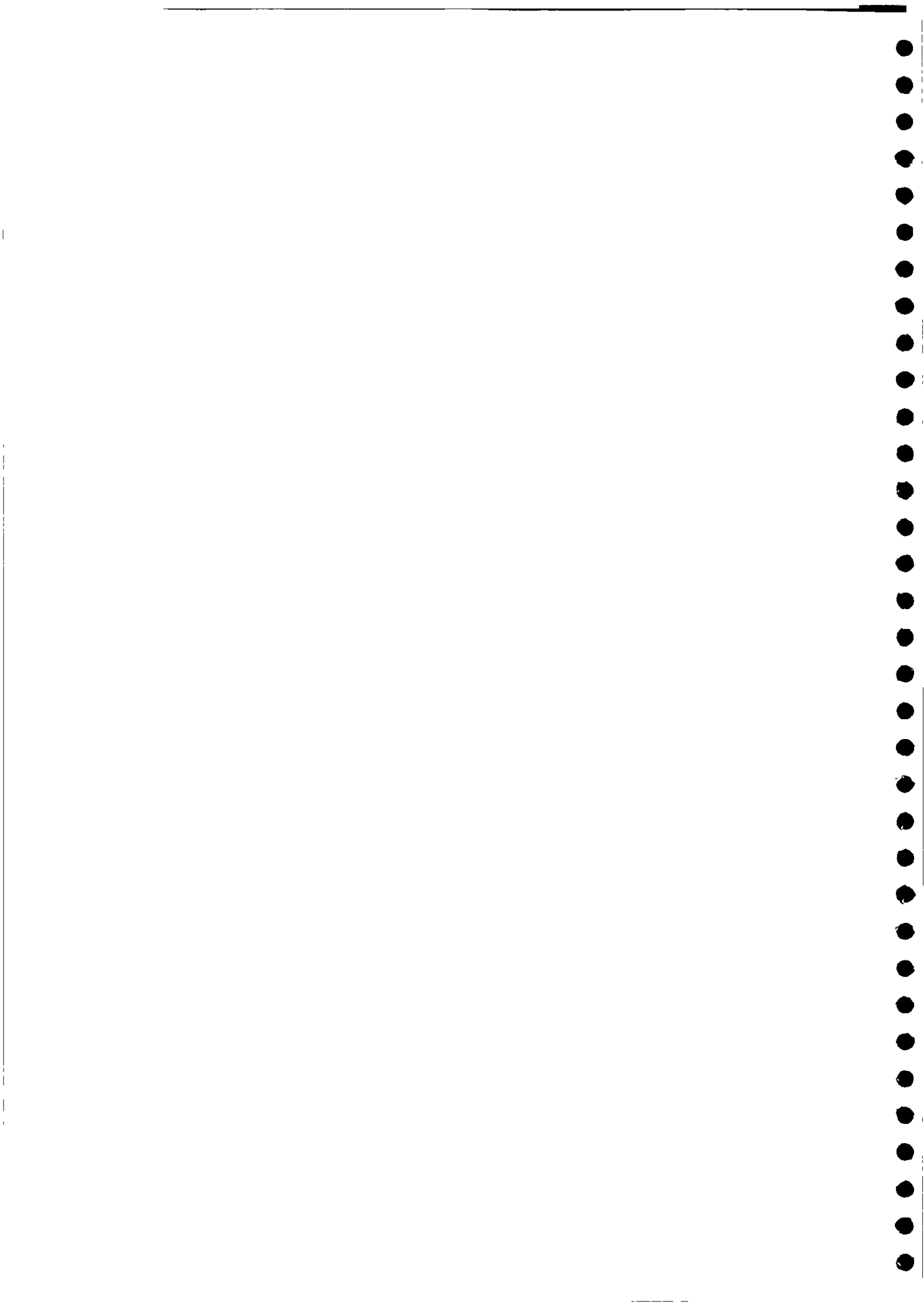
The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 22 to 73

'000 USD

	Attributable to equity holders of the Company				Non-controlling interest	Total equity
	Share capital	Additional paid-in capital	Translation reserve	Retained earnings	Total	
Balance at 1 January 2010	1	1,342	(6,443)	93,242	88,142	89,154
Total comprehensive income for the year						
Profit for the year	-	-	-	55,193	55,193	54,899
Other comprehensive income						
Foreign currency translation differences	-	-	(1,872)	-	(1,872)	(1,949)
Total other comprehensive income	-	-	(1,872)	-	(1,872)	(1,949)
Total comprehensive income for the year	-	-	(1,872)	55,193	53,321	52,950
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends to equity holders	-	-	-	(10,000)	(10,000)	(10,000)
Equity element of the long-term incentive plan	-	6,503	-	-	6,503	6,503
Contribution from shareholders	-	3,528	-	-	3,528	3,528
Total contributions by and distributions to owners	-	10,031	-	(10,000)	31	31
Total transactions with owners	-	10,031	-	(10,000)	31	31
Balance at 31 December 2010	1	11,373	(8,315)	138,435	141,494	142,135

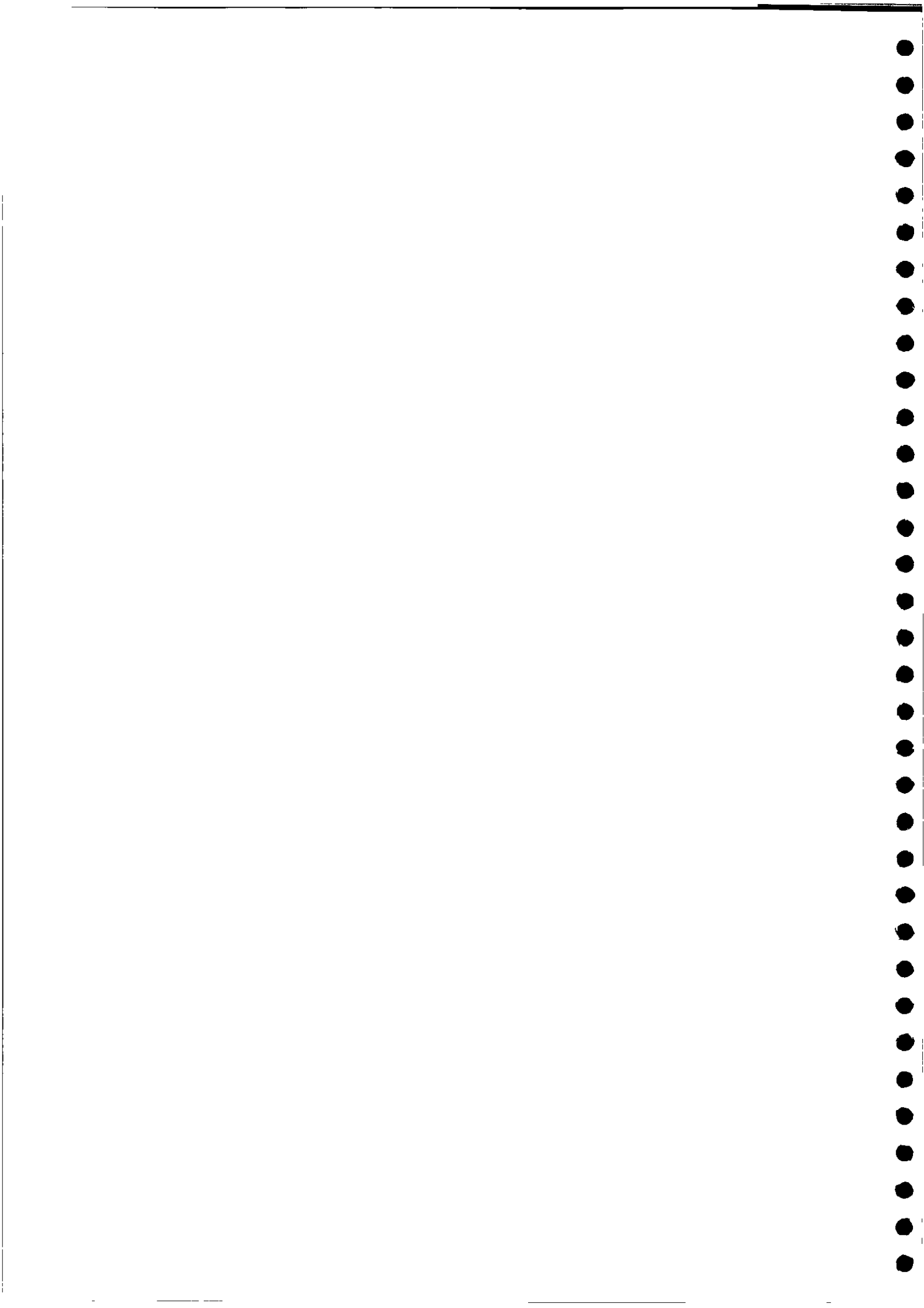
Kaspersky Labs Limited
Registration number 4249748
Consolidated Statement of Cash Flows for the year ended 31 December 2011

'000 USD	Note	2011	2010
Cash flows from operating activities			
Profit for the year		29,341	54,899
<i>Adjustments for</i>			
Depreciation and amortisation	17, 18	15,867	10,778
Impairment losses on intangible assets	9,18	7,788	-
Net finance costs	14	(11,569)	(3,048)
Expenses paid for by the shareholders		-	328
Equity element of the long-term incentive plan		1,197	6,503
Share of profit of equity accounted investees (net of income tax)		(4)	(7)
Income tax expense		12,255	23,842
Cash from operating activities before changes in working capital and provisions		54,875	93,295
Change in inventories		1,008	535
Change in trade and other receivables		(46,543)	(63,822)
Change in trade and other payables		20,414	85,552
Change in deferred income		82,408	44,118
Cash flows from operations before income taxes and interest paid		112,162	159,678
Income tax paid		(43,608)	(40,853)
Net cash from operating activities		68,554	118,825
Cash flows from investing activities			
Cash from withdrawing bank deposits and other investments		2,206,138	676,198
Interest received		6,345	2,024
Acquisition of subsidiaries, net of cash acquired		6,456	669
Placing bank deposits and acquisition of other investments		(2,122,111)	(749,590)
Acquisition of property, plant and equipment		(14,590)	(9,540)
Acquisition of intangible assets		(9,687)	(6,956)
Net cash from/(used in) investing activities		72,551	(87,195)



Kaspersky Labs Limited
Registration number 4249748
Consolidated Statement of Cash Flows for the year ended 31 December 2011

'000 USD	Note	2011	2010
Cash flows from financing activities			
Proceeds from issuance of share capital, net of transactional costs		6,874	-
Proceeds from issuance of preference shares allocated to financial liability element		4,668	-
Dividends paid		(15,000)	(10,000)
Own share redemption		(7,200)	-
Net cash used in financing activities		(10,658)	(10,000)
Net increase in cash and cash equivalents		130,447	21,630
Cash and cash equivalents at 1 January		79,647	59,784
Effect of exchange rate fluctuations on cash and cash equivalents		5,333	(1,767)
Cash and cash equivalents at 31 December	24	215,427	79,647



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1. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis

(c) Functional and presentation currency

The functional currencies of the Group's significant entities are presented below

	<u>Country of incorporation</u>	<u>Functional currency</u>
Kaspersky Labs Limited	United Kingdom	United States Dollars
ZAO Kaspersky Lab	Russia	Russian Roubles
Kaspersky Lab UK Ltd	United Kingdom	Euro
Kaspersky Lab Inc	United States	United States Dollars
Kaspersky Labs GmbH	Germany	Euro
Kaspersky Lab France S A R L	France	Euro
Kaspersky Lab Asia Limited	Hong Kong	Hong Kong Dollars
Kaspersky Technology Development	China	Chinese Yuan

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

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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 2(1)– revenue recognition policy
- Note 25(c)– share-based compensation, and
- Note 29 – contingencies

2. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities

(a) Basis of consolidation

(i) Accounting for business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as

- the fair value of the consideration transferred, plus
the recognised amount of any non-controlling interests in the acquiree, plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree, less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

(ii) Accounting for acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. 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. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

(iv) *Acquisitions from entities under common control*

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

(v) *Loss of control*

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(vi) *Investments in associates (equity accounted investees)*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Group's share of the income and expenses and equity movements 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 equity accounted investee, the carrying amount of that interest including any long-term investments, is reduced to zero, 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.

(vii) *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 retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

(ii) Foreign operations

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

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and presented in the translation reserve in equity.

(c) Financial instruments

(i) Non-derivative financial instruments

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

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group does not have non-derivative financial assets other than financial assets at fair value through profit or loss and loans and receivables.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss -category if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Financial assets designated at fair value through profit or loss comprise equity securities that otherwise would have been classified as available for sale.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Loans and receivables category comprise the following classes of financial assets: trade and other receivables as presented in note 23 and cash and cash equivalents as presented in note 24.

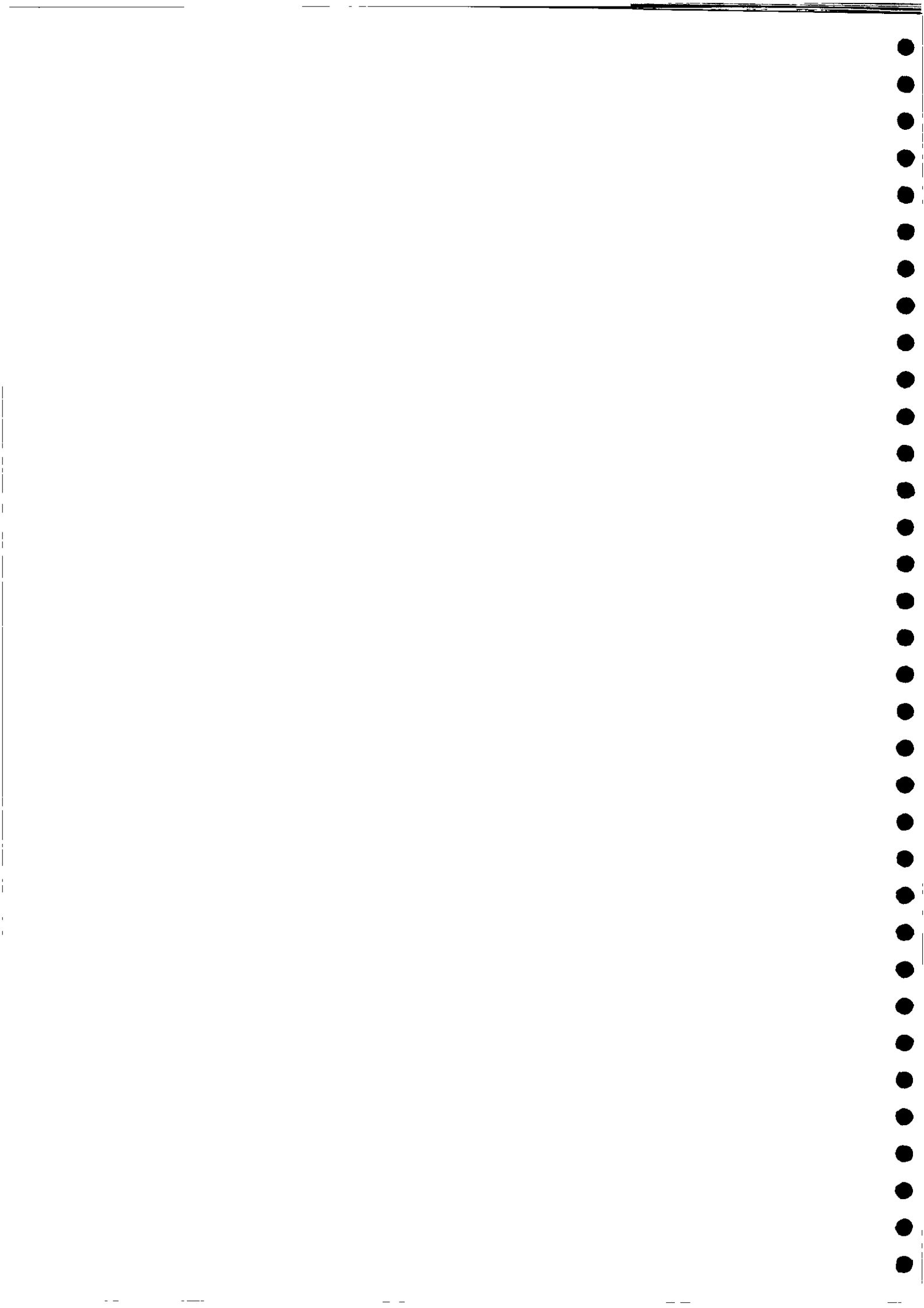
Cash and cash equivalents

Cash and cash equivalents comprise cash balances, call deposits and highly liquid investments with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in their fair value.

(ii) ***Non-derivative financial liabilities***

The Group initially recognises financial liabilities on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.



Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously

The Group has the following non-derivative financial liabilities: loans and borrowings and trade and other payables

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

(d) Share capital

Ordinary shares

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

Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity upon approval by the Company's shareholders.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit or loss as accrued.

Repurchase, disposal and reissue of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own shares. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

(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.

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.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(u) Subsequent costs

The cost of replacing a component 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 component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(ui) Depreciation

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use. Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. 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 financial year end and adjusted if appropriate.

(f) Intangible assets

(i) Goodwill

Goodwill that arises on the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see note 2(a)(i).

Subsequent measurement

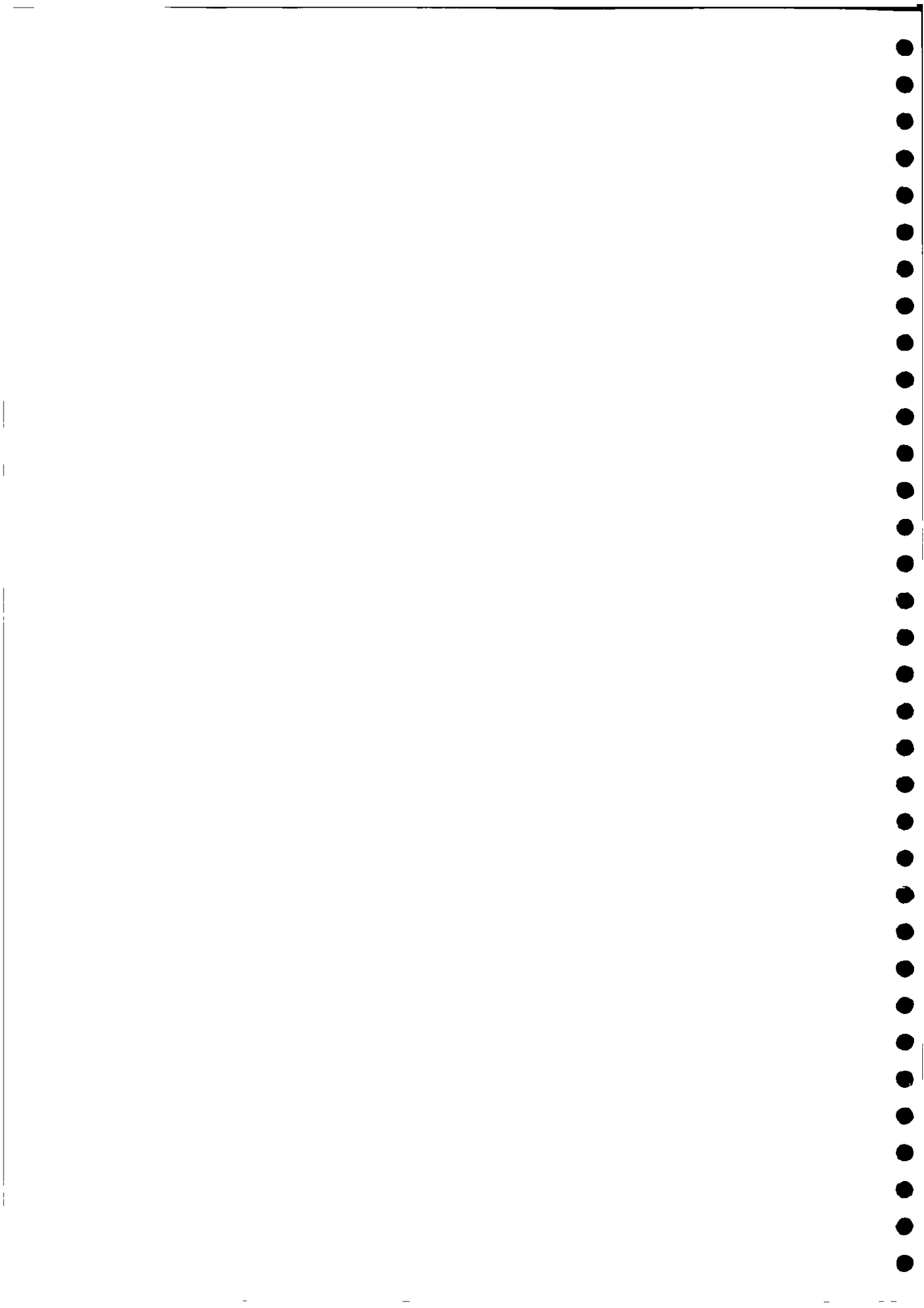
Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

(ii) Patents

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

(iii) Research and development costs

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



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

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

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

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

(iv) 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.

(v) 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 profit or loss as incurred.

(vi) Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

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

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost formula, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Impairment

(i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor will enter bankruptcy.

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

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 asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(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, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU 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 or CGU. For the purpose of impairment testing, assets that cannot be tested individually 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 CGU. For the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Group's corporate assets do not generate separate cash inflows and are utilised by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Employee benefits

(i) *Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including state pension funds, are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(u) Share-based payment arrangements

The long-term compensation plan introduced by the Group involves issuing effectively compound financial instruments with equity and liability components. Expenses recognised in profit and loss in respect of the long-term compensation plan is the combination of expenses relating to the equity and liability components of the arrangement.

The liability component is initially measured at fair value as at the grant date. The fair value of the liability component is recognised as an employee expense with a corresponding increase in liabilities over the period that the employees unconditionally become entitled to the payment. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expenses in profit or loss.

The grant-date fair value of share options issued under the equity element of the long-term incentive plan is recognised as employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of options for which the related service conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service conditions as at the vesting date.

(ui) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(k) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(u) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

(l) Revenue

(i) Licence fees

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

Licence agreements with end customers and resellers

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

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

Licence agreements with technology partners

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

(ii) Services

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

(m) Cost of sales

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

(n) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in profit or loss 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.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

(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 profit or loss as incurred.

(o) Finance income and costs

Finance income comprises interest income on funds invested, dividend income, foreign currency gains, fair value gains on financial assets at fair value through profit or loss and gains on the remeasurement to fair value of any pre-existing interest in an acquiree. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and contingent consideration, losses on disposal of available-for-sale financial assets, dividends on preference shares classified as liabilities, fair value losses on financial instruments at fair value through profit or loss and impairment losses recognised on financial assets (other than trade receivables).

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

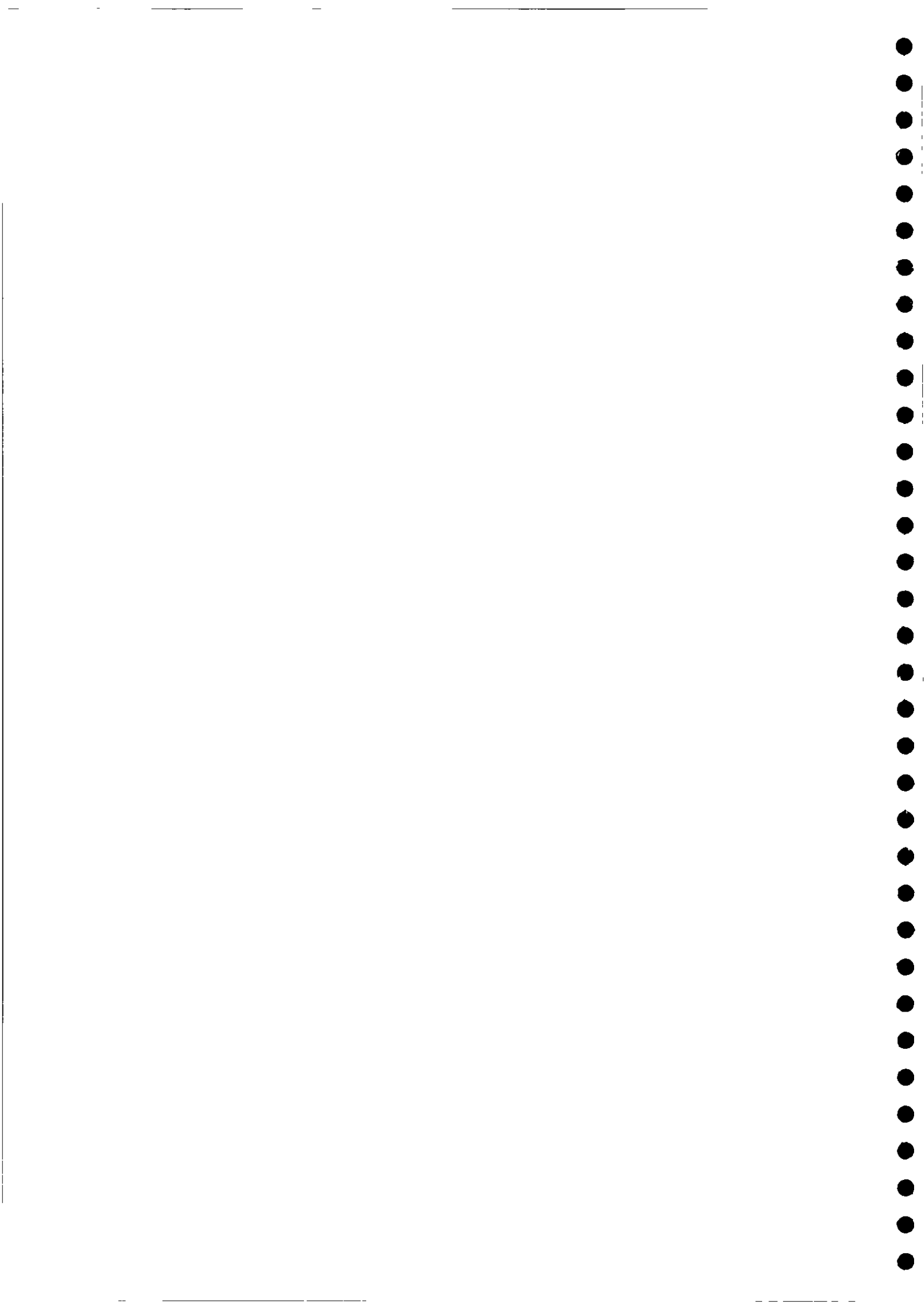
(p) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss 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. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of 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

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss,
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future, and
- 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 for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised

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

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

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

3. 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 2011, 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

- IAS 28 (2011) *Investments in Associates and Joint Ventures* combines the requirements in IAS 28 (2008) and IAS 31 that were carried forward but not incorporated into IFRS 11 and IFRS 12. The amended standard will become effective for annual periods beginning of or after 1 January 2013 with retrospective application required. Early adoption of IAS 28 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011). The standard is not expected to have a significant impact on the Group's financial position or performance

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2012. Whilst a detailed exercise to assess the impact of the standard has not yet been carried out, it is not expected to have a significant impact on the Group's financial position or performance. The Group does not intend to adopt this standard early.
- IFRS 10 *Consolidated Financial Statements* will be effective for annual periods beginning on or after 1 January 2013. The new standard supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 introduces a single control model which includes entities that are currently within the scope of SIC-12 *Consolidation – Special Purpose Entities*. Under the new three-step control model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns. Consolidation procedures are carried forward from IAS 27 (2008). When the adoption of IFRS 10 does not result in a change in the previous consolidation or non-consolidation of an investee, no adjustments to accounting are required on initial application. When the adoption results in a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from the date that control was obtained or lost or, if not practicable, with limited retrospective application from the beginning of the earliest period for which the application is practicable, which may be the current period. Early adoption of IFRS 10 is permitted provided an entity also early-adopts IFRS 11, IFRS 12, IAS 27 (2011) and IAS 28 (2011). The standard is not expected to have a significant impact on the Group's financial position or performance.
- IFRS 12 *Disclosure of Interests in Other Entities* will be effective for annual periods beginning on or after 1 January 2013. The new standard contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The expanded and new disclosure requirements aim to provide information to enable the users to evaluate the nature of risks associated with an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. Entities may early present some of the IFRS 12 disclosures early without a need to early-adopt the other new and amended standards. However, if IFRS 12 is early-adopted in full, then IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) must also be early-adopted. The new Standard will not have any impact on the Group's financial position or performance.
- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not

required for periods before the date of initial application. Whilst a detailed exercise to assess the impact of the standard has not yet been carried it is not expected to have a significant impact on the Group's financial position or performance.

- *Amendment to IAS 1 Presentation of Financial Statements Presentation of Items of Other Comprehensive Income* The amendment requires that an entity present separately items of other comprehensive income that may be reclassified to profit or loss in the future from those that will never be reclassified to profit or loss. Additionally, the amendment changes the title of the statement of comprehensive income to statement of profit or loss and other comprehensive income. However, the use of other titles is permitted. The amendment shall be applied retrospectively from 1 July 2012 and early adoption is permitted. The new Standard will not have any impact on the Group's financial position or performance.
- *Amendment to IAS 12 Income taxes – Deferred Tax Recovery of Underlying Assets* The amendment introduces an exception to the current measurement principles for deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 *Investment Property*. The exception also applies to investment property acquired in a business combination accounted for in accordance with IFRS 3 *Business Combinations* provided the acquirer subsequently measures the assets using the fair value model. In these specified circumstances the measurement of deferred tax liabilities and deferred tax assets should reflect a rebuttable presumption that the carrying amount of the underlying asset will be recovered entirely by sale unless the asset is depreciated or the business model is to consume substantially all the asset. The amendment is effective for periods beginning on or after 1 January 2012 and is applied retrospectively. The Group has not yet assessed the likely impact of the new Standard on its financial position or performance, but it is not expected to be significant.
- *Various Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 January 2011. The Group has not yet analysed the likely impact of the improvements on its financial position or performance.

4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for 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 and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on market approach and cost approaches using quoted market prices for similar items when available.

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

The fair value of property, plant and equipment recognised as a result of a business combinations during 2011 approximates its carrying value.

(b) Intangible assets

The fair value of distribution agreements and customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

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

(c) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

The fair value of inventories acquired in business combinations during 2011 approximates their carrying value.

(d) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes or when acquired in a business combination.

(e) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, 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.

(f) Contingent consideration

The fair value of contingent consideration is calculated using the income approach based on the expected payment amounts and their associated probabilities (i.e. probability-weighted). Since the contingent consideration is long-term nature, it is discounted to present value.

5. Acquisitions and disposals of subsidiary and non-controlling interests

(a) Acquisition of Kaspersky Lab, Inc.

On 15 February 2011 the Group acquired 100% of shares in Kaspersky Lab, Inc., its distributor in North America, for a cash consideration of USD 10. The primary reason for the acquisition was the intent to achieve better control of distribution of the Group's products in North America. From the date of the acquisition to 31 December 2011 Kaspersky Lab, Inc. contributed revenue of USD 34,214 thousand and net loss of USD 14,474 thousand. If the acquisition had occurred on 1 January 2011, the consolidated revenue and profit would have increased by USD 11,736 thousand and USD 1,887 thousand, respectively. Amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed are disclosed in note 5(e).

(b) Acquisition of business previously conducted by Kaspersky Lab (Tianjin) Technology Co., Ltd. and Beijing Kaspersky Technology Co., Ltd.

On 1 July 2011 the Group acquired the business and assets of Kaspersky Lab (Tianjin) Technology Co., Ltd. and Beijing Kaspersky Technology Co., Ltd. ("Kaspersky Lab China business"), its distributors and research and development service providers in China, for the cash consideration of USD 3,382 thousand. The primary reason for the acquisition was the intent to achieve better control of distribution of the Group's products in China and achieve synergies in research and development activities conducted by the acquired businesses. From the date of the acquisition to 31 December 2011 the acquired business contributed revenue of USD 774 thousand and net loss of USD 7,431 thousand. If the acquisition had occurred on 1 January 2011, the consolidated revenue would have increased and profit would have decreased by USD 4,532 thousand and USD 282 thousand respectively. Amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed are disclosed in note 5(e).

(c) Acquisition of KK Kaspersky Lab Japan

On 15 March 2011 the Group acquired 99.5% of shares in KK Kaspersky Lab Japan, its distributor in Japan, for a cash consideration of USD 119 thousand. The primary reason for the acquisition was the intent to achieve better control of distribution of the Group's products in Japan. From the date of the acquisition to 31 December 2011 KK Kaspersky Lab Japan contributed revenue of USD 774 thousand and net loss of USD 3,758 thousand. If the acquisition had occurred on 1 January 2011, the consolidated revenue would have increased and profit would have decreased by USD 766 thousand and USD 491 thousand, respectively. Amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed are disclosed in note 5(e). The non-controlling interest in KK Kaspersky Lab Japan is measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

(d) Other acquisitions

During 2011 the Group also acquired controlling stakes in several other individually immaterial entities for cash consideration:

- 99% in Kaspersky Bilisim Hizmetleri Sanayi ve Ticaret Limited Sirketi, based in Turkey, acquired on 16 May 2011,
- 100% of shares in OOO Laboratoriya Kasperskogo Ukraina, based in Ukraine, acquired on 29 July 2011,

- 100% of shares in Kaspersky Lab Middle East FZ-LLC, based in United Arab Emirates, acquired on 2 August 2011,
- 100% shares in Kaspersky Lab KZ, based in Kazakhstan, acquired on 8 September 2011,
- 100% of shares in Kaspersky Lab LDA, based in Portugal, acquired on 14 September 2011

From the date of the acquisition to 31 December 2011 acquired companies contributed loss of USD 115 thousand. If the acquisition had occurred on 1 January 2011, the consolidated revenue would have increased and profit would have decreased by USD nil and USD 31 thousand, respectively.

The aggregate amounts of the consideration paid for the individually immaterial entities acquired and the aggregate amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed are disclosed in note 5(e). The non-controlling interest in Kaspersky Bilisim Hizmetleri Sanayi ve Ticaret Limited Sirketi is measured at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

(e) Identifiable net assets of the acquirees

The following summarizes the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition dates.

'000 USD	Recognised fair values on acquisition				
	Kaspersky Lab Inc	KK Kaspersky Lab Japan	Kaspersky Lab China business	Other minor acquisitions	Total
Non-current assets					
Property, plant and equipment	1,774	29	82	57	1,942
Intangible assets	-	18	4,497	2	4,517
Deferred tax assets	10,112	-	-	-	10,112
Other non-current assets	-	-	-	35	35
Current assets					
Inventories	4,033	1	-	6	4,040
Trade and other receivables	24,326	539	-	115	24,980
Cash and cash equivalents	8,956	786	-	338	10,080
Non-current liabilities					
Deferred income	(755)	-	-	-	(755)
Deferred tax liabilities	(10,530)	-	-	-	(10,530)
Other non-current liabilities	(75)	-	-	-	(75)
Current liabilities					
Deferred income	(13,750)	(396)	(1,197)	-	(15,343)
Income tax payable	(192)	-	-	(36)	(228)
Trade and other payables	(18,864)	(154)	-	(342)	(19,360)
Net identifiable assets, liabilities and contingent liabilities	5,035	823	3,382	175	9,415

'000 USD	Recognised fair values on acquisition				
	Kaspersky Lab Inc.	KK Kaspersky Lab Japan	Kaspersky Lab China business	Other minor acquisitions	Total
Non-controlling interest	-	16	-	(1)	15
Goodwill on acquisition	10,381	3,291	-	(51)	13,621
Total consideration, including	(15,416)	(4,130)	(3,382)	(123)	(23,051)
Cash consideration	-	(119)	(3,382)	(123)	(3,624)
Balances related to pre-existing relationships	(15,416)	(4,011)	-	-	(19,427)
Cash acquired	8,956	786	-	338	10,080
Net cash inflow	8,956	667	(3,382)	215	6,456

Management considers that the fair values of assets and liabilities assumed on acquisition approximated their book values as at the date of the acquisition due to short term nature of monetary assets and liabilities and relative insignificance of non-monetary items

The trade receivables comprise of balances with the Group companies, those balances are expected to be settled within a year

'000 USD	
Fair value of identifiable net assets	9,415
Total consideration transferred	(23,051)
Non-controlling interest	15
Goodwill	<u>13,621</u>

The goodwill is attributable mainly to the skills and technical talent of acquiree's work force and the synergies expected to be achieved from integrating the company into the Group's existing business. None of the goodwill recognised is expected to be deductible for income tax purposes

6. Billings and revenue

(a) Definitions

Billings presented in the consolidated statement of comprehensive income represent the amounts of invoices issued by the Group for licences sold and services provided during a reporting period. Invoices are issued upon delivery of the products and services to the customers. The standard payment terms are 30 days after the issuance of the invoice, and individual payment terms may vary depending on the individual customer. Revenues are recognised in accordance with the Group's accounting policy set out in note 2(l). The difference between billings and revenues is due to the fact that income from sales of licences is generally included in billings when the delivery of the underlying product occurs, while revenue from a sale of the licence is recognised rateably over the duration of the licence, starting from the time of delivery of the licence. The reconciliation of

billings and revenue determined in accordance with the Group's accounting policy set out in note 2(1) is presented on the face of the consolidated statement of comprehensive income

(b) Segmental information for billings

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

Geographical distribution of billings and revenues is presented below

'000 USD	2011		2010	
	Revenue	Billings	Revenue	Billings
Europe	196,583	207,829	183,917	193,005
Eastern Europe, Middle East and Africa (EEMEA)	167,005	186,579	126,459	151,943
North America and South America (Americas)	110,051	166,310	95,309	111,679
Asia Pacific (APAC)	41,741	48,899	31,115	39,402
Japan	2,518	5,106	1,298	1,522
Technology Licensing	20,932	23,624	23,756	22,014
	538,830	638,347	461,854	519,565

For management purposes the Group distinguishes billings of Kaspersky Lab products and services to individual users, households, and small office/home office customers ("consumers"), billings of Kaspersky Lab products and services to small and medium size businesses, large enterprises, and public sector ("corporate"), billings for licensing of Kaspersky Lab technologies and products to other IT security software developers and original equipment manufacturers ("technology licensing") and other billings. Allocation of billings by type of customers is presented below

'000 USD	2011		2010	
	Revenue	Billings	Revenue	Billings
Consumer	360,611	425,710	309,159	343,183
Corporate	157,007	188,654	128,012	153,441
Technology Licensing	20,932	23,624	23,756	22,014
Other	280	359	927	927
	538,830	638,347	461,854	519,565

(c) Revenue

Revenue earned by the Group consists of the following types

'000 USD	2011	2010
Sales of licenses	538,470	460,333
Revenue from services provided	360	1,521
Total revenues	538,830	461,854

7. Cost of sales

	2011	2010
	'000 USD	'000 USD
Materials	26,039	13,765
Wages and salaries	15,169	11,410
Long-term incentive plan compensation	(299)	2,975
Payroll taxes	1,443	1,768
Services	13,775	5,267
Depreciation and amortisation	1,077	1,080
Rent	1,579	946
	58,783	37,211

8. Distribution expenses

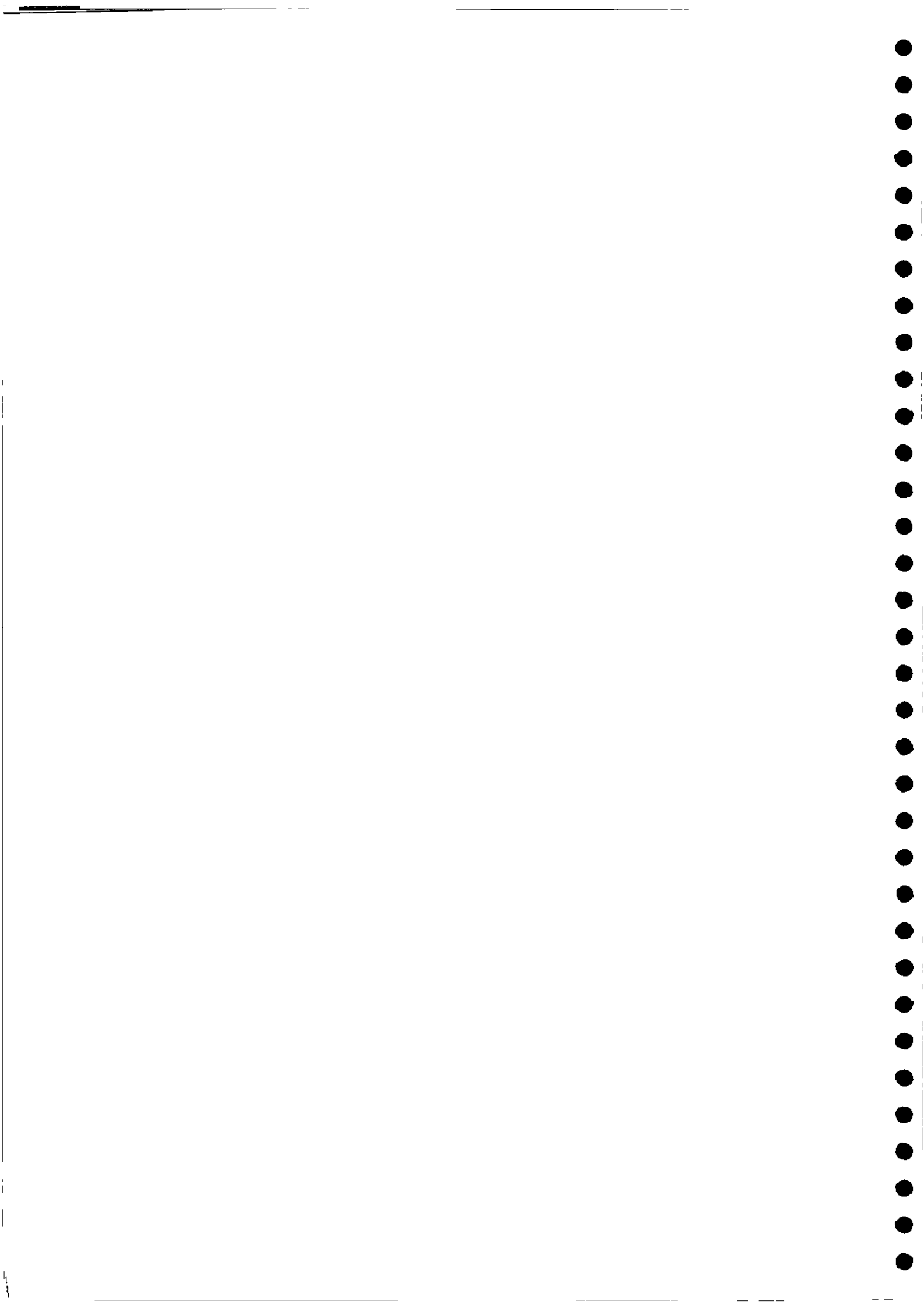
	2011	2010
	'000 USD	'000 USD
Advertising and marketing expenses	99,126	54,042
Wages and salaries	56,779	27,847
Long-term incentive plan compensation	1,206	13,987
Payroll taxes	7,731	5,351
Sales commission	36,792	60,745
Services	12,192	12,079
Bad debt expense	7,505	3,575
Rent	4,411	2,623
Depreciation and amortisation	3,413	2,431
Materials	2,331	1,762
	231,486	184,442

9. Administrative expenses

	2011	2010
	'000 USD	'000 USD
Wages and salaries	38,792	25,798
Long-term incentive plan compensation	1,992	16,750
Payroll taxes	4,360	2,879
Services	32,590	23,616
Travel and entertainment	17,819	10,061
Impairment of intangible assets	7,788	-
Depreciation and amortisation	4,727	2,930
Company events	4,184	3,747
Rent	3,975	2,592
	116,227	88,373

10. Research and development expenses

	2011	2010
	'000 USD	'000 USD
Wages and salaries	52,471	36,636
Long-term incentive plan compensation	(2,267)	14,010
Payroll taxes	6,748	2,755
Services	12,197	12,911
Depreciation and amortisation	6,650	4,337
Rent	5,913	3,636
Materials	1,084	665
	82,796	74,950



11. Other income and expenses

	2011	2010
	'000 USD	'000 USD
Non-recoverable VAT	(16,630)	-
Other expense	(3,181)	(3,336)
Other income	296	2,144
	(19,515)	(1,192)

12. Personnel costs

(a) Personnel remuneration

	2011	2010
	'000 USD	'000 USD
Wages and salaries	163,211	101,691
Long-term incentive plan (refer to note 25(c))	632	47,722
Payroll taxes	20,044	12,753
Contributions to non-mandatory defined contribution pension plans	238	163
	184,125	162,329

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

	2011	2010
Research and development	894	636
Sales and marketing	614	370
General and administrative	564	423
Customer support	226	193
	2,298	1,622

(b) Directors' emoluments

The average number of directors during 2011 was 5 (2010 7) Salaries of the directors of USD 2,602 thousand (2010 USD 2,780 thousand) are included in the personnel costs

The emoluments of the highest paid director were USD 843 thousand (2010 USD 814 thousand) Social taxes paid were USD 152 thousand (2010 USD 27 thousand)

13. Auditors' remuneration

	2011 '000 USD	2010 '000 USD
Audit of these financial statements	101	96
Amounts receivable by auditors and their associates in respect of		
Audit of financial statements of subsidiaries pursuant to legislation	719	583
	820	679

14. Finance income and finance costs

	2011 '000 USD	2010 '000 USD
Finance income		
Net foreign exchange gain	7,519	-
Interest income on bank deposits	5,200	3,826
Other finance gain	724	-
Finance income	13,443	3,826
Finance costs		
Bank commissions	(559)	(521)
Unwinding of discount	(851)	-
Net foreign exchange loss	-	(257)
Other finance loss	(464)	-
Finance costs	(1,874)	(778)
Net finance income recognised in profit or loss	11,569	3,048

	2011 '000 USD	2010 '000 USD
Recognised in other comprehensive income		
Foreign currency translation differences for foreign operations	(8,338)	(1,949)
Finance costs recognised in other comprehensive income, net of tax	(8,338)	(1,949)
Attributable to		
Equity holders of the Company	(8,448)	(1,872)
Non-controlling interest	110	(77)
Finance costs recognised in other comprehensive income, net of tax	(8,338)	(1,949)

15. Income tax expense

The Group's applicable tax rate is the income tax rate of 26.5% for United Kingdom companies

	2011 '000 USD	2010 '000 USD
Current tax expense		
Current period	31,380	39,732
Under/(over)-provided in previous years	36	(1,568)
	31,416	38,164
Deferred tax expense		
Origination and reversal of temporary differences	(19,161)	(14,983)
Under-provided in previous years	-	661
	12,255	23,842

Reconciliation of effective tax rate:

	2011		2010	
	'000 USD	%	'000 USD	%
Profit for the year	29,341	71	54,899	70
Total tax expense	12,255	29	23,842	30
Profit before tax	41,596	100	78,741	100
Tax at applicable domestic tax rate	(11,023)	27	(22,047)	28
Effect of tax rates in foreign jurisdictions	6,035	(13)	2,105	(3)
Non-deductible expenses	(5,689)	13	(4,807)	6
Foreign tax suffered	(10)	0	-	-
Current year losses for which no deferred tax assets were recognised	(3,456)	8	-	-
Recognition of previously unrecognised tax losses	1,924	(6)	-	-
(Over)/under provided in prior years	(36)	0	907	(1)
	(12,255)	29	(23,842)	30

In June 2010 the Chancellor announced that the main rate of UK corporation tax will reduce from 28% to 27% with effect from 1 April 2011. This tax change became substantively enacted in July 2010. In March 2011 the Chancellor announced a further reduction in the main rate of UK corporation tax to 26% with effect from 1 April 2011. This became substantively enacted in March 2011. In July 2011 the Chancellor announced a further reduction in the main rate of UK corporation tax to 25% with effect from 1 April 2012. This became substantively enacted in July 2011. The effect of the reduction on the deferred tax balances as at 31 December 2011 has been included in the figures above and in note 21.

On 21 March 2012 the Chancellor announced a further reduction in the main rate of UK corporation tax by an additional 1% from 1 April 2012 to 24%. The Chancellor also proposed changes to further reduce the main rate of corporation tax by one per cent per annum to 22% by 1 April 2014. These changes have not been substantively enacted and therefore are not included in the figures above. The overall effect of the further reductions from 25 per cent to 22 per cent, if these applied to the deferred tax balance at 31 December 2011, would be to further reduce the deferred tax asset by USD 19 thousand.

16. Earnings before interest, tax, depreciation and amortisation (EBITDA)

	2011 '000 USD	2010 '000 USD
Profit for the year	29,341	54,899
Adjusted for		
Net interest income (interest less discount)	(4,349)	(3,826)
Income tax expense	12,255	23,842
Depreciation and amortisation and impairment	23 655	10,778
	60,902	85,693

The Group's accounting policy on calculating EBITDA is described in note 2(q)

17. Property, plant and equipment

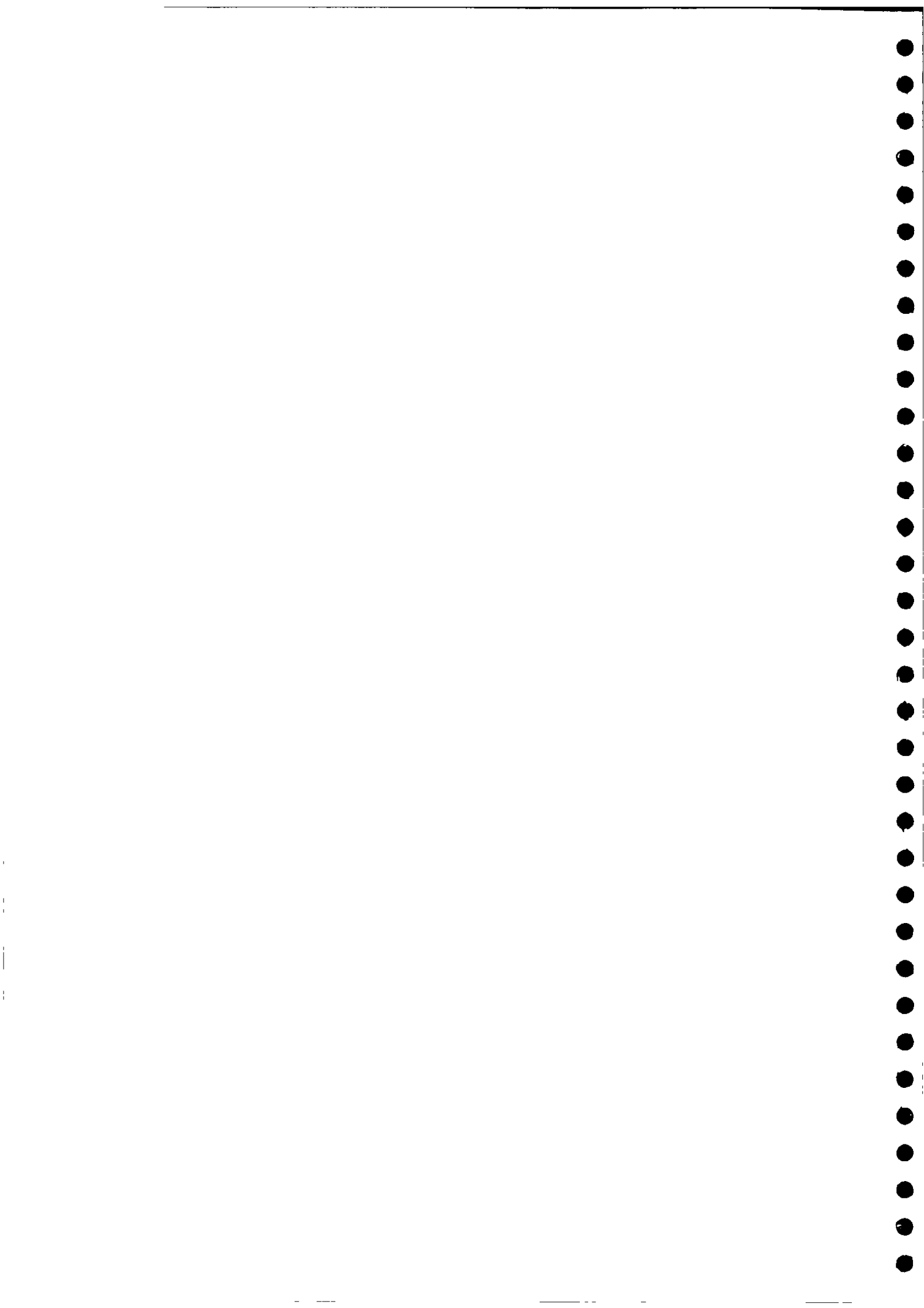
'000 USD	Computer equipment	Fixtures and fittings	Construction in progress	Total
<i>Cost</i>				
Balance at 1 January 2010	18,765	1,926	710	21,401
Additions	3,559	657	7,718	11,934
Acquisitions through business combination	340	101	-	441
Transfers	7,812	609	(8,421)	-
Disposals	(317)	(508)	-	(825)
Translation differences	(268)	(121)	(7)	(396)
Balance at 31 December 2010	29,891	2,664	-	32,555
Balance at 1 January 2011	29,891	2,664	-	32,555
Additions	3,627	2,094	8,787	14,508
Acquisitions through business combination	2,534	1,195	-	3,729
Transfers	8,363	(201)	(8,162)	-
Disposals	(2,269)	(103)	-	(2,372)
Translation differences	(2,041)	(63)	(55)	(2,159)
Balance at 31 December 2011	40,105	5,586	570	46,261
<i>Depreciation</i>				
Balance at 1 January 2010	(7,484)	(933)	-	(8,417)
Depreciation charge	(7,763)	(607)	-	(8,370)
Acquisitions through business combination	(78)	(22)	-	(100)
Disposals	317	508	-	825
Translation differences	238	37	-	275
Balance at 31 December 2010	(14,770)	(1,017)	-	(15,787)
Balance at 1 January 2011	(14,770)	(1,017)	-	(15,787)
Depreciation charge	(10,047)	(1,194)	-	(11,241)
Acquisitions through business combination	(1,384)	(403)	-	(1,787)
Disposals	1,844	103	-	1,947
Transfers	(366)	366	-	-
Translation differences	869	522	-	1,391
Balance at 31 December 2011	(23,854)	(1,623)	-	(25,477)
<i>Net book value</i>				
At 1 January 2010	11,281	993	710	12,984
At 31 December 2010	15,121	1,647	-	16,768
At 31 December 2011	16,251	3,963	570	20,784

Depreciation expense was charged as follows

	2011 '000 USD	2010 '000 USD
Cost of goods sold	867	830
Research and development	4,636	3,334
Distribution expenses	2,673	1,895
Administrative expenses	3,065	2,311
Total depreciation	11,241	8,370

18. Intangible assets

'000 USD	Software licenses and patents	Other intangible assets	Goodwill	Total
<i>Cost</i>				
Balance at 1 January 2010	4,472	622	-	5,094
Additions	5,358	-	-	5,358
Acquisitions through business combination	10	-	3,095	3,105
Transfers	186	(186)	-	-
Translation differences	(78)	(29)	-	(107)
Balance at 31 December 2010	9,948	407	3,095	13,450
Balance at 1 January 2011	9,948	407	3,095	13,450
Additions	8,405	1,282	-	9,687
Acquisitions through business combination	24	4,503	13,672	18,199
Disposals	(5,239)	(10)	-	(5,249)
Translation differences	(755)	73	-	(682)
Balance at 31 December 2011	12,383	6,255	16,767	35,405
<i>Amortisation and impairment losses</i>				
Balance at 1 January 2010	(2,255)	(358)	-	(2,613)
Amortisation charge	(2,328)	(80)	-	(2,408)
Acquisitions through business combination	(3)	-	-	(3)
Transfers	(186)	186	-	-
Translation differences	28	7	-	35
Balance at 31 December 2010	(4,744)	(245)	-	(4,989)



'000 USD	Software licenses and patents	Other intangible assets	Goodwill	Total
Balance at 1 January 2011	(4,744)	(245)	-	(4,989)
Amortisation charge	(4,005)	(621)	-	(4,626)
Acquisitions through business combination	(5)	(5)	-	(10)
Impairment loss	-	(4,497)	(3,291)	(7,788)
Disposals	5,237	10	-	5,247
Translation differences	140	(96)	-	44
Balance at 31 December 2011	(3,377)	(5,454)	(3,291)	(12,122)
Net book value				
At 1 January 2010	2,217	264	-	2,481
At 31 December 2010	5,204	162	3,095	8,461
At 31 December 2011	9,006	801	13,476	23,283

(a) **Impairment loss**

The impairment loss is recognised in general and administrative costs in the statement of comprehensive income

Impairment loss of USD 4,497 thousand was recognised in respect of a distribution agreement acquired as a part of one of the business combinations during 2011. The loss was recognised due to the deterioration of the market conditions in the region, which the acquiree operates in, subsequent to the acquisition. The carrying value of the distribution agreement was reduced to zero as a result of this impairment.

Impairment loss of USD 3,291 thousand represents goodwill not recognised as a result of an acquisition made by the Group during 2011 because the cash flows expected to be generated by the acquire do not support the value of the goodwill.

19. Equity accounted investees

The Group's share of profit in its equity accounted investees for the year was USD 4 thousand (2010 USD 7 thousand) In 2011 and 2010 the Group did not receive dividends from any of its investments in equity accounted investees

The following is summarised financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group

'000 USD	Reporting date	Ownership	Total assets	Total liabilities	Revenue	Profit	Group share of net assets	Group share of profit
2010								
ZAO Infowatch	31/12/2010	26%	5,910	(5,554)	4,545	29	92	7
2011								
ZAO Infowatch	31/12/2011	26%	6,738	(6,366)	4,935	16	96	4

20. Other investments

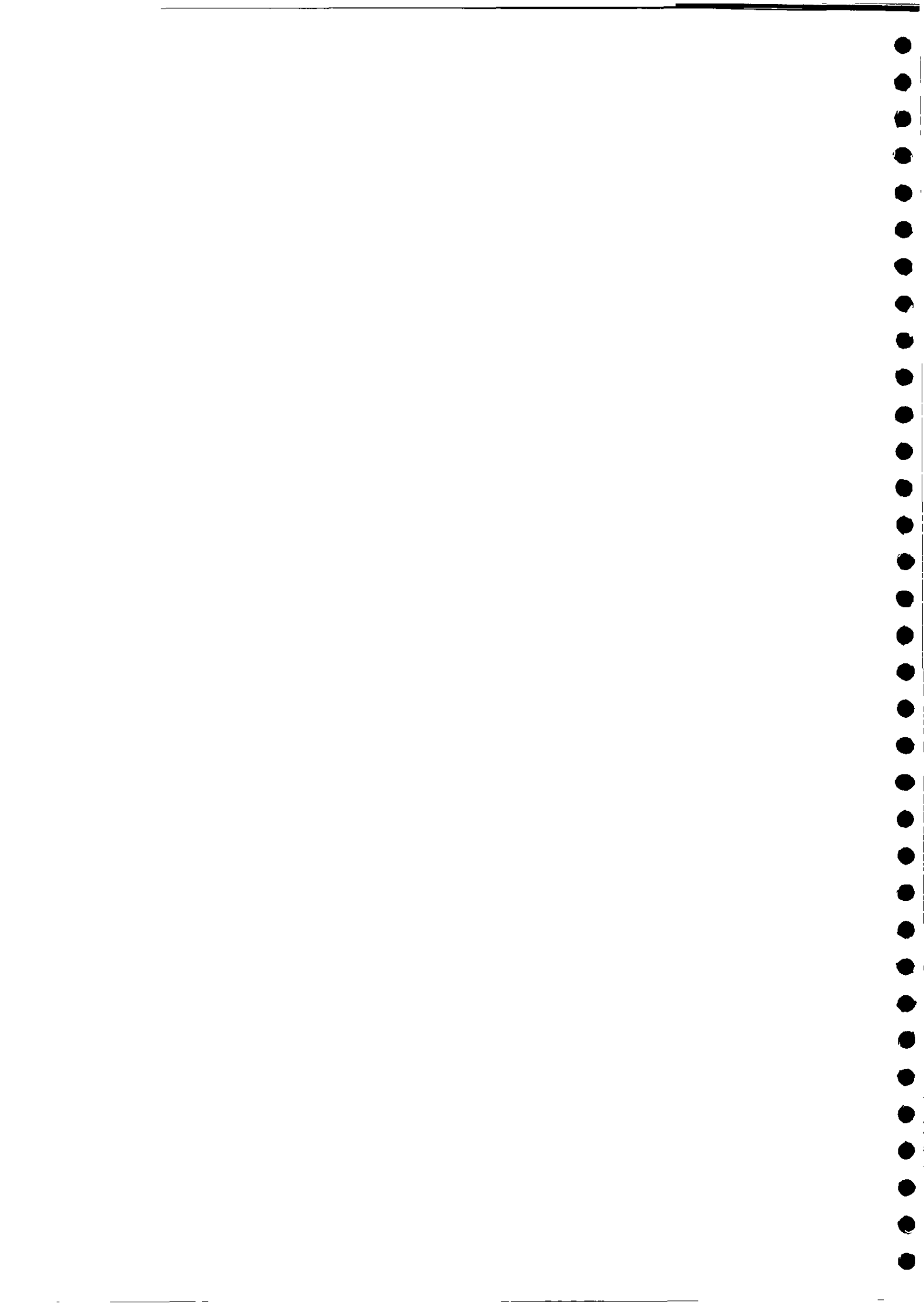
	2011 '000 USD	2010 '000 USD
Non-current bank deposits		
in USD, variable rates of 0.6-4.0% p.a.	7,011	9,062
in RUB, variable rates of 4.0-6.0% p.a.	5,109	-
	12,120	9,062
Current bank deposits		
in EUR, fixed rates of 0.7-1.3% p.a.	15,107	38,379
in USD, fixed rates of 1.0-3.5% p.a.	98,090	146,309
in RUB, fixed rates of 5.6-7.6% p.a.	5,742	24,745
- Security deposit for a bank guarantee in EUR	-	3,309
	118,939	212,742
Current other investments		
Other investments	2,134	-
Loans to other related parties (refer to note 30(c)(iii))	1,458	1,422
	3,592	1,422

As at 31 December 2011 the bank deposits denominated in Euro mature in March and June 2012, those denominated in Russian Roubles mature in March and April 2012 and those denominated in US Dollars mature in January and March and September 2012. The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 27.

21. Deferred tax assets and liabilities

(a) Unrecognised deferred tax liabilities

Deferred tax liabilities of USD 43,057 thousand (2010: USD 36,719 thousand), relating to investments in subsidiaries have not been recognised as the Group is able to control the timing of reversal of the relevant differences, and reversal is not expected in the foreseeable future.



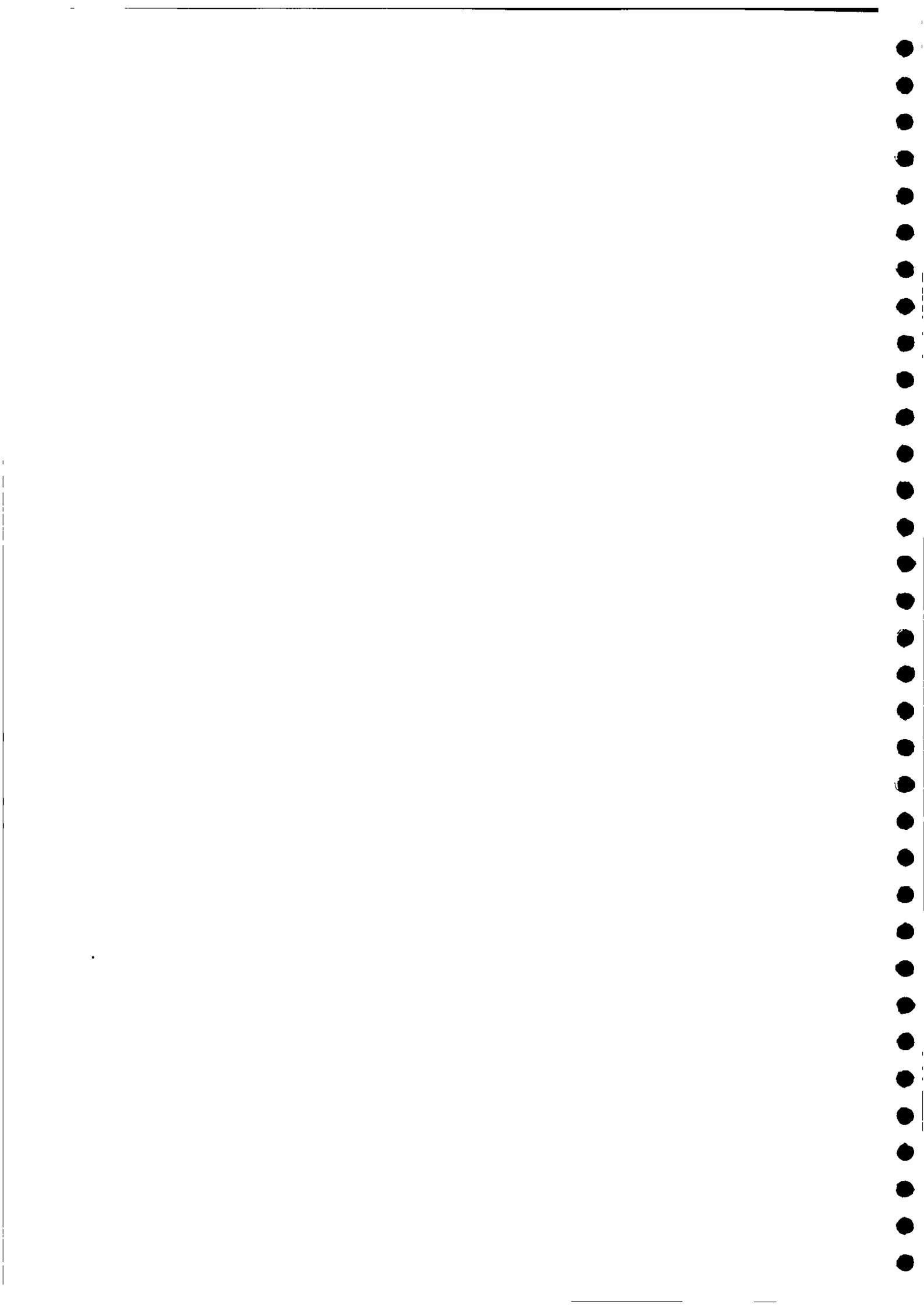
(b) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following

'000 USD	Assets		Liabilities		Net	
	2011	2010	2011	2010	2011	2010
Intangible assets	-	-	(444)	-	(444)	-
Trade and other receivables	1,874	949	-	-	1,874	949
Deferred revenue	34,475	26,582	(2,075)	-	32,400	26,582
Trade and other payables	11,061	12,907	(103)	-	10,958	12,907
Tax losses carried-forward	12,748	-	-	-	12,748	-
Other items	-	-	(7)	(5)	(7)	(5)
Tax assets/(liabilities)	60,158	40,438	(2,629)	(5)	57,529	40,433
Set off of tax	(444)	-	444	-	-	-
Net tax assets/(liabilities)	59,714	40,438	(2,185)	(5)	57,529	40,433

(c) Movement in temporary differences during the year

'000 USD	1 January 2011	Recognised in profit or loss	Translation difference	31 December 2011
Intangible assets	-	(487)	43	(444)
Trade and other receivables	949	935	(10)	1,874
Deferred revenue	26,582	8,075	(2,257)	32,400
Trade and other payables	12,907	(2,108)	159	10,958
Tax losses carried-forward	-	12,748	-	12,748
Other items	(5)	(2)	-	(7)
	40,433	19,161	(2,065)	57,529



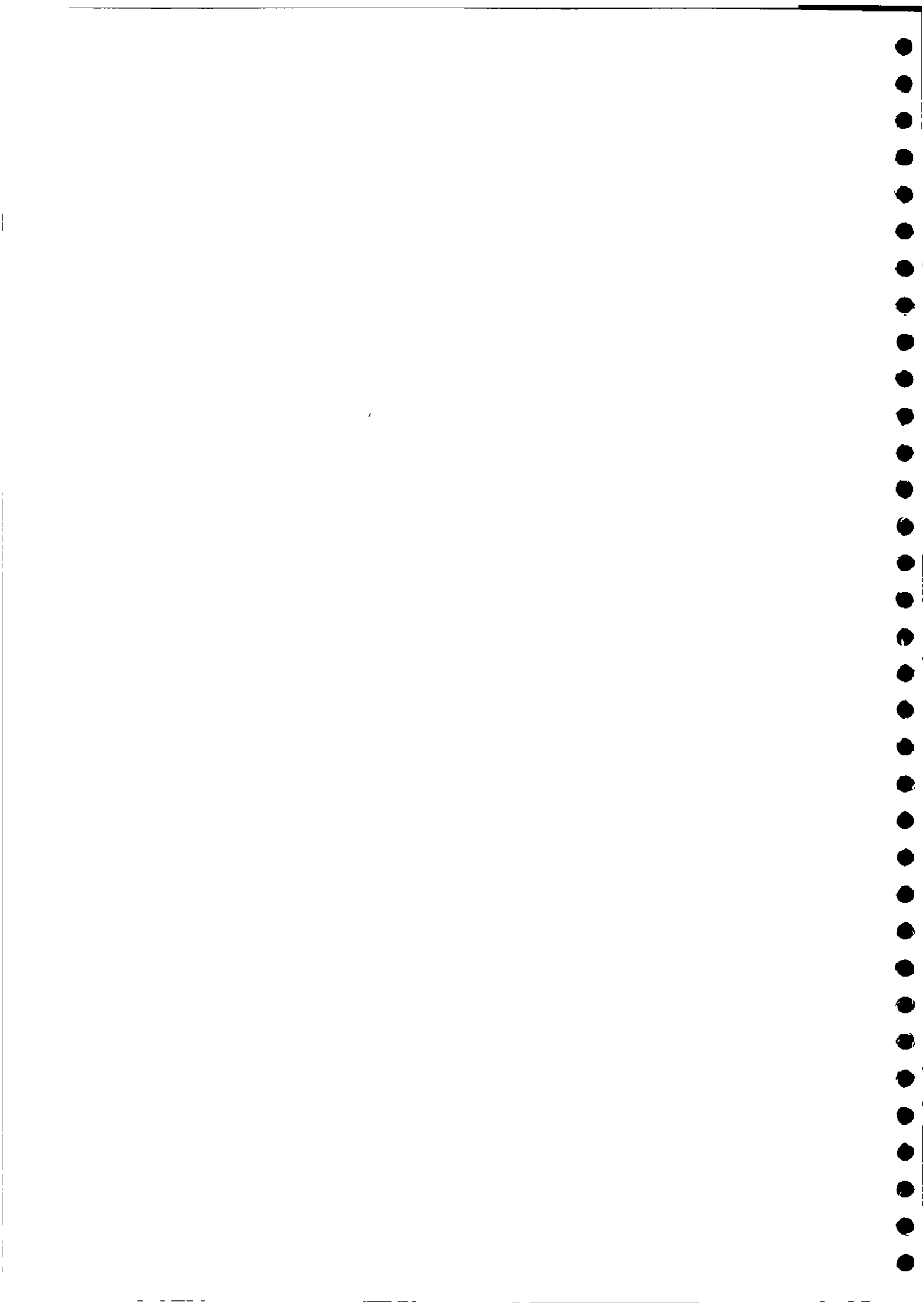
'000 USD	1 January 2010	Recognised in profit or loss	Translation difference	Acquired in business combination	31 December 2010
Property, plant and equipment	(26)	26	-	-	-
Intangible assets	(80)	74	6	-	-
Trade and other receivables	365	782	(198)	-	949
Deferred revenue	23,704	3,093	(215)	-	26,582
Trade and other payables	1,854	11,009	(196)	240	12,907
Tax loss carry-forwards	661	(661)	-	-	-
Other items	(4)	(1)	-	-	(5)
	26,474	14,322	(603)	240	40,433

22. Inventories

	2011 '000 USD	2010 '000 USD
Finished goods and goods for resale	4,251	2,315
Product components and consumables	3,025	878
Provision for obsolescence	(1,242)	(214)
	6,034	2,979

23. Trade and other receivables

	2011 '000 USD	2010 '000 USD
Trade receivables from third parties	223,356	144,151
Deferred expenses	8,256	-
Office lease deposits	6,470	-
Prepaid taxes (other than corporate profit taxes)	1,187	5,298
Non-interest bearing receivables from shareholders payable on demand (refer to note 30(c)(iii))	1,056	1,116
Trade receivables from other related parties (refer to note 30(c)(i))	711	61,661
Other receivables from related parties	155	164
Other receivables	4,167	2,530
Provision for bad and doubtful debts	(16,463)	(13,746)
	228,895	201,174



The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 27

24. Cash and cash equivalents

'000 USD	2011	2010
Petty cash	33	24
Bank balances	59,629	31,300
Call deposits	155,765	48,323
Cash and cash equivalents in the statement of financial position and in the statement of cash flows	215,427	79,647

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 27

25. Capital and reserves

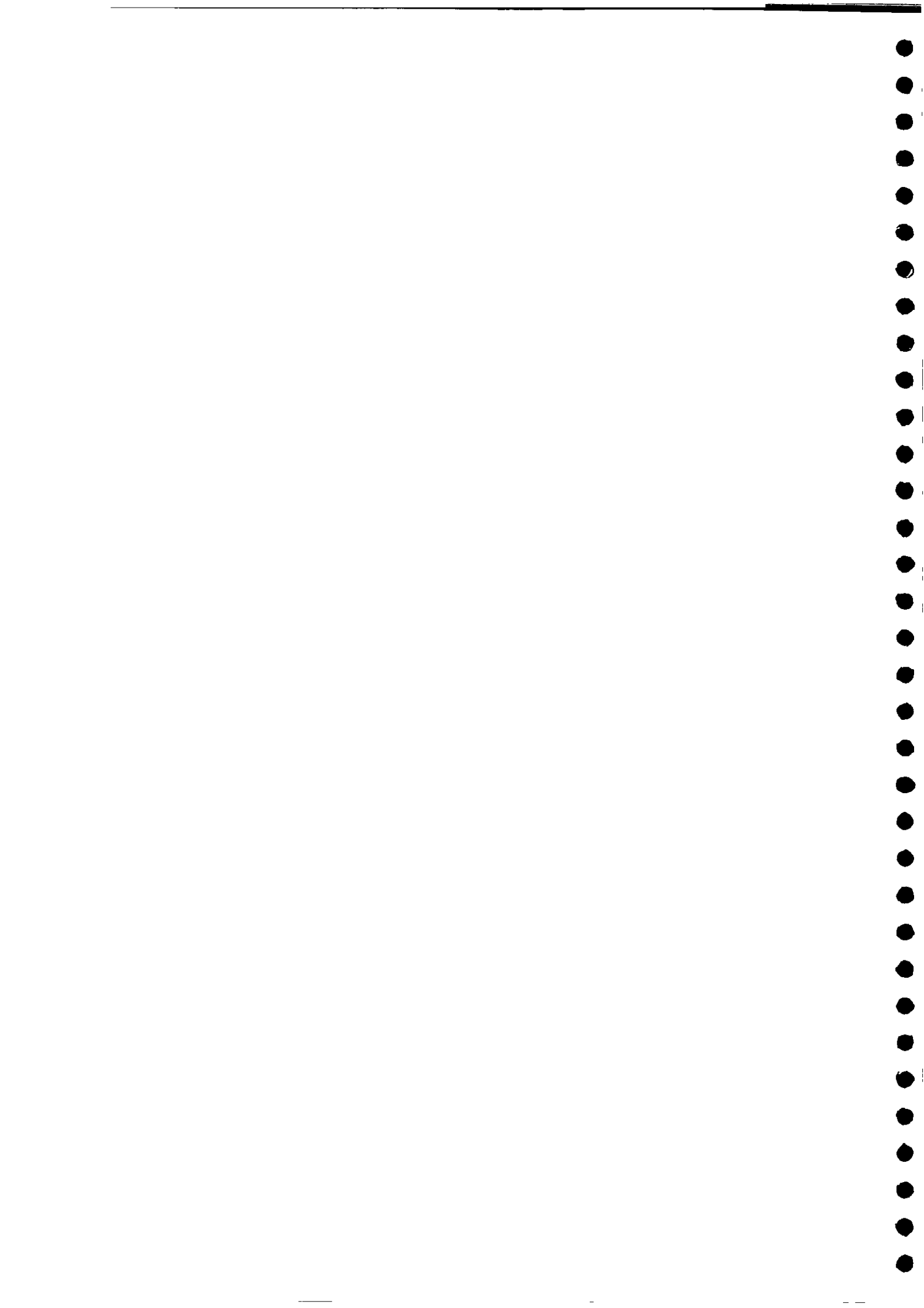
(a) Share capital and share premium

<i>Number of shares unless otherwise stated</i>	Ordinary shares		Preference shares	
	2011	2010	2011	2010
Authorised shares	110,000,000	110,000,000	5,417,053	-
Par value	GBP 0 00001	GBP 0 00001	GBP 0 00001	GBP 0 00001
Shares authorised, not issued at the beginning of the year	(14,700,000)	(14,700,000)	-	-
Share allotment	503,115	-	5,417,053	-
Share cancellation	(900,000)	-	-	-
On issue at 31 December, fully paid	94,903,115	95,300,000	5,417,053	-

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

In February 2011 the Company issued preference shares, as a separate class of shares for a consideration of up to USD 75,000 thousand, of which USD 10,000 thousand was received in cash on issue of the shares, USD 50,000 thousand was receivable in cash at a later date and USD 15,000 thousand is receivable under certain conditions within 5 years of the date of issue of the preference shares. The preference shares carry voting rights and, other than set out below, are in all respects the same as ordinary shares

- The preference shares rank ahead of ordinary shares in the event of a liquidation, winding up or other return of capital by the Company and the holder of preference shares are entitled in priority to any holder of any other class of shares to receive an amount equal to the



subscription price that has been paid to the Company in respect of each preference share at the relevant time

- The preference shares carry certain built-in protection rights to the effect that the holder of the shares recovers its initial investment during 5 years following the issuance of the shares under certain circumstances
- If no protection rights are called on by the holder of the preference shares on an initial public offering or the sale of a controlling stake in the Company, the preference shares are to be converted into ordinary shares on a one for one basis

Due to the protection rights of the holders of the preference shares, these shares are considered compound financial instrument. The portion of the consideration for the issued preference shares, which was received during 2010, was allocated to the financial liability and equity components. The financial liability component of USD 4,668 thousand as at the date of the share issue was determined as the present value of the consideration received which may be repayable in 5 years' time net of transaction costs. The present value was determined using the discount rate of 10% p.a., which reflects the time-value of money and the risk profile of the Group. The equity element of the carrying value of the shares of USD 2,849 thousand represents the difference between the nominal value of the consideration received of USD 10,000 thousand, net of transactional costs, and its portion allocated to the financial liability component.

All preference shares were re-purchased and redeemed subsequent to the reporting date.

(b) Dividends

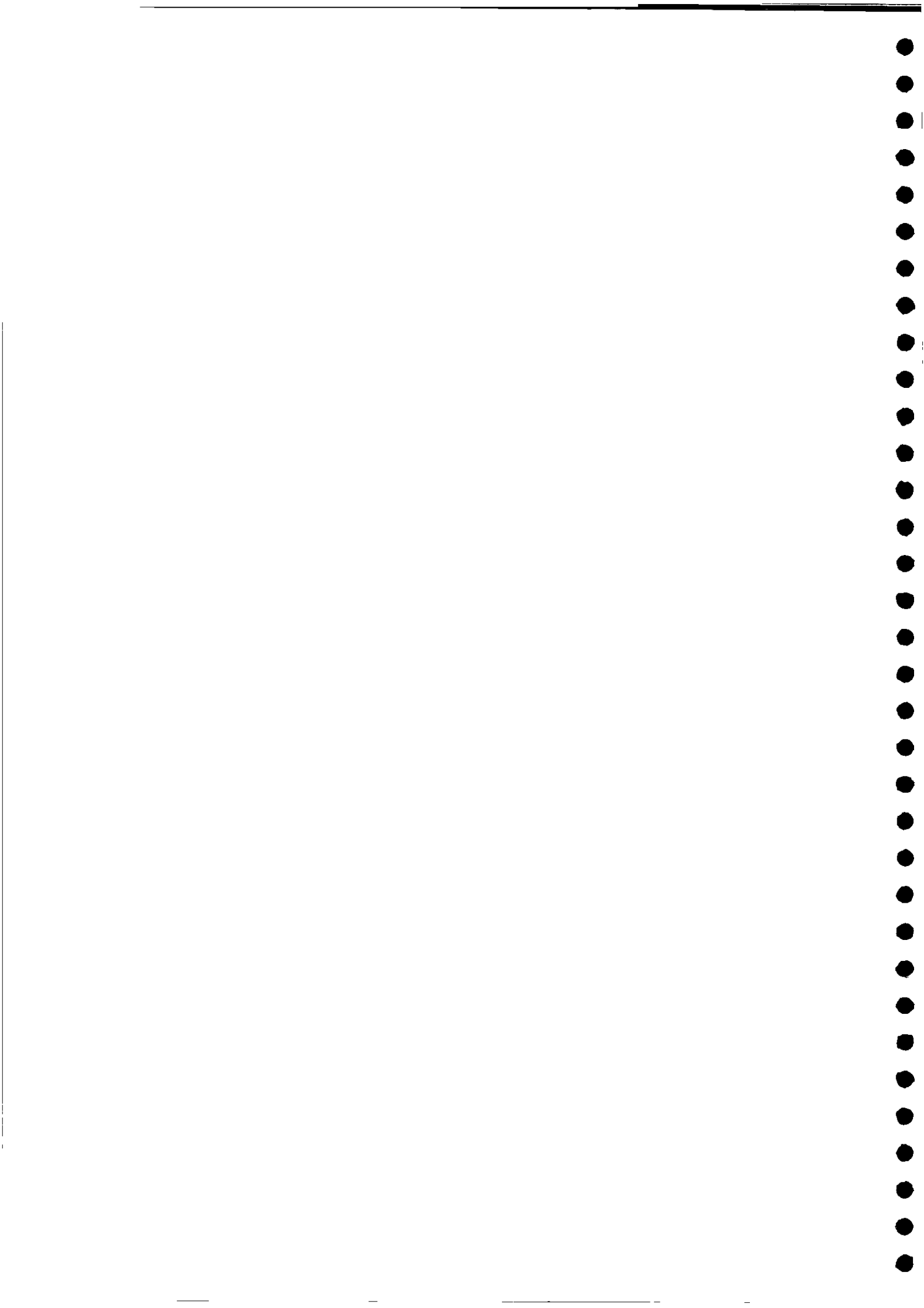
In accordance with UK legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with the UK accounting principles.

(c) Share-based compensation

(i) Long-term incentive plan for employees of the Group

During 2010 the Group adopted a long-term incentive plan, according to which employees of the Group taking part in the arrangement were granted in August 2010 with share options giving them the right to acquire a fixed quantity of the ordinary shares of Kaspersky Labs Limited to be issued by the Company for a fixed price of USD 8 per share. The exercise price was the same for all share options issued during 2010 under the share based compensation plan. The options vest in tranches in June 2011, June 2012 and June 2013. Simultaneously the participants of the arrangement acquire the right for a deferred cash compensation payable in tranches near the option vesting and exercise dates in 2011, 2012 and 2013. The participants may elect to utilise the amounts of the deferred cash compensation to pay for the shares acquired as a result of the options exercise. Due to the cash alternative the awards are compound financial instruments.

The only vesting condition for each of the tranche for both the share options and deferred cash compensation is the service condition of the continuing employment with the Group from the grant date of the options till the vesting date of the relevant tranche. The long-term incentive plan does not stipulate performance conditions for the vesting.



The standard vesting period for each tranche under the plan approximates three years and a half. E.g. share options and deferred cash compensation vesting in 2013 corresponds to the service from 1 January 2010 till June 2013. Accordingly, the tranches vesting in 2012 and 2011 correspond to the services provided from 1 January 2009 till June 2012 and from the inception of the Group till June 2011, respectively. The total expense (excluding the relevant payroll tax accruals) recognised in respect of the long-term incentive plan during 2011 amounts to USD 5,482 thousand (2010: USD 35,668 thousand). The long-term incentive plan was adopted during 2010, and the total charge for 2010 includes a portion of the expense relating to the service prior to 1 January 2010 of USD 23,055 thousand. Pursuant to the Group accounting policy (note 2(j)(ii)) this expense was recorded with a corresponding increase in equity and liabilities of USD 6,503 thousand and USD 29,855 thousand, respectively.

No options were issued to the employees of the Group during 2011 (2010: 5,337,625). The total number of options exercised and forfeited during 2011 is 497,115 and 2,272,885, respectively (2010: nil). Cash received from the exercise of the options during 2011 amounts to USD 3,977 thousand. The total number of share options outstanding as at 31 December 2011 is 2,788,750 (2010: 5,337,625).

The fair value of options at the grant date was estimated at USD 1.49, USD 2.18 and USD 2.70 per option – for the options vesting in June 2011, June 2012 and June 2013, respectively. In determining the fair values of the options management used Black Scholes option valuation model with the following key inputs:

- The fair value of the shares as at the valuation date was considered to approximate USD 8 per share. The valuation date was 19 August 2010 as this was the grant date of the options. This estimate was made with a reference to arms' length transactions with the Company's shares, which occurred near the valuation dates, as well as using multiples of market capitalisation to revenue and EBITDA for comparable companies, whose shares are traded on internationally recognised stock exchanges.
- The exercise price of USD 8 per share is the same for all options issued during 2010.
- The expected term used to value the options was 316 days, 682 days and 1,047 days for the options vesting in June 2011, June 2012 and June 2013, respectively.
- The risk-free interest rate used in the model is the UK government bond yields as at the grant date with a maturity consistent with the options' term – 0.585% p.a., 0.6486% p.a., 0.9544% p.a. for the options vesting in June 2011, June 2012 and June 2013, respectively.
- Volatility assessment in the range of 45% to 55%, depending on the vesting date of the options, was based on the average historical volatility over a period consistent with the expected terms of the options for a basket of comparative listed companies.
- Dividend yield was assumed to equal 0% due to the lack of long history of dividend payments and uncertainty over payment of dividends over the option period.

(ii) Long-term incentive plan for employees of entities outside the Group

During 2010 the Group adopted a long-term incentive plan for employees of certain entities outside of the Group, which provide various services to the Group ("Participating Entities") Under this plan the Participating Entities granted to its employees options to acquire a fixed quantity of the ordinary shares of Kaspersky Labs Limited to be issued by the Company for a fixed price of USD 8 per share The options vest in tranches in June 2011, June 2012 and June 2013 Simultaneously the participants of the arrangement acquire the right for a deferred cash compensation payable in tranches near the vesting dates in 2011, 2012 and 2013 The terms and conditions of this plan are similar to the arrangement described in note 25(c)(i) with the exception of the fact that the entity, which employs the participants of the arrangement, were not subsidiaries of the Company as at the option grant date

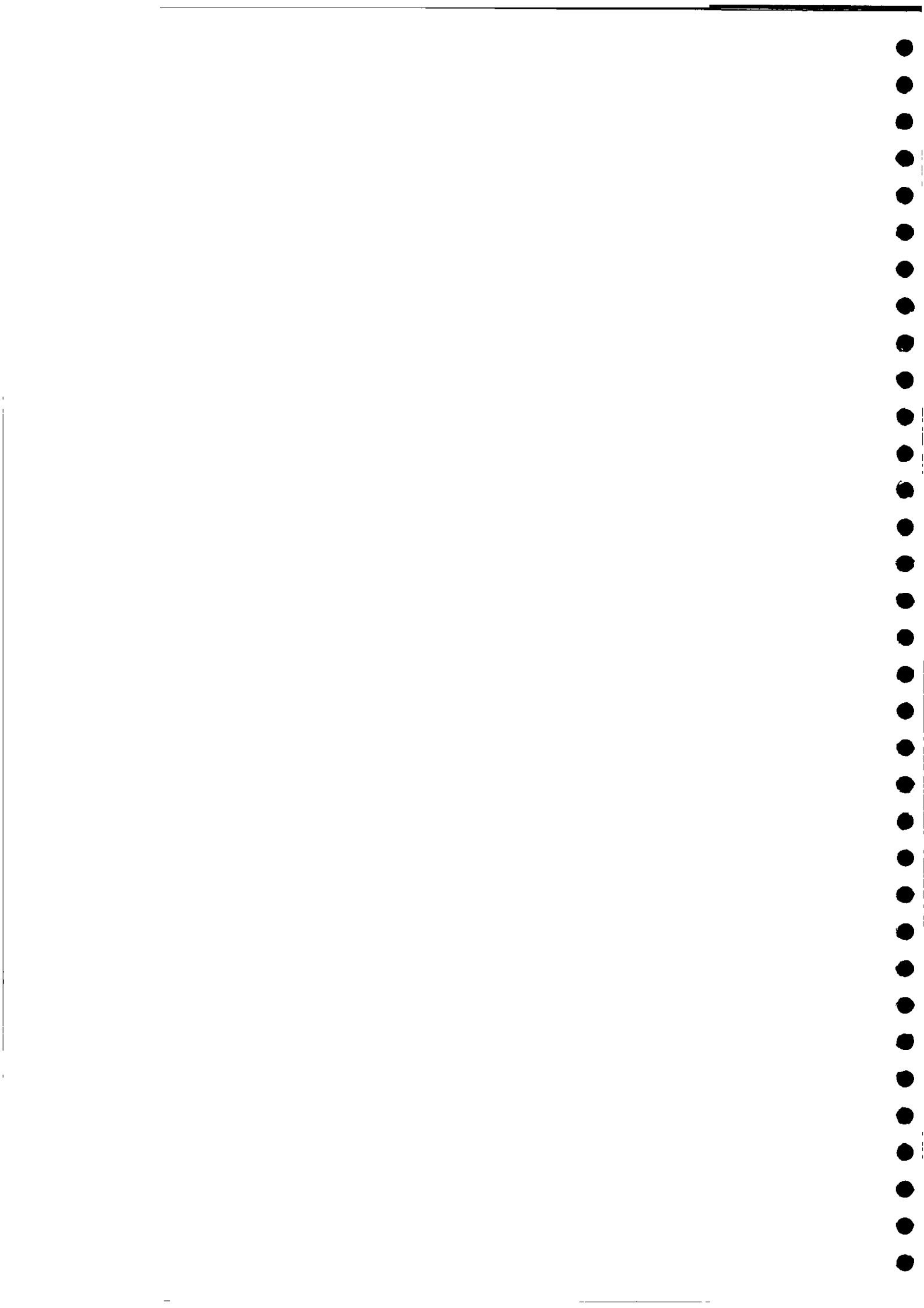
The Company undertakes an obligation to issue ordinary shares and sell them to the Participating Entities, for a consideration which is greater of USD 8 per share and the fair market value of the shares as at the date of the transaction

The Participating Entities providing services to the Group recharge the cost of their services to the entities of the Group, which includes the cost of the long-term incentive plan In this connection the Group recorded in its Consolidated Statement of Comprehensive income for the year ended 31 December 2010 an expense for the estimated recharge in respect of the long-term incentive plans of the Participating Entities for USD 1,197 thousand (2010 USD 7,336 thousand) As described in note 25(c)(i), part of the compensation under the plan for 2010 relates to prior period services, which resulted in USD 4,292 thousand of compensation relating to the service prior to 1 January 2010 being expensed during 2010

Cash received from the exercise of the options by employees of entities outside the Group during 2011 amounts to USD 48 thousand

(iii) Long-term incentive plan -2011

The Group intends to grant a second tranche of options and deferred bonuses during 2012 This tranche was not formalised as at the reporting date, but the Group's intent to reward the eligible employees is firm and this intent was communicated to the relevant employees The expenses accrued under this plan in 2011 refer to the service during 2011 (USD 1,959 thousand) and prior periods (USD 3,919 thousand) Until the formalisation of the plan the expenses were accrued with a corresponding increase in liabilities



26. Trade and other payables

	2011 '000 USD	2010 '000 USD
Non-current:		
Payables to related parties (refer to notes 30(c)(ii) and 30(c)(iii))	6,323	-
Other non-current liabilities	3,040	-
	9,363	-
Current:		
Accrued expenses	62,038	26,060
Trade payables to third parties	25,015	7,542
Payables to employees	28,276	53,773
Other taxes payable	4,232	1,035
Trade advances received	4,168	4,622
Provision for sales returns	4,173	1,200
Social taxes payable	1,762	2,027
Trade payables to related parties	-	27,121
Other payables	1,448	568
	131,112	123,948

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 27

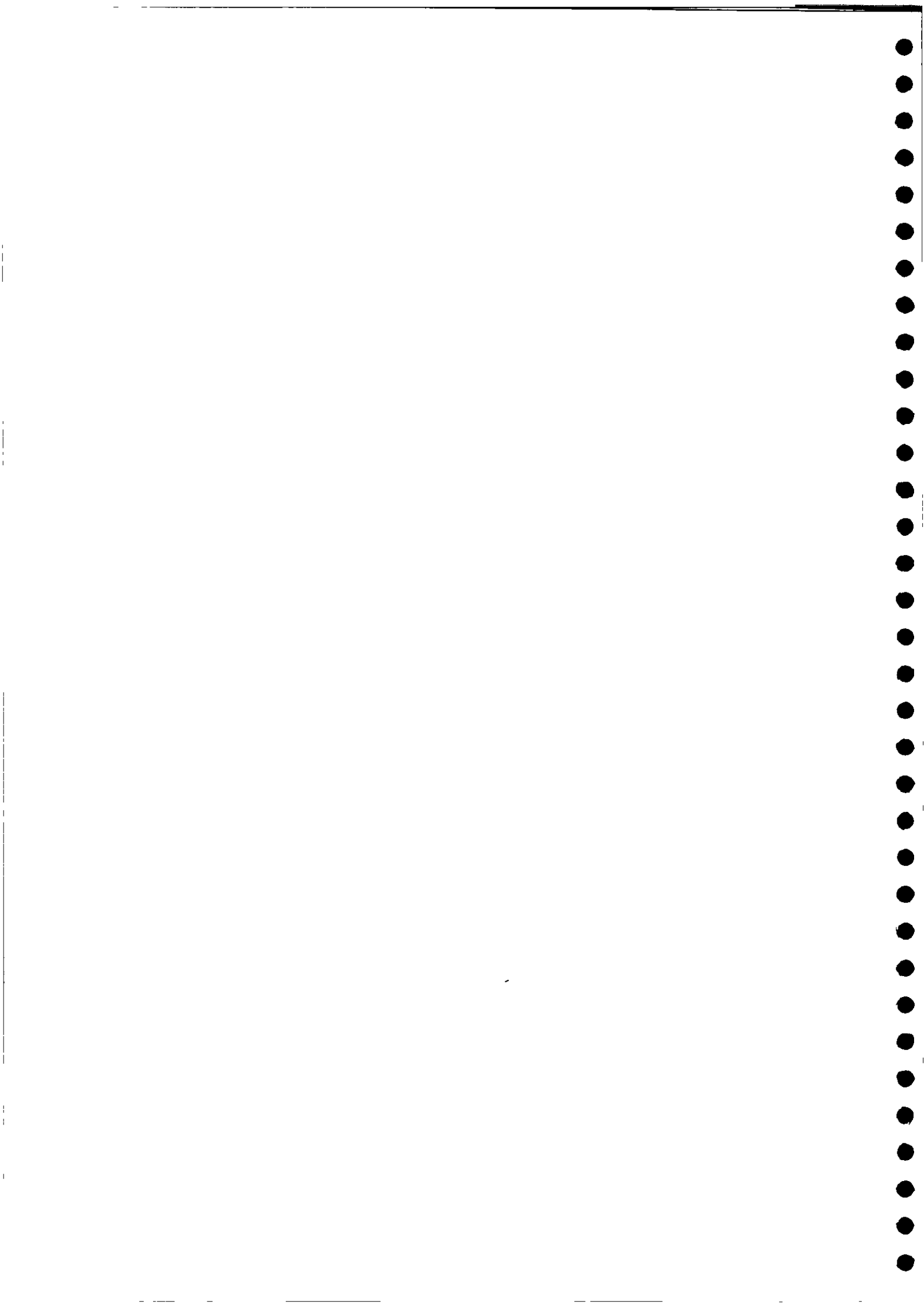
27. Financial instruments and risk management

(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 Audit Committee has the overall responsibility for establishing and overseeing the Group's risk management framework. Day-to-day risk management functions are carried out by the management of the Group.

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

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

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

(b) Credit risk

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

(i) Trade and other receivables

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

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

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

(u) Investments

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

(iii) **Exposure to credit risk**

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

'000 USD	Carrying amount	
	2011	2010
Loans and receivables, including bank deposits	351,434	416,408
Cash and cash equivalents	215,427	79,647
	566,861	496,055

Included in the above maximum amounts of exposure to credit risk are cash and cash equivalents of USD 215,427 thousand (2010: USD 79,647 thousand) and bank deposits of USD 131,059 thousand (2010: USD 221,804 thousand), which are placed with financial institutions with good credit rating. Most of the balance of the exposure of credit risk is made of trade accounts receivable, which are described below.

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

'000 USD	Carrying amount	
	2011	2010
North America	72,939	56,143
Europe	68,550	78,394
CIS and Baltic	41,818	31,154
Far East and Pacific	22,415	24,780
Middle East and Africa	12,117	9,485
South America	6,228	5,856
	224,067	205,812

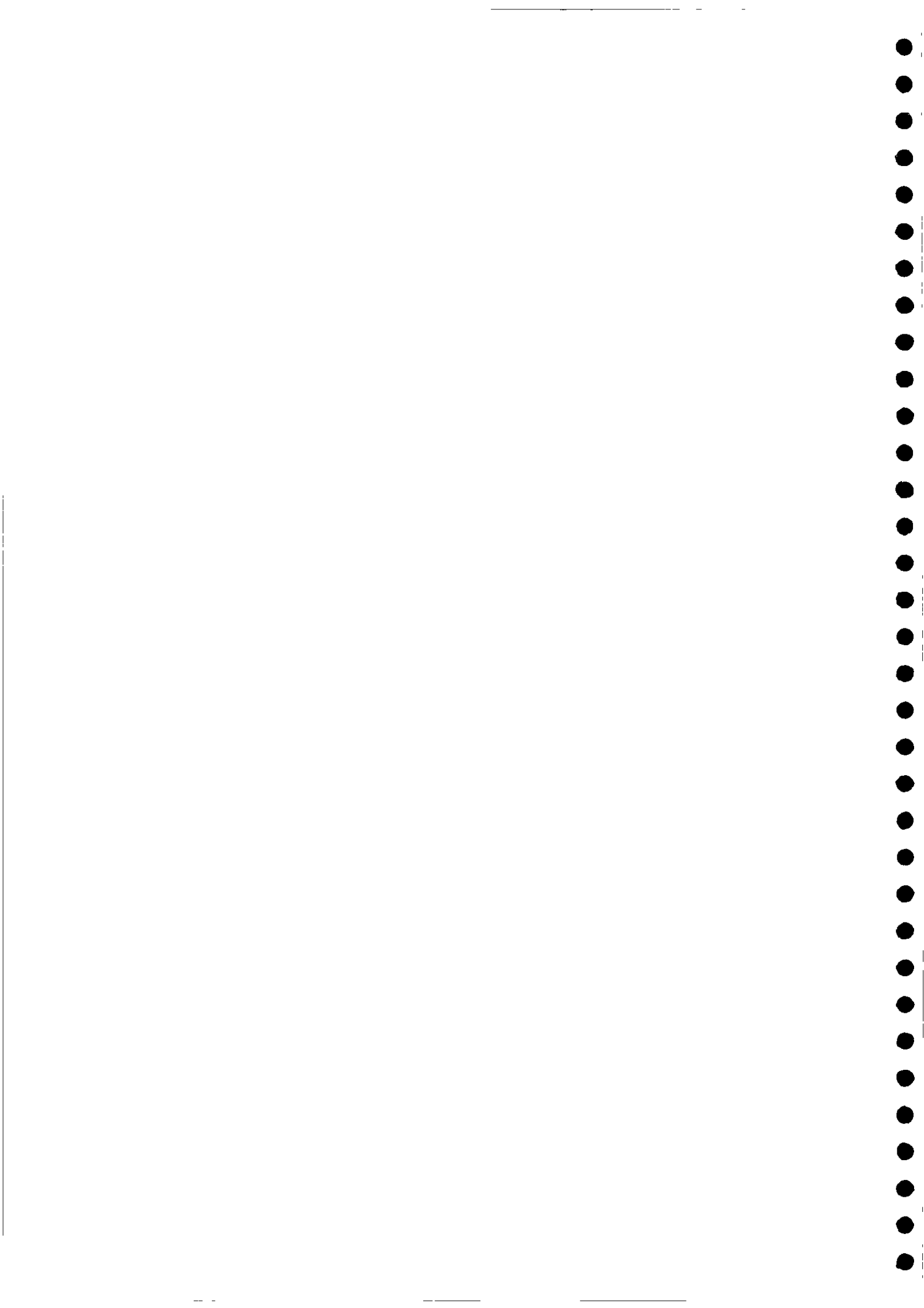
Impairment losses

'000 USD	Gross 2011	Impairment 2011	Gross 2010	Impairment 2010
Debtor days are less or equal the standard payment terms				
- receivables from exclusive distributors	-	-	51,778	-
- receivables from other parties	85,507	(45)	30,160	-
Debtor days exceed the standard payment terms by 0-60 days				
- receivables from exclusive distributors	-	-	1,535	-
- receivables from other parties	75,371	(2,062)	50,759	(630)
Debtor days exceed the standard payment terms by 61-120 days				
- receivables from exclusive distributors	-	-	-	-
- receivables from other parties	28,240	(3,030)	27,451	(1,481)
Debtor days exceed the standard payment terms by 121-365 days				
- receivables from exclusive distributors	-	-	1,784	-
- receivables from other parties	23,190	(3,299)	19,184	(3,774)
Debtor days exceed the standard payment terms by more than 365 days				
- receivables from exclusive distributors	711	-	9,097	(993)
- receivables from other parties	11,048	(8,027)	14,064	(6,868)
	224,067	(16,463)	205,812	(13,746)

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

	2011 '000 USD	2010 '000 USD
Balance at beginning of the year	13,746	14,784
Bad debt expense	7,505	3,575
Write-off	(4,213)	(5,527)
Translation difference	(575)	914
Balance at the end of the year	16,463	13,746

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in respect of trade receivables. The main component of this allowance is the specific loss component relating to individually significant exposures. Doubtful accounts receivable are analysed individually, on a case by case basis. Special attention is paid to receivables past due by more than 60 days. Those balances which the Group considers to be irrecoverable are provided for



The allowance account in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible, at that point the amount is considered irrecoverable and is written off against the financial asset directly

(c) Liquidity risk

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

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

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

(d) Market risk

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

(e) Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Russian Rouble (RUB), U S Dollars (USD) and EUR. The currencies in which these transactions primarily are denominated are Sterling (GBP), USD and EUR.

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

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

Exposure to currency risk

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

'000 USD	GBP- denominated 2011	USD- denominated 2011	EUR- denominated 2011	GBP- denominated 2010	USD- denominated 2010	EUR- denominated 2010
Current assets						
Receivables	7,866	69,799	7,632	6,747	111,830	6,658
Cash and cash equivalents	3,561	116,703	3,389	662	17,279	1,767
Investments	-	105,102	11,837	-	163,503	29,248
Current liabilities						
Payables	(3,500)	(25,746)	(30)	(5,594)	(73,689)	(298)
	7,927	265,858	22,828	1,815	218,923	37,375

The following significant exchange rates applied during the year

in USD	Average rate		Reporting date spot rate	
	2011	2010	2011	2010
RUB 1	0 0340	0 0329	0 0311	0 0328
EUR 1	1 3915	1 3239	1 2943	1 3234
GBP 1	1 6029	1 5448	1 5416	1 5507

Sensitivity analysis

A 20% strengthening of the USD against the following currencies at 31 December would have increased/(decreased) equity and profit/(loss) expressed in the Group's presentational currency by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010.

	Equity '000 USD	Profit or (loss) '000 USD
2011		
EUR	24,458	32,167
RUB	(21,197)	3,550
GBP	(1,165)	(1,165)
2010		
EUR	18,875	23,525
RUB	(18,299)	2,518
GBP	(261)	(261)

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

(f) Interest rate risk

The Group's interest rate risk arises from investments and bank deposits. As these represent fixed rate financial assets, changes in interest rate impact primarily their fair values. The Group did not use any variable rate financial instruments during 2011 and 2010. 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.

(i) 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 131,059 thousand (2010: USD 221,804 thousand).

(ii) 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.

(iii) Fair values versus carrying amounts

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

The basis for determining fair values is disclosed in note 2.

(g) 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, other than statutory general capital adequacy requirements.

28. Operating leases

Non-cancellable operating lease rentals are payable as follows:

'000 USD	2011	2010
Less than one year	14,261	9,075
Between one and five years	15,109	15,548
More than five years	3,674	4,971
	33,044	29,594

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

During the current year USD 15,878 thousand was recognised in the statement of comprehensive income in respect of operating leases (2010: USD 9,797 thousand).

29. 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 any litigation, which would give rise to material contingent liabilities.

(c) Taxation contingencies

Some of the Group's significant subsidiaries operate in the Russian Federation. The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years. Since the Group's most significant subsidiary in Russia was subject to a review by the tax authorities up to 31 December 2010, the one year this subsidiary is open for tax review as at the reporting date is the year ended 31 December 2011. However, under certain

circumstances a tax year may remain open longer than the three subsequent calendar years and the tax authorities may revert to reviewing a tax year which was reviewed previously. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

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 risk of the Group

Management considers that the following specific risk exists in respect of the Group's tax position:

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. While this entity is incorporated in the UK, it carried out some of its activities outside the UK and there is a risk that tax authorities outside the UK may also seek to establish that the entity is liable for tax. Due to the unusual circumstances of this situation and the lack of developed procedures to establish any such liability, the directors are unable to assess the amount of tax which might be payable. Management believes that such a claim by a tax authority outside the UK is unlikely to be successful. According to the Group's accounting policies (note 2(k)), Management has recognised no income tax provision in respect of this matter because Management believes that it is possible, but not probable, that an outflow of economic benefits will be required to settle the obligation. In addition, because of double tax treaties between the UK and the relevant countries, any profits tax payable in a jurisdiction other than the UK should be capable of being offset against the relevant UK tax liabilities.

30. 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 65% of the Company's ordinary shares (2010: 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 12)

	2011 '000 USD	2010 '000 USD
Salaries and bonuses	6,486	16,122
Payroll taxes	1,137	244
	7,623	16,366

(ii) Other transactions

Refer to note 30(c)(iv) 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 2011	Transaction value 2010	Outstanding balance 2011	Outstanding balance 2010
Royalties from				
Entities owned or managed by members of the Group's Board of Directors	4,459	55,375	711	61,661
Sale of shares				
Shareholders/directors, who are part of key Management personnel	3,491	-	-	-
Other operations with				
Directors (refer to note 30(c)(iv))	-	-	1,056	1,116
	7,950	55,375	1,767	62,777

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

(ii) Expenses

'000 USD	Transaction value 2011	Transaction value 2010	Outstanding balance 2011	Outstanding balance 2010
Services received				
Services from entities owned or managed by members of the Group's Board of Directors	(7,948)	(42,038)	-	(27,121)
Prepayments made for the above services	-	-	271	486
Purchase of own shares from a shareholder/director	(7,200)	-	-	-
Acquisition of subsidiaries from a director	(3,382)	(3,200)	-	-
Other operations with shareholders	(886)	-	(886)	-
	(19,416)	(45,238)	(615)	(26,635)

Balances due to related parties for services received are to be settled in cash within six months of the reporting date

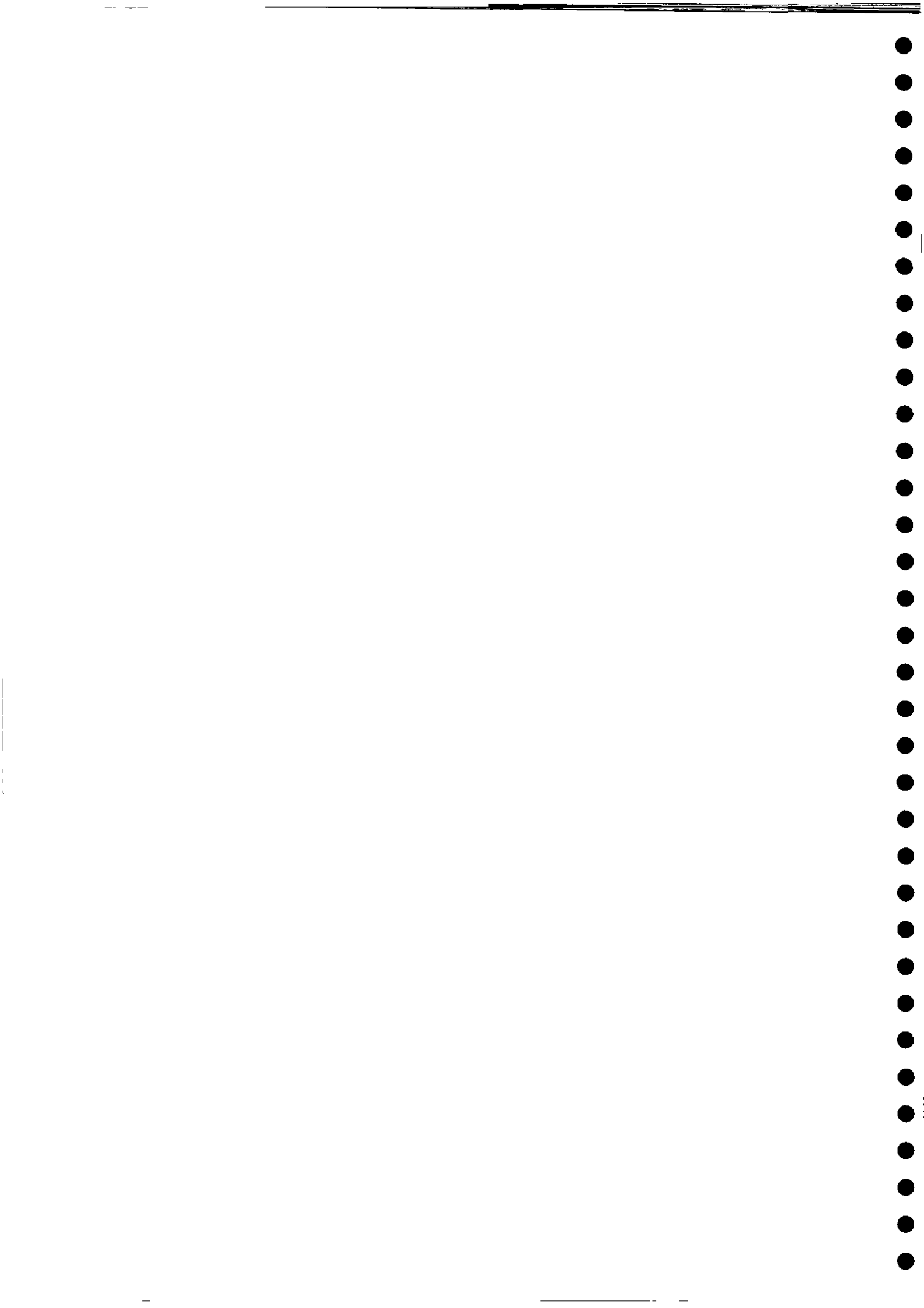
(iii) Loans

'000 USD	Amount loaned 2011	Amount loaned 2010	Outstanding balance 2011	Outstanding balance 2010
Loans given to				
Other related party	-	-	1,458	1,422
Loan/financing received from				
A shareholder	(4,668)	-	(5,437)	-
	(4,668)	-	(3,979)	1,422

(iv) 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 30(c)(i)

'000 USD	Balance as at the end of the year 2011	Balance as at the end of the year 2010	Amount repaid during the year 2011	Amount repaid during the year 2010
A De-Monderik	1,056	1,116	-	-
E Buyakin	-	-	-	136
	1,056	1,116	-	136



(d) **Pricing policies**

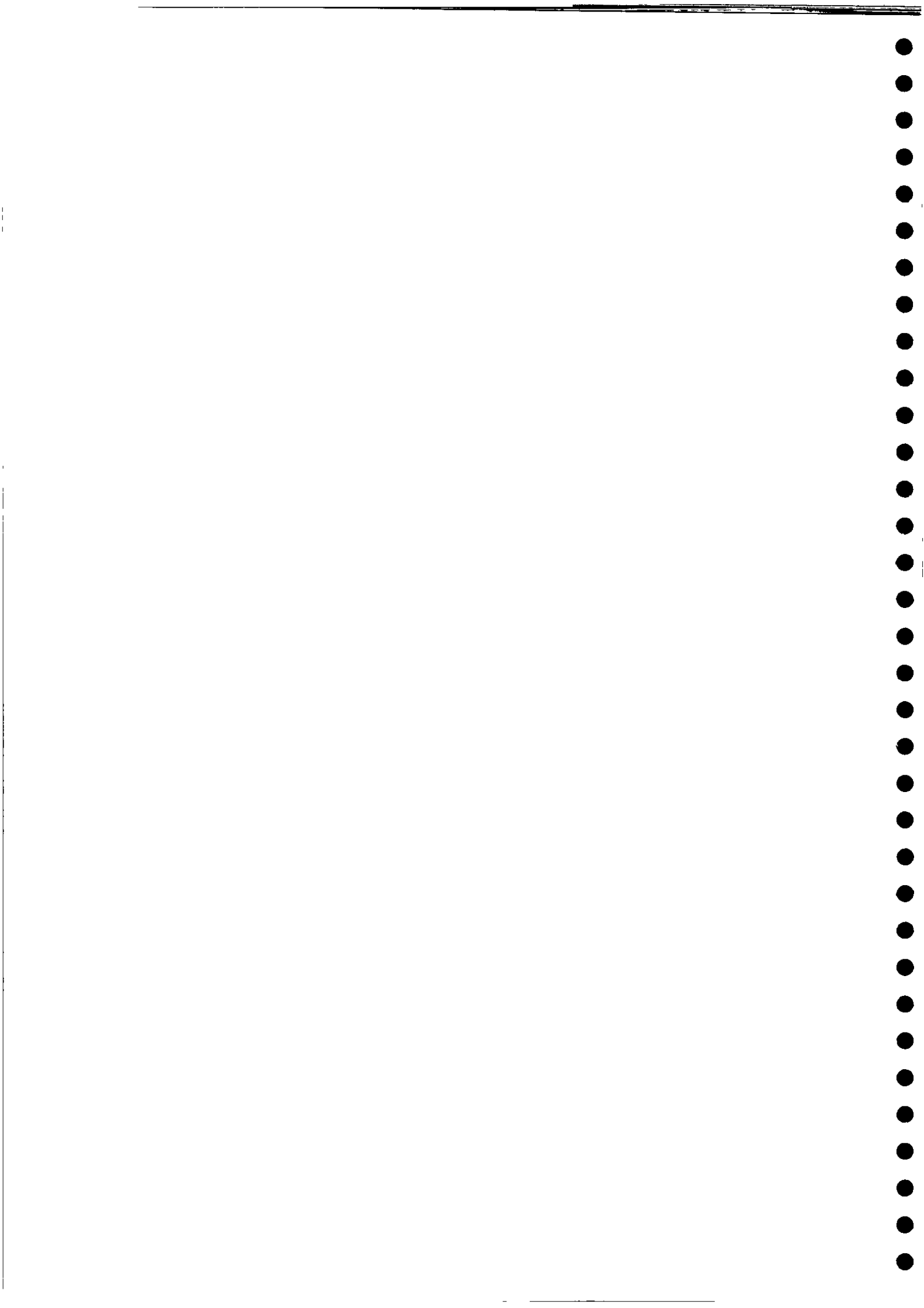
Related party transactions, other than interest-free loans on demand to shareholders and directors, are based on the Group's estimates of market prices

31. Significant subsidiaries

		2011	2010
	Country incorporation	of Ownership/voting	Ownership/voting
ZAO Kaspersky Lab	Russia	100%	100%
ZAO Kaspersky Centre	Russia	100%	100%
Kaspersky Lab UK Ltd	United Kingdom	100%	100%
Kaspersky Labs GmbH	Germany	100%	100%
Kaspersky Lab Inc	USA	100%	-
KK Kaspersky Lab Japan	Japan	99.95%	-
Kaspersky Technology Development	China	100%	-
Kaspersky Labs GmbH	Switzerland	100%	100%
Kaspersky Lab AB	Sweden	100%	100%
Kaspersky Lab France S A R L	France	51%	51%
Kaspersky Lab Asia Limited	Hong Kong	100%	100%
Kaspersky Lab Australia and New Zealand PTY Ltd	Australia	100%	100%
Kaspersky Lab India Private Limited	India	100%	100%
Kaspersky Lab South Africa (proprietary) Limited	South Africa	100%	100%

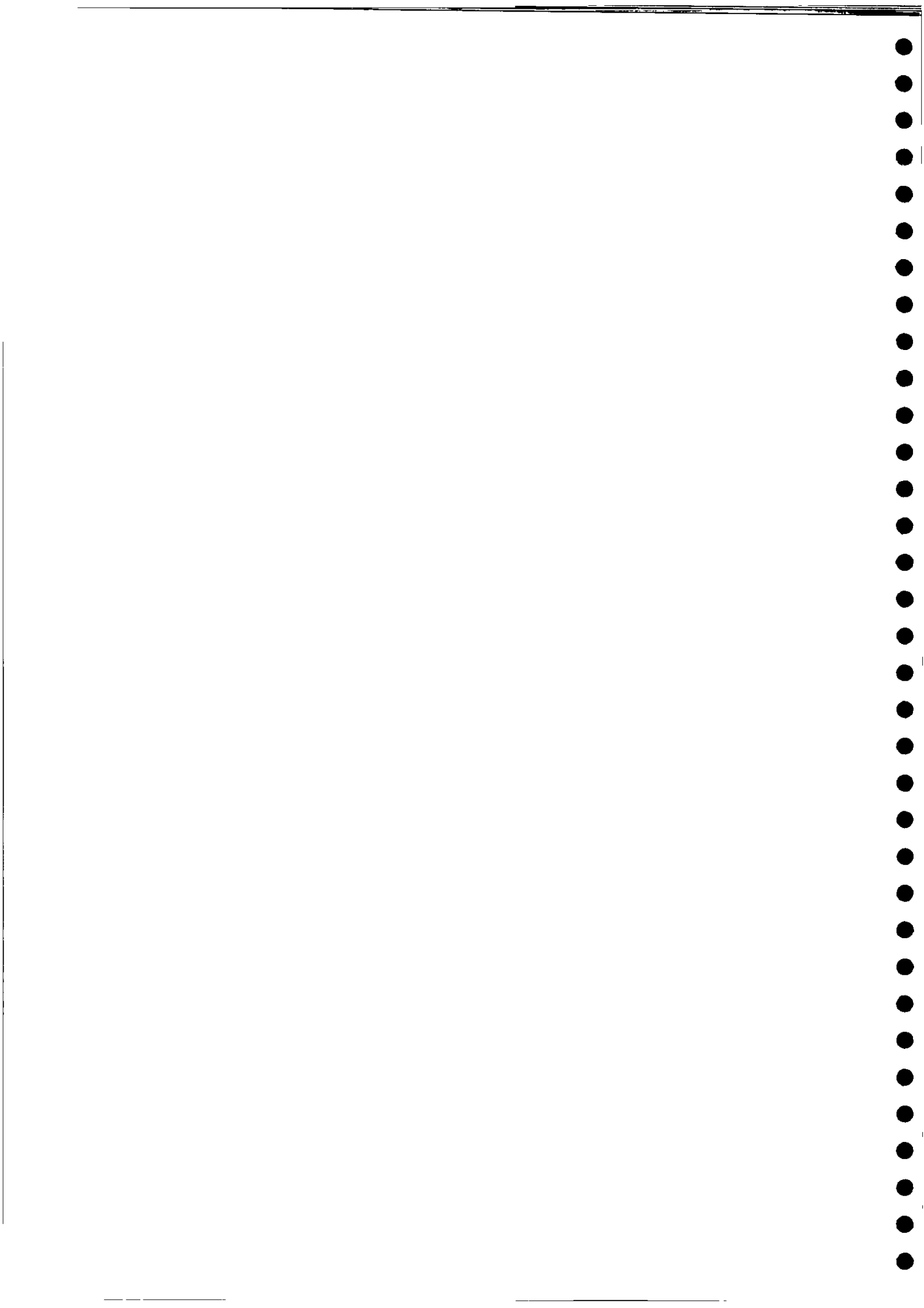
32. Events subsequent to the reporting date

At the end of February 2012 the Group bought back all of its preference shares and a part of its ordinary shares from one of the shareholders. The amount of the consideration is USD 287,609 thousand.



		2011	2010
	Notes	'000 USD	'000 USD
ASSETS			
Non-current assets			
Investments in subsidiaries	C1	11,911	10,422
Intangible assets		403	-
Long-term loans to subsidiaries	C7	1,539	-
Total non-current assets		13,853	10,422
Current assets			
Trade and other receivables	C2	10,460	10,727
Cash and cash equivalents		15,407	1,175
Total current assets		25,867	11,902
Total assets		39,720	22,324

The company statement of financial position is to be read in conjunction with the notes to, and forming part of, the company financial statements set out on pages 78 to 82

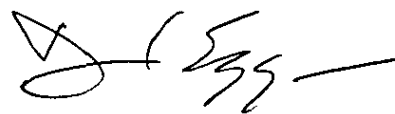


		2011	2010
	Notes	'000 USD	'000 USD
EQUITY AND LIABILITIES			
Equity	C3		
Share capital		1	1
Additional paid-in capital		17,774	9,703
Retained earnings		10,233	9,114
Total equity		28,008	18,818
Non-current liabilities			
Trade and other payables	C4	6,323	-
Total non-current liabilities		6,323	-
Current liabilities			
Trade and other payables	C4	2,144	215
Loans and borrowings	C5	3,245	3,291
Total current liabilities		5,389	3,506
Total liabilities		11,712	3,506
Total equity and liabilities		39,720	22,324

These Company financial statements were approved by the Board of Directors on 1 June 2012 and were signed on its behalf by



Eugene Kaspersky
Chief Executive Officer



David Eggers
Chief Financial Officer

The company statement of financial position is to be read in conjunction with the notes to, and forming part of, the company financial statements set out on pages 78 to 82

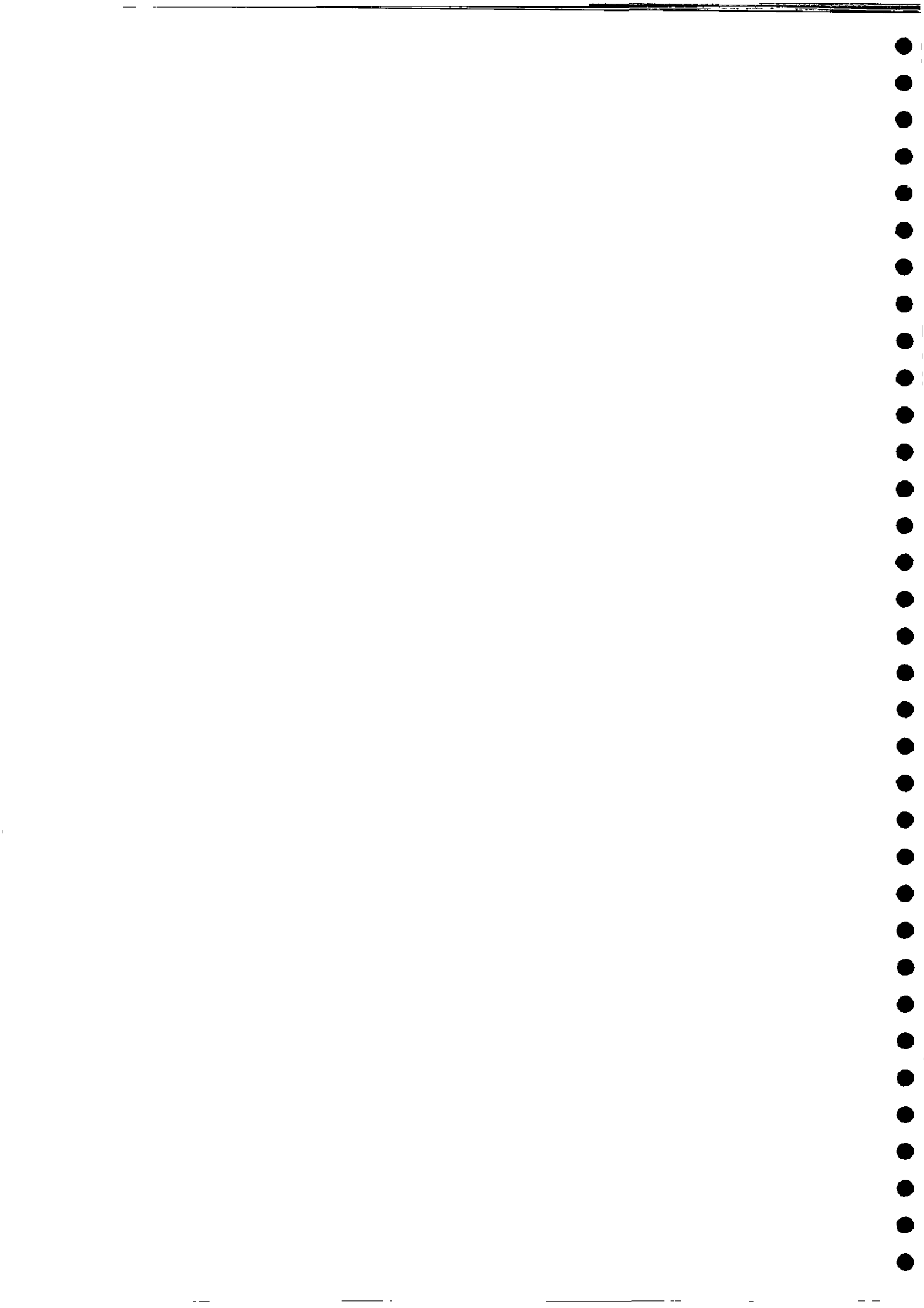
	2011 '000 USD	2010 '000 USD
Cash flows from operating activities		
Profit for the year	23,319	19,198
<i>Adjustments for</i>		
Net finance income	(29,262)	(19,758)
Income tax benefit	(854)	(195)
Depreciation	403	-
Operating loss before changes in working capital and provisions	(6,394)	(755)
Change in trade and other payables	3,630	56
Change in trade and other receivables	(347)	(25)
Cash flows used in operating activities	(3,111)	(724)
 INVESTING ACTIVITIES		
Dividends received	29,700	10,000
Interest received	32	-
Loan provided to a subsidiary	(1,500)	-
Acquisition of a subsidiary	(244)	-
Cash flows from investing activities	27,988	10,000
 FINANCING ACTIVITIES		
Proceeds from issuance of share capital, net of transactional costs	6,874	-
Proceeds from issuance of preference shares allocated to financial liability element	4,668	-
Dividends paid	(15,000)	(10,000)
Share redemption	(7,200)	-
Cash flows used in financing activities	(10,658)	(10,000)
Net increase/(decrease) in cash and cash equivalents	14,219	(724)
Cash and cash equivalents at beginning of year	1,175	1,916
Effect of exchange rate fluctuations on cash and cash equivalents	13	(17)
Cash and cash equivalents at end of year	15,407	1,175

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 78 to 82

Kaspersky Labs Limited
Registration number 4249748
Company Statement of Changes in Equity for the year ended 31 December 2011

'000 USD	Ordinary shares	Preference shares	Additional paid-in capital	Retained earnings	Total equity
Balance at 1 January 2010	1	-	-	(84)	(83)
Profit for the year	-	-	-	19,198	19,198
Total comprehensive income for the year					19,198
Dividends paid	-	-	-	(10,000)	(10,000)
Contribution from shareholders	-	-	3,200	-	3,200
Equity element of the long- term incentive plan	-	-	6,503	-	6,503
Balance at 31 December 2010	1	-	9,703	9,114	18,818
Balance at 1 January 2011	1	-	9,703	9,114	18,818
Profit for the year	-	-	-	23,319	23,319
Total comprehensive income for the year					23,319
Dividends paid	-	-	-	(15,000)	(15,000)
Exercise of share options (notes 25(d)(i) and 25(d) (ii) to consolidated financial statements)	-	-	4,025	-	4,025
Issuance of preference shares (note 25(a) to consolidated financial statements)	-	-	2,849	-	2,849
Share redemption	-	-	-	(7,200)	(7,200)
Equity element of the long- term incentive plan	-	-	1,197	-	1,197
Balance at 31 December 2011	1	-	17,774	10,233	28,008

The company statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the company financial statements set out on pages 78 to 82



1 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")

On publishing the parent company financial statements here together with the group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements

(b) Basis of measurement

The financial statements are prepared on the historical cost basis

(c) Functional and presentation currency

The functional and presentation currency of the Company is the United States Dollar ("USD")
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 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

2 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 2(a) to 2(q) to the consolidated financial statements. These accounting policies have been consistently applied

C1 Investments in subsidiaries

	31 December 2011	31 December 2010	31 December 2011	31 December 2010
	Cost of investment '000 USD	Cost of investment '000 USD	Ownership/ voting	Ownership/ voting
OOO Kaspersky Group	6,468	5,586	100%	100%
Kaspersky Lab Asia Ltd	3,419	3,366	100%	100%
Kaspersky Labs GmbH	717	660	100%	100%
Kaspersky Lab France S A R L	736	716	51%	51%
Kaspersky Lab Inc	252	-	100%	-
Kaspersky Lab Turkey	125	-	99%	-
KK Kaspersky Lab Japan	119	-	99.5%	-
Kaspersky Lab UK Ltd	27	94	100%	100%
Other minor subsidiaries	48	-	100%	-
	11,911	10,422		

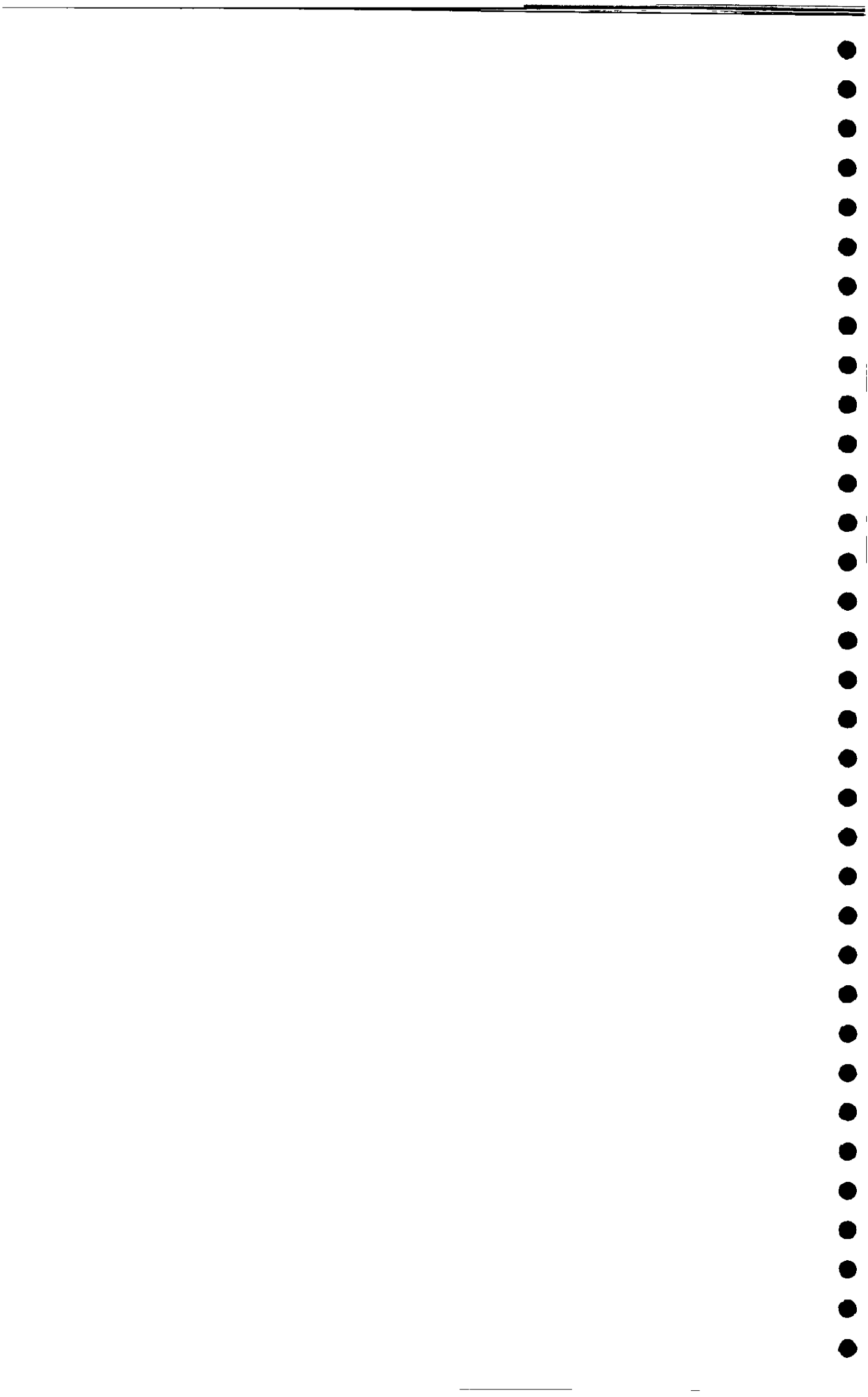
C2 Trade and other receivables

	2011 '000 USD	2010 '000 USD
Receivables from subsidiary (refer to note C7(i))	10,112	10,666
Other receivables	348	61
	10,460	10,727

C3 Equity

(a) Share capital and additional paid-in capital

<i>Number of shares unless otherwise stated</i>	Shares 2011	Shares 2010
Authorised shares at beginning of year	110,000,000	110,000
Share split (1:1000)	-	109,890,000
Authorised shares at end of year	110,000,000	110,000,000
Shares authorised, not issued at beginning of year	(14,700,000)	(14,700)
Share split (1:1000)	-	(14,685,300)
Share allotment	503,115	-
Preference share issue	5,417,053	-
Share cancellation	(900,000)	-



Number of shares unless otherwise stated	Shares	Shares
	2011	2010
Shares authorised, not issued at end of year	(9,679,832)	(14,700,000)
On issue at end of period, fully paid	100,320,168	95,300,000
	USD 0 0000155 (equivalent of 0 00001 GBP)	USD 0 0000145 (equivalent of 0 00001 GBP)
Par value at beginning of year		
	USD 0 0000154 (equivalent of 0 00001 GBP)	USD 0 0000155 (equivalent of 0 00001 GBP)
Par value at end of year		

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

(b) Dividends

In accordance with UK legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with the UK accounting principles. During the year ended 31 December 2011 dividends of USD 15,000 thousand (GBP 0.1 per share) were approved and paid (2010 USD 10,000 thousand or GBP 67.92 per share). As at the date of the approval and payment of the dividend the Company had sufficient distributable reserves.

(c) Share-based compensation

Refer to note 25(d) of the consolidated financial statements

C4 Trade and other payables

	2011	2010
	'000 USD	'000 USD
Non-current:		
Payables to shareholders (refer to note C7(i), C7(ii))	6,323	-
	6,323	-
Current:		
Other payables and accrued expenses	2,144	61
Other payables to related parties	-	154
	2,144	215

C5 Current loans and borrowings

Current loans and borrowings as at 31 December 2011 of USD 3,245 thousand (2010 USD 3,291 thousand) represent non-interest bearing loans from subsidiary repayable on demand, see note C7(iii).

C6 Staff numbers and costs

During the period of 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 12(b) of the consolidated financial statements.

C7 Related party transactions

The company related party transactions are disclosed below

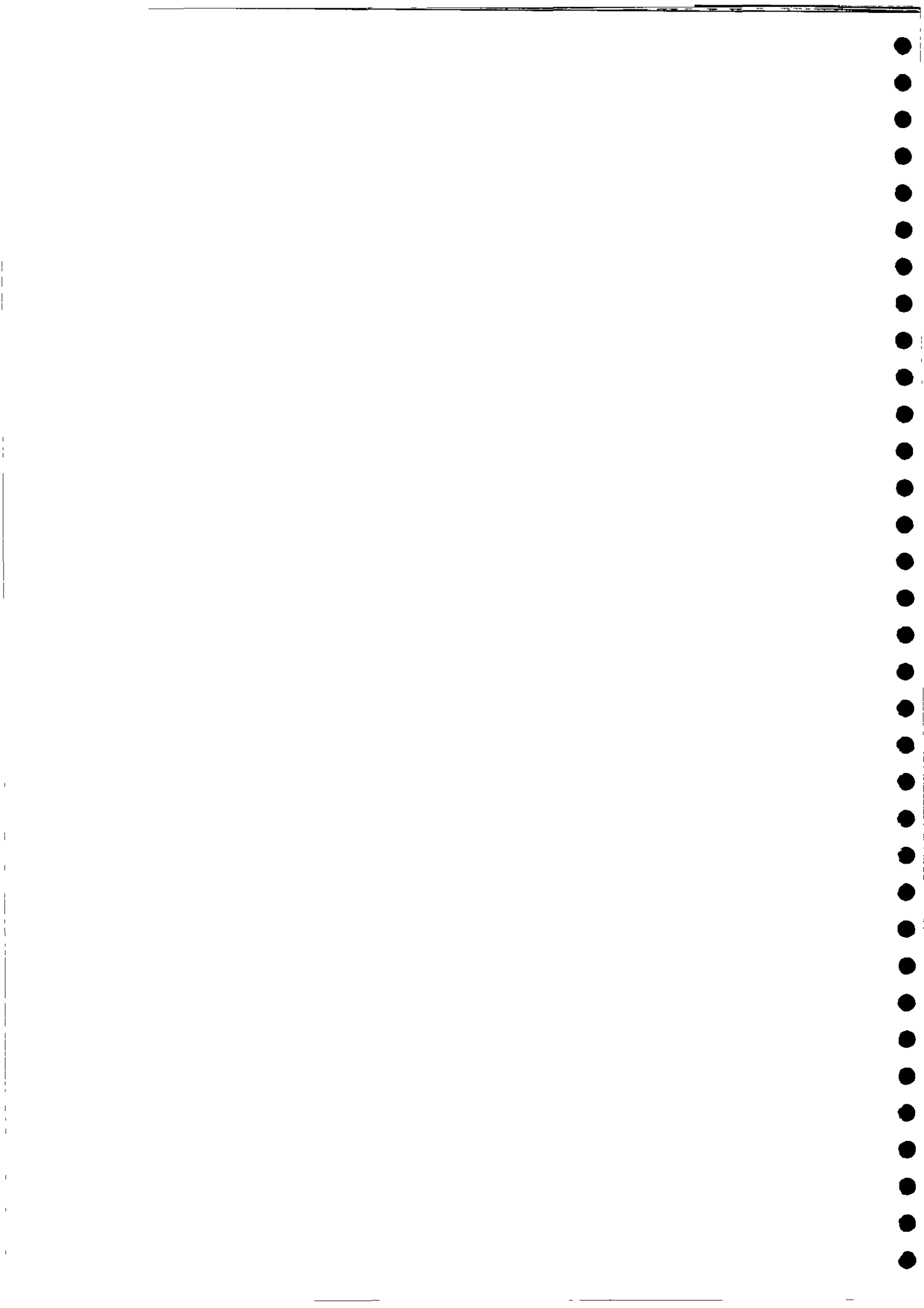
(i) Revenue

'000 USD	Transaction value 2011	Transaction value 2010	Outstanding balance 2011	Outstanding balance 2010
Dividend income from				
Subsidiary	30,000	19,700	9,258	9,700
Other revenue from				
Subsidiaries	242	-	-	110
Sale of own shares				
Shareholder	2,849	-	-	-
Current tax off-set under one tax group				
Subsidiaries	854	856	854	856
	<u>33,945</u>	<u>20,556</u>	<u>10,112</u>	<u>10,666</u>

(ii) Expenses

'000 USD	Transaction value 2011	Transaction value 2010	Outstanding balance 2011	Outstanding balance 2010
Services received				
Services from other related party	-	-	-	(154)
Services from subsidiaries	2,032	-	-	-
- Acquisition of subsidiary from a director	3,382	3,200	-	-
- Purchase of own shares from a director/shareholder	7,200	-	-	-
- Other operation with a director/shareholder	886	-	(886)	-
	<u>13,500</u>	<u>3,200</u>	<u>(886)</u>	<u>(154)</u>

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



(iii) Loans

'000 USD	Amount loaned	Amount loaned	Outstanding balance	Outstanding balance
	2011	2010	2011	2010
Loans/financing received from				
Subsidiaries	-	(1,678)	(3,245)	(3,291)
A shareholder	(4,668)	-	(5,437)	-
Loans granted to				
Subsidiaries	1,539	-	1,539	-
	(3,129)	(1,678)	(7,143)	(3,291)

The loan granted to related parties bears 3% interest and is repayable in 3 years. Loan received is interest-free and is payable on demand.

