



Registration number 4249748

Kaspersky Labs Limited

Directors' Report

and

**Consolidated Financial Statements
for the year ended 31 December 2012**

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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 2012

(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 5 to 6. In addition, note 26 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.

After purchasing its own shares the Group's net assets became negative. The management does not consider this fact to be the indication of the Group's poor financial performance and thinks that from economic point of view Group's reserves are adequate. This is due the very conservative accounting policy in respect of revenue recognition – Group's deferred revenue balance contains not only costs associated with support and updates for existing customers but also a portion of unrecognised revenue.

Subsequent to the reporting date the Group obtained external bank debt financing to fund an acquisition of office premises. These loan facilities include, amongst others, covenants based on net assets and earnings before interest, tax, depreciation and amortisation. In order to comply with these financial covenants the Group now closely monitors its financial key performance indicators. Based on the actual and forecasted Group's financial position and performance, the directors are satisfied that the Group is and will be in compliance with the covenants in the foreseeable future. Note 31 of the consolidated financial statements provides more details on these transactions.

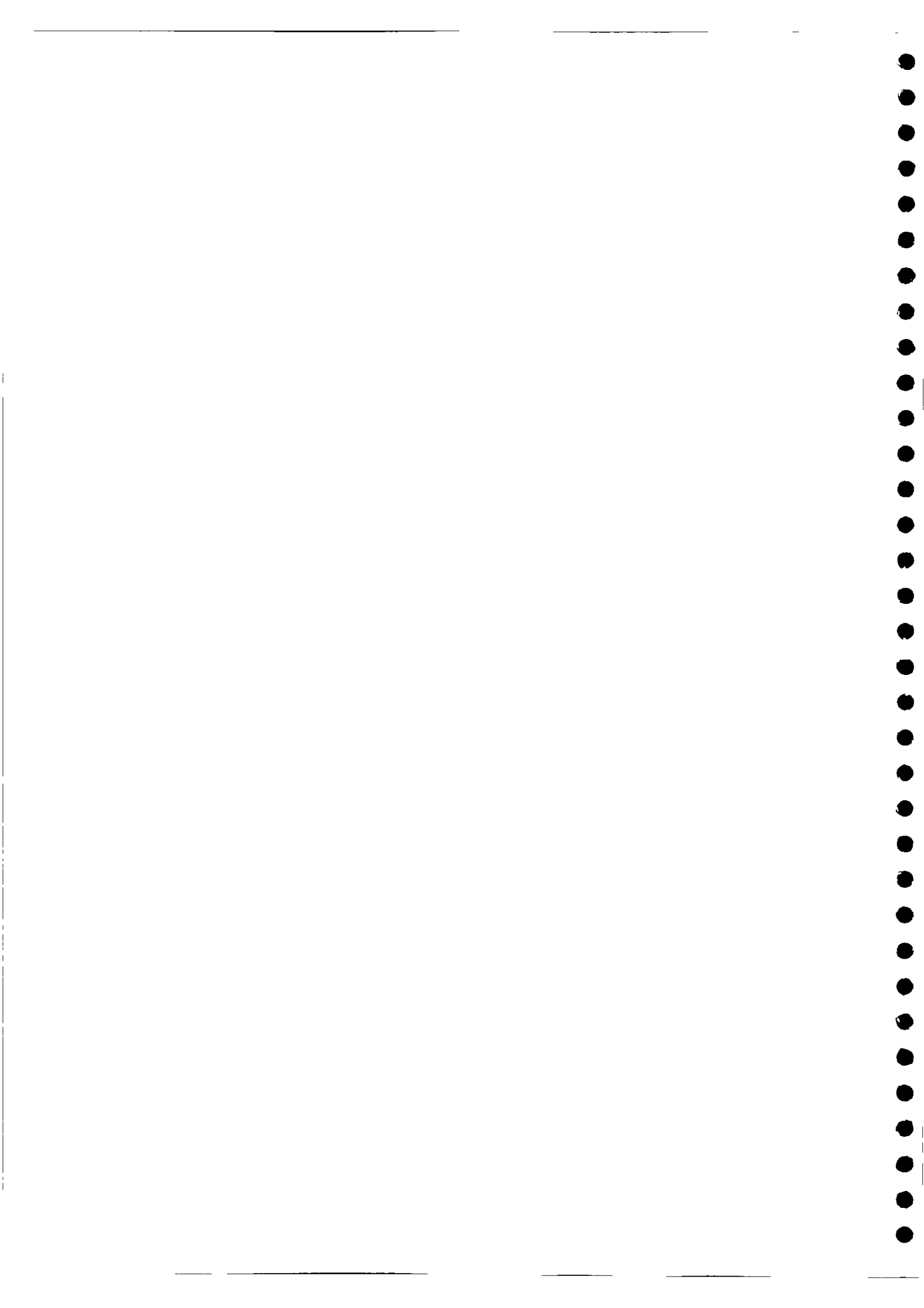
(c) Business review

(i) Overview

The endpoint security market during 2012 continued to grow due to the expansion of Internet, the growing number of attacks directed toward endpoint devices and the increasing scope of endpoint security with rapid expansion in the numbers and types of mobile computing devices.

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 2012 by 20% from USD 638 million in 2011 to USD 764 million. The Group achieved year-on-year growth in Corporate market segment. The highest regional sales growth rates were recorded in Eastern Europe, Middle East and Africa ("EEMEA") and North and South America regions. The Group continues to focus resource on Corporate segment growth worldwide.

The Group's revenue increased by 11% from USD 539 million in 2011 to USD 600 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 2012 were 11% and 7%, respectively (2011: 6% and 5%, respectively).

(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 products in the endpoint security market (especially the consumer segment) are free. This trend is especially apparent in the Asian 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 Group's 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 26(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 26(e) of the consolidated financial statements sets out a description of this risk.

Since the Group's margins are healthy and cash flow is positive in recent years. Notwithstanding a cash outflow for the acquisition of the Group's own shares in 2012 of USD 287,609 thousand the Group's net current monetary assets position remains stable. The Group's most significant liability as at the reporting date is non-monetary deferred income of USD 461,438 thousand (2011: USD 403,680 thousand) due to the Group's revenue recognition policy. The Group's monetary current assets¹ at 31 December 2012 of USD 362,777 thousand (2011: USD 566,982 thousand). These monetary current assets exceed the Group's monetary current liabilities² of USD 156,611 thousand (2011: USD 126,944 thousand). During the reporting period the Group did not use variable interest rate financial instruments. Subsequent to the reporting date the Group obtained external bank debt financing to fund an acquisition of office premises, which increased importance of managing the Group's cash flow and interest rate risks. 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.

¹ Monetary current assets as at 31 December 2012 include cash and cash equivalents of USD 106,122 thousand (2011: USD 215,427 thousand), bank deposits of USD 12,236 thousand (2011: USD 118,939 thousand), trade and other accounts receivable of USD 240,254 thousand (2011: USD 228,895 thousand), investments of USD 3,610 thousand (2011: USD 3,592 thousand) and prepaid current tax of USD 555 thousand (2011: USD 129 thousand).

² Monetary current liabilities as at 31 December 2012 include trade and other payables of USD 161,264 thousand (2011: USD 131,112 thousand), less advances received of USD 4,653 thousand (2011: USD 4,168 thousand), plus income tax payable of USD nil (2011: nil).

(e) Directors

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

E Kaspersky

E Buyakın until 27 March 2012

A De-Monderik

S Orenberg

J Bernstein until 2 February 2012

G Kondakov from 27 March 2012

A Tikhonov from 27 March 2012

A Given until 2 February 2012

(f) Distribution to shareholders

During the year ended 31 December 2012 no dividends were approved and paid (2011: USD 15,000 thousand, GBP 0.1 per share)

(g) Issuance of new shares

During 2012 the Company did not issued any additional preference or ordinary shares (2011 5,417,053 preference shares were issued)

(h) Redemption of the Company's own shares

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. All of the shares were cancelled immediately after the re-purchase.

(i) Research and development

The Group undertakes research and development in connection with its principal activity. During 2012 investments in development were at the same level as in 2011. In the same time average number of employees focusing on research and development increased from 808 to 887.

(j) 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.

(k) 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

(l) 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

(m) Charitable donations

During 2012 the Group made charitable donations of USD 1,580 thousand (2011 USD 1,504 thousand) to orphanages, hospitals and schools. No donations were made to political parties

(n) 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 2012 amounted to 39 days (31 December 2011 41 days) of purchases, based on the average daily amount invoiced by suppliers during the year

(o) 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

(p) 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.

(q) Auditors

In accordance with Section 487 of the Companies Act 2006, a resolution for appointment of KPMG LLP will be proposed at the forthcoming Annual General Meeting. KPMG Audit PLC appointed in 2012 will not be seeking for re-appointment.

On behalf of the board

Eugene Kaspersky
Chief Executive Officer
Kaspersky Labs Limited
*New Bridge Street House,
30-34 New Bridge Street,
London, EC4V 6BJ
United Kingdom*

29 May 2013

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 2012 set out on pages 12 to 73. 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 8 and 9, 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 Financial reporting council's web-site at www.frc.org.uk/auditscopeukprivate.

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 2012 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.



Paul 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*

29 May 2013

Kaspersky Labs Limited
Consolidated Statement of Financial Position as at 31 December 2012

'000 USD	Note	2012	2011
Assets			
Property, plant and equipment	16	57,629	20,784
Intangible assets	17	25,422	23,283
Investments in equity accounted investees		-	96
Other receivables	22	5,981	166
Bank deposits	19	-	12,120
Prepayments for non-current assets		3,000	-
Deferred tax assets	20	65,274	59,714
Non-current assets		157,306	116,163
Inventories	21	3,933	6,034
Other investments	19	3,610	3,592
Trade and other receivables	22	240,254	228,895
Prepayments		9,814	6,155
Prepaid current tax		555	129
Bank deposits	19	12,236	118,939
Cash and cash equivalents	23	106,122	215,427
Current assets		376,524	579,171
Total assets		533,830	695,334

Kaspersky Labs Limited
Consolidated Statement of Financial Position as at 31 December 2012

'000 USD	Note	2012	2011
Equity			
Share capital		1	1
Additional paid-in capital		21,002	19,444
Translation reserve		(16,441)	(16,763)
Retained earnings		(97,537)	144,834
Equity attributable to owners of the Company		(92,975)	147,516
Non-controlling interests		1,922	1,478
Total equity	24	(91,053)	148,994
Liabilities			
Other payables	25	1,872	9,363
Non-current deferred income		71,857	54,078
Deferred tax liabilities	20	309	2,185
Non-current liabilities		74,038	65,626
Trade and other payables	25	161,264	131,112
Deferred income		389,581	349,602
Current tax liabilities		-	-
Current liabilities		550,845	480,714
Total liabilities		624,883	546,340
Total equity and liabilities		533,830	695,334

Kaspersky Labs Limited
Consolidated Statement of Comprehensive Income for the year ended 31 December 2012

'000 USD	Note	2012	2011
Continuing operations			
Revenue	6	600,196	538,830
Cost of sales	7	(60,492)	(58,783)
Gross profit		539,704	480,047
Distribution expenses	8	(271,680)	(231,486)
Administrative expenses	9	(109,843)	(116,227)
Research and development expenses	10	(83,318)	(82,796)
Other income and expenses	11	(10,848)	(19,515)
Results from operating activities		64,015	30,023
Finance income	14	1,829	13,443
Finance costs	14	(8,393)	(1,874)
Net finance costs		(6,564)	11,569
Share of profit of equity accounted investees (net of income tax)		-	4
Profit before income tax		57,451	41,596
Income tax expense	15	(15,806)	(12,255)
Profit for the year		41,645	29,341
Other comprehensive income			
Foreign currency translation differences for foreign operations		427	(8,338)
Other comprehensive income for the year, net of income tax		427	(8,338)
Total comprehensive income for the year		42,072	21,003
Profit attributable to			
Owners of the Company		41,306	28,599
Non-controlling interests		339	742
Profit for the year		41,645	29,341
Total comprehensive income attributable to			
Owners of the Company		41,628	20,151
Non-controlling interests		444	852
Total comprehensive income for the year		42,072	21,003

These consolidated financial statements were approved by the Board of Directors on 29 May 2013 and were signed on its behalf by


Eugene Kaspersky
Chief Executive Officer


Danil Borschev
Chief Financial Officer

'000 USD

	Attributable to equity holders of the Company					Non-controlling interest	Total equity
	Ordinary shares	Preference shares	Additional paid-in capital	Translation reserve	Retained earnings		
Balance at 1 January 2012	1	-	19,444	(16,763)	144,834	1,478	148,994
Total comprehensive income for the year	-	-	-	-	41,306	339	41,645
Profit for the year	-	-	-	-	41,306	339	41,645
Other comprehensive income							
Foreign currency translation differences	-	-	-	322	-	105	427
Total other comprehensive income	-	-	-	322	-	105	427
Total comprehensive income for the year	-	-	-	322	41,306	444	42,072
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners	-	-	-	-	-	-	-
Dividends to equity holders	-	-	1,558	-	-	-	1,558
Equity element of the long-term incentive plan	-	-	-	-	(283,677)	-	(283,677)
Share redemption	-	-	-	-	-	-	-
Exercise of share options	-	-	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-	-	-
Acquisition of non-controlling interest	-	-	-	-	-	-	-
Total contributions by and distributions to owners	-	-	1,558	-	(283,677)	-	(282,119)
Total transactions with owners	-	-	1,558	-	(283,677)	-	(282,119)
Balance at 31 December 2012	1	-	21,002	(16,441)	(97,537)	1,922	(91,053)

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 19 to 64

'000 USD

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 19 to 64

Kaspersky Labs Limited
Consolidated Statement of Cash Flows for the year ended 31 December 2012

'000 USD	Note	2012	2011
Cash flows from operating activities			
Profit for the year		41,645	29,341
<i>Adjustments for</i>			
Depreciation and amortisation	16, 17	16,810	15,867
Impairment losses on intangible assets	9	-	7,788
Net finance costs	14	6,564	(11,569)
Expenses paid for by the shareholders		-	-
Equity element of the long-term incentive plan		1,558	1,197
Share of profit of equity accounted investees (net of income tax)		-	(4)
Income tax expense		15,806	12,255
Cash from operating activities before changes in working capital and provisions		82,383	54,875
Change in inventories		2,101	1,008
Change in trade and other receivables		(20,207)	(46,543)
Change in trade and other payables		22,897	20,414
Change in deferred income		45,194	82,408
Cash flows from operations before income taxes and interest paid		132,368	112,162
Income tax paid		(18,660)	(43,608)
Net cash from operating activities		113,708	68,554
Cash flows from investing activities			
Cash from withdrawing bank deposits and other investments		134,651	2,206,138
Interest received		1,270	6,345
Acquisition of subsidiaries, net of cash acquired		107	6,456
Placing bank deposits and acquisition of other investments		(13,169)	(2,122,111)
Acquisition of property, plant and equipment	16	(51,004)	(14,590)
Acquisition of intangible assets	17	(7,161)	(9,687)
Net cash from/(used in) investing activities		64,694	72,551

Kaspersky Labs Limited
Consolidated Statement of Cash Flows for the year ended 31 December 2012

'000 USD	Note	2012	2011
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)
Own share redemption		(289,045)	(7,200)
Net cash used in financing activities		(289,045)	(10,658)
Net increase in cash and cash equivalents		(110,643)	130,447
Cash and cash equivalents at 1 January		215,427	79,647
Effect of exchange rate fluctuations on cash and cash equivalents		1,338	5,333
Cash and cash equivalents at 31 December	23	106,122	215,427

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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 on-going 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(l)– revenue recognition policy
- Note 24(c)– share-based compensation, and
- Note 28 – 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 22 and cash and cash equivalents as presented in note 23.

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 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

(ii) 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.

(iii) 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)(1).

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.

(ii) 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.

(iii) 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.

(ii) 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

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 2012, 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 19 (2011) *Employee Benefits*. The amended standard will introduce a number of significant changes to IAS 19. First, the corridor method is removed and, therefore, all changes in the present value of the defined benefit obligation and in the fair value of plan assets will be recognised immediately as they occur. Secondly, the amendment will eliminate the current ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss. Thirdly, the expected return on plan assets recognised in profit or loss will be calculated based on the rate used to discount the defined benefit obligation. The amended standard shall be applied for annual periods beginning on or after 1 January 2013 and early adoption is permitted. The amendment generally applies retrospectively. The standard is not expected to have any impact on the Group's financial position or performance
- IAS 27 (2011) *Separate Financial Statements* will become effective for annual periods beginning on or after 1 January 2013. The amended standard carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements with some clarifications. The requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). Early adoption of IAS 27 (2011) is permitted provided the entity also early-adopts IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011). 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

- 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 on 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.
- Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amendments are effective for annual periods beginning on or after 1 January 2013, and are to be applied retrospectively. The Group does not expect this Standard to have a significant impact on 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 2013. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. 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. 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 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 a change in the consolidation or non-consolidation of an investee, the new standard may be adopted with either full retrospective application from 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.
- *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)* will be effective for annual periods beginning on or after 1 January 2014. The amendments introduce a mandatory consolidation exception for certain qualifying investment entities. A qualifying investment entity is required to account for investments in controlled entities, as well as investments in

associates and joint ventures, at fair value through profit or loss. The consolidation exception will not apply to subsidiaries that are considered an extension of the investment entity's investing activities. The amendments are to be applied retrospectively unless impracticable. The new Standard will not have any impact on the Group's financial position or performance.

- IFRS 11 *Joint Arrangements* will be effective for annual periods beginning on or after 1 January 2013 with retrospective application required. The new standard supersedes IAS 31 *Interests in Joint Ventures*. The main change introduced by IFRS 11 is that all joint arrangements are classified either as joint operations, in which case these arrangements are treated similarly to jointly controlled assets/operations under IAS 31s, or as joint ventures, for which the equity method only is applied. The type of arrangement is determined based on the rights and obligations of the parties to the arrangement arising from joint arrangement's structure, legal form, contractual arrangement and other facts and circumstances. When the adoption of IFRS 11 results a change in the accounting model, the change is accounted for retrospectively from the beginning of the earliest period presented. Under the new standard all parties to a joint arrangement are within the scope of IFRS 11 even if all parties do not participate in the joint control. Early adoption of IFRS 11 is permitted provided the entity also early-adopts IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011). The new Standard will not have any 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.

- Amendments to IAS 32 *Financial Instruments - Presentation - Offsetting Financial Assets and Financial Liabilities* specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event, and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be 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.
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* is effective for annual periods beginning on or after 1 January 2013 and provides guidance for entities with post-development phase surface mining activities. Under the interpretation, production stripping costs that provide access to ore to be mined in the future are capitalized as non-current assets if the component of the ore body for which access has been improved can be identified, future benefits arising from the improved access are probable and the costs related to the stripping activity associated with the component of the ore body are reliably measurable. The interpretation also addresses how capitalized stripping costs should be depreciated and how capitalized amounts should be allocated between inventory and the stripping activity asset. The new Standard will not have any impact on the Group's financial position or performance.
- 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 2013. 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 2012 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 2012 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

During 2012 the Group has made no significant acquisitions

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(1). 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) Revenue

Revenue earned by the Group consists of the following types

'000 USD	2012	2011
Sales of licenses	599,738	538,470
Revenue from services provided	458	360
Total revenues	600,196	538,830

7. Cost of sales

	2012	2011
	'000 USD	'000 USD
Materials	21,603	26,039
Wages and salaries	17,484	15,169
Long-term incentive plan compensation	803	(299)
Payroll taxes	1,437	1,443
Services	15,083	13,775
Depreciation and amortisation	1,774	1,077
Rent	2,308	1,579
	60,492	58,783

8. Distribution expenses

	2012	2011
	'000 USD	'000 USD
Advertising and marketing expenses	121,446	99,126
Wages and salaries	72,133	56,779
Long-term incentive plan compensation	1,689	1,206
Payroll taxes	5,743	7,731
Sales commission	23,565	36,792
Services	25,811	12,192
Bad debt expense	12,397	7,505
Rent	4,997	4,411
Depreciation and amortisation	3,899	3,413
Materials	-	2,331
	271,680	231,486

9. Administrative expenses

	2012	2011
	'000 USD	'000 USD
Wages and salaries	44,352	38,792
Long-term incentive plan compensation	(522)	1,992
Payroll taxes	366	4,360
Services	33,771	32,590
Travel and entertainment	18,623	17,819
Impairment of intangible assets	-	7,788
Depreciation and amortisation	4,720	4,727
Company events	4,651	4,184
Rent	3,882	3,975
	109,843	116,227

10. Research and development expenses

	2012	2011
	'000 USD	'000 USD
Wages and salaries	55,059	52,471
Long-term incentive plan compensation	3,036	(2,267)
Payroll taxes	(53)	6,748
Services	13,168	12,197
Depreciation and amortisation	6,416	6,650
Rent	5,692	5,913
Materials	-	1,084
	83,318	82,796

11. Other income and expenses

	2012	2011
	'000 USD	'000 USD
Non-recoverable VAT	(8,118)	(16,630)
Other expense	(2,907)	(3,181)
Other income	177	296
	(10,848)	(19,515)

12. Personnel costs

(a) Personnel remuneration

	2012	2011
	'000 USD	'000 USD
Wages and salaries	189,028	163,211
Long-term incentive plan (refer to note 24(c))	5,006	632
Payroll taxes	7,265	20,044
Contributions to non-mandatory defined contribution pension plans	228	238
	201,527	184,125

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

	2012	2011
Research and development	886	808
Sales and marketing	770	614
General and administrative	586	564
Customer support	337	312
	2,579	2,298

(b) Directors' emoluments

The average number of directors during 2012 was 5 (2011 5) Salaries of the directors of USD 4,995 thousand (2011 USD 3,263 thousand) are included in the personnel costs

The emoluments of the highest paid director were USD 1,787 thousand (2011 USD 843 thousand) Social taxes paid were USD 20 thousand (2011 USD 152 thousand)

13. Auditors' remuneration

	2012 '000 USD	2011 '000 USD
Audit of these financial statements	86	101
Amounts receivable by auditors and their associates in respect of		
Audit of financial statements of subsidiaries pursuant to legislation	661	719
	747	820

14. Finance income and finance costs

	2012 '000 USD	2011 '000 USD
Finance income		
Net foreign exchange gain	-	7,519
Interest income on bank deposits	1,676	5,200
Other finance gain	153	724
Finance income	1,829	13,443
Finance costs		
Bank commissions	(505)	(559)
Unwinding of discount	-	(851)
Net foreign exchange loss	(7,076)	-
Other finance loss	(812)	(464)
Finance costs	(8,393)	(1,874)
Net finance income recognised in profit or loss	(6,564)	11,569
Recognised in other comprehensive income		
Foreign currency translation differences for foreign operations	427	(8,338)
Finance costs recognised in other comprehensive income, net of tax	427	(8,338)
Attributable to		
Equity holders of the Company	322	(8,448)
Non-controlling interest	105	110
Finance costs recognised in other comprehensive income, net of tax	427	(8,338)

15. Income tax expense

The Group's applicable tax rate is the income tax rate of 24.5% for United Kingdom companies

	2012	2011
	'000 USD	'000 USD
Current tax expense		
Current period	19,259	31,380
Under/(over)-provided in previous years	2,248	36
	21,507	31,416
Deferred tax expense		
Origination and reversal of temporary differences	(5,042)	(19,161)
Under-provided in previous years	(659)	-
	15,806	12,255

Reconciliation of effective tax rate:

	2012		2011	
	'000 USD	%	'000 USD	%
Profit for the year	41,645	72	29,341	71
Total tax expense	15,806	28	12,255	29
Profit before tax	57,451	100	41,596	100
Tax at the UK statutory blended rate of 24.5% (2011: 26.5%)	(14,076)	24	(11,023)	27
Effect of tax rates in foreign jurisdictions	2,374	(4)	6,035	(13)
Non-deductible expenses	(5,603)	10	(5,689)	13
Tax provision	-	0	-	-
Foreign tax suffered	(1,083)	2	(10)	-
Current year losses for which no deferred tax assets were recognised	-	-	(3,456)	8
Recognition of previously unrecognised deferred tax assets	4,171	(7)	1,924	(6)
(Over)/under provided in prior years	(1,589)	3	(36)	-
	(15,806)	28	(12,255)	29

The Finance Act 2012, which provides for a reduction in the main rate of corporation tax from 24% to 23% effective from 1 April 2013, was substantively enacted on 3 July 2012. This rate reduction has been reflected in the calculation of deferred tax at the balance sheet date.

The Government intends to enact future reduction in the main tax rate down to 20% by 1 April 2015. As this tax rate was not substantively enacted at the balance sheet date, the rate reduction is not yet reflected in these financial statements in accordance with IAS 10, as it is a non-adjusting event occurring after the reporting period.

We estimate that the future rate change to 20% would further reduce the recognised UK deferred tax asset at 31 December 2012 from USD 1,111 thousand to USD 1,220 thousand. The actual impact will be dependent on the company's deferred tax position at that time.

16. Property, plant and equipment

'000 USD	Computer equipment	Fixtures and fittings	Construction in progress	Total
Cost				
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
Balance at 1 January 2012	40,105	5,586	570	46,261
Additions	2,735	1,407	43,862	48,004
Acquisitions through business combination	65	23	-	88
Transfers	8,366	220	(8,586)	-
Disposals	(1,770)	(105)	-	(1,875)
Translation differences	2,034	(176)	868	2,726
Balance at 31 December 2012	51,535	6,955	36,714	95,204
Depreciation				
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)

'000 USD	Computer equipment	Fixtures and fittings	Construction in progress	Total
Balance at 1 January 2012	(23,854)	(1,623)	-	(25,477)
Depreciation charge	(9,470)	(1,967)	-	(11,437)
Acquisitions through business combination	(5)	(1)	-	(6)
Disposals	1,438	38	-	1,476
Translation differences	(1,435)	(696)	-	(2,131)
Balance at 31 December 2012	(33,326)	(4,249)	-	(37,575)
Net book value				
At 1 January 2011	15,121	1,647	-	16,768
At 31 December 2011	16,251	3,963	570	20,784
At 31 December 2012	18,209	2,706	36,714	57,629

Increase in construction in progress balance during 2012 was due to the capital investments in leasehold improvements in the new office premises in Moscow. Subsequent to the balance sheet date this office complex was purchased by the Group (refer to Note 31).

Depreciation expense was charged as follows:

	2012 '000 USD	2011 '000 USD
Cost of goods sold	1,774	867
Research and development	6,416	4,636
Distribution expenses	3,899	2,673
Administrative expenses	4,720	3,065
Total depreciation	16,809	11,241

17. Intangible assets

'000 USD	Software licenses and patents	Other intangible assets	Goodwill	Total
Cost				
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
Transfers	(5,239)	(10)	-	(5,249)
Translation differences	(755)	73	-	(682)
Balance at 31 December 2011	12,383	6,255	16,767	35,405
Balance at 1 January 2012	12,383	6,255	16,767	35,405
Additions	7,129	32	-	7,161
Acquisitions through business combination	9	-	-	9
Disposals	-	-	-	-
Translation differences	858	70	-	928
Balance at 31 December 2012	20,379	6,357	16,767	43,503
Amortisation and impairment losses				
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)
Transfers	5,237	10	-	5,247
Translation differences	140	(96)	-	44
Balance at 31 December 2011	(3,377)	(5,454)	(3,291)	(12,122)
Balance at 1 January 2012	(3,377)	(5,454)	(3,291)	(12,122)
Amortisation charge	(4,773)	(600)	-	(5,373)
Acquisitions through business combination	(8)	-	-	(8)
Disposals	-	-	-	-
Translation differences	(482)	(96)	-	(578)
Balance at 31 December 2012	(8,640)	(6,150)	(3,291)	(18,081)
Net book value				
At 1 January 2011	5,204	162	3,095	8,461
At 31 December 2011	9,006	801	13,476	23,283
At 31 December 2012	11,739	207	13,476	25,422

Goodwill balance of the Group was generated by acquisitions of two CGUs in America (acquired in 2011) and APAC (acquired in 2010). The Group bases recoverable amount of CGUs on value in use which is calculated as a net present value of CGU's 5-year net cash flows. At the year end the Group has performed impairment review of the individual CGUs. Discount factor for both CGUs was 20 per cent. Cash flow projections used for testing were based on most recent budgets using the following growth assumptions:

- Sales growth rate varying from 13 to 15 per cent per annum
- Expenses growth rate varying from 8 to 11 per cent per annum

Both CGUs demonstrated no signs of impairment (recoverable amounts was higher than Goodwill)

18. Equity accounted investees

During 2012 Group has disposed of interest (26%) in ZAO Infowatch. The Group's share of net assets at the date of disposal was USD 96 thousand. Consideration for the 26% of shares was nil and the Group reflected losses on disposal of investment in other financial expenses.

19. Other investments

	2012 '000 USD	2011 '000 USD
Non-current bank deposits		
in USD, variable rates of 0.6-4.0% p.a.	-	7,011
in RUB, variable rates of 4.0-6.0% p.a.	-	5,109
	-	12,120
Current bank deposits		
in EUR, fixed rates of 0.7-1.3% p.a.	-	15,107
in USD, fixed rates of 0.5-2.2% p.a.	12,236	98,090
in RUB, fixed rates of 5.6-7.6% p.a.	-	5,742
	12,236	118,939
Current other investments		
Other investments	3,610	2,134
Loans to other related parties (refer to note 29(c)(iii))	-	1,458
	3,610	3,592

As at 31 December 2012 the bank deposits denominated in USD mature in March 2013. The Group's exposure to credit, currency and interest rate risks related to other investments is disclosed in note 26.

20. Deferred tax assets and liabilities

(a) Unrecognised deferred tax liabilities

Deferred tax liabilities of USD 52,766 thousand (2011 USD 43,057 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	
	2012	2011	2012	2011	2012	2011
Intangible assets	-	-	(494)	(444)	(494)	(444)
Trade and other receivables	425	1,874	-	-	425	1,874
Deferred revenue	41,395	34,475	-	(2,075)	41,395	32,400
Trade and other payables	16,409	11,061	(136)	(103)	16,273	10,958
Tax losses carried-forward	5,263	12,748	-	-	5,263	12,748
Other items	2,340	-	(237)	(7)	2,103	(7)
Tax assets/(liabilities)	65,832	60,158	(867)	(2,629)	64,965	57,529
Set off of tax	(558)	(444)	558	444	-	-
Net tax assets/(liabilities)	65,274	59,714	(309)	(2,185)	64,965	57,529

(c) Movement in temporary differences during the year

'000 USD	1 January 2012	Recognised in profit or loss	Translation difference	31 December 2012
Intangible assets	(444)	(22)	(28)	(494)
Trade and other receivables	1,874	(1,397)	(52)	425
Deferred revenue	32,400	7,596	1,399	41,395
Trade and other payables	10,958	4,918	397	16,273
Tax losses carried-forward	12,748	(7,480)	(5)	5,263
Other items	(7)	2,086	24	2,103
	57,529	5,701	1,735	64,965

'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

21. Inventories

	2012 '000 USD	2011 '000 USD
Finished goods and goods for resale	3,743	4,251
Product components and consumables	2,590	3,025
Provision for obsolescence	(2,400)	(1,242)
	3,933	6,034

22. Trade and other receivables

	2012 '000 USD	2011 '000 USD
Non-current receivables		
Office lease deposits	4,767	-
Non-interest bearing receivables from shareholders payable on demand (refer to note 29(c)(iii))	1,119	-
Other non-current receivables	95	166
	5,981	166
Current receivables		
Trade receivables from third parties	232,382	223,356
Deferred expenses	9,833	8,256
Office lease deposits	1,927	6,470
Prepaid taxes (other than corporate profit taxes)	9,501	1,187

	2012 '000 USD	2011 '000 USD
Non-interest bearing receivables from shareholders payable on demand (refer to note 29(c)(iii))	2,000	1,056
Trade receivables from other related parties (refer to note 29(c)(i))	97	711
Other receivables from related parties	-	155
Other receivables	13,146	4,167
Provision for bad and doubtful debts	(28,632)	(16,463)
	240,254	228,895

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

23. Cash and cash equivalents

'000 USD	2012	2011
Petty cash	25	33
Bank balances	84,199	59,629
Call deposits	21,898	155,765
Cash and cash equivalents in the statement of financial position and in the statement of cash flows	106,122	215,427

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 26

24. Capital and reserves

(a) Share capital and share premium

<i>Number of shares unless otherwise stated</i>	Ordinary shares		Preference shares	
	2012	2011	2012	2011
Authorised shares	110,000,000	110,000,000	5,417,053	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	375,214	503,115		5,417,053
Share cancellation	(27,498,000)	(900,000)	(5,417,053)	-
On issue at 31 December, fully paid	68,177,214	94,903,115	-	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 2012 the Company bought out and cancelled all of its preference shares. Also the Company bought out a number of ordinary shares during this period.

(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 2012 amounts to USD 5,006 thousand (2011: USD 5,482 thousand).

No options were issued to the employees of the Group during 2012 (2011: nil). The total number of options exercised and forfeited during 2012 is nil and 370,973 respectively (2011: 497,115 and 2,272,885 respectively). There was no cash received from the exercise of the options during 2012. The total number of share options outstanding as at 31 December 2012 is 1,067,378 (2011: 2,788,750).

(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 24(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.

Cash received from the exercise of the options by employees of entities outside the Group during 2012 amounts to nil (2011: USD 48 thousand).

(iii) Long-term incentive plan -2011

The Group intends to grant a second tranche of deferred bonuses during 2013. 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 2012 refer to the service during 2012 were USD (98) thousand (2011: USD 1,959 thousand). Until the formalisation of the plan the expenses were accrued with a corresponding increase in liabilities.

25. Trade and other payables

	2012 '000 USD	2011 '000 USD
Non-current:		
Payables to related parties (refer to notes 29(c)(ii) and 29(c)(iii))	-	6,323
Other non-current liabilities	1,872	3,040
	1,872	9,363
Current:		
Accrued expenses	92,749	62,038
Trade payables to third parties	30,062	25,015
Payables to employees	21,226	28,276
Other taxes payable	3,493	4,232
Trade advances received	4,653	4,168
Provision for sales returns	4,528	4,173
Social taxes payable	1,851	1,762
Other payables	2,702	1,448
	161,264	131,112

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

26. 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.

(ii) Investments

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

(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	
	2012	2011
Loans and receivables, including bank deposits	236,606	351,434
Cash and cash equivalents	106,122	215,427
	342,728	566,861

Included in the above maximum amounts of exposure to credit risk are cash and cash equivalents of USD 106,122 thousand (2011: USD 215,427 thousand) and bank deposits of USD 12,236 thousand (2011: USD 131,059 thousand). 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	
	2012	2011
North America	71,068	72,939
Europe	72,235	68,550
CIS and Baltic	43,784	41,818
Far East and Pacific	17,642	22,415
Middle East and Africa	21,132	12,117
South America	6,618	6,228
	232,479	224,067

Impairment losses

'000 USD	Gross	Impairment	Gross	Impairment
	2012	2012	2011	2011
Debtor days are less or equal the standard payment terms	69,318	(183)	85,507	(45)
Debtor days exceed the standard payment terms by 0-60 days	72,126	(4,601)	75,371	(2,062)
Debtor days exceed by 61-120 days	36,963	(3,822)	28,240	(3,030)
Debtor days exceed by 121-365 days	28,903	(4,746)	23,190	(3,299)
Debtor days exceed by more than 365 days	25,169	(15,280)	11,759	(8,027)
	232,479	(28,632)	224,067	(16,463)

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

	2012 '000 USD	2011 '000 USD
Balance at beginning of the year	16,463	13,746
Bad debt expense	12,397	7,505
Write-off	(766)	(4,213)
Translation difference	538	(575)
Balance at the end of the year	28,632	16,463

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 2012	USD- denominated 2012	EUR- denominated 2012	RUB- denominated 2012	JPY- denominated 2012
Current assets					
Receivables	9,131	71,269	6,583	-	-
Cash and cash equivalents	3,335	42,663	21,195	-	-
Investments	-	12,236	-	-	-
Current liabilities					
Payables	-	(18,394)	(2,275)	-	(310)
Loans	-	-	-	(61,824)	(3,718)
	12,466	107,774	25,503	(61,824)	(4,028)

'000 USD	GBP- denominated 2011	USD- denominated 2011	EUR- denominated 2011
Current assets			
Receivables	7,866	69,799	7,632
Cash and cash equivalents	3,561	116,703	3,389
Investments	-	105,102	11,837
Current liabilities			
Payables	(3,500)	(25,746)	(30)
	7,927	265,858	22,828

The following significant exchange rates applied during the year

in USD	Average rate		Reporting date spot rate	
	2012	2011	2012	2011
RUB 1	0.0322	0.0340	0.0329	0.0311
EUR 1	1.2851	1.3915	1.3245	1.2943
GBP 1	1.5839	1.6029	1.6121	1.5416

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 2011.

	Equity '000 USD	Profit or (loss) '000 USD
2012		
EUR	(28,400)	12,555
RUB	(22,746)	3,941
2011		
EUR	24,458	32,167
RUB	(21,197)	3,550

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 2012 and 2011. 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 12,236 thousand (2011: USD 131,059 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.

27. Operating leases

Non-cancellable operating lease rentals are payable as follows:

'000 USD	2012	2011
Less than one year	25,115	14,261
Between one and five years	105,209	15,109
More than five years	108,736	3,674
	239,060	33,044

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 16,879 thousand was recognised in the statement of comprehensive income in respect of operating leases (2011: USD 15,878 thousand).

28. Contingencies

(a) Insurance

Some of the Group's significant subsidiaries operate in the Russian Federation. The insurance industry in Russia is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. In Russia the Group does not have full coverage for its facilities, business interruption, or third party liability in respect of damage relating to Group operations in Russia. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

(b) Litigation

As at the reporting date the Group was not involved in any litigation, which would give rise to material contingent liabilities.

(c) Taxation contingencies

The past few years have seen a shift in the approach taken by tax authorities in numerous territories around the world, including the UK, Russia and the US. Governments have been increasing their investment in resource with a view to maximising domestic tax revenues. The Group always seeks to comply with relevant legislation and treaties but inevitably there can be differences in interpretation of grey areas and the chances of successful challenge have increased.

Against this background, the position is exacerbated in the Russian Federation where some of the Group's significant subsidiaries operate. 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. 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, focusing more on the economic substance and not only the legal form of business transactions.

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable tax legislation, official pronouncements and court decisions in Russia and elsewhere. Management considers that the Group is properly entitled to all tax reliefs which it claimed, including the application of a reduced rate of social contribution by one of the Group's subsidiaries in the Russian Federation in accordance with certain tax provisions which allow IT companies to make social contributions at the reduced rate. In the absence of the reduced rate, the Group's subsidiary would be required to make additional contributions amounting to USD 9.6 million (in respect of both 2011 and 2012).

However, there is some ambiguity around the wording of the applicable tax legislation, official pronouncements and court decisions and their interpretations by the relevant authorities could differ from the Management's interpretation. The effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

29. Related party transactions

(a) Control relationships

The party with ultimate control over the Company is Eugene Kaspersky

(b) Transactions with management and close family members

Shareholders who hold in aggregate 98% of the Company's ordinary shares (2011 65%) 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)

	2012 '000 USD	2011 '000 USD
Salaries and bonuses	8,801	11,363
Payroll taxes	134	130
	8,935	11,493

(ii) Other transactions

Refer to note 29(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 2012	Transaction value 2011	Outstanding balance 2012	Outstanding balance 2011
Royalties from				
Entities owned or managed by members of the Group's Board of Directors	-	4,459	97	711
Sale of shares				
Shareholders/directors, who are part of key Management personnel	-	3,491	-	-
Other operations with				
Directors (refer to note 29(c)(iv))	2,000	-	3,119	1,056
	2,000	7,950	3,216	1,767

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 2012	Transaction value 2011	Outstanding balance 2012	Outstanding balance 2011
Services received				
Services from entities owned or managed by members of the Group's Board of Directors	-	(7,948)	-	-
Prepayments made for the above services	-	-	-	271
Purchase of own shares from a shareholder/director	(287,609)	(7,200)	-	-
Acquisition of subsidiaries from a director	-	(3,382)	-	-
Other operations with shareholders	-	(886)	-	(886)
	(287,609)	(19,416)	-	(615)

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 2012	Amount loaned 2011	Outstanding balance 2012	Outstanding balance 2011
Loans given to				
Other related party	-	-	-	1,458
Loan/financing received from				
A shareholder	-	(4,668)	-	(5,437)
	-	(4,668)	-	(3,979)

(iv) Loans given to directors

The Group provides interest free loans repayable on demand, the amount outstanding at the end of 2012 is USD 3,119 thousand (2011 USD 1,056 thousand)

(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

30. Significant subsidiaries

		2012	2011
	Country of incorporation	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 Lab Trading Ltd	United Kingdom	100%	100%
Kaspersky Labs GmbH	Germany	100%	100%
Kaspersky Lab Inc	USA	100%	100%
KK Kaspersky Lab Japan	Japan	99.95%	99.95%
Kaspersky Technology Development	China	100%	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%

31. Events subsequent to the reporting date

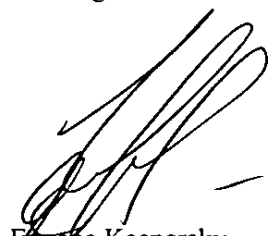
At the 7 of February 2013 the Group bought office building in Moscow with intention to move Moscow HQ there. The consideration for the building was about USD 345 million. In order to finance this deal the Group had to engage 3rd party financing – two loan facilities were obtained from VTB Bank (USD 190 million) and from bank consortium (USD 120 million).

		2012	2011
	Notes	'000 USD	'000 USD
ASSETS			
Non-current assets			
Investments in subsidiaries	C1	13,494	11,911
Intangible assets		-	403
Prepayments for non-current assets		3,000	-
Long-term loans to subsidiaries	C7	1,583	1,539
Total non-current assets		18,077	13,853
Current assets			
Trade and other receivables	C2	21,010	10,460
Cash and cash equivalents		1,232	15,407
Total current assets		22,242	25,867
Total assets		40,319	39,720

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 69 to 73

		2012	2011
	Notes	'000 USD	'000 USD
EQUITY AND LIABILITIES			
Equity	C3		
Share capital		1	1
Additional paid-in capital		19,332	17,774
Retained earnings		11,710	10,233
Total equity		31,043	28,008
Non-current liabilities			
Trade and other payables	C4	975	6,323
Loans and borrowings	C5	3,440	-
Total non-current liabilities		4,415	6,323
Current liabilities			
Trade and other payables	C4	4,861	2,144
Loans and borrowings	C5	-	3,245
Total current liabilities		4,861	5,389
Total liabilities		9,276	11,712
Total equity and liabilities		40,319	39,720

These Company financial statements were approved by the Board of Directors on 29 May 2013 and were signed on its behalf by



Eugene Kaspersky
Chief Executive Officer



Danil Borschev
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 69 to 73

Kaspersky Labs Limited
Registration number 4249748
Company Statement of Cash Flows for the year ended 31 December 2012

	2012	2011
	'000 USD	'000 USD
Cash flows from operating activities		
Profit for the year	285,154	23,319
<i>Adjustments for</i>		
Net finance income	(287,625)	(29,262)
Income tax expense	901	(854)
Depreciation	403	403
Operating loss before changes in working capital and provisions	(1,167)	(6,394)
Change in trade and other payables	1,773	3,630
Change in trade and other receivables	(4,739)	(347)
Cash flows used in operating activities	(4,133)	(3,111)
 INVESTING ACTIVITIES		
Dividends received	282,000	29,700
Acquisition of non-current assets	(3,000)	-
Interest received	3	32
Loan provided to a subsidiary	-	(1,500)
Acquisition of a subsidiary	-	(244)
Cash flows from investing activities	279,003	27,988
 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)
Share redemption	(289,045)	(7,200)
Cash flows used in financing activities	(289,045)	(10,658)
Net increase/(decrease) in cash and cash equivalents	(14,175)	14,219
Cash and cash equivalents at beginning of year	15,407	1,175
Effect of exchange rate fluctuations on cash and cash equivalents	-	13
Cash and cash equivalents at end of year	1,232	15,407

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 69 to 73

Kaspersky Labs Limited
Registration number 4249748
Company Statement of Changes in Equity for the year ended 31 December 2012

'000 USD	Ordinary shares	Preference shares	Additional paid-in capital	Retained earnings	Total equity
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 24(c)(i) and 24(c)(ii) to consolidated financial statements)	-	-	4,025	-	4,025
Issuance of preference shares (note 24(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
Balance at 1 January 2012	1	-	17,774	10,233	28,008
Profit for the year	-	-	-	285,154	285,154
Total comprehensive income for the year					285,154
Share redemption				(283,677)	(283,677)
Equity element of the long- term incentive plan			1,558		1,558
Balance at 31 December 2012	1	-	19,332	11,710	31,043

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 69 to 73

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

C1 Investments in subsidiaries

	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	Cost of investment '000 USD	Cost of investment '000 USD	Ownership/ voting	Ownership/ voting
OOO Kaspersky Group	7,562	6,468	100%	100%
Kaspersky Lab Asia Ltd	3,524	3,419	100%	100%
Kaspersky Labs GmbH	814	717	100%	100%
Kaspersky Lab France S A R L	791	736	51%	51%
Kaspersky Lab Inc	433	252	100%	100%
Kaspersky Lab Turkey	125	125	99%	99%
KK Kaspersky Lab Japan	119	119	99.5%	99.5%
Kaspersky Lab (UK) Ltd	-	27	-	100%
Kaspersky Lab Trading Ltd	27	-	100%	-
Other minor subsidiaries	99	48	100%	100%
	13,494	11,911		

C2 Trade and other receivables

	2012 '000 USD	2011 '000 USD
Receivables from subsidiary (refer to note C7(i))	19,010	10,112
Receivables from director (refer to note C7(iii))	2,000	-
Other receivables	-	348
	21,010	10,460

C3 Equity

(a) Share capital and additional paid-in capital

<i>Number of shares unless otherwise stated</i>	Shares 2012	Shares 2011
Authorised shares at beginning of year	110,000,000	110,000,000
Authorised shares at end of year	110,000,000	110,000,000
Shares authorised, not issued at beginning of year	(9,679,832)	(14,700,000)
Share allotment	-	503,115
Preference share issue	-	5,417,053
Share cancellation	(32,142,954)	(900,000)

<i>Number of shares unless otherwise stated</i>	Shares	Shares
	2012	2011
Shares authorised, not issued at end of year	(41,822,786)	(9,679,832)
On issue at end of period, fully paid	68,177,214	100,320,168
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	USD 0 0000162 (equivalent of 0 00001 GBP)	USD 0 0000154 (equivalent of 0 00001 GBP)

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

(b) Dividends

In accordance with UK legislation the Company's distributable reserves are limited to the balance of retained earnings as recorded in the Company's statutory financial statements prepared in accordance with the UK accounting principles. During the year ended 31 December 2012 no dividends were approved and paid (2011 USD 15,000 thousand or GBP 0.1 per share)

(c) Share-based compensation

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

C4 Trade and other payables

	2012	2011
	'000 USD	'000 USD
Non-current:		
Payables to shareholders (refer to note C7(i), C7(ii))	-	6,323
Other payables	975	-
	975	6,323
Current:		
Other payables and accrued expenses	1,217	2,144
Other payables to related parties	2,377	-
Income tax payable	1,267	-
	4,861	2,144

C5 Current loans and borrowings

Current loans and borrowings as at 31 December 2012 of USD 3,440 thousand (2011 nil) represent loans from subsidiary (with the interest rates of 5.0 and 5.25 per cent) repayable on 31 December 2014, 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 2012	Transaction value 2011	Outstanding balance 2012	Outstanding balance 2011
Dividend income from				
Subsidiary	282,000	30,000	16,934	9,258
Other revenue from				
Subsidiaries	394	242	-	-
Sale of own shares				
Shareholder	-	2,849	-	-
Current tax off-set under one tax group				
Subsidiaries	366	854	2,076	854
	<u>282,760</u>	<u>33,945</u>	<u>19,010</u>	<u>10,112</u>

(ii) Expenses

'000 USD	Transaction value 2012	Transaction value 2011	Outstanding balance 2012	Outstanding balance 2011
Services received				
Services from other related party	-	-	-	-
Services from subsidiaries	1,403	2,032	(2,377)	-
- Acquisition of subsidiary from a director	-	3,382	-	-
- Purchase of own shares from a director/shareholder	287,609	7,200	-	-
- Other operation with a director/shareholder	-	886	-	(886)
	<u>289,012</u>	<u>13,500</u>	<u>(2,377)</u>	<u>(886)</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
	2012	2011	2012	2011
Loans/financing received from				
Subsidiaries	-	-	(3,440)	(3,245)
A shareholder	-	(4,668)	-	(5,437)
Loans/prepayment granted to				
A shareholder/Director	2,000	-	2,000	-
Subsidiaries	-	1,539	1,583	1,539
	<u>2,000</u>	<u>(3,129)</u>	<u>143</u>	<u>(7,143)</u>

The loan granted to related parties bears 3% interest and is repayable in 3 years