



Registration number: 4249748

## **Kaspersky Labs Limited**

### **Directors' Report and Consolidated Financial Statements for the year ended 31 December 2017**

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## **Strategic Report**

The Directors of Kaspersky Labs Limited present their strategic and directors' reports and the audited consolidated financial statements for the year ended 31 December 2017.

### **(a) Principal activities**

Kaspersky Labs Limited (the "Company"), a private company limited by shares, and its subsidiaries (together referred to as the "Group" or "Kaspersky Lab") comprise of private limited companies in accordance with The Companies Act 2006 located in 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.

Kaspersky Lab is one the world's largest privately owned cybersecurity companies, with a holding registered in the United Kingdom.

The Group was founded in 1997 and today it is an international group operating in almost 200 countries and territories worldwide. It has 35 representative territory offices in 31 countries across 5 continents. Kaspersky Lab has a corporate client base of more than 270,000 companies located around the globe, ranging from small and medium-sized businesses to large governmental and commercial organizations. Over 400 million people worldwide are protected by Kaspersky Lab products and technologies. Kaspersky Lab currently employs more than 3,900 qualified specialists. Almost forty percent of Kaspersky Lab's employees are R&D specialists.

The Group's portfolio encompasses solutions to suit a wide range of customers, protecting consumers, small companies, medium-sized businesses and enterprises from different types of threats and provide them with convenient tools to control and manage their security.

Kaspersky Lab empowers consumers with a range of products to protect all corners of their lives from cybercrime. It understands the needs of small businesses and has a unique multi-layered solution especially for them, which unites ease of management and effective protection. The Group covers all the needs of large enterprises with its full enterprise platform that helps to prevent all types of cyberthreats, detects even the most sophisticated attacks, responds to security incidents and predicts the evolution of the threat landscape. Kaspersky Lab offers a comprehensive portfolio of solutions and services that spans securing every node in the corporate network, including mobile and portable devices, to protecting data centers and industrial environments as a whole.

Endpoint security has always been the core of Kaspersky Lab business, especially in the small-to-medium-sized business segment. At the same time, over the next few years, the Group expects one of its main growth drivers to be in the enterprise market, particularly in the non-endpoint security area. Customers' needs change in line with the evolution of the threat landscape. Therefore, the Group is continuously expanding its enterprise portfolio with security solutions and services strengthened by its global cybersecurity intelligence.

The Group's most valuable asset is the wealth of expertise it has gained in its years of combating major IT threats. Kaspersky Lab's Global Research and Analysis Team (GReAT) is an elite group of more than forty leading security experts who operate all over the world and provide leading anti-threat intelligence and research. The team is well-known for the discovery and dissection of the world's most sophisticated threats, including cyber-espionage and cybersabotage threats such as Flame and miniFlame, Gauss, RedOctober, NetTraveler, Icefog, Careto/The Mask, Darkhotel, Regin, Cloud

Atlas, Epic Turla, Equation, Duqu 2.0, Metel, Adwind, ProjectSauron, Sofacy (Fancy Bear), CozyDuke (Cozy Bear), Black Energy (Sand Worm), Lazarus, ExPetr, ShadowPad, WhiteBear, and more. To chronicle all of the ground-breaking malicious cybercampaigns that have been investigated by GReAT, Kaspersky Lab has launched its Targeted Cyberattack Logbook.

The Group's commitment to its customers as well as advanced technology ensure its competitiveness. The Group has been named a Leader in endpoint protection by analyst firm Forrester. Kaspersky Lab has been recognized for its customer satisfaction ratings, receiving the Platinum Award as part of the 2017 Gartner Peer Insights Customer Choice Awards for Endpoint Protection Platforms.

Management believes that a joint effort is the most effective way to fight cybercriminals. To this end, the Group shares its expertise, knowledge and technical findings with the world's security community. It takes part in joint cyberthreat investigations with such companies as Adobe, AlienVault Labs, Dell Secureworks, CrowdStrike and others. INTERPOL and Europol are, respectively, the Group's strategic and official partners. Kaspersky Lab supports INTERPOL's Digital Crime Center at the Global Complex for Innovation (IGCI) in Singapore with products and intelligence. The Center is responsible for carrying out the technical part of INTERPOL's investigations into cyber-incidents. Other partners in the field of law enforcement include, but are not limited to The City of London Police, The National High Tech Crime Unit (NHTCU) of the Netherlands' Police Agency, and the Microsoft Digital Crimes Unit and, as well as Computer Emergency Response Teams (CERTs) and many other police authorities worldwide.

By joining forces, the Group helped fighting cybercrime (such as the Carbanak case), disrupt criminal botnets (for example, Simda), and launch new initiatives (such as No More Ransom). The Group takes part in joint cyberthreat investigations and conducts trainings for cybersecurity specialists. Collaboration between the Dutch police and Kaspersky Lab led to the arrest of suspects behind the CoinVault ransomware attacks.

Kaspersky Lab is involved in the discussion and development of cybersecurity initiatives and standards through its advisory group memberships (i.e. the Cyber Secure America Coalition, the National Institute of Standards and Technology and the Anti-Malware Testing Standards Organization). Aiming to solve the cyber security challenges faced by the modern world today, Kaspersky Lab is also a member of initiatives and organizations such as Securing Smart Cities and the Industrial Internet Consortium.

**(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 in the Principal Risks and Uncertainties on pages 6 to 8. In addition, note 23 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 Group is well placed to manage its business risks successfully.

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

**(c) Business review**

The key market in which the Group operates is endpoint security. It encompasses products that are designed to protect endpoints from attack or to protect information residing on endpoints, both physical and virtual, regardless of operating system type — including Windows, Linux, Mac OS, iOS, and Android. Endpoint security products provide security using or leveraging an endpoint agent or client as a core or fundamental component. If a solution does not include a client or agent, the solution would be included within another functional market such as network or core. The endpoint security category covers both corporate and consumer products. Global corporate and consumer markets are growing approx. at 7% and 2% per year.

The other key markets where Kaspersky Lab is present are:

- Web security – web security products are deployed on software, appliance, SaaS, and virtual platforms. The submarkets of the web security products include URL filtering, web antimalware, web application firewall, and web content filtering products. Selected data loss prevention technologies can be included in web security as well. Web security products protect against both inbound (malware) and outbound (data leakage) threats. This market grows at 3% per year.
- Messaging security – messaging security solutions are deployed on all security platforms. This market includes three submarkets: antispam, antimalware, and content filtering. Messaging security can also contain selected data loss prevention, alongside selected information protection and control, technologies. These products are designed to work with applications, including email, instant messaging (IM), and other collaborative applications. This market grows at 7% per year.

The Group also extends its product portfolio in Security Services (Threat Intelligence and advanced technical support), Anti-DDoS, Online Fraud Prevention, Anti-Targeted Attacks, Industrial CyberSecurity and EDR (Endpoint Detection & Response).

The Group measures its progress against goals using the following key performance indicators (“KPIs”): billings, revenue, results from operating activity and net profit.

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 its customers during a reporting period measured by the monetary amounts of invoices issued to its 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 a reporting period.

The Group’s performance in 2017 was significantly influenced by the changes of the foreign currency exchange rates. USD weakened during 2017 against the EUR and the RUB, the main currencies affecting the Group’s operations, by 12% and 5%, respectively.

The Group’s billings increased in 2017 by 6% from USD 673 million in 2016 to USD 711 million, which is consistent with the market growth. Billings expressed in local currencies of the countries, in which the sales are made, increased in 2017 by 3% compared to 2016. In addition to its core business revenues, the Group earned USD 10 million of lease income from letting out office premises.

The Group's revenue increased by 8% from USD 655 million in 2016 to USD 708 million in the current reporting period. Similar factors affect the dynamics of the Group's revenue and billings. Revenue in constant currency terms increased in 2017 by 5% compared to 2016.

The Group's profit from operating activities decreased by 43% from USD 114 million in 2016 to USD 65 million in 2017. In constant currency terms, the decrease would be 39%. This is mainly due to higher research and development expenses, which increased by 22% in constant currency terms to develop the Group's technology excellence.

For similar reasons, the Group's EBITDA<sup>1</sup> decreased from USD 156 million in 2016 to USD 129 million in 2017.

The Group's net finance costs of USD 55 million are primarily due to the approx. USD 49 million loss from the revaluation of a loan between two entities of the Group with different functional currencies. The loan is denominated in USD, the creditor and the debtor under the loan have the EUR and the USD as their functional currencies, respectively. As the EUR strengthened against the USD in 2017, the carrying value of the loan decreased in the books of the creditor causing a loss, but did not change in the books of the debtor. The effect of the revaluation of the loan in the books of the debtor was reflected in the foreign currency translation reserve in equity as a gain, so that the effect of the revaluation of the intercompany loan on the Group's net assets is neutral.

The Group's profit before income tax decreased from USD 127 million in 2016 to USD 10 million in 2017. The Group's effective tax rate increased significantly from 29% to 256% due to such factors as the negative effect of changes of the reduction of tax rates in the US upon the deferred tax assets, tax losses on which no deferred tax asset was recognised and non-deductible goodwill impairment and other expenses.

As a result of factors described above, the Group's net loss for 2017 amounted to USD 16 million (2016: net profit of USD 91 million). But due to the increase of the foreign currency translation reserve of USD 30 million in other comprehensive income, the Group's net assets increased during 2017 from USD 45 million to USD 52 million.

**(d) Principal risks and uncertainties**

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

The Group conducts operations on different national markets and can be significantly affected by geopolitical situations in the world. During 2017 the Group, which has a significant portion of operations in Russia, received negative media coverage in the US claiming that the Group's products could be used for spying against the U.S. Following this, the US Department of Homeland Security's (DHS) banned the use of the Group's products in federal agencies. Subsequently President Donald Trump signed a military bill into law that prohibits all civilian and military agencies from using software products from Kaspersky Lab. As a result, DHS's actions and the law have caused undue

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<sup>1</sup> EBITDA for twelve months ended 31 December 2017 includes IFRS operating profit of USD 65,365 thousand (2016: USD 113,798 thousand) plus depreciation and amortisation USD 50,582 thousand (2016: USD 42,159 thousand), impairment of software licenses held for resale of USD 9,940 thousand (2016: nil) and goodwill impairment of USD 3,000 thousand (2016: nil).

damage to both the Group's reputation in the IT security industry and its sales in the U.S. It has unfairly called into question Kaspersky Lab's fundamental principles of protecting its customers and combatting cyber threats, regardless of their origin or purpose. In December 2017 and February 2018 the Group has filed appeals in the U.S. Court to enforce its constitutional due process rights and challenge the DHS actions and the Federal law prohibiting the use of the Group's products and solutions by U.S. government agencies which are unconstitutional and relied on subjective, non-technical public sources such as uncorroborated and often anonymously sourced media reports, related claims and rumors. In filing these appeals, Kaspersky Lab hopes to protect its due process rights under the U.S. Constitution and federal law and repair the harm caused to its commercial operations, its U.S.-based employees, and its U.S.-based business partners. In May 2018 the two appeals were dismissed by the U.S. Court, and the Group filed appeals to challenge these decisions of the Court.

As evidence of its commitment to trust, transparency, and accountability, Kaspersky Lab launched its *Global Transparency Initiative* on 23 October 2017. This Initiative will include an independent review of the Group's source code, software updates and threat detection rules; an independent review of internal processes to verify the integrity of the Group's solutions and processes; three transparency centers by 2020, in Asia, Europe and the U.S.; and increased bug bounty rewards up to USD 100 thousand per discovered vulnerability in Kaspersky Lab products.

As a result of the negative media coverage in the U.S. the Group revisited its forecasts on the local market and reflected a partial impairment of goodwill on the acquisition of its U.S. subsidiary in the amount of USD 3 million, the remaining U.S. goodwill on the balance sheet amounting to USD 7 million.

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 in 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.

Endpoint security has historically been the core of the Group's business; this security market is close to maturity and the growth is minimal. This may negatively affect the Group's financial performance and position in the future. To manage this risk we are constantly expanding our product portfolio with solutions in the non-endpoint security area, such as critical infrastructure IT protection, cybersecurity intelligence and Secure Web / E-Mail Gateway services.

Some of the third-party products in the endpoint security market (especially the consumer segment) are free. The trend of moving to free products is especially apparent in the Asian markets. In most cases, the free products are only providing basic antivirus protection 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 and by introducing a freemium software model.

The Group's policy in working with customers is focused on market penetration. As such, extended credit terms are granted to some of the Groups' major distributors. 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 Group manages this risk by

developing a network of long-term reliable distributors and by day-to-day monitoring of exposure to individual customers. Credit risk management activities are led by a Credit Committee including representatives of top management. Note 23(c)(iii) of the consolidated financial statements sets out a description of this risk.

The Group is exposed to foreign currency risk, because some entities of the Group need to carry out sales and purchases and make external borrowings in currencies different from the functional currencies of these entities. This risk is mitigated by the day-to-day monitoring of the Group's open foreign currency position and the currency structure of its financial resources. Note 23(f) of the consolidated financial statements sets out a description of this risk.

The Group's operating margins were negatively affected by the fluctuations of foreign currency exchange rates, but remain healthy (9% in 2017 and 17% in 2016) and its operating cash flow has been considerable in recent years (USD 106 million in 2017 and USD 154 million in 2016). The Group's net current monetary assets position remains stable. The Group's most significant liabilities as at the reporting date are non-monetary deferred income of USD 560 million (2016: USD 507 million) due to the Group's revenue recognition policy. The Group's monetary current assets<sup>2</sup> at 31 December 2017 are USD 380 million (2016: USD 338 million). These monetary current assets exceed the Group's monetary current liabilities<sup>3</sup> of USD 169 million (2016: USD 156 million).

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.

On behalf of the board



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

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<sup>2</sup> Monetary current assets as at 31 December 2017 include cash and cash equivalents of USD 117 million (2016: USD 120 million), trade receivables of USD 186 million (2016: USD 174 million), less provision for bad and doubtful debts of USD 18 million (2016: USD 17 million), plus other receivables of USD 5 million (2016: USD 3 million), investments of USD 90 million (2016: USD 58 million).

<sup>3</sup> Monetary current liabilities as at 31 December 2017 include trade and other payables of USD 165 million (2016: USD 137 million), less advances received of USD 0.7 million (2016: USD 0.4 million), social and other taxes payable of USD 11 million (2016: USD 8 million) plus the current portion of bank loans payable of USD 16 million (2016: USD 27 million).

## Directors' Report

The Directors of Kaspersky Labs Limited present their directors' report for the year ended 31 December 2017.

**(a) Directors**

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

E. Kaspersky

A. De-Monderik

A. Tikhonov

D. Borschev

A. Coster

Resigned 18 January 2018

**(b) Distribution to shareholders**

During the year ended 31 December 2017 dividends of USD 8,469 thousand were approved and paid (2016: no dividends were declared or paid).

**(c) Redemption of the Company's own shares**

During the year the Group did not acquired its own shares.

**(d) Research and development**

The Group undertakes research and development in connection with its principal activity. The Group's research and development expenses increased by 37% from USD 103,190 thousand in 2016 to USD 141,059 thousand in 2017. The increase was mostly due to an increase in payroll costs (due to headcount rise) and increase in depreciation of R&D related fixed assets. The average number of employees involved in research and development increased from 1,454 to 1,725.

**(e) 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.

**(f) 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.

**(g) Environment**

The Group 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.

**(h) Charitable and political donations**

During 2017 the Group made charitable donations of USD 1,803 thousand (2016: USD 1,926 thousand) to orphanages, hospitals and schools. No donations were made to political parties.

**(i) 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 himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

**(j) Statement of Directors' responsibilities in respect of the Strategic Report, Directors' Report and the consolidated financial statements**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the consolidated 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 International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the directors must not approve the consolidated 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 judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

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 consolidated financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, and have

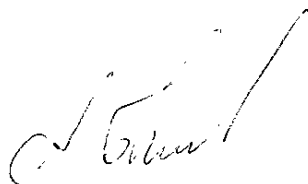
general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

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 consolidated financial statements may differ from legislation in other jurisdictions.

**(k) Auditors**

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

On behalf of the board



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

20 June 2018

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KASPERSKY LABS LIMITED**

### **Opinion**

We have audited the consolidated financial statements of Kaspersky Labs Limited ("the Company") for the year ended 31 December 2017 which comprise the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and related notes, including the significant accounting policies in note 30.

In our opinion:

- the consolidated 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 2017 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (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 consolidated financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### **Going concern**

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the consolidated financial statements. We have nothing to report in these respects.

### **Strategic report and directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the consolidated financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our consolidated financial statements audit work, the information therein is

materially misstated or inconsistent with the consolidated financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the consolidated financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

#### **Matters on which we are required to report by exception**

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

#### **Directors' responsibilities**

As explained more fully in their statement set out on pages 10 to 11, the directors are responsible for: the preparation of the consolidated financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

#### **Auditors' responsibilities**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditors' report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

**The purpose of our audit work and to whom we owe our responsibilities**

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 auditors' 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.

CH LeStrange Meakin 4<sup>th</sup> July 2018

**Charles Le Strange Meakin (Senior Statutory Auditor)**

**for and on behalf of KPMG LLP, Statutory Auditor**


*Chartered Accountants*

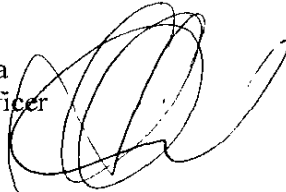
1 Forest Gate  
Brighton Road  
Crawley  
RH11 9PT  
United Kingdom

*Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2017*

'000 USD	Note	2017	2016
<b>Revenue</b>	2	<b>707,623</b>	<b>655,381</b>
Cost of sales	3	(54,706)	(57,248)
<b>Gross profit</b>		<b>652,917</b>	<b>598,133</b>
Research and development expenses	4	(141,059)	(103,190)
Distribution expenses	5	(312,322)	(281,521)
Administrative expenses	6	(107,254)	(89,192)
Other expenses, net	7	(26,917)	(10,432)
<b>Profit from operating activities</b>		<b>65,365</b>	<b>113,798</b>
Finance income	10	6,082	19,220
Finance costs	10	(61,356)	(6,129)
Net finance (costs)/income		(55,274)	13,091
<b>Profit before income tax</b>		<b>10,091</b>	<b>126,889</b>
Income tax expense	11	(25,790)	(36,289)
<b>(Loss)/profit for the year</b>		<b>(15,699)</b>	<b>90,600</b>
<b>Other comprehensive income</b>			
Item that are or may be reclassified subsequently to profit and loss			
Foreign currency translation differences for foreign operations		30,477	(5,357)
Other comprehensive income for the year, net of income tax		30,477	(5,357)
<b>Total comprehensive income for the year</b>		<b>14,778</b>	<b>85,243</b>
(Loss)/profit attributable to:			
Owners of the Company		(15,698)	90,542
Non-controlling interests	28	(1)	58
<b>(Loss)/profit for the year</b>		<b>(15,699)</b>	<b>90,600</b>
Total comprehensive income attributable to:			
Owners of the Company		14,779	85,177
Non-controlling interests		(1)	66
<b>Total comprehensive income for the year</b>		<b>14,778</b>	<b>85,243</b>

These consolidated financial statements were approved by the Board of Directors on 20 June 2018 and were signed on its behalf by:

  
Andrey Tikhonov  
Chief Operating Officer

  
Lyudmila Smirnova  
Chief Financial Officer

**Kaspersky Labs Limited**  
Registration number: 4249748  
Consolidated Statement of Financial Position as at 31 December 2017

‘000 USD	Note	2017	2016
<b>Assets</b>			
Property, plant and equipment	12	246,988	262,124
Investment property	13	56,717	59,916
Intangible assets	14	33,893	32,401
Deferred tax assets	15	46,808	43,402
Other receivables		465	-
<b>Non-current assets</b>		<b>384,871</b>	<b>397,843</b>
Inventories	16	1,288	11,843
Other investments	17	99,737	58,967
Trade and other receivables	18	182,294	168,430
Prepayments		23,472	18,305
Prepaid corporate profit tax		7,207	-
Cash and cash equivalents	19	116,692	120,031
<b>Current assets</b>		<b>430,690</b>	<b>377,576</b>
<b>Total assets</b>		<b>815,561</b>	<b>775,419</b>

*Consolidated Statement of Financial Position as at 31 December 2017*

'000 USD	Note	2017	2016
<b>Equity</b>	20		
Share capital		1	1
Additional paid-in capital		21,753	21,753
Translation reserve		(31,019)	(61,496)
Retained earnings		60,865	85,032
<b>Equity attributable to owners of the Company</b>		<b>51,600</b>	<b>45,290</b>
Non-controlling interests		(8)	(7)
<b>Total equity</b>		<b>51,592</b>	<b>45,283</b>
<b>Liabilities</b>			
Bank loans	22	7,744	37,584
Non-current deferred income		121,682	105,849
Deferred tax liabilities	15	6,087	10,737
Other payables		2,354	2,404
<b>Non-current liabilities</b>		<b>137,867</b>	<b>156,574</b>
Bank loans	22	15,722	26,607
Trade and other payables	21	164,770	137,486
Deferred income		438,318	401,137
Income tax payable		7,292	8,332
<b>Current liabilities</b>		<b>626,102</b>	<b>573,562</b>
<b>Total liabilities</b>		<b>763,969</b>	<b>730,136</b>
<b>Total equity and liabilities</b>		<b>815,561</b>	<b>775,419</b>

**Attributable to equity holders of the Company**

	Ordinary shares	Additional paid-in capital	Translation reserve	Retained earnings	Total	Non-controlling interests (note 28)	Total equity
Balance at 1 January 2017	1	21,753	(61,496)	85,032	45,290	(7)	45,283
<b>Total comprehensive income</b>							
Loss for the year	-	-	-	(15,698)	(15,698)	(1)	(15,699)
<b>Other comprehensive income</b>							
Foreign currency translation differences	-	-	30,477	-	30,477	-	30,477
<b>Total other comprehensive income</b>	-	-	30,477	-	30,477	-	30,477
<b>Total comprehensive income for the year</b>	-	-	30,477	(15,698)	14,779	(1)	14,778
<b>Transactions with owners, recorded directly in equity</b>							
Contributions by and distributions to owners	-	-	-	(8,469)	(8,469)	-	(8,469)
Dividends	-	-	-	(8,469)	(8,469)	-	(8,469)
<b>Total contributions by and distributions to owners</b>	-	-	-	(8,469)	(8,469)	-	(8,469)
<b>Total transactions with owners</b>	-	-	-	(8,469)	(8,469)	-	(8,469)
Balance at 31 December 2017	1	21,753	(31,019)	60,865	51,600	(8)	51,592

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 22 to 66.

**Attributable to equity holders of the Company**

	Ordinary shares	Additional paid-in capital	Translation reserve	Retained earnings	Total	Non-controlling interests (note 28)	Total equity
Balance at 1 January 2016	1	21,753	(56,131)	(4,447)	(38,824)	1,317	(37,507)
<b>Total comprehensive income</b>							
Profit for the year	-	-	-	90,542	90,542	58	90,600
<b>Other comprehensive income</b>							
Foreign currency translation differences	-	-	(5,365)	-	(5,365)	8	(5,357)
<b>Total other comprehensive income</b>	-	-	(5,365)	-	(5,365)	8	(5,357)
<b>Total comprehensive income for the year</b>	-	-	(5,365)	90,542	85,177	66	85,243
<b>Transactions with owners, recorded directly in equity</b>							
<b>Contributions by and distributions to owners</b>							
Share redemption	-	-	-	(2,260)	(2,260)	-	(2,260)
Acquisition of non-controlling interest	-	-	-	1,197	1,197	(1,390)	(193)
<b>Total contributions by and distributions to owners</b>	-	-	-	(1,063)	(1,063)	(1,390)	(2,453)
<b>Total transactions with owners</b>	-	-	-	(1,063)	(1,063)	(1,390)	(2,453)
<b>Balance at 31 December 2016</b>	1	21,753	(61,496)	85,032	45,290	(7)	45,283

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 22 to 66.

**Kaspersky Labs Limited**  
Registration number: 4249748  
Consolidated Statement of Cash Flows for the year ended 31 December 2017

'000 USD	Note	2017	2016
<b>Cash flows from operating activities</b>			
(Loss)/profit for the year		(15,699)	90,600
<i>Adjustments for:</i>			
Depreciation and amortisation	12, 13,14	50,582	42,159
Goodwill impairment	14	3,000	-
Loss on disposal of property, plant and equipment	12	1,018	106
Loss on disposal of intangible assets	14	81	7
Net finance costs/(income)	10	55,274	(13,091)
Income tax expense	11	25,790	36,289
<b>Cash from operating activities before changes in working capital and provisions</b>		<b>120,046</b>	<b>156,070</b>
Change in inventories		11,123	61
Change in trade and other receivables		(10,999)	9,092
Change in trade and other payables		27,059	(2,505)
Change in deferred income		1,722	29,643
<b>Cash flows from operations before income taxes and interest paid</b>		<b>148,951</b>	<b>192,361</b>
Income tax paid		(41,073)	(33,427)
Interest paid	22	(1,810)	(5,214)
<b>Net cash from operating activities</b>		<b>106,068</b>	<b>153,720</b>
<b>Cash flows from investing activities</b>			
Cash from withdrawing bank deposits and other investments		240,140	6,650
Interest received		4,691	2,200
Dividends received		399	310
Acquisition of property, plant and equipment	12	(21,189)	(25,972)
Acquisition of investment property	13	(89)	(13)
Acquisition of intangible assets	14	(12,818)	(9,935)
Acquisition of other investments	17	(280,419)	(34,400)
<b>Net cash used in investing activities</b>		<b>(69,285)</b>	<b>(61,160)</b>

**Kaspersky Labs Limited**  
Registration number: 4249748  
Consolidated Statement of Cash Flows for the year ended 31 December 2017

'000 USD	Note	2017	2016
<b>Cash flows from financing activities</b>			
Repayment of borrowings	22	(41,061)	(108,055)
Dividends paid	20	(8,469)	-
Own share redemption		-	(2,260)
Acquisition of non-controlling interests		-	(193)
<b>Net cash used in financing activities</b>		<b>(49,530)</b>	<b>(110,508)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(12,747)</b>	<b>(17,948)</b>
Cash and cash equivalents at 1 January		120,031	138,668
Effect of exchange rate fluctuations on cash and cash equivalents		9,408	(689)
<b>Cash and cash equivalents at 31 December</b>	19	<b>116,692</b>	<b>120,031</b>

<b>Note</b>	<b>Page</b>	<b>Note</b>	<b>Page</b>
1. Basis of preparation	23	18. Trade and other receivables	35
2. Revenue	24	19. Cash and cash equivalents	35
3. Cost of sales	24	20. Capital and reserves	36
4. Research and development expenses	24	21. Trade and other payables	36
5. Distribution expenses	25	22. Bank loans	37
6. Administrative expenses	25	23. Fair values and risk management	37
7. Other income and expenses	25	24. Operating leases	44
8. Personnel costs	26	25. Contingencies	45
9. Auditors' remuneration	26	26. Related party transactions	46
10. Finance income and finance costs	27	27. Subsidiaries	47
11. Income tax expense	28	28. Non-controlling interests	50
12. Property, plant and equipment	29	29. Events subsequent to the reporting date	52
13. Investment property	30	30. Significant accounting policies	52
14. Intangible assets	31	31. New standards and interpretations not yet adopted	64
15. Deferred tax assets and liabilities	32	32. Determination of fair values	65
16. Inventories	34		
17. Other investments	34		

## 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
JSC Kaspersky Lab	Russia	Russian Ruble
JSC VSSI	Russia	United States Dollars
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
KL Anti-Virus Solutions (S de RL de CV)	Mexico	Mexican Peso

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 13 – investment property;
- Note 30 (n)– revenue recognition policy;
- Note 25 – contingencies.

## 2. Revenue

Revenue earned by the Group consists of the following types:

	2017	2016
	'000 USD	'000 USD
Sales of licenses	697,737	643,830
Rental income from leasing investment property	9,886	11,551
<b>Total revenues</b>	<b>707,623</b>	<b>655,381</b>

## 3. Cost of sales

	2017	2016
	'000 USD	'000 USD
Services	19,035	19,184
Wages, salaries and bonuses	13,718	14,736
Payroll taxes	1,601	1,657
Materials	9,016	10,039
Investment property costs	4,154	3,425
Investment property depreciation	3,388	4,773
Depreciation and amortisation	2,318	2,018
Rent	1,476	1,416
	<b>54,706</b>	<b>57,248</b>

## 4. Research and development expenses

	2017	2016
	'000 USD	'000 USD
Wages, salaries and bonuses	83,374	58,596
Payroll taxes	7,291	5,084
Depreciation and amortisation	24,582	18,746
Services	22,441	18,835
Rent	3,371	1,929
	<b>141,059</b>	<b>103,190</b>

## 5. Distribution expenses

	2017	2016
	'000 USD	'000 USD
Advertising and marketing expenses	115,849	110,127
Wages, salaries and bonuses	107,226	90,593
Payroll taxes	13,999	10,269
Services and commissions	57,887	56,057
Depreciation and amortisation	9,057	7,256
Rent	6,880	6,519
Bad debt expense	1,424	700
	<b>312,322</b>	<b>281,521</b>

## 6. Administrative expenses

	2017	2016
	'000 USD	'000 USD
Wages, salaries and bonuses	50,616	37,694
Payroll taxes	4,828	3,591
Services	30,331	30,413
Depreciation and amortisation	11,237	9,366
Company events	7,608	6,062
Rent	2,634	2,066
	<b>107,254</b>	<b>89,192</b>

## 7. Other income and expenses

	2017	2016
	'000 USD	'000 USD
Non-recoverable VAT	(13,335)	(10,073)
Provision for software licenses held for resale (refer to note 16)	(9,940)	-
Goodwill impairment (refer to note 14)	(3,000)	-
Other expenses	(1,377)	(662)
Other income	735	303
	<b>(26,917)</b>	<b>(10,432)</b>

## 8. Personnel costs

### (a) Personnel remuneration

	2017 '000 USD	2016 '000 USD
Wages, salaries and bonuses	243,095	201,619
Payroll taxes	27,359	20,268
Long-term incentive plan	11,839	-
Contributions to non-mandatory defined contribution pension plans	360	333
	<b>282,653</b>	<b>222,220</b>

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

	2017	2016
Research and development	1,725	1,454
Sales and marketing	1,087	1,107
General and administrative	872	828
Customer support	292	297
	<b>3,976</b>	<b>3,686</b>

### (b) Directors' emoluments

The average number of directors during 2017 was 5 (2016: 5). Salaries of the directors of USD 3,894 thousand (2016: USD 3,808 thousand) are included in the personnel costs.

The emoluments of the highest paid director were USD 1,506 thousand (2016: USD 1,371 thousand). Social taxes paid were USD 64 thousand (2016: USD 56 thousand).

## 9. Auditors' remuneration

	2017 '000 USD	2016 '000 USD
Audit of these financial statements	287	343
Audit of other subsidiaries	267	319
	<b>554</b>	<b>662</b>

## 10. Finance income and finance costs

	2017 '000 USD	2016 '000 USD
<b>Finance income</b>		
Net foreign exchange gain	-	14,787
Investment gain	3,724	2,798
Interest income on bank deposits	1,959	1,329
Dividend income	399	306
Finance income	6,082	19,220
<b>Finance costs</b>		
Net foreign exchange loss	(57,989)	-
Interest expense	(2,159)	(4,881)
Bank commissions	(915)	(787)
Unwinding of discount	(293)	(117)
Investment loss	-	(344)
Finance costs	(61,356)	(6,129)
Net finance (costs)/income recognised in profit or loss	<b>(55,274)</b>	<b>13,091</b>

## 11. Income tax expense

The Group's applicable tax rate is the income tax rate of 19.2% for United Kingdom companies.

	2017	2016
	'000 USD	'000 USD
<b>Current tax expense</b>		
Current period	28,485	32,986
Under/(over) provided in previous years	3,827	(347)
	<b>32,312</b>	<b>32,639</b>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	(6,251)	4,670
Overprovided in previous years	(271)	(1,020)
	<b>25,790</b>	<b>36,289</b>

### Reconciliation of effective tax rate:

	2017		2016	
	'000 USD	%	'000 USD	%
(Loss)/profit for the year	(15,699)	(156)	90,600	71
Income tax expense	25,790	256	36,289	29
Profit before income tax	10,091	100	126,889	100
Tax at the UK statutory blended rate of 19.2% (2016: 20%)	(1,937)	19	(25,378)	20
Non-deductible expenses	(9,393)	93	(7,681)	6
Effect of tax rates in foreign jurisdictions	(4,367)	43	(2,067)	2
Foreign tax suffered	(3,977)	40	(3,744)	3
Effect of changes of the tax rates in foreign jurisdictions upon deferred tax balances	(2,395)	24	-	-
Current year losses for which no deferred tax assets were recognised	(783)	8	-	-
Deferred tax recognised due to decrease in tax base of property, plant and equipment	618	(6)	1,214	(1)
(Under)/over provided in prior years	(3,556)	35	1,367	(1)
	<b>(25,790)</b>	<b>256</b>	<b>(36,289)</b>	<b>29</b>

The Finance Act 2015 (No. 2) provides for the main rate of corporation tax to fall to 17% in 2020. This rate reduction has been reflected in the calculation of deferred tax at the reporting date.

## 12. Property, plant and equipment

'000 USD	Computer and other equipment	Fixtures and fittings	Construction in progress	Buildings	Total
<b>Cost</b>					
Balance at 1 January 2016	93,861	11,155	769	214,014	319,799
Additions	4,083	1,187	20,698	4	25,972
Transfers	18,463	1,654	(21,198)	1,081	-
Transfer from investment property	4,843	87	-	25,627	30,557
Disposals	(1,052)	(149)	-	(1)	(1,202)
Translation differences	9,511	404	105	3,562	13,582
<b>Balance at 31 December 2016</b>	<b>129,709</b>	<b>14,338</b>	<b>374</b>	<b>244,287</b>	<b>388,708</b>
Balance at 1 January 2017	129,709	14,338	374	244,287	388,708
Additions	2,528	2,377	16,077	207	21,189
Transfers	12,911	1,574	(15,653)	1,168	-
Transfer to investment property	(22)	2	-	(113)	(133)
Disposals	(632)	(148)	(762)	(1)	(1,543)
Translation differences	5,420	939	16	1,169	7,544
<b>Balance at 31 December 2017</b>	<b>149,914</b>	<b>19,082</b>	<b>52</b>	<b>246,717</b>	<b>415,765</b>
<b>Depreciation</b>					
Balance at 1 January 2016	(49,712)	(6,332)	-	(26,909)	(82,953)
Depreciation charge	(19,628)	(1,600)	-	(9,548)	(30,776)
Transfer from investment property	(2,222)	(68)	-	(3,357)	(5,647)
Disposals	953	142	-	1	1,096
Translation differences	(6,267)	(193)	-	(1,844)	(8,304)
<b>Balance at 31 December 2016</b>	<b>(76,876)</b>	<b>(8,051)</b>	<b>-</b>	<b>(41,657)</b>	<b>(126,584)</b>
Balance at 1 January 2017	(76,876)	(8,051)	-	(41,657)	(126,584)
Depreciation charge	(23,940)	(2,871)	-	(11,073)	(37,884)
Impairment loss (negative)	1	-	-	-	1
Transfer to investment property	12	-	-	21	33
Disposals	515	9	-	1	525
Translation differences	(3,692)	(467)	-	(709)	(4,868)
<b>Balance at 31 December 2017</b>	<b>(103,980)</b>	<b>(11,380)</b>	<b>-</b>	<b>(53,417)</b>	<b>(168,777)</b>
<b>Net book value</b>					
At 1 January 2016	44,149	4,823	769	187,105	236,846
At 31 December 2016	52,833	6,287	374	202,630	262,124
At 31 December 2017	45,934	7,702	52	193,300	246,988

Depreciation expense was charged as follows:

	2017 '000 USD	2016 '000 USD
Cost of goods sold	2,128	1,843
Research and development	18,712	14,697
Distribution expenses	7,686	6,414
Administrative expenses	9,358	7,822
<b>Total depreciation</b>	<b>37,884</b>	<b>30,776</b>

### 13. Investment property

'000 USD	Cost	Accumulated depreciation and impairment	Net book value
<b>Balance at 1 January 2016</b>	<b>112,508</b>	<b>(22,922)</b>	<b>89,586</b>
Additions to cost	13	-	13
Depreciation charge	-	(4,773)	(4,773)
Disposals	(1)	1	-
Transfer to property, plant and equipment	(30,557)	5,647	(24,910)
<b>Balance at 31 December 2016</b>	<b>81,963</b>	<b>(22,047)</b>	<b>59,916</b>
Additions to cost	89	-	89
Depreciation charge	-	(3,388)	(3,388)
Transfer from property, plant and equipment	133	(33)	100
<b>Balance at 31 December 2017</b>	<b>82,185</b>	<b>(25,468)</b>	<b>56,717</b>

Investment property is represented by a single property object – an office building in Moscow. A part of the complex is leased out to third parties and considered to be investment property. Investment property is carried at cost less accumulated depreciation and impairment. Major leases contain an initial non-cancellable period of 5-10 years. Investment property is pledged as a security for a bank loan with a face value of USD 24,091 thousand (refer to note 22).

During the year the Group received rental income of USD 9,886 thousand (2016: USD 11,551 thousand). Direct operating costs attributable to the investment property and included in cost of sales amounted to USD 4,154 thousand (2016: USD 3,425 thousand).

Useful life of the building component of the investment property is 30 years and that of other equipment and subsystems 5 to 10 years.

The fair value of the investment property as at 31 December 2017 according to a professional valuers' report is USD 65,230 thousand. It is Level 3 fair value under IFRS 13 *Fair value measurement*. The valuation was done using the income approach by discounting the anticipated future income streams and an exit value to a present value. The use of market comparables in the valuation was limited because of the nature of the property and lack of comparable market data. The following key assumptions underlie the valuation:

- The forecast period used in valuation is 6 years. It is assumed that at the end of the 6 year the property is disposed of at the terminal value.

- The rental rates indexation for the property is derived from the existing lease agreements providing for an annual indexation of 2.5-5%. Upon expiry of lease agreements, a base market rent at the current level at the valuation date was applied, assuming further annual rental indexation of 3% p.a.
- The occupancy rate was also based on the existing rent agreements. Upon expiry of lease agreements, a stabilised occupancy rate of 97% was used.
- The terminal value was calculated assuming a yield of 8.75% for the sale of the Property when the stabilised income is achieved.
- In order to arrive at a present value of the anticipated future income streams and an exit value, a discount rate of 13.5% p.a. was applied.

## 14. Intangible assets

'000 USD	Software licenses and patents	Other intangible assets	Goodwill	Total
<b>Cost</b>				
Balance at 1 January 2016	18,356	560	16,767	35,683
Additions	9,925	10	-	9,935
Disposals	(7,912)	-	-	(7,912)
Translation differences	3,520	(22)	-	3,498
<b>Balance at 31 December 2016</b>	<b>23,889</b>	<b>548</b>	<b>16,767</b>	<b>41,204</b>
Balance at 1 January 2017	23,889	548	16,767	41,204
Additions	12,797	21	-	12,818
Disposals	(8,609)	-	-	(8,609)
Translation differences	1,233	50	-	1,283
<b>Balance at 31 December 2017</b>	<b>29,310</b>	<b>619</b>	<b>16,767</b>	<b>46,696</b>
<b>Amortisation and impairment losses</b>				
Balance at 1 January 2016	(5,639)	(526)	(3,291)	(9,456)
Amortisation charge	(6,590)	(20)	-	(6,610)
Disposals	7,905	-	-	7,905
Translation differences	(664)	22	-	(642)
<b>Balance at 31 December 2016</b>	<b>(4,988)</b>	<b>(524)</b>	<b>(3,291)</b>	<b>(8,803)</b>

'000 USD	Software licenses and patents	Other intangible assets	Goodwill	Total
<b>Balance at 1 January 2017</b>	<b>(4,988)</b>	<b>(524)</b>	<b>(3,291)</b>	<b>(8,803)</b>
Amortisation charge	(9,269)	(41)	-	(9,310)
Impairment	-	-	(3,000)	(3,000)
Disposals	8,528	-	-	8,528
Translation differences	(168)	(50)	-	(218)
<b>Balance at 31 December 2017</b>	<b>(5,897)</b>	<b>(615)</b>	<b>(6,291)</b>	<b>(12,803)</b>
<b>Net book value</b>				
<b>At 1 January 2016</b>	<b>12,717</b>	<b>34</b>	<b>13,476</b>	<b>26,227</b>
<b>At 31 December 2016</b>	<b>18,901</b>	<b>24</b>	<b>13,476</b>	<b>32,401</b>
<b>At 31 December 2017</b>	<b>23,413</b>	<b>4</b>	<b>10,476</b>	<b>33,893</b>

Goodwill balance of the Group was generated by acquisitions of two CGUs in America (acquired in 2011) and Asia Pacific (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 14.32 per cent. Cash flow projections used for testing were based on most recent budgets using the following growth assumptions:

- Sales growth rate varying from 2.5 (in Asia Pacific) and 10 (in America) to 17 per cent per annum;
- Expenses growth rate varying from 2 to 5 per cent per annum.

For CGU in Asia Pacific the recoverable amount is higher than goodwill. Based on the analysis of the recoverable amount of CGU in America, the Group reflected impairment of goodwill on the acquisition of this CGU in the amount of USD 3,000 thousand. This is due to tough competition on the local market, negative media coverage and geopolitical tension in North America. The carrying amount of the CGU in America equals its recoverable amount as at the reporting date. Changing the values assigned to the assumptions on the sales and expense growth rates for the CGU in America in the adverse direction would cause the recoverable amount be lower than its carrying value. Management consider that assumptions underlying the calculation of the value in use of the CGU in America are accurate and duly conservative.

## 15. Deferred tax assets and liabilities

### (a) Unrecognised deferred tax liabilities

Deferred tax liabilities of USD 69,780 thousand (2016: USD 81,214 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	
	2017	2016	2017	2016	2017	2016
Fixed assets and investment property	300	251	(6,849)	(9,729)	(6,549)	(9,478)
Intangible assets	-	-	(226)	(324)	(226)	(324)
Trade and other receivables	1,373	2,015	(505)	-	868	2,015
Deferred revenue	30,388	29,108	(357)	-	30,031	29,108
Trade and other payables	14,007	10,268	(209)	-	13,798	10,268
Tax loss carry-forwards	2,526	554	-	-	2,526	554
Other items	411	522	(138)	-	273	522
Tax assets/(liabilities)	49,005	42,718	(8,284)	(10,053)	40,721	32,665
Set off of tax	(2,197)	684	2,197	(684)	-	-
Net tax assets/(liabilities)	<b>46,808</b>	<b>43,402</b>	<b>(6,087)</b>	<b>(10,737)</b>	<b>40,721</b>	<b>32,665</b>

**(c) Movement in temporary differences during the year**

'000 USD	1 January 2017	Recognised in	Translation	31 December
		profit or loss	difference	2017
Fixed assets and investment property	(9,478)	3,199	(270)	(6,549)
Intangible assets	(324)	115	(17)	(226)
Trade and other receivables	2,015	(1,225)	78	868
Deferred revenue	29,108	(326)	1,249	30,031
Trade and other payables	10,268	3,067	463	13,798
Tax loss carry-forwards	554	1,933	39	2,526
Other items	522	(241)	(8)	273
	<b>32,665</b>	<b>6,522</b>	<b>1,534</b>	<b>40,721</b>

'000 USD	1 January 2016	Recognised in profit or loss	Translation difference	31 December 2016
Fixed assets and investment property	(11,242)	1,922	(158)	(9,478)
Intangible assets	(317)	52	(59)	(324)
Trade and other receivables	840	881	294	2,015
Deferred revenue	26,048	549	2,511	29,108
Trade and other payables	11,905	(2,622)	985	10,268
Tax loss carry-forwards	4,902	(4,463)	115	554
Other items	478	31	13	522
	<b>32,614</b>	<b>(3,650)</b>	<b>3,701</b>	<b>32,665</b>

## 16. Inventories

	2017 '000 USD	2016 '000 USD
Software licenses held for resale	10,002	9,501
Product components and consumables	2,260	2,641
Finished goods and goods for resale	470	2,380
Provision for obsolescence	(11,444)	(2,679)
	<b>1,288</b>	<b>11,843</b>

Software licenses held for resale are fully provided for due to lack of evidence of their net realisable value.

## 17. Other investments

	2017 '000 USD	2016 '000 USD
<b>Current</b>		
Financial assets designated at fair value through profit and loss:		
Corporate debt securities	71,015	49,830
Equity securities	9,666	843
Other investments	19,056	8,294
	<b>99,737</b>	<b>58,967</b>

Corporate debt securities classified fair value through profit and loss have stated interest rates of 1.25% to 12.75% and mature in one to 60 years.

Equity securities have been designated as at fair value through profit or loss because they are managed on a fair value basis and their performance is actively monitored.

The fair value of investments designated at fair value through profit and loss, including available-for-sale equity investments with a carrying amount of USD 99,737 thousand, was determined by reference to their quoted market prices; these investments are listed on the Moscow and major European stock exchanges (including London and Frankfurt stock exchanges). It is Level 1 fair value under IFRS 13 *Fair value measurement*. Accumulated interest on debt securities, included in the carrying amount as at the reporting date was USD 704 thousand (2016: USD 627 thousand).

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 23.

## 18. Trade and other receivables

	2017 '000 USD	2016 '000 USD
Trade receivables from third parties	186,473	173,683
Prepaid taxes (other than corporate profit taxes)	4,604	4,155
Other receivables	4,703	3,493
Office lease deposits	2,340	2,112
Deferred expenses	2,232	2,054
Provision for bad and doubtful debts	(18,058)	(17,067)
	<b>182,294</b>	<b>168,430</b>

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 23.

## 19. Cash and cash equivalents

	2017 '000 USD	2016 '000 USD
Petty cash	14	16
Bank balances	94,894	81,093
Call deposits	21,784	38,922
<b>Cash and cash equivalents in the statement of financial position and in the statement of cash flows</b>	<b>116,692</b>	<b>120,031</b>

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 23.

## 20. Capital and reserves

### (a) Share capital and share premium

<i>Number of shares unless otherwise stated</i>	<b>Ordinary shares</b>	
	<b>2017</b>	<b>2016</b>
Authorised shares	110,000,000	110,000,000
Par value	GBP 0.00001	GBP 0.00001
Shares authorised, not issued at the beginning of the year	(44,852,911)	(44,702,911)
Share cancellation	-	(150,000)
On issue at 31 December, fully paid	65,147,089	65,147,089

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) Acquisition of own shares

In 2017 the Group did not acquire its own shares (2016: 150,000 shares).

### (c) Dividends

On 22 December 2017 the Group declared dividends of USD 8,469 thousand (2016: declared no dividends), full amount of dividends was paid in December 2017.

## 21. Trade and other payables

	<b>2017</b>	<b>2016</b>
	<b>'000 USD</b>	<b>'000 USD</b>
<b>Current:</b>		
Accrued expenses	83,316	92,016
Trade payables to third parties	25,035	18,727
Payables to employees	34,333	8,998
Provision for sales returns	8,921	8,789
Social taxes payable	7,020	3,161
Other taxes payable	4,298	5,013
Trade advances received	720	418
Other payables	1,127	364
	<b>164,770</b>	<b>137,486</b>

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 23.

## 22. Bank loans

'000 USD	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount
Balance at 1 January 2017	USD		Apr 2019	65,152	64,191
<b>Repaid</b>					
Secured bank loan facility	USD	Libor+2.85	Apr 2019	(41,061)	(41,061)
<b>Interest accrued</b>					
Secured bank loan facility				-	1,492
Amortised borrowing costs				-	654
<b>Interest paid</b>					
Secured bank loan facility				-	(1,810)
Balance at 31 December 2017	USD	Libor+2.85	2019	24,091	23,466

The loan is secured by the shares of some of the Company's subsidiaries and by property (office complex in Moscow). During 2017 the loan was not refinanced. Interest rate, the maturity date and other material terms and conditions of the facility have not been changed. According to the loan agreement the Group is supposed to gradually repay the remaining face value of the loan over six quarter periods. In 2017 the Group made a loan repayment of USD 20,000 thousand ahead of the schedule. According to the payment schedule the loan repayments in the twelve months following the reporting date should be USD 16,804 thousand including outstanding interest. Subsequent to the reporting date, on 22 May 2018, the Group fully paid off the entire balance of the loan and the accumulated interest ahead of the schedule.

## 23. Fair values and risk management

### (a) Accounting classifications and fair values

The values of the Group's financial instruments as at 31 December 2017 approximate their fair values.

### (b) 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 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.

**(c) 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.

The Credit manager, 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 and by investing in securities with high credit ratings (from AA- to B+, with majority being higher BBB-). 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:

	Carrying amount	
	2017	2016
	'000 USD	'000 USD
Receivables and other investments	265,994	220,345
Cash and cash equivalents	116,692	120,031
	<b>382,686</b>	<b>340,376</b>

Included in the above maximum amounts of exposure to credit risk are cash and cash equivalents of USD 116,692 thousand (2016: USD 120,031 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	
	2017	2016
	'000 USD	'000 USD
Europe	49,855	47,001
North America	49,437	54,440
CIS and Baltic	41,138	31,713
Middle East and Africa	11,621	8,626
Far East and Pacific	7,026	8,073
South America	9,338	6,763
	<b>168,415</b>	<b>156,616</b>

**Impairment losses**

'000 USD	Gross	Impairment	Gross	Impairment
	2017	2017	2016	2016
Debtor days are less or equal the standard payment terms	162,361	(834)	149,339	(490)
Debtor days exceed the standard payment terms by 0-60 days	3,537	(434)	4,701	(2,184)
Debtor days exceed by 61-120 days	3,293	(132)	2,154	(408)
Debtor days exceed by 121-365 days	1,834	(1,210)	4,367	(2,916)
Debtor days exceed by more than 365 days	15,448	(15,448)	13,122	(11,069)
	<b>186,473</b>	<b>(18,058)</b>	<b>173,683</b>	<b>(17,067)</b>

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

	2017 '000 USD	2016 '000 USD
Balance at beginning of the year	17,067	25,112
Bad debt expense	1,424	700
Write-off	(1,577)	(7,341)
Translation difference	1,144	(1,404)
Balance at the end of the year	<b>18,058</b>	<b>17,067</b>

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 based on debtors days, and then on a case by case basis. Special attention is paid to receivables with balances past due by more than 60 days. 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.

**(d) 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 most of which are due within six months of the reporting date and a long-term variable rate secured bank loan facility (see note 22).

The following are the contractual maturities of financial liabilities, including estimated interest payments. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts:

**31 December 2017**

'000 USD	Carrying amount	Contract cash flows	< 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	More than 5 years
Secured bank loan	23,466	24,956	16,803	8,153	-	-	-	-
Trade and other payables	155,086	155,422	152,768	2,045	-	-	609	-
	<b>178,552</b>	<b>180,378</b>	<b>169,571</b>	<b>10,198</b>	<b>-</b>	<b>-</b>	<b>609</b>	<b>-</b>

**31 December 2016**

'000 USD	Carrying amount	Contract cash flows	< 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	More than 5 years
Secured bank loan	64,191	68,639	28,184	27,223	13,232	-	-	-
Trade and other payables	131,298	131,922	128,921	1,334	1,058	-	-	609
	<b>195,489</b>	<b>200,561</b>	<b>157,105</b>	<b>28,557</b>	<b>14,290</b>	<b>-</b>	<b>-</b>	<b>609</b>

**(e) 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.

**(f) 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 are primarily denominated are Sterling (GBP), USD, EUR and RUB.

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 2017	USD- denominated 2017	EUR- denominated 2017	RUB- denominated 2017
<b>Current assets</b>				
Receivables	5,808	90,577	1,839	-
Cash and cash equivalents	7,235	23,528	12,603	3,904
Investments	-	494,162	-	-
<b>Current liabilities</b>				
Payables	(7,549)	(44,091)	(2,660)	(85)
	<b>5,494</b>	<b>564,176</b>	<b>11,782</b>	<b>3,819</b>

'000 USD	GBP- denominated 2016	USD- denominated 2016	EUR- denominated 2016	RUB- denominated 2016
<b>Current assets</b>				
Receivables	4,702	173,771	1,779	-
Cash and cash equivalents	2,686	33,542	231	2,446
Investments	-	463,268	-	-
<b>Current liabilities</b>				
Payables	(6,095)	(166,634)	(1,118)	(10,615)
	<b>1,293</b>	<b>503,947</b>	<b>892</b>	<b>(8,169)</b>

The following significant exchange rates applied during the year:

in USD	Average rate		Reporting date spot rate	
	2017	2016	2017	2016
RUB 1	0.0172	0.0150	0.0174	0.0165
EUR 1	1.1288	1.1074	1.1956	1.0520
GBP 1	1.2879	1.3578	1.3485	1.2292

Some of the Group's subsidiaries applied exchange rates different from those stated above in case if these rates did not reflect the rates of conversion prevailing on the local markets, at which the respective balances could have been settled.

### ***Sensitivity analysis***

A 20% strengthening of the USD against the following currencies at 31 December would have increased/(decreased) equity and profit/(loss) net of taxes 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 as for 2016.

	<b>Equity</b>	<b>Profit or (loss)</b>
	<b>'000 USD</b>	<b>'000 USD</b>
<b>2017</b>		
EUR	36,864	83,600
RUB	(46,593)	6,057
	<b>Equity</b>	<b>Profit or (loss)</b>
	<b>'000 USD</b>	<b>'000 USD</b>
<b>2016</b>		
EUR	33,026	75,960
RUB	(47,116)	5,979

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.

#### **(g) Interest rate risk**

The Group's interest rate risk arises from call deposits and bank loans and other investments. Deposits and investments mostly represent fixed rate financial assets, changes in interest rate impact primarily their fair values. The Group obtained variable rate financing (secured bank loans), refer to Note 22 for details. 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 had a variable interest rate financial instruments – secured loans with the rate depending on LIBOR (refer to Note 22 for details).

#### **(ii) Fair value sensitivity analysis for fixed rate instruments**

The Group has classified some of the fixed rate financial assets as fair value through profit or loss. The fair value of these assets at reporting date was USD 90,071 thousand (2016: USD 58,124 thousand).

An increase of 100 basis points in interest rates would have decreased profit and equity by USD 2,054 thousand net of tax (2016: USD 808 thousand). A decrease of 100 basis points would have had an equal but opposite effect.

**(iii) Fair values versus carrying amounts**

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

**(h) 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.

In addition to statutory general capital adequacy requirements as at 31 December 2017 the Company was also subject to capital requirements of the covenants under an outstanding loan facility. One of the covenants requires that the Group has to have consolidated net assets of more than USD 1. The loan, under which this covenant was imposed, was fully repaid ahead of the schedule after the reporting date, on 22 May 2018.

**24. Operating leases**

Non-cancellable operating lease rentals are payable as follows:

'000 USD	2017	2016
Less than one year	10,569	9,715
Between one and five years	18,260	24,378
More than five years	4,830	3,108
	<b>33,659</b>	<b>37,201</b>

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 14,361 thousand was recognised in the statement of profit or loss and other comprehensive income in respect of operating lease expenses (2016: USD 11,930 thousand).

Non-cancellable operating lease rentals are receivable as follows:

'000 USD	2017	2016
Less than one year	5,650	8,486
Between one and five years	16,827	22,871
More than five years	-	3,960
	<b>22,477</b>	<b>35,317</b>

During the current year USD 9,886 thousand was recognised in the statement of profit or loss and other comprehensive income in respect of operating lease income (2016: USD 11,551 thousand).

## 25. Contingencies

### (a) Litigation

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

### (b) 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.

Transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

These transfer pricing rules provide for an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe the basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level.

The transfer pricing rules apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax

Code (no threshold is set for the purposes of prices control in such transactions). In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RUB 1 billion, an equivalent of USD 17,361 thousand as at 31 December 2017).

Currently there is lack of practice of applying the transfer pricing rules by the tax authorities and courts, however, it is anticipated that transfer pricing arrangements will be subject to very close scrutiny. These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries.

The Group has a number of various transactions concluded between the companies of the Group, which are subject to the transfer pricing control in Russia. The Group notifies the Russian tax authorities about all these transactions as required in the Russian Tax Code.

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the tax authorities and courts, especially due to reform of the supreme courts that are resolving tax disputes, could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing a different interpretation, could be significant. The Group does not exclude the possibility that the Russian tax authorities may take a different position from the Group. In this case, the Group is ready to justify its current methodology.

During 2013 the Group acquired an office building in Moscow. The carrying value of the building is included in the investment property and property plant and equipment line of the Group's consolidated statement of financial position as at 31 December 2017. Material risks, including tax risks, associated with this transaction, were indemnified by the seller of the property. Management consider that the likelihood of these risks resulting in a material loss for the Group is remote.

## 26. 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 93% of the Company's ordinary shares (2016: 93%) 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 8):

	2017	2016
	'000 USD	'000 USD
Salaries and bonuses	8,852	8,725
Payroll taxes	657	524
	<b>9,509</b>	<b>9,249</b>

**(c) Transactions with other related parties**

The Group's did not conduct material transactions with related parties.

**(d) Pricing policies**

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

**27. Subsidiaries**

	Registered office address	2017 Ownership /voting	2016 Ownership /voting
JSC Kaspersky Lab	39A/3 Leningradskoe shosse, Moscow, 125212, Russia	100%	100%
JSC VSSI	39A/3 Leningradskoe shosse, Moscow, 125212, Russia	100%	100%
Kaspersky Lab UK Ltd.	2 Kingdom Street, Paddington, W2 6BD, United Kingdom	100%	100%
Kaspersky Lab Inc.	500 Unicorn Park Dr., Ste 300, Woburn MA 01801, USA	100%	100%
Kaspersky Labs GmbH	Despag-Straße 3, 85055 Ingolstadt, Germany	100%	100%
Kaspersky Lab France S.A.R.L.	2 rue Joseph Monier, Immeuble Européen - Bat C, 92500 Rueil Malmaison, France	100%	100%
Kaspersky Technology Development	1# Qing Long Bystreet, Dongcheng District, Beijing 100007, China	100%	100%
Kaspersky Lab Asia Limited	Manhattan Place, 23 Wang Tai Road, Kowloon Bay, Kowloon, Hong Kong	100%	100%
KK Kaspersky Lab Japan	7F Sumitomo Fudousan Akihabara bldg., 3-12-8 Sotokanda, Chiyoda-ku, Japan	99.9%	99.9%
KL Anti-Virus Solutions	Mercaderes No. 20 Piso 5, Col. San José Insurgentes, C.P. 03900, Ciudad de México, Mexico	100%	100%
JSC Kaspersky Group	39A Blg.2, Leningradskoe Shosse, 125212, Moscow, Russia	100%	100%
Kaspersky Lab Trading Limited, dormant	New Bridge Street House, 30-34 New Bridge Street, London, England, EC4V 6BJ	100%	100%
Kaspersky Lab Middle East FZ-LLC	Premises 2201, 2203&2205, Floor 22 Arenco Tower, Dubai, United Arab Emirates	100%	100%

	<b>Registered office address</b>	<b>2017 Ownership /voting</b>	<b>2016 Ownership /voting</b>
Kaspersky Info Systems S.R.L.	Bucharest, Iride Business Park, Building no. 24, first floor, 9-9A Dimitrie Pompei Blvd., sector 2, Romania	100%	100%
Kaspersky Lab Czech Republic S.R.O.	Nádražní 344/23, Smíchov, 150 00 Praha 5, Czech Republic	100%	100%
Kaspersky Lab South Africa (Pty) Limited	Republic of South Africa, KPMG Crescent, 85 Empire Road Parktown 2193, South Africa	100%	100%
Kaspersky Bilişim Hizmetleri San. Ve Tic. Ltd. Şti.	Ağaoğlu My Prestige Barbaros Mah. Sarkaç Sok. N:1 K:11 D:91-92, 34746 Ataşehir, Istanbul, Türkiye	100%	100%
TOO Kaspersky Lab KZ	Almaty, Kazylbek Bi 20A, office 309, Kazakhstan	100%	100%
Kaspersky Lab Ukraine, dormant	Office 312, 3 Sholudenko Street, Kiev, 04116, Ukraine	100%	100%
Kaspersky Lab Israel Ltd.	9 Hartum Street Har Hahotzvim 9777509 Jerusalem, Israel	100%	100%
Effusive Holding Limited, dormant	5 Themistocles Dervis Street, Elenion Building, 2nd floor 1066, Nicosia Cyprus	100%	100%
Flybase Investments Limited, dormant	5 Themistocles Dervis Street, Elenion Building, 2nd floor 1066, Nicosia Cyprus	100%	100%
Kaspersky Lab Denmark ApS	Sundkrogsgade 21, 2100 Copenhagen, Denmark	100%	100%
Kaspersky Lab S.L.U.	Paseo Club Deportivo, nº1, Edificio 11, Planta 1, Izquierda 1, Parque Empresarial La Finca, Somosaguas, Pozuelo de Alarcón, Madrid, 28223, Spain	100%	100%
Kaspersky Lab Italia S.r.l.	Francesco Benaglia 13, 00153 Rome, Italy	100%	100%
Kaspersky Lab B.V.	Papendorpseweg 77 79, 3528BJ Utrecht, Netherlands	100%	100%
Kaspersky Lab Unipessoal LDA.	Avenida dos Oceanos, nr. 142, 0º B, 1990-502 Parque das Nações, in the parish of Parque das Nações, Lisbon, Portugal	100%	100%
Kaspersky Labs GmbH	Allmendstrasse 1 CH-6312 Steinhausen /Zug Switzerland	100%	100%
Kaspersky Security Solutions Ireland Limited	1st Floor, 7 Lower Grand Canal Street, Grand Canal Dock, D2 Dublin, D02 KW81, Ireland	100%	100%

**Kaspersky Labs Limited**

Registration number: 4249748

*Notes to the Consolidated Financial Statements for the year ended 31 December 2017*

	<b>Registered office address</b>	<b>2017 Ownership /voting</b>	<b>2016 Ownership /voting</b>
Threatpost, Inc (in 2016 Kaspersky Government Security Solutions, Inc.)	500 Unicorn Park Drive, Woburn, MA, 01801, USA	100%	100%
Kaspersky Lab Soluções Seguras Brasil ltda.	City of São Paulo, State of São Paulo, at Avenida Queiroz Filho, 1700, tower A, rooms 801, 802, 803 and 804, Vila Hamburguesa, Zip Code 05319-000, Brazil	100%	100%
Kaspersky Lab Australia and New Zealand Pty Ltd	Level 2, 19 Shierlaw avenue, Canterbury Vic 3126, Australia	100%	100%
Kaspersky Lab India Private Limited	102, 1st Floor, Gala Impecca, A-2, Jitendra Estate, M.V.Road, Andheri (East) Mumbai Mumbai, City MH 400059, India	100%	100%
Kaspersky Lab SEA Sdn Bhd.	Level 21, Suite 21.01, The Gardens South Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia	100%	100%
Kaspersky Lab Korea Ltd	Sun Tower Building 5F, 42, Seolleung-ro 90-gil, Gangnam-gu, Seoul, Korea	100%	100%
Kaspersky Lab Singapore PTE. Ltd	2 Shenton Way 18-01,SGX Center 1, Singapore, 068804	100%	100%

## 28. Non-controlling interests

The following table summarises the information relating to each of the Group's subsidiaries that has material NCI, before any intra-group eliminations.

**31 December 2017**

'000 USD	KK Kaspersky Lab Japan	Intra-group eliminations	Total
<b>NCI percentage</b>	0.1%		
Non-current assets	3,781		
Current assets	7,117		
Non-current liabilities	(8,336)		
Current liabilities	(10,059)		
<b>Net assets</b>	(7,497)		
Carrying amount of NCI	(8)	-	(8)
Revenue	13,114		
Loss	(584)		
Other comprehensive income	(257)		
<b>Total comprehensive income</b>	(841)		
Loss allocated to NCI	(1)	-	(1)
Other comprehensive income allocated to NCI	-	-	-
Cash flows from operating activities	1,855		
Cash flows used in investing activities	(164)		
<b>Net increase in cash and cash equivalents</b>	1,691		

**31 December 2016**

<b>'000 USD</b>	<b>KK Kaspersky Lab Japan</b>	<b>Kaspersky Lab Spain SL</b>	<b>Intra-group eliminations</b>	<b>Total</b>
<b>NCI percentage</b>	0.1%	Nil		
Non-current assets	3,527	207		
Current assets	5,202	2,951		
Non-current liabilities	(5,537)	-		
Current liabilities	(9,846)	(890)		
<b>Net assets</b>	<b>(6,654)</b>	<b>2,268</b>		
Carrying amount of NCI	(7)	-	-	(7)
Revenue	18,966	7,269		
Profit	39	1,048		
Other comprehensive income	(207)	(102)		
<b>Total comprehensive income</b>	<b>(168)</b>	<b>946</b>		
Profit allocated to NCI	-	58	-	58
Other comprehensive income allocated to NCI	-	8	-	8
Cash flows used in operating activities	(146)	(1,094)		
Cash flows used in investing activities	(237)	(40)		
<b>Net decrease in cash and cash equivalents</b>	<b>(383)</b>	<b>(1,134)</b>		

## **29. Events subsequent to the reporting date**

On 22 May 2018 the Group paid off ahead of the initial schedule bank loans with the carrying value as at 31 December 2017 of USD 23,466 thousand. There were no other major events after reporting date.

## **30. 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) 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.

**(v) 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. Any accumulated interest accrued at the reporting date is classified the same way as the original financial asset.

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 18 and cash and cash equivalents as presented in note 19.

### ***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.

### ***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:

- buildings and constructions 30 years
- building Sub-systems and equipment 10-15 years
- 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 30 (a)(i).

*Subsequent measurement*

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

**(ii) Patents**

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

**(iii) Research and development costs**

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

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

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

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

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

**(iv) Other intangible assets**

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

**(v) Subsequent expenditure**

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

**(vi) Amortisation**

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

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

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

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

**(g) Investment property**

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of materials and direct labour, any other costs directly attributable to bringing the investment property to a working condition for their intended use and capitalised borrowing costs.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its cost less accumulated depreciation and impairment losses at the date of reclassification becomes its cost for subsequent accounting.

Investment property includes buildings, equipment installed and fittings such as elevators, air conditioning and other communications installed. The land on which the investment property is located is classified as a finance lease and is recognised as part of the fair value of the Company's investment property in the consolidated statement of financial position.

Subsequent expenditure is capitalized to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Company and the cost of the item can be measured reliably. Subsequent expenditure includes further development of infrastructure and capital improvements. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

**(h) 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.

**(i) 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.

**(j) Deferred income**

Deferred income represents the monetary value of products and services sold and delivered to the customers, which was not recognized as revenues as at the reporting date because not all of the revenue recognition criteria are not yet met (refer to note 30 (n) for the Group's revenue recognition policy). Deferred income will be recognised as revenue in future periods, when all revenue recognition criteria are met. Deferred income as at a reporting date is calculated as the difference between the cumulative monetary amounts of invoices issued to the partners and customers and revenues recognised to date.

**(k) 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.

**(I) Employee benefits**

**(i) Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions 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) 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.

**(m) 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.

**(n) 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.

**(o) 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.

**(p) 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.

**(q) 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.

**(r) 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 Statement of financial position and income tax expense in profit and loss for the estimated amount of the additional tax, penalties and late-payment interest.

## **31. New standards and interpretations not yet adopted**

A number of new Standards, amendments to Standards and Interpretations are effective for annual periods beginning after 1 January 2017 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.

### **(a) IFRS 9 Financial Instruments**

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 *Financial Instruments*. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Group currently plans to apply IFRS 9 initially on 1 January 2018. The actual impact of adopting IFRS 9 on the Group's consolidated financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future.

### **(b) IFRS 15 Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. Under IFRS 15, revenue earned from contract with customers will be recognised based on five-step model which requires, for each contract, the transaction price to be apportioned to the separate performance obligations arising under the contract on a relative standalone selling price basis, and recognised as revenue at the point at which control of goods or services is transferred to customer.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. Depending on a particular contract arrangements in place, application of new standard may change amount of revenue recognised on a contract and/or its timing, and the timing of recognition of contract costs compared with current accounting policies. The Group considers that the adoption of IFRS 15 will not have material impact on the Group's consolidated financial statements in 2018.

### **(c) IFRS 16 Leases**

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases—Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

The Group has started an initial assessment of the potential impact on its consolidated financial statements. So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of office space. In addition, the nature of expenses related to

those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

**(d) Other amendments**

The Group is currently in process of assessment of the effect on its consolidated financial statements of the following amended standards and interpretations:

- *Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28.*
- *Transfers of Investment Property (Amendments to IAS 40).*
- *IFRIC 22 Foreign Currency Transactions and Advance Consideration.*
- *IFRIC 23 Uncertainty over Income Tax Treatments.*

**32. 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 and investment property**

The fair value of property, plant and equipment and investment property acquired 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.

**(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.

**(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**

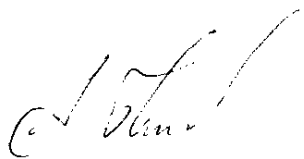
The fair value of contingent consideration is calculated using the income approach based on the expected payment amounts and their associated probabilities (i.e. probability-weighted). Since the contingent consideration is long-term nature, it is discounted to present value.

		<b>2017</b>	<b>2016</b>
	<b>Notes</b>	<b>'000 USD</b>	<b>'000 USD</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	C1	631,947	631,640
Long-term loans to subsidiaries	C7	1,906	1,832
Deferred tax assets		2,350	-
<b>Total non-current assets</b>		<b>636,203</b>	<b>633,472</b>
<b>Current assets</b>			
Short-term loans to subsidiaries	C7	1,841	25,818
Trade and other receivables	C2	1,352	2,561
Cash and cash equivalents		4,694	7,943
<b>Total current assets</b>		<b>7,887</b>	<b>36,322</b>
<b>Total assets</b>		<b>644,090</b>	<b>669,794</b>

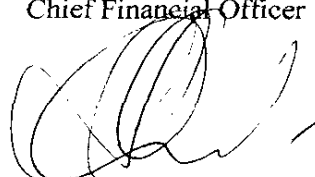
The Company statement of financial position is to be read in conjunction with the notes to, and forming part of, the company financial statements set out on pages 71 to 75.

		2017	2016
	Notes	'000 USD	'000 USD
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>	C3		
Share capital		1	1
Additional paid-in capital		20,083	20,083
Retained earnings		181,849	185,307
<b>Total equity</b>		<b>201,933</b>	<b>205,391</b>
<b>Non-current liabilities</b>			
Loans and borrowings	C5	423,458	435,163
<b>Total non-current liabilities</b>		<b>423,458</b>	<b>435,163</b>
<b>Current liabilities</b>			
Trade and other payables	C4	2,982	2,633
Loans and borrowings	C5	15,717	26,607
<b>Total current liabilities</b>		<b>18,699</b>	<b>29,240</b>
<b>Total liabilities</b>		<b>442,157</b>	<b>464,403</b>
<b>Total equity and liabilities</b>		<b>644,090</b>	<b>669,794</b>

These Company financial statements were approved by the Board of Directors on 20 June 2018 and were signed on its behalf by:

  
Andrey Tikhonov  
Chief Operating Officer

Ludmila Smirnova  
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 71 to 75.

**Kaspersky Labs Limited**  
Registration number: 4249748  
Company Statement of Cash Flows for the year ended 31 December 2017

	2017	2016
	'000 USD	'000 USD
<b>Cash flows from operating activities</b>		
Profit (loss) for the year	5,011	(19,444)
<i>Adjustments for:</i>		
Net finance (income)/costs	(3,336)	18,947
Income tax benefit	(2,350)	-
<b>Operating loss before changes in working capital and provisions</b>	<b>(675)</b>	<b>(497)</b>
Change in trade and other payables	349	145
Change in trade and other receivables	1,209	114
<b>Cash flows from/used in operations before interest</b>	<b>883</b>	<b>(238)</b>
Interest paid	(4,017)	(5,214)
<b>Cash flows used in operating activities</b>	<b>(3,134)</b>	<b>(5,452)</b>
<b>INVESTING ACTIVITIES</b>		
Dividends received	23,166	-
Loan provided to a subsidiary	24,749	35,599
<b>Cash flows from investing activities</b>	<b>47,915</b>	<b>35,599</b>
<b>FINANCING ACTIVITIES</b>		
Repayments of a bank loan	(67,521)	(108,075)
Loan from a subsidiary obtained	28,267	77,798
Acquisition of interest in a subsidiary	(307)	(193)
Share redemption	-	(2,260)
Dividends paid	(8,469)	-
<b>Cash flows used in financing activities</b>	<b>(48,030)</b>	<b>(32,730)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(3,249)</b>	<b>(2,583)</b>
Cash and cash equivalents at beginning of year	7,943	10,543
Effect of exchange rate fluctuations on cash and cash equivalents	-	(17)
<b>Cash and cash equivalents at end of year</b>	<b>4,694</b>	<b>7,943</b>

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 71 to 75.

**Kaspersky Labs Limited**  
Registration number: 4249748  
*Company Statement of Changes in Equity for the year ended 31 December 2017*

'000 USD	Ordinary shares	Additional paid-in capital	Retained earnings	Total equity
<b>Balance at 1 January 2016</b>	<b>1</b>	<b>20,083</b>	<b>207,011</b>	<b>227,095</b>
Loss for the year	-	-	(19,444)	(19,444)
<b>Total comprehensive income for the year</b>				<b>(19,444)</b>
Share redemption	-	-	(2,260)	(2,260)
<b>Balance at 31 December 2016</b>	<b>1</b>	<b>20,083</b>	<b>185,307</b>	<b>205,391</b>
<b>Balance at 1 January 2017</b>	<b>1</b>	<b>20,083</b>	<b>185,307</b>	<b>205,391</b>
Profit for the year	-	-	5,011	5,011
<b>Total comprehensive income for the year</b>				<b>5,011</b>
Dividends declared	-	-	(8,469)	(8,469)
<b>Balance at 31 December 2017</b>	<b>1</b>	<b>20,083</b>	<b>181,849</b>	<b>201,933</b>

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 71 to 75.

## **1 Basis of preparation**

### **(a) Statement of compliance**

These Company 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 Company 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.

Balances and transactions were translated into USD using the principles set in note 30 (b)(i) to the Group’s consolidated financial statements.

### **(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 30 (a) to 30 (r) to the consolidated financial statements. These accounting policies have been consistently applied.

**C1 Investments in subsidiaries**

	31 December 2017	31 December 2016	31 December 2017	31 December 2016
	Cost of investment '000 USD	Cost of investment '000 USD	Ownership/ voting	Ownership/ voting
Kaspersky Lab (UK) Limited	449,133	449,133	100%	100%
OOO Kaspersky Group	174,204	174,204	100%	100%
Kaspersky Lab Asia Ltd.	3,557	3,557	100%	100%
Kaspersky Lab France S.A.R.L.	2,259	2,259	100%	100%
Kaspersky Labs GmbH	847	847	100%	100%
Kaspersky Lab Inc.	494	494	100%	100%
Kaspersky Lab Italy	331	331	100%	100%
Kaspersky Lab Romania	262	262	100%	100%
Kaspersky Lab Spain	193	193	100%	-
Kaspersky Lab Turkey	125	125	100%	100%
KK Kaspersky Lab Japan	119	119	99.9%	99.9%
Other minor subsidiaries	423	116	100%	100%
	<b>631,947</b>	<b>631,640</b>		

**C2 Trade and other receivables**

	2017 '000 USD	2016 '000 USD
Receivables from subsidiaries (refer to note C7(i))	581	388
Other current receivables	771	2,173
	<b>1,352</b>	<b>2,561</b>

**C3 Equity**

**(a) Share capital and additional paid-in capital**

<i>Number of shares unless otherwise stated</i>	<b>Shares</b>	<b>Shares</b>
	<b>2017</b>	<b>2016</b>
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	(44,852,911)	(44,702,911)
Share cancellation	-	(150,000)
Shares authorised, not issued at end of year	(44,852,911)	(44,852,911)
On issue at end of period, fully paid	65,147,089	65,147,089
	USD 0.0000148	USD 0.0000148
	(equivalent of	(equivalent of
Par value at beginning of year	0.00001 GBP)	0.00001 GBP)
	USD 0.0000123	USD 0.0000123
	(equivalent of	(equivalent of
Par value at end of year	0.00001 GBP)	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 2017 USD 8,469 thousand of dividends were declared and paid (2016: nil).

**C4 Trade and other payables**

	<b>2017</b>	<b>2016</b>
	<b>'000 USD</b>	<b>'000 USD</b>
<b>Current:</b>		
Other payables and accrued expenses	638	404
Other payables to a subsidiary	2,344	2,229
	<b>2,982</b>	<b>2,633</b>

**C5 Loans and borrowings**

	2017	2016
	'000 USD	'000 USD
<b>Non-current:</b>		
Long-term secured bank loan	7,744	37,584
Loans from subsidiaries (USD nominated)	415,714	397,579
	<b>423,458</b>	<b>435,163</b>
<b>Current:</b>		
Current portion of secured bank loan	15,717	26,607
	<b>15,717</b>	<b>26,607</b>

Loans and borrowings as at 31 December 2017 are represented by loans from subsidiary (with the interest rates of 4.5% p.a.) repayable on 31 December 2022, see note C7(iii), and a secured bank loan with the variable interest rate of LIBOR + 2.85% p.a., repayable in April 2019 (see note 22 of the consolidated financial statements).

**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 8(b) of the consolidated financial statements.

**C7 Related party transactions**

The company related party transactions are disclosed below.

**(i) Revenue**

'000 USD	Transaction value	Transaction value	Outstanding balance	Outstanding balance
	2017	2016	2017	2016
Dividend income from:				
- Subsidiaries	23,166	-	-	-
Other revenue from:				
- Subsidiaries	846	132	581	388
	<b>24,012</b>	<b>132</b>	<b>581</b>	<b>388</b>

**(ii) Expenses**

'000 USD	Transaction value 2017	Transaction value 2016	Outstanding balance 2017	Outstanding balance 2016
- Services from subsidiaries	-	-	(2,344)	(2,229)
- Interest expense to subsidiaries	18,718	-	-	-
- Purchase of own shares from a director/shareholder	-	2,260	-	-
	<b>18,718</b>	<b>2,260</b>	<b>(2,344)</b>	<b>(2,229)</b>

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 2017	Amount loaned 2016	Outstanding balance 2017	Outstanding balance 2016
Loans/financing received from:				
Subsidiaries	(28,267)	(77,798)	(415,714)	(397,579)
Loans/prepayment granted to:				
Subsidiaries	(24,749)	(35,599)	3,747	27,650
	<b>(53,016)</b>	<b>(113,397)</b>	<b>(411,967)</b>	<b>(369,929)</b>

The loan granted to related party has interest rate of 5% p.a. and is payable on demand. Loan from related party (with the interest rates of 4.5% p.a.) repayable on 31 December 2022.