RBC Information Systems

Consolidated Financial Statements

for the year ended 31 December 2003

Contents

KPMG Limited

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Independent Auditor's Report

To the Management of
OAO RBC Information Systems

We have audited the accompanying consolidated balance sheet of OAO RBC Information Systems and its subsidiaries (the "Group") as of 31 December 2003 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements, as set out on pages 4 to 34, are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing as issued by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2003, and the results of its operations, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

KPMG Limited
Moscow, Russian Federation
20 May 2004

	Note	2003 '000 RUR	2002 '000 RUR	2003 '000 USD*	2002 '000 USD*
Revenues	6	1,429,111	926,533	48,519	31,456
Cost of sales	7	(948,122)	(421,674)	(32,189)	(14,316)
Gross profit		**480,989**	**504,859**	**16,330**	**17,140**
Distribution expenses		(275,088)	(116,474)	(9,340)	(3,954)
Administrative expenses	8	(114,336)	(65,314)	(3,882)	(2,217)
Taxes, other than on profit		(5,846)	(9,384)	(198)	(319)
Other operating income/ (expenses)	9	(18,867)	48,930	(641)	1,661
Profit from operations		**66,852**	**362,617**	**2,269**	**12,311**
Net financing income	10	72,715	839	2,469	28
Profit before tax		**139,567**	**363,456**	**4,738**	**12,339**
Income tax expense	11	(30,552)	(70,796)	(1,037)	(2,403)
Net profit for the year		**109,015**	**292,660**	**3,701**	**9,936**
Basic earnings per share	21	1.09	3.09	0.04	0.10
Diluted earnings per share	21	1.07	3.09	0.04	0.10

The consolidated financial statements were approved on 20 May 2004.

Chief Executive Officer

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German Kaplun

Chief Financial Officer

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Dmitry Belik

The consolidated income statement is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 111 to 34.

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited consolidated financial statements – refer note 2(d).*

	Note	2003 ’000 RUR	2002 ’000 RUR	2003 ’000 USD*	2002 ’000 USD*
ASSETS					
Non-current assets					
Property, plant and equipment	12	716,719	325,879	24,333	11,064
Intangible assets	13	211,935	165,325	7,195	5,613
Available-for-sale investments	14	20	389	1	13
		928,674	**491,593**	**31,529**	**16,690**
Current assets					
Inventories	15	22,655	59,095	769	2,006
Trade and other receivables	16	400,174	235,560	13,586	7,998
Cash and cash equivalents	17	423,550	634,215	14,380	21,532
		846,379	**928,870**	**28,735**	**31,536**
Total assets		**1,775,053**	**1,420,463**	**60,264**	**48,226**

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 111 to 34.

* *The USD equivalent figures are provided for information purposes only and do not form part of the audited consolidated financial statements – refer note 2(d).*

	Note	2003 ’000 RUR	2002 ’000 RUR	2003 ’000 USD*	2002 ’000 USD*
EQUITY AND LIABILITIES					
Equity	18				
Share capital		134	134	5	5
Share premium		679,847	645,273	23,081	21,907
Retained earnings		472,610	363,595	16,045	12,344
		1,152,591	**1,009,002**	**39,131**	**34,256**
Non-current liabilities					
Loans and borrowings	19	163,816	132,968	5,561	4,515
Deferred tax liabilities	20	88,677	77,354	3,011	2,626
		252,493	**210,322**	**8,572**	**7,141**
Current liabilities					
Trade and other payables	22	369,969	201,139	12,561	6,829
		369,969	**201,139**	**12,561**	**6,829**
Total equity and liabilities		**1,775,053**	**1,420,463**	**60,264**	**48,226**

The consolidated balance sheet is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 111 to 34.

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	2003 '000 RUR	2002 '000 RUR	2003 '000 USD*	2002 '000 USD*
OPERATING ACTIVITIES				
Net profit for the year	109,015	292,660	3,701	9,936
Adjustments for:				
Non-cash sales	-	(7,627)	-	(259)
Depreciation and amortisation	165,300	74,460	5,612	2,528
Loss/(gain) on disposal of property, plant and equipment	18,306	(923)	622	(31)
Loss on disposal of intangible assets	9,888	-	336	-
Monetary gain related to deferred tax	-	(1,672)	-	(57)
Interest expense	41,920	7,570	1,423	257
Interest income	(32,687)	(67,614)	(1,110)	(2,296)
Income tax expense	30,552	70,796	1,037	2,404
Operating profit before changes in working capital	**342,294**	**367,650**	**11,621**	**12,482**
(Increase)/decrease in inventories	36,440	(45,401)	1,237	(1,541)
Increase in trade and other receivables	(174,205)	(174,594)	(5,914)	(5,928)
Decrease in other assets	-	69,078	-	2,345
Decrease in trade and other payables	(2,054)	(13,056)	(70)	(443)
Cash flows from operations before income taxes and interest paid	**202,475**	**203,677**	**6,874**	**6,915**
Income taxes paid	(12,252)	(4,501)	(416)	(153)
Interest paid	(29,905)	(7,570)	(1,015)	(257)
Cash flows from operating activities	**160,318**	**191,606**	**5,443**	**6,505**

The consolidated statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 11 to 34.

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	2003 '000 RUR	2002 '000 RUR	2003 '000 USD*	2002 '000 USD*
INVESTING ACTIVITIES				
Proceeds from disposal of property, plant and equipment	3,891	1,560	132	53
Proceeds from disposal of investments	369	-	13	-
Interest received	42,278	55,614	1,435	1,888
Acquisition of property, plant and equipment	(467,583)	(156,860)	(15,875)	(5,325)
Acquisition of intangible assets	(126,918)	(132,008)	(4,309)	(4,482)
Acquisition of investments	-	(122)	-	(4)
Cash flows from investing activities	**(547,963)**	**(231,816)**	**(18,604)**	**(7,870)**
FINANCING ACTIVITIES				
Proceeds from issuance of share capital net of transaction costs	-	416,304	-	14,134
Proceeds from issuance of warrants	20,144	-	684	-
Proceeds from borrowings	156,836	-	5,325	-
Repayment of borrowings	-	(23,175)	-	(787)
Cash flows from financing activities	**176,980**	**393,129**	**6,009**	**13,347**
Net increase/(decrease) in cash and cash equivalents	**(210,665)**	**352,919**	**(7,152)**	**11,982**
Cash and cash equivalents at beginning of year	634,215	281,296	21,532	9,550
Cash and cash equivalents at end of year (note 17)	**423,550**	**634,215**	**14,380**	**21,532**

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'000 RUR	**Share capital**	**Share premium**	**Treasury shares**	**Retained earnings**	**Total**
Balance at 1 January 2002	116	228,987	-	70,935	300,038
Net profit for the period	-	-	-	292,660	292,660
Shares issued	18	446,219	-	-	446,237
Transaction costs	-	(29,933)	-	-	(29,933)
Balance at 31 December 2002	**134**	**645,273**	**-**	**363,595**	**1,009,002**
Net profit for the period	-	-	-	109,015	109,015
Warrants issued	-	18,612	-	-	18,612
Contribution by shareholders	-	15,962	-	-	15,962
Acquisition of treasury shares	-	-	63,327	-	63,327
Issuance of treasury shares	-	-	(63,327)	-	(63,327)
Balance at 31 December 2003	**134**	**679,847**	**-**	**472,610**	**1,152,591**

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 11 to 34.

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'000 USD*	**Share capital**	**Share premium**	**Treasury shares**	**Retained earnings**	**Total**
Balance at 1 January 2002	5	7,774	-	2,408	10,187
Net profit for the period	-	-	-	9,936	9,936
Shares issued	-	15,149	-	-	15,149
Transaction costs	-	(1,016)	-	-	(1,016)
Balance at 31 December 2002	**5**	**21,907**	**-**	**12,344**	**34,256**
Net profit for the period	-	-	-	3,701	3,701
Warrants issued	-	632	-	-	632
Contribution by shareholders	-	542	-	-	542
Acquisition of treasury shares	-	-	2,150	-	2,150
Issuance of treasury shares	-	-	(2,150)	-	(2,150)
Balance at 31 December 2003	**5**	**23,081**	**-**	**16,045**	**39,131**

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 11 to 34.

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1 Background

(a) Organisation and operations

OAO RBC Information Systems (the "Parent Company") and its subsidiaries (together referred to as the "Group") comprise Russian Federation open joint stock companies as defined in the Civil Code of the Russian Federation, and companies located abroad. The Parent Company's shares are traded on the Moscow Stock Exchange.

The Parent Company's registered office is at at Russian Federation, Moscow, Profsoyuznaya street, 78.

The Group's principal activities are internet advertising, information services, operation of a satellite TV channel and development and selling of software. These services are rendered in the Russian Federation.

(b) Russian business environment

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. The accompanying consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that instruments held for trading and available-for-sale are stated at fair value; and the carrying amounts of non-monetary assets and equity items in existence at 31 December 2002 include adjustments for the effects of hyperinflation. In addition, all revenues and expenses in the comparative information have been restated for the effects of hyperinflation.

(c) Measurement and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUR"), which is the Group's measurement currency and the currency in which these consolidated financial statements

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are presented. All financial information presented in RUR has been rounded to the nearest thousand.

(d) Convenience translation

The Group's measurement currency is RUR because it reflects the economic substance of the underlying events and circumstances of the company. In addition to presenting the consolidated financial statements in RUR, supplementary information in USD has been prepared for the convenience of users of the financial statements.

The supplementary information has been prepared by translating from RUR to USD at the Official rate of the Central Bank of the Russian Federation as at 31 December 2003 of RUR 29.4545 to USD 1.

(e) Going concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Group's assets, as well as the future operations of the Group, may be significantly affected by the current and future economic environment (see note 1(b)). The accompanying consolidated financial statements do not include any adjustments should the Group be unable to continue as a going concern.

(f) Use of estimates

Management has made a number of 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 IFRS. Actual results could differ from those estimates.

3 Significant accounting policies

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. These accounting policies have been consistently applied except for hyperinflation as described in note 2 (c).

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

(ii) Transactions eliminated on consolidation

Intragroup balances and transactions, and any unrealised gains arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

(b) Foreign currencies

Transactions in foreign currencies are translated to RUR at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to RUR at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to RUR at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to RUR at the foreign exchange rate ruling at the dates the fair values were determined.

(c) Inflation accounting

All amounts included in the comparative information have been adjusted for hyperinflation so that all RUR amounts are expressed in terms of the purchasing power of the RUR as at 31 December 2002. Adjustments for hyperinflation were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, *GosKomStat*.

The Russian Federation ceased to be hyperinflationary with effect from 1 January 2003 and accordingly no adjustments have been made for the year ended 31 December 2003. The hyperinflation-adjusted carrying amounts of the Group's assets, liabilities and equity items as at 31 December 2002 became their carrying amounts as at 1 January 2003 for the purpose of subsequent accounting.

(d) Property, plant and equipment

(i) Owned assets

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised with the carrying amount of the component being written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

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(iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and ready for use.

The estimated useful lives are as follows:

- TV equipment 5 years
- Computer equipment 5 years
- Office equipment 5 years
- Other assets 5 years.

(e) Intangible Assets

(i) Web-site

Costs relating to the development of a web site are capitalized if the site is functional in nature (i.e. it is designed to generate revenue from online sales).

Expenditure on design, content and appearance of the site is expensed as incurred.

(ii) Software

Software acquired is carried at historical cost less any accumulated amortisation and any accumulated impairment losses.

(iii) Research and development

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

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

(iv) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

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(v) Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets from the date the asset is available for use. The estimated useful lives are as follows:

- Capitalised development costs 3 years
- Web site development costs 3 years
- Software 3 – 5 years

(f) Investments

Investments are recognised (derecognised) when the Group obtains (loses) control over the contractual rights inherent in that asset.

Except as outlined below, investments are accounted for as follows:

- Investments held for trading are stated at fair value with any resulting gain or loss recognised in the income statement.
- Investments held-to-maturity are stated initially at cost. Subsequent to initial recognition they are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period to maturity on an effective interest basis.
- Other investments are classified as available-for-sale and are stated at fair value, with any resultant gain or loss being recognised in the income statement.

The fair value of investments held for trading and available-for-sale is their quoted bid price at the balance sheet date. Investments in equity securities that are not quoted on a stock exchange, and where fair value cannot be estimated on a reasonable basis by other means, are stated at cost less impairment losses.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(h) Trade and other receivables

Trade and other receivables are stated at cost less impairment losses.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances with banks and highly liquid bank promissory notes.

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 11 to 34.

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(j) Impairment

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated. An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(k) Share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is deducted from equity.

(l) Loans and borrowings

Loans and borrowings are recognised initially at cost. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(m) Trade and other payables

Trade and other payables are stated at cost.

(n) Income tax

Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and investments in subsidiaries where the Parent Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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(o) Revenues

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

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

(p) Expenses

(i) Net financing costs

Net financing costs comprise interest expense on borrowings, the accretion of interest on provisions, interest income on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on the revaluation and disposal of investments held for trading and available-for-sale.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of net financing costs.

(q) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

4 Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Inter-segment pricing is not determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly borrowings and expenses, and corporate assets and expenses.

(a) Business segments

The Group comprises the following main business segments:

Core business. Provision of internet advertising, information services and developing and selling of software products.

TV. Operation of satellite TV channel, as well as related services.

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(i) Business segments

	Core business		**TV**		**Eliminations**		**Consolidated**	
'000 RUR	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**
Revenue from external customers:	1,262,603	926,533	166,508	-	-	-	1,429,111	926,533
Total revenue from external customers	**1,262,603**	**926,533**	**166,508**	**-**	**-**	**-**	**1,429,111**	**926,533**
Inter-segment revenue	23,429	-	4,611	-	(28,040)	-	-	-
Total revenue	**1,286,032**	**926,533**	**171,119**	**-**	**(28,040)**	**-**	**1,429,111**	**926,533**
Segment result	583,850	504,859	(96,941)	-	(5,920)		480,989	504,859
Unallocated expenses							(414,137)	(142,242)
Profit from operations							**66,852**	**362,617**
Net financing income							72,715	839
Income tax expense							(30,552)	(70,796)
Net profit for the year							**109,015**	**292,660**
Segment assets	1,329,036	1,420,463	593,750	-	(147,733)	-	1,775,053	1,420,463
Segment liabilities	547,095	411,461	217,180	-	(141,813)	-	622,462	411,461

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(i) Business segments

	Core business		**TV**		**Eliminations**		**Consolidated**	
’000 USD*	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**
Revenue from external customers:	42,866	31,456	5,653	-	-	-	48,519	31,456
Total revenue from external customers	**42,866**	**31,456**	**5,653**	**-**	**-**	**-**	**48,519**	**31,456**
Inter-segment revenue	795	-	157	-	(952)	-	-	-
Total revenue	**43,661**	**31,456**	**5,810**	**-**	**(952)**	**-**	**48,519**	**31,456**
Segment result	19,822	17,140	(3,291)	-	(201)		16,330	17,140
Unallocated expenses							(14,061)	(4,829)
Profit from operations							**2,269**	**12,311**
Net financing income							2,469	28
Income tax expense							(1,037)	(2,403)
Net profit for the year							**3,701**	**9,936**
Segment assets	45,122	48,226	20,158	-	(5,016)	-	60,264	48,226
Segment liabilities	18,574	13,970	7,374	-	(4,815)	-	21,133	13,970

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5 Acquisition and disposals of subsidiaries

On 14 February 2003 the Group acquired 100% shares in RBC Investments Cyprus for consideration paid in amount of RUR 52 thousand/USD* 2 thousand. Negative net identifiable assets of acquired company amounted to RUR 235 thousand/USD* 8 thousand.

On 8 December 2003 the Group disposed 100% shares of ZAO PH RBC for nil. The majority of assets and liabilities of ZAO PH RBC were transferred to other companies of the Group before disposal. At the date of disposal net identifiable assets of the company amounted to RUR 657 thousand/USD* 22 thousand.

6 Revenues

	2003	**2002**	**2003**	**2002**
	'000 RUR	**'000 RUR**	**'000 USD***	**'000 USD***
Revenues from advertising services	863,314	409,062	29,310	13,888
Revenues from developed software	468,136	430,300	15,894	14,609
Revenues from information services	94,808	80,802	3,219	2,743
Revenues from long-term contracts	2,853	6,369	96	216
	1,429,111	**926,533**	**48,519**	**31,456**

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7 Cost of Sales

	2003 '000 RUR	2002 '000 RUR	2003 '000 USD*	2002 '000 USD*
Outsourced cost of programming	(187,322)	(82,692)	(6,360)	(2,807)
Depreciation and amortization	(165,300)	(74,460)	(5,612)	(2,528)
Labour costs	(125,090)	(24,063)	(4,247)	(817)
Outsourced labour costs	(93,435)	(122,556)	(3,172)	(4,161)
Marketing communication	(89,592)	-	(3,042)	-
Cost of goods for trading	(87,073)	(65,524)	(2,956)	(2,225)
Information services	(58,504)	(38,771)	(1,986)	(1,316)
Cost of advertising services	(57,603)	-	(1,956)	-
TV signal distribution	(28,781)	-	(977)	-
Other	(55,422)	(13,608)	(1,881)	(462)
	(948,122)	**(421,674)**	**(32,189)**	**(14,316)**

8 Administrative expenses

	2003 '000 RUR	2002 '000 RUR	2003 '000 USD*	2002 '000 USD*
Wages and salaries	(43,966)	(28,817)	(1,493)	(978)
Repair	(15,724)	(3,904)	(534)	(133)
Consulting and legal	(8,635)	(10,343)	(293)	(351)
Communication	(7,511)	(4,415)	(255)	(150)
Rent	(4,529)	(1,397)	(154)	(47)
Stationary	(3,985)	(2,846)	(135)	(97)
Board of directors meeting	(3,895)	-	(132)	-
Insurance	(3,331)	-	(113)	-
Presentation and business trip expenses	(5,289)	-	(180)	-
Recruitment services	(2,016)	(5,220)	(68)	(177)
Housing	(3,321)	(1,123)	(112)	(38)
Other administrative expenses	(12,134)	(7,249)	(413)	(246)
	(114,336)	**(65,314)**	**(3,882)**	**(2,217)**

The average number of employees during 2003 was 1,060 (2002: 579).

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9 Other operating income/(expenses)

	2003	**2002**	**2003**	**2002**
	’000 RUR	**’000 RUR**	**’000 USD***	**’000 USD***
Loss on disposal of property, plant and equipment written-off	(18,306)	-	(622)	-
Loss on disposal of intangible assets	(9,888)	-	(336)	-
Rental income	4,861	4,650	165	158
Reversal of provisions	-	31,348	-	1,064
Income from renegotiation of liability	-	15,505	-	526
Other	4,466	(2,573)	152	(87)
	(18,867)	**48,930**	**(641)**	**1,661**

10 Net financing income

	2003	**2002**	**2003**	**2002**
	’000 RUR	**’000 RUR**	**’000 USD***	**’000 USD***
Interest expense	(41,920)	(7,570)	(1,423)	(257)
Interest income	32,687	67,614	1,110	2,295
Loss on net monetary position	-	(44,723)	-	(1,518)
Foreign exchange loss	(13,516)	(3,256)	(459)	(111)
Gain from promissory notes	101,124	-	3,433	-
Borrowing and transaction costs	(5,660)	(11,226)	(192)	(381)
	72,715	**839**	**2,469**	**28**

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11 Income tax expense

	2003 '000 RUR	2002 '000 RUR	2003 '000 USD*	2002 '000 USD*
Current tax expense				
Current year	(20,761)	(4,501)	(705)	(152)
	(20,761)	(4,501)	(705)	(152)
Deferred tax expense				
Origination and reversal of temporary differences	5,680	(66,295)	193	(2,251)
Net effect of change in tax rates	(15,471)	-	(525)	-
	(9,791)	(66,295)	(332)	(2,251)
	(30,552)	**(70,796)**	**(1,037)**	**(2,403)**

The Group's applicable tax rate is the corporate income tax rate of 24% (2002: 20%) and 24% for measuring deferred taxes (2002: 20%).

Reconciliation of effective tax rate:

	2003 '000 RUR	%	2002 '000 RUR	%
Profit before tax	139,567	100	363,456	100
Income tax at applicable tax rate	(33,496)	(24)	(72,691)	(20)
Income taxed at different rates	72,643	52	(5,457)	(1)
Change in tax rate	(15,471)	(11)	-	-
Non-deductible/non-taxable items	(54,228)	(39)	7,352	2
	(30,552)	**(22)**	**(70,796)**	**(19)**

	2003 '000 USD*	%	2002 '000 USD*	%
Profit before tax	4,738	100	12,339	100
Income tax at applicable tax rate	(1,137)	(24)	(2,468)	(20)
Income taxed at different rates	2,466	52	(185)	(1)
Change in tax rate	(525)	(11)	-	-
Non-deductible/non-taxable items	(1,841)	(39)	250	2
	(1,037)	**(22)**	**(2,403)**	**(19)**

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12 Property, plant and equipment

'000 RUR	**TV equipment**	**Computer equipment**	**Office equipment**	**Other assets**	**Equipment for installation**	**Total**
Cost						
At 1 January 2003	-	245,132	11,616	15,506	111,580	383,834
Additions	259,257	138,679	14,465	5,598	86,027	504,026
Disposals	-	(29,752)	(5,858)	(3,664)	-	(39,274)
Transfers	118,167	-	-	(6,587)	(111,580)	-
At 31 December 2003	**377,424**	**354,059**	**20,223**	**10,853**	**86,027**	**848,586**
Depreciation						
At 1 January 2003	-	(51,741)	(2,855)	(3,359)	-	(57,955)
Depreciation charge	(43,979)	(37,006)	(8,420)	(1,584)	-	(90,989)
Disposals	-	13,835	2,844	398	-	17,077
At 31 December 2003	**(43,979)**	**(74,912)**	**(8,431)**	**(4,545)**	**-**	**(131,867)**
Net book value						
At 1 January 2003	**-**	**193,391**	**8,761**	**12,147**	**111,580**	**325,879**
At 31 December 2003	**333,445**	**279,147**	**11,792**	**6,308**	**86,027**	**716,719**

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’000 USD	**TV assets**	**Computer equipment**	**Office equipment**	**Other assets**	**Equipment for installation**	**Total**
Cost						
At 1 January 2003	-	8,322	394	527	3,788	13,031
Additions	8,802	4,709	492	189	2,920	17,112
Disposals	-	(1,010)	(199)	(124)	-	(1,333)
Transfers	4,012	-	-	(224)	(3,788)	-
At 31 December 2003	**12,814**	**12,021**	**687**	**368**	**2,920**	**28,810**
Depreciation						
At 1 January 2003	-	(1,756)	(97)	(114)	-	(1,967)
Depreciation charge	(1,493)	(1,256)	(286)	(54)	-	(3,089)
Disposals	-	469	97	13	-	579
At 31 December 2003	**(1,493)**	**(2,543)**	**(286)**	**(155)**	**-**	**(4,477)**
Net book value						
At 1 January 2003	**-**	**6,566**	**297**	**413**	**3,788**	**11,064**
At 31 December 2003	**11,321**	**9,478**	**401**	**213**	**2,920**	**24,333**

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13 Intangible assets

’000 RUR	**Software**	**Web site**	**Development costs**	**Total**
Cost				
At 1 January 2003	11,089	101,208	136,363	248,660
Additions	50,464	51,878	47,343	149,685
Disposals	(11,089)	-	(4,623)	(15,712)
At 31 December 2003	**50,464**	**153,086**	**179,083**	**382,633**
Amortisation				
At 1 January 2003	(3,689)	(29,270)	(50,376)	(83,335)
Amortisation charge	(5,499)	(36,347)	(51,341)	(93,187)
Disposals	3,689	-	2,135	5,824
At 31 December 2003	**(5,499)**	**(65,617)**	**(99,582)**	**(170,698)**
Net book value				
At 1 January 2003	**7,400**	**71,938**	**85,987**	**165,325**
At 31 December 2003	**44,965**	**87,469**	**79,501**	**211,935**

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’000 USD*	**Software**	**Web site**	**Development costs**	**Total**
Cost				
At 1 January 2003	376	3,436	4,630	8,442
Additions	1,713	1,761	1,607	5,081
Disposals	(376)	-	(157)	(533)
At 31 December 2003	**1,713**	**5,197**	**6,080**	**12,990**
Amortisation				
At 1 January 2003	(125)	(994)	(1,710)	(2,829)
Amortisation charge	(187)	(1,233)	(1,744)	(3,164)
Disposals	125	-	73	198
At 31 December 2003	**(187)**	**(2,227)**	**(3,381)**	**(5,795)**
Net book value				
At 1 January 2003	**251**	**2,442**	**2,920**	**5,613**
At 31 December 2003	**1,526**	**2,970**	**2,699**	**7,195**

(a) Amortisation charge

The amortisation charge for the year is included in “cost of sales”.

14 Available-for-sale investments

Available-for-sale investments stated at cost comprise unquoted equity securities in associates and subsidiaries. These subsidiary companies were not consolidated in the Group financial statements as the impact of consolidation would not be material to the Group financial statements. The associated companies were not accounted using equity method in the Group financial statements as the impact of this would not be material.

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15 Inventories

	2003 '000 RUR	2002 '000 RUR	2003 '000 USD*	2002 '000 USD*
Raw materials and consumables	3,164	5,755	107	195
Work in progress	382	13,900	13	472
Finished goods and goods for resale	19,109	39,440	649	1,339
	22,655	**59,095**	**769**	**2,006**

16 Trade and other receivables

	2003 '000 RUR	2002 '000 RUR	2003 '000 USD*	2002 '000 USD*
Advances paid	123,171	56,662	4,182	1,923
Loans provided	108,993	93,871	3,700	3,187
VAT receivable	79,713	30,092	2,706	1,022
Accounts receivable – trade	52,662	36,724	1,788	1,247
Interest receivable	2,409	12,000	82	408
Other receivables	33,226	6,211	1,128	211
	400,174	**235,560**	**13,586**	**7,998**

17 Cash and cash equivalents

	2003 '000 RUR	2002 '000 RUR	2003 '000 USD*	2002 '000 USD*
Cash on hand	339	398	12	14
Bank balances	423,211	552,721	14,368	18,765
Cash equivalents	-	81,096	-	2,753
Cash and cash equivalents in the statement of cash flows	**423,550**	**634,215**	**14,380**	**21,532**

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18 Equity

(a) Share capital and share premium

The authorised and issued share capital of the Group as of 31 December 2003 comprised 100,000,000 ordinary shares at par value of RUR 0,001 (2002: 100,000,000 ordinary shares at par value of RUR 0,001), fully paid.

(b) Dividends

In accordance with Russian legislation the Parent Company's distributable reserves are limited to the balance of accumulated retained earnings as recorded in the Parent Company's statutory financial statements prepared in accordance with Russian Accounting Principles. As of 31 December 2003 the Parent Company had cumulative retained earnings, including the profit for the current year, of RUR 1,940 thousand (USD 66 thousand converted at the closing exchange rate of 29.4545).

19 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings.

	2003 '000 RUR	2002 '000 RUR	2003 '000 USD*	2002 '000 USD*
Non-current				
Unsecured bond issue	163,816	-	5,561	-
Unsecured loan	-	132,968	-	4,515
	163,816	**132,968**	**5,561**	**4,515**

For more information about the Group's exposure to interest rate and foreign currency risk, see note 23.

Terms and debt repayment schedule

In February 2003, the Group issued long-term 15% bonds with a par value of USD 6 million with maturity dates of February and May 2006. Subscribers to the Bonds will receive a warrant to acquire 10,000 shares in RBC Information Systems for every Bond held exercisable at any time after a 12 month period from issue of the Bonds. The warrant exercise price will be nil. Following their issue, the warrants will be detachable from the Bonds. The interest on the bonds is repayable on 30 June and 31 December in each year starting from 30 June 2003.

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20 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

’000 RUR	**Assets**		**Liabilities**		**Net**	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**
Property, plant and equipment	-	-	(61,471)	(38,945)	(61,471)	(38,945)
Intangible assets	-	-	(29,493)	(31,587)	(29,493)	(31,587)
Inventories	-	-	(2,394)	(3,353)	(2,394)	(3,353)
Trade and other receivables	1,505	-	-	(1,686)	1,505	(1,686)
Loans and borrowings	-	-	(3,956)	(2,012)	(3,956)	(2,012)
Trade and other payables	6,276	229	-	-	6,276	229
Tax loss carry-forwards	856	-	-	-	856	-
Net tax assets/(liabilities)	**8,637**	**229**	**(97,314)**	**(77,583)**	**(88,677)**	**(77,354)**

’000 USD*	**Assets**		**Liabilities**		**Net**	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**
Property, plant and equipment	-	-	(2,087)	(1,322)	(2,087)	(1,322)
Intangible assets	-	-	(1,002)	(1,073)	(1,002)	(1,073)
Inventories	-	-	(81)	(114)	(81)	(114)
Trade and other receivables	51	-	-	(57)	51	(57)
Loans and borrowings	-	-	(134)	(68)	(134)	(68)
Trade and other payables	213	8	-	-	213	8
Tax loss carry-forwards	29	-	-	-	29	-
Net tax assets/(liabilities)	**293**	**8**	**(3,304)**	**(2,634)**	**(3,011)**	**(2,626)**

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(b) Movement in temporary differences during the year

’000 RUR	**1 January 2003**	**Recognised in equity**	**Recognised in income**	**31 December 2003**
Property, plant and equipment	(38,945)	-	(22,526)	(61,471)
Intangible assets	(31,587)	-	2,094	(29,493)
Inventories	(3,353)	-	959	(2,394)
Receivables	(1,686)	-	3,191	1,505
Loans and borrowings	(2,012)	(1,532)	(412)	(3,956)
Trade and other payables	229	-	6,047	6,276
Tax value of loss carry-forwards recognised	-	-	856	856
	(77,354)	**(1,532)**	**(9,791)**	**(88,677)**

’000 USD*	**1 January 2003**	**Recognised in equity**	**Recognised in income**	**31 December 2003**
Property, plant and equipment	(1,322)	-	(765)	(2,087)
Intangible assets	(1,073)	-	71	(1,002)
Inventories	(114)	-	33	(81)
Receivables	(57)	-	108	51
Loans and borrowings	(68)	(53)	(13)	(134)
Trade and other payables	8	-	205	213
Tax value of loss carry-forwards recognised	-	-	29	29
	(2,626)	**(53)**	**(332)**	**(3,011)**

21 Earnings per share

The calculation of basic earnings per share at 31 December 2003 was based on the net profit for the year and a weighted average number of ordinary and preference shares (see note 18(a)) outstanding during the year of 100,000,000 (2002: 94,667,000).

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The calculation of basic earnings per share at 31 December 2002 was based a weighted average number of ordinary shares outstanding during the year ended 31 December 2002 of 94,666,667.

Weighted average number of ordinary shares

In thousands of shares	2002
Issued ordinary shares at 1 January 2002	84,000
Effect of shares issued in April 2002	10,667
Weighted average number of ordinary shares at 31 December 2002	**94,667**

The dilutive potential shares equals to 1,130,000 shares which were issued under stock warrant (see note 19).

22 Trade and other payables

	2003	**2002**	**2003**	**2002**
	’000 RUR	**’000 RUR**	**’000 USD***	**’000 USD***
Payables to shareholders	136,347	-	4,629	-
Advances received	120,405	46,768	4,088	1,588
Accounts payable – trade	93,143	144,346	3,162	4,901
Other taxes payable	10,205	6,143	347	209
Income tax payable	8,509	-	289	-
Other payables and accrued expenses	1,360	3,882	46	131
	369,969	**201,139**	**12,561**	**6,829**

23 Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group’s business.

(a) Credit risk

The Group does not require collateral in respect of financial assets. Credit evaluations are performed on all customers, other than related parties, requiring credit over a certain amount.

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

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(b) Interest rate risk

Changes in interest rates impact primarily loans and borrowings by changing their fair value (fixed rate debt). 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 issuing new debt 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.

(c) Foreign currency risk

The Group incurs foreign currency risk on sales, purchases and borrowings that are denominated in a currency other than Russian rouble. The currencies giving rise to this risk are primarily USD and Euro. Management does not hedge the Group's exposure to foreign currency risk.

(d) Fair values

The fair value has been determined either by reference to the market value at the balance sheet date or by discounting the relevant cash flows using market interest rates for similar instruments. As a result of this exercise management believes that the fair value of its financial assets and liabilities approximates their carrying amounts.

24 Contingencies

(a) Insurance

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

(b) Taxation contingencies

The taxation system in the Russian Federation is relatively new and is characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory and subject to interpretation. Often differing interpretations exist among the numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in the Russian Federation substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

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25 Significant subsidiaries

	Country of incorporation	Ownership/voting	
		2003	**2002**
ZAO RBC	Russia	100%	100%
ZAO RBC Soft	Russia	100%	100%
OOO RBC Centre	Russia	100%	100%
OOO Art Systems	Russia	100%	100%
RBC Information Systems N.V.	The Netherlands	100%	100%
RBC Investment Ltd.	Cyprus	100%	100%
ZAO RBC TV	Russia	100%	100%
OOO Niken	Russia	100%	60%
OOO RBC TV Production	Russia	100%	100%
OOO Art Reklama	Russia	100%	100%
OOO Publishing House	Russia	-	100%

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