



RosBusinessConsulting

Annual Report

2001

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INTRODUCTORY SPEECH (BY CHAIRMAN OF THE BOARD OF DIRECTORS GERMAN KAPLUN)

Dear Sirs,

First of all on behalf of the shareholders, management and employees of OAO «RBC Information Systems» I would like to thank all of our numerous clients and partners for working with us in 2001. This year became a year of remarkable growth for RBC: according to an audit conducted by KPMG, the consolidated revenue of the company was \$16.95m. The company generated a net profit of \$6.3m last year. EBITDA was \$7.7m. Both businesses of RBC were profitable: the media business brought \$9.85m in revenues and the IT business accounted for \$7.1m. RBC has at least doubled its annual growth for a third year in a row. Now the company is stepping onto a new level of development, which requires not only a solid financial basis, but also transparency and efficiency of corporate governance.

Only meeting all these prerequisites will the company be able to gain recognition on domestic and international markets. The results of the pre-IPO convertible bond placement in Switzerland, when the company was several times oversubscribed, proved that RBC measured up to Western standards of transparency and openness. The first IPO in Russia's post-Soviet history, which was successfully conducted by RBC, also testifies to this fact.

And one more fact that testifies to RBC's remarkable growth – is the participation of highly qualified specialists with international reputation in our company. I would like to express our heart-felt gratitude to such well-known representatives of the international business community as Messrs. Hans-Joerg Rudloff, Neil Osborn, Michael Hammond and Yury Mostovoy, who honored us by agreeing to join the RBC Board of Directors.

RBC is an efficient and cohesive team, and the achievements of the company are our common achievements. Let me thank all my colleagues for a job well done.

The company is growing but its principles do not change. We are sure that the main resources of our country are intellect and education. RBC is currently doing and will do its best to promote the development of Russia with the help of information technologies.

German Kaplun,

Chairman of the Board of Directors of OAO RBC Information Systems

COMPANY OVERVIEW

The Company's core business commenced in 1993 with the establishment of ZAO RosBusinessConsulting in Moscow, Russia, as a domestic financial news media business that rapidly came to rely on the Internet as its primary medium. In 1999, RosBusinessConsulting launched its software and IT business in response to market demand. The ownership of RosBusinessConsulting and its affiliates was consolidated into a holding company, OAO RBC Information Systems, in 2001. RBC today employs nearly 500 journalists, editors, programmers, IT engineers and sales and support staff, including management personnel.

The Company's main Internet resource is located at www.rbc.ru, which was established as one of the first Internet resources in Russia committed to provide high-quality, real-time Russian business and financial market news on the Internet to Russian executives, managers and investors seeking up-to-the minute information.

The Company maintains e-commerce relationships with its advertisers, sponsors and business partners, and provides them with a large, demographically desirable audience. The Company believes that this audience primarily consists of persons who are affluent, highly educated and in a position to make significant purchasing decisions. The ability to use the Internet to target this demographically well-defined and attractive audience has allowed the Company to charge premium rates to advertisers, many of whom are multinational Fortune 500 companies.

For the year ended December 31, 2001, all of the Company's Internet resources attracted over 9 million unique visitors (with separate Internet addresses) and the total number of pages accessed on these resources, known as page views or 'hits', reached nearly 720 million during the year.

In addition to selling financial news subscriptions and advertising, the Company has effectively utilized the access to its main audience to develop a complementary IT business. In response to demand among its media audience for online solutions, such as e-commerce technology and web design services, the Company began offering this technology for sale in 1999. This IT business has expanded into software development, system integration, consulting, and other products and services. In less than three years, the Company's IT business has nearly outgrown its main media business in terms of revenues.

Today, business development hinges on information and up-to-date technologies. Access to current, reliable and comprehensive information and the use of cutting-edge technologies are prerequisites for success. Being the Number One information provider as well as one of the major developers of software solutions for large and medium-sized businesses, RBC helps hundreds of Russian and foreign companies to achieve success.

RBC's principle is to foresee market changes and form new trends, in accordance with which the market will further develop. This principle is what enabled the Company to rapidly develop since its establishment in 1993. The Company has the widest business audience in the Russian media. It applies its extensive experience gained in the process of development and promotion of its own projects for the creation of IT solutions for its clients. RBC's highly qualified specialists are able to develop and install various software, which is indispensable for the successful operation of large companies and state organizations. Direct targeting of web resources along with high user hit rates allow RBC to control more than 1/2 of the Russian Internet's advertising market.

RBC is the only official representative of VeriSign, Network Solutions and AltaVista in Russia and the CIS. RBC is a partner of such world's leading hi-tech producers as Intel, IBM and Oracle.

Presently, there are over 500 specialists working for RBC, of whom more than 400 are highly qualified IT engineers, web developers, programmers, designers, analysts and consultants.

"Our mission is to promote Russia's integration in the international information and economic community with the help of high technologies," says RBC General Director Dr. Yury Rovensky.

COMPANY'S STRATEGY

RBC believes that it can leverage its wide brand recognition and affluent audience to continue to develop its business. The Company's IT business is its fastest growing business, and the management feels that synergies with its media business provide cost sharing advantages and critical mass, which allows the Company to develop more products at a lower cost and offer them to a wider client base at a lower sales cost than the competitors. This is the underlying business model that is the basis for the Company's success.

The essence of the strategy for the IT business is to continue the same development pattern - to continually add more and more software programs, Internet solutions and various other IT services to its products and services already in the marketplace. The Company's IT services include system integration, and offshore programming (exporting special software ordered by foreign clients), which are two of the fastest growing segments of the IT market in Russia. Part of the Company's strategy is to re-use or further develop existing technologies, or components of programs, into new IT products, and to continually widen its existing client base.

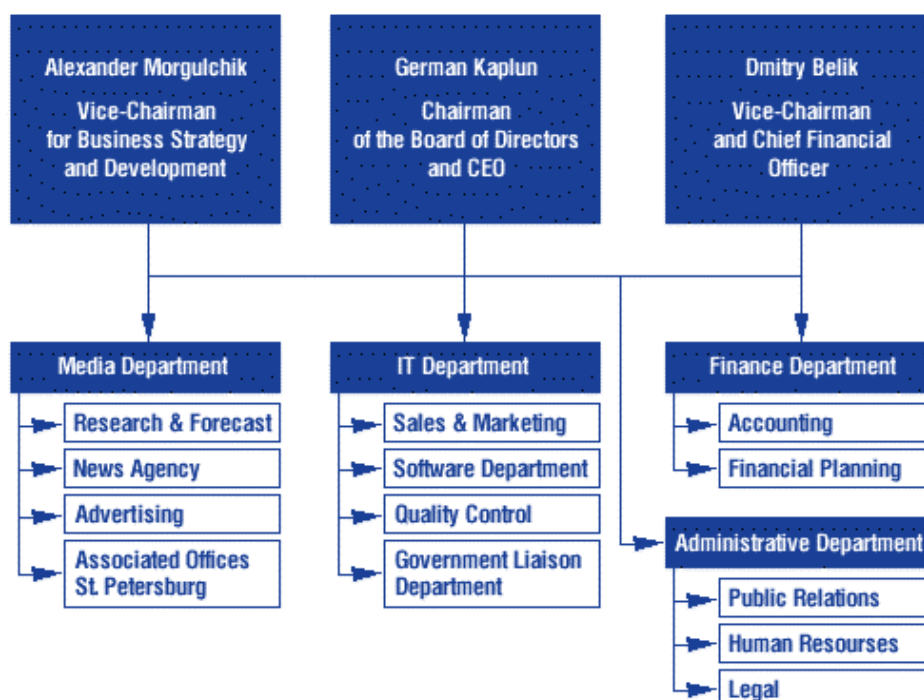
The Company's strategy for its media business is similar to its IT business strategy - it is centered on offering a wider range of services to its traditional audience. In particular, the Company is adding more value-added products, such as research and analytical reports on concrete companies or sectors in the Russian economy. At the same time, the Company plans to develop additional distribution channels for its media services, and thus increase its client base.

HOLDING STRUCTURE

The holding was incorporated and registered on 18 August 2000 as a Russian open joint stock company (OAO) called Netrus Holding in the register of the Moscow Registration Chamber, number 002.010.991. OAO Netrus Holding was renamed OAO RBC Information Systems on 13 September 2001 and re-registered as such on 24 September 2001.

OAO RBC Information Systems is presently the ultimate holding or parent company and wholly owns each of its subsidiary enterprises.

Board of Directors					
German Kaplun	Alexander Morgulchik	Dmitry Belik	Leonid Khazan	Ekaterina Lebedeva	Givi Topchishvili
Oleg Dyatlov	Sergey Lukin	Michael Hammond	Neal Osborn	Yuri Mostovoy	Hans-Joerg Rudloff



Business activities of each of the aforementioned subsidiaries are described below:

RosBusinessConsulting was incorporated as a ZAO, a Russian closed joint stock company, in 1993, and has at all times remained an operating company. This subsidiary conducts the core information agency business of the Company.

RBC Soft was incorporated as a ZAO, a Russian closed joint stock company, in 2000. At present, it is dormant, but it is intended that this subsidiary will conduct all of the software development activities of the Company.

RBC Center was incorporated as an OAO, a Russian open joint stock company, in 1998. It performs long-term agreements, domain-name registration, e-commerce activities, system integration and services in new business.

RBC Holding was incorporated as a ZAO, a Russian closed joint stock company, in 2000. It functions as the holding company for the Company's joint venture interests or other equity participations, as described in the "Joint Ventures" section beginning on page 7.

Publishing House RosBusinessConsulting was incorporated as a ZAO, a Russian closed joint stock company, in 1997. This subsidiary has been registered in Altai, a Russian tax incentive zone, to take advantages of local corporate tax exemptions and its existence adds tax efficiency to the Company's operations.

Name	Date and Place of Incorporation	Registration Number	Registered Office
RosBusinessConsulting	14 July 1993, Moscow Registration Chamber	652098	Profsoyuznaya St., 85/35 Room 603-T, Moscow
RBC Soft	18 January 2001, Moscow Registration Chamber	002.026.658	Leninskiy Prospekt, 75/9, Moscow
RBC Center	10 February 1998, Moscow Registration Chamber	871656	Sadovaya-Chernograzkaya, 3B, Bldg 1, Moscow
RBC Holding	19 December 2000, Moscow Registration Chamber	002.024.115	Leninskiy Prospekt, 75/9, Moscow
Publishing House RosBusinessConsulting	26 November 1997, Altai local authorities	E.127	Gorno-Altaysk, Ulgashev St., 13.

The present holding structure was established through a series of inter-company share transfers among the predecessor shareholders and the present holding entities.

Joint Ventures

The Company participates in joint ventures where it is necessary to consider the needs of its customers and the requirements of specific transactions. It is the Company's policy to hold no less than 50% of the interests in a joint venture that bears the RBC name. In addition, the Company is trying to participate in making the most important decisions concerning business activities of such ventures. The Company, through RBC Holding, has the following joint venture interests or other equity participation.

Name	Date and Place of Incorporation	Registration Number	Registered Office	% Held by the Company
OOO PC Home	29 September 2000, Moscow Registration Chamber	652098	Profsoyuznaya St., 85/35 Room 603-T, Moscow	50
OOO RBC-Pro	13 March 2001, Moscow Registration Chamber	002.026.658	Leninskiy Prospekt, 75/9, Moscow	51
OOO Telli	3 November 1999, Moscow Registration Chamber	087.357	Blagoveschenskiy Pereulok 10, Moscow	50
OOO Merkot	12 April 2000, Moscow Registration Chamber	098.370	Gaivoronskiy Proezd 20, Bldg. 1, Moscow	60
OOO Niken	12 April 2000, Moscow Registration Chamber	098.260	Gaivoronskiy Proezd 20, Bldg. 1, Moscow	60
ZAO RBC Engineering	22 February 2001, Moscow Registration Chamber	002.032.639	Leninskiy Prospekt, 75/9, Moscow	100

The rationale for entering into these joint ventures, which are generally small-scale, is to provide a cost effective platform for placing advertisements of the Company. The aggregate revenues

from all joint venture interests accounted for less than 2% of the Company's total revenues in 2001.

PC Home is a joint venture with "Vse dlya PK Center" for the online sale of computers and office supplies via the "Vse dlya PK" website. The joint venture is dependant on the Company for advertising, technical support and for its server. Although the joint venture receives daily sales reports, the joint venture partner controls out all day-to-day trading operations.

RBC-Pro is a joint venture relating to the creation of a travel section on the Company's website. The joint venture is returning a modest profit but the Company believes it has further potential.

Telli is a joint venture. The joint venture operates the www.krovatka.ru web resource, which is a Russian language chat room that presents advertising services aimed at the Company's wider mainstream audience. The venture is making a loss of \$50,000 to \$60,000 per annum and the Company intends to exercise its option to exit from this joint venture before May 2002.

Merkot is a joint venture in which the Company holds a 60% interest with the remaining 40% held by individuals. Merkot owns one of Russia's two largest banner exchanges as well as a web forum (www.webforum.ru). Merkot operates on a break-even basis. The Company does, however, sell advertising on the site, which generates roughly \$150,000 in annual profits for the Company.

Niken is a joint venture in which the Company holds a 60% interest with the remaining 40% held by three individuals. Niken owns a popular e-mail server called 'Hotbox' (www.hotbox.ru). The joint venture is currently operating on a break-even basis. The joint venture generates revenues through advertising charges although RBC is also considering charging users a subscription fee. The Company considers Niken to be of strategic importance as forming a platform from which both corporate and individual e-mail services can be sold.

ZAO RBC Engineering is a wholly owned entity and is currently inactive. Negotiations are now underway with a western European company for creation of a joint venture for the sale and supply of telecommunications equipment. Should this joint venture proceed, the Company will contribute advertising services, public relations, personnel, and its client base to the joint venture. Remaining obligations, such as provision of equipment and working capital, will be provided by the joint venture partner. RBC Engineering will be the legal entity used for this joint venture.

SELECTED FINANCIAL DATA

The audited profit and loss statements for 2001 and 2000 are set forth as follows:

	<i>Pro forma</i> 12 months ended 31 December 2001 \$ '000	<i>Combined</i> 12 months ended 31 December 2000 \$ '000
Revenues	16,954	8,828
Cost of sales	(8,343)	(3,933)
Gross profit	8,611	4,895
Distribution costs	(1,074)	(100)
Administrative expenses	(493)	(1,175)
Taxes, other than on profit	(133)	(410)
Other operating expenses	(20)	-
Profit from operations	6,891	3,210
Other non-operating expenses	-	(363)
Gain/(loss) on net monetary position	(344)	12
Profit before tax	6,547	2,859
Income tax expense/(benefit)	(245)	(222)
Net profit	6,302	2,637

MANAGEMENT

The Company has a board of directors and an executive board (the members of each are named below). The executive board has day-to-day management control of the Company's operations, and is comprised of five members, all of whom are Russian citizens. The board of directors determines matters of strategic importance and oversees the implementation of this strategy by the Company's management. The board of directors has also appointed a compensation committee that determines the compensation of top management. The board of directors meets at least four times a year. Five foreign nationals sit on the board, lending additional expertise to the Company.

The Company's management set-up reflects its two divisional structures, namely media and IT. Artyom Inyutin manages the media division and Alexei Kuzovkin manages the IT division. Each of these department heads reports to Yuri Rovensky, the Chairman of the Executive Board (General Director), who in turn reports to German Kaplun, Chief Executive Officer and Chairman of the Board of Directors of the Company. Alexander Morgulchik, Vice-Chairman for Business Strategy and Development, Dmitry Belik, Vice-Chairman and Chief Financial Officer, and Mr. Kaplun collectively oversee all operations of the Company.

RBC's key management personnel are also named below. Further details of management are provided in their respective curriculum vitae presented below.

Name	Position
Board of Directors	
German Kaplun	Co-founder and Chairman
Alexander Morgulchik	Co-founder and Vice-Chairman
Dmitry Belik	Co-founder and Vice-Chairman
Givi Topchishvili	Member of the Board
Sergei Lukin	Member of the Board
Oleg Diatlov	Member of the Board
Ekaterina Lebedeva	Member of the Board
Leonid Khazan	Member of the Board
Hans-Joerg Rudloff	Member of the Board
Neil Osborne	Member of the Board
Michael Hammond	Member of the Board
Yuri Mostovoi	Member of the Board
Executive Board	
Yuri Rovensky	Chairman and General Director
German Kaplun	CEO
Dmitry Belik	CFO
Artyom Inyutin	Director, Media Division
Alexei Kuzovkin	Director, IT Division
Other management	
Ekaterina Lebedeva	Chief Administrative Officer
Leonid Khazan	Director, Marketing and Communications
Maxim Filamofitsky	Chief Technology Officer
Yevgeny Revzin	Editor-in-Chief

Management Curriculum Vitae

Members of the Board of Directors

German Kaplun – Chairman of the Board of Directors and Chief Executive Officer. Mr. Kaplun has a background in software consulting and has previously held the position of Director of Banking Technology in a Moscow software development company. He also holds participation interests in a small banking venture, a computer hardware/software business and a real estate business. Education: Ph.D. in Economics from the Russian Economic Academy.

Alexander Morgulchik – Vice-Chairman for Business Strategy and Development. Mr. Morgulchik has had previous work experience in accounting and banking, and has participated in a number of commercial ventures. These include a small bank, a computer hardware/software business and a real estate venture. Education: Ph.D. in Economics from the Russian Economic Academy.

Dmitry Belik – Vice-Chairman and Chief Financial Officer. Mr. Belik has been a partner in other ventures along with Mr. Kaplun and Mr. Morgulchik, and is still a partner in a real estate firm. Education: Ph.D. in Economics from the Russian Economic Academy.

Givi Topchishvili - Mr. Topchishvili is the President and Co-owner of the *Media Press Corp.*, a New York publishing house that publishes periodicals for the Russian-speaking community in the US. He is also the Chief Executive Officer at *Global Advertising Strategies*, a New York based marketing and advertising company which targets niche ethnic markets. Education: Masters degree in Physics and Chemistry from Moscow Chemical University.

Sergey Lukin - Since 1991, Mr. Lukin has held management positions at Russian system integration firms in the oil and gas sector and in the banking sector. He began his career at Aeroflot in 1987. Education: higher business education.

Oleg Diatlov - Mr. Diatlov began his career with one of the major system integrators in Western Siberia, and has held management positions at a number of system integration companies since 1989. Education: higher economic education.

Leonid Khazan – Director for Marketing and PR. Prior to joining the Company in 1998, Mr. Khazan held a management position at a Moscow bank where he was responsible for information processing. Education: higher education: Managerial Economics from Moscow Humanitarian University.

Ekaterina Lebedeva – Chief Administrative Officer. Ms. Lebedeva held management positions at Tekhnobank prior to joining the Company in 1999. Education: Ph.D. in Economics from Moscow Technological Institute.

Hans-Joerg Rudloff - Mr. Rudloff has held the position of Executive Chairman of Barclays Capital since August 1998. Prior to this, he was Chairman and partner in a family firm, MC BBL Securities. Mr. Rudloff served as Chairman and CEO of Credit Suisse First Boston from 1980 to 1994.

Michael Hammond - Mr. Hammond is a Partner of City Capital Corporation Limited and recently held the position of Managing Director at ABN-AMRO Rothschild. Prior to this, he held executive director positions at Flemings, UBS Warburg and Swiss Bank Corporation. Mr. Hammond began his career at Credit Suisse First Boston in 1982 and has held various senior syndicate/capital market management positions in New York, Tokyo and London.

Neil Osborn - Mr. Osborn is the Managing Director of Euromoney Publications, where he has worked since 1983. Prior to this he was editor of Institutional Investor magazine in New York.

Yuri Mostovoi – Board Member. Mr. Mostovoi joined Barclay's Capital in January 2002 as a Senior Department Head. Previously he was president of his own firm, Interval LLC, and held Vice President positions at Citibank and Lehman Brothers in New York.

Members of the Executive Board

Yuri Rovensky – Chairman of the Executive Board (General Director). Prior to joining the Company in 2000, Mr. Rovensky worked for the State Investment Corporation of Russia as a Counselor to the Chairman. Other relevant work experience includes positions at the Russian Union of Industrialists and Entrepreneurs and the World Bank's mission in Moscow. He also has an academic background, having held the position of Vice Chancellor of the Russian Economic Academy for 7 years. Education: Doctorate level degree in Economics from Moscow State University, with additional coursework in Marketing and Financial Analysis at the Harvard Business School and at Groningen University (Netherlands).

Artyom Inyutin – Media Business Director. Mr. Inyutin has been in charge of the Media business since 1997. He held the position of Chief Administrative Officer of RosBusinessConsulting from 1994 to 1997. Prior to joining the Company, Mr. Inyutin was a development team leader at a Russian scientific institute where he was responsible for managing database software development. He has also worked at an advertising agency as a chief accountant. Education: Moscow Technical University, Russian Finance Academy.

Alexei Kuzovkin – IT Business Director. Mr. Kuzovkin started his career with the Company in 1993 as a software engineer and advanced to Chief Technology Officer. He was appointed to his current position of IT Business Director in 1999. Education: Moscow Energy University.

Other management

Maxim Filamofitsky – Chief Technical Officer. Mr. Filamofitsky was in charge of the RBC database department from 1998 to 1999. He began his career at the Scientific Research Computing Center of Moscow State University, where he specialized in high performance computing and cluster solutions. In 1997, Mr. Filamofitsky joined Advanced Chemistry Development Inc., Canada, as a Chief Specialist. Education: Honors degree in Computer Science from Moscow State University.

Yevgeny Revzin –Editor-in-Chief. Mr. Revzin joined RBC as Deputy Editor-in-Chief in 2000. He began his career at the *Darin* magazine, where he worked as Deputy Editor-in-Chief in 1995. In 1998, Mr. Revzin joined the information department at RTR television as a news commentator. Education: Honors degree from Moscow State University.

EMPLOYEES

RBC retains 482 employees on its payroll, and the Company's monthly regular labor costs amounts to approximately \$0.3 million. The typical employee compensation package includes incentive bonuses, which may reach up to 10% of sales.

Current staffing and payroll information by department is shown in the following table:

Staffing	Headcount
Media Staff	
Journalists	114
Stringers	60
Advertising Staff	
Management	2
Sales department	31
Information Sales Staff	
Management	3
Sales department	9
Analysts	10
Others	20

IT Staff	
Management	7
Programmers	141
Sales department	12
Others	13
Administrative Staff	
Executive management	11
Finance department	3
Accounting Staff	
Others	23
Support Personnel	9
Total	482

Since the Company is to a very large extent a service company, with the exceptions of certain "off-the-shelf" media research products and IT turnkey solutions, its single largest operating expense item is its labor.

As is common in IT and software companies, technical staff, including programmers, works in teams on a variety of projects. These teams are a pooled resource, which can be allocated and re-allocated to certain projects as necessary. Costs are tracked on a project man-hour basis.

BUSINESS

The Company is a prominent domestic-owned media and IT company in Russia. The Company offices are located in Moscow, with affiliated offices in St. Petersburg and New York. The Company's current staff consists of nearly 500 employees, about 80% of whom are journalists, analysts, consultants and software engineers.

In addition to media service subscribers, advertisers and IT clients, the Company serves various Russian government institutions, over 300 banks and investment firms, accountancy firms and other financial institutions, media companies and IT businesses. The Company's major corporate clients include several large international accounting firms and a number of other "Fortune 500" companies. Key government clients include the Railroad Ministry, the Ministry of Labor, the Ministry of Atomic Power and the Ministry of Economic Development and Trade.

The Company has two main business areas: media and IT. The Company's media business consists of information (financial and business news), general news, advertising and value-added research reports, analytical reviews and consulting. The IT business includes turnkey solutions, general programming, system integration, research and development, and IT consulting.

RBC Revenues by business line

<i>In \$ '000</i>	<i>1999*</i>	<i>2000</i>	<i>2001</i>
Media	2,550	6,003	9,835
IT	300	2,825	6,791
Other	10	-	328
Total	2,860	8,828	16,954
Growth	-	209%	92%

* Per unaudited accounts

The Company's main Internet resource is located at www.rbc.ru, which was established as one of the first Internet resources in Russia committed to provide high-quality, real-time Russian business and financial market news to Russian executives, managers and investors, seeking up-to-the minute information.

RBC maintains e-commerce relationships with its advertisers, sponsors and business partners, and provides them with a large, demographically desirable audience. The Company believes that this audience consists of affluent and highly educated persons who are in a position to make significant purchasing decisions. The ability to use the Internet to target this demographically well-defined and attractive audience has allowed the Company to charge premium rates to advertisers.

The Company's expertise in the development and supply of IT solutions was developed initially to meet its own requirements in its media business. The IT business is now an independent business line for the Company, separate from its media business. The Company has been able to build on its existing client base to develop advertising and other parts of its media business, as well as its IT business.

One of the Company's key strengths is its ability to offer a combination of content, technology, and connectivity to the business community around the world. RBC believes that it already enjoys a high name recognition rate in the Russian business community, and intends to actively promote itself through advertisement, sponsorships and promotional campaigns.

The Media Business

Introduction

The Company's media business, established in 1993, was the first of the present core businesses from which Company has since diversified. Information provided by RBC includes political news, business and technology news, analytical commentaries, quotes from recognized exchanges and over-the-counter markets. The Company's core asset is its audience, which it has developed by offering:

- Timely, business and financial news content from a variety of sources, including a network of sources throughout various regions of Russia;
- A focus on the interests and demand of the Russian business community;
- Tiered levels of service: free, paid subscription and pay-per-view; and
- An efficient Internet sales channel.

The media business generates revenues from the following sources:

- Online information sales, consisting of subscriptions and special in-depth analytical reports and content;
- Advertising, sponsorship and e-commerce; and
- General news.

Internet advertising is aimed at the business and finance news audience. This audience consists mainly of entrepreneurs, executive officers or upper and middle management, according to Internet surveys (see "Client Base" below). The Company conveys its own generated media content, as well as bought-in content on its Internet resources.

The Company's target audience demands online media and value-added services that are responsive to their specific local interests and needs, as opposed to services that offer only English-language content or homogenized pan-regional content. In this regard, the Company is able to position itself in the higher end of the media market, and does not compete directly with pure news portals aimed at the mass market.

The high level of traffic generated by the Portals and the well-defined, affluent business audience makes them of interest to advertisers. In fact, this enables the Company to charge premium rates for its main Portal. Advertising generates an important revenue stream for the media business, accounting for almost 46% of the Company's total revenue in 2001.

RBC has a young and energetic sales and marketing team and is renowned for its innovative approach. The Company was one of the first to introduce ticker tape headlines, newsflashes, and other real-time informers on the Russian Internet. Innovative products such as these and the Company's overall innovative approach have helped the Company win contracts for the provision of information with major international business news companies.

Media Market

Estimates of the number of regular Internet users in Russia vary. Figures released by the Russian Ministry of Communications in February 2002 put the number of regular Russian Internet users at 4.3 million in 2001, a 39% increase over the previous year. *IDC*, a leading global IT media and research firm, estimates that in 2001, there were roughly 3.8 million individuals in Russia that used the Internet at least once per month. *Kommersant* newspaper, *Accenture* and *SpyLog*, who during the course of 2001 conducted an Internet statistical index, estimate that there were between 4 and 4.5 million Russians who used the Internet on a regular basis in 2001, representing growth of 54% over the previous year. According to this data, the size of the Russian Internet audience peaked in December 2001, when at least 8.5 million Russians used the Internet at least once (even if for the first time). The Ministry of Communications projects that the number of regular Internet users in Russia will grow to 10 million in 2004, and will exceed 26 million by 2010.

As with the number of Internet users in Russia, estimates on the size of the online segment of the advertising market in Russia also vary. While there are still no formalized, universally accepted estimates, the primary indicator used by market participants has been market surveys. Year 2002 market forecasts of the turnover of advertising agencies range from \$3 to \$14 million. However, these numbers reflect turnover of such advertising businesses in general, without taking into account the turnover of Internet portals and direct ad placements. According to audited financial statements, the Company's online advertising revenues exceeded \$5.8 million in 2001 and the overall advertising revenue surpassed \$7.7 million.

The *Russian Center for Internet Technology* (ROCIT) estimates the size of the Internet advertising market in Russia at \$8 million in 2002, and \$15 million in 2003. *Arthur Andersen* and *UBS Brunswick Warburg* offer more optimistic forecasts, which are shown below:

Name	2002 (\$ m)	2003 (\$ m)
Arthur Andersen (optimistic scenario)	70	150
UBS Brunswick Warburg (average scenario)	30	50
ROCIT (conservative scenario)	8	15

Source: *Cnews*

RBC believes that as the Internet achieves broader acceptance by businesses and consumers in Russia, growth potential for web-based advertising is greater than for traditional media advertising. Statistics provided by the *Russian Association of Advertising Agencies* ('RAAA') would seem to support this. In 2001, the fastest growing sectors of advertising in Russia, according to RAAA, were Internet and movie theater advertising, which grew at by 67% and 75% respectively.

According to RAAA, the advertising market in Russia grew by some 54% to \$1.73 billion, reaching pre-crisis levels in 2001. Russian advertisers expect high rates of growth to continue.

Strategy for the Media Business

The Company believes that the following will continue to be key drivers of growth in its media business, and in business news in particular:

- consolidation in the media industry;
- development of new and improved information products;
- development of capital markets in Russia; and
- growth of the overall Russian economy.

RBC expects its advertising revenues to continue to grow along with its media business. Management expects this growth to be supported by new Federal legislation restricting television advertising and the recent change in the tax laws that mean advertising expenses are now tax deductible in Russia.

These opportunities form the foundation upon which the Company has built its media business strategy. To this end, the Company's media strategy includes the following:

- To continue to improve and supplement media and Internet products and services, placing a greater focus on value-added products and services. These include sales of archived information, analytical research products on sectors and specific companies, customized special research projects, and consulting. New products and services will be developed independently, or in some instances through strategic alliances, partnerships or acquisitions.
- To continue to expand its brand-name recognition in Russia and the CIS. To this end, the Company will focus on expanding distribution channels, and increasing sales efforts.

Financial News and Business Information

Through its main Portal, RBC supplies Russian and CIS financial and corporate markets as well as news media with a wide range of information and news products. These include real-time news, financial data from Russian and world exchanges, numerical, textual, historical and graphical databases, news analysis and corporate and branch research.

Revenue by financial news product line in 2001 is given in the table below:

<i>Product</i>	<i>2001, Subscribers</i>	<i>2001 Revenue, \$'000</i>
Online news and quotations	4,305	1,816
Offline news and comments	734	177
Analysis and Research Reports	132	89
Total	5,171	2,082

Source: *RosBusinessConsulting*

Revenue from news and information sales reached nearly \$2.1 million in 2001, which accounted for 12% of total revenues. News and information sales grew by 12% over the previous year.

Products and Services

Financial news and business information products can be categorized as follows:

- *Online News.* RBC provides information to more than 5,000 subscribers in online and e-mail formats. Its subscribers include some of the world's largest databases and news agencies which distribute information provided by the Company through their own networks. Information is available online, through broadband Internet radio broadcasting

(via Comcor-TV channels), via WAP (wireless application protocol) and pager. The Company has developed a number of market analysis software products and online financial tools for online business news subscribers.

- *Online Quotations.* RBC has its own stock index, which tracks a portfolio of large Russian 'Blue-Chip' companies. The Company also provides online quotes and interactive graphs from all Russian and major international exchanges as well as from its own trading platform.
- *Offline News and Commentary.* Business news information is also offered to subscribers in hardcopy print and CD-ROM formats.
- *Analytical and Research Reports.* RBC increasingly seeks to offer a wider assortment of value-added analytical and research products, such as reports on a particular company or an industry sector. Many of these research products are available online and sold 'off-the-shelf' to a number of clients. The Company's research department also provides customized research reports on a special order basis.

Client Base

Subscribers pay a subscription fee to gain full access to the Company's financial news and business information services available on its main Portal. According to surveys (see below), about 70% of these subscribers are Russian companies based in Moscow and St. Petersburg.

Approximately 70% of all business and finance subscribers sign up for online news, which accounts for nearly 84% of revenues from all news subscriptions. In 2001, there were over 5,000 news subscriptions with an average turnover of about \$40 per subscription.

RBC's audience has participated in Internet surveys conducted in May 2001 by *Pro Active International* and the *MASMI Research Group*. Results of these surveys have provided a detailed demographic analysis of the Company's audience as summarized below:

Demographics	Description
Age	50% are financially independent people, age 25 to 34
Gender	78% male 22% female
Professional Status	42% are financially sound entrepreneurs or company executives 54% are upper and middle level managers
Financial Status (Monthly income)	53% earn 1,000 to 1,500 euros 11% earn 1,500 to 2,500 euros 7% earn 2,500 to 5,500 euros 2% earn more than 5,500 euros
Education	82% have a higher education 81% understand and speak English 17% have a vocational education
Geographic Location	55% live in Moscow 12% live in St. Petersburg 27% live in main industrial regional centers 6% live in foreign countries
Purchasing Power	43% take a foreign holiday at least once a year 22% have moved to a new house or flat 32% are ready to buy a foreign car
Computerization	75% have Internet access at work 22% have Internet at home, and spend an average of 137 minutes online per day 57% have made RBC their home page on their PC 98% have e-mail

Source: MASMI

Since RBC offers its clients a well defined, affluent target audience, it is able to charge premium rates for its main Portal.

Advertising

RBC's advertising revenues (as shown in the table below) experienced a nine-fold increase over the last three years.

Advertising revenues	1999	2000	2001
Advertising exposure, hits mln	87.7	244.9	442.4
Per-view advertising revenue, \$ '000	702	2,449	5,840
Other, in \$ '000	248	1,699	1,913
Total advertising revenues	950	4,149	7,753

Source: RosBusinessConsulting

Continued advertising revenue growth is a function of a larger business audience, and sizeable advertising budgets from large corporate clients. This larger audience, in turn, is partly a function of a growing number of Internet users in Russia, and more viewers taking an active interest in business and financial markets as the economy develops.

At present, RBC has approximately 1,000 advertising clients, a large number of which are other businesses offering IT, communications, financial or media services. Many clients are engaged in some form of wholesale or retail trade.

Many new clients emerged in 2001 in the automotive business, as did producers of luxury goods. In addition, more Russian advertisers emerged in 2001, accounting for over two-thirds of the top 20 advertisers by sales volume. The top 20 advertisers in 2001 generated revenues of \$2.43 million, roughly 31% of RBC's aggregate advertising revenues.

General News

For a wider mainstream audience other than its main business news audience, RBC employs a separate news team that provides general news topics, i.e., non-financial or business news. This team generates on average 300-350 news items per day. This news is published in a daily Internet newspaper called "Utro" (the Russian word for 'Morning').

The content covered by Utro includes a broad array of topics of interest to Russian-speaking and world business community audiences, including real-time coverage of local, regional, and world news, weather, local television programming and sports. Most of the information provided by RBC comes from its own sources, but the Company also has arrangements in place with regional Russian or CIS news agencies to distribute their information. This general news resource is important for the Company, as they broaden RBC's audience by attracting new target groups.

Since general news is free, it generates revenue from advertising sales only, not from subscriptions. A suitable performance indicator is therefore the size of the audience on the www.utro.ru Portal where Utro is published. On a quarterly basis, visits to the Company's general news site increased by almost 52% in the third quarter of 2001 from 12.1 million hits to 18.4 million, and by nearly 30% in the fourth quarter of 2001 from 18.4 million hits to 23.9 million, according to Company statistics.

The IT business

Introduction

From its origins as a media company, RBC developed expertise in online technical services and managing online information flows. RBC gained experience in facilitating a heavy volume of traffic at peak hours, especially during major media events, and its software programmers accordingly developed customized internal content management software to cope with these volumes. This software proved to be of interest to external customers and hence became the first IT product in the Company's resale product line. The range of products developed in this manner has expanded beyond the Internet over the years, and now includes a range of enterprise management and client relationship management software, web-based IT solutions, government software contracts, custom programming services for foreign clients (offshore programming), system integration and consulting services.

The Company's IT revenues reached nearly \$6.8 million for the year ending 31 December 2001, which accounted for approximately 40% of total revenues.

The Company's IT business comprises several types of income streams: sales of pre-developed software, or turnkey solutions, custom programming for clients in Russia and abroad, value-added web services, IT consulting and system integration. Research and development is considered a separate division within the IT department, but many of the products it develops are eventually commercialised and sold as turnkey solutions.

The following table shows the growth dynamics of each IT revenue stream over the last three years:

<i>IT Sales (\$ '000)</i>	1999	2000	2001
Programming, Turnkey Solutions and R&D	300	2,505	3,685
Offshore programming (foreign clients)	-	300	1,505
System Integration & IT Consulting	-	20	1,601
Total	300	2,825	6,791

Source: RosBusinessConsulting

IT Business in Russia

According to IDC, the total volume of the Russian IT market grew about 25% in 2001 and surpassed the \$3.3 billion level. This represents approximately a 1% share of the entire GDP.

Forecasts for growth of the Russian IT market vary. The Russian federal government, which is actively funding and promoting development in this sector, expects the IT market to grow twofold or threefold by 2005, and by five to six times by 2010.

The Russian federal government is actively supporting development of the IT sector in Russia. The "Electronic Russia" federal program, which has been endorsed for the years 2002 through to 2010, is a Ministry of Communications program targeted at developing information technologies throughout the country. Its objective is to improve Russian citizens' access to information resources and to increase the level of IT automation in various public and private organizations. As part of this program, state ministries and agencies will move towards 65% paperless document turnover by 2010.

Strategy for IT business

One of the main objectives for the Company's IT business is to become a leading provider of integrated software solutions in the Russian market. Other major areas for future IT development include offshore programming (outsourcing), system integration, and new R&D projects such as

'anti-spam' e-mail filtration systems and voice recognition systems. Government orders will also continue to provide substantial revenues, although, given the difficulty in securing contracts from the Government, the Company is cautious about placing substantial reliance on such revenues.

The Company intends to pursue strategic acquisitions of companies, and in some cases, key personnel, with certain technology and know-how that the Company lacks. The Company feels that augmenting its intellectual resources (people and technology) will allow it to increase its product portfolio and its client base.

IT Competition

The Russian IT market is very competitive with approximately 8,000 companies offering IT products and services. According to *Cnews*, over half of all IT orders in Russia are awarded to small firms or individuals that do not report their IT revenues. At the same time, the turnover of the eight largest IT companies accounted for roughly 12% of the total market in 2001, suggesting that the fragmented IT market may be beginning to consolidate.

Corporate clients

RBC provides programming services in Windows and UNIX application development as well as database programming. The Company uses all modern programming technologies, including XML, RUP, Java, .NET and technologies developed by major software companies (Oracle, IBM, Microsoft and Sun).

RBC has more than 70 programming contracts in place at the present time. Some larger clients include well-known Russian 'blue-chip' companies, federal government agencies and a number of "Fortune 500" multinational clients.

Offshore programming

The Company believes that Russian software programmers can break into the \$6 billion offshore programming market that is dominated by Indian firms. RBC believes that this opportunity is based on increased stability in Russia and the fear of many European and American firms of losing critical intellectual property or know-how to Indian competitors, which makes them less willing to outsource work to Indian software firms.

Offshore programming is a very important part of the Company's programming business. Approximately 30 programmers are now focused on offshore programming orders.

Government orders

Government orders formed a significant part of the general programming revenues in 1999 and 2000. A number of other government organizations are currently reviewing project bids including bids from the Company.

Turnkey Solutions

Turnkey solutions are ready-to-use applications or software components that have been previously developed for the media business, as a custom order for a specific customer or as an R&D project. Turnkey solutions can be divided into the following four categories:

- *Corporate solutions* include Customer Relations Management (CRM), Corporate Informational Systems, time and personnel managers, project management systems and corporate search engines (in cooperation with Alta Vista).
- *Internet solutions* include website design and content management, e-commerce and online shopping solutions (Easy Shop), and WAP (Easy WAP).
- *Logistics and enterprise solutions* include Enterprise Resource Planning (ERP), Supply Chain Management (SCM), dealer network, e-procurement and e-logistics systems.

- *Financial services* include online stocks and quotes, portfolio management, Internet trading, financial games and technical analysis.

Currently, the Company is the sole representative of *VeriSign*, *Network Solutions* and *Alta Vista* in Russia. The Company participates in the *Intel* e-Business Provider Program and *IBM's* 'Partnerworld for Software' Program.

Research and development

RBC provides its software services to major industrial and financial companies as well as a variety of governmental institutions. The Company's major R&D clients include a large Russian oil and gas business and one of the largest banks in the world.

R&D projects can be categorized as website or Internet related, or as retail turnkey solutions.

R&D projects related to web site development and Internet services were all completed in 2001, and require no further investment in 2002. Projects related to retail solutions are at various stages of completion, and five of the ten existing projects will require further investment in 2002.

The Company uses certain criteria in making a decision to launch a new R&D project. The Company tries to re-use its pre-developed technology, program features, components or know-how. Likewise, it carefully monitors developments in Western IT markets and studies these prospects for development in Russia, including conducting surveys among potential customers.

Future R&D projects include, among others, e-mail filtration ('anti-spam') software, and a Russian language voice-recognition system.

System Integration

System Integration is a new IT service launched by the Company in 2001, incorporating a wide range of IT solutions such as network infrastructure, consulting, system design, cabling, smart buildings, wireless, and other hardware and software solutions.

RBC also sells its products through alliances with leading global IT service providers and system integrators, as referred to in the Turnkey Solutions section above.

IT Consulting

In order to provide a full package of services to its customers, the Company also offers IT consulting. These services are not restricted to the Internet and include IT and software auditing, review and development of existing IT infrastructure, business analysis, strategic planning, IT administration, re-engineering, system consolidation, preparation of concepts, industrial assessments and marketing analysis.

Website design/Website editing tools

Building on the Company's programming expertise and its e-commerce activities, the Company offers a wide range of web design, programming and consulting services. The Company's website design services range from creative input (including 'look and feel' design) to full testing, integration and launch of the site. RBC also provides ongoing maintenance and support under a support contract once sites are launched.

Website editing tools enable a user who is not familiar with HTML and programming to build a website. The website editing tools offered by the Company consist of a modular website construction system with a web interface.

Value Added Web Services

RBC supplies various value-added Internet IT services to support and diversify its media business customer base. These include the services outlined below:

- *Secure site services.* RBC provides digital certification services as the exclusive representative of *Thawte* (a *VeriSign* company) in Russia. New Russian legislation on digital signatures came into force in January 2002. The Company therefore expects the market for digital certification services to undergo expansion.
- *Secure e-mail services.* RBC provides a business e-mail service with wide functional capabilities. It is accessible from the web as well as IMAP and POP3 protocols. The service includes e-mail forwarding. The e-mail account provided by the Company interfaces with all protocols via Secure Socket Layer (SSL) connection. In addition, all e-mail protocols support SSL.
- *Domain name registration.* RBC provides domain name registration services which are relatively easy to sell at a relatively low cost to the Company. The Company markets domain names to the consumer and explains their advantages. Services include registration of domain names as well as providing hosting facilities. As the Company does not hold a license for hosting facilities, these services are outsourced to subcontractors.

RBC is a non-exclusive licensee of *Network Solutions* in Russia as well as of *RosNIROS* (Russia's national registrar of domain names). The Company is thus able to offer registration of domain names in Russian and English with the '.com', '.net' and '.org' domain extensions as well as registration of domain names in English with the '.ru', '.biz' and '.info' domain extensions.

PERSPECTIVES FOR 2002

- *Acquisitions of information agencies.* Instead of recreating or copying existing media products in-house, the Company believes that it will be more efficient to buy out 'niche' business information companies that complement the Company's media assets, in order to consolidate them into a single information flow. This should increase the client base, reduce competition, and reduce costs while increasing the quality and quantity of information services. It should also allow the Company to occupy several market segments and price categories without damaging the RBC brand;
- *Acquisitions of advertising agencies.* In order to further expand distribution channels for the media business, the Company is now identifying advertising agencies which could be promising targets for acquisition;
- *Acquisitions of IT businesses.* The management may decide to acquire IT businesses in order to expand its client base and to obtain rights to new IT products, solutions or technologies, which would complement its existing range of goods and services.
- *Organic Growth.* The Company will continue to expand its media business to include a wider range of value-added products and services, such as in-depth research and analytical reports, searchable news archives, and special order products tailored made for the client. IT growth will be driven by continued sales of integrated software solutions and system integration in the Russian market. This will be augmented by offshore programming contracts for foreign clients.
- *Hiring key people.* In some cases, where the success of certain information or advertising agencies or projects hinges on the active participation of a small group of dynamic individuals, the Company may be less inclined to acquire an entire business than to simply offer attractive compensation packages to key people involved;
- *Expanding into new mediums, particularly television.* Management is now developing a business plan for launching a new business and finance news TV channel in Russia;

Development of focus groups for advertising marketing. The Company plans to further develop the use of focus groups in market research in order to determine the opinion of the Company's target audience on certain goods/services and to assist with formulation of an effective marketing strategy. This will include an audience study on specific market segments, usability site testing, site optimisation and banner testing, all of which measure the effectiveness of advertising.

WHERE YOU CAN FIND MORE INFORMATION

More information about the Company may be obtained directly from the Company by a request in person, in writing, or by telephone at the following address:

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