

**ARMADA**

*Approved by AGM of ARMADA's  
shareholders. Protocol #16, 17.08.2011*

# Annual Report 2010

Moscow, 2011

## Table of Contents

Address to Shareholders.....	2
Chapter 1. General Information about the Company.....	3
About the company.....	3
Companies of the Group .....	4
Selected Projects .....	4
History of Development .....	5
Key Events in 2010 .....	7
Chapter 2. Priority Business Segments .....	8
Russian Market of Information Technologies .....	8
Software Segment .....	10
IT Services.....	11
Chapter 3. Report of the Board of Directors .....	13
Revenue .....	13
Costs and Profit .....	13
Debt Leverage .....	14
Business Segments .....	14
Competition .....	14
Chapter 4. HR Policy and Social Relevance.....	15
Human Resources Policy .....	15
Social relevance.....	16
Chapter 5. Corporate Governance.....	16
Board of Directors .....	18
Auditing Committee .....	19
General Director .....	19
Board of Management .....	19
Remuneration .....	20
Chapter 6. Company's Shares.....	20
Shares.....	20
Option Program.....	20
Dividend Policy .....	21
Appendices .....	21
Consolidated Financial Statements (under IFRS) .....	21
Risks Management .....	26
Contacts.....	28

## ADDRESS TO SHAREHOLDERS

*In 2011 ARMADA plans organic growth of 25-30% and M&A transactions. First of the acquisitions has been made in May 2011.*

ARMADA is developing successfully. The company has reached strong results in 2010. In April 2011 ARMADA held the Secondary Public Offering in order to raise funds for new acquisitions; ARMADA also has completed its first M&A in May, when PMT Company, a leader in software development for healthcare in Russia, has joined the group. The development strategy of ARMADA combining organic growth and acquisitions will continue in 2011.

In terms of informatization Russia is far behind the developed countries; according to international ratings it is located in the seventh or eighth ten. Computers are not fully used, especially in public institutions. Lack of information systems affects directly the quality of social services and public services for citizens and businesses, as well as other aspects of social development.

As our main task we consider analysis of demand for applied IT solutions, development, introduction and establishment of support environment, as well as creation of conditions for training and employment of young talented professionals. This is our contribution to the growth of Russia's intellectual potential. We want provide opportunity for young talented professionals to show their worth and to feel an output of their work.

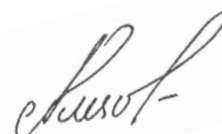
The Russian IT market changes, it becomes more mature; the share of software development and IT services grows while the share of hardware reselling decreases. ARMADA succeeded in establishing itself as a leader in the perspective segments of software development and IT services. The Company is among TOP 5 leading software developers and came in TOP 10 of the largest IT products developers, according to the results of 2010. ARMADA takes part in most of major government IT initiatives by means of software development and provision of IT services for such important projects as Portal of Public Services, e-Government, Universal Electronic Card, communal services reform, healthcare modernization, transition of government institutions to the use of open-source software, etc.

In 2007, the year of IPO, ARMADA occupied only 0.5% of IT market. Currently its share amounts to 1%; in the future we want to reach 3-5%, generally due to development of software and IT services segments. Such high growth rates can be achieved only through combination of organic growth and acquisitions. In 2011 our efforts will be directed to providing organic growth of the company's revenue by 25-30%, as well as at planned acquisition of several companies in the segments of software development and IT services.

The first of planned acquisitions has already been made - in May 2011.

**Best regards, Alexey Kuzovkin,  
Chairman of the Board of Directors of ARMADA**

June 8, 2011



## CHAPTER 1. GENERAL INFORMATION ABOUT THE COMPANY

### ABOUT THE COMPANY

*ARMADA is among TOP-5 of software developers and TOP-10 of IT-developers in Russia*

ARMADA is a growing IT company specializing in software development and IT services for government customers and commercial companies.

ARMADA OJSC was established in April 2007 as a result of IT assets' allocation from the RBC Group. Already in July 2007 ARMADA has taken its place in history as the first Russian IT company that offered shares on Russian stock exchanges. ARMADA stock is currently traded on MICEX and RTS under the ticker symbol ARMD.

The group's strategy relies on a combination of organic growth and business expansion through new acquisitions. In 2007 ARMADA used proceeds from IPO to make acquisitions: PM Expert, Soyuzinform and ETC joined the group.

ARMADA has a strong market position due to the diversified client base and product portfolio, long and successful experience of cooperation with governmental structures, significant expertise in highly profitable segments of software development and IT services. ARMADA takes part in most of major government IT initiatives (Information Society, e-Government, National Program Platform, Health Care Modernization, Communal Services Reform, etc.)

According to analytical and rating agencies, ARMADA is among 30 leading Russian IT companies, TOP-5 of software developers<sup>1</sup>, TOP-10 of IT-developers, and TOP-10 of suppliers to the Russian state authorities and was awarded as "IT-company of the Year"<sup>2</sup>.

The employees of ARMADA are high-grade professionals and are continuously improving their qualifications. The holding is an absolute leader in Russia in terms of the number of the certified Project Management Professionals (PMP). The group's quality management system is certified under the international standards ISO 9001:2008 since the year 2000.

ARMADA is opened for investors. The up-to-date information about the company is given in Russian and English languages on the web-sites [www.armd.ru](http://www.armd.ru) and [www.armadaitgroup.com](http://www.armadaitgroup.com), correspondingly. There is an Investor Relations Department in the company.

<sup>1</sup> Expert RA, Kommersant-Dengi, 2011.

<sup>2</sup> CNews, 2008-2011.

*ARMADA grows organically and through acquisitions*

## COMPANIES OF THE GROUP

All the companies that form the basis of ARMADA group have years of expertise in IT market, enjoy a strong business reputation and take leading positions in their specific areas:

- ARMADA SOFT specializes in development of software products and solutions for automation of government administration processes, as well as Internet-based solutions.
- Helios IT-Solutions specializes in implementation of complex infrastructure projects and IT services for state corporations and large enterprises.
- PM Expert provides consulting services in the area of project management and training for professionals.
- Soyuzinform is one of top IT outsourcers in Russia.

(+) Post Modern Technology (PMT) – the leading company of the medical information systems market in Russia - joined ARMADA group in May 2011.

All companies of the group supplement each other organically which enables to gain an additional synergetic effect through the scope of competences of several professional teams.

## SELECTED PROJECTS

### Software Development and Implementation

- Development and support of the Unified portal of public and municipal e-services [www.gosuslugi.ru](http://www.gosuslugi.ru), an information system, that provides an opportunity for citizens and organizations to interact with public authorities through the Internet.
- Federal Service of State Statistics of the Russian Federation: The system of GDP calculation of Russia (the system of national accounts, or SNA). The Unified inter-departmental information and statistic system (EMISS) integrates recourses of more than 50 federal governmental authorities in Russia.
- Ministry of Justice of the Russian Federation: Development of the Unified state register of normative legal acts of the Russian Federation.
- Central Bank of the Russian Federation: The Integrated portal of information applications with a single access point for bank systems and applications.
- Development of a regional segment of e-Government in Yaroslavl region. Conversion of some government services into the electronic form.
- Sberbank of Russia: Development and maintenance of the internet portal.
- Ministry of Agriculture of the Russian Federation: The monitoring system for tracing the performance of the national program “Agriculture development for the period between 2008 and 2012», including the program control automation and development of the methodology of projects’ administration.
- Ministry of Foreign Affairs of the Russian Federation (MID): Development of the financial and economic control system.
- Moscow City Government: Implementation of the project “Electronic Moscow” within the city target program.
- Mechel company: Introduction of the electronic commerce system.
- Russian State Library: Development of the national electronic library.

## IT Services

- Ministry of Finance of the Russian Federation: Outsourcing of IT infrastructure.
- Banque Societe Generale Vostok (BSGV): Services for ensuring IT infrastructure efficiency of 28 Moscow auxiliary offices (technical support), outstaffing (organizational services, carrying out of information systems exploitation works, solutions for tasks and issues in the area of information technologies at the Customer's site).
- Federal Treasury of the Russian Federation: Design, installation and start-up of regional communication centers (90) for territorial authorities, development of the secured data transmission channel using Internet network as a transport medium.
- Ministry of Foreign Affairs of the Russian Federation: Development of the secured data transmission network in Russian foreign embassies (foreign organizations).
- Department of Education of Moscow: Maintenance of infrastructure of educational institutions in the city of Moscow (more than 100), maintenance of infrastructure of libraries in the city of Moscow.
- Supreme Arbitration Court: Auditing of IT infrastructure condition and design of the projects program for its development.
- Paterson trading company: Support of IT infrastructure in 30 branches.
- Nicomed company: Maintenance of IT infrastructure in 64 branches.

## HISTORY OF DEVELOPMENT

### 1995

The history of the company goes back to 1993, the year of the establishment of RBC Group. Originally ARMADA's employees were a part of the RBC IT department ensuring the operations of the internal IT infrastructure and carrying out developments to orders of outside customers. The launch of the web resource [www.rbc.ru](http://www.rbc.ru), that is widely known in Russia, was a landmark event.

### 2000

As the number of outside orders grew, the new company RBC SOFT (later renamed to ARMADA SOFT) was established. The company specialized in software development for corporate clients. Thanks to the fact that ARMADA began its business exactly in the area of software development and implementation, now it takes the most powerful positions in this market segment.

### 2005

In 2005 ARMADA (a part of RBC at that time) started to look actively for potential interesting assets for acquisition on the Russian IT market. In 2006 the company made its first acquisition - a systems integrator Helios IT-Solutions which led to more than a twofold increase of revenue of IT business direction and the beginning of a successful participation in large governmental tenders.

### 2007

In April 2007 the general shareholders' meeting of RBC decided to spin off its IT business to a separate company – ARMADA OJSC.

In July 2007 the company held a successful IPO on MICEX and RTS by means of placing of additional 2 mln shares among the institutional investors from Russia and Europe and raised about \$30 mln. The funds from IPO were used for acquisition of controlling interest in PM Expert, Soyuzinform and ETC, as well as for business development.

*ARMADA is the 1st Russian IT company which performed IPO on MICEX and RTS*

The combination of organic growth and acquisitions enables ARMADA to enter new and fast growing IT market sectors, as well as to expand its client base and the range of its services. The revenue of the company grew by 62%.

### 2008

Due to the beginning of economical recession the growth rates of IT market decreases 3-fold and fell down to 10%. In order to minimize the negative impact of macroeconomic factors on the financial condition of the company, ARMADA took some measures in the 4<sup>th</sup> quarter of 2008 directed to the optimization of costs' structure. Staff reduction and wage cut were carried out. The growth of revenue of the company in 2008 reached 27%. The company has fully repaid the credit line that was opened earlier for financing new acquisition.

### 2009

The global financial crisis has affected the development of Russian IT market in an extremely negative way. According to analyst researches the Russian IT market decreased by 45% in 2009. Revenue of ARMADA decreased by 36%. The low decrease of the company's revenue in comparison to average figures in the market became possible due to the extensive and well diversified client base. The share of state structures in the revenue of ARMADA amounted to 75%, the financial sector provided more than 10%. Thanks to the diversified client base and costs' optimization program ARMADA managed to get positive profit.

According to annual ratings of Russian IT companies by Kommersant Dengi magazine and Expert RA rating agency, ARMADA got into TOP-25 in general rating of all Russian IT companies and TOP-5 of software developers in 2009. ARMADA also came in TOP-3 among web developers in Russia according to CMS Magazine. Sberbank corporate web-site developed by ARMADA gained the 1st place among all Russian portals rated by Financial Times Bowen Craggs Index 2009.

## KEY EVENTS IN 2010

*ARMADA in 2010 :  
Revenue 3656 million rub.  
Net profit 377 million rub.*

### Financial Indicators:

- Revenue of ARMADA increased by 18% (the market growth amounted to 13% according to the Ministry of Telecommunications and Mass Communications of the Russian Federation).
- Net profit margin amounted to 10%, at the level of pre-crisis profitability.
- The company has no debt.

### Market Positions:

- ARMADA is among TOP-25 leading IT companies and TOP-5 leading software developers according to the Kommersant Dengi magazine and Expert RA rating agency.
- ARMADA came in TOP-10 IT developers in Russia who produce their own IT products. The rating was made by CNews Analytics.
- ARMADA won the competition "Top 10 IT governmental projects".
- PM Expert was awarded as Company of the Year at Trainings Expo 2010.

### Selected Projects:

- Start of operation of the Unified inter-departmental information and statistic system which integrates recourses of more than 50 federal governmental authorities in Russia.
- ARMADA begun the implementation of medical solutions for Federal Medical Biological Agency in regions of Russia.
- ARMADA created an electronic system for storage and public access to normative legal acts of the Ministry of Justice of the Russian Federation.
- ARMADA implemented its electronic purchase software system "Goszakupki" in the Federal Tax Service of Russia.
- Helios IT-Solutions extended its accreditation to maintain IT systems for BSGV.
- Helios IT-Solutions completed a two-year long project for Gazprom Dobycha Nadym.

### Corporate Events:

- ARMADA obtained government accreditation in order to participate in IT industry support program which enables software development companies to use tax benefits.
- Wermuth Asset Management GmbH became a representative on ARMADA's Board of Directors, representing interests of minority shareholders.
- ARMADA's shares upgraded to main List of Securities Admitted to Trading on MICEX.
- ARMADA confirmed its DIN EN ISO 9001:2008 certification of quality management systems of the companies, constituting ARMADA group in the area of IT assets management, as well as design, development and implementation of IT solutions.

## CHAPTER 2. PRIORITY BUSINESS SEGMENTS

### RUSSIAN MARKET OF INFORMATION TECHNOLOGIES

#### IT Market in Russia

According to the evaluation of the Ministry of Telecommunications and Mass Communications of the Russian Federation the Russian (Minkomsvyaz) IT market has grown up by 13% in 2010 and reached the amount of RUB 566 bln (\$18.6 bln) from RUB 496 bln in 2009. Evaluation of IDC: \$18.8 bln in 2010 compared to \$16.0 bln in 2009<sup>3</sup> that is 17% growth.

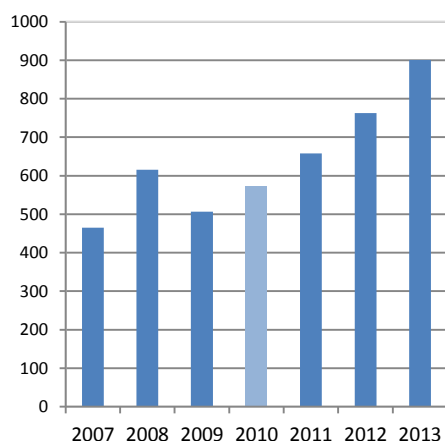
The share of Russian IT market in GDP amounts to about 1.2%. This indicator in Western Europe amounts in average to 1.6%; the leaders are USA (3.4% of GDP) and UK (4.3% of GDP). So the IT market in Russia has a significant potential of growth as the economy develops.

In the next years, according to the forecast of Minkomsvyaz, the growth rates of IT market shall exceed the total growth of GDP: 15% in 2011, 16% in 2012 and 18% in 2013. The volume of IT sector in 2013 can reach RUB 887 bln. IDC forecasts that expenses for IT in Russia will grow annually by 16.8% in average between the years 2010 and 2014, and will amount to \$34.9 bln in 2014. The average growth of Russian IT market (CAGR) between 2001 and 2008 in USD amounted to 34%.

#### Russian IT market size, RUB bln

Source: Minkomsvyaz, 2011.

The data for 2011-2013 are prognostic



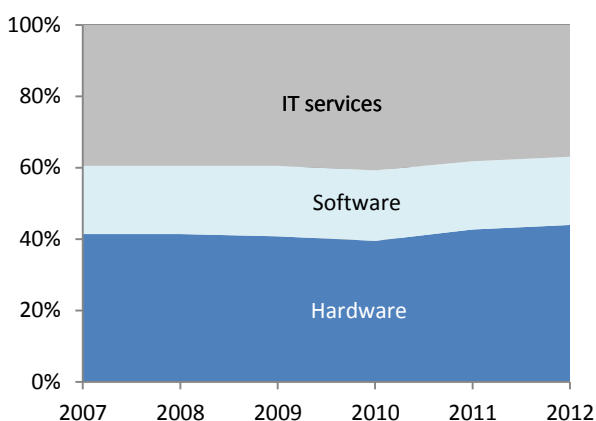
#### Structure of Russian IT Market Segments

Russian IT Market* RUB bln.	2010	2009	Growth, %
<b>Market volume</b>	<b>572</b>	<b>507</b>	<b>13%</b>
<b>Hardware</b>	401	342	17%
<b>Software Development and Implementation</b>	76	72	6%
<b>IT Services</b>	95	93	2%

\* IDC

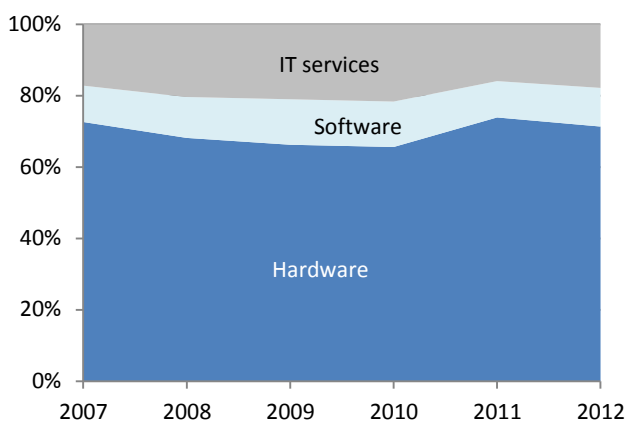
#### Global IT Market

Source: IDC. The data for 2010-2011 are forecast



#### Russian IT Market

Source: IDC. The data for 2010-2011 are forecast



<sup>3</sup> Currency translation rate 30,48 RUB/USD in 2010 and 31,68 RUB/USD in 2009

*Software development and IT services are the most perspective segments*

According to experts, the concept of market maturity is directly related to its structure: more developed countries are characterized by a higher ratio of customers' expenditures on software and IT services. According to IDC, in Russia, despite high growth rates of software sales before the crisis, the hardware component still dominates with share of about 70% (40% in the world); the share of software and IT services amounts respectively to 13% and 17% (20% and 30% in the world). The structural situation is getting better, and Russia is doing much better than China in this respect. But at the same time the markedly lower share of software and IT services still differs Russia from the developed countries.

The reason for that is relatively young age of the IT industry in Russia. The formation process of IT infrastructure (PCs, servers, networks, telecommunications) which has been started in the 1990s, is only now being completed, and not all enterprises feel so far the need to invest funds in automation for improvement of business process and enhancement of their competitiveness. As the economy develops, the share of software and IT services segments will grow, while the share of hardware will decline.

The software development segment has a great potential for growth. The current volume of this market, according to IDC, amounts to \$2.5 bln (RUB 76 bln), which represents 13% of the total IT market volume in Russia. According to experts, the share of the segment in the total market volume will grow (that share is 20% in the world). IDC forecasts that the total market will grow up to \$34.9 bln by 2014, where the software segment can reach about \$5-6 bln (CAGR 19-25%).

IT services market, according to the classification of IDC, includes systems integration, third party's software customization, installation and maintenance of equipment, outsourcing, IT consulting, IT education and training. The volume of the market was estimated to \$3.1 bln<sup>4</sup> (RUB 95 bln, 17% of the total IT market) in 2010. However, IT companies often include supplies of equipment into the system integration concept (\$13.2 bln in 2010), which affects the statistics of the segment's volume. In 2010 the segment of the IT services market, excluding hardware, has grown insignificantly (about 2%); its growth rates before the crisis were 22% (2007) and 43% (2008). Considering the tendency of the Russian IT market to transformation and its transition to the structure of the developed IT markets, the growth of IT services segment can be expected in our country in med-term.

#### **The Government Role in Formation of IT Market in Russia**

The significant share of IT market demand is formed by governmental structures. According to various evaluations, the share of government orders on the IT market (federal and regional budgets in total) currently amounts to more than 30%.

But even with this spending Russia is still far behind the developed countries in terms of informatization of governmental structures (it is located in the seventh or eighth ten according to respective ratings). In 2009 the government has taken several proactive measures to enhance this figure. Approved initiatives aimed at achieving results in 2011-2015; the most significant investments are projected for 2011-2012.

The federal target program "Information Society (2011-2018)" was adopted in 2010. The key project of this program is Electronic Government 2011—2015; it

<sup>4</sup> The IDC data published in the end of 2010

shall substitute the federal target program “Electronic Russia” which ended in 2010.

Government Initiatives	Budget Share of IT, RUB bln
Information Society (2011 - 2020)	<b>78</b>
Development of Real Estate Cadastre system (2006 - 2012)	<b>28</b>
Development of State Statistics of the Russian Federation in 2007 - 2011	<b>7</b>
Education Development in 2011 - 2015	<b>35</b>
Accessible Environment in 2011 - 2015	<b>47</b>
Development of Transport System in Russia (2010 - 2015)	<b>7</b>
Development of Electronic Components Base and Radio Electronics in 2008 - 2015	<b>75</b>
Development of Judicial System in Russia in 2007 - 2012	<b>59</b>
Broadcasting Development in 2009 - 2015	<b>56</b>

In December 2010 the Government of the Russian Federation signed decree No. 2299-r "On transition of federal government authorities to the use of open-source software (OSS)." This decree provides the transition of all federal government authorities to the use of Russian software based on OSS till 2015.

#### Market Players Consolidation

There are more than 5000 IT companies in Russia According to CNews Analytics. Large distributors of hardware are leaders in terms of revenue, but they have low rates of profitability. A large number of the niche players operate in the segments of IT services and software development that offer ad-hoc solutions to small groups of customers.

The Russian IT market is highly fragmented. This is particularly evident in the field of software development. While the market share of TOP-10 players on the total market was 47% (RUB 268 bln) in 2010, their share of revenue in the software segment amounted only to 19% (RUB 15 bln).

#### SOFTWARE SEGMENT

The development of Russian software is strategic priority business direction for ARMADA Group.

ARMADA considers as its main task analysis of demand for applied solutions, their development, introduction and provision of support tools, partner networks, creation of conditions for training and employment of young talented professionals.

ARMADA develops software products and solutions not only by efforts of its own engineers and programmers but also cooperate with Russian niche companies which have already developed their own software products to supplement the product line of ARMADA. The group also collaborates actively with leading international suppliers of software platforms, such as databases, etc.

Software development requires a high share of intellectual labor. That is the reason why this segment is the most profitable within the group. At the same time the development of new software products is quite a capital-intensive process, so

*There are more than 5000 IT companies in Russia. The market is highly fragmented.*

the company constantly controls the balance between size of shareholders' profit and investment volume in new products.

The main software developer within ARMADA Group is ARMADA SOFT Company.



ARMADA SOFT is one of the largest IT service providers in Russia and the leading player of the customized software development sector. It was established in 2008. The company has great experience in the following areas:

- Development, implementation and operation of integrated information and analytical systems for management automation;
- Development of systems for collection, analysis and visualization of statistical and accounting information;
- Development of budgeting systems, financial analytical system and analytical system for company's financial performance;
- Integrated solutions for automation of current workflow, electronic document management and electronic archives;
- Development, management, technical and information support of integrated Internet and Intranet projects (including corporate websites, Internet portals, e-commerce systems);
- Open-source software (development, issue, integration and support of Russian Linux distributives and OSS-based office applications).

## IT SERVICES

Provision of IT services is the second part of an integrated approach of ARMADA to information systems development.

System integration is an essential part of most big projects. There is also development of corporate networks and data processing centers, implementation of engineering systems (power supply, uninterruptible power supply, ventilation, air conditioning, etc.), security systems (hardware and software data protection, access control and CCTV), etc.

A separate business direction of ARMADA in IT services segment is IT outsourcing. This is the highest level of service which implies that a customer charges a professional company with daily maintenance of his information systems, software and hardware systems. For example, ARMADA has been maintaining the IT infrastructure of the Russian Ministry of Finance in such a way for more than 5 years.

ARMADA also puts program and projects management - a brand new direction of service for Russia being provided by PM Expert - into segment of IT services. Outsourcing of program and projects management consists in assignment of projects for professional management of PM Expert. The service enables to implement projects in time, within budget limitation and with appropriate quality. In the area of external project management PM Expert takes the 1st place in Russia, company has the largest number of professional project managers (about 40 people with the degree of PMP). The company also carries out training of project management specialists. More than 30 000 people attended these courses since its start.

IT services segment in ARMADA Group is mainly represented by Helios IT-Solutions, PM Expert and Soyuzinform.



Helios IT-Solutions is a universal integrator of infrastructure solutions for corporate and state clients. Helios IT-Solutions is included into ARMADA Group of IT companies since 2006. The main activities of Helios IT-Solutions are:

- Systems integration, implementation of infrastructure solutions, corporate networks and engineering systems;
- Solutions for data processing centres, storage systems and computing complexes;
- Building and maintenance of information security systems;
- Provision of outsourcing services for technical support of IT infrastructure all over the CIS;
- Corporate IT infrastructure inspection and development services;
- Production and supply of equipment;
- Provision of wide range of IT services at all stages of infrastructure life cycle.



Soyuzinform provides a whole range of IT services, including IT outsourcing, systems integration, intelligent buildings solutions, etc. Licenses of Federal Security Service, Emergencies Ministry and Foreign intelligence service are one of the most important assets of Soyuzinform. It puts the company in a position to implement IT projects at specialized and high-security Russian facilities within the country and abroad. Soyuzinform is in ARMADA Group of IT companies since 2007.



PM Expert is the market leader in project management in Russia. PM Expert is included into ARMADA Group of IT companies since 2007. Its three main business areas include:

- Consulting (building of a model for efficient IT project management within a company);
- Outsourcing (Managing customers' projects with PM Expert's human resources);
- Training (Onsite and remote training courses, role trainings for realization of project cases).

## CHAPTER 3. REPORT OF THE BOARD OF DIRECTORS

Key financial indicators, RUB mln	2010	2009	Growth, %
<b>Revenue, including:</b>	<b>3 656</b>	<b>3 106</b>	<b>18%</b>
<b>Software Development and Implementation</b>	1 348	1 175	15%
<b>IT Services</b>	2 308	1 931	20%
<b>Net profit</b>	<b>377</b>	<b>23</b>	<b>1539%</b>

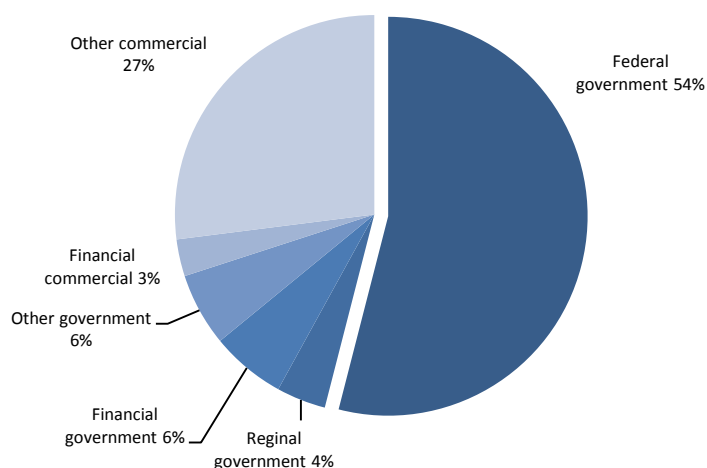
\* audited financial statements of the Group, consolidated in accordance with IFRS.

### REVENUE

ARMADA Group's revenue, consolidated according to the IFRS, is grown by 18% up to RUB 3656 mln in 2010.

#### Revenue of ARMADA by clients, 2010

Source: company information



ARMADA Group's client base is well diversified and the biggest client generated 7% of total revenue, while TOP-5 biggest clients made 25% of revenue; the total number of clients exceeds 1,500.

The public segment of the Russian IT market is still the largest, with a share of nearly 30%. According to evaluation of Minkomsvyaz<sup>5</sup>, expenditures of the federal ministries and authorities for IT can reach about RUB 120 bln in the next few years' time, and regional government expenditures will bring another RUB 50 bln annually.

The share of state orders in ARMADA's revenue (70% of revenue, over 300 customers, 54% of which are federal clients, 6% government-owned financial

institutions, 4% regional clients, and 6% others) is in line with the company's development strategy aimed at gaining leadership in this segment. The company plans to develop this segment and retain its share in the group's total revenue at the current level of about 70%.

In comparison with 2009 the share of revenue from commercial customers has grown up from 25% to 30%, which can be explained by increased market demand due to restoration of Russian economy<sup>6</sup>.

### COSTS AND PROFIT

The company has optimized the costs in 2009 and was generally able to keep the costs at the same level in 2010. The total headcount went up insignificantly and reached 738 persons. These measures, together with the growth of revenue (by RUB 550 mln) enabled ARMADA to raise profitability up to 10%, and the company's net profit amounted to RUB 377 mln.

<sup>5</sup> CNews, № 51, 2010.

<sup>6</sup> GDP growth in Russia amounted to 4% in 2010, Russian Federal Statistics Service

## DEBT LEVERAGE

The companies of the group that participate in infrastructural projects take out short-term loans during the fiscal year in order to finance their operations and pay them off by the end of the year. Actually the company has no long-term debt leverage.

## BUSINESS SEGMENTS

In 2010, both of the group's business segments demonstrated steady growth: 15% in software development and implementation and 20% in IT services segment. This provided an 18% grow of total revenue.

Revenue by business segments, RUB mln	2010	2009	Growth, %
<b>Revenue*, including:</b>	<b>3 656</b>	<b>3 106</b>	<b>18%</b>
<b>Software Development and Implementation</b>	1 348	1 175	15%
<b>IT Services</b>	2 308	1 931	20%

\* audited financial statements of the Group, consolidated in accordance with IFRS.

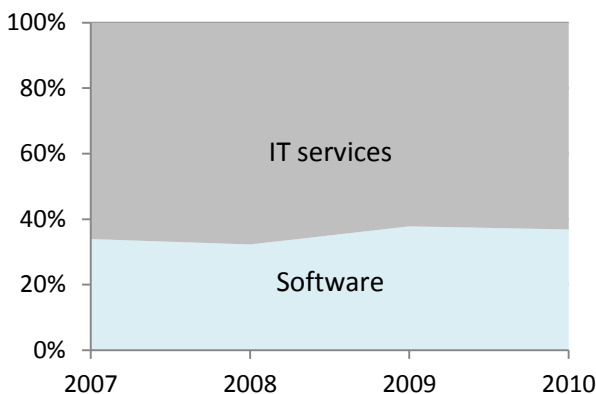
Proportion between revenue of the two main business segments has not been changed much as a result of the organic growth of both business directions. The share of the software development and implementation segment amounted to 36.9% (37.8% a year earlier), the share of IT services reached 63.1% (62.2% a year earlier).

Structure of Segments in 2010	RUB mln	Share of total revenue, %
<b>Revenue*, including:</b>	<b>3 656</b>	<b>100%</b>
<b>Software Development and Implementation</b>	<b>1 348</b>	<b>37%</b>
<b>Services, including:</b>	<b>2 308</b>	<b>63%</b>
<b>IT outsourcing</b>	484	13%
System Integration	1 611	44%
Consulting	102	3%
Training	111	3%

\* audited financial statements of the Group, consolidated in accordance with IFRS.

## Revenue of ARMADA by business directions, 2010

Source: company information



In the financial statement of 2010 the system integration segment (part of IT services) now also includes hardware which in previous years was separated as a single segment. This change reflects the direction of company's strategic development: revenue from the sale of hardware is dropping consistently (from 45% of total revenue in 2009 to 35% in 2010). Despite the fact that system integration contracts include a significant part of services (RUB 321 mln from RUB 1.61 bln, or about 20%), the company reduces its participation in such projects intentionally in order to allocate its resources for developing high-yield areas of businesses – the development and implementation of software and provision of other IT services.

## COMPETITION

ARMADA is concentrated on high-yield projects, which demand integrated solutions, high competence and market expertise for their realization.

In the segment of software development the companies of the group compete with small niche companies that are specific for an each particular segment of the market. ARMADA does not compete with software vendors (such as SAP, Oracle, IBM and others - they all operate through local partners), we are technological partners.

In the segment of IT services, the company competes with the Russian system integrators: CROC, LANIT, IBS, etc.

The most significant competition is observed today in the hardware segment, which ARMADA does not consider as priority for itself. Competition arises from the fact that pricing often has form of an auction. In the areas of software development and IT services the competition is lower because the expertise and history of successful implementation of projects play a significant part in determining a winner. In case of submission an application for tender containing hardware, the company competes with major domestic manufacturers of hardware, such as Kraftway, National Computer Corporation etc.

Competition for acquisition of new businesses in the Russian IT market is still low. However, in mid-term the number of mergers and acquisitions may increase substantially. Appearance of large foreign players in the domestic market is also possible due to the merger of Russian assets. The public orders in IT sector are still closed for foreign companies, so they work through Russian partners, and in the future, as the market grows, consolidating of the Russian players will probably be started by large foreign companies.

*Consolidating of the Russian players of IT market with large foreign companies is possible in the future*

## CHAPTER 4. HR POLICY AND SOCIAL RELEVANCE

### HUMAN RESOURCES POLICY

ARMADA's human resources policy is aimed at fostering the personal and professional growth of its employees. There is an option program by ARMADA which is described in details in the chapter "Company's Shares".

As the company's activities are highly science-based, ARMADA places a special emphasis on advanced training opportunities for its personnel at the leading educational institutions in Russia and abroad. Apart from that the company welcomes any employee who comes forward on their own initiative to receive more education and, if it's necessary, provides opportunities to learn and receive professional certification.

The group has developed mechanisms for newcomers' adaptation aimed at increasing the efficiency of their work and forming personnel loyalty. ARMADA offers its employees competitive market-level salaries depending on their achievements and performance. Along with salaries, benefits and compensations, moral incentives and career development opportunities play an important role in the company. As such, the opportunity of taking part in the group's exciting and ambitious projects is an additional motivation for ARMADA's employees.

ARMADA actively cooperates with young and talented professionals, as well as advanced students and graduates of Russia's top universities (Moscow State University, Moscow Engineering Physics Institute, Bauman Moscow State Technical University, International Institute of Strategic Researches, Moscow

Aviation Institute, etc.); it organizes programs (departments) together with some of the leading universities.

## SOCIAL RELEVANCE

ARMADA's projects often have a significant social relevance.

Throughout its long history ARMADA has created thousands of websites for largest companies and governmental structures which enable millions of people to get necessary information. The Portal of Public Services that was developed with the participation of ARMADA enables all citizens to get public services more efficiently, than it was before. The system for customs clearance of vehicles reduces time which has been spent for it before start-up of the system. The system for access to normative legal acts of the Ministry of Justice of the Russian Federation provides equal opportunities to all citizens for getting actual law information through Internet. Russian electronic library opens access for scientists from all over the world to dissertations base which earlier were stored exclusively in paper archives.

According to its policy, ARMADA supports domestic software developers (including open source software), contributing herewith to the growth of intellectual potential of Russia and providing an opportunity for young talented professionals to show themselves here.

ARMADA regularly discloses information about its activities on the website and in other media, giving a positive example to other private companies. Therewith we contribute to increasing transparency of IT market and creation of investment climate that would be favorable for funding of young companies in this field.

ARMADA holds conferences on actual issues of informatization in order to inform a wide range of users about opportunities provided by information technologies. Conference "IT Modernization and Innovation in the Public Sector" was held by ARMADA in May 2010.

The PM Expert Company from ARMADA's Group takes leading positions on Russian market of project development. It is a pioneering company on this market in Russia and it determines actually its development by taking part in generation of government standard for project management. More than 30 000 professionals all over the Russia were graduated from project management courses of PM Expert since its start. PM Expert was awarded as Company of the Year at the international exhibition of trainings and educational programs Trainings Expo 2010. It was awarded the first prize according to results of inquiry of 250 HR-directors, personal training and development experts of different companies, for the highest quality of work, openness for information exchange with a professional community, significant contribution to development of education.

Within the scope of the information program of Blood service development, to be implemented between 2008 and 2012 by the Ministry of Health Care and Social Development of the Russia together with the Medical Biological Agency, ARMADA has developed a new version of an internet portal about blood donation.

## CHAPTER 5. CORPORATE GOVERNANCE

ARMADA is a holding company. The management company ARMADA OJSC holds a controlling interest in all of the group's subsidiaries.

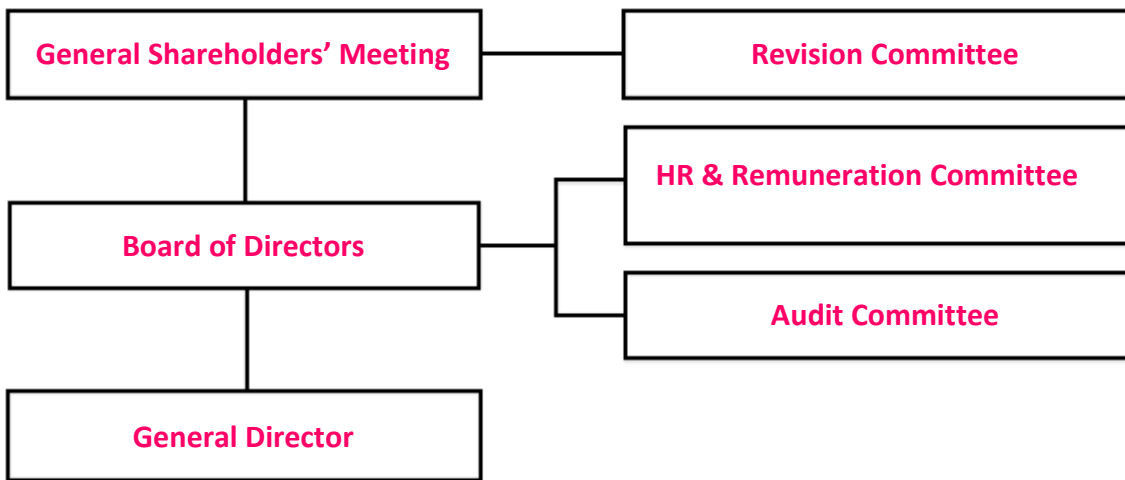
*ARMADA supports domestic software developers*

ARMADA consolidates assets operating in a variety of IT market sectors, including software development and implementation and IT services. All these companies are profit centers and running their business under their original brand names. To facilitate the integration of the group's assets united Financial Department and Legal Department were established, as well as Acquisitions department, PR Department and Investor Relation Department.

The general meeting of shareholders is a senior corporate governance body of ARMADA, while the Board of Directors, consisting of 7 persons, is responsible for general management of the company's activities. Members of the Board of Directors are elected by the general shareholders meeting for a term of one year.

### Corporate Management Structure of ARMADA

Source: company information



There are two committees within the Board of Directors: HR & Remuneration Committee, and Audit committee.

The task of the HR & Remuneration Committee is to develop, approve and implement salary policies, as well as to determine emoluments to members of the Board of Directors and senior executives.

The Audit Committee has been set up to manage risks, oversee financial and economic activities, as well as to evaluate candidates for the company's auditors.

## BOARD OF DIRECTORS

The Board of Directors of ARMADA OJSC, elected by the decision of the general meeting of shareholders on the 26<sup>th</sup> June 2010, consists of:

*Three non-executive directors are members of the Board of Director of ARMADA*

Alexei Kuzovkin	Chairman of the Board of Directors
Yuri Mostovoy	Member of the Board of Directors
Marina Shestakova	Member of the Board of Directors
Azer Badalov	Member of the Board of Directors, General Director of Helios IT-Solutions
Maxim Selivanov	Member of the Board of Directors, General Director of Soyuzinform
Alexander Kutuzov	Member of the Board of Directors, General Director of PM Expert
Viktor Potekhin	Member of the Board of Directors

**Alexei Kuzovkin.** Chairman of the Board of Directors of ARMADA. Alexey Kuzovkin joined RBC Group just as it was founded in 1993. In 2000 he was appointed Vice President for Information Technology at RBC Information Systems and a year later became General Director of RBC SOFT. Between the years of 2007 and 2009 Mr. Kuzovkin held the position of General Director at ARMADA OJSC, and became the head of the company's Board of Directors in 2009. Education: Moscow Power Engineering Institute (Ph.D. in economics), MBA program at the Russian Academy of Public Administration.

**Yuri Mostovoy.** Non-executive member of the Board of Directors. Yuri Mostovoy has an extensive experience in investment and banking. At different times he was employed at debt market research departments at Lehman Brothers and Barclays Capital and served as Vice President of Citibank (New York). He was also involved in drawing investment to Russia. Since 1999 he has been at the top of Interval Global company that develops advanced investment portfolio management systems. Education: Moscow Aviation Institute.

**Marina Shestakova.** Non-executive member of the Board of Directors. Marina Shestakova is a partner at the investment company Wermuth Asset Management GmbH (WAM). As a member of ARMADA's Board of Directors, she represents minority shareholders. In WAM, where she is employed since 2004, she takes a position of Deputy CEO for listed investments. Education: Moscow State University, Russian New Economic School. CFA Certificate.

**Azer Badalov.** Member of the Board of Directors, General Director of Helios IT-Solutions. Founder and General Director of Helios IT-Solutions, which joined ARMADA Group in 2006. He is one of the leading senior executives and renowned IT market experts and has been repeatedly ranked among top 100 IT business managers in Russia. He has also received awards from the government for his contribution to IT development. Education: Moscow Engineering Physics Institute.

**Maxim Selivanov.** Member of the Board of Directors, General Director of Soyuzinform. In 1996 Maxim Selivanov founded and leded Soyuzinform which in September 2007 became part of ARMADA group of companies. Mr. Selivanov has repeatedly been ranked among the most professional top managers in IT industry in Russia. Education: Moscow State University, a degree in applied mathematics.

**Alexander Kutuzov.** Member of the Board of Directors, General Director of PM Expert. Founder and General Director of PM Expert which joined ARMADA Group

in 2007. He has long years of experience in managing major projects, was among those who spearheaded and masterminded the development of the national project management standard. Since January 2008 he is on the Supervisory Expert Board of the MBA program run jointly by Moscow Institute of Physics and Technology and Academy of National Economy, "Project management in hi-tech, investment and information technology". Education: Moscow Institute of Physics and Technology; international PMP, PME certificates in project management.

**Viktor Potekhin.** Non-executive member of the Board of Directors. Viktor Potekhin is a Vice President of Commercial Bank AVANGARD since 2003. He graduated from Perm Technical University and completed post-graduate courses at Russian Academy of Public Administration.

## AUDITING COMMITTEE

The Auditing Committee of ARMADA OJSC, elected by the decision of the general meeting of shareholders on the 26<sup>th</sup> June 2010, consists of:

**Olga Kubai.** She is employed at ARMADA Holding as Deputy General Director for Finance since 2007. She graduated from Moscow Institute of Finance and Economics.

**Nadejda Kamysheva.** She took the position of Chief accountant at ARMADA's divisions since 2003, in 2006 she moved to the position of Director of Financial Department. She graduated from Moscow State University.

**Alexander Fedin.** Alexander Fedin is Financial Director of HELIOS LLC since 2001. He graduated from Moscow Aviation Institute.

## GENERAL DIRECTOR

General Director is an Individual Executive Body of the Company. General Director shall be elected by the Board of Directors.

**Igor Gorbatov** is employed at structures of ARMADA since 2002. He took the position of General Director of ARMADA OJSC since 2009 (till February 2011). He graduated from Moscow Aviation Institute. Candidate of physical and mathematical science (Radio Technician and Radio Electronics Institute).

## BOARD OF MANAGEMENT

Board of management is a collective executive body; it is responsible for management of the company's operating activities and is aimed to improve the efficiency of corporate management, as well as operability of decision making and response to changes of environment.

**Igor Gorbatov.** He is employed at structures of ARMADA since 2002, a General Director of ARMADA OJSC from 2009 till 2011. He graduated from Moscow Aviation Institute. Candidate of physical and mathematical science (Radio Technician and Radio Electronics Institute).

**Roman Kruglyakov.** Roman Kruglyakov started working at ARMADA Group in 1997, in 2002 he was appointed as Technical Director of the company (in February 2011 he became General Director of ARMADA OJSC). He is a member of ARMADA's Board of Management since 2009. He graduated from the Moscow State University's, and from MBA in Grenoble Ecole De Management (France).

*Roman Kruglyakov becomes new ARMADA General Director in 2011.*

**Maxim Selivanov.** Member of the Board of Directors, General Director of Soyuzinform. In 1996, Maxim Selivanov founded and leded Soyuzinform which in September 2007 became part of ARMADA group of companies. Education: Moscow State University.

## REMUNERATION

The remuneration to the members of the Board of Directors or the Board of Management for their functions within these management bodies wasn't paid in 2010.

## CHAPTER 6. COMPANY'S SHARES

### SHARES

On the 31th of July 2007 ARMADA held an Initial Public Offering on MICEX and RTS. 2 million of common shares (or 17% of its authorized capital) were placed.

As of the 31<sup>st</sup> of December 2010 the share capital of ARMADA consists of 12 million common shares with a nominal value of RUB 1 (one ruble) per share, state registration numbers of emissions: 1-01-10670-A dd. 08.09.2005 and 1-01-10670-A-001D dd. 26.06.2007.

*The shares of ARMADA have ARMD ticker on Russian Exchanges MICEX and RTS*

On the 26<sup>th</sup> of April 2011 ARMADA held a Secondary Public Offering (SPO) placing 2 399 997 common shares (state registration number of emission 1-01-10670-A-002D dd. 27.05.2010). The company's authorized capital after SPO amounts to 14 399 997 common nominal shares with a nominal value of RUB 1 (one ruble) per share. Now the shares of ARMADA are transferred to Quotation Lists "B" of MICEX and qualified for trading on RTS under the ARMD ticker symbol.

### OPTION PROGRAM

In 2007 the HR & Remuneration Committee and the Board of Directors of ARMADA have approved the option program for the Board members and top management.

Under this program some members of the Board of directors have got an opportunity to buy the maximum amount of 210 000 shares at RUB 494 /USD 16 per share (IPO price plus 30%) within three years.<sup>7</sup>

Participants of the program, at their own discretion, may exercise their right under this option in the amount of 1/3 of shares due to them at any time after 1 year since the introduction of the option program and three months before the completion of the program; in the amount of 2/3 of the shares due to them at any time after 2 years since the introduction of the option program and three months before the completion of the program; in full at any time after 3 months after completion of the program.

If a participant of the option program comes out from the Board of Directors within the specified period of three years, 1/3 of the maximum number of options is due to him for one year of his work on the Board of directors after approval of the option program, 2/3 of the maximum number of options is due to him for two years of his work on the Board of Directors after approval of the program, and full amount of shares is due to him after three years.

<sup>7</sup> Hereinafter the respective figures in USD are given for reference only.

Participants of the option program cannot require compensation of difference between market value of shares and options sale price.

In February 2010 the Board of Directors approved a change of the option price from RUB 494 /\$16 per share to RUB 250 /\$8.2 per share and set a new term for sale of option - no earlier than the 30<sup>th</sup> of April 2011. The option for 25 000 shares is expired and maximum number of options for members of the Board of directors dropped down to 160 000 shares.

## **DIVIDEND POLICY**

ARMADA seeks to achieve leadership in every principal sphere of its operations. Given the rapid growth of the Russian IT market, this objective cannot be achieved only through integral growth. Therefore the group intends to reinvest net profit in business expansion, including new acquisitions.

In 2010 ARMADA didn't pay dividends for 2009.

In several years' time, as the market will be saturated and the goals achieved, the company doesn't exclude the possibility of transition to the police of dividends payment.

## **APPENDICES**

### **CONSOLIDATED FINANCIAL STATEMENTS (UNDER IFRS)**

Consolidated financial statements of ARMADA OJSC for 2010 in accordance with International Financial Reporting Standards (IFRS) and an Audit Report were prepared in English by ZAO AC "Delovoy Profil".

Hereinafter the respective figures in US Dollars (\$) are given for reference only and are not a substantial part of the statements.

*Dividends payment cannot be excluded in future, as the company grows.*

## Consolidated Statement of Comprehensive Income for 2010

	<b>2010</b> RUB mln	<b>2009</b> RUB mln	<b>2010</b> \$ mln	<b>2009</b> \$ mln
<b>Revenue</b>	<b>3,656</b>	<b>3,106</b>	<b>120</b>	<b>102</b>
Cost of sales	(3,032)	(2,933)	(99)	(96)
<b>Gross profit</b>	<b>624</b>	<b>173</b>	<b>20</b>	<b>6</b>
Distribution expenses	(24)	(19)	(1)	(1)
Administrative expenses	(228)	(223)	(7)	(7)
Other income/ (expenses)	37	12	1	-
Financial income/ (expenses)	18	93	1	3
<b>Profit before income tax</b>	<b>427</b>	<b>36</b>	<b>14</b>	<b>1</b>
Income tax (expense)/ benefit	(50)	(13)	(2)	-
<b>Profit for the year</b>	<b>377</b>	<b>23</b>	<b>12</b>	<b>1</b>
Attributable to:				
Shareholders of the Company	344	4	11	-
Non-controlling interest	33	19	1	1
<b>Total comprehensive income</b>	<b>377</b>	<b>23</b>	<b>12</b>	<b>1</b>
Attributable to:				
Shareholders of the Company	344	4	11	-
Non-controlling interest	33	19	1	1
<b>Basic and diluted earnings per share</b>				
Basic earnings per share	30.05 RUB	0.38 RUB	0.99 \$	-
Diluted earnings per share	29.04 RUB	0.37 RUB	0.95 \$	-

## Consolidated Statement of Financial Position as at 31 Dec 2010

	2010 RUB mln	2009 RUB mln	2010 \$ mln	2009 \$ mln
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	59	66	2	2
Intangible assets	589	261	19	9
Loans	12	13	-	-
Investments	5	5	-	-
	<u>665</u>	<u>345</u>	<u>21</u>	<u>11</u>
<b>Current assets</b>				
Inventories	325	339	11	11
Other investments ST	4	1	-	-
Loans	56	621	2	20
Trade and other receivables	1,074	866	35	28
Cash and cash equivalents	526	517	17	17
<b>Total current assets</b>	<u>1,985</u>	<u>2,344</u>	<u>65</u>	<u>76</u>
<b>Total assets</b>	<u><b>2,650</b></u>	<u><b>2,689</b></u>	<u><b>86</b></u>	<u><b>87</b></u>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital				
Share premium	12	12	-	-
Treasury shares	753	689	25	23
Foreign currency translation reserve	-	-	-	-
Retained earnings	1	1	-	-
<b>Total equity attributable to shareholders of the Company</b>	<u>324</u>	<u>(20)</u>	<u>11</u>	<u>(1)</u>
Non-controlling interest	1,090	682	36	22
<b>Total equity</b>	<u>141</u>	<u>110</u>	<u>5</u>	<u>4</u>
<b>Non-current liabilities</b>				
Deferred tax liabilities				
<b>Current liabilities</b>	<u>70</u>	<u>41</u>	<u>2</u>	<u>1</u>
Loans and borrowings ST	<u>70</u>	<u>41</u>	<u>2</u>	<u>1</u>
Trade and other payables				
Income tax payable	92	6	3	-
Provisions	1,246	1,844	41	60
	11	-	-	-
<b>Total liabilities</b>	<u>-</u>	<u>6</u>	<u>-</u>	<u>-</u>
<b>Total equity and liabilities</b>	<u>1,349</u>	<u>1,856</u>	<u>44</u>	<u>60</u>
<b>ASSETS</b>	<u><b>1,419</b></u>	<u><b>1,897</b></u>	<u><b>46</b></u>	<u><b>61</b></u>
<b>Non-current assets</b>	<u><b>2,650</b></u>	<u><b>2,689</b></u>	<u><b>87</b></u>	<u><b>87</b></u>

## Consolidated Statement of Cash Flows for 2010

	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>RUB mln</b>	<b>RUB mln</b>	<b>\$ mln</b>	<b>\$ mln</b>
<b>OPERATING ACTIVITIES</b>				
Profit before income tax	427	36	14	1
<i>Adjustments for:</i>				
Depreciation and amortisation	27	117	1	4
Unrealised foreign exchange (gain) / loss	(1)	(45)	-	(1)
(Gain)/ loss on disposal of PPE	(1)	15	-	-
Net gain from investments	-	13	-	-
(Gain)/loss on trade payables writing off	(13)	-	-	-
Share option program compensation expense	65	11	2	-
Reversal of Clients' base impairment	(30)			
Change in provision for bad debts	(1)	16	-	1
Interest expense	24	21	1	1
Interest income	(42)	(70)	(1)	(2)
Other non-cash items	(13)			
<b>Operating profit before changes in working capital and provisions</b>	<b>455</b>	<b>114</b>	<b>17</b>	<b>4</b>
(Increase)/decrease in inventories	32	-	1	-
(Increase)/decrease in trade and other receivables	(209)	(158)	(7)	(5)
Increase/ (decrease) in trade and other payables	(36)	223	(1)	7
<b>Cash flows from operations before income taxes and interest paid</b>	<b>242</b>	<b>179</b>	<b>10</b>	<b>6</b>
Income taxes paid	(24)	(14)		-
Interest paid	(29)	(11)		-
<b>Cash flows from operating activities</b>	<b>189</b>	<b>154</b>	<b>10</b>	<b>6</b>

### Consolidated Statement of Cash Flows for 2010 (continued)

	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<u>RUB mln</u>	<u>RUB mln</u>	<u>\$ mln</u>	<u>\$ mln</u>
<b>INVESTING ACTIVITIES</b>				
Proceeds from disposal of property, plant and equipment	5	-	-	-
Proceeds from disposal of other investments		154	-	5
Loans granted	(12)	(50)	-	(2)
Repayment of loans granted		85	-	3
Interest received		2	-	-
Acquisition of property, plant and equipment	(19)	(2)	(1)	-
Acquisition of other investments		(17)	-	(1)
Acquisition of intangible assets	(126)	(75)	(4)	(2)
Acquisition of subsidiaries, net of cash acquired	(111)	-	(4)	-
Dividends paid	(3)	(5)	-	-
<b>Cash flows utilised in investing activities</b>	<u>(266)</u>	<u>93</u>	<u>(9)</u>	<u>3</u>
<b>FINANCING ACTIVITIES</b>				
Proceeds from issue of share capital, net of transaction costs		21	-	1
Proceeds from borrowings	99	130	3	4
Repayment of borrowings	(13)	(628)	-	(21)
<b>Cash flows from financing activities</b>	<u>86</u>	<u>(477)</u>	<u>3</u>	<u>(16)</u>
<b>Net increase in cash and cash equivalents</b>	<u>9</u>	<u>(230)</u>	<u>4</u>	<u>(7)</u>
Cash and cash equivalents at beginning of year	<u>517</u>	<u>747</u>	<u>17</u>	<u>24</u>
<b>Cash and cash equivalents at the end of year</b>	<u>526</u>	<u>517</u>	<u>21</u>	<u>17</u>

*ARMADA has successfully performed reforms during the crisis in 2008-2009.*

## RISKS MANAGEMENT

Investment in a company's shares is connected with a range of risks, both external (global economic, political, financial, legal and market risks) and internal risks (related to the company). Occurrence of one or more of the following risks could adversely affect the performance of the company and its financial condition.

Reforms and development of legal, tax and regulatory systems that meet the requirements of the market economy are still under development in Russia. The Russian economy is subject to market fluctuations and slowdown of global economic development. Stability of the Russian economy is largely dependent on the progress of reform in these areas, as well as on the effectiveness of measures taken by the Government in the area of economy, its financial and monetary policy. Furthermore, applicable laws, their interpretation, law enforcement and judicial practice continue to change. Government of the Russian Federation introduced a number of measures aimed at provision liquidity and refinancing of foreign debts of the Russian banks and companies.

In case one or some from the risks described below occurs, ARMADA shall take all possible measures to minimize their negative impact. The features of taking measures will depend on a special situation in each particular case. ARMADA cannot guarantee that actions aimed at overcoming of the occurred negative changes will actually change the situation substantially, since the absolute majority of the specified risks are beyond the control of the company.

**Global economic risks.** Crisis at global financial markets has had a significant negative impact on the development of IT industry in Russia in late 2008 and especially in 2009. Recurrence of such situation in the future cannot be excluded. If the situation similar to 2009 repeat (IT market breakdown by more than 30%), ARMADA will be forced to cut costs, to refuse to participate in a number of new competitions, etc., which can lead to a substantial reduction of revenue. The group may encounter difficulties with debt financing which may change its M&A strategy.

**Political risks.** Currently the Government declares a policy of supporting high-tech industry. According to experts, the continuity of the given course will maintain in Russia after president elections in 2012.

**Legal risks.** There is a risk the company can be involved into legal proceedings concerning its intellectual property rights. This risk can be limited by means of protection of copyrights, trademarks rights, laws and regulations on the protection of commercial secrets, consumer relations policies, license agreements and information disclosure restrictions.

ARMADA is currently not involved in any legal proceedings that could, if resolved not in the company's favor, produce an adverse impact on its operation or financial status. To mitigate such risks, the company employs a team of high-professional lawyers. In addition, ARMADA cooperates with the best external consultants in Russian and international law.

**Market risks.** In the mid-term, the high growth rate of the Russian IT market will be driven largely by its immaturity compared to western IT markets.

However, new players, including well-known international brands, could emerge on the market. In addition, some of the existing local players could develop more competitive services in the long term. The success of ARMADA's rivals could decrease the company's revenue and impair its profitability. To manage this risk,

the company deepens the loyalty of its client base, increases its service quality, expands the range of services on offer and also makes ongoing efforts to enhance the quality of its products.

**Financial risks.** The Russian market is now a priority for ARMADA. Therefore the large share of revenues and expenses of the company is denominated in Rubles. However a drastic change in the exchange rate can affect the group's key financial indicators directly.

Some of ARMADA's costs, such as salary expenses, are highly dependent on the inflation level in Russia. In such conditions due to a strong competition ARMADA probably won't be able to increase its products prices adequately to maintain its profit rate at the same level. As a result, inflation could increase the company's costs and deteriorate the profit rate. To mitigate this risk the group usually makes such contracts with customers, which provide a reconsidering of price conditions after completion of each stage of a project, in order to take changes of market conditions in account.

**Internal risks.** Risks related to ARMADA's counter parties (or non-payment risks) are mitigated through a diversified client base. Currently no single client accounts for more than 10% of the company's revenue, while each customer usually has a number of contracts with the group for supply of different products and services. Therefore, default on one contract could not substantially damage the group's financial status.

ARMADA is expanding its business through new acquisitions which is connected with a risk of integration of new assets in the group. To address this risk, the company has established special profile structures.

*Dmitry Chursin*  
*Head of Investor Relations*  
*+7 (495) 797-6020*  
*IR@armd.ru*

## CONTACTS

### ARMADA

5<sup>th</sup> Donskoy proezd, 15, b.6, Moscow, Russia, 119334  
Tel.: +7 (495) 797-6020  
Web: [www.armadaitgroup.com](http://www.armadaitgroup.com)  
E-mail: IR@armd.ru

### Auditors

AK DELOVOY PROFIL CJSC, group audit according to IFRS  
St. Samotechnaya 11, Moscow, Russia, 127473  
Tel.: +7 (495) 740-1601  
Web: [www.delprof.ru](http://www.delprof.ru)  
E-mail: info@delprof.ru

FIRMA FINAUDIT LLC, audit of ARMADA OJSC according to Russian Accounting Standards

St. B. Serpuhovskaya 19/37, bld.4, Moscow, Russia, 115093  
Tel.: +7 (495) 721-8380  
Web: [www.finaudit.ru](http://www.finaudit.ru)  
E-mail: audit@finaudit.ru

### Registrar

ZAO IRKOL  
St. Begovaya 3, bld.1, Moscow, Russia, 105066  
Tel.: +7 (495) 632-9090  
Web: [www.ircol.ru](http://www.ircol.ru)