

**ARMADA**

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# **Annual Report of Armada OAO for 2012**

Moscow, 2013

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## CHAPTER 1. INTRODUCTION

### ABOUT THE COMPANY

**Armada (MICEX-RTS: ARMD) is an innovating Russian IT company with product lines in Software and IT services. For over 15 years we have helped public and commercial organizations deliver better service in Russia.**

The company traces its history to 1997. Today each car and driver's license in Russia is registered in the information system developed by Armada for the State Road Safety Inspectorate. Each third physician in computerized clinics of the Russian Federation uses the medical information system of Armada (MEDIALOG). Admission of children to kindergartens and schools and many other public services in Moscow and a number of regions are effected using Armada's software. In total, Armada's solutions are used by over 30 million people in Russia.

The group's development strategy focuses on expanding its presence in the most promising niches of the IT market – customized software development and IT services. In addition to its natural, organic growth, Armada is expanding and diversifying its business through the acquisition of highly specialized companies in this industry. As a result of M&A, the group now includes the companies PM Expert, Soyuzinform, Helios Information Technologies, and since 2011 – Post Modern Technology (PMT).

In 2007 Armada became the first company on the domestic IT market to offer its shares on Russian stock exchanges. Today Armada's securities are traded on the MICEX-RTS under the ARMD ticker. Armada maintains open lines of communication with investors. Complete, up-to-date information about the company is available in both Russian and English at [www.armd.ru](http://www.armd.ru) and [www.armadaitgroup.com](http://www.armadaitgroup.com).

## A SUMMARY OF THE RESULTS OF 2012

### Finance:

- The revenue of Armada for 2012 (hereinafter in accordance with the audited financial statements of the group for 2012 under IFRS) increased by 20% and amounted to RUB 5,579 million.
- The share of the state sector in the revenue amounted to 62%.
- EBITDA margin amounted to 10.8%, net profit margin 7.3%.
- Cash flow from operations increased by 35%.
- The company does not have long-term debt burden.

### Market positions:

- Based on the results of 2012 Armada was included in the Top-20 of leading IT companies of Russia according to the rating of Expert RA.
- Armada is the first in Russia in the rating of web developers for the corporate sector (CMS Magazine), in the rating of developers of medical information systems (Cnews), in the project management and a number of other spheres.
- Among the customers of the company there are over 1,500 organizations, including 75 Top-100 companies of the Russian economy.

### Selected projects:

#### Electronic government

Armada has developed and supports the new version of the Moscow public services portal [www.pgu.mos.ru](http://www.pgu.mos.ru). Already in 2013, using this portal the citizens of the city and organizations will be able to request more than 130 various services. Besides, Armada is realizing a project on creation and implementation of the software of the computerized system of state and municipal services and functions. The system is used for receipt and registration of requests for services from citizens and organizations of Moscow and provides computerized working places to more than 8,000 employees from 600 organizations, including 54 multifunctional centers of Moscow.

In 2012, ADMADA realized projects on computerization of public services and creation of elements of the “electronic government of the region” in Tver and Novgorod regions.

In 2012, Armada completed a large stage of works on creation and commissioning of an integrated, interagency information and statistical system (EMISS), which joins the resources of over 60 Russian federal agencies, including the Ministry of the Interior, the Federal Migration Service, EMERCOM of Russia, the Ministry of Defense, and the Ministry of Justice.

#### Transport

In 2012, Armada developed special software for the State Road Safety Inspectorate of the Ministry of the Interior of the Russian Federation, ensuring the management of the data on the driver’s licenses, administrative violations of the road regulations, information about stolen cars, road accidents and other information related to cars. At the regional level, Armada took part in the project of the Government of Moscow for creation of the “integrated parking space”.

### **Healthcare system**

PMT, a company of Armada Group, is the leader in implementation of the software for informational support of the regional health care system among the companies not related to the state; MEDIALOG Medical Information System is being implemented in seven regions of the Russian Federation. In 2013, the federal program “Health Care System Modernization” will be continued, since by the end of 2012 the tenders for the informational support were held only in small part of the regions.

As a part of the state program for the development of voluntary blood donation, Armada realized a large project for the development of the integrated information blood bank database in 63 constituent entities of the Russian Federation.

### **Culture**

In the interests of the Ministry of Culture of the Russian Federation, Armada performed works for creation of Culture.ru, the integrated Internet-portal for popularization of the cultural heritage and traditions of Russia. This portal is a unique project for Russia and the largest resource of this type in Europe; it joins nearly 2000 state and municipal museums, possessing over 70 million of museum pieces, the knowledge base is constantly being renewed and supplemented.

### **Financial organizations**

For Sberbank of Russia, Armada is developing a computerized system of “open foreign exchange position” management, joining 17 territorial banks with thousands of regional branches.

The cooperation with Sberbank, Raiffeisen Bank and Alfa Group Consortium in the sphere of Internet-projects was continued.

IT-projects of Helios in Vnesheconombank and Priorbank (a company of Raiffeisen Group) won the international competition “ITSM-Project of the Year”.

### **Industry and fuel and energy complex**

Armada continues cooperation with the companies of Gazprom OJSC. Thus, a project was implemented for Gazprom Burenie for the development of a new corporate portal, including a tender platform for the company, and the experts of Helios developed a computational infrastructure for the data processing center of Gazprom Dobycha Nadym.

PM Expert continued cooperation with Federal Grid Company of Unified Energy System, Kubanenergo, Severstal, MaRussia Motors with regard to rendering professional project management and consulting services, as well as entered a new market and completed the first stage of service and engineering works for Rospan International CJSC, a company of TNK-BP, as a part of the largest program of gas projects with CAPEX of over USD 6 billion.

## CHAPTER 2. HIGH-PRIORITY AREAS OF BUSINESS

### DEVELOPMENT OF RUSSIAN IT-MARKET IN 2012

According to an estimate of the Government of Russia, the volume of the Russian market of informational technologies in 2012 amounted approximately to RUB 700 billion (USD 23.3 billion). The growth of the market slowed down almost twice – from 15% in 2011 up to 7% in 2012. According to the data of IDC research company, the slowdown of the market is even more significant – only 4% of growth in comparison with 13.9% in 2011. Meanwhile, the market volume is estimated by the analysts of the company in the amount of USD 35 billion. The reasons of such significant discrepancy with the data of the Government are related to methods of calculation: apart from the computer equipment IDC also includes in the Hardware segment the sales of smartphones, telecommunication equipment, etc.

French analytic company PAC gives a more optimistic estimate of the performance of the Russian IT-industry. According to its calculations, the market demonstrated a growth in the amount of 9.4%. However, the French experts estimate the aggregate volume of the market only in the amount of RUB 618 billion. The reason of discrepancies in figures is the same – the difference of approaches of the researchers to the estimation of the Hardware segment.

Purchases of the hardware and equipment still prevail in the structure of Russian IT-expenses – up to the half of the whole market. However, according to the data of PAC, the rates of growth of the software and IT-services segment, which is essential for Armada, significantly surpasses the growth of sales of the hardware – 11% against 7.3%.

Analyzing the structure of expenses, the experts agree that the tendency of “maturing” of the Russian IT-market will remain: in the coming years the reduction of the share of purchases of the equipment and the higher-than-anticipated growth of SITS (Software & IT Services) segment should be expected (10% annually, according to IDC, and up to 12%, according to the data of PAC).

Regarding the software and IT-services segment in Russia it is necessary to mention that during the last several years it shows a steady double-digit growth, while Western European markets scarcely reach 1.8–2.2% annually. Certainly, in absolute terms the Russian SITS segment amounts only to 15% of the volumes of revenue in this segment, for example, in Germany, but this is the guarantee, the potential of growth of expenses on the software and IT-services in Russia in the medium term. ““Maturing” of the Russian market of information technologies, completion of processes of IT-infrastructure forming, investments in computerization for improvement of business processes and the increase of the competitive ability are the factors, which allow to predict a steady growth,” said the representatives of PAC.

Despite the significant slowdown of growth of the national market, according to the results of 2012, Russia will look quite good as compared to other countries of the world: the rates of growth of the global IT-market, according to the preliminary forecasts of IDC, are expected to be “1.5 times less” (at the level of 2.6%).

The research company Gartner, in its turn, estimated the world expenses on IT in the amount of USD 3.6 trillion, and the growth in comparison with 2011 amounted only to

1.2%. According to Gartner, the main deterrent for the world IT-market is the uncertainty around the growth of the global economy. In this case insufficient “globalization” of the Russian economy and fair needs of the state and the business in information technologies play into the hands of the Russian IT-companies and will be a basis for the steady growth.

In the opinion of the western experts, including PAC, the Russian IT-market will grow in general by 10.3%, the expenses on the Software and IT-services – by 12%, and purchases of equipment – by 7.9%, and the drivers of growth will remain the state and the large business.

### **THE STATE'S ROLE IN SHAPING THE RUSSIAN IT MARKET**

Much of the demand in the IT market is generated by government agencies. According to various estimates, the state is responsible for over 30% of the orders on the IT market (for federal and regional budgets in total).

But even with this level of spending, Russian governmental organizations are still far less computerized than those of other developed countries (the country ranks in the 70th–80th positions, according to the relevant ratings). In 2009 the state took several proactive steps to improve this figure. Initiatives that are intended to achieve results in 2011–2015 have been approved.

The federal program “Information Society” (2011–2018) was adopted in 2010. This program’s major project is known as “Electronic Government” (2011–2015).

Federal Law 210-FZ “On the Organization of Public and Municipal Services”, which regulates the provision of public services in electronic form, is now in effect.

In December, 2010 the Government of the Russian Federation signed executive order No. 2299-p “On the Transition of Federal Agencies to the Use of Open-Source Software (OSS)”. This directive requires all federal agencies to begin using Russian open-source software by 2015.

### **SOFTWARE SEGMENT**

The development of Russian software is a high-priority strategic aspect of business of Armada’s Group.

State-owned companies in Russia are still far less computerized than in other developed countries (the nation ranks in the 70th–80th positions, according to the relevant ratings). Although computers are ubiquitous in offices, they are not used to their full potential. This lack of information systems directly affects the quality of medical care and the provision of public services to the public and the business community.

Armada sees its primary task as analyzing demand for applied solutions, the development and installation of such solutions, and the creation of support tools, partner networks, and the conditions for training and employing young, talented professionals.

Armada does not rely only on its own engineers and programmers to develop software products and solutions – in order to supplement Armada’s product line, the company also seeks out Russian niche companies that have already developed their own software products. The group also collaborates actively with leading international vendors of software platforms, such as databases and etc.

Software development is highly intellectual work. This is why this segment is the most profitable for the group. At the same time, the development of new software products requires a great deal of capital, so the company must constantly balance the need for shareholder profit against investment in new products.

Armada Group’s main software developer is Armada SOFT.



Armada SOFT is the leading developer of the customized software and an expert in the sphere of IT-services. The company is able to carry out IT projects at any level of complexity, starting with an analysis of the existing technological solutions and the development of IT strategies, and ending with the development and installation of information systems to automate the work of management, providing operational support, and training experts. The company has extensive experience in the following areas:

- Designing, developing, installing, and supporting integrated information and analytical systems for management work.
- Creating the state services portal to allow the public to interact with the state electronically.
- Integrated solutions. Integrating databases and managing metadata.
- Finding ways for different departments to exchange information. Hardware and software packages that allow systems to be integrated in real time.
- Creating situational centers – software and hardware packages that allow managers to directly and rapidly access the information they need in order to make decisions.
- Solutions to automate the electronic management of records and documents. Managing the procedures to create, process, and store information, including the management of correspondence, records of contracts, electronic regulations, etc.
- Systems to manage the information infrastructure for the entire package of an organization's hardware and software solutions, to help maintain records of IT resources and automate management during normal or crisis situations.
- A Russian operating system. Open source software (OSS) based on LINUX, which can entirely replace MS Windows.
- SaaS solutions (Software as a Service) – a method of using information technology in which computing resources and applications are made available through computer networks as a service. They can be leased and accessed through a network, instead of purchasing applications and installing them at one's own facilities.
- Portal solutions that provide essential functions to ordinary employees, allowing them to exchange information and work with documents, as well as



giving an organization's managers access to consolidated analytical information.

- Internet solutions (websites). All the phases of work required to create websites with content and to develop and promote those sites, as well as other services.
- Custom software development. The development and support of specialized systems within large, geographically dispersed organizations from different industries (departments), such as: state agencies, vertically integrated holding companies, and major companies.
- Systems to manage personnel development.
- Electronic purchasing systems. The automation of government and commercial purchases.
- The Electronic Library solution to provide storage and remote access to the resources of Russia's largest libraries.

## IT SERVICES

Providing IT services is the second component of Armada's integrated approach to developing information systems.

First of all, solutions include systems integration, which is an essential part of most major projects. This is the development of corporate networks and data-processing centers, the installation of engineering systems (electricity supply, supplying an uninterruptable source of power and providing for ventilation, air-conditioning, etc.), security systems (hardware and software data protection, access control, and video surveillance), etc.

A separate aspect of Armada's operations in the IT-services segment is IT outsourcing. This is service at the highest level, whereby a customer entrusts a professional company with the daily maintenance of its information systems and software and hardware systems.

Armada also offers program and project management in the IT-services segment. This is a brand new area of service for Russia and is provided by PM Expert. By outsourcing its program and project management, a company transfers its projects to PM Expert for professional management. This service makes it possible to carry out projects at the requisite level of quality, while meeting deadlines and budgetary limitations. Armada's subsidiary PM Expert is the number-one third-party project manager in Russia with the greatest number of professional project managers (about 40 of whom have earned PMP credentials). The company also trains project-management specialists. More than 40,000 people have attended these courses since their inception.

Armada Group's IT services are provided by Helios IT, Soyuzinform, and PM Expert.



Helios Information Technologies is a universal integrator of infrastructure solutions for corporate and government clients. Helios IT has been one of Armada Group's IT companies since 2006. The main operations of Helios IT include:

- Systems integration and installing infrastructure solutions, corporate networks, and engineering systems;
- Solutions for data-processing centers and data-storage and computer systems;
- Creating and providing support for information-security systems;
- Providing technical support for IT infrastructure throughout the CIS on an outsource basis;
- Inspecting and developing corporate IT infrastructure;
- Manufacturing and supplying equipment;
- Providing a wide range of IT services at all stages of the infrastructure's life cycle.



Soyuzinform provides a full range of IT services, including IT outsourcing, systems integration, the creation of "intelligent buildings", etc. Licenses granted by the Federal Security Service, EMERCOM of Russia, and Foreign Intelligence Service are some of Soyuzinform's most important assets. They put the company in a position to carry out IT projects at specialized and high-security Russian facilities both domestically and abroad. Soyuzinform has been one of Armada Group's IT companies since 2007.



*Professional Project Management*

PM Expert is the market leader in project management in Russia. PM Expert has been one of Armada Group's IT companies since 2007. The company provides three main types of services:

- Consulting (building a model for efficient IT project management within an organization);
- Outsourcing (using the professionals at PM Expert to manage customers' projects);
- Training (onsite and remote training courses and role-playing as part of project case studies).



Post Modern Technology (PMT) is a leading developer of medical information systems. The company was founded in 1999 and was acquired by Armada Group in May, 2011.

- The creation, installation, and support of the company's comprehensive software applications that are used to manage health-care institutions of various sizes and types of ownership, and which specialize in different areas.
- In 2010, PMT released TELEMEDIALOG, a completely new software solution, designed to create a single venue where information can be shared between doctors/hospitals and their patients.
- The TELEMEDIALOG system includes MOBIMED.RU, a web-based patient portal that makes it possible to safely and efficiently manage medical records and arrange consultations, diagnostic tests, and treatment for patients and their families in an entire region.

## CHAPTER 3. THE BOARD OF DIRECTORS' REPORT

### Key Financial Indicators

Table. Key Financial Indicators, RUB mln

	2012	2011	Growth, %
<b>Revenue*, including:</b>	<b>5,579</b>	<b>4,656</b>	<b>20%</b>
Software development and implementation	2,216	2,082	6%
IT services	3,363	2,574	31%
<b>EBITDA</b>	<b>604</b>	<b>566</b>	<b>7%</b>
EBITDA margin, %	10.8%	12.2%	
<b>Net profit *</b>	<b>410</b>	<b>492</b>	<b>-17%</b>
Net profit margin, %	7.3%	10.6%	

\* the Group's audited consolidated financial statements under IFRS

### REVENUE AND EARNINGS

Armada Group's consolidated IFRS revenue for 2012 increased by 20% to RUB 5,579 mln. Software development and implementation segment amounted to RUB 2,216 mln (40% of the revenue), IT-services segment amounted to RUB 3,363 mln (60% of the revenue).

The significant growth in the IT-services segment is conditioned by new long-term contracts for maintenance of previously developed software and IT-systems support. Among them are the following: medical information systems of the Federal Medical and Biological Agency of Russia, medical systems of the blood bank, public services portal and the systems of Moscow multifunctional centers, and mos.ru portal, information systems of the Ministry of Justice and the Ministry of Finance, the integrated, interagency information and statistical system of Rosstat (the Federal State Statistics Service) and other solutions previously developed by Armada.

In 2012, the segment of infrastructure projects for the first time was singled out in the revenue (RUB 541 mln) due to the increase of demand of the customers for cloud solutions for which data-processing centers need to be created. Previously this type of services was referred to the system integration segment of Armada financial statements.

**Table. Breakdown of revenue segments by industries, RUB mln**

	Segment revenue	Share in the revenue, %	Share of government bodies and companies, %
Government bodies	1,867	34%	34%
Health care	777	14%	12%
Industry	563	10%	2%
Fuel and energy complex	523	9%	9%
Finance	490	9%	4%
Other	1,359	24%	1%
<b>TOTAL</b>	<b>5,579</b>	<b>100%</b>	<b>62%</b>

The share of government bodies in Armada's revenue for 2012 amounted to 34%. The share of state-owned commercial companies (Sberbank, Gazprom, TNK-BP, etc.) amounted to 28%. The rest 38% is the share of commercial companies without the interest of the state. All together the share of government bodies and state-owned companies amounted to 62% of the total revenue of Armada in 2012.

**Table. Revenue from top five customers in 2012.**

	Share in the revenue, %
The government of the region	6%
The Federal state authority	3%
Bank	3%
Fuel and energy complex (electrical energy industry)	2%
Fuel and energy complex (oil and gas)	2%
<b>TOTAL</b>	<b>16%</b>

Armada has a well-diversified client base. The largest client in terms of revenue in 2012 accounted for 6% of the Group's consolidated revenue. The share of the top five customers' accounts for 16% of the Group's revenue. The total number of customers of the group exceeds 1,500.

The value of EBITDA indicator increased by 7% up to RUB 604 mln, EBITDA margin amounted to 10.8%.

The gross margin in software development and implementation segment amounted to 27%, in IT-services segment – 12.4%. The appearance of a considerable share of contracts for maintenance, ensuring long-term guaranteed orders for the company, influenced the marginality in IT-services segment. Due to opening of a new business line in 2012, the profitability of these projects was lower than usual but as early as in 2013 the marginality of these projects will come to a level incident to segments of rendering services and will become a constant business of Armada.

The net profit amounted to RUB 410 mln, the net profit margin – 7.3%. The effective tax rate in 2012 amounted to 16%.

The profit was influenced by the growth of inventory and materials (from RUB 175 mln in 2011 up to RUB 448 mln in 2012) the sale of which will positively affect the revenue of 2013.

## **EMPLOYEES**

The number of employees of Armada's Group as of December 31, 2012 amounted to 969, the growth is by 8%.

## **COMPETITION**

The company has been working in software development for almost 15 years and is a strong, competitive market player. Armada is at the top of the industry rankings – it is one of the top five software developers in Russia and one of the biggest government contractors of IT services.

In the market segment for software development, the company competes with a small, highly specialized, niche companies. Armada does not compete with software producers such as SAP, Oracle, IBM, etc., instead acting as a technological partner for foreign firms.

In IT services, Armada primarily competes with other Russian companies, some of the most prominent of which are IBS, CROC, Technoserv, LANIT, and I-Teco.

The market segment for computer hardware is traditionally the most intensively competitive, but this is not a high-priority area for Armada. In order to boost the company's profitability, the company's management has deliberately refused to participate in low-margin competitions. The smallest fraction of hardware solutions in Armada Group's revenue still provides double-digit profit margins, which can be favorably compared with that of the company's competitors.

There is little competition today to buy new businesses, however this situation is likely to change in the coming years. The number of mergers and acquisitions will go up, when major foreign firms determine that the Russian market is sufficiently "mature" and try to obtain a share of it by acquiring Russian IT assets.

## **FORECAST FOR 2013**

According to the estimates of the management, it is expected that in 2013 the development of Armada will continue with the rates keeping ahead of the market, the revenue will grow faster with retention of high level of profitability.

## CHAPTER 4. HR POLICY AND SOCIAL RESPONSIBILITY

### HR POLICY

The primary goal of Armada's HR policy is to ensure the personal and professional growth of the firm's employees. The company has also introduced a stock option program, which is described in more detail in chapter "The Company's Shares".

Because the company's activity requires such a high degree of expertise, Armada places an emphasis on improving its employees' skills through training at the leading educational institutions that specialize in this industry, both in Russia and abroad. In addition, employees' own educational initiatives are always welcome, and opportunities are provided, if necessary, for the company's professionals to obtain training and professional certification.

Within the corporate group, a number of mechanisms have been developed to assist in the orientation of new employees. This orientation is intended to improve the effectiveness of their work and instill a sense of corporate loyalty. Armada offers its employees a competitive salary that is dependent on the effectiveness and productivity of their work. In addition to a compensation package that includes wages, social benefits, and remuneration, incentives to boost morale also play a significant role, as well as the possibility of career advancement for employees. Our professionals are also motivated by the opportunity to take part in the holding company's many interesting and ambitious projects.

Armada actively cooperates with talented young professionals, including upperclassmen and alumni of the country's leading universities (Moscow State University, Moscow Engineering and Physics Institute, Bauman Moscow State Technical University, Moscow State University of Civil Engineering, International Informatization Academy, etc.), and sponsors joint programs (academic departments) with a number of leading universities.

### SOCIAL RESPONSIBILITY

Armada's projects are quite socially significant.

As part of the program to develop blood donation, which was implemented between 2008 and 2012 by the Russian Ministry of Health and Social Development in conjunction with the Federal Medical and Biological Agency, Armada took a series of steps to ensure the uninterrupted work of the information center and the automated information system for Russian blood-transfusion services at various facilities, including providing technology to protect confidential data such as donors' personal information. Previously (in 2008), Armada had created an Internet portal to provide information to support the efforts of the Federal Medical and Biological Agency's service to recruit blood donors – YADONOR.RU. In 2010 updates were made to this portal and to the hotline for questions about donating blood and blood components.

Armada has a policy of supporting Russian software developers (including the developers of free software), which is our way of helping to improve the country's intellectual potential, as well as providing talented young professionals with an opportunity to prove their skills in their own country.

## CHAPTER 5. CORPORATE GOVERNANCE

Armada Group is a holding structure – managing company Armada OAO owns controlling stakes (shares) in the group's subsidiary businesses.

Armada's affiliated companies work in various segments of the IT market, which includes developing and introducing software and providing IT services. All of these companies are profit centers and operate under their own brand names. In order to successfully integrate its assets into the structure of the group, the holding company offers common financial and legal services, as well as departments specializing in acquisitions, PR, and investor relations.

The General Meeting of Shareholders is the supreme governing body of Armada OAO, and the general management of the company is provided by the seven members of its Board of Directors, who are elected by the General Meeting of Shareholders for a one-year term.

The Board of Directors has two committees – HR & Compensation and Audit.

The primary function of the HR & Compensation Committee is to develop, approve, and implement policies on payments and the individual compensation paid to each member of the Board of Directors and the senior executives.

The Audit Committee was created to manage risks, oversee financial and business activities, and evaluate candidates to become auditors of the company.

### BOARD OF DIRECTORS

The Board of Directors of Armada OAO, which was elected at the General Meeting of the Company's Shareholders on June 28, 2012:

Alexey Viktorovich Kuzovkin	Chairman of the Board of Directors
Konstantin Borisovich Nadenenko	Member of the Board of Directors
Igor Evgenievich Gorbatov	Member of the Board of Directors
Azer Faridovich Badalov	Member of the Board of Directors and CEO of Helios IT
Maxim Viktorovich Selivanov	Member of the Board of Directors and CEO of Soyuzinform
Alexander Sergeevich Kutuzov	Member of the Board of Directors and CEO of PM Expert
Viktor Anatolievich Potekhin	Member of the Board of Directors

**Alexey Viktorovich Kuzovkin.** Chairman of the Board of Directors of Armada OAO. Alexey Kuzovkin joined RBC Group at the year the group was founded, in 1993. In 2000, he became General Director of a new group's subsidiary — RBC SOFT (renamed to Armada Soft in 2007). From 2007 to 2009, Mr. Kuzovkin held the position of General Director at OAO Armada, and took over the reins 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.

**Konstantin Borisovich Nadenenko.** Mr. Nadenenko is non-executive member of the Board of Directors. From 2009 is the Deputy Director for Investments of the Directorate of Investment Projects and Programs, the Director for Venture Capital Investments of the Directorate of Investment Projects and Programs of Lider CJSC. Education: Lomonosov Moscow State University.

**Igor Evgenievich Gorbatov.** Mr. Gorbatov has worked at Armada since 2002. From 2009 to 2011 he served as Armada's General Director. He graduated from Moscow Aviation Institute, and holds a Candidate of Science degree in physics and mathematics (from the Institute of Radio Engineering and Radio Electronics at the Russian Academy of Sciences).

**Azer Faridovich Badalov.** Mr. Badalov is a member of the Board of Directors and is the founder and the CEO of Helios Information Technologies, which was acquired by Armada Group in 2006. Mr. Badalov is a leading senior executive and a renowned IT-market expert and has often been ranked among the top 100 IT business managers in Russia. He has also been honored with awards from the government for his contribution to IT development. Education: Moscow Engineering and Physics Institute.

**Maxim Viktorovich Selivanov.** Mr. Selivanov is a member of the Board of Directors and is the CEO of Soyuzinform. In 1996 he founded and headed Soyuzinform, which was acquired by Armada Group in September 2007. Mr. Selivanov is often ranked as one of the most professional managers in the Russian IT industry. Education: Lomonosov Moscow State University with a degree in applied mathematics.

**Alexander Sergeevich Kutuzov.** Mr. Kutuzov is a member of the Board of Directors and is the founder and CEO of PM Expert, which was acquired by Armada Group in 2007. He has many years of experience managing major projects, and was among those who initiated and managed the development of a national standard for project management. Since January, 2008, Mr. Kutuzov has been a member of the Expert Supervisory Board for the joint MBA program between the Moscow Institute of Physics and Technology and the Academy of National Economy titled, "Project Management in High Technology, Investment, and Information Science." Education: Moscow Institute of Physics and Technology and he holds international PMP and PME certifications in project management.

**Viktor Anatolievich Potekhin.** Mr. Potekhin is a non-executive member of the Board of Directors and has served as the Vice President of Avangard Commercial Bank OJSC since 2003. He graduated from Perm Polytechnical University and completed postgraduate courses at the Russian Academy of Public Administration.

## AUDIT COMMISSION

The members of Armada's Audit Commission were chosen at the General Meeting of Shareholders of the company on June 28, 2012:

**Olga Sergeevna Kubay.** Ms. Kubay has worked in Armada's holding company as the Assistant CEO for Finance since 2007. She graduated from Moscow Institute of Finance and Economics.



**Nadezhda Stanislavovna Kamysheva.** Ms. Kamysheva began working as Armada's Chief Accountant in 2003. In 2006 she became the Director of the Finance Department. She graduated from Lomonosov Moscow State University.

**Alexander Gennadievich Fedin.** Mr. Fedin has been the Financial Director of Helios Computer, LLC since 2001. He graduated from Moscow Aviation Institute.

## GENERAL DIRECTOR

The General Director is the company's sole executive body and is elected by the Board of Directors.

**Roman Alexandrovich Kruglyakov.** Mr. Kruglyakov began working at Armada in 1997, and in 2002 he became the company's Technical Director. In February of 2011 he was appointed Armada's General Director. Mr. Kruglyakov holds a degree in physics from Lomonosov Moscow State University and received his MBA degree from Grenoble Ecole De Management (France).

## COMPENSATION

No compensation was paid in 2012 to the members of the Board of Directors or the Executive Board for their work in these governing bodies.

## DISCLOSURE OF INFORMATION

The shareholders of Armada OAO have the right to receive complete and accurate information about the company's operations on a regular and timely basis. The rules governing the disclosure of information are established by the Regulation on Information Policy, which was approved by the Board of Directors on March 12, 2007.

The company's Transparency Policy establishes the following:

- The company's official website, [www.armd.ru](http://www.armd.ru), and the website of the authorized information agency <http://www.e-disclosure.ru/portal/company.aspx?id=10114> will include the founding documents, quarterly reports, lists of affiliated entities, information about the most important actions taken by the company, including those that affect the company's financial and business activities or that may significantly impact the value of its securities.
- Copies of public documents will be provided at the request of interested parties.
- Shareholders will receive timely notification regarding the dates of corporate events. Shareholders will be acquainted with the agenda of the General Meeting of Shareholders and any related materials.
- Significant information will be made available to the media, in accordance with the applicable law.
- Press releases will be published regarding important events in corporate life.
- Regular meetings will be held with analysts and shareholders, and the company will take part in investment conferences and other events.

## **CHAPTER 6. THE COMPANY'S SHARES**

### **SHARES**

The company has capital stock of 14,399,997 uncertified, registered ordinary shares with a nominal value of one ruble each. Shares of Armada OAO are currently included in the Quotation List "B" of the MICEX exchange, and are eligible for trading on the RTS under the ARMD ticker.

### **STOCK OPTION PROGRAMS**

In January, 2010, the Board of Directors approved stock option program for senior managers. In accordance with this program, senior managers will be entitled to free shares, out of a total of 130,000 shares, if certain key performance indicators are met over a period of two years. This program was executed in 2012.

### **DIVIDEND POLICY**

Armada OAO intends to be a leader in all the major areas of its operations. But given the rapid expansion of the Russian IT market, it is impossible to achieve this goal only through organic growth. Thus, while the company is actively growing, the Group intends to reinvest its net profit into business expansion, which includes future acquisitions. In 2012, Armada's shareholders made the decision not to pay dividends for 2011. However, the company does not rule out moving to a policy of paying dividends in a few years, based on the saturation of the market and the goals that have been achieved.

## APPENDICES

### CONSOLIDATED FINANCIAL STATEMENTS (UNDER IFRS)

Consolidated financial statements of Armada OAO for 2012 in accordance with International Financial Reporting Standards (IFRS) were prepared by AC Delovoy Profil CJSC. Hereinafter the respective figures in USD are given for reference only and are not a substantial part of the financial statements.

### CONSOLIDATED PROFIT AND LOSS STATEMENT FOR 2012

	2012	2011	2012	2011
	mln RUB	mln RUB	mln USD*	mln USD*
<b>Revenue</b>	5,579	4,656	184	153
Cost of sales	(4,550)	(3,869)	(150)	(127)
<b>Gross profit</b>	1,029	787	34	26
Distribution expenses	(14)	(19)	-	(1)
Administrative expenses	(470)	(296)	(15)	(10)
Other income/ (expenses)	(32)	(20)	(1)	(1)
Financial income/ (expenses)	(22)	84	(1)	3
<b>Profit before income tax</b>	491	536	16	17
Income tax (expense)/ benefit	(81)	(44)	(3)	(1)
<b>Profit for the year</b>	410	492	13	16
Attributable to:				
Shareholders of the Company	274	348	9	11
Non-controlling interest	136	144	4	5
<b>Total comprehensive income</b>	410	492	13	16
Attributable to:				
Shareholders of the Company	274	348	9	11
Non-controlling interest	136	144	4	5
<b>Basic and diluted earnings per share</b>				
Basic earnings per share	RUB 20.74	RUB 27.08	USD* 0.68	USD* 1
Diluted earnings per share	RUB 20.74	RUB 26.81	USD* 0.68	USD* 1

\* The USD equivalent figures are provided for information purposes only and do not form part of the audited financial statements

## CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2012

	31.12.2012	31.12.2011	31.12.2012	31.12.2011
	mln RUB	mln RUB	mln USD*	mln USD*
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	74	57	2	2
Intangible assets	1,055	990	35	33
Loans	11	10	-	-
	<u>1,140</u>	<u>1,057</u>	<u>37</u>	<u>35</u>
<b>Current assets</b>				
Inventories	746	426	25	14
Loans	120	40	4	1
Trade and other receivables	2,021	1,800	67	59
Cash and cash equivalents	1,079	1,215	36	40
<b>Total current assets</b>	<u>3,966</u>	<u>3,481</u>	<u>132</u>	<u>114</u>
<b>Total assets</b>	<u>5,106</u>	<u>4,538</u>	<u>169</u>	<u>149</u>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	14	14	-	-
Share premium	1,651	1,651	54	54
Treasury shares	(217)	(217)	(7)	(7)
Foreign currency translation reserve	3	3	-	-
Retained earnings	943	669	31	22
<b>Total equity attributable to shareholders of the Company</b>	<u>2,394</u>	<u>2,120</u>	<u>78</u>	<u>69</u>
Non-controlling interest	556	424	18	14
<b>Total equity</b>	<u>2,950</u>	<u>2,544</u>	<u>96</u>	<u>83</u>
<b>Non-current liabilities</b>				
Deferred tax liabilities	145	144	5	5
	<u>145</u>	<u>144</u>	<u>5</u>	<u>5</u>
<b>Current liabilities</b>				
Loans and borrowings ST	-	256	-	8
Deferred income	69	40	2	2
Trade and other payables	1,919	1,546	65	51
Income tax payable	23	8	1	-
	<u>2,011</u>	<u>1,850</u>	<u>68</u>	<u>61</u>
<b>Total liabilities</b>	<u>2,156</u>	<u>1,994</u>	<u>73</u>	<u>66</u>
<b>Total equity and liabilities</b>	<u>5,106</u>	<u>4,538</u>	<u>169</u>	<u>149</u>

## CONSOLIDATED STATEMENT OF CASH FLOW FOR 2012

	2012 mln RUB	2011 mln RUB	2012 mln USD*	2011 mln USD*
<b>OPERATING ACTIVITIES</b>				
Profit before income tax	491	536	16	18
<i>Adjustments for:</i>				
Depreciation and amortisation	81	109	3	4
Unrealised foreign exchange (gain) / loss		-	-	-
(Gain)/ loss on disposal of PPE	(0)	(1)	-	-
(Gain)/loss on trade payables writing off	(9)	(4)	-	-
Loss on accounts receivable written-off	29	-	1	-
Interest expense	72	46	2	2
Interest income	(59)	(36)	(2)	(1)
Other non-cash items, net	8	(48)	-	(2)
<b>Operating profit before changes in working capital and provisions</b>	613	602	20	21
(Increase)/decrease in inventories	(318)	(101)	(10)	(3)
(Increase)/decrease in trade and other receivables	(229)	(694)	(8)	(23)
Increase/ (decrease) in trade and other payables	312	475	10	16
<b>Cash flows from operations before income taxes and interest paid</b>	378	282	12	11
Income taxes paid	(43)	(45)	(1)	(1)
Interest paid	(74)	(44)	(2)	(1)
<b>Cash flows from operating activities</b>	261	193	9	9

	<b>2012</b> <b>mIn RUB</b>	<b>2011</b> <b>mIn RUB</b>	<b>2012</b> <b>mIn USD*</b>	<b>2011</b> <b>mIn USD*</b>
<b>INVESTING ACTIVITIES</b>				
Loans granted	(869)	(695)	(29)	(23)
Repayment of loans granted	788	686	26	23
Interest received	55	19	2	1
Acquisition of property, plant and equipment	(11)	(18)	-	(1)
Payments for business combinations of previous years	-	(45)	-	(1)
Acquisition of intangible assets	(113)	(77)	(4)	(3)
Proceeds from disposal of subsidiaries net of cash disposed	-	4	-	-
Acquisition of subsidiaries, net of cash acquired	5	(145)	-	(5)
Dividends paid	(4)	-	-	-
<b>Cash flows utilised in investing activities</b>	<b>(149)</b>	<b>(271)</b>	<b>(5)</b>	<b>(9)</b>
<b>FINANCING ACTIVITIES</b>				
Proceeds from issue of share capital, net of transaction costs	-	635	-	21
Payments for share options	-	40	-	-
Proceeds from borrowings	2,204	256	73	8
Repayment of borrowings	(2,460)	(164)	(81)	(5)
FOREX	8	-	-	-
<b>Cash flows from financing activities</b>	<b>(248)</b>	<b>767</b>	<b>(8)</b>	<b>24</b>
<b>Net increase in cash and cash equivalents</b>	<b>(136)</b>	<b>689</b>	<b>(4)</b>	<b>24</b>
Cash and cash equivalents at beginning of year	1,215	526	40	17
<b>Cash and cash equivalents at the end of year</b>	<b>1,079</b>	<b>1,215</b>	<b>36</b>	<b>40</b>

## RISK MANAGEMENT

Investment in shares is connected with a range of risks, both external (global economic, political, financial, legal, market risks etc.) 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.

Economic 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 reforms 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 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 repeats (IT market breakdown by more than 30%), Armada will be forced to cut costs, to refuse to participate in a number of new tenders, 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 of the Russian Federation declared a policy of supporting high-tech industry that may change with a new government.

**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 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 control and 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 decrease 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 annual 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 actively 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.

## **A LIST OF MAJOR TRANSACTIONS AND INTERESTED-PARTY TRANSACTIONS**

Transactions recognized by the law as interested-party transactions were not concluded in 2012.



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