@mail.ru group

Annual report

2012

Contents

Who we are

Mail.Ru Group is a leading company in the high-growth Russian-speaking internet market. In terms of number of users, Russia is the largest internet market in Europe[1]. The Company's sites reach approximately 85% of Russian internet users on a monthly basis[2]. Based on total pages viewed, we operate the world's fourth largest internet business, according to comScore[3].

In November 2010, Mail.Ru Group shares started trading, in the form of GDRs, on the London Stock Exchange after being admitted to the Official List of the UK Listing Authority.

Our product portfolio

In line with its 'communitainment' (communication plus entertainment) strategy, our Company is moving rapidly to build an integrated communications and entertainment platform. We own Russia's leading email service and Russia's largest internet portal, Mail.Ru[4]. We operate two of the three largest Russian language social networks, Odnoklassniki (OK) and Moi Mir (My World)[5]. We lead the interactive entertainment market with Russia's largest online games business. Our portfolio also includes Mail.Ru Agent and ICQ – two instant messaging services popular in Russia and CIS.

Leveraging our user base

Our significant user base provides a strong foundation for the launch of new services. It also allows us to generate revenue from display and contextual advertising as well as a range of internet value-added services (IVAS). These include online games, virtual gifts and other features.

This strong position will help us achieve our goal of remaining the leading integrated communications and entertainment platform in the Russian-speaking internet market.

1 Source: comScore, Dec 2012
2 Source: comScore, Dec 2012
3 Source: comScore, Dec 2012
4 Source: TNS, Russia 12-64, Dec 2012
5 Source: TNS, Russia 12-64, Dec 2012

Mail.Ru Group in brief

Mail.Ru Group offers a variety of online communication products and entertainment services for Russian speakers all over the world.

* as of the date hereof, unchanged from December 31, 2012

Email & portal

Mail.Ru is the leading email service in Russia and the fifth largest in the world

Social networks

Odnoklassniki and My World – two of Russia's three largest social networks

Instant messaging

Mail.Ru Agent and ICQ – two instant messaging (IM) services popular in Russia and CIS

Online games

Russia's leading provider of online games

Search & e-commerce

Our search is currently the third most popular and Headhunter is the largest online recruitment business in the Russian-speaking internet

How we work

Our business model

We are operating an integrated communications and entertainment platform that aims to serve the 250–300 million Russian speakers worldwide[1]. Of our target audience, approximately 143 million live in Russia[2]. The rest are primarily based in the former Soviet Union, while others are located around the world.

There are currently 64 million internet users in Russia[3]. By the end of 2014, this is projected to increase to 80 million[4].

Our audience

We will achieve growth by:

- Consolidating our leading position in the rapidly expanding Russian-speaking internet market
- Offering our users a comprehensive range of online communication and entertainment products
- Focusing on mobile products and mobile user experience
- Increasing our users' loyalty by continually improving their experience of our products and services
- Ensuring we remain at the forefront of technological and product innovation
- Regularly introducing new entertainment services to our users, including MMO and social games and other innovative features
- Pursuing international expansion

Monetisation

We will increase the monetisation of our products and services by:

- Utilizing our leading sales force and capitalizing on the growth in online advertising
- Providing flexible and targeted services for advertisers
- Increasing paying users' take-up of existing and new products
- Cross-promoting products between our social networks and other services

Our people

Most of the core members of our management team have:

- Been involved with our businesses for more than eight years
- Developed alongside the Russian-speaking internet
- Strong industry relationships and proven track records
- Experience of successfully integrating acquisitions

Strategy

To remain the leading communications and entertainment platform in the Russian-speaking internet market while pursuing growth opportunities in international markets

- Ensure the best user experience on mobile
- Attract and retain the best engineering talent
- Focus on serving Russian-speaking internet users
- Expand in international markets under my.com brand

1 Source: Lewis, M. Paul (ed.), 2009. Ethnologue: Languages of the world, 16th ed
2 Source: Russian Federal State Statistics Service
3 Source: Public Opinion Foundation (FOM), winter 2012-2013
4 Source: Public Opinion Foundation (FOM), March 2011, October 2012

Corporate history

Pre-2001	Webmail service launched in 1998 Headhunter founded in 2000
Feb 2001	Mail.Ru formed from Port.ru and netBridge merger
Oct 2001	Mail.Ru portal launched
May 2003	Mail.Ru Agent launched
May 2003	Search partnership established with Google
Jun 2003	Travel.Mail.Ru – travel portal – launched
Jan 2004	Mobile email service introduced
Oct 2004	Voice calls added to Mail.Ru Agent
Feb 2005	Lady.Mail.Ru – women's lifestyle service – launched
May 2005	Mail.Ru Group founded as Digital Sky Technologies Ltd. (DST)
Jun 2005	Auto.Mail.Ru launched
Nov 2005	Video calls added to Mail.Ru Agent
Nov 2005	Blogging service launched
Mar 2006	Odnoklassniki (OK) social network launched
May 2006	Mail.Ru Games portal introduced
Aug 2006	Naspers Ltd, a South African media company acquired stake in Mail.Ru
Sep 2006	MMO game, "Legend: Legacy of the Dragons" launched
Oct 2006	Video service introduced

Corporate history continued

- May 2007 — My World social network started operation
- Jun 2007 — Mail.Ru in-house search technology (beta) launched
- Dec 2007 — Mobile versions of OK and My World released
- May 2008 — "Perfect world" online game launched under license
- Dec 2008 — Mail.Ru Group acquired control of Mail.Ru
- Jun 2009 — Web version of Mail.Ru Agent introduced
- Feb 2009 — Mail.Ru Group acquired control of Headhunter
- Mar 2009 — Mail.Ru Group acquired stake in Facebook
- Aug 2009 — Payment system Money.Mail.Ru launched
- Seb 2009 — My World's API opened to third-party developers
- Oct 2009 — "Allods online" game launched
- Oct 2009 — Health.Mail.Ru – health project – launched
- Nov 2009 — Astrum merged with Mail.Ru
- Jan-Apr 2010 — Mail.Ru Group acquired stake in Zynga
- Feb 2010 — Mail.Ru completed acquisition of its in-house data center
- Apr 2010 — Mail.Ru Group acquired stake in Groupon
- Apr 2010 — OK opened its API platform to third-party developers
- Apr-May 2010 — Tencent Holdings acquired a stake in Mail.Ru Group

Jul 2010 — Mail.Ru Group acquired IM service ICQ

Aug-Sep 2010 — Mail.Ru Group increased ownership of Mail.Ru and Odnoklassniki to 100%

Nov 2010 — **IPO** Mail.Ru Group completed an IPO in the form of Global depositary receipts (GDRs) on the London Stock Exchange (LSE)

Nov 2010 — Stake in VKontakte increased to 32.55%

Apr 2011 — Odnoklassniki launches a video service in partnership with Rutube

Apr 2011 — Mail.Ru Group launches the All-Russian programming contest – Russian Code Cup

May 2011 — Mail.Ru Group launches Target.Mail.Ru, a self-service advertising platform

Jun 2011 — Odnoklassniki introduces video-chat and music service

Jul 2011 — Mail.Ru Group exercises the option to acquire an additional 7.44% in VKontakte, increasing its total stake to 39.99%

Aug 2011 — Mail.Ru email service introduces a new modern design and full AJAX interface

Aug 2011 — 2011 Mail.Ru Agent launches instant-messaging support for Odnoklassniki

Sep 2011 — Launch of active cross-product navigation

Sep 2011 — Launch of server-based interoperability between Mail.Ru Agent and ICQ

Nov 2011 — Mail.Ru Group opens Technopark in cooperation with Bauman Moscow State Technical University (MSTU)

Highlights

2012 key highlights

January
Search.Mail.Ru reworks search interface and results page: new design, new images output layout, extended relevant images and video blocks

Odnoklassniki introduces messaging tool on iOS application

February
Search.Mail.Ru tests machine learning algorithms for search results ranking, improving relevance

Search.Mail.Ru releases iOS application featuring voice search

Mail.Ru Group opens new office in Volgograd

March
Mail.Ru Group introduces new main page – modern, lightweight and fast

Mail.Ru email service launches first mobile application for iOS

Odnoklassniki introduces video chat and messaging tool on Android application

Mail.Ru Agent releases app for Windows Phone and ICQ releases apps for Windows Phone and Bada

Search.Mail.Ru releases Android application featuring voice search

April
AAA MMO shooter Warface is released

New Mail.Ru Agent for Android featuring voice calls and new ICQ for iOS and Android featuring photo and location sharing are released

Mail.Ru email service launches tools for working with email attachments: "files" menu section and convenient file viewer

Odnoklassniki introduces music service on iOS application

Mail.Ru Group holds Technology Forum in Moscow

May
Worldwide launch of mobile game Juggernaut: Revenge of Sovering on iOS platform

Launch of completely redesigned Mail.Ru Agent 6.0 for Windows with in-house voice and video engine supporting HD calls

Mail.Ru Group launches All-Russian programming contest Russian Code Cup 2012

Warface and Juggernaut: Revenge of Sovering win "best game" and "best mobile game" awards at Russian Game Developers Conference 2012

June
iOS and Android ICQ users are enabled to link their Odnoklassnki accounts to the messengers

Mail.Ru email service introduces IMAP support

July
Mail.Ru email service launches mobile application for Android

My World updates profile page design, adds cover photos

Allods Online update, Summer Breeze, is released

Warface festival, Warfest, takes place in Moscow with over 3,000 participants

Tovary.Mail.Ru introduces new design and improved usability

Lady.Mail.Ru introduces new, modern and magazine-like design

August
Mail.Ru main page and email service release mobile web-versions tailored for touch phones

My World updates notification system: includes a quick search and the ability to unsubscribe from events

Android version of mobile game Juggernaut: Revenge of Sovering is released

Target.Mail.Ru introduces social geotargeting solution and automated bid management and opens API to third party developers

Mail.Ru Group pays a special dividend of USD 795 million* (USD 3.8 per GDR) on 28 August 2012

September
HTTPS access is set as a default for all Mail.Ru email users

Mail.Ru email service expands its presence on mobile by releasing first apps for Windows Phone and Samsung Bada

My World introduces personalized game catalog

AAA MMORPG Dragon Nest is released

News.Mail.Ru is redesigned with focus on information visualization

* including USD 4 million paid to Mail.Ru Employee Benefit Trustees Limited

Highlights continued

Tovary.Mail.Ru launches mobile application for iOS and updates Clothes section

Mail.Ru Agent updates client for Mac OS bringing in voice and video calls and support of Mac OS Notification Center

Money.Mail.Ru obtains license of a non-banking credit organization

October

Mail.Ru Group announces its plans for international expansion under my.com brand

Odnoklassniki introduces photo filters (iOS) and multi upload photos (Android)

Mail.Ru email service adds user profile pictures to conversation list, introduces multiple accounts sign-in, web version for iPad, and Windows 8 app

Mail.Ru Agent for iOS and ICQ for Android enable voice calls within corresponding IM services, while web client of Mail.Ru Agent enables mobile and fixed line calls

ICQ releases first Windows 8 app featuring voice and video calls

Tovary.Mail.Ru launches mobile application for Android

Money.Mail.Ru releases first Android application and major update for iOS application

Launch of web browser Amigo (beta) integrated with main social networks (OK, My World, VK, Facebook)

Mail.Ru Group holds Technology Forum in Moscow

November

Calendar.Mail.Ru, an extensive time-management web-based tool, is introduced

Odnoklassniki releases recommendation service for video and music and enables customization of personal profiles and groups with different skins

My World introduces photo filters

ICQ releases new version of iOS app featuring voice calls

News.Mail.Ru mobile applications are available on all major platforms: iOS, Android, Windows Phone, Symbian, MeeGo and Windows 8

Target.Mail.Ru introduces retargeting, the feature that allows clients to serve relevant ad to users who have previously visited their websites

Warface wins Runet Award 2012 in the Game of Runet category

Mail.ru Group completes disposal of stakes in Groupon and Zynga and reduces stake in Facebook (down to 0.6%)

December

Odnoklassniki launches multichat for conversation with several friends at the same time and updates welcome page for new users

My World launches new messaging system with inline photo and video

License for AAA MMORPG ArcheAge is purchased from XLGames

Search.Mail.Ru introduces geo-location based search

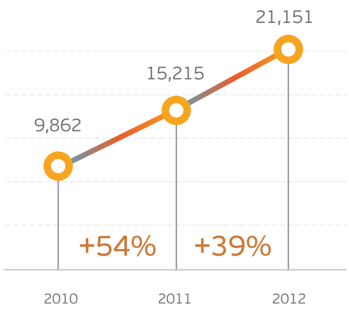
Sport.Mail.Ru launches mobile application for Android

Afisha.Mail.Ru launches new TV Series section and web-version tailored for touch phones

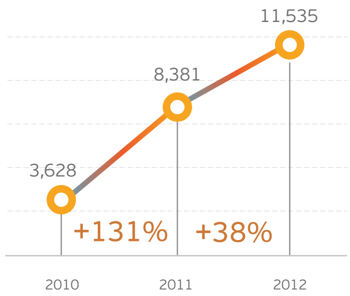
Mail.Ru Agent releases new version of Web Agent featuring voice calls among Mail.Ru Agent users (in addition to already available mobile and fixed line calls) and new version of Java client featuring photo sharing

Financial highlights*

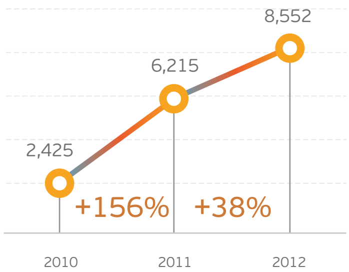
Revenue, RUR mn



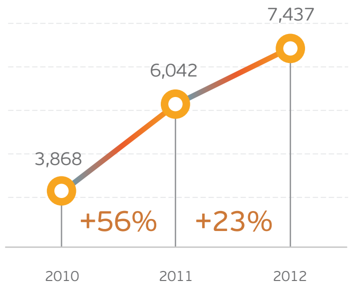
EBITDA, RUR mn



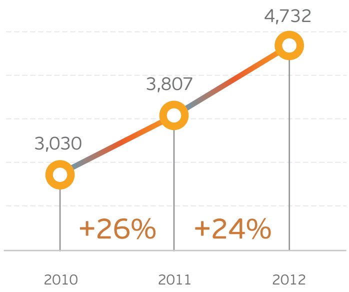
Net profit, RUR mn



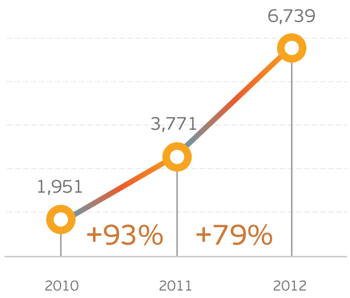
Online advertising revenue, RUR mn



MMO revenue, RUR mn



Community IVAS revenue, RUR mn



* The data is presented in conformity with 2012 segments reporting principles and as such differs from IFRS. Please refer to Note 5 of the financial statements for further detail
The RUR numbers for FY 2010 represent a convenience translation. The USD amounts have been translated into RUR using the FY 2010 average exchange rate of RUR 30.37 to USD 1.00

Chief Executive Officer's report

Dmitry Grishin. *Co-founder, CEO and Chairman of the Board*

While 2012 was a year with a number of global macro economic challenges and uncertainties, for Mail.Ru Group it was another exciting and successful year. The underlying drivers of business remained unchanged, and with continued focus on execution we were pleased to deliver another year of strong growth combined with robust margins. With continued integration and upgrades of our key products across both desktop and mobile platforms we made further significant steps in improving our email service, social networks (OK and My World) and instant messengers (Mail.Ru Agent and ICQ). Our newly launched AAA shooter Warface has become a hit in Russian and CIS gaming markets.

We continue to significantly invest in the development of mobile versions across all our core products and as user behavior continues to move towards the mobile environment we remain excited by the opportunities this presents our company with.

Company highlights for 2012

Continued growth in the underlying market

Over the last 5 years the Russian internet market has seen significant growth with Russia becoming the largest internet market in Europe in 2011. Solid growth has continued in 2012 and by the end of the year the number of internet users in the country had risen to 64 mln. However, overall internet penetration is still only 55%[1] and as such there is still significant scope for expansion. Additionally, the CIS countries which form much of the wider Russian-speaking market have even lower internet penetration. With a combined population of 100 mln+ they offer further significant potential for user growth. We continue to expand our presence in these markets and now have over 40% of users outside of Russia[2].

Driven by the continued investment of telecom operators the amount of time that the Russian internet users spends online continues to grow and the ways through which Internet penetrates into users' daily lives expanded further. During 2012, time spent online rose by 4%[3] driven by increased internet penetration and better desktop and mobile broadband access.

We continue to invest in our brand and hence our core products enjoy high brand awareness. As a result they are often the first services used by those new to the internet. This puts us in a great position to capitalize on the growth of the Russian-speaking internet. Our goal remains unchanged for both the new and the existing users: to provide the best communications and entertainment platform and experience.

Continually evolving our business

As for the last few years our primary focus has remained on enhancing the user experience and hence driving engagement. We are striving to create an integrated online environment for our users. We want to offer a place where they can communicate, store and exchange memorable events in their lives – all while having fun playing games. To achieve this goal we need to continually improve our products.

2012 was a year when we continued to focus on mobile products and mobile user experience. As an example our email apps for iOS and Android released in 2012 have seen significant success and now are most popular email apps in Russian App Store and Google Play respectively. Our IM apps for iOS and Android have been significantly redesigned and received photo and video sharing and voice calls support. At present we remain primarily focused on growing the mobile user base and engagement, and we remain very excited about the future potential for further mobile growth and monetisation.

Strong 2012 financial performance

With the drivers of our business remaining strong and our continued innovation of the product and notwithstanding a tougher underlying market in display in H2 we continued to execute strongly in all other segments of the business. Compared to FY 2011, Group revenue increased by 39% to RUR 21.1 bn and Group EBITDA rose 38% to RUR 11.5 bn.

Community IVAS has become a key contributor to our revenues as well as a material driver of revenue growth, delivering 79% growth y-o-y in FY 2012. The main driver of this growth is the

1 Source: Public Opinion Foundation (FOM), winter 2012-2013
2 Source: comScore
3 Source: comScore

increase in the number of paying users, especially in virtual gifts and services, as well as in our API platform.

While context advertising continued to grow in line with the market for the full year, we saw a slowdown of growth in display revenue in H2 2012. This was driven by a combination of a planned reduction in advertising inventory on some of our properties, the ban on alcohol advertising and the inventory adjustments for TV. While these impacted H2 2012 we do not expect these effects to continue through 2013 and as a result we forecast a recovery in display growth rates through the year.

Throughout 2012 we continued to execute on the MMO games strategy which we laid out at the end of 2011: to focus on a small number of high quality releases and to focus the marketing effort, support and resource where they are most likely to make a difference. We were pleased with the results of this strategy and with 24% growth in the year the MMO division performed strongly.

Product review

Email & portal

2012 saw our portal maintain its market leading position with TNS recording over 33.3 mln users in December reaching almost 93% of the Russian internet population on a monthly basis.

During the year, we continued to innovate with a number of improvements and updates: email mobile apps for all major platforms (iOS, Android, Windows Phone, Windows 8), HTTPS support for email and main page and a new version of Mail.Ru main page which is significantly less resource intensive allowing it to run materially faster. We also added "social" email list design with user profile pictures and launched Calendar.Mail.Ru which is a planning tool synchronized with mobile phones.

Social networks

In 2012, we continued the development of our social networks, OK and My World. OK experienced substantial growth in user engagement. Daily active users grew 31% y-o-y, reaching 34.9 mln (December 2012 average, LiveInternet).

We added several new, important features to OK as part of our ongoing program of innovation such as multichat allowing conversations with several friends at the same time. Additionally we improved the newsfeed allowing users to seamlessly post multimedia attachments (links, multiple photos, user generated video) and enabled customization of personal profiles and groups with different skins.

Mobile development remains a major priority for us. Last year we made a number of improvements to mobile version and apps for major platforms (iOS, Android), including: music, video chat, photo filters, native messaging, credit card payments. In Dec 2012 mobile users comprised 40% of total OK users.

Instant messaging (IM)

During 2012 we focused on mobile product development: we released new Mail.Ru Agent and ICQ apps for iOS and Android supporting photo & video sharing and voice calls. Additionally we upgraded desktop versions of Mail.Ru Agent and ICQ and merged them to the same technological platform. Finally we moved ICQ development to Moscow and both messengers are developed by the same team to allow better integration.

Online games

Our "less quantity, more quality" strategy has been successful through 2012. Warface has been an important component of this and has seen strongly increased traction in terms of both user and revenue. We are pleased to report that the game won a number of awards in 2012, and was the winner of the Russian gaming industries "best games 2012". Our Warface festival was well attended with over 3,000 participants. This popularity of the game has been reflected in the growth of peak concurrent users which in January 2013 hit 145 thousand. As a result the game has become a Top 3 revenue generating game by the end of the year, and we expect it to move further up the rankings into 2013. Additionally we have a full release pipeline into 2013 and will continue to go abroad with our most successful titles.

Search & e-commerce

Through 2012 our Russian search market share remained broadly constant at around 8.5% (Liveinternet). We continue to focus on improvements to our own search technology and we launched a new mobile version of the search product. We continue to use a hybrid of in-house developed and Google search technology, all monetized by the AdWords product.

Corporate and outlook

Our people

Our main asset is our people and the technology-driven culture they are carrying. This continues to remain one of our guiding principles. The Company's success is very dependent on our ability to attract, retain and motivate the best engineers in the market. 2012 saw the start of the fit out for our new state-of-the-art headquarters. It will provide a significantly larger and more attractive workspace to allow us to continue to lead in the competitive Russian market. We look forward to moving into our new offices in the end of H1 2013.

Through the year, we continued to attract new talent, especially core engineering expertise with over 80% of our new hires in these areas. In the year our total headcount rose by 15% (394 full-time employees) and reached 3,059 as of the end of 2012. Into 2013 we will continue to attract talent at a reasonable pace with our focus remaining on the core programming and engineering skills.

Dividend

With the sale of some of the non-core assets we were pleased to make significant returns to shareholders in the form of the $3.80 per share August 2012 special dividend, and the further $4.30 per share March 2013 special dividend announced with our full year 2012 results. In total therefore we have returned around $1.7bn to shareholders.

2013 outlook

2013 will be another important year in our development. Mobile internet is becoming increasingly important and the competition in the Russian-speaking internet remains fierce. The underlying structural drivers of our business however remain strong and unchanged. We expect that community IVAS and MMO gaming will be our key revenue streams, and with the events which have impacted display growth in H2 2012 dropping off we look into 2013 with confidence. As a result, and even taking into account the increased costs associated with our new offices, the operating leverage in our business remains unchanged, and we would therefore expect margins to remain robust.

Appreciation

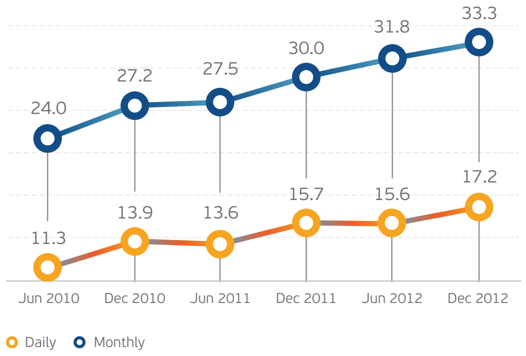
It is important to recognize the contribution of our people to our continued success. Over the past year our employees and management have continued to show dedication and skill and their efforts have allowed the company to have another successful year. On behalf of the board I want to extend our congratulations on their achievements and thanks for their hard work. Additionally the board wishes to express its thanks for the continuous support from our shareholders who continue to believe in us and support us as the company goes from strength to strength in 2013.

Dmitry Grishin

Co-founder, CEO and Chairman of the Board

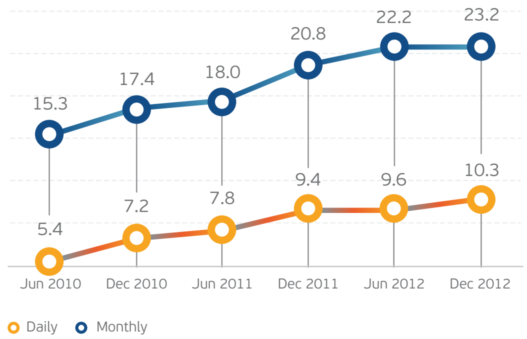
Key audience statistics

Mail.Ru portal, millions of active users



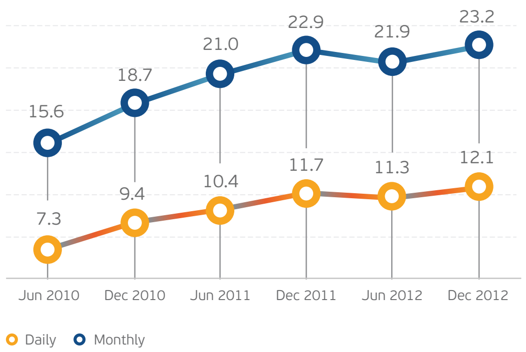
Source: TNS, Russia, cities with 100k+ population, age 12-54, desktop only

Odnoklassniki, millions of active users



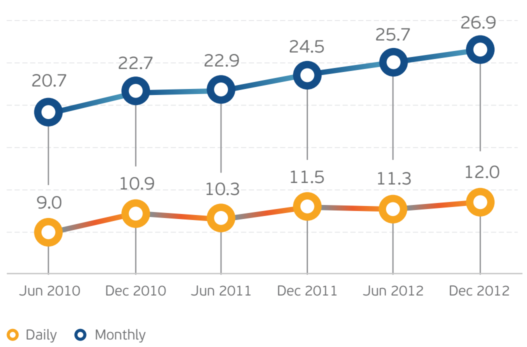
Source: TNS, Russia, cities with 100k+ population, age 12-54, desktop only

Mail.Ru Agent, millions of active users



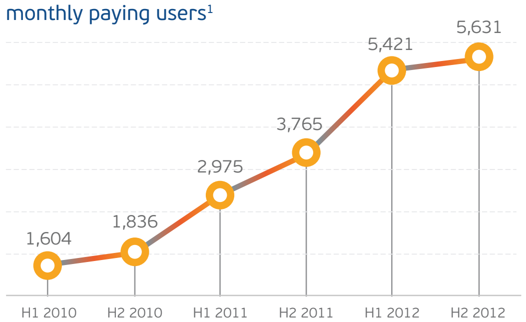
Source: Company data

Mail.Ru email, millions of active users



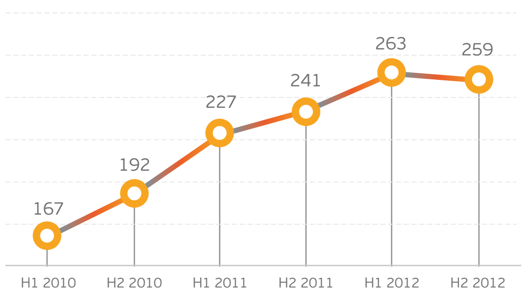
Source: TNS, Russia, cities with 100k+ population, age 12-54, desktop only

Community IVAS, thousands of average monthly paying users[1]



Source: Company data

MMO games, thousands of average monthly paying users[2]



Source: Company data

1 The numbers combine paying users of Odnoklassniki, My World, Love.Mail.Ru and our own social games on third-party networks and may include overlap.
2 The numbers combine paying users of individual MMO games and may include overlap.

Operating review

Our services attract millions of Russian speakers each day. Whether they are using email, instant messaging (IM), our social networks or our games, we aim to increase the time they spend on our sites by continuously offering new features and internet value-added services (IVAS) – including online games and virtual gifts – and providing content through our online recruiting, dating and listing services.

Email & portal

Email

Mail.Ru Group provides the largest email service in the Russian-speaking internet. In December 2012, our service had 26.9 million monthly active users and 12.0 million daily active users in Russia alone (TNS, Russia, desktop only). Worldwide, our email service is the fifth largest by monthly active users (49.1 mln, comScore). We only trail Hotmail, Yahoo!, Gmail and QQ Mail.

Our email service is integrated with many of the Group's other communications services. These include Mail.Ru Agent, My World and several others. Currently our email service delivers approximately 300 million messages a day and has a data storage capacity exceeding twelve petabytes.

Revenue is generated through display and context advertising.

Over the year we've been increasingly focused on transitioning our email service to mobile. We released email applications for almost all mobile platforms – from more popular in Russia iOS, Android and Symbian to less common Windows Phone, Bada and MeeGo. In October 2012 we also introduced application for newly released operating system Windows 8.

With access to email history and contacts stored on our servers, our native applications offer users a wider range of features and superior emailing experience compared to third-party or platform default email clients. Among the key features of our mobile apps are: push-notification configurable by sender, time, folder, social network and newsletter; full synchronization; access to address book; quick search within entire mailbox; seamless work with attachments; data compression and encryption; and cashing of the latest emails.

By the end of 2012 combined monthly audience of our email applications reached near 1.5 mln users. Android and iOS applications accounted for the majority of them. Since launch, active users of both applications had been growing steadily: at 45% average monthly rate on Android and 35% average monthly rate on iOS.

For those mobile users who don't want to install applications we launched mobile web version of email service tailored for touch phones. Its interface to the large extent resembles the interface of mobile applications. In addition, we developed a separate mobile web version for iPad that exploits the advantages of wider screen.

The total number of mobile daily users (including applications and web) has more than doubled during the year. At the end of 2012 about 12% of email daily users accessed the service through mobile devices.

In 2012 we continued to work on desktop email service interface making it cleaner, simpler and easier to use. In particular, we introduced a new form for composing emails, redesigned address book to simplify adding new and editing existing contacts and added user profile pictures to

We redesigned our main page and released email applications for all major mobile platforms including iOS, Android, Symbian and Windows Phone conversation list facilitating the work with large amount of incoming messages. We also rearranged email settings section and updated email search tool furnishing it with a new design of advanced search, extended instant suggestions while typing and support of operands in search queries. And finally we made our email service interface available in English, Spanish, Ukrainian, Belarusian, Armenian, Kazakh and Uzbek languages.

Given a large portion of our users having more than one Mail.Ru account, in October 2012 we launched multiple accounts authorization ("multi-authorization") which enables users to sign in to several Mail.Ru accounts and work with them simultaneously. In addition, we updated email collector which allows users to gather messages from all their mailboxes on other email services in one Mail.Ru account. This tool received new intuitive interface, became significantly faster and more stable.

For users who remotely access their Mail.Ru accounts via third-party email client, we introduced the support of IMAP (Internet Message Access Protocol). This protocol ensures the synchronization of mailbox contents (including folders structure, messages statuses) as well as any actions with them (reading, deleting or moving message to another folder).

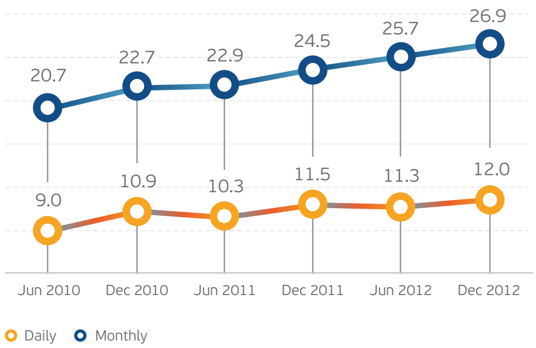
To enhance users' productivity we offered them useful tools for working with email attachments: "files" menu section and convenient file viewer. The former allows users to search and filter attachments in the entire mailbox, the latter – to view images, pdf files as well as Microsoft Office documents. Additionally, users may attach already existing in mailbox attachments to newly composed messages.

In November 2012, we released a new product complementary to our email service – Calendar.Mail.Ru. It is a convenient tool for planning and sharing events, creating task lists, keeping personal and shared calendars. It has flexible settings and slick design with customizable themes. Calendar synchronizes with mobile phones and desktop applications via CalDav protocol.

As a provider of email services to millions of users, we recognize how important it is to protect privacy and security: secure services are instrumental in maintaining trust. In Q4 2012 we rolled out and set as a default HTTPS access for our email service. HTTPS encrypts user's data as it travels between the web browser and our servers protecting it from being accessed by third parties, especially in insecure networks such as public WiFi spots. Additionally, we implemented new algorithms protecting from XSS attacks and blocking suspicious content.

Along with improved security features we continue to improve our antispam system. To identify and combat spam more effectively, we've launched reverse index that moves sender's emails to spambox after identifying such sender as unwanted; user's reputation that is considered while moving e-mail to spambox; new shingles that are used in detecting similar emails; and feedback loop (FBL) technology – a feedback system for legit mass senders.

Mail.Ru email, millions of active users



Source: TNS, Russia, cities with 100k+ population, age 12-54, desktop only

Main Page

In 2012 we introduced a new main page – modern, lightweight and significantly faster. On the one hand, new main page fully reflects "communitainment" strategy of the Group, focusing on main communication and entertainment services. On the other hand, its new design is user-oriented and easy-to-use – the page has adaptive layout adjusting to display resolution and browser window size.

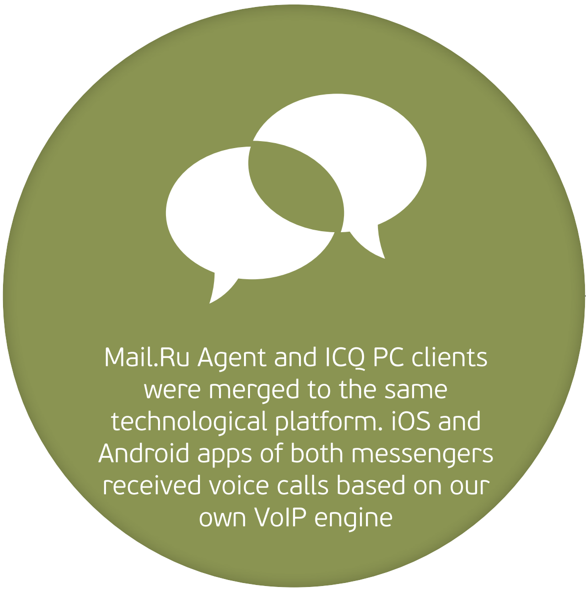
In addition, we released new mobile version of main page tailored for touch phones and added the ability to access the site, both web and mobile, via HTTPS connection.

Content projects

The majority of our content projects hold leading positions in their respective categories. We maintain this leadership by focusing on the quality of their content and regularly offering special projects covering major cultural, entertainment and sport events. Our editorial staff successfully competes with the print media by attracting a large number of new advertisers, who were previously skeptical about online publishing. We also systematically launch localized versions of our content projects, primarily in the CIS countries. Content projects generate revenue primarily through display advertising.

In November 2012 we introduced completely redesigned project News.Mail.Ru. The accent has been made on data visualization. It lets users be up-to-date on latest world and local news with a quick look at the main page. The articles are now supplemented with high-quality photos, videos and infographics. We also relaunched projects Lady.Mail.Ru and Kids.Mail.Ru – with modern design and adaptive layout.

Along with improving web versions of the content projects, we've been focusing on development of their mobile applications. During the last year, we launched News.Mail.Ru app for iOS, Android, Windows Phone and Windows 8; Sport.Mail.Ru app for iOS and Android; and Mail.Ru Hub for Windows Phone. In addition to mobile apps, we introduced new mobile web versions of News.Mail.Ru and Afisha.Mail.Ru tailored for touch-phones.



Instant Messaging

Our instant messaging (IM) services are an integral part of our communication ecosystem. We operate two IM networks: Mail.Ru Agent, our original internally developed product, and ICQ, which we acquired from AOL in July 2010.

Users can access both networks from applications available on a range of popular operating systems, including Windows, Mac OS, iOS, Android, Symbian and Windows Phone. They provide all the "must-have" features of a modern messenger: chat in real time, voice and video calls[1], file sharing, notifications from email services and social networks and so on.

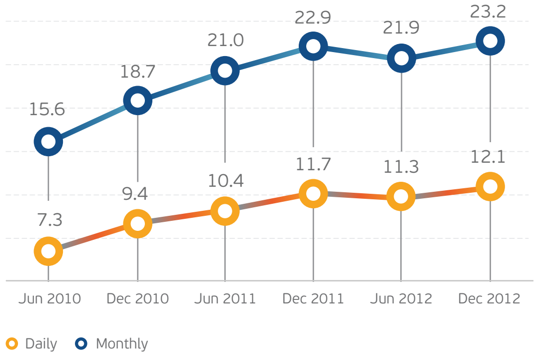
Since the acquisition of ICQ we've made significant steps in integrating both messengers. In 2011 we introduced server-based interoperability that enabled users of Mail.Ru Agent to add ICQ users, and vice versa, without creating an extra account. In 2012 instead of relying on third-party solutions we moved both messengers to our in-house voice and video engine, based on a considerably reworked open source of WebRTC project. Finally, we relocated ICQ development to Moscow and now both instant messengers are developed by the same team.

As we moved to our own voice and video engine, we've been increasingly focused on the improvement and development of this technology. During the last year, we

- added high definition video support and on the fly adjustment to most suitable video resolution and rendering based on the user's connection speed;
- brought our VoIP technology to all platforms that currently support it, i.e. Windows, Mac OS, iOS, Android, Windows 8 and Web-Agent;
- signed an agreement with new a partner, IP telephony operator MTT. It allowed us to significantly reduce rates for mobile and fixed line calls and introduce unlimited plans. Mobile and fixed line calls are currently supported by Mail.Ru Agent and ICQ for Windows and Mail.Ru Web Agent only.

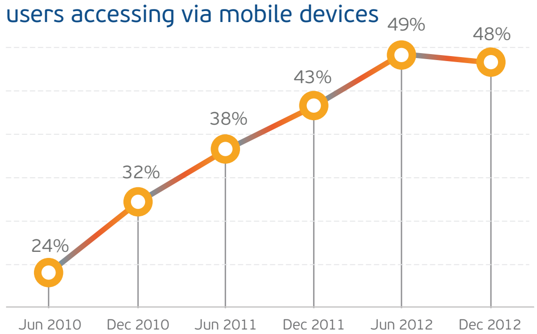
Our strategic goal is to create the most convenient tool for communication with friends and acquaintances regardless of where the user is: at home, in the street, in the shopping center, or somewhere else. Therefore we continue to introduce and enhance features for our instant messengers across all platforms: desktop, mobile and web.

Mail.Ru Agent, millions of active users



Source: Company data

Mail.Ru Agent, percentage of monthly active users accessing via mobile devices



Source: Company data

1 As of December 2012 video calls were supported by Mail.Ru Agent and ICQ desktop clients only

Desktop

Our desktop IM clients are presented by Mail.Ru Agent applications for Windows and Mac OS and ICQ application for Mac OS.

Windows remains the most popular platform among our users. In Dec 2012 it accounted for over 60% of both instant messengers total monthly audience.

In May 2012 we launched a completely reworked Mail.Ru Agent 6.0 for Windows. It received a modern lightweight look, single window for conversations and contact list, customizable interface themes and improved in-house voice and video engine with support of HD video calls and on the fly adjustments of call bit rate based on user's connection speed. In October 2012 we released ICQ 8 for Windows, which shares with Mail.Ru Agent 6.0 the technological platform and has a similar interface design. It was the first time ICQ users got the opportunity to make mobile and fixed line calls.

We also released a new version of Mail.Ru Agent for Mac OS. We introduced single window interface and full-screen regime, added support of multiple Mail.Ru Agent and ICQ accounts and built into Mac OS Notification Center. But the key feature was enabling our users to make free voice and video calls, including high definition calls, within Mail.Ru Agent messaging service.

Mobile

In 2012 mobile was the only growing audience for both instant messengers. Between December 2011 and December 2012, monthly mobile users increased by 13% and 14% for Mail.Ru Agent and ICQ respectively. By the end of the last year their share in total audience reached 48% and 40% respectively.

Our mobile clients are presented by Mail.Ru Agent applications for iOS, Android, Windows Phone, Symbian and Java, and ICQ applications for iOS, Android, Windows Phone, Symbian, Java, Blackberry and Bada. Both apps for Windows Phone and ICQ app for Bada were first introduced in the last year.

Android remains the most popular and fastest-growing mobile platform among our users. In 2012 we updated Android applications of both messengers. We added customizable background themes, file, photo and video sharing and voice calls within the corresponding IM service. Additionally, Mail.Ru Agent application received completely redesigned easy-to-use interface.

Similar new features were introduced on Mail.Ru Agent and ICQ applications for iOS. Both now offer voice calls, file, photo and video sharing and customizable background themes. ICQ application was also optimized for iPad.

Next, we released first mobile applications of both messengers for Windows Phone featuring instant messaging with Mail.Ru Agent, ICQ, Odnoklassniki, Vkontakte, Facebook and Gtalk; photo sharing; easy login via mobile phone number; and customizable background themes.

In October 2012 we introduced ICQ application for newly released operating system Windows 8. It has slick touch interface and supports voice and video calls based on our in-house VoIP technology.

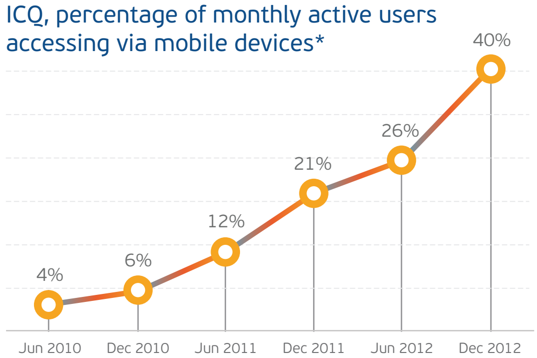
Web

Web client of Mail.Ru Agent (Web Agent) is available all around Mail.Ru portal. Anytime while checking the email, reading news or visiting other content projects, user can sign in to Web Agent and start conversation with friends.

In line with our strategy of making conversations more real and convenient, we added to Web Agent voice calls within Mail.Ru Agent service, as well as calls to mobile and fixed line phones. Now when user receives email with a phone number, he may call directly from the browser.

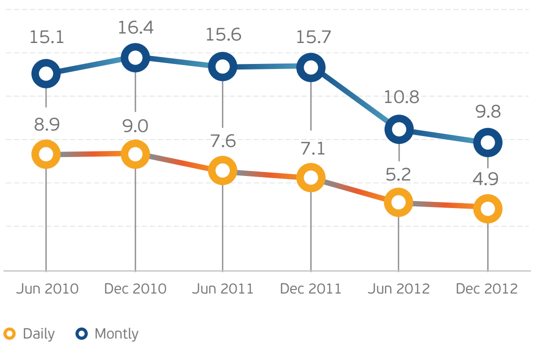
In addition, Web Agent received new user interface and integration with server-based message storage. Users were enabled to search for contact, send and receive SMS and post updates to and get notifications from My World social network.

ICQ, percentage of monthly active users accessing via mobile devices*



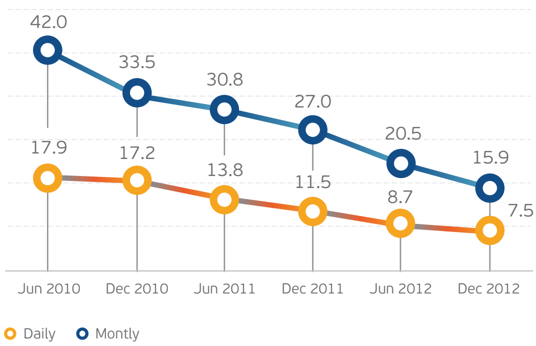
Source: Company data
* within audience of ICQ authorized clients only

ICQ, millions of active users, Russia*



Source: Company data
* includes unaffiliated clients

ICQ, millions of active users, worldwide*



Source: Company data
* includes unaffiliated clients

Social networks

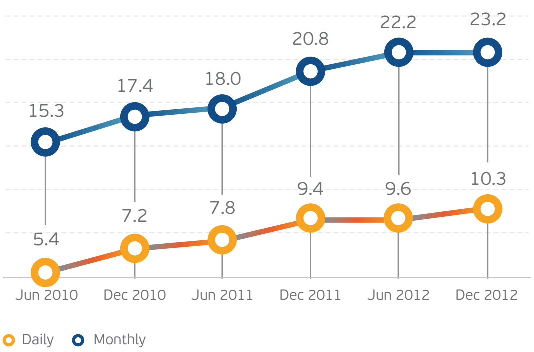
We operate two of Russia's three leading online social networks – Odnoklassniki and My World. They enable users to find and communicate with friends, family and colleagues. Our sites include messaging services, status updates, photo- and user generated video-sharing. Users can play games together, send each other online gifts, recommend websites and keep track of events, such as birthdays. We frequently add new products and services to maintain and increase users' engagement. Mobile applications and web versions of our sites, which are optimized for use on smartphones and other mobile devices, have also been developed. Revenue is generated principally through online advertising and internet value-added services.

Odnoklassniki

Over the last year, Odnoklassniki experienced substantial growth in user engagement. Daily active users grew 31% year-on-year, reaching 34.9 million (December 2012 average, LiveInternet). The gap between OK and the market leader, VK.com, was 17% in December 2012 (as a percentage of VK.com daily audience)[1]. In 2012, approximately 36% of Odnoklassniki users were from outside Russia, primarily from the countries of the former Soviet Union.

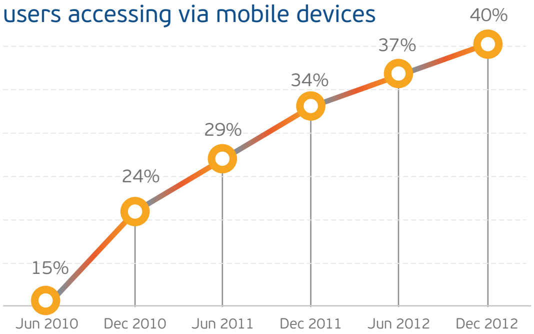
We continued to add new services in line with our strategic goal to create the best tools for communication. We significantly redesigned Groups service featuring group themes, new posting form, video, photo collages, recommendations based on user interests. Group owners can track enhanced statistics allowing better user engagement and work with brands. We launched multichat allowing conversations with several friends at the same time and launched a tool for undertaking polls. Also we significantly

Odnoklassniki, millions of active users



Source: TNS, Russia, cities with 100k+ population, age 12-54, desktop only

Odnoklassniki, percentage of monthly active users accessing via mobile devices



Source: Company data

1 Source: LiveInternet

improved the newsfeed algorithm, including on-line updates. Now users can seamlessly post multimedia attachments like links, multiple photos, user generated video and text.

We believe users perceive Odnoklassniki as a place to share personal content with their close friends and relatives. To support this we introduced customized profile themes for users and a sophisticated system of personalized recommendations.

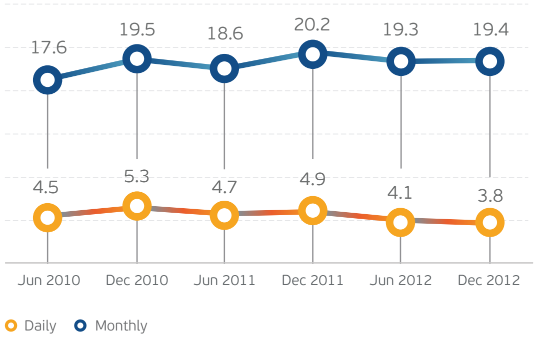
Mobile continues to be one of our primary focuses and 2012 was an outstanding year in terms of mobile. In the last year we released new versions of Odnoklassniki applications and mobile versions for the major platforms (iOS, Android, Windows Phone, Symbian). We upgraded basic features and services with multiple photo upload, photo filters, payments via credit cards, video platform, improved groups, likes and comments. These steps, together with a global trend of increasing internet usage via mobile devices, supported continuing growth of the share of mobile users among Odnoklassniki audience. In December 2012, it reached 40%, compared with 34% a year ago.

My World

Launched in May 2007, My World is now Russia's third-largest social network, based on daily active users. Approximately 40% of the network's user base is outside Russia. The network benefits from its association with Mail.Ru's portal, Mail.Ru Agent, and email service. As part of the registration process for an email account with Mail.Ru, there is an option to activate a My World account. Furthermore, users of our IM Mail.Ru Agent can publish their My World status updates directly from the IM client and can receive alerts regarding their friends' status and content updates.

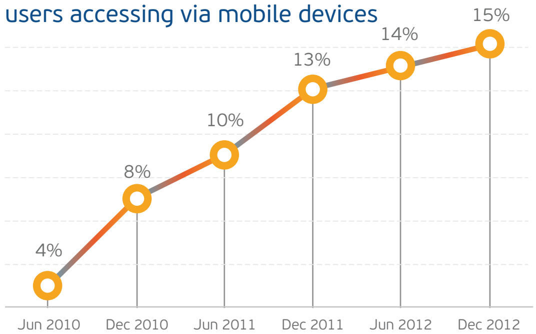
In 2012 we introduced new messaging system with inline photos and video, reworked news feed, improved notification system and user suggestions.

My World, millions of active users



Source: TNS, Russia, cities with 100k+ population, age 12-54, desktop only

My World, percentage of monthly active users accessing via mobile devices



Source: Company data

In line with strategy of focusing on mobile, we introduced My World application for iOS and released a number of updates of mobile version.

Our newly launched AAA shooter Warface has gained traction in terms of both user and revenue – hitting 145,000 PCU and becoming Top 3 revenue generating game

Online Games

We operate the largest online games business in Russia. Our portfolio titles include the leading Russian internet MMO games such as Perfect World, Allods Online, Legend: Legacy of the Dragons and new hit Warface. In 2012 the average number of monthly paying users reached 261,000 demonstrating 11.5% y-o-y growth.

We use a ''free-to-play'' model for our games, with users having the option to buy certain virtual in-game items as they become available. Players can usually get these items free of charge – by, for example, spending more time playing the game. But if they want them immediately, in the majority of cases they can pay for them.

Historically, the bulk of our online games revenue has been generated by MMO games. These are played in "virtual worlds", hosted by networked games servers that allow thousands of players to connect and play simultaneously. Our portfolio currently includes internally-developed games, such as Allods Online and Legend: Legacy of the Dragons. It also includes Russian versions of games, such as Perfect World, Warface and Crossfire, licensed from third parties. Some of the MMO games we offer require players to install software on their computers (client-based), while others can be played without downloading any software (browser-based).

We distribute MMO games through our gaming portal Games. Mail.Ru and games downloader GameCenter.Mail.Ru. The latter once installed serves as a single channel for our games distribution and allows user to seamlessly download and update games even with unstable internet connection. By the end of 2012, GameCenter.Mail.Ru reached over 1.4 mln peak concurrent users.

The games we offer on social networks are either developed internally or by third-party developers through APIs on the networks. Generally quicker and easier to play than MMO games, they are also usually cheaper to develop and maintain. They are all browser-based. We develop games for VKontakte and Facebook, but our principal strategy is to focus on developing games for My World and Odnoklassniki.

In 2012 we started to execute on MMO strategy we had announced at the end of 2011: to focus on a quality rather than a quantity of the games.

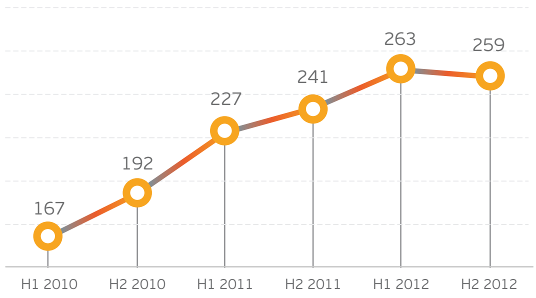
In April 2012 we launched free-to-play MMO first-person shooter Warface. The game was created by German developer CryTek, known for Crysis, a series of top-quality first-person shooters for PC and consoles. In 2012 Warface received several notable gaming awards, including "best game" at Russian Game Developers Conference 2012. Our Warface festival "Warfest" was very well attended with over 3,000 participants. This popularity of the game has been reflected in the growth of peak concurrent users which in January 2013 hit 145,000. As a result the game has become a Top 3 revenue generating game by the end of the year, and we expect it to move further up the rankings into 2013.

In September 2012 we launched another AAA title – Dragon Nest. It is a MMORPG developed by South Korean company Eyedentity Games. Dragon Nest on Russian launch had already been successful in Asia and North America with over 200 mln players around the world. The game has unique gameplay: a combination of slasher and adventure MMO.

In 2012 we discontinued advertising our MMO games on third-party websites and put a greater focus on attracting users from the Group's own services and projects. Released funds were allocated to wide reach ad campaigns on TV. As a result, about 15% of new players were engaged through TV campaigns and remaining 85% through advertising on the Group's own projects.

Given the rising popularity of mobile games, we developed our own mobile role-playing game Juggernaut: Revenge of Sovering. The game was initially released on iOS (May 2012) and few months later on Android (Aug 2012) platform. The game was well received by gaming community and was awarded "best game for mobile platforms" at Russian Game Developers Conference 2012.

MMO games, thousands of average monthly paying users[1]



Source: Company data

We continued to go abroad with our internally developed games. We launched RIOT in Germany and UK through our European subsidiary and licensed out Allods Online to Chinese and MENA markets. In results Allods Online is now available in 13 countries on 5 continents.

At the end of 2012 we purchased CIS license for triple-A game ArcheAge from South Korean developer XLGames. It is one of the most anticipated MMORPG in Russia and the world. Its beta-testing is scheduled for late 2013.

In addition, we continue to work on our own triple-A MMORPG Skyforge. The game is being developed by the team that created one of the most successful Russian MMO game Allods Online. The game is expected to be released in 2014.

Major online games launched in 2012

Game	Business model	Type	Launch date
Warface	Licensed	MMO (client-based)	April 2012
Juggernaut: Revenge of Sovering	In-house	Mobile (iOS, Android)	May 2012
Dragon Nest	Licensed	MMO (client-based)	September 2012

1 The numbers combine paying users of individual MMO games and may include overlap.

Search and e-commerce

Search

Our internet search services allow users to find web pages, photos, videos, products and services based on Russian and English search terms. Through 2012 our Russian search market share remained broadly constant at around 8.5%[1].

To provide the best service possible, we use a combination of Google's search technology and our in-house search engine. Revenues are generated through context advertising via Google's AdWords product. In this auction-based program, advertisers bid to have their sponsored advertisements appear when specified search queries are entered. When a customer clicks on a sponsored ad, Google receives a fee from the advertiser and shares part of that with us.

Our strategy is to make our search results more socially and locally relevant. Sociability is achieved by using publicly available information on gender, age, friends and results of friends' searches gained from social networks. In 2012 we launched geo-location based search.

In 2012 we introduced further improvements in our search technology introducing machine learning algorithms for search results ranking, aggregation of news search results by storyline, extended fact search and other performance and relevance improvements.

In 2012 we released beta-version of own web-browser Amigo integrated with main social networks (Odnoklassniki, My World, Vkontakte, Facebook).

We continue our focus on mobile strategy, updating search applications for all major platforms and mobile version of our search product.

E-commerce

We develop a number of online platforms for e-commerce and respective infrastructure. Revenues from these businesses are generated through a combination of online advertising and listing fees. In 2012 we revamped design, improved services and usability of all our e-commerce products.

Jobs. Our online recruitment business is the largest in Russia and the former Soviet Union countries. The primary platforms for this business are Headhunter.Ru and Rabota.Mail.Ru – two integrated services under common management. Online recruitment generates the majority of its revenue from subscriptions to a database of resumes, paid job postings and online advertising.

Price comparison. Our price comparison site, Torg.Mail.Ru, contains offers from e-retailers. The service is integrated with our search engine, Poisk.Mail.Ru, and monetized on a price-per-click basis. In 2012 we introduced price comparison for clothes and launched Torg.Mail.Ru mobile application available on iOS and Android smartphones.

Travel. Travel.Mail.Ru provides offers from travel agencies on a listing fee basis. Partner sites market tickets and hotel bookings for a commission. In 2012 we introduced new design with improved usability and launched a service to buy air tickets, travel tours and book hotels directly on Travel.Mail.Ru.

Money. Money.Mail.Ru is an internet payment system which is used to pay for online and offline products and services. Its main advantages are its common authorization process with Mail.Ru and its large number of connected shops and services – including mobile communications and utilities. In 2012 Money.Mail.Ru obtained license of a non-banking credit organization. We launched Money.Mail.Ru debit card tied to users balance at Money.Mail.Ru Wallet. On mobile, we launched Money.Mail.Ru appliations for iOS and Android.

We introduced machine learning to our own search engine, fully redesigned all our e-commerce products and launched mobile applications for Money.Mail.Ru and Tovary.Mail.ru

1 Source: LiveInternet

Other activities

IT Infrastructure

Our network infrastructure is designed to meet the requirements of our operations and to support the growth of our business. This infrastructure includes services supplied internally as well as by third parties.

We have a number of relationships with third-party IT outsourcers. They provide us with telecommunications services – including internet access – and with data center services in Moscow, which provide space and power to host our servers. The Company owns over 17,000 servers, with a total storage capacity of 20.0 petabytes. In 2012 their peak network traffic increased to 460 gigabit per second – up from 210 gigabit per second in 2011.

Our ability to provide products and services depends on the continuous operation of our network and IT infrastructure. It also relies on the provision of network facilities by third-party IT providers and on the performance and reliability of the internet, power and telecommunications infrastructure in Moscow and the rest of Russia.

We protect ourselves against the loss of data caused by network or power failures by hosting our servers in five independent data centers in different districts of Moscow. We also back them up on a regular basis.

We believe that our current access to network facilities and broadband capacity is sufficient to support our current operations and can meet the planned growth of our business for at least the next 12 months.

Our network infrastructure is administered by a staff of full-time engineers. They handle the day-to-day system as well as hardware operations and maintenance.

We place high priority on providing our users with consistently high-quality service and support through our technical support staff. It is their job to handle general product and service enquiries and technical support issues.

Employees

At the end of 2012, the Company had a total of 3,059 full-time employees. We also work with sub-contractors from time to time. We value our employees and believe that our culture encourages individuality, creativity and commitment to providing excellent service to our users.

A significant proportion of our employees possess a strong product and technical background, allowing them to contribute to our research and development effort. These activities help the Company to develop new products and enhance existing ones. During the 2012 financial year, our research and development activities have been primarily focused on communication products, online games and search.

2012 saw the start of the fit out for our new state-of-the-art headquarters. It will provide a significantly larger and more attractive workspace to allow us to continue to lead in the competitive Russian market. We look forward to moving into our new offices in H1 2013.

In 2012, we continued to invest in our people and their development. Our regular Russian Code Cup programming contest and Technology Forum have become prominent events in Russian-speaking internet attracting a wide range of participants: from students and novice programmers to leading experts in various information technology fields. Our student development center Technopark.Mail.Ru, founded in 2011 in collaboration with Bauman Moscow State Technical University, is gaining popularity. Over 110 students now participate in 2-year learning program and there are already 6 applicants per place for 2013 enrollment.

Sales and marketing

We sell display and contextual advertising through our own sales force as well as through third parties, such as online advertising agencies. As of December 2012, we had an internal sales force for display and context advertising of 134 people working from the Moscow HQ and the ten regional offices throughout Russia. We have established regional sales offices to enable us to broaden our base of advertisers to regions outside the Moscow area, which have historically represented a smaller share of overall internet advertising in Russia.

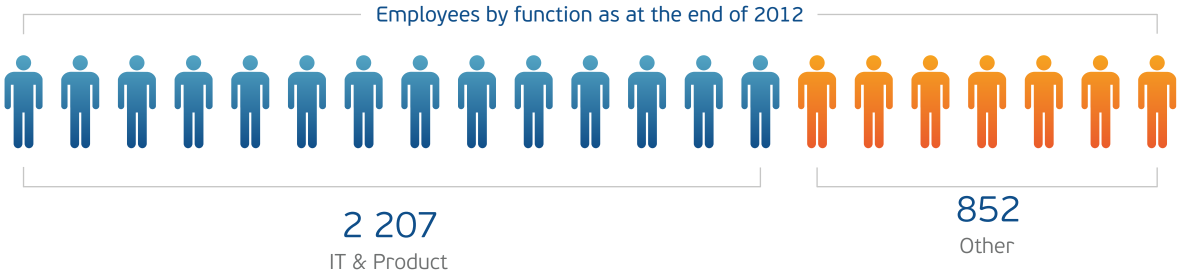
We also have offices in Kiev, Ukraine, and work through partners in Europe and CIS countries.

Our largest advertising clients are generally major FMCG companies, automobile manufacturers, mobile telecommunications operators and financial firms.

In 2012 we continued to develop our self-service advertising platform, Target.Mail.Ru. We introduced new ad formats, new target parameters (user's interests and behavior), API for third-party developers and retargeting solution, which allows clients to serve ad to people who already visited their websites. At the end of 2012 Target.Mail.Ru had near 1,850 active clients.

Intellectual property

The Company relies on a combination of trademark, copyright and other IP-related laws and contractual restrictions to establish and protect its IP rights – including those related to its websites, software and online games. We have registered trademarks – or trademarks for which registration is pending – for all our principal brands. We also own a broad portfolio of registered domain names for our various websites.



Financial review

This review reflects highlights of our financial performance for 2012. Full details can be found in the annual financial statements presented on pages 50 to 103 of this annual report.

Overview of consolidated results

2012 was a year of continued growth in our core business. Despite tougher underlying market conditions in display advertising in the second half of the year, we continued to execute strongly across all other lines of our business. As a result, we saw significant growth in our revenues, with community IVAS and context advertising being the key drivers. While we continued to dedicate substantial resources to driving user engagement and product development, we were able to maintain strong margins due to the operating leverage characteristics of our business.

Structure

Our core business operates in four major reportable segments: (1) Email, Portal and IM, (2) Social Networks, (3) Online Games and (4) Search, E-Commerce and Other. The Email, Portal and IM segment includes email, Mail.ru Agent and ICQ instant messaging services and the Mail.ru portal; the Social Networks segment includes OK and My World social networks; the Online Games segment comprises our browser-based, client-based, mobile and social games. The Search, E-Commerce and Other include search services, e-commerce projects including Headhunter and certain other projects. The other projects are considered insignificant for the purposes of performance review and resource allocation. Please refer to "Operating segments performance – Basis of preparation" below for more details on operating segments presentation.

In addition to our core business operations, we hold minority investments: 39.99% in Russia's largest social network VK.com ("VK"); and 21.35% in Qiwi Limited ("Qiwi"), one of Russia's leading payment-processing companies. We also hold a stake of 0.60%[1] in Facebook Inc. ("Facebook"), the world's largest social network and a number of small venture capital investments in various Internet companies in Russia and Ukraine.

Acquisitions and disposals

In 2012, we disposed of our minority investments in Groupon, Zynga and OJSC Center of Economic Development ("CED") and reduced our stake in Facebook from 3.00%[1] to 0.60%[1]. We also increased our shareholding in Headhunter to 100% as a result of exercise of put options by the minority shareholders. In addition, we made several smaller acquisitions and disposals of minority investments in various Internet companies in Russia as part of our venture capital operations.

Accounting impact of acquisitions and disposals, impairment of investments

The acquisitions and disposals of 2012 and prior years and impairment of investments had a significant effect on our 2012 consolidated financial statements as summarised below::

	2012 mRUR	2011 mRUR
Net loss on financial assets and liabilities at fair value through profit or loss over the equity of strategic associates and subsidiaries	(27)	(664)
Net gain on disposal of shares in available-for-sale investments	33,948	–
Impairment losses related to strategic associates and available for sales investments	(718)	(173)

The net gain on disposal of shares in available-for-sale investments in 2012 resulted from sales of investments in Groupon, Zynga, Facebook and CED. The impairment losses related to strategic associates and available for sales investments in 2012 are entirely related to our investment in Zynga. The impairment analysis for 2011 was entirely related to our investment in Molotok.

In addition to the effects presented in the table above, there are several other effects on our 2012 earnings resulting from acquisitions and disposals in prior periods. These effects obscure our operational results and make it difficult to evaluate trends in our underlying business. As a result, we evaluate and manage our business and strategic associates on the basis of management accounts that do not reflect certain adjustments required under IFRS. The management accounts data is discussed under "Operating segments performance" below (see also Note 5 to the financial statements for further details).

Changes in presentation of our consolidated financial statements

Starting from 2012, we have presented items in the statement of comprehensive income based on their classification by nature, rather than by function. The corresponding information for 2011 has also been presented by nature in order to achieve comparability. We also changed the presentation currency of our financial statements to RUR, which is the functional currency of the majority of our operations.

1 Share calculated excluding the potential dilutive effect of options and other instruments convertible into shares of Facebook

Goodwill

We account for business combinations by applying the acquisition method under IFRS 3R. As a result, we record goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. The significant goodwill recorded in connection with our acquisitions may lead to charges in future periods if the goodwill is impaired. The total goodwill amounted to RUR 32,969 million as at December 31, 2012, unchanged from December 31, 2011.

The goodwill is allocated to groups of cash-generating units (CGUs) – "Email, Portal and IM", "Search", "Online Games", "Social Networks" and "E-Commerce and Other" – in accordance with the operating segment structure of our business. Please see Note 11 to our consolidated financial statements for further details.

Consolidated results of operations in accordance with IFRS

The following table summarises the principal line items from our consolidated income statements under IFRS:

	2012 RURm	2011 RURm
Total revenue	**20,905**	**14,935**
Net gain on venture capital investments and associated derivative financial assets and liabilities	590	34
Total operating expenses (excluding depreciation, amortisation and impairment)	**(11,889)**	**(8,768)**
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**9,606**	**6,201**
Profit before income tax expense	41,289	2,524
Income tax expense	(3,013)	(1,516)
Net profit	**38,276**	**1,008**
Attributable to:		
Equity holders of the parent	38,257	977
Non-controlling interest	19	31

Consolidated revenue

In 2012 our consolidated revenue increased by 40.0% to RUR 20,905 million (2011: RUR 14,935 million). The primary drivers of the growth are described under "Operating segments performance" below. The growth in consolidated revenue was also affected by a reduction in the online gaming and social network revenue deferral adjustment from RUR 446 million in 2011 to RUR 436 million in 2012 primarily due to a decrease in weighted-average useful life of virtual in-game items.

Earnings before interest, tax, depreciation and amortisation (EBITDA)

EBITDA increased by 54.9% to RUR 9,606 million (2011: RUR 6,201 million) and EBITDA margin increased to 46.0% in 2012 (2011: 41.5%) as a result of operating expenses (excluding depreciation, amortisation and impairment) growing at a slower pace than revenues, as well as due to a more than 17-fold increase in net gain on venture capital investments and associated derivative financial assets and liabilities. Operating expenses grew 35.6% to RUR 11,889 million, or 56.9% of revenue (2011: RUR 8,768 million, or 58.7% of revenue). The key drivers and components of the increase in operating expenses are discussed in detail under "Operating segments performance" below.

In addition to those drivers, the increase in operating expenses was affected by the growth in share-based payments expense, which increased by 17.0% to RUR 2,217 million in 2012 from RUR 1,895 million in 2011. The increase is primarily due to (i) the expense recognised with respect to options issued in 2012, mainly to our top management and key engineering talent, and (ii) the effect of reduction in exercise price of all options by USD 3.8 in August 2012, which was accounted for as a modification. These effects were partially offset by a decrease in share-based payment expense (excluding modification) with respect to options issued prior to 2012 due to approximately one-fourth of the options vesting on January 2, 2012.

The growth in net gain on venture capital investments and associated derivative financial assets and liabilities reflects the performance of our venture capital operations.

Equity accounted results

The share in net profits of associates amounted to RUR 112 million (RUR 14 million in 2011). The aggregate profits in Qiwi and Haslop Company Limited ("Mamba") in the amount of RUR 241 million in our share were partially offset by our share in losses of VK, Molotok and Nikita Management Limited ("Nikita") of RUR 129 million in the aggregate. For the operational profitability of key strategic associates refer to Section "Operating segments performance" below.

Profit before income tax and net profit

Profit before income tax expense increased more than 16-fold to RUR 41,289 million (2011: RUR 2,524 million) primarily as a result of the effects of acquisitions, disposals and impairment of investments (including a RUR 33,948 million net gain on disposal of available-for-sale investments in 2012), as well as reflecting increased EBITDA and share of net profits of associates and a RUR 764 million net foreign exchange gain in 2012 as compared to a RUR 128 million net foreign exchange loss in 2011.

Net profit for the year increased almost 38-fold to RUR 38,276 million (2011: RUR 1,008 million) as a result of the increase in profit before tax, which was only partially offset by a 98.7% increase in income tax expense. While the increase in income tax expense is primarily due to an increase in taxable income arising from our operating subsidiaries mainly based in Russia accompanied by an increase in share-based payment expense incurred in a tax-free jurisdiction, it was not commensurate to growth in profit before income tax because most of M&A-related gains occurred in tax-free jurisdictions. The drivers of organic growth of profit before tax and income tax expense are further described in Section “Operating segments performance” below.

Operating segments performance

Basis of preparation

In reviewing our operational performance and allocating resources, our Chief Operating Decision Maker (CODM) reviews selected items of each segment’s income statement, assuming 100% ownership in all of our key operating subsidiaries, based on management reporting.

Management reporting is different from IFRS, because it does not include certain IFRS adjustments that, in our view, obscure the core operating performance of the business. Such adjustments affect such major areas as revenue recognition, deferred tax on unremitted earnings of subsidiaries, share-based payment expense, impairment of investments, business combinations, fair value adjustments, amortisation and impairment thereof, net foreign exchange gains and losses, share in financial results of non-core associates, as well as irregular non-recurring items that occur from time to time and are evaluated for adjustment as and when they occur. The tax effect of these adjustments is also excluded from management reporting. See Note 5 to our consolidated financial statements for more information.

The financial information of the key subsidiaries acquired during the reporting period or after the reporting period but prior to the date hereof is included in the segment disclosure starting from the later of:

- the beginning of the earliest comparative period included in the financial statements; and
- the date we acquired our first interest in the respective key subsidiary.

The financial information of subsidiaries disposed of prior to the date hereof is excluded from the segment presentation starting from the beginning of the earliest period presented.

We identify our operating segments based on the types of products and services we offer. We have identified the following reportable segments on this basis:

- Email, Portal and IM;
- Social Networks;
- Online Games; and
- E-Commerce, Search and Other Services.

The Email, Portal and IM segment includes email, instant messaging and portal (main page and verticals). It earns almost all revenues from display and context advertising.

The Social Networks segment includes our two social networks (Odnoklassniki and My World) and earns revenues from (i) user payments for virtual gifts, (ii) revenue sharing with application developers, and (iii) online advertising, including display and context advertising.

The Online Games segment includes online gaming services, including MMO, social and mobile games. It earns almost all revenues from (i) sale of virtual in-game items to users and (ii) royalties for games licensed to third-party online game operators.

The E-Commerce, Search and Other Services segment primarily consists of search engine services earning almost all revenues from context advertising, e-commerce and online recruitment services and related display advertising. This segment also includes a variety of other services, which are considered insignificant by CODM for the purposes of performance review and resource allocation.

We measure the performance of our operating segments through a measure of earnings before interest, tax, depreciation and amortisation (EBITDA). Segment EBITDA is calculated as the respective segment’s revenue less operating expenses (excluding depreciation and amortisation and impairment of intangible assets), including our corporate expenses allocated to the respective segment.

EBITDA is not a measure of financial performance under IFRS. The calculation of EBITDA by us may be different from the calculations of similarly labeled measures used by other companies and it should therefore not be used to compare one company against another or as a substitute for analysis of our operating results as reported under IFRS. EBITDA is not a direct measure of our liquidity, nor is it an alternative to cash flows from operating activities as a measure of liquidity, and it needs to be considered in the context of the our financial commitments. EBITDA may not be indicative of our historical operating results, nor is it meant to be predictive of our potential future results. We believe that EBITDA provides useful information to the users of the consolidated financial statements because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditure, acquisitions and other investments and our ability to incur and service debt.

Principal revenue drivers

Organic growth in our revenue, including online advertising and IVASs, is primarily driven by the audience of our properties. Advertising revenues also depend on the pricing of our advertisements and availability and sell-through rates of our advertising inventory, while IVAS revenue is also driven by paying user engagement and average revenue per paying user (“ARPPU”).

Seasonality

The majority of our revenues are affected by seasonality and as a result revenues and operating profits are generally higher in the second half of the year than in the first six months:

- Advertising revenues are generally higher in the second half of each year due the fact that significant amounts of advertising budgets are typically spent in the last quarters of the year;
- MMO games revenues are generally higher during the second half of the year due to the end of the vacation period because users tend to play our MMO games more when not on vacation;
- Community IVAS revenues are generally higher ahead of, during and immediately after holiday and festivity periods.

Analysis of 2012 results compared with 2011

The discussion that follows is based on the analysis of segment financial information. As discussed under "Basis of Preparation" above, this information differs in certain significant respects from information presented in accordance with IFRS.

*Group aggregate segment financial information**	2012 RURm	% of revenue	2011 RURm	% of revenue	YoY, %
Group aggregate segment revenue (1)					
Display advertising	5,006	23.7%	4,357	28.6%	14.9%
Context advertising	2,431	11.5%	1,685	11.1%	44.3%
Total online advertising	**7,437**	**35.2%**	**6,042**	**39.7%**	**23.1%**
MMO games	4,732	22.4%	3,807	25.0%	24.3%
Community IVAS	6,739	31.9%	3,771	24.8%	78.7%
Total IVAS	**11,471**	**54.2%**	**7,578**	**49.8%**	**51.4%**
Other revenue**	2,243	10.6%	1,596	10.5%	40.6%
Total Group aggregate segment revenue	**21,151**	**100.0%**	**15,215**	**100.0%**	**39.0%**
Group aggregate segment operating expenses					
Personnel expenses	4,506	21.3%	3,463	22.8%	30.1%
Office rent and maintenance	489	2.3%	338	2.2%	45.0%
Agent/partner fees	1,971	9.3%	1,273	8.4%	54.7%
Marketing expenses	702	3.3%	551	3.6%	27.2%
Server hosting expenses	633	3.0%	491	3.2%	29.0%
Professional services	257	1.2%	244	1.6%	5.4%
Other operating (income)/expenses, excluding depreciation and amortisation	**1,058**	**5.0%**	**474**	**3.1%**	**123.3%**
Total Group aggregate segment operating expenses	**9,616**	**45.5%**	**6,834**	**44.9%**	**40.7%**
Group aggregate segment EBITDA (2)	**11,535**	**54.5%**	**8,381**	**55.1%**	**37.6%**
Depreciation and amortisation (3)	1,133	5.4%	1,160	7.6%	-2.2%
Share of profit (loss) of key strategic associates (4)	291	1.4%	337	2.2%	-13.7%
Other non-operating income (expense), net	431	2.0%	244	1.6%	76.3%
Profit before income tax (5)	**11,123**	**52.6%**	**7,803**	**51.3%**	**42.5%**
Income tax expense (6)	2,572	12.2%	1,588	10.4%	61.9%
Group aggregate net profit (7)	**8,552**	**40.4%**	**6,215**	**40.8%**	**37.6%**

* The numbers in this table and further in the document may not exactly foot or cross-foot due to rounding. Certain reclassifications have been made to 2011 operating expenses to achieve comparability with 2012 presentation.

** Including Other IVAS revenues

1 Group aggregate segment revenue is calculated by aggregating the segment revenue of the Group's operating segments and eliminating intra-segment and inter-segment revenues. This measure differs in significant respects from IFRS consolidated net revenue.

2 Group aggregate segment EBITDA is calculated by subtracting Group aggregate segment operating expenses from Group aggregate segment revenue. Group aggregate segment operating expenses are calculated by aggregating the segment operating expenses (excluding the depreciation and amortisation) of the Group's operating segments including allocated Group corporate expenses, and eliminating intra-segment and inter-segment expenses.

3 Group aggregate depreciation and amortisation expense is calculated by aggregating the depreciation and amortisation expense of the subsidiaries consolidated as of the date hereof, excluding amortisation and impairment of fair value adjustments to intangible assets acquired in business combinations.

4 Group share of net profit from associates includes the Group's share of net profit from VK.com and Qiwi as calculated based on the ownership percentage as of the date hereof (i.e. 39.99% and 21.35%, respectively). Group share of net profit from associates as presented herein differs in significant respects from Group share of net profit from associates as would be recorded under IFRS due to: (i) difference in the ownership percentages as under IFRS the actual ownership would be used for each reporting period and (ii) differences in net profit of associates as the numbers presented herein are prepared based on principles used for the segment financial information of the Group's consolidated operations, i.e. do not include certain adjustments which would be required under IFRS. Group share of net profit from associates for 2011 has been retrospectively adjusted for operations discontinued by Qiwi in 2012.

5 Profit before tax is calculated by deducting from Group aggregate segment EBITDA Group aggregate depreciation and amortisation and adding (i) Group share of net profit from associates and adding/deducting (ii) Group aggregate other non-operating incomes/expenses primarily consisting of interest income on cash deposits, dividends from financial and available-for-sale investments and other non-operating items..

6 Group aggregate income tax expense is calculated by aggregating the income tax expense of the subsidiaries consolidated as of the date hereof. Group aggregate income tax expense is different from income tax as would be recorded under IFRS, as (i) it excludes deferred tax on unremitted earnings of the Group's subsidiaries and associates and (ii) it is adjusted for the tax effect of differences in profit before tax between Group aggregate segment financial information and IFRS.

7 Group aggregate net profit is the (i) Group aggregate segment EBITDA; less (ii) Group aggregate depreciation and amortisation expense; plus (iii) Group share of net profit from associates; less (iv) Group aggregate other non-operating expense; plus (v) Group aggregate other non-operating income; less (vi) Group aggregate income tax expense. Group aggregate segment net profit differs in significant respects from IFRS consolidated net profit.

Operating segments performance – 2012

	Email, Portal and IM	Social Networks	Online Games	E-commerce, Search and other	Eliminations	Group
Revenue						
External revenue	3,956	7,856	5,329	4,010	-	21,151
Intersegment revenue	33	22	-	265	(320)	-
Total revenue	**3,989**	**7,878**	**5,329**	**4,275**	**(320)**	**21,151**
Total operating expenses	1,490	2,192	3,770	2,484	(320)	9,616
EBITDA	**2,499**	**5,686**	**1,559**	**1,791**	**-**	**11,535**
EBITDA margin	**62.6%**	**72.2%**	**29.3%**	**41.9%**		**54.5%**
Net profit						**8,552**
Net profit margin						**40.4%**

Operating segments performance – 2011

	Email, Portal and IM	Social Networks	Online Games	E-commerce, Search and other	Eliminations	Group
Revenue						
External revenue	3,591	4,712	4,216	2,696	-	15,215
Intersegment revenue	-	-	-	146	(146)	-
Total revenue	**3,591**	**4,712**	**4,216**	**2,842**	**(146)**	**15,215**
Total operating expenses	1,178	1,300	2,994	1,508	(146)	6,834
EBITDA	**2,413**	**3,412**	**1,222**	**1,334**	**-**	**8,381**
EBITDA margin	**67.2%**	**72.4%**	**29.0%**	**46.9%**		**55.1%**
Net profit						**6,215**
Net profit margin						**40.8%**

Display advertising
Display advertising revenue is generated from banner, and similar, advertisements on our websites. Advertisements are sold either on the time that they last, or on the number of page views. In certain cases, advertisements are sold on a "per action" basis, where our clients pay for each action performed by a user, such as an online application for a credit card. Our standard rates depend on a number of factors, including the page on which the banner appears, amount and the length of the contract, the season, and the advertisement's format, size and position. In 2012, we generated revenue of RUR 5,006 million (2011: RUR 4,357 million) from display advertising. Our display advertising revenue increased by 14.9% vs 2011, largely in line with overall display advertising market. The growth in display advertising was adversely affected by a number of negative factors in the second half of 2012, including a planned reduction in advertising inventory on some of our properties, the ban on alcohol advertising in Russia and inventory adjustments for TV. The performance in display advertising was also negatively affected by trends in ICQ display advertising revenue which declined in 2012 as we reduced the monetisation rate at ICQ in order to improve the user experience.

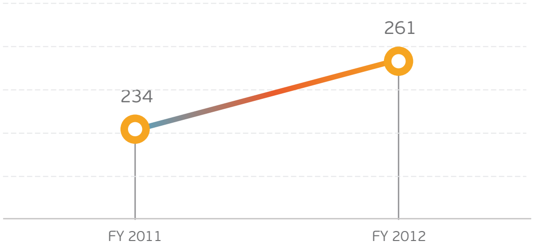
Context advertising
Context advertising revenue is mainly earned through partnerships with third parties – principally Google. When a user carries out a search on our search page, results – together with advertisement links – are displayed based on certain parameters, including relevance to the topic. We also sell text links to third-party advertising networks (principally Google and Yandex) which are displayed based on certain parameters. When users click on advertisements they are directed to the advertisers' websites; we receive a portion of the subsequent fee earned by the third party. From 2011, we launched our own self-service context advertising technology, Target.Mail.Ru ("Target") on a number of our properties, including My World and OK social networks. The advertisements are sold to advertisers through an online auction at Target. We generate revenue when users click on advertisements and are directed to advertisers' websites.

In 2012, we earned revenue of RUR 2,431 million (2011: RUR 1,685 million) from context advertising representing growth of 44.3%. The significant increase in our context advertising revenue is due to an increase in search (particularly due to successful digital distribution, including our toolbar) and other context revenue as well as revenues from Target. The strong performance was partially offset by ICQ context revenue which declined in 2012 as part of a planned reduction in ICQ monetisation aimed at improving the user experience. Growth in our search context revenue has been primarily driven by growth in the overall context advertising market.

IVASs
We generate a significant portion of our revenue from IVASs. These include MMO games, community and other IVASs.

MMO games
Approximately 40% of our IVAS revenue is generated by MMO games. Players have the opportunity to buy in-game enhancements for these free-to-¬play games; revenue is recognised net of any commissions to distributors or SMS operators. In 2012, we generated revenues from MMO games of RUR 4,732 million (2011: RUR 3,807 million). The increase in MMO revenues of 24.3% vs 2011 is primarily due to a c. 12% growth in annual average monthly MMO paying users and increased ARPPU. MMO paying users data is presented in the table below:

MMO average monthly paying users, thousands*



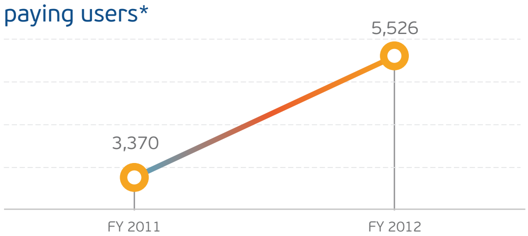
* Source: Company data. The numbers combine paying users of individual MMO games and include overlap

As part of our strategy of focusing on the quality, rather than quantity, of our games, we discontinued the operation of certain slower performing titles in late 2011 and in 2012, which negatively affected the number of paying users (including overlap) but resulted in increased ARPPU in 2012.

Community IVASs
Community IVAS revenue is driven by payments for features and virtual items sold primarily on our social networks. Such features and items include virtual gifts, revenue sharing with developers through our Application Programming Interface ("API"), revenue from our own social games and revenue from dating services. A significant portion of these payments are paid for via SMS, and revenue is recognised net of commission paid to distributors or SMS operators.

Aggregate segment Community IVAS revenue increased by 78.7% to reach RUR 6,739 million (2011: RUR 3,771 million). The growth was achieved primarily through increase in annual average monthly paying users by c. 64% vs 2011, driven by overall growth in user engagement. In addition, the 2012 performance was impacted by the fact that our share of revenue from API on My World increased from 30% to 50% effective January 2012. Community IVAS monthly average paying users data is presented in the following table:

Community IVAS, thousands of average monthly paying users*



* Source: Company data. The numbers combine paying users of Odnoklassniki, My World, love.mail.ru and our own social games on third-party networks and include overlap

Other revenue

Other revenue is primarily generated through subscriptions to the résumé database on Headhunter, our online recruitment site. The increase by 40.6% in Other revenue was primarily driven by overall macroeconomic environment and Headhunter's leadership on the online jobs market.

Costs and margins

Our principal cost items include personnel expenses, office expenses, agent/partner fees, marketing expenses, server hosting expenses, professional services and other operating expenses, excluding depreciation and amortisation.

Personnel expenses increased by 30.1% to RUR 4,506 million (2011: RUR 3,463 million). The majority of the increase was driven by headcount growth, primarily in our core IT and product personnel. The increase in average headcount was c. 20%, with the rest of the personnel expenses increase attributed to growth in average salaries. Overall, personnel expenses grew at a rate below that of the revenue growth, demonstrating operating leverage of the business and our control over the number and quality of people that we hire. Office rent and maintenance expenses increased by 45.0% to RUR 489 million (2011: RUR 338 million) mainly due to increased average office area as a result of growing headcount and, albeit to a lesser extent, due to inflation in rent per square meter for some of our offices. Agent/partner fees increased by 54.7% to RUR 1,971 million (2011: RUR 1,273 million).

The increase in agent/partner fees was primarily driven by digital distribution costs, growth in fees for games licensed from other developers and increase in revenue collection costs. Digital distribution represents arrangements whereby we pay third-party websites for distributing our toolbar, our main page and search service to users. The increase in these costs reflects our enhanced digital distribution effort starting from the second half of 2011.

The increase in fees for games licensed from other game developers resulted from growing share of online games revenue derived from games developed by third parties. Revenue collection costs represent fees to payment systems for processing payments for our IVASs. The increase in these costs resulted from growth in our IVAS revenues, as well as decreased share of cash collection via SMS, where the collection costs are netted against revenues rather than recorded as a cost line.

Marketing expenses increased by 27.2% to RUR 702 million (2011: RUR 551 million). The main drivers of the increase include marketing of our games and increased PR activities for our key products. Server hosting expenses grew 29.0% to RUR 633 million (2011: RUR 491 million) as a result of an increase in the number of servers as we continued to invest in infrastructure to support the growth of our operations and user base. Professional fees increased by only 5.4% to RUR 257 million (2011: RUR 244 million). The modest increase was primarily due to a reduction in consulting services offset by an increase in training expenses, as we continued to put a strong focus on professional training and development of our core engineering employees. Other operating expenses, excluding depreciation and amortisation increased by 123.3% to RUR 1,058 million (2011: RUR 474 million). These expenses include a variety of items not included in the other expense lines. The growth primarily resulted from the implementation of several not-for-profit corporate projects in 2012.

Our aggregate segment EBITDA margin decreased slightly to 54.5% (2011: 55.1%) primarily as a result of increased agent/partner fees and other operating expenses partially mitigated by operating leverage primarily derived from personnel expenses, professional fees, server hosting and marketing expenses.

Key strategic associates[1]

The decrease in share in net income of key strategic associates by 13.7% to RUR 291 million (2011: RUR 337 million) is due to decrease in net profit attributable to the equity holders of the parent of VK by 94.5%, partially offset by an increase in net profit attributable to the equity holders of the parent of Qiwi by 109.0%. Qiwi's revenue grew by 9.2%, as growth in processed payment volume and advertising revenue was partially offset by a decline in revenue from rent of space for pay kiosks resulting from the transfer by Qiwi of a significant portion of the respective business to its associate. Qiwi's margins significantly improved, however, primarily due to decreased cost of revenue, including transaction fees payable to agents (as a result of lower share of revenue received from mobile network operators) and cost of rent of space for pay kiosks (as Qiwi transferred a significant portion of the respective business to its associate). VK's revenues grew by 44.1%, but margins fell significantly driven by considerable investment in the team and infrastructure.

Depreciation and amortisation, other non-operating income, income tax and net income

Depreciation and amortisation (including impairment of intangible assets) decreased by 2.2% to RUR 1,133 million (2011: RUR 1,160 million) primarily as a result of accelerated amortisation and impairment of certain slower performing games in the amount of RUR 181 million recognised in 2011 as a result of our new strategy in the Online Games segment, as we decided to focus more on the quality of our games, rather than quantity. This effect was partially offset by increased depreciation primarily due to continued investment in server equipment and network infrastructure.

Other non-operating income increased by 76.3% to RUR 431 million (2011: RUR 244 million) primarily driven by increase in interest income on cash deposits and dividend income from venture capital investments.

Income tax expense increased by 61.9% to RUR 2,572 million (2011: RUR 1,588 million) primarily driven by an increase in profit before income tax by 42.5% to RUR 11,123 million (2011: RUR 7,803 million) and an increase in effective tax rate to 23.1% (2011: 20.4%) as a consequence of higher tax charges on dividend payments within the Group and higher non-deductible expenses in 2012 as compared to 2011.

Net income increased by 37.6% to RUR 8,552 million (2011: RUR 6,215 million) driven by an increase in profit before tax and partially offset by an increase in effective tax rate.

1. The operating segment data in respect of key strategic associates is presented based on principles used for presentation of operating segments results, i.e. excluding certain IFRS adjustments (see "Basis of preparation" above and Note 5 to our consolidated financial statements for further details). The revenue of VK is presented on a gross basis, i.e. including advertising commissions and payment channel costs, consequently neither revenues, nor margins are comparable with other operating segments data. Qiwi revenue and net income for 2011 have been retrospectively adjusted for operations discontinued by Qiwi in 2012.

Reconciliation to IFRS

	2012	2011
Total revenue, as presented to CODM	**21,151**	**15,215**
Adjustments to reconcile revenue as presented to CODM to consolidated revenue under IFRS:		
Differences in timing of revenue recognition	(436)	(446)
Barter revenue	78	61
Dividend revenue from venture capital investments	112	105
Consolidated revenue under IFRS	**20,905**	**14,935**

	2012	2011
Total net profit, as presented to CODM	**8,552**	**6,215**
Adjustments to reconcile net profit as presented to CODM to consolidated net profit under IFRS:		
Share-based payments	(2,217)	(1,895)
Differences in timing of revenue recognition	(436)	(446)
Effect of operations disposed of, difference in shareholding percentages and acquisition dates of subsidiaries and associates	-	(19)
Amortisation of fair value adjustments to intangible assets and impairment thereof	(1,721)	(1,801)
Gain/(loss) on financial instruments at fair value through profit or loss	563	(630)
Fair value adjustments related to acquisitions and disposals	-	9
Net gain on disposal of shares in available-for-sale investments	33,948	-
Impairment of investments in strategic associates	(718)	(173)
Net foreign exchange gains (losses)	764	(128)
Share in financial results of non-core associates	27	(165)
Other	(45)	(44)
Tax effect of the adjustments and tax on unremitted earnings	(441)	85
Consolidated net profit under IFRS	**38,276**	**1,008**

	2012	2011
Group aggregate segment EBITDA	**11,535**	**8,381**
Adjustments to reconcile EBITDA as presented to CODM to consolidated profit before income tax expenses under IFRS:		
Depreciation and amortisation	(2,703)	(2,665)
Differences in timing of revenue recognition	(436)	(446)
Finance income	325	120
Gain/(loss) on venture capital investments revaluation	563	(630)
Impairment losses related to strategic associates and available for sales investments	(718)	(173)
Impairment of intangible assets	(11)	(209)
Net foreign exchange gains/(losses)	764	(128)
Net gain/(loss) on disposal of shares in available-for-sale investments	33,948	-
Other	15	50
Share of profit/(loss) of strategic associates	112	14
Share-based payments	(2,217)	(1,895)
Dividend revenue from venture capital investments	112	105
Profit before income tax expense	**41,289**	**2,524**

Analysis of H2 2012 aggregate segment results in comparison with H2 2011

	H1 2011 RURm	H2 2011 RURm	H1 2012 RURm	H2 2012 RURm	H2 YoY, %
Group aggregate segment revenue					
Display advertising	1,681	2,676	2,188	2,818	5.3%
Context advertising	743	942	1,083	1,348	43.1%
Total online advertising	**2,424**	**3,618**	**3,271**	**4,166**	**15.2%**
MMO games	1,818	1,989	2,171	2,561	28.8%
Community IVAS	1,556	2,215	3,220	3,519	58.8%
Total IVAS	**3,374**	**4,204**	**5,391**	**6,080**	**44.6%**
Other revenue*	718	878	1,031	1,212	38.1%
Total Group aggregate segment revenue	**6,516**	**8,699**	**9,693**	**11,458**	**31.7%**
Group aggregate segment EBITDA	**3,320**	**5,061**	**5,318**	**6,217**	**22.8%**
Segment EBITDA margin	51.0%	58.2%	54.9%	54.3%	
Group aggregate net profit	**2,409**	**3,806**	**4,003**	**4,548**	**19.5%**

*Other revenue includes Other IVAS

Despite tougher market conditions in display advertising in the second half of 2012 combined with a planned reduction in advertising inventory on some of our properties, we continued to demonstrate considerable growth in all other revenue lines and increased aggregate segment revenue by 31.7% vs H2 2011 and by 18.2% vs H1 2012. Most of the growth was concentrated in Community IVAS (58.8% vs H2 2011) and context advertising (43.1% vs H2 2011). The growth in Community IVAS was primarily driven by an increase in paying users in the Odnoklassniki social network. The context advertising revenue growth was mainly driven by expanding market size.

Aggregate segment EBITDA increased by 22.8% in H2 2012 vs H2 2011 due to growth in revenues partially offset by an increase in operating expenses (particularly Personnel and Other) as a percentage of revenue, as the increase in headcount and the timing of a large corporate not-for-profit project were mainly concentrated in the second half of 2012. As a result, EBITDA margin decreased to 54.3% in H2 2012 vs 58.2% in H2 2011.

Aggregate net profit increased by 19.5% to RUR 4,548 million (H2 2011: RUR 3,806 million) primarily as a consequence of growth in EBITDA and interest income and decreased amortisation, partially offset by a decrease in VK's net profit and increased income tax expense.

Financial position

Liquidity and capital resources

Throughout the year our financial position remained healthy. Cash and bank deposits as at December 31, 2012 amounted to RUR 28,762 million (2011: RUR 5,132 million).

We have historically principally relied on our own cash flow and the issue of equity as sources of funding. We have generally not used debt financing for acquisitions or for operations and, at the end of 2012, had no outstanding debt. Consolidated operations have been cash flow positive since 2009. In 2012, net cash provided by operating activities amounted to RUR 8,620 million (2011: RUR 6,401 million).

Net cash provided by operating activities grew by 34.7% in 2012 vs 2011 primarily due to the effect of organic growth in net income partially offset by slightly decreased cash conversion as a result of substantial cash deposits as part of our new office lease and fitout arrangements. The ratio of net cash provided by operating activities to consolidated revenues decreased insignificantly to 41.2% in 2012 (2011: 42.9%).

Capital expenditure to acquire property and intangible assets increased by 56.5% to RUR 1,951 million driven primarily by expansion of our infrastructure and acquisition of gaming licenses as well as development of new games.

Cash provided by investing activities in 2012 also included RUR 42,260 million of proceeds from sale of available-for-sale investments.

Issue of equity, GDR buying programme and special dividend

The majority of our acquisitions have, in the past, been financed through the issue of equity. The Company did not issue any equity in 2012.

In October 2011, we commenced, through Mail.ru Employee Benefit Trustees Limited (the "Trustee"), a GDR buying programme of up to US$35 million in order to cover a part of the employee and director options of the 2010 Option

Plan. The programme was completed in 2012. Under the GDR buying programme, we acquire GDRs representing shares of the Company and subsequently transfer the GDRs to the respective option holders upon the exercise of the options. We intend to hold the GDRs in treasury to be used over the next four years.

In 2012 we acquired a total of 288,051 GDRs (2011: 651,534) on the market for an aggregate consideration of RUR 297 million (2011: RUR 633 million). We account for GDRs repurchased as treasury shares.

In 2012 we also paid a special dividend of USD 3.80 per GDR in the amount of RUR 25,174 million.

Management

Board of Directors

Dmitry Grishin, age 34
Co-Founder, CEO (Russia) and Chairman of the Board

Dmitry Grishin co-founded Mail.Ru Group in 2005. He was appointed Chief Executive Officer (Russia) in November 2010 and Chairman in March 2012. Dmitry joined Mail.Ru in 2000 and was promoted to Technical Director in 2001. From 2003 to 2010, he led the business as CEO. Dmitry graduated from the Faculty of Robotics and Complex Automation at Moscow State Technical University and in 2012 founded Grishin Robotics, a global investment company that is dedicated to supporting personal robotics around the world.

Gregory Finger, age 47
Director

Gregory Finger is a founding member of the Company and has been a Director since December 2006. He has played a key role in many of the Company's high-profile investments. Gregory graduated with honors, in 1988, from the Moscow Institute of Chemical Engineering with a specialization in automated control systems. From 1992 to 2005, he headed the Moscow office of New Century Holdings – the largest Western financial investor in the Russian-speaking and Eastern Europe markets. Here, he worked with more than 15 investment funds, one of which had US$3 billion in assets under management. Gregory began investing in the internet sector in 1999 and made New Century Holdings' first internet investment – an early stake in Mail.Ru.

Marcos Galperin, age 42
Independent Director

Marcos Galperin was appointed to the Board in October 2010. As a founder and CEO of MercadoLibre – Latin America's leading e-commerce technology company – he has an extensive knowledge of the internet industry. From 1994 to 1997 Marcos was a Futures and Options Associate, managing currency and oil derivatives programs for YPF S.A., an integrated oil company in Argentina. He graduated with honors from the Wharton School of the University of Pennsylvania in 1994 and received an MBA from Stanford University in 1999. Marcos is a member of the Management Board of Stanford Graduate School of Business and is also a Director of the Board of Endeavor.

Matthew Hammond, age 38
Managing Director

Matthew Hammond was appointed to the Board in May 2010 and became Managing Director in April 2011. Matthew graduated from Bristol University, UK, in 1996, with a degree in Economics and History. From 1997 to 2008, he was a technology analyst at Credit Suisse and was ranked number 1 in the Extell and Institutional Investor Survey eight times. Matthew is a non-executive director of Nautilus Minerals Inc., Strike Resources and Puricore.

Sang Hun Kim, age 49
Independent Director

Sang Hun Kim was appointed to the Board in February 2011. He has been Chief Executive of South Korea's NHN Corporation since April 2009 and was previously its Executive Vice President of Business Management. Sang Hun graduated in law from Seoul National University before going on to earn a Master's degree in law from Harvard Law School. He has served as a judge at the Seoul Central Court.

Charles St. Leger Searle, age 49
Director

Charles Searle is currently Chief Executive Officer of MIH Internet Listed Assets. He serves on the boards of a number of companies that are associated companies with MIH, including Tencent Holdings Ltd. Prior to joining the MIH group, he held positions at Cable & Wireless plc and at Deloitte & Touche in London and Sydney. Mr. Searle is a graduate of the University of Cape Town and a member of the Institute of Chartered Accountants in Australia. Mr. Searle has more than 20 years of International experience in the telecommunications and internet industries.

Vasileios Sgourdos, age 43
Director

Vasileios Sgourdos was appointed to the Board in October 2010. A chartered accountant, he became Group Chief Financial Officer for MIH which owns South African listed Naspers' Internet and Pay TV businesses in January 2009. He was formerly director of Abril SA, Latin America's leading magazine publisher and serves on the Board of a number of other companies in the MIH Group. From 2007 he was General Manager for Business Development Pay Television at MIH in The Netherlands and from 1997 to 2007, was CFO at Thailisted pay TV operator UBC. He graduated with a Bachelor of Commerce degree from the University of Witwatersrand, South Africa, and is an Honours Bachelor in Accounting Science from the University of South Africa. He is a registered member of the South African Institute of Chartered Accountants.

Mark Remon Sorour, age 51
Director

Mark Sorour was appointed to the Board in August 2010. A chartered accountant, he joined the Naspers Group in 1994 and has been Chief Investment Officer since 2002. This role gives Mark worldwide responsibility for the Naspers Group's M&A, corporate finance and capital-market fundraising activities. Mark's 18 years' experience in internet, technology and pay TV businesses includes business development and dealmaking in Africa, the Middle East, Thailand, India, China, Europe, the USA, Latam and South-East Asia.

Vladimir Streshinsky, age 43
Director

Vladimir Streshinsky was appointed to the Board in August 2008. He presently holds the positions as follows: CEO of USM Advisors LLC, Member of the Boards of Directors of OJSC MegaFon, CJSC Kommersant Publishing House, New Media Technologies Capital Partners Limited and OJSC Telecominvest. He graduated with honors in applied mathematics from Moscow Physics and Technology Institute in 1992.

Ivan Tavrin, age 36

Director

Ivan Tavrin was appointed to the board in April 2011. Ivan is currently the CEO of Megafon, one of the largest mobile networks in Russia. He is also Chairman of the Board and a shareholder in UTH, one of the largest commercial media holding companies in Russia. In 2009, Ivan Tavrin received "Russia's Media Manager of the Year" award. In 1997 he founded "Construct-Region" and developed it into the largest agency in the regional advertising market. Ivan was involved in establishing a number of successful Russian media companies, including Regional Media Group, Media One Holding, Vyberi Radio Group and TV-3. He is also a member of the Executive Board of the National Association of TV and Radio Broadcasters. He is a graduate of the Moscow State Institute of International Relations (MGIMO).

Senior management

Dmitry Grishin, age 34

Co-Founder, CEO (Russia) and Chairman of the Board

Dmitry Grishin co-founded Mail.Ru Group in 2005. He was appointed Chief Executive Officer (Russia) in November 2010 and Chairman in March 2012. Dmitry joined Mail.Ru in 2000 and was promoted to Technical Director in 2001. From 2003 to 2010, he led the business as CEO. Dmitry graduated from the Faculty of Robotics and Complex Automation at Moscow State Technical University and in 2012 founded Grishin Robotics, a global investment company that is dedicated to supporting personal robotics around the world.

Verdi Israelian, age 37

Chief Financial Officer, Chief Operating Officer (Russia)

Verdi Israelian joined an affiliate of Mail.Ru in 2009 and was appointed COO (Russia) of Mail.Ru Group in November 2010 and CFO in August 2011. He was previously co-head of the European Special Situations Group (CIS operations) at Goldman Sachs in Moscow. Before working at Goldman Sachs, Verdi was deputy head of Russia Investment Banking at Morgan Stanley. He has also worked at Arthur Andersen and Lehman Brothers. Verdi holds an MBA from the Rotterdam School of Management, Erasmus University.

Matthew Hammond, age 38

Managing Director

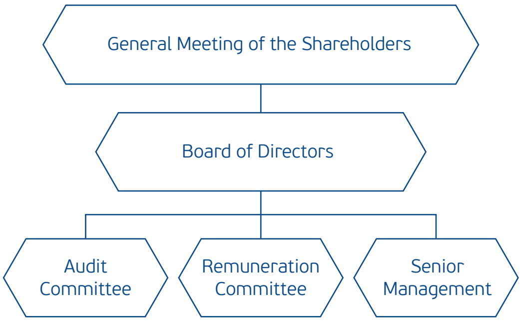
Matthew Hammond was appointed to the Board in May 2010 and became Managing Director in April 2011. Matthew graduated from Bristol University, UK, in 1996, with a degree in Economics and History. From 1997 to 2008, he was a technology analyst at Credit Suisse and was ranked number 1 in the Extell and Institutional Investor Survey eight times. Matthew is a non-executive director of Nautilus Minerals Inc., Strike Resources and Puricore.

Corporate governance

The Company is incorporated in the British Virgin Islands with the principal office in Dubai.

Governance structure

In accordance with the Articles of Association of the Company and applicable BVI law, our ultimate decision-making body is the shareholders' meeting. This is followed by the Board of Directors, they are responsible for the general management of the Company including coordinating strategy and general supervision. We also have an Audit Committee and a Remuneration Committee. Senior managers are involved in the day-to-day running of the Company.



Share capital structure

Authorised and issued share structure of the Company as of the date hereof

Class of share	Authorised shares	Issued shares
Class A (US$0.000005 par value each)	10,000,000,000	80,530,000
Ordinary (US$0.000005 par value each)	10,000,000,000	128,574,211

Both classes of shares are in registered form and in respect of Ordinary Shares, Global Depositary Receipts representing interests in those Ordinary Shares have been issued by Citibank NA, which are traded on the London Stock Exchange.

As of the date hereof, there are the following types of options over the Company's shares:

– options for 6,423,842 Ordinary Shares granted to the Mail.Ru Employee Benefit Trust on 11 November 2010 with an exercise price of US$27.70, which was reduced by $3.80 on 17 August 2012 and then by $4.30 on 20 March 2013 resulting in the exercise price of US$19.6. Out of these options 4,548,736 options are currently allocated for the benefit of the Directors, employees and consultants of the Company, 1,790,157 of which are vested. Except for the options allocated for the benefit of the Directors, the options have a 4-year vesting schedule. Options allocated for the benefit of the Directors have a 2-year vesting schedule and are fully vested. Out of 6,423,842, options 1,579,099 options were exercised; and

– Options for 4,282,561 Ordinary Shares granted to the Mail.Ru Employee Benefit Trust on 22 December 2011 with an exercise price of US$25.60, which was reduced by $3.80 on 17 August 2012 and then by $4.30 on 20 March 2013 resulting in the exercise price of US$17.5. Out of these options, 3,274,425 options are currently allocated for the benefit of the employees and consultants of the Company, 683,175 of which are vested. The options have a 4-year vesting schedule. Out of 4,282,561 options, 213,700 options were exercised.

During the 2012 financial year, the Company itself did not acquire any of its own shares. However, the Mail.Ru Employee Benefit Trust continued a GDR buying program during Q2, spending US$9.4 million (RUR 297 million) on 288,051 GDRs at an average price of US$32.58. All of the GDRs purchased during this period are held by the Mail.Ru Employee Benefit Trust and will be used over the lifetime of the option program.

Annual General Meeting of shareholders

The shareholders' meeting is the Company's supreme governing body. They are convened by the Board of Directors or by the written request of shareholders who hold, in aggregate, 30% or more of the outstanding votes in the Company.

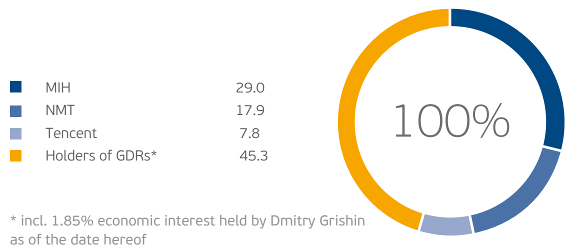
The share capital of the Company is divided into two classes of shares: Class A Shares and Ordinary Shares. Class A Shares each carry 25 votes at shareholders' meetings while Ordinary Shares carry one vote per share.

The agenda for the shareholders' meetings is determined by the Board of Directors. However, a shareholder or shareholders who hold, in aggregate, 10% or more of the outstanding voting shares of the Company may add items to the agenda in compliance with the following stipulations:

1. no later than a week before the meeting;

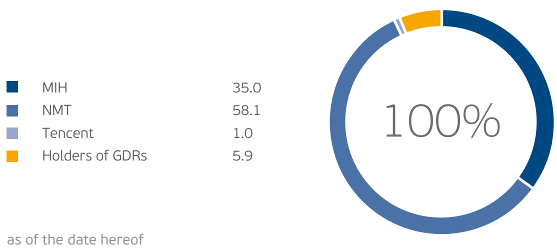
2. at the meeting itself, with the consent of shareholders who hold, in aggregate, more than 50% of outstanding voting shares of the Company.

Shareholders' economic interest, %



* incl. 1.85% economic interest held by Dmitry Grishin
as of the date hereof

Shareholder's voting interest, %



as of the date hereof

Restrictions on transfer

Ordinary Shares are freely transferable. Class A Shares, however, are subject to restrictions on transfer. Other than in certain circumstances detailed in the Articles of Association, they automatically convert into Ordinary Shares upon transfer. This is on the basis that each Class A Share automatically converts into one Ordinary Share and ranks pari passu in all respects with the existing Ordinary Shares in issue.

Voting rights

- Each Class A Share has the right to 25 votes at a meeting of the shareholders of the Company or on any resolution of the shareholders of the Company;
- Each Ordinary Share has the right to one vote at a meeting of the shareholders of the Company or on any resolution of the shareholders of the Company.

Board of Directors

The Board of Directors is responsible for the general management of the Company. This includes the co-ordination of strategy and general supervision.

The Articles of Association specify that there shall be ten Directors – eight of whom are nominated and elected by shareholders (the "Elected Directors") and two of whom are independent Directors (the "Independent Directors").

The Elected Directors are appointed by shareholder cumulative voting for a period from the date of their appointment until the second Annual General Meeting of shareholders after that date. On expiry of their term, Elected Directors must resign, but are eligible for re-election.

Any shareholder, or group of shareholders, who holds, in aggregate, no less than 10% of the total number of votes attached to the issued shares, is entitled to nominate Directors for election to the Board of Directors. This must not be less than 21 days before any Annual General Meeting at which an Elected Director is due to resign.

The Independent Directors are nominated by the Board of Directors and appointed by a resolution of the Board of Directors. Independent Directors serve for the period specified in their terms of appointment, as specified by the Board.

The Board of Directors elects one of its members to act as Chairman.

Powers of the Board of Directors

The Board of Directors is granted the authority to manage the business affairs of the Company. They have the authority to make decisions relating to, among other things, the following:

- The right to issue shares and other securities (except as otherwise required by the Company's Memorandum and Articles of Association);
- The approval of the annual budget and annual financial statements of the Company;
- The declaration of any dividend;
- The convening of any shareholders' meeting;
- The appointment of the Company's auditors;
- The appointment of any committee of the Board of Directors, including the Company's Audit Committee and Remuneration Committee (see below);
- The exercise of all rights of the Company in relation to ICQ LLC;
- The approval of any proposal under which the Company or any subsidiary of the Company delegates any substantial management authority to any other entity;
- The approval of transactions which are not Substantial Transactions (as defined in the Articles of Association);
- The appointment and removal of any Officer of the Company, or any Officers or Directors of any direct subsidiary of the Company (including but not limited to any Chief Executive Officer, Chief Financial Officer or Chief Operating Officer);
- The determination of the scope of authority of the Chief Executive Officer, and the adoption of any guidelines for the exercise of such authority, as adopted by the Board of Directors from time to time.

The Board of Directors, or any committees thereof, meet when and how the Directors determine to be necessary or desirable. Meetings are held in the Company's principal office in Dubai, or wherever the majority of the Directors agree.

A resolution at a duly constituted meeting of the Board of Directors or of a committee of Directors is approved by a simple majority vote of the Directors. A resolution consented to in writing is approved by an absolute majority of all the Directors. For the purposes of establishing a majority, the Chairman of the Board (or chairman of the meeting as the case may be) has a casting vote in the event of a tie.

Name	Position	Date of appointment	Expiry of term
Dmitry Grishin	Chairman	14 March 2012	2013 AGM
Gregory Finger	Elected Director	14 December 2006	2013 AGM
Matthew Hammond	Elected Director	19 May 2010	2013 AGM
Vladimir Streshinskiy	Elected Director	3 August 2008	2013 AGM
Charles Searle	Elected Director	16 February 2012	2013 AGM
Mark Remon Sorour	Elected Director	27 August 2010	2013 AGM
Ivan Tavrin	Elected Director	21 April 2011	2013 AGM
Vasileios Sgourdos	Elected Director	18 October 2010	2013 AGM
Marcos Galperin	Independent Director	22 October 2010	2013 AGM
Sang Hun Kim	Independent Director	7 February 2011	2013 AGM

Senior management

The senior management is involved in the day-to-day management of the Company.

Name	Position	Appointment
Dmitry Grishin	Chief Executive Officer, Russia	November 2010
Verdi Israelian	Chief Operating Officer, Russia;	November 2010
	Chief Financial Officer	August 2011
Matthew Hammond	Managing Director	April 2011

Committees of the Board of Directors

The Company has an Audit Committee and a Remuneration Committee.

Audit Committee

The Audit Committee is approved by the Company's Board of Directors and meets on a regular basis, but not less than once per six months.

The purpose of the Audit Committee is to assist the Company's Board of Directors in fulfilling its responsibilities in respect of:

- the quality and integrity of the Company's integrated reporting including its financial statements;
- the Company's compliance with key applicable legal and regulatory requirements as relating to financial reporting;
- the quality and independence of the Company's external auditors;
- the performance of the Company's internal audit function and the external auditors;
- the adequacy and effectiveness of internal control measures, accounting practices, risk management, information systems and audit procedures; and
- monitoring compliance with the Company's code of ethics.

The Audit Committee is responsible, among other things, for:

- Annual financial statements and interim financial results;
- Regular internal reports to management prepared by the internal auditing department and management's response;
- External auditors' reports – including the receipt and review of reports, which furnish, in a timely fashion, information relating to various accounting matters – and matters relating to internal controls if applicable;
- Annually reviewing and reporting on the quality and effectiveness of the audit process. Assessing the external auditors' independence, deducing whether they have performed the audit as planned and establishing the reasons for any changes. Obtaining feedback about the conduct of the audit from key members of Mail.Ru's management, including the CFO;
- Reviewing the performance of the external auditors and evaluating the lead partner and discharging and replacing, in consultation with the Board, the external auditor or lead audit partner when circumstances warrant;
- Presenting the Committee's conclusions in respect of the external auditors to the Board;
- Evaluating and providing commentary on the external auditors' audit plans and scope of findings, identifying issues and reports, and approving non-audit services performed by the external auditor;
- Reviewing procedures to ensure that the requirements of the United Kingdom Listing Authority (UKLA) and the London Stock Exchange (LSE) are complied with.

Members of the committee
Vaselios Sgourdos, Chairman
Vladimir Streshinskiy
Gregory Finger

Remuneration Committee

The Remuneration Committee is responsible for approving the terms of appointment and remuneration of the Company's senior managers as well as the approval of options to be granted under the option plan. They meet on an appropriate basis accordingly.

The Remuneration Committee meets on an appropriate basis accordingly.

Members of the committee
Ivan Tavrin, Chairman
Charles Searle
Gregory Finger
Dmitry Grishin

Internal control and risk management systems in relation to the financial reporting process

Internal control is exercised by the Board of Directors, Executive and Regulatory Bodies, officers and other employees of the Company. Their aim is to secure the achievement of goals set by the Group in the following areas:

- efficiency and effectiveness of business activity of the Company;
- reliability and credibility of the Company's reporting; and
- compliance with the requirements of regulatoryacts and internal documents of the Company.

The Company's senior management is responsible for identifying and controlling risks. These activities are supervised by the Board of Directors - the Company's governing body and those ultimately responsible for the Group's overall approach to risk management.

The following functions are performed by the Internal Audit Department:

- Carrying out internal audits, reviews and other engagements with respect to the Group's subsidiaries;
- Assessing the effectiveness of the internal control systems of the Company, including its subsidiaries and associates and proposing recommendations as a result of those assessments;
- Assessing the effectiveness of the risk management process within the Company and proposing recommendations as a result of those assessments;
- Providing necessary consultations to the management of the Company and its subsidiaries and associates on appropriate corrective action plans flowing from internal audits.

In 2011, the Company successfully implemented ERP software in its major operating subsidiaries and a financial consolidation system. In 2012, the Company further improved the IFRS reporting process and enhanced controls over financial reporting and as a result, effectively remediated the significant deficiencies (as defined in ISA 265) in internal controls that had been identified in prior years.

Corporate governance code

The Company, as a BVI incorporated limited company with a listing of Global Depositary Receipts on the Official List maintained by the UK Listing Authority which are admitted to trading on the London Stock Exchange, is not subject to any corporate governance code, nor has it voluntarily decided to apply any corporate governance code.

However, the Company does apply corporate governance standards, including: the appointment of two Independent Directors to its Board of Directors, the appointment of Remuneration and Audit Committees, and periodic reelection of Directors. This goes beyond the requirements of national law.

The Board of Directors has adopted various policies and charters relating to the Company's governing bodies. These include the Board Charter, Code of Ethics and Business Conduct, Directors' Right to Access Information/Documents Policy, Legal Compliance Policy, Charter of the Audit Committee, Internal Audit Charter, Remuneration Committee Charter, and the Trading Policy for Directors, Senior Managers and Employees. These are all followed by the Company in all material respects.

Policies and other details of the Company's corporate governance practices can be found at http://Corp.Mail.Ru/en/IR/CorpGovernance.

Risk management

Summary

The Company's operations include strategic operations and venture capital investments. Its financial risk management objectives and policies for these operations are based on the significant difference in the degree of risk tolerance between strategic and venture capital operations.

Financial risk arising from the Company's strategic operations is managed through in-depth regular reviews of all operational segments and day-to-day management of their financial and operating activities by key management personnel. In contrast, management of the financial risk arising from its venture capital activities is primarily based on regular reviews of the effect of the existing and prospective investees' operating performance on their fair values, which serve as the foundation for the Company's investment and divestment decisions as part of its venture capital operations.

The Company's principal financial liabilities, other than derivatives, mainly comprise short-term payables and accrued expenses. The main purpose of these liabilities is to finance its operations. The Company has short-term receivables, short-term time deposits, cash and cash equivalents, and other current financial assets that are created by its strategic and venture capital operations.

We present below the major aspects of our financial risk management policies and objectives (see Note 25 to the financial statements for further details).

Financial risk management structure

The Board of Directors intends to develop risk management policies which will cover the following major aspects: identification and analysis of the risks the Company faces, setting appropriate risk limits and controls, and monitoring risks and adherence to limits. Risk management procedures and systems are contemplated to be reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and responsibilities. The overall objective of the financial risk management is to minimize the risks to an acceptable level.

The Company Audit Committee has been established to oversee among other things how management monitors compliance with the Group's risk management practices and procedures when these will be developed and approved by the Board of Directors. Management is currently considering different options of risk management framework, which, when completed, will be followed by a detailed design phase. The development of the risk management framework is, however, at an early stage of development as of now.

Liquidity and financial resources

Credit risk

Financial assets, which potentially subject the Company and its subsidiaries and associates to credit risk, consist principally of cash and cash equivalents, short-term time deposits and short-term receivables. The total of these account balances represents the Group's maximum exposure to credit risk.

The Company places its cash and cash equivalents with highly rated financial institutions, which are considered at the time of deposit to have minimal risk of default. We do not require collateral or other security to support financial instruments which are subject to credit risk. The credit payment terms with which we provide our customers are based on market practices and thorough reviews of their profiles and creditworthiness.

Capital management policy

The Board maintains a strong capital base in order to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of share capital, share premium, retained earnings and non-controlling interests of the Group.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The market risks the Company is exposed to are of two types: currency risk and equity risk. The financial instruments that are affected by market risk include payables, cash and cash equivalents, short-term time deposits, available-for-sale investments, financial investments in associates and derivative financial instruments.

Foreign currency risk

The functional currency of the Company and majority of its subsidiaries and associates is the Russian rouble. The Group has, however, monetary assets and liabilities which are denominated in other currencies, and changes in exchange rates can result in gains or losses. In 2012, the Group recorded a gain of RUR 764 million (2011: a loss of RUR 128 million). Since, however, most of our operating expenses and revenues are denominated in roubles we believe we are not exposed to a significant transaction risk from currency fluctuations.

Equity price risk

The Company's unlisted equity securities are susceptible to market price risk arising from uncertainties about the future value of the investment securities. The financial instruments that are exposed to equity price risk include financial investments in associates and available-for-sale equity investments. The Company's derivative financial instruments are also subject to equity price risk, inasmuch as the underlying assets represent equity instruments of its investees.

The inherently-high equity risk of the Company's venture capital investments and associated derivative financial instruments is mitigated through a highly selective approach to venture capital investments, regular reviews of the fair value of existing and potential investees – by a team of highly-qualified venture capital investment professionals

– and maintaining the composition of the venture capital portfolio that includes a large number of investments in start-up ventures which operate in different segments of the internet industry.

The equity price risk of the Company's available-for-sale equity investments, and the equity price component of the risks associated with its derivative financial instruments over the equity of strategic associates, are dealt with as part of Group management's participation in the financial and operating management of the respective investees through their presence on the investees' boards of directors, inasmuch as the Group is entitled to such a presence.

Cash flow risk

The Company does not, in relation to its use of financial instruments, believe it has a cash flow risk which is material for the assessment of its assets, liabilities, financial position and performance.

Hedging

The Company has no hedging operations.

In 2012, the principal operating risks and uncertainties facing the Group were:

Operating environment of the Company

Most of our operations are in Russia. Russia continues with its economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects.

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may now be challenged. As such, significant additional taxes, penalties and interest may be assessed.

Competition

The development by domestic and large international internet companies of Russian language versions competing with the services we provide could decrease our user base and make us less attractive to advertisers.

Increased competition could result in a reduction in the number of users who buy our IVAS – including games – which, in turn, would result in lower revenue.

Private information

To become registered on a website operated by the Group, users have to input their personal data, which is then protected by the Company from access by third parties. Should such data become available to third parties as a result of hacker attacks, the Group may become a party to litigation from its users. Management believes that it takes all necessary steps to reduce the related risk to an acceptable level.

Intellectual property rights

The Group may be subject to infringement claims from third parties in the future resulting from the technology and intellectual property used in the provision and marketing of its services. If the Group is found liable for infringement, it may be required to pay significant damages, and if it is unable to license or develop non-infringing technology on a timely basis, it may be unable to continue to offer the affected services without risk of liability. Similarly, third parties may obtain and use the Group's intellectual property without authorization. The validity, application, enforceability and scope of protection of intellectual property rights for many internet-related activities are uncertain and still evolving, which may make it more difficult for the Group to protect its intellectual property, which could have a material effect on its business, results of operations and financial condition.

Development

A failure to innovate, to provide popular products and services or to react quickly to changes in the market could affect the popularity of our sites and, in turn, could affect advertising revenue. An inability to develop products and services which are compatible with new mobile devices could result in a failure to capture a significant share of an increasingly important market.

Regulation

In November 2012, new legislation came into effect introducing the Unified Register of the Domain names, Sites and IP-addresses containing information prohibited for dissemination in Russia (the "Black List"). Such information includes child pornography; information about production, distribution and sales locations of drugs and methods of suicide. The Black List is maintained by a designated authority. Failure by any property to comply with the authority's takedown request within 24 hours will result in immediate blocking of internet access to such property's domain, web site or IP address by Russian internet providers without a court order. The Group complies with Black List legislation and none of the Group's properties have been blocked up to date. However, abusive or erroneous application of the Black List legislation in the future may potentially lead to one or more of the Group's properties being blocked, which may have a significant adverse effect on the Group's revenues and profitability.

New laws and regulations, or new interpretations of existing laws and regulations, could require us to invest in restructuring certain services or could lead to a reduction in their take-up by users, with a resulting effect on revenue and profitability.

Personnel

As competition in Russia's internet industry increases, our business and operations could be adversely affected by difficulties in hiring, motivating and retaining highly skilled people. Competition for senior managers is high. One or more could join a competitor or set-up a competing company, with the result that operations and profitability could be affected by a loss of strategic direction, users, know-how and additional staff.

Infrastructure and capacity

If the infrastructure in Russia were not able to support increased demand, our services could be interrupted or our systems damaged. A limited availability of third-party providers of network and server capacity could limit our ability to offer certain services or to expand. Network or power failures could result in the loss of data.

Board and Management remuneration

The Remuneration Committee is responsible for approving the remuneration of the Directors and senior managers of the Company. It is also charged with reviewing and approving general policy relating to strategic compensation of the Company and its subsidiaries and the approval of options to be granted under the incentive scheme.

Further information on the Remuneration Committee can be found in the corporate governance section on page 43.

Interests of members of our Board of Directors and our employees

Certain members of our Board of Directors have beneficial ownership interests in our Global Depositary Receipts. The table below includes information of their ownership. Furthermore, it highlights any options over shares in the Company held, directly or indirectly, by each Director as of the date hereof.

The aggregate beneficial interest in the Company (excluding options granted over Ordinary Shares) held by senior managers and employees of the Company (including Dmitry Grishin and Matthew Hammond) as of the date hereof is about 2.2%.

Incentive scheme

In November 2010, the Board of Directors of the Company adopted an equity-based long-term incentive scheme. Under the scheme, the Board, or its Remuneration Committee, is authorized to grant options to acquire Ordinary Shares to a broad base of employees, consultants and Directors. This can be direct or through an employee benefit trust or vehicles controlled by such persons.

By the end of 2012, the 2010 Option Plan comprised options over an aggregate of 10,706,403 Ordinary Shares. On the IPO date, the Company assigned options for 6,423,842 Ordinary Shares to the Mail.Ru Employee Benefit Trust with an exercise price equal to the IPO price of US$27.70, which was reduced by $3.80 on 17 August 2012 and then by $4.30 on 20 March 2013 resulting in the exercise price of US$19.6. As of the date hereof, 4,548,736 of these options remain allocated for the benefit of the Directors, certain employees and consultants of the Company, 1,790,157 of which are vested. Except for the options allocated for the benefit of the Directors, the options have a 4-year vesting schedule. Options allocated for the benefit of the Directors have a 2-year vesting schedule and are fully vested.

Subsequently, in December 2011 the Company decided to assign options for 4,282,561 Ordinary Shares to the Mail.Ru Employee Benefit Trust with an exercise price equal to the then current market price of US$25.6, which was reduced by $3.80 on 17 August 2012 and then by $4.30 on 20 March 2013 resulting in the exercise price of US$17.5. As of the date hereof, options for 3,274,425 of these options remain allocated for the benefit of certain employees and consultants of the Company, 683,175 of which are vested. The options have a 4-year vesting schedule.

Compensation

Directors of the Company

In 2012, the total cash remuneration of the members of the Board of Directors (each a “Director” and collectively, “Directors”) of the Company amounted to RUR 47 million (excluding remuneration of Matthew Hammond and Dmitry Grishin as senior managers of the Company). It was RUR 42 million for 2011. In addition to the cash remuneration in 2011, Directors of the Company were granted options to acquire Ordinary Shares at the exercise price of US$27.7 (subsequently reduced to US$19.6), of which 428,256 remain unexercised and fully vested. None of the options were granted to Directors in 2012. The share-based payment expense recognized by the Group with respect to Directors’ options was RUR 47 million in 2012 and RUR 288 million in 2011.

Key Management of the Company

Total cash remuneration of the key management of the Company amounted to RUR 479 million in 2012 (including remuneration of Matthew Hammond and Dmitry Grishin as senior managers of the Company). In addition to the cash remuneration in 2010-2012, key management of the Group (including Matthew Hammond and Dmitry Grishin as senior managers of the Company) were granted options to acquire Ordinary Shares at the exercise price of US$27.7 and US$25.6 (subsequently reduced to US$19.6 and US$17.5 accordingly), of which 2,829,028 with strike price US$19.6 and 2,328,750 with strike price US$17.5 remain unexercised. The corresponding share-based payment expense amounted to RUR 1,650 million in 2012 and RUR 1,236 million in 2011.

	Class A shares (direct and indirect)	Ordinary shares/ GDRs (direct and indirect)	Total % of Company’s issued share capital represented by outstanding shares	Outstanding options or Ordinary shares on which options are granted
Dmitry Grishin	-	3,859,590	1.85%	2,125,000
Gregory Finger*	-	-	-	53,532
Marcos Galperin	-	-	-	53,532
Matthew Hammond	-	-	-	203,478
Sang Hun Kim	-	-	-	53,532
Charles Searle**	-	-	-	-
Vasileios Sgourdos**	-	-	-	-
Mark Remon Sorour**	-	-	-	-
Vladimir Streshinskiy	-	-	-	53,532
Ivan Tavrin	-	31,000	0.01%	53,532

* Gregory Finger has an economic interest in the performance of the shares in the Company held by New Media and Technology Investment LP and its affiliates (“NMT”)

** 160,596 options granted to the Directors nominated by MIH were assigned to the shareholder that nominated such Directors.

Responsibility statement

We confirm that, to the best of our knowledge:

The consolidated financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company and the undertakings included in the consolidation taken as a whole.

This annual report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation, taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Matthew Hammond
Managing Director
Mail.Ru Group Limited

24 April 2013

Mail.Ru Group Limited

Consolidated Financial Statements

For the year ended December 31, 2012

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Independent auditors' report

To the Shareholders of Mail.Ru Group Limited

We have audited the accompanying financial statements of Mail.Ru Group Limited and its subsidiaries ('the Group'), which comprise the consolidated statement of financial position as at December 31, 2012 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

April 24, 2013

Consolidated Statement of Financial Position

As of December 31, 2012
(in millions of Russian Roubles)

	Notes	As at December 31, 2012	As at December 31, 2011
ASSETS			
Non-current assets			
Investments in strategic associates	6, 10	8,945	9,118
Goodwill	7, 11	32,969	32,969
Other intangible assets	7	10,567	11,783
Property and equipment	8	1,619	1,159
Available-for-sale financial assets	24	10,162	69,399
Financial assets at fair value through profit or loss	24	1,311	820
Deferred income tax assets	20	29	43
Other non-current assets	15	925	489
Total non-current assets		**66,527**	**125,780**
Current assets			
Trade accounts receivable	12	2,724	2,245
Prepaid income tax		94	93
Prepaid expenses and advances to suppliers		582	235
Financial assets at fair value through profit or loss	24	291	–
Other current assets	15	224	122
Short-term time deposits	13	991	883
Cash and cash equivalents	13	27,690	4,015
Total current assets		**32,596**	**7,593**
Total assets		**99,123**	**133,373**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	14	–	–
Share premium		46,216	44,371
Treasury shares	14	(611)	(633)
Retained earnings		35,993	23,484
Accumulated other comprehensive income		8,513	58,903
Total equity attributable to equity holders of the parent		**90,111**	**126,125**
Non-controlling interests		4	10
Total equity		**90,115**	**126,135**
Non-current liabilities			
Financial liabilities at fair value through profit or loss	24	–	145
Deferred income tax liabilities	20	2,975	2,667
Total non-current liabilities		**2,975**	**2,812**
Current liabilities			
Trade accounts payable		858	829
Income tax payable		348	104
VAT and other taxes payable		974	829
Deferred revenue and customer advances		2,253	1,729
Other payables, provisions and accrued expenses	16	1,600	935
Total current liabilities		**6,033**	**4,426**
Total liabilities		**9,008**	**7,238**
Total equity and liabilities		**99,123**	**133,373**

Consolidated Statements of Comprehensive Income

For the year ended December 31, 2012
(in millions of Russian Roubles)

	Notes	2012	2011
Display advertising		5,071	4,401
Context advertising		2,431	1,685
Total online advertising		**7,502**	**6,086**
MMO games		4,590	3,754
Community IVAS		6,464	3,400
Total IVAS		**11,054**	**7,154**
Other revenue	17	2,349	1,695
Total revenue		**20,905**	**14,935**
Net gain on venture capital investments and associated derivative financial assets and liabilities	24	590	34
Personnel expenses		(6,723)	(5,357)
Office rent and maintenance		(489)	(338)
Agent/partner fees		(1,979)	(1,273)
Marketing expenses		(751)	(607)
Server hosting expenses		(633)	(493)
Professional services		(244)	(246)
Other operating expenses	18	(1,070)	(454)
Total operating expenses		**(11,889)**	**(8,768)**
EBITDA		**9,606**	**6,201**
Depreciation and amortisation		(2,703)	(2,665)
Impairment of intangible assets	7	(11)	(209)
Share of profit of strategic associates	10	112	14
Finance income	19	325	120
Other non-operating income/(expense)		(7)	19
Net loss on financial assets and liabilities at fair value through profit or loss over the equity of strategic associates and subsidiaries	24	(27)	(664)
Net gain on disposal of shares in available-for-sale investments	24	33,948	–
Net gain on disposal of shares in strategic associates		–	9
Net foreign exchange gains/(losses)		764	(128)
Impairment losses related to strategic associates and available for sale investments	10, 24	(718)	(173)
Profit before income tax expense		**41,289**	**2,524**
Income tax expense	20	(3,013)	(1,516)
Net profit		**38,276**	**1,008**
Attributable to:			
Equity holders of the parent		38,257	977
Non-controlling interest		19	31
Other comprehensive income			
Exchange differences on translation of foreign operations:			
Differences arising during the year		(1)	25
Available-for-sale financial assets:			
Gains/(losses) arising during the year		(16,448)	25,100
Income tax effect		(98)	–
Reclassification adjustments for gains included in profit or loss		(33,948)	–
Income tax effect		98	–
Total other comprehensive income/(loss), net of tax effect of 0		**(50,397)**	**25,125**
Total comprehensive income/(loss), net of tax		**(12,121)**	**26,133**
Attributable to:			
Equity holders of the parent		(12,140)	26,102
Non-controlling interest		19	31
Earnings per share, in RUR:			
Basic earnings for the year attributable to ordinary equity holders of the parent	21	183.6	4.7
Diluted earnings for the year attributable to ordinary equity holders of the parent	21	183.2	4.7

Consolidated Statement of Cash Flows

For the year ended December 31, 2012
(in millions of Russian Roubles)

	Notes	2012	2011
Cash flows from operating activities			
Profit before income tax		41,289	2,524
Adjustments for:			
Depreciation and amortisation		2,703	2,665
Bad debt and advance allowance expense/(reversal)	12	25	(18)
Net loss on financial assets and liabilities at fair value through profit or loss over the equity of strategic associates and subsidiaries	24	27	664
Net gain on sales of shares in available-for-sale investments	24	(33,948)	–
Net gain on disposal of shares in strategic associates		–	(9)
Loss on disposal of property and equipment		1	12
Loss on disposal of Intangible assets		1	4
Finance income	19	(325)	(120)
Dividend revenue from venture capital investments	17	(112)	(105)
Share of profit of strategic associates	10	(112)	(14)
Impairment losses related to intangible assets	7	11	209
Impairment losses related to associates and avaiable for sales investments	10, 24	718	173
Net foreign exchange (gains)/losses		(764)	128
Share based payment expense	26	2,217	1,895
Other non-cash items		19	(8)
Increase in accounts receivable		(512)	(779)
Increase in prepaid expenses and advances to suppliers		(350)	(48)
Increase in other assets		(69)	(9)
Increase in accounts payable, provisions and accrued expenses		751	718
Increase in other non-current assets		(587)	(197)
Increase in deferred revenue and customers advances		526	544
Increase in venture capital financial assets designated as at fair value through profit or loss	24	(799)	(168)
Operating cash flows before interest and income taxes		**10,710**	**8,061**
Dividends received from financial investments		130	89
Interest received, net of related bank commissions paid		227	89
Income tax paid		(2,447)	(1,838)
Net cash provided by operating activities		**8,620**	**6,401**

Consolidated Statement of Cash Flows (continued)

For the year ended December 31, 2012
(in millions of Russian Roubles)

	Notes	2012	2011
Cash flows from investing activities:			
Cash paid for investments in strategic associates	10	–	(3,096)
Cash paid for property and equipment		(994)	(454)
Cash paid for intangible assets		(957)	(793)
Cash paid for acquisitions of subsidiaries, net of cash acquired		–	(75)
Dividends received from strategic associates and investments designated as available-for-sale financial assets	10, 19	349	181
Proceeds from disposal of shares in available-for-sale investments		42,260	–
Issuance of loans		(3)	(118)
Collection of loans		3	123
Proceeds from short-term and long-term deposits		198	66
Placement of short-term and long term deposits		(154)	(1,115)
Net cash provided by / (used in) investing activities		**40,702**	**(5,281)**
Cash flows from financing activities:			
Cash paid for non-controlling interests in subsidiaries	24	(155)	–
Dividends paid to shareholders	27	(25,174)	–
Cash paid for treasury shares	14	(297)	(633)
Dividends paid by subsidiaries to non-controlling shareholders		(11)	(12)
Net cash used in financing activities		**(25,637)**	**(645)**
Net increase in cash and cash equivalents		**23,685**	**475**
Effect of exchange differences on cash balances		(10)	(69)
Cash and cash equivalents at the beginning of the period		4,015	3,609
Cash and cash equivalents at the end of the period		**27,690**	**4,015**

Consolidated Statement of Changes in Equity

For the year ended December 31, 2011
(in millions of Russian Roubles)

		Share capital								
	Notes	Number of shares issued and outstanding	Amount	Share premium	Treasury shares	Retained earnings	Accumulated other comprehensive income (net of tax effect of 0)	Total equity attributable to equity holders of the parent	Non-controlling interests	Total equity
Balance at January 1, 2011		**208,521,603**	–	**42,425**	–	**22,507**	**33,778**	**98,710**	**(9)**	**98,701**
Profit for the period		–	–	–	–	977	–	977	31	1,008
Other comprehensive income:										–
Foreign currency translation		–	–	–	–	–	25	25	–	25
Unrealised holding gains on available-for-sale financial assets	24	–	–	–	–	–	25,100	25,100	–	25,100
Total other comprehensive income		–	–	–	–	–	**25,125**	**25,125**	–	**25,125**
Total comprehensive income		–	–	–	–	**977**	**25,125**	**26,102**	**31**	**26,133**
Share-based payment transactions	26	–	–	1,895	–	–	–	1,895	–	1,895
Exercise of options over the shares of the Company		105,502	–	–	–	–	–	–	–	–
Exercise of conversion right by non-controlling shareholder in a subsidiary	6	432,867	–	–	–	–	–	–	–	–
Acquisition of treasury shares	14	(651,534)	–	–	(633)	–	–	(633)	–	(633)
Share-based payment transactions by strategic associates	10, 26	–	–	6	–	–	–	6	–	6
Dividends by subsidiaries to non-controlling shareholders		–	–	–	–	–	–	–	(12)	(12)
Other changes in net assets of strategic associates	10	–	–	65	–	–	–	65	–	65
Other changes in share premium		–	–	(20)	–	–	–	(20)	–	(20)
Balance at December 31, 2011		**208,408,438**	–	**44,371**	**(633)**	**23,484**	**58,903**	**126,125**	**10**	**126,135**

Consolidated Statement of Changes in Equity

For the year ended December 31, 2012
(in millions of Russian Roubles)

		Share capital								
	Notes	Number of shares issued and outstanding	Amount	Share premium	Treasury shares	Retained earnings	Accumulated other comprehensive income (net of tax effect of 0)	Total equity attributable to equity holders of the parent	Non-controlling interests	Total equity
Balance at January 1, 2012		**208,408,438**	–	**44,371**	**(633)**	**23,484**	**58,903**	**126,125**	**10**	**126,135**
Profit for the period		–	–	–	–	38,257	–	38,257	19	38,276
Other comprehensive income:										
Foreign currency translation		–	–	–	–	–	(1)	(1)	–	(1)
Net change in cumulative holding gains on available-for-sale investments		–	–	–	–	–	(50,396)	(50,396)	–	(50,396)
Total other comprehensive income		**–**	**–**	**–**	**–**	**–**	**(50,397)**	**(50,397)**	**–**	**(50,397)**
Total comprehensive income		**–**	**–**	**–**	**–**	**38,257**	**(50,397)**	**(12,140)**	**19**	**(12,121)**
Share-based payment transactions	26	–	–	2,217	–	–	–	2,217	–	2,217
Exercise of options over the shares of the Company		368,140	–	(402)	319	–	–	(83)	–	(83)
Acquisition of treasury shares	14	(288,051)	–	–	(297)	–	–	(297)	–	(297)
Share-based payment transactions by strategic associates	10, 26			15				15		15
Acquisitions of non-controlling interests in existing subsidiaries	24	–	–	14	–	–	–	14	(14)	–
Dividends by subsidiaries to non-controlling shareholders		–	–	–	–		–	–	(11)	(11)
Dividends to shareholders	27	–	–	–	–	(25,748)		(25,748)		(25,748)
Other changes in net assets of strategic associates	10	–	–	–	–	–	7	7	–	7
Other changes in share premium		–	–	1	–	–	–	1	–	1
Balance at December 31, 2012		**208,488,527**	–	**46,216**	**(611)**	**35,993**	**8,513**	**90,111**	**4**	**90,115**

Notes to Consolidated Financial Statements

For the year ended December 31, 2012
(in millions of Russian Roubles unless otherwise indicated)

1 Corporate information and description of business

These consolidated financial statements of Mail.Ru Group Limited (hereinafter "the Company") and its subsidiaries (collectively – "the Group") for the year December 31, 2012 were authorised for issue by the directors of the Company on April 24, 2013.

The Company was registered on May 4, 2005 in the Territory of the British Virgin Islands ("BVI"), pursuant to the International Business Companies Act (the "Act"), Cap. 291. The registered office of the Company is at Trident Chambers, Wickhams Cay, P.O. Box 146, Road Town, Tortola, BVI.

The Company consolidates or participates in businesses that operate in the Internet segment, including portals, social networking and communications, e-payment solutions, online marketplaces, massively multiplayer online games ("MMO games") ,social and mobile games. The Group and its associates have leading positions in the CIS states where they are present, including Russia, Ukraine and Kazakhstan.

Information on the Company's main subsidiaries is disclosed in Note 9.

2 Basis of preparation

These consolidated financial statements have been prepared on a historical cost basis, except for financial assets and liabilities designated as at fair value through profit or loss, derivative financial instruments and available-for-sale financial assets that have been measured at fair value.

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with and comply with International Financial Reporting Standards ("IFRS").

The Group maintains its accounting records and prepares its statutory accounting reports in accordance with domestic accounting legislation and instructions for each of its subsidiaries. These consolidated financial statements are based on the underlying accounting records, appropriately adjusted and reclassified for fair presentation in accordance with the standards and interpretations issued by the International Accounting Standards Board ("IASB"). IFRS adjustments include and affect such major areas as consolidation, revenue recognition, accruals, deferred taxation, fair value adjustments, business combinations, impairment, share-based payments etc.

2.2 Application of new and amended IFRS and IFRIC

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations effective as of January 1, 2012:

- IFRS 7 *Financial Instruments Disclosures* (amendment) effective July 1, 2011
- IFRS 1 *First-time Adoption of International Financial Reporting Standards* (amendment) effective July 1, 2011
- IAS 12 *Income Taxes* (amendment) effective January 1, 2012

The adoption of the standards or interpretations is described below:

IFRS 7 – Disclosures – Transfers of financial assets (Amendment)

The IASB issued an amendment to IFRS 7 that enhances disclosures for financial assets. These disclosures relate to assets transferred (as defined under IAS 39). If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment)

When an entity's date of transition to IFRS is on or after the functional currency normalisation date, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date, at fair value on the date of transition to IFRS. This fair value may be used as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position. However, this exemption may only be applied to assets and liabilities that were subject to severe hyperinflation. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 12 – Deferred Tax: Recovery of Underlying Assets (Amendment)

This amendment to IAS 12 includes a rebuttable presumption that the carrying amount of investment property measured using the fair value model in IAS 40 will be recovered through sale and, accordingly, that any related deferred tax should be measured on a sale basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time, rather than through sale. Specifically, IAS 12 will require that deferred tax arising from a non-depreciable asset measured using the revaluation model in IAS 16 should always reflect the tax consequences of recovering the carrying amount of the underlying asset through sale. Effective implementation date is for annual periods beginning on or after January 1, 2012. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

2 Basis of preparation (continued)

2.3 Change of presentation currency

These consolidated financial statements are presented in Russian Roubles (“RUR”), and all values are rounded to the nearest million (RUR ‘000000) except per share information and unless otherwise indicated. The Group changed the presentation currency from US dollars (“USD”) to RUR as the presentation in RUR is considered more relevant to the environment in which the Group operates.

2.4 New accounting pronouncements

The following new or amended (revised) IFRS and IFRIC have been issued but are not yet effective and are not applied by the Group. The Group intends to adopt these standards when they become effective.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or ‘recycled’) to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Group’s financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group’s first annual report after becoming effective.

IAS 19 Employee Benefits (Revised)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 *Investments in Associates*, has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after January 1, 2013.

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group’s financial position or performance and become effective for annual periods beginning on or after January 1, 2014.

IFRS 1 Government Loans – Amendments to IFRS 1

These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after January 1, 2013. The amendment has no impact on the Group.

IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity’s financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group’s financial position or performance and become effective for annual periods beginning on or after January 1, 2013.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB’s work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after January 1, 2013, but Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to January 1, 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group’s financial assets, but will not have any impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

2 Basis of preparation (continued)

2.4 New accounting pronouncements (continued)

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 *Consolidation – Special Purpose Entities*.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary analysis performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group. This standard becomes effective for annual periods beginning on or after January 1, 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity’s interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but the standard has no impact on the Group’s financial position or performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analysis, no material impact is expected. This standard becomes effective for annual periods beginning on or after January 1, 2013.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after January 1, 2013. The new interpretation will not have an impact on the Group.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements. The Company does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

Annual Improvements May 2012

These improvements will not have an impact on the Group, but include:

IFRS 1 First-time Adoption of International Financial Reporting Standards

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information represents comparative information for the previous period.

IAS 16 Property Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

IAS 34 Interim Financial Reporting

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after January 1, 2013.

2 Basis of preparation (continued)

2.5 Change of Statements of Comprehensive Income presentation

The Group has changed the presentation of the consolidated statement of comprehensive income by replacing the classification of financial information by function with a presentation by nature, because, in management's view, such presentaion provides more relevant and reliable information to the users of the financial statements.

3 Summary of significant accounting policies

Set out below are the principal accounting policies used to prepare these consolidated financial statements.

3.1 Principles of consolidation

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2012 and for the year then ended.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to a parent. Non-controlling interests at the end of reporting period represent the non-controlling interest shareholders' portion of the fair values of the identifiable assets and liabilities of the subsidiary at the acquisition date and the non-controlling interests' portion of movements in equity since the date of the combination.
Non-controlling interest is presented in the statement of comprehensive income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. Acquisitions and disposals of non-controlling interests are accounted for as equity transactions.

Written put options over non-controlling interests are recognised as a financial liability at acquisition date, with an offset *'Share premium'*. The financial liability is measured at the fair value of its redemption amount. All subsequent changes in the carrying amount of the financial liability are recognised in the parent's profit or loss. The exercise of such put options is accounted for as an acquisition of non-controlling interest: the Group derecognises the financial liability and recognises an offsetting credit in equity, using the same component of *'Share premium'*. If the put option expires unexercised, the financial liability is reclassified to *'Share premium'*.

3.2 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgment is applied in determining the acquisition date and determining whether control is transferred from one party to another.

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced in the business combination.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is re-measured to fair value as at the acquisition date through profit or loss.

A contingent liability of the acquiree is recognised in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

The Group measures non-controlling interest either at fair value or at its proportionate interest in the identifiable net assets of the acquiree. Only components of non-controlling interest constituting a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are measured at their acquisition date fair value.

3 Summary of significant accounting policies (continued)

3.2 Business combinations and goodwill (continued)

Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees are expensed as incurred.

The Group accounts for a change in the ownership interest of a subsidiary (without loss of control) as a transaction with owners in their capacity as owners. Therefore, such transactions do not give rise to goodwill, nor do they give rise to a gain or loss and are accounted for as an equity transaction.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

If the Group reorganises its reporting structure in a way that changes the composition of one or more cash-generating units to which goodwill has been allocated, the goodwill is reallocated to the units affected. The reallocation is performed using a relative value approach similar to that used in connection with the disposal of an operation within a cash-generating unit, unless some other method better reflects the goodwill associated with the reorganised units.

3.3 Investments in associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control.

The Group segregates its investments in associates into two distinct categories: financial investments and investments in strategic associates.

3.3.1 Financial investments in associates

Financial investments, or venture capital investments, are the Group's investments in start-up Internet ventures. They form the Group's venture capital portfolio and are monitored and managed exclusively on the basis of their fair values. The Group's involvement in the operating management of the investees is limited, and the possibility of the Group maintaining a specific financial investment in its investment portfolio in the long run is remote. Financial investments are carried in the statement of financial position at fair value even though the Group may exert significant influence over those companies. This treatment is permitted by IAS 28 *Investments in Associates*, which allows investments held by venture capital organisations to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39, with changes in fair value recognised in the profit or loss in the period of the change. Accounting policies of the Group with respect to financial investments in associates are discussed in more detail under 3.13 below as part of the Group's accounting policies with respect to financial assets.

3.3.2 Investments in strategic associates

The Group participates in the operating management of its strategic associates and intends to stay involved in their operations in a long term perspective. Strategic associates are accounted for using the equity method. Under the equity method, the investments in associates are carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Distributions received from an investee reduce the carrying amount of the investment. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of strategic associates. Where there has been a change recognised directly in the equity of the associates, the Group recognises its share of any changes in the investment balance and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

Dividends received from strategic associates are shown in investing activities in the statement of cash flows.

The share of profit of strategic associates is shown on the face of the statement of comprehensive income. This is the profit attributable to equity holders of the associates and therefore is profit after tax of the associates and after non-controlling interests in the subsidiaries of the associates. The Group's share of movements in reserves is recognised in equity. However, when the Group's share of accumulated losses in a strategic associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obliged to make further payments to, or on behalf of, the associate.

The financial statements of strategic associates are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

3 Summary of significant accounting policies (continued)

3.3 Investments in associates (continued)

3.3.2 Investments in strategic associates (continued)

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on the Group's investment in its strategic associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. Determining whether the investment is impaired is based on the guidance of IAS 39 discussed under 3.13.6.

If there is objective evidence that a strategic associate is impaired, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value in accordance with IAS 36 (as discussed under 3.15) and recognises the amount of impairment in earnings under '*Impairment losses related to strategic associates'.* If the recoverable amount of the impaired investment subsequently increases, the related impairment is reversed to the extent of such increase.

Step acquisitions of significant influence in strategic associates previously classified as available-for-sale financial assets are accounted for using a cost-based approach whereby the investment in associate is recognised at the aggregate of (a) the historical cost of the available-for-sale investment and (b) the consideration transferred by the Group upon acquisition of significant influence. Any changes in the fair value of the available-for-sale investment are reversed through other comprehensive income upon acquisition of significant influence. Goodwill is calculated as a difference between (c) the cost of the investment so determined and (d) the Group's share in the fair value of the investee's net assets at the date significant influence is attained.

Upon acquisition of an additional stake in an existing associate where control is not obtained, the fair value of the consideration transferred for the additional stake is allocated to the acquired share of the fair value of associate's assets and liabilities, and the excess is recognised as goodwill as part of the investment in strategic associates.

Upon loss of significant influence over a strategic associate, the Group measures and recognises any remaining investment at its fair value. Any difference between (a) the carrying amount of the associate upon loss of significant influence and (b) the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

3.4 Property and equipment

3.4.1 Property and equipment

Property and equipment are recorded at purchase or construction cost less accumulated depreciation and accumulated impairment. Interest costs on borrowings to finance the construction of property and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. Expenditures for continuing repairs and maintenance are charged to earnings as incurred.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are recognised net under '*Other income' or* '*Other expenses'* in the statement of comprehensive income.

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised.

3.4.2 Depreciation and useful life

Depreciation is calculated on property and equipment on a straight-line basis from the time the assets are available for use, over their estimated useful lives as follows:

	Estimated Useful Life (in Years)
Servers and computers	3-5
Furniture	7
Office IT equipment	2-3
Leasehold improvements	Lesser of useful life or life of lease

Depreciation commences the month following the date of acquisition. The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted as appropriate, at each financial year-end. The Group classifies advances paid to equipment suppliers as property and equipment in the consolidated statement of financial position.

3 Summary of significant accounting policies (continued)

3.5 Intangible assets other than goodwill

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

3.5.1 Software development costs

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

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

Research and development costs recognised as an expense in the statement of comprehensive income during 2012 amounted to RUR 108 (2011: RUR 155).

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

3.5.2 Useful life and amortisation of intangible assets

The Group assesses whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset is regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. The Group did not have any intangible assets with an indefinite useful life in the years ended December 31, 2012 and 2011.

Intangible assets with finite lives are amortised over the useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Amortisation periods and methods for intangible assets with finite useful lives are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

The estimated useful lives of the Group’s intangible assets are as follows:

	Estimated Useful Life (in Years)
Patents and trademarks	7-20
Capitalised software costs	3
Domain names	10
Games	3-9
Customer base	3-15
Licenses	3-5
Software	1.1-3

3.6 Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand, short term deposits with an original maturity of three months or less and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. All these items are included as a component of cash and cash equivalents for the purpose of the statement of financial position and statement of cash flows.

3.7 Employee benefits

Wages and salaries paid to employees are recognised as expenses in the current period or are capitalised as part of software development costs. The Group also accrues expenses for future vacation payments.

Under provisions of the Russian legislation, social contributions are made through social insurance payments calculated by the Group by the application of a 30%rate to the portion of the annual gross remuneration of each employee not exceeding RUR 512 thousand and a rate of 10% to the portion exceeding this threshold.

3 Summary of significant accounting policies (continued)

3.7 Employee benefits (continued)

The Group's Israeli subsidiary operates a defined benefit plan for severance pay pursuant to Israel's Severance Pay Law. Under the law, Israeli resident employees are entitled to receive severance pay upon involuntary termination of employment, or upon retirement, which is calculated based on the most recent monthly salary at the time of termination, multiplied by the number of years of employment. Actuarial gains and losses are recognised in profit or loss in the period in which they occur. The present value of defined benefit obligation as of December 31, 2012 amounted to RUR 23 (December 31, 2011 – RUR 45). Pursuant to the Israeli law, the Group makes current deposits in respect of its liabilities to pay compensation to certain of its employees in pension funds and insurance companies (the "plan assets"). Plan assets comprise assets held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the Group's own creditors and cannot be returned directly to the Group. The severance pay liability recognised in the Statement of Financial position represents the present value of the defined benefit obligation, reduced by the fair value of plan assets. Total severance expenses for the year ended December 31, 2012 amounted to RUR 15 (2011 – RUR 18).

3.8 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

If the effect of discounting is material, provisions are determined by discounting the expected value of future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

3.9 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues from services are recognised in the period when services are rendered.

3.9.1 Online advertising

3.9.1.1 Display advertising

Banner advertising space for display advertising is sold on a static basis (i.e., a function of time that an advertisement lasts) or a dynamic basis (i.e., according to the number of page views on an advertisement). The Group has standard rates for online advertisements that depend on several factors, including the specific web page on which the banner appears, the length of the contract, the season, and the format, size and position of the advertisement. Display advertising revenue is recognised as the services are provided (i.e., as per page view for dynamic banners and over the contractual term for static banners). For display advertising sold through some third party advertising agencies, revenue is recognised net of any portion attributable to the third parties.

3.9.1.2 Barter transactions

The Group enters into transactions that exchange advertising for advertising ("advertising barter") where it provides display advertising (dynamic or static banners) on its website to a third-party in exchange for advertising on the third party's media (newspapers, websites, magazines, television, radio, etc.).

Revenue for advertising barter transactions is recorded only when the criteria under SIC 31 *Revenue – Barter Transactions Involving Advertising Services* are met, i.e. the services exchanged are dissimilar and the amount of revenue can be measured reliably.

The criteria used to determine if a barter transaction and a cash transaction are considered "similar", for measuring the fair value of the provided advertising services, include, but are not limited to: circulation, exposure or saturation within an intended market, timing, prominence, demographics and duration.

The amount of revenue recognised in 2012 from advertising barter transactions was RUR 78 (2011– RUR 61) and expense RUR 69 (2011 – RUR 51).

3.9.1.3 Context advertising

The Group earns revenues for context advertising through partnerships with third parties. Once a user carries out a search on certain of the Group's websites, search results and advertisement links are displayed on the webpage based on relevancy to the search topic and other known user parameters. When clicked on by the user, the advertisement links lead to sites owned by the third parties' advertising customers, for which the third party receives a fee, a portion of which it shares with the Group. Context advertising revenue is recognised as the services are provided (i.e., upon "click-through", which is when a user clicks on an advertiser's listing) on a net basis.

Context advertising also includes revenue from the Group's Target.Mail.Ru self-serve advertising technology ("target advertising"). Target advertisements are priced on either pay-per-click or pay-per-view basis. Revenue from pay-per-click advertisements is recognised upon click-through, while revenue from pay-per-view advertisements is recognised as the advertisements are viewed.

3 Summary of significant accounting policies (continued)

3.9 Revenue recognition (continued)

3.9.2 Internet value-added services ("IVAS")

Revenue from IVAS is derived from a variety of Internet-based services, including communication products, listing-based services and online games.

3.9.2.1 Revenue from MMO games

The Group operates its games mainly under the free-to-play game model. The Group derives its online game revenue from in-game virtual items representing additional functionality and features for the game players' characters purchased by game players to play its MMO games and casual games. The amounts of cash or receivables from payment systems for cash from the users, net of any commissions to distributors or short messaging service operators, are not recognised as revenues and are credited to deferred revenue. They are then converted by the players into the in-game points. In-game points are used to purchase in-game items. Under the item-based revenue model, revenues are recognised over the life of the in-game virtual items that game players purchase or as the in-game virtual items are consumed. Deferred revenue is reduced as revenues are recognised. The estimated life span of in-game items is determined based on historical player usage patterns and playing behaviour.

The Group enters into licensing arrangements with overseas licensees to operate the Group's games in other countries and regions. These licensing agreements provide two separate elements, each having commercial substance: the initial non-refundable fees and the usage-based royalty fees. The initial non-refundable payment represents the license of the game and is recognised as license revenue immediately once the games are launched into commercial use by the licensees. Ongoing usage-based royalties determined based on the amount of money charged to the players' accounts or services payable by players in a given country or region to the licensees are recognised when they are earned, provided that the collection is probable.

3.9.2.2 Community IVAS

The Group derives other IVAS revenues through certain communication products, where users pay a fee for the paid content and online services, mainly through social networking web sites and through the commission from third party developers of the various applications placed on social networking web-sites, including games, based on the respective applications' revenue. The fees for such services are collected from customers using various payment channels, including bank cards, online payment systems and mobile operators and from the applications developers. The mobile network operators collect fees for such services from their customers, usually through mobile short message services ("SMS"), and pass such fees to the Group. These services are recognised as revenue as the services are provided on a gross basis, net of commission to mobile operators and any portion attributable to the developer of the application. If the amount of revenue is measured based on third party data, such amounts of revenue are recorded based on the best available data at the date of issuance of the financial statements.

3.9.3 Other revenue

3.9.3.1 Online recruitment revenue

Online recruitment revenues primarily consist of the following:

Online recruitment services for employers. Services for employers include provision of access to resume database and posting of job ads on the Group's websites. Revenue earned from provision of access to resume database is recognised over the length of the underlying subscriptions, typically ranging from two weeks to twelve months. Revenue earned from job postings is recognised at the time job posting displayed on the web site, based upon customer usage data. Revenue associated with multiple element contracts is allocated based on the relative fair value of the services included in the contract.

Other revenue from recruitment services. Revenues from other recruitment services include revenues from different services related to recruitment process, such as training of HR managers and job seekers, assistance in conducting recruiting campaigns, etc. The Group recognises revenues related to these services in the period when the services are rendered.

3.9.3.2 Listing fees

Listing fees are generated from a variety of consumer and business listing-based services relating to placement of various classified advertisements on the Group's websites. The monthly fee is comprised of a fixed fee, as well as variable fee per additional number of clicks on such content over a pre-agreed number. Listing fees are recognised as revenue when the services are provided.

3.9.3.3 Dividend revenue

Dividend revenue from venture capital investments is recognised when the Group's right to receive the payment is established.

3.9.3.4 Other revenues

Other revenues primarily consist of online payment system commissions and revenues from hosting services to third parties.

3.10 Finance income

The Group includes interest income from deposits and dividend income from available-for-sale investments under 'Finance income'. Interest is earned and recognised as income as it accrues on deposits. Dividend income from investments classified as available-for-sale financial assets is recognised when the Group's right to receive the payment is established.

3 Summary of significant accounting policies (continued)

3.11 Income taxes

The Group is exempt from taxation in BVI, including income, capital gains and withholding taxes. However, in some jurisdictions where the Company's subsidiaries and associates are incorporated (particularly in Russia), investment income is subject to withholding tax deducted at the source of the income. The Group presents the withholding tax separately from the gross dividend income in the statement of comprehensive income and the statement of cash flows.

The Group is also subject to taxation in Russia, the United States of America and some other jurisdictions its subsidiaries operate in (see also Note 20).

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current income tax relating to items recognised directly in Other Comprehensive income is recognised in Other Comprehensive income and not in profit or loss.

Deferred income tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.12 Share-based payment transactions

Employees (including senior executives) of the Group and its associates, as well as certain entities providing services to the Group and its associates, and employees of such entities (each of which a "share-based payment recipient"), may receive remuneration in the form of share-based payment transactions, whereby share-based payment recipients render services as consideration for equity instruments ("equity-settled transactions").

If the Group has a choice to settle share-based payments in cash or in equity, the entire transaction is treated either as cash-settled or as equity-settled, depending on whether or not the Group has a present obligation to settle in cash.

The cost of equity-settled transactions with share based payment recipients for awards granted is measured by reference to the fair value of the awards at the date on which they are granted. The fair value is determined using an appropriate pricing model (Black-Scholes-Merton, binomial, Monte-Carlo or other).

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant share based payment recipients become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit for a period recognised in profit or loss represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the share based payment recipient as measured at the date of modification.

3 Summary of significant accounting policies (continued)

3.12 Share-based payment transactions (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the preceding paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

3.13 Financial instruments

3.13.1 Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as effective hedging instruments, as appropriate.

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as effective hedging instruments, as appropriate.

The Group determines the classification of its financial assets and liabilities at initial recognition. All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, directly attributable transaction costs.

The Group’s financial assets include cash and cash equivalents, short-term time deposits, trade and other receivables, available-for-sale investments in listed and non-listed equity instruments, financial investments in associates (as defined under 3.3.1), and derivative financial assets over equity instruments of the Group’s associates. The Group's financial liabilities include trade and other payables, loans and borrowings, and derivative financial liabilities over equity instruments of the Group’s associates and subsidiaries. None of the derivative financial instruments held by the Group were designated as effective hedging instruments.

3.13.2 Subsequent measurement

The subsequent measurement of financial instruments depends on their classification. The Group classifies its financial assets and liabilities into the categories below in accordance with IAS 39, as follows:

3.13.2.1 Financial assets and liabilities at fair value through profit or loss

The category of financial assets and liabilities at fair value through the profit or loss is further sub-divided into:

Financial assets and liabilities held for trading: This sub-category consists of all derivative financial assets and liabilities held by the Group. The Group did not designate any derivative financial assets and liabilities as hedging instruments in hedge relationships as defined by IAS 39.

Financial instruments designated as at fair value through profit or loss upon initial recognition:

Financial assets and liabilities at fair value through profit and loss are carried in the statement of financial position at fair value. The changes in their fair value are recognised in the statement of comprehensive income as follows:

- The changes in the fair value of financial investments in associates and those derivative financial assets and liabilities where the underlying asset is represented by equity instruments of a financial investee, are recorded under ‘*Net gain/(loss) on venture capital investments and associated derivative financial assets and liabilities*’ and are included in the Group’s operating income; and
- The changes in the fair value of derivative financial assets where the underlying asset is represented by equity instruments of a strategic associate (as defined in 3.3.2) or a subsidiary are recorded under ‘*Net gain/(loss) on financial assets and liabilities at fair value through profit or loss over the equity of strategic associates and subsidiaries*’;
- Dividends from financial associates are shown as revenue in the statement of comprehensive income and are included in operating activities in the statement of cash flows.

3.13.2.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortised cost using the effective interest rate (“EIR”) method. Gains and losses are recognised in the statement of comprehensive income under *‘Bad debt expense/(reversal)’* in *‘Other operating expenses’*.

Loans and receivables include the assets shown in the statement of financial position under *‘Trade accounts receivable’* and *‘Short-term time deposits’*. Short-term time deposits are mostly deposits with Russian banks with contractual terms less than one year.

3.13.2.3 Available-for-sale investments

Available-for-sale investments includes the Group’s equity investments which are neither classified as held for trading nor designated as at fair value through profit or loss.

3 Summary of significant accounting policies (continued)

3.13 Financial instruments (continued)

3.13.2 Subsequent measurement (continued)

3.13.2.3 Available-for-sale investments (continued)

After initial measurement, available-for-sale investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is de-recognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is recognised in the statement of comprehensive income under '*Impairment losses related to strategic associates and available for sales investments'* and removed from the available-for-sale reserve. The Group elected the trade date accounting approach for recognition and de-recognition of regular way purchases and sales of financial assets. The Group elected the weighted average formula approach for determining the cost at disposal of available-for-sale financial assets.

3.13.2.4 Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement held-to-maturity investments are measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in '*Finance income'* in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in '*Impairment losses'*. The Group did not have any held-to-maturity investments during the years ended December 31, 2012 and 2011.

3.13.2.5 Loans and borrowings and other financial liabilities

After initial recognition, interest bearing loans and borrowings and other financial liabilities are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in '*Finance costs'* in the statement of comprehensive income.

3.13.3 De-recognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is de-recognised where:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- Either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Group de-recognises a financial liability when the obligation under the liability is discharged, cancelled or expires.

3.13.4 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

3.13.5 Fair value of financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include: using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 24.

3.13.6 Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

3.13.6.1 Financial assets carried at amortised cost

For financial assets carried at amortised cost (loans and receivables), evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

3 Summary of significant accounting policies (continued)

3.13 Financial instruments (continued)

3.13.6 Impairment of financial assets (continued)

3.13.6.1 Financial assets carried at amortised cost (continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the asset's original EIR. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss as a *'Bad debt expense/(reversal)'* in *'Other operating income/(expenses)'*.

Trade accounts receivable are recorded at the invoiced amount and are non-interest bearing. Credit is only granted to customers after a review of credit history. The Group maintains an allowance for doubtful accounts to reserve for the portion of receivables when collection becomes doubtful. Provisions are made based upon a specific review of all significant outstanding invoices. For those invoices not specifically reviewed, provisions are provided at differing rates, based upon the age of the receivable. In determining these percentages, the Group analyses its historical collection experience and current economic trends. If the historical data the Group uses to calculate the allowance provided for doubtful accounts does not reflect the future ability to collect outstanding receivables, additional provisions for doubtful accounts may be needed and the future results of operations could be materially affected.

Impaired debts together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a previous write-off is later recovered, the recovery is credited to *'Bad debt expense'* in *'Other operating income/(expenses)'*.

Interest revenue on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.13.6.2 Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. Objective evidence of impairment of the Group's available-for-sale equity investments would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in earnings – is removed from other comprehensive income and recognised in earnings. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

3.14 Foreign currency translation

The consolidated financial statements are presented in RUR, which is the Group's presentation currency, and all values are rounded to the nearest million (RUR '000000) except per share information and unless otherwise indicated. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of the Group's Russian subsidiaries and associates as well as the Company itself is RUR.

Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the measurement currency rate of exchange ruling at the reporting date. All resulting differences are taken to the consolidated statement of comprehensive income and included in the determination of net profit as '*Net foreign exchange gains/(losses)*'. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of initial transaction.

As at the reporting date, the assets and liabilities of the Company and its subsidiaries with functional currencies other than the RUR are translated into the presentation currency of the Group (RUR) at the rate of exchange ruling at the reporting date and their operations are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income.

The Company's assets and liabilities and the assets and liabilities of each subsidiary settled in the respective entity's functional currency but denominated in other currencies are recorded in the Group's consolidated IFRS financial statements using the same principles as for assets and liabilities denominated in foreign currencies.

Any goodwill arising on the acquisition of an operation with functional currency other than the RUR and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the acquired operation and translated into RUR at the closing rate. This policy also applies to acquisitions of interests in strategic associates.

3 Summary of significant accounting policies (continued)

3.14 Foreign currency translation (continued)

Upon a partial disposal of a subsidiary that includes a foreign operation, where the Group retains control over the subsidiary, the Group re-attributes the proportionate share of the cumulative amount of the exchange differences recognised in other comprehensive income to the non-controlling interests in that foreign operation. In any other partial disposal of a subsidiary that includes a foreign operation, the Group reclassifies to profit or loss the entire cumulative amount of the exchange differences recognised in other comprehensive income. This policy also applies to disposals and partial disposals (where significant influence is retained) of strategic associates. Upon acquisition of control in a strategic associate with a functional currency different from the Group's presentation currency, the entire accumulated foreign currency translation adjustment related to the investment in the associate is reclassified to profit or loss.

3.15 Impairment of non-financial assets and investments in strategic associates

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in earnings in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in earnings.

The following criteria are also applied in assessing impairment of specific assets.

3.15.1 Goodwill

Goodwill is tested for impairment annually (as at December 31) and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGU) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than its carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

In 2011 the Group revised the composition of its CGUs due to the changes in business structure (see Note 11).

3.15.2 Investments in strategic associates

As discussed under 3.3.2, although investments in strategic associates are financial assets and their impairment indicators are assessed as described under 3.13, those investments are tested for impairment in a manner similar to non-financial assets. Whenever application of the requirements in IAS 39 indicates that the investment may be impaired, the entire carrying amount of the investment is tested for impairment by comparing its recoverable amount (the higher of value in use and fair value less costs to sell) with its carrying amount. In determining the value in use of the investment, an entity estimates its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds from the ultimate disposal of the investment.

When determining the value in use of an investment in a strategic associate, the Group regards its investment in the associate as a single cash-generating unit, rather than 'drilling down' into the separate cash-generating units determined by the associate itself for the purposes of its own financial statements. If the Group concludes that the associate is impaired, the impairment is not allocated to the underlying assets or goodwill recognised in the financial statements of the associate. Such impairment is only allocated to the additional goodwill and fair value adjustments to intangible assets of the associate recognised by the Group as part of the respective strategic associates. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in earnings.

3 Summary of significant accounting policies (continued)

3.16 Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which may comprise share options granted to employees of the Group and its associates, as well as certain entities providing services to the Group and its associates, and employees of such entities. Additionally, certain subsidiaries and associates of the Group have issued instruments to the Company and to other parties that are convertible into ordinary shares of the respective subsidiary or associate. If these instruments have a dilutive effect on the basic EPS of the Group, they are included in the calculation of diluted earnings per share.

3.17 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Group's chief operating decision maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise corporate expenses.

In 2011 the Group revised the composition of its segments due to the changes in business structure and resulting changes in internal management reporting (see Note 5).

4 Significant accounting judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the reporting dates and the reported amounts of revenues and expenses during the reporting periods. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

4.1 Judgments

In the process of applying the Group's accounting policies, management has made the following judgments which have the most significant effect on the amounts recognised in the consolidated financial statements:

4.1.1 Consolidation and accounting for associates

The Company directly or indirectly owned more than 50% in certain of its investments, and owns from 20% to 50% in certain other investments. Based on its voting rights and restrictions in the respective governing documents, the Company made judgments about whether it has control or significant influence over these investments. Subsequently, these entities are either accounted for as subsidiaries (consolidated) or associates (strategic associates are accounted for under the equity method, while financial associates are accounted for as financial assets through profit or loss). Please refer to Notes 9 and 10 for more information.

4.1.2 Consolidation of a special purpose entity

In November 2010, the Company established, as settlor,an employee benefit trust (the "Trust") under a Trust Deed dated November 11, 2010 ("Trust Deed"), the trustee of which is Mail.ru Employee Benefit Trustees Limited ("Trustee"). The purpose of the Trust consists in holding trust funds for present and former employees and consultants and related persons. The Trustee manages employee stock options under the 2010 Option Plan (as defined in Note 26). Starting from October 2011, the Trustee was also instructed by the Company to acquire GDRs representing shares of the Company on the stock market and transfer those GDRs to employees in settlement of the 2010 Option Plan options as the options are exercised by the employees. The Group does not hold any equity interest in the Trust; however, under the Trust Deed, the Group has the power to appoint and remove the Trustee at its sole discretion. The operations of the Trust are restricted per the Trust Deed to the activities described above and are solely used by the Group. Based on these facts and circumstances, management concluded that the Group controls the Trustee and, therefore, consolidates the Trustee in its financial statements.

4.1.3 Accounting treatment of share-based payments where the Group has a choice to settle in cash or equity

Starting from November 2011, the Group has a wide discretion over the way of settlement of options issued under the 2010 Option Plan (as defined in Note 26) and determines the accounting treatment of the options based on whether the Group has a present obligation to settle in cash. The Group determined that it did not have such obligation as of December 31, 2012 based on a history of prevailing net share (GDR) settlement of the options as of the date of these financial statements and the Group's intent to settle most of the options in the form of GDRs in the future. Accordingly, the Group's option awards to employees and directors are treated as equity-settled share-based payments.

4 Significant accounting judgments, estimates and assumptions (continued)

4.2 Estimates and assumptions

Significant estimates and assumptions reflected in the Company's financial statements include, but are not limited to the following:

- revenue recognition;
- fair value of financial instruments;
- useful lives of intangible assets;
- software development costs;
- impairment of intangible assets, goodwill and investments in associates;
- fair value of assets and liabilities in business combinations; and
- share-based payments.

Actual results could materially differ from those estimates.

The key assumptions concerning the future events and other key sources of estimation uncertainty at the reporting date that have a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

4.2.1 Revenue recognition – in-game items life span

Deferred revenue is recognised as revenue over the estimated life span of the in-game items purchased or as the in-game items purchased with the game points are consumed. The estimated life span of in-game items is determined based on historical player usage patterns and playing behaviour. Future usage patterns may differ from the historical usage patterns on which the Group's revenue recognition policy is based. The Group monitors the operational statistics and usage patterns of its online games and modifies the expected life span when materially different.

4.2.2 Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates and assumptions have to be made, and a degree of judgment has to be applied in establishing fair values. The judgments, estimates and assumptions include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The Group has a number of derivative financial assets and liabilities including purchased and written put and call options over equity instruments of investees. The fair values of those financial assets and liabilities are estimated using the Black-Scholes-Merton model, the binomial model, the Monte-Carlo simulation or another relevant option pricing model, as applicable. These estimates are significantly affected by such inputs as expected volatility, risk-free interest rate, expected terms of the option, dividend yield, the underlying share prices (estimated using the discounted cash flows method based on projections approved by management). Changes in those estimates significantly affect the values of the derivative financial assets and liabilities.

The expected volatility in the pricing models used to measure the fair value of the derivative financial assets and liabilities is determined by reference to peer companies' historical volatility, as the issuers of the underlying equity instruments are not public. When determining risk-free rates to be used in the pricing models, regard is given to US Treasury bonds or Russian government bonds with maturities equal to the expected terms of the respective derivative financial instruments.

Detailed information on the fair values of the Group's financial instruments, including an analysis of sensitivity of the fair values to changes in the model input parameters, is available in Notes 24 and 25.

4.2.3 Useful life of intangible assets

The Company estimates remaining useful lives of its intangible assets at least once a year at the reporting date. If the estimation differs from the previous estimations, the changes are accounted for in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a significant impact on the carrying value of intangible assets and amortisation, charged to earnings. The carrying value of intangible assets is disclosed in Note 7.

4.2.4 Software development costs

Software development costs are capitalised in accordance with the accounting policy described in Note 3.5.1. Initial capitalisation of costs is based on management's judgment that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

4 Significant accounting judgments, estimates and assumptions (continued)

4.2 Estimates and assumptions (continued)

4.2.5 Impairment of non-financial assets and investments in strategic associates

Identification of indicators of impairment of non-financial assets and investments in strategic associates involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on the analysis of a significant number of factors such as changes in current competitive environment, increase in the cost of capital, future changes in borrowing capacity, technological obsolescence, termination of services, current replacement cost and other changes in circumstances which are indicators of impairment. Calculation of the recoverable amount level requires that management estimates be applied. Calculation of the value in use involves methods which are based on the valuation of expected discounted future cash flows and require the Company to assess these cash flows on an asset level or cash-generating unit level, as applicable, as well as to choose an appropriate discount rate for the purpose of calculating the present value of cash flows. These estimates, including the methodologies used, may have a material impact on the fair value and ultimately the amount of any asset impairment.

4.2.6 Fair value of assets and liabilities in business combinations

At the acquisition date the Company recognises separately the identifiable assets, liabilities and contingent liabilities acquired or assumed in a business combination at their fair values, which involves estimates. Such estimates are based on valuation methods that require considerable judgment in forecasting future cash flows and developing other assumptions. Please refer to Note 6 for the amounts of fair values assigned in business combinations.

4.2.7 Share-based payments

Management estimates the fair value of stock options at the date of grant using the Black-Scholes-Merton, binominal, Monte-Carlo or other option pricing models, as applicable. The option pricing models were originally developed for use in estimating the fair value of traded options, which have different characteristics than the Group’s stock options granted by the Company and its subsidiaries and associates. The models are also sensitive to changes in the subjective assumptions, which can materially affect the fair value estimate. These subjective assumptions include expected volatility, the expected life of the options, dividend yield, the fair value of the underlying shares, risk-free interest rates and forfeiture rate.

5 Operating segments

In reviewing the operational performance of the Group and allocating resources, the Chief Executive Officer of the Group, who is the Group’s CODM, reviews selected items of each segment's income statement, assuming 100% ownership in all of the Group’s key operating subsidiaries, based on management reporting.

Management reporting is different from IFRS, because it does not include certain IFRS adjustments which are not analysed by the CODM in assessing the core operating performance of the business. Such adjustments affect such major areas as revenue recognition, deferred tax on unremitted earnings of subsidiaries, share-based payments, impairment of investments, business combinations, fair value adjustments, amortisation and impairment thereof, net foreign exchange gains and losses, share in financial results of non-core associates, as well as irregular non-recurring items that occur from time to time and are evaluated for adjustment as and when they occur. The tax effect of these adjustments is also excluded from management reporting.

The financial information of the key subsidiaries acquired during the reporting period or after the reporting period but prior to the date of these consolidated financial statements is included into the segment disclosure starting from the later of:

- the beginning of the earliest comparative period included in the financial statements; and
- the date of the Group’s acquisition of its first interest in the respective key subsidiary.

The financial information of subsidiaries disposed of prior to the date of these consolidated financial statements is excluded from the segment presentation starting from the beginning of the earliest period presented.

Starting from December 2011, the Group has identified its operating segments based on the types of products and services the Group offers. The Group has identified the following reportable segments on this basis:

- Email, Portal and IM;
- Social Networks;
- Online Games; and
- E-Commerce, Search and Other Services.

The Email, Portal and IM segment includes email, instant messaging and portal (main page and verticals). It earns substantially all revenues from display and context advertising.

5 Operating segments (continued)

The Social Networks segment includes the Group's two social networks (Odnoklassniki and My World) and earns revenues from (i) user payments for virtual gifts, (ii) commission from application developers based on the respective applications' revenue, and (iii) online advertising, including display and context advertising.

The Online Games segment includes online gaming services, including MMO, social and mobile games. It earns substantially all revenues from (i) sale of virtual in-game items to users and (ii) royalties for games licensed to third-party online game operators.

The E-Commerce, Search and Other Services segment primarily consists of search engine services earning substantially all revenues from context advertising, E-commerce and online hiring / job search services and related display advertising. This segment also includes a variety of other services, which are considered insignificant by CODM for the purposes of performance review and resource allocation.

The Group measures the performance of its operating segments through a measure of earnings before interest, tax, depreciation and amortisation (EBITDA). Segment EBITDA is calculated as the respective segment's revenue less operating expenses (excluding depreciation and amortisation and impairment of intangible assets), including Group corporate expenses allocated to the respective segment.

EBITDA is not a measure of financial performance under IFRS. The calculation of EBITDA by the Group may be different from the calculations of similarly labeled measures used by other companies and it should therefore not be used to compare one company against another or as a substitute for analysis of the Group's operating results as reported under IFRS. EBITDA is not a direct measure of the Group's liquidity, nor is it an alternative to cash flows from operating activities as a measure of liquidity, and it needs to be considered in the context of the Group's financial commitments. EBITDA may not be indicative of the Group's historical operating results, nor is it meant to be predictive of the Group's potential future results. The Group believes that EBITDA provides useful information to the users of the consolidated financial statements because it is an indicator of the strength and performance of the Group's ongoing business operations, including the Group's ability to fund discretionary spending such as capital expenditure, acquisitions and other investments and the Group's ability to incur and service debt.

The Group's share of profits of strategic associates is not attributed to any operating segment and not included in the calculation of EBITDA. The Group's share of profits of key strategic associates (Qiwi Limited and VK.Com Limited) is included in Net profit reviewed by the CODM and is based on the ownership percentages as of the date of the financial statements. The net profit of key strategic associates is calculated using accounting principles used for the segment financial information of the Group's consolidated operations. The Group's share of profits of non-core strategic associates (Nikita Management Limited, Molotok Holdings Limited and Haslop Company Limited) is not included in the financial information reviewed by the CODM.

The information about the breakdown of revenue from external customers by the customers' country of domicile and non-current assets by country is not available to the management of the Group, and it considers that the cost to develop such information would be excessive.

The income statement items for each segment for the year ended December 31, 2012, as presented to the CODM, are presented below:

	Email, Portal and IM	Social Networks	Online Games	E-commerce, Search and other	Eliminations	Group
Revenue						
External revenue	3,956	7,856	5,329	4,010	–	21,151
Intersegment revenue	33	22	–	265	(320)	–
Total revenue	**3,989**	**7,878**	**5,329**	**4,275**	**(320)**	**21,151**
Total operating expenses	1,490	2,192	3,770	2,484	(320)	9,616
EBITDA	**2,499**	**5,686**	**1,559**	**1,791**	–	**11,535**
Net profit	**–**	–	–	–	–	**8,552**

The income statement items for each segment for the year ended December 31, 2011, as presented to the CODM, are presente d below:

	Email, Portal and IM	Social Networks	Online Games	E-commerce, Search and other	Eliminations	Group
Revenue						
External revenue	3,591	4,712	4,216	2,696	–	15,215
Intersegment revenue	–	–	–	146	(146)	–
Total revenue	**3,591**	**4,712**	**4,216**	**2,842**	**(146)**	**15,215**
Total operating expenses	1,178	1,300	2,994	1,508	(146)	6,834
EBITDA	**2,413**	**3,412**	**1,222**	**1,334**	**–**	**8,381**
Net profit	–	–	–	–	–	**6,215**

5 Operating segments (continued)

A reconciliation of total revenue, as currently presented to the CODM, to IFRS consolidated revenue of the Group for the years ended December 31, 2012 and 2011 is presented below:

	2012	2011
Total revenue, as presented to CODM	**21,151**	**15,215**
Adjustments to reconcile revenue as presented to CODM to consolidated revenue under IFRS:		
Differences in timing of revenue recognition	(436)	(446)
Barter revenue	78	61
Dividend revenue from venture capital investments	112	105
Consolidated revenue under IFRS	**20,905**	**14,935**

A reconciliation of EBITDA, as currently presented to the CODM, to IFRS consolidated profit before income tax expense of the Group for the years ended December 31, 2012 and 2011 is presented below:

	2012	2011
Group aggregate segment EBITDA	**11,535**	**8,381**
Adjustments to reconcile EBITDA as presented to CODM to consolidated profit before income tax expenses under IFRS:		
Depreciation and amortisation	(2,703)	(2,665)
Differences in timing of revenue recognition	(436)	(446)
Finance income	325	120
Gain/(loss) on venture capital investments revaluation	563	(630)
Impairment losses related to strategic associates and available for sales investments	(718)	(173)
Impairment of intangible assets	(11)	(209)
Net foreign exchange gains/(losses)	764	(128)
Net gain on disposal of shares in available-for-sale investments	33,948	–
Other	15	50
Share of profit of strategic associates	112	14
Share-based payments expenses	(2,217)	(1,895)
Dividend revenue from venture capital investments	112	105
Profit before income tax expense	**41,289**	**2,524**

A reconciliation of net profit, as currently presented to the CODM, to IFRS consolidated net profit of the Group for the years ended December 31, 2012 and 2011 is presented below:

	2012	2011
Total net profit, as presented to CODM	**8,552**	**6,215**
Adjustments to reconcile net profit as presented to CODM to consolidated net profit under IFRS:		
Share-based payments expenses	(2,217)	(1,895)
Differences in timing of revenue recognition	(436)	(446)
Effect of operations disposed of, difference in shareholding percentages and acquisition dates of subsidiaries and associates	–	(19)
Amortisation of fair value adjustments to intangible assets and impairment thereof	(1,721)	(1,801)
Gain/(loss) on financial instruments at fair value through profit or loss	563	(630)
Fair value adjustments related to acquisitions and disposals	–	9
Net gain on disposal of shares in available-for-sale investments	33,948	–
Impairment of investments in strategic associates and available-for-sale investments	(718)	(173)
Net foreign exchange gains (losses)	764	(128)
Share in financial results of non-core associates	27	(165)
Other	(45)	(44)
Tax effect of the adjustments and tax on unremitted earnings	(441)	85
Consolidated net profit under IFRS	**38,276**	**1,008**

6 Acquisitions and disposals of shares in subsidiaries and strategic associates

6.1 Acquisitions and disposals of 2011

6.1.1 VK option exercise

In July 2011 the Company exercised its option to acquire a further 7.44% in its strategic associate VK (as defined in Note 10) for a cash consideration of RUR 3,096. The completion of this transaction brought the Group's total equity stake in VK to 39.99%.

The Group allocated RUR 2,645 to goodwill as part of the equity method investment, RUR 442 to intangible assets as part of the equity method investment and RUR 9 to the acquired share in other net assets of VK. The intangible assets mainly represent VK's trademark and customer base and are to be amortised over the useful lives of 7 to 11 years.

6.1.2 Headhunter conversion right exercise

The shareholders' agreement of the Group's subsidiary Headhunter Group Limited ("Headhunter") provided one of the non-controlling shareholders of Headhunter with the ability to exchange its 5.89% of share capital of Headhunter to 432,867 ordinary shares of the Company in the last three months of 2011. In October 2011, the non-controlling shareholder executed its conversion right and as a result, the Group's shareholding in Headhunter increased to 97.2%. The effect of the transaction on the Group's consolidated financial statements was immaterial.

7 Intangible assets

	Goodwill	Trademark	Customer base	Game software and software development costs	Other software, licenses and other	Total
Cost						
At January 1, 2011	**32,969**	**4,389**	**5,504**	**5,075**	**817**	**48,754**
Additions	–	2	–	360	399	761
Transfers	–	1	(9)	(15)	23	–
Disposals	–	(2)	–	(2)	(58)	(62)
Translation adjustment	–	(9)	(1)	8	13	11
At December 31, 2011	**32,969**	**4,381**	**5,494**	**5,426**	**1,194**	**49,464**
Additions	–	78	–	564	315	957
Disposals	–	(1)	–	(1)	–	(2)
Translation adjustment	–	(3)	(2)	(4)	(10)	(19)
At December 31, 2012	**32,969**	**4,455**	**5,492**	**5,985**	**1,499**	**50,400**
Accumulated amortisation and impairment						
At January 1, 2011	**–**	**(572)**	**(357)**	**(1,187)**	**(280)**	**(2,396)**
Charge for the year	–	(485)	(543)	(796)	(341)	(2,165)
Disposals	–	–	–	4	54	58
Transfers	–	–	4	12	(16)	–
Impairment	–	–	–	(209)	–	(209)
Translation adjustment	–	2	(3)	9	(8)	–
At December 31, 2011	**–**	**(1,055)**	**(899)**	**(2,167)**	**(591)**	**(4,712)**
Charge for the year	–	(481)	(505)	(763)	(400)	(2,149)
Disposals	–	–	–	–	-	–
Impairment	–	–	–	(11)	–	(11)
Translation adjustment	–	1	–	3	4	8
At December 31, 2012	**–**	**(1,535)**	**(1,404)**	**(2,938)**	**(987)**	**(6,864)**
Net book value						
At December 31, 2010	**32,969**	**3,817**	**5,147**	**3,888**	**537**	**46,358**
At December 31, 2011	**32,969**	**3,326**	**4,595**	**3,259**	**603**	**44,752**
At December 31, 2012	**32,969**	**2,920**	**4,088**	**3,047**	**512**	**43,536**

Game software and development costs are comprised of internally generated and acquired software for online games in use and in process of development.

7 Intangible assets (continued)

Games represent separable CGU`s and the analysis of impairment was performed at the level of each game, where either impairment was previously recognised or current operating performance was below the original forecasts. The analysis included the comparison of the value in use determined based on discounted future cash flows to the carrying amount. The value in use calculation uses cash flow projections from financial budgets approved by senior management covering a period limited to the useful life of the respective game, ranging from 3 to 7 years.

Based on such analysis in 2012 and 2011 the Group recorded an impairment loss in the amount of RUR 11 and RUR 209 respectively related to game software. The impairment entirely belongs to the Online Games operating segment.

The principal factors leading to the impairment losses recorded by the Group were reductions in the projected future cash flows of certain online games related to delays in games' launch or lower-than-expected actual cash inflows. The revision of the expected profitability of the games affected the future cash flow projections at December 31, 2012 and 2011. Although the Group continues to project future long-term growth in cash flows, such growth is lower for the impaired games than was estimated at the time the games were launched or the businesses operating the games were acquired.

Determining fair value requires the exercise of significant judgment, including judgment about appropriate discount rates, perpetual growth rates, the amount and timing of expected future cash flows, as well as relevant comparable company earnings multiples for the market-based approach. The cash flows employed in the discounted cash flow ("DCF") analysis are based on the Group's most recent budget and, for years beyond the budget, the Group's estimates, which are based on assumed growth rates. The discount rates used in the DCF analysis are intended to reflect the risks inherent in the future cash flows of the respective cash generating units. The pre-tax discount rates used in the DCF models as of December 31, 2012 was 20.6% (2011: 21.06% – 23.20%).

The calculation of value in use is most sensitive to the following assumptions:

- Russian online entertainment market growth rates;
- The Group's market share;
- Net profit margins;
- Discount rates.

8 Property and equipment

	Servers and computers	Leasehold improvements	Furniture, office equipment and motor vehicles	Assets under construction	Other property and equipment	Total
Cost						
At January 1, 2011	**958**	**322**	**98**	**85**	**132**	**1,595**
Additions and transfers	445	12	25	(37)	7	452
Disposals	(24)	(6)	(7)	–	–	(37)
Translation adjustment	36	1	(42)	10	(7)	(2)
At December 31, 2011	**1,415**	**329**	**74**	**58**	**132**	**2,008**
Additions and transfers	622	29	22	337	15	1,025
Disposals	(5)	–	–	–	–	(5)
Translation adjustment	(2)	–	(3)	–	–	(5)
At December 31, 2012	**2,030**	**358**	**93**	**395**	**147**	**3,023**
Accumulated depreciation and impairment						
At January 1, 2011	**(273)**	**(41)**	**(40)**	**–**	**(13)**	**(367)**
Charge for the year	(427)	(43)	(18)	–	(24)	(512)
Disposals	22	1	3	–	–	26
Translation adjustment	(19)	1	23	–	(1)	4
At December 31, 2011	**(697)**	**(82)**	**(32)**	**–**	**(38)**	**(849)**
Charge for the year	(468)	(47)	(23)	–	(23)	(561)
Disposals	4	–	–	–	–	4
Translation adjustment	1	–	1	–	–	2
At December 31, 2012	**(1,160)**	**(129)**	**(54)**	**–**	**(61)**	**(1,404)**
Net book value						
At January 1, 2011	**685**	**281**	**58**	**85**	**119**	**1,228**
At December 31, 2011	**718**	**247**	**42**	**58**	**94**	**1,159**
At December 31, 2012	**870**	**229**	**39**	**395**	**86**	**1,619**

9 Consolidated subsidiaries

These consolidated financial statements include the assets, liabilities and financial results of the Company and its subsidiaries, whose main activity is providing Russian-language Internet services. The significant subsidiaries as at December 31, 2012 and 2011 are listed below:

		Ownership,%*	
Subsidiary	Main Activity	December 31, 2012	December 31, 2011
Mail.Ru Internet N.V. (Netherlands)	Holding entity	100.0%	100.0%
Mail.Ru Coöperatief UA (Netherlands)	Holding entity	100.0%	100.0%
Mail.Ru Group Investments (Cyprus)	Holding entity	100.0%	100.0%
Port.ru Inc. (USA)	Holding entity	100.0%	100.0%
NetBridge Limited (Cyprus)	Holding entity	100.0%	100.0%
Mail.Ru, LLC (Russia)	Online portal services	100.0%	100.0%
Mail.Ru, LLC (Ukraine)	Online portal services	100.0%	100.0%
Money.Mail.Ru, LLC (Russia)	Internet payment system	99.0%	99.0%
NBCO Money.Mail.Ru LLC	Internet payment system	100.0%	–
Mail.Ru Development LLC	Reserch and development of online products	100.0%	–
New Trinity Investment, LLC (Russia)	Online portal services	100.0%	100.0%
Port.ru Msk, LLC (Russia)	Online portal services	100.0%	100.0%
Astrum Online Entertainment Limited (BVI) (renamed from DST Entertainment Limited and Aquaflow Limited)	Holding entity	100.0%	100.0%
Benstar Limited (BVI)	Holding entity	100.0%	100.0%
Nessly Holdings Limited (Cyprus)	Holding entity	100.0%	100.0%
Mail.Ru Games GMBH (renamed from Astrum Online Entertainment GMBH) (Germany)	Development and support of online games	100.0%	100.0%
Dark Joker, LLC (Ukraine)	Development and support of online games	100.0%	100.0%
Mail.Ru Games LLC (renamed from IT Territory, LLC) (Russia)	Development and support of online games	100.0%	100.0%
Online Games Holding Limited (BVI)	Development and support of online games	100.0%	100.0%
Headhunter Group Limited (BVI) (renamed from Newton Rose Limited)	Holding company	100.0%	97.2%
Headhunter LLC (Russia)	Online recruiting services	100.0%	97.2%
Headhunter LLC (Ukraine)	Online recruiting services	51.0%	49.6%
Headhunter KZ LLC (Kazakhstan)	Online recruiting services	66.0%	64.2%
Metajob LLC (Russia)	Online recruiting services	100.0%	97.2%
CV Keskus AS (Estonia)	Online recruiting services	100.0%	97.2%
Headhunter FSU Limited (Cyprus)	Holding company	100.0%	97.2%
100 Rabot Tut LLC (Belarus)	Online recruiting services	50.0%	48.6%
OU Forticom (Estonia)	Holding company	100.0%	100.0%
Internet company Mail.ru LLC	Holding company	100.0%	100.0%
Odnoklassniki LLC (Russia)	Social network	100.0%	100.0%
Odnoklassniki Ltd (UK)	Holding company	100.0%	100.0%
Radikal LLC (Russia)	Photo hosting	80.0%	80.0%
Forticom Group Limited (BVI)	Holding company	100.0%	100.0%
SIA Forticom (Latvia)	Development and support of social network	100.0%	100.0%
ICQ LLC (USA)	Holding company	100.0%	100.0%
ICQ Ltd (Israel)	Online messaging services company	100.0%	100.0%
Data Center M100 LLC (Russia)	Hosting services	100.0%	100.0%

* The ownership percentages above represent the Company's effective indirect ownership in each subsidiary. Although the effective indirect ownership in some subsidiaries as of December 31, 2011 was below 50%, the Group exerts control as it owns a majority of the voting power on every level of the respective shareholding chain.

10 Investments in strategic associates

The Group has investments in strategic associates involved in operating popular Internet websites and providing various services over the Internet, as well as a strategic investment in an associate providing electronic payment processing services.

Investments in strategic associates at December 31, 2012 and 2011 comprised the following:

		Voting shares		Carrying value	
Associate	Main activity	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Qiwi Limited (renamed from OE Investments Limited) (Cyprus) and subsidiaries ("QIWI")	Operation of electronic online payment systems in Russia, in the CIS, China and other countries, and the selling of electronic payment terminals and fiscal modules	21.35%	21.35%	1,150	1,150
VK.com (renamed from Doraview Limited) (BVI) and subsidiaries ("VK")	Develops and maintains, via Russian subsidiaries, social networking web sites (www.vk.com, www.vkadre.ru, www.vshtate.ru) for communication, information sharing and personnel recruiting service purposes	39.99%	39.99%	7,049	7,133
Molotok Holdings Limited (Cyprus) and subsidiary OOO E-Commerce Group (Russia) ("Molotok")	Provides online auction services to Internet customers through its www.molotok.ru web site	49.90%	49.90%	66	99
Haslop Company Limited (Cyprus) and Russian subsidiaries (collectively, "Mamba")	Provides content for www.love.mail.ru, a vertical of the www.mail.ru portal operated by a subsidiary of Mail.Ru Internet NV	31.34%	31.34%	605	651
Nikita Management Limited (BVI)	Holds 100% in OOO Fun Factory (Russia) engaged in online gaming services	50%	50%	75	85
Total				**8,945**	**9,118**

The above entities have the same reporting date as the Company. None of the above entities were listed on a public exchange as of December 31, 2012.

Movement in investments in strategic associates for the years ended December 31, 2012 and 2011 is presented below:

	2012	2011
Investments in strategic associates at January 1	**9,118**	**6,196**
Acquisition of shares in associates	–	3,096
Contributions to associates	–	47
Disposals of shares in associates	–	(2)
Share in net profits of associates	112	14
Share in equity-settled share-based payments of associates	15	6
Dividends from associates	(307)	(131)
Share in other changes in capital of associates	7	65
Impairment of investments in associates	–	(173)
Investments in strategic associates at December 31	**8,945**	**9,118**

In 2011, the Group recorded impairment of RUR 173 with respect to its investment in Molotok. Molotok's performance in 2011 was below management's forecasts, which led the management to reconsider Molotok's revenue growth projections. The recoverable amount of Molotok was determined based on value-in-use calculations using cash flow projections covering a ten-year period. The pre-tax discount rate used in the respective DCF model was 22.34%. The terminal growth rate used was 5.0%. Apart from discount and terminal growth rates, the cash flow projections are most sensitive to revenue compound annual growth rates ("CAGR") and EBITDA margin. The impairment of Molotok was not allocated to any of the Group's reportable segments, as the financial information related to Molotok is not reviewed by the Group's CODM in analysing the operational performance of the Group and allocating resources and, accordingly, is not included in the presentation of the Group's operating segments. No impairment was recorded in 2012.

Although certain indicators of impairment were identified for one of the Group's associates as of December 31, 2012, the recoverable amount of the investment based on multiples analysis was higher than its carrying value and accordingly, no impairment was recorded in 2012.

Notes to Consolidated Financial Statements (continued)

10 Investments in strategic associates (continued)

The following table illustrates summarised financial information of the Group's strategic associates:

	December 31, 2012	December 31, 2011
The Group's share of the associates':		
Total assets	6,088	5,481
Total liabilities	(4,323)	(3,555)
Net assets	**1,765**	**1,926**
Net assets attributable to non-controlling interests in associates' subsidiaries	11	23
Net assets attributable to equity holders of associates	**1,776**	**1,949**
Goodwill as part of investments in strategic associates	7,169	7,169
Aggregate carrying amount of investments	**8,945**	**9,118**

	2012	2011
The Group's share of the associates':		
Revenue	3,696	3,164
Net profit	112	14

11 Impairment testing of goodwill

At January 1, 2011, goodwill acquired through business combinations was allocated to 'Mail.Ru' (arising from 2010, 2009 and 2008), 'OK' (arising from 2010) and 'Headhunter' (arising from 2009), groups of CGUs for impairment testing. At December 31, 2011, the Group revised its segment reporting (see Note 5) in a way that changed the composition of the CGUs to which goodwill had been allocated, and management reallocated goodwill to new groups of individual CGUs – 'Email, Portal and IM', 'Social Networks', ''Online Games', Search' and 'E-Commerce and Other' – according to the new reporting structure implemented as of that date. The reallocation was performed using a relative fair value approach whereby goodwill was allocated to the new groups of CGUs in proportion to their respective fair values determined using appropriate valuation techniques.

The table below shows movements in goodwill per groups of CGUs for each of the years ended December 31, 2012 and 2011:

	Mail.ru	Headhunter	OK	Email, Portal and IM	Social Networks	Online Games	Search	E-commerce and Other	Total
Cost at January 1, 2011	**17,750**	**1,855**	**13,364**	**–**	**–**	**–**	**–**	**–**	**32,969**
Reallocation due to change in reporting structure	(17,750)	(1,855)	(13,364)	8,192	18,474	1,952	2,496	1,855	–
Cost at December 31, 2011	**–**	**–**	**–**	**8,192**	**18,474**	**1,952**	**2,496**	**1,855**	**32,969**
Cost at December 31, 2012	**–**	**–**	**–**	**8,192**	**18,474**	**1,952**	**2,496**	**1,855**	**32,969**

The recoverable amount of goodwill has been determined based on value in use calculation as of December 31, 2012 and 2011.

Value in use

At December 31, 2012, value in use was determined using cash flow projections from financial budgets approved by senior management covering a nine-year period. The nine-year period was taken as the basis because the Group expects that the growth rates of the Russian IVAS market will exceed the terminal growth rates in the four-year period following the first five years of forecast. The Group used the cash flow projections based on financial forecasts over a period longer than five years as it is confident that these projections are reliable and accurate.

The major assumptions used in the DCF models at December 31, 2012 are presented below:

	Email, Portal and IM	Social Networks	Online Games	Search	E-commerce and Other
Terminal growth rate	5.00%	5.00%	5.00%	5.00%	5.00%
Pre-tax discount rate	16.16%	16.05%	16.61%	16.07%	16.11%

Determining fair value requires the exercise of significant judgment, including judgment about appropriate discount rates, perpetual growth rates, the amount and timing of expected future cash flows, as well as relevant comparable company earnings multiples for the market-based approach. The cash flows employed in the DCF analysis are based on the Group's most recent budget and, for years beyond the budget, the Group's estimates,

11 Impairment testing of goodwill (continued)

which are based on assumed growth rates. The discount rates used in the DCF analysis are intended to reflect the risks inherent in the future cash flows of the respective cash generating units. Terminal growth rates approximate expected nominal GDP growth rates beyond the forecast period.

The calculation of value in use is most sensitive to the following assumptions:

- Revenue Compound annual growth rates (“CAGR”);
- EBITDA margins;
- Growth rates used to extrapolate cash flows beyond the budget period; and
- Discount rates.

No impairment of goodwill was recognised in 2012 and 2011, and reasonably possible changes in any valuation parameters would not result in impairment of goodwill.

12 Trade accounts receivable

As of December 31, 2012 and 2011 trade receivables comprised the following:

	December 31, 2012	December 31, 2011
Trade accounts receivable, gross	2,806	2,302
Provision for impairment of trade receivables	(82)	(57)
Total trade receivables, net	**2,724**	**2,245**

The movements in provision for impairment of trade receivables were as follows:

Balance as of January 1, 2011	**(66)**
Charge for the year	18
Translation adjustment	(9)
Balance as of December 31, 2011	**(57)**
Charge for the year	(25)
Balance as of December 31, 2012	**(82)**

Trade receivables not impaired as of December 31, 2012 and 2011 are presented below:

		Ageing of receivables (days)			
	Total	<90	90-180	180-360	>360
As of December 31, 2012					
Trade accounts receivable	2,724	2,465	236	11	12
As of December 31, 2011					
Trade accounts receivable	2,245	1,955	217	55	18

The accounts receivable balances as of December 31, 2012 and 2011 mainly represented by amounts due from online electronic payment systems and advertising customers.

The trade receivables are settled in RUR on a 40-90 days basis. There is no requirement for collateral to receive credit.

Management considers that the carrying amount of the receivable balances approximated their fair value as of December 31, 2012 and 2011.

13 Cash and cash equivalents and short-term deposits

As of December 31, 2012 and 2011 cash and cash equivalents comprised of the following:

	Currency	December 31, 2012	December 31, 2011
Current accounts and cash on hand:	USD	1,798	176
	RUR	1,476	948
	EUR	128	38
	Other	67	90
Total current accounts and cash on hand		**3,469**	**1,252**
Deposit accounts with an original maturity of three months or less:	USD	19,697	491
	RUR	4,521	2,205
	Other	3	67
Total deposit accounts with an original maturity of three months or less		**24,221**	**2,763**
Total cash and cash equivalents		**27,690**	**4,015**
Short-term deposit accounts with an original maturity of over three months	RUR	730	854
	USD	230	–
	EUR	–	29
	Other	31	–
Total short-term deposits		**991**	**883**
Total cash and cash equivalents and short-term deposits		**28,681**	**4,898**

14 Share capital

14.1 Charter capital and share issues

The charter capital of the Company consisted of 113,036,211 ordinary shares and 96,068,000 Class A shares with USD 0.000005 par value each as of December 31, 2012, while the number of authorised shares of the Company as of the same date consisted of 10,000,000,000 ordinary shares and 10,000,000,000 Class A shares. GDRs representing 615,684 shares of the Company were held in treasury by the Group as of December 31, 2012.

The charter capital of the Company consisted of 99,298,972 ordinary shares and 109,761,000 Class A shares with USD 0.000005 par value each as of December 31, 2011, while the number of authorised shares of the Company as of the same date consisted of 10,000,000,000 ordinary shares and 10,000,000,000 Class A shares. GDRs representing 651,534 shares of the Company were held in treasury by the Group as of December 31, 2011.

As of December 31, 2012 and 2011 all issued shares were fully paid.

Rights attached to the share classes as of December 31, 2012 and 2011

The Class A shares and the ordinary shares rank pari passu in all respects, but constitute separate classes of shares, i.e. each and every ordinary share and Class A share has the following rights:

(i) the right to an equal share in any dividend or other distribution paid by the Company to the holders of the shares, pari passu with all other Class A shares and ordinary shares; and, for the avoidance of doubt, any dividend or other distribution may only be declared and paid by the Company to the holders of the Class A shares and the ordinary shares together, and not to the holders of one of those classes of shares only;

(ii) the right to an equal share in the distribution of the surplus assets of the Company pari passu with all other ordinary shares and Class A shares upon the winding up of the Company.

Subject to certain restrictions as provided by the Memorandum of Association of the Company each Class A share has the right to twenty five votes and each ordinary share has the right to one vote at a meeting of members of the Company or on any resolution of members of the Company.

For additional details on the options over the shares of the Company outstanding as of December 31, 2012 and 2011, refer to Note 26.

14.2 GDR buying programme

Starting from October 2011, the Trustee commenced a GDR buying programme of up to USD 35 million in order to cover a part of the employee and director options of the 2010 Option Plan. The programme was completed in 2012. Under the GDR buying programme, the Trustee acquires GDRs representing shares of the Company and will subsequently transfer the GDRs to the respective option holders upon the exercise of the options. The Trustee intends to hold the GDRs to be used over the next four years. The Trustee has a discretion to offer shares (GDRs) or cash to its employees and directors in settlement of options, and it was not and is not intended to make cash settlement a prevailing practice.

During 2012 the Trustee acquired a total of 288,051 GDRs (2011: 651,534) on the market for an aggregate consideration of RUR 297 (2011: 633). The Group accounts for GDRs repurchased as treasury shares.

15 Other assets

The table below represents other non-current assets:

	December 31, 2012	December 31, 2011
Long-term deposits	81	234
Long-term deposit and advance under future lease contract	837	202
Other non-current assets	7	53
Total other non-current assets	**925**	**489**

The following table represents other current assets:

	December 31, 2012	December 31, 2011
Inventory	34	13
VAT receivable	99	46
Interest receivable	56	2
Other current assets	35	61
Total other current assets	**224**	**122**

16 Other payables, provisions and accrued expenses

Other payables, provisions and accrued expenses consist of:

	Note	December 31, 2012	December 31, 2011
Payables to personnel		540	430
Accrued vacations		360	314
Accrued professional consulting expenses		81	103
Advance received under fit-out contract		208	–
Other current payables and provisions	23.1	411	88
Total other payables, provisions and accrued expenses		**1,600**	**935**

17 Other revenues

	2012	2011
Online recruitment services	1,919	1,268
Listing fees	143	178
Dividend revenue from venture capital investments	112	105
Other	175	144
Total other revenue	**2,349**	**1,695**

18 Other operating expenses

	Note	2012	2011
Joint not-for-profit project	23.1	492	–
Other expenses		578	454
Total other operating expenses		**1,070**	**454**

19 Finance income

	2012	2011
Interest and similar income from cash and cash equivalents, net of related bank commissions	283	89
Dividend income from available-for-sale investment	42	31
Total finance income	**325**	**120**

20 Income tax

The business activity of the Group and its associates is subject to taxation in multiple jurisdictions, including:

The Russian Federation

The Group's subsidiaries and associates incorporated in the Russian Federation are subject to corporate income tax at the standard rate of 20% applied to their taxable income. Withholding tax of 15% is applied to any dividends paid out of Russia, reduced to as low as 5% for some countries (including Cyprus), with which Russia has double-tax treaties.

Cyprus

The Group's subsidiaries and associates incorporated in Cyprus are subject to a 10% corporate income tax applied to their worldwide income. Capital gains derived on sale of securities are tax exempt (except for capital gains realised in connection with sale of shares in companies deriving their value or the greater part of their value from immovable property located in Cyprus). Dividend income is also tax exempt.

Germany

The Group's subsidiaries and associates incorporated in Germany are subject to corporate income tax at the standard rate of 30% applied to their taxable income.

Ukraine

The Group's subsidiaries and associates incorporated in the Ukraine are subject to corporate income tax at the standard rate of 21% applied to their taxable income. The income tax rate was reduced in 2012 from 23%, effective January 1, 2012.

British Virgin Islands

The Company and its subsidiaries and associates incorporated in the British Virgin Islands are exempt from all taxes under the respective laws.

The United Kingdom

The Group's subsidiaries registered in the United Kingdom are subject to corporate income tax at a standard rate of 24.5% rate applied to their worldwide income. The income tax rate was reduced in 2011 from 26.5%, effective March 1, 2012.

Estonia

The Company's subsidiaries incorporated in Estonia are not subject to pay income tax on their profits. Rather, they are subjected to income tax on the paid dividends. The dividends and profit distributed in any other forms are subject to income tax with the tax rate of 21/79 applied to the actual distribution.

The Netherlands

The Group's subsidiaries incorporated in the Netherlands are subject to corporate income tax at a standard rate of 25.5% applied to their taxable income. Dividend income and capital gains received by the Dutch subsidiaries are exempt from the corporate income (participation exemption).

20 Income tax (continued)

The reconciliation between tax expense and the product of accounting profit multiplied by BVI's domestic tax rate for the years ended December 31, 2012 and 2011 is as follows:

	2012	2011
Profit before income tax expense	41,289	2,524
BVI statutory income tax rate at 0%	–	–
Foreign tax rate differential	(2,064)	(1,073)
Tax on dividends	(188)	(28)
Adjustments in respect of current income tax of previous year	(3)	–
Tax on unremitted earnings	(637)	(261)
Unrecognised deferred tax assets	(25)	(12)
Utilisation of previously unrecognised tax loss	–	8
Tax risks reversal	36	–
Tax refund	–	14
Non-deductible expenses	(132)	(164)
Total income tax expense	**(3,013)**	**(1,516)**

Deferred income tax assets and liabilities as of December 31, 2012 and 2011:

	Consolidated statement of financial position		Consolidated statement of comprehensive income	
	December 31, 2012	December 31, 2011	2012	2011
Deferred tax liabilities arising from:				
Intangible assets book basis in excess of tax basis	(1,724)	(2,027)	302	320
Basis of investment in associate in excess of tax basis	(135)	(135)	–	–
Unremitted earnings of subsidiaries	(1,484)	(849)	(636)	(262)
Other	(148)	(22)	(130)	(24)
Total deferred tax liabilities	**(3,491)**	**(3,033)**	**(464)**	**34**
Deferred tax assets arising from:				
Tax credit carryforwards	–	7	(7)	7
Deferred compensation and accrued employee benefits	144	76	69	(12)
Accrued expenses	19	14	8	8
Revenue recognition	315	248	67	100
Unrealised intercompany profit	20	25	(5)	(2)
Other	47	39	8	11
Total deferred tax assets	**545**	**409**	**140**	**112**
Net deferred tax assets/(liabilities)	**(2,946)**	**(2,624)**	**(324)**	**146**

Management's assessment of the realisation of deferred tax assets is based upon the weight of all available evidence, including factors such as the recent earnings history and expected future taxable income. The Group has not recognised an additional deferred tax asset of RUR 25 in 2012 (2011 – RUR 12).

As of December 31, 2012 and 2011, deferred tax liability has been provided for US and Russian withholding taxes on unremitted retained earnings of Mail.Ru Internet NV subsidiaries, because in 2009 those subsidiaries started to pay dividends to their shareholders and the Company expects this practice to continue in the future. Additionally, as of December 31, 2012, deferred tax liability has been provided for Russian withholding taxes on unremitted retained earnings of OK, because the Company expects OK to start paying dividends to its shareholders in 2013. The Group has determined that undistributed profits of its subsidiaries, joint venture or associate will not be distributed in the foreseeable future. The temporary differences associated with investments in subsidiaries, associate, for which a deferred tax liability has not been recognised, aggregate to RUR 2,125 (2011: RUR 1,365).

20 Income tax (continued)

Changes in net deferred tax liability from January 1, 2011 to December 31, 2012 were as follows:

	2012	2011
Total deferred income tax liability, net at January 1	**(2,624)**	**(2,772)**
Translation reserve	2	2
Deferred tax benefit/(expense)	(324)	146
Total deferred income tax liability, net at December 31	**(2,946)**	**(2,624)**

	2012	2011
Current income tax expense	2,689	1,662
Deferred income tax expense/(benefit)	324	(146)
Total income tax expense	**3,013**	**1,516**

21 EPS

21.1 Basic EPS

Basic EPS amounts are calculated by dividing earnings for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

	2012	2011
Net profit attributable to equity holders of the Company	**38,257**	**977**
Weighted average number of ordinary shares in issue	208,399,372	208,605,536
Basic EPS (RUB per share)	**183,6**	**4,7**

21.2 Diluted EPS

Diluted EPS is calculated by adjusting the weighted average number of ordinary shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options and awarded shares granted by the Company (collectively forming the denominator for computing the diluted EPS).

For share options, a calculation is done to determine the number of shares that would have been issued assuming the exercise of the share options. The above number is added to the denominator as an issue of ordinary shares for no consideration. No adjustment is made to the net profit attributable to ordinary shareholders of the Company (numerator).

As discussed in more detail in Notes 6 and 26, the Company issued certain call options and conversion rights over its shares in 2012 and in prior years.

Some instruments potentially convertible into the shares of the Company had a dilutive effect on the earnings per share for the years ended December 31, 2012 and 2011 and, accordingly, were taken into account when calculating the diluted EPS for those years.

In addition to the options and conversion rights over the shares of the Company, Headhunter and Mamba issued options to acquire ordinary shares of the respective subsidiary or associate which were assessed in calculating the Group's diluted EPS for 2012 or 2011. In calculating the dilution effect of these instruments, the effect of the exercise of the options on the earnings attributable to equity holders of the Company (numerator) was assessed. Some options were considered anti-dilutive if either the average market price of the underlying shares was below the exercise price of the options or if the effect of their assumed exercise decreased the Group's diluted EPS.

Additionally, the right to convert shares of Headhunter into shares of the Company issued by the Company as part of the Headhunter acquisition in February 2009 and exercised by the holder in October 2011 was found to have a dilutive effect on the Group's EPS in 2011. The conversion right is described in more detail in Note 6.

21 EPS (continued)

21.2 Diluted EPS (continued)

The calculation of diluted EPS is summarised in the table below:

	2012	2011
Net profit attributable to equity holders of the Company	**38,257**	**977**
Adjustment for assumed exercise of Mamba share options	(1)	–
Adjusted net profit attributable to equity holders of the Company	**38,256**	**977**
Weighted average number of ordinary shares in issue	208,399,372	208,605,536
Effect of equity-settled share based payments of the Company	400,773	29,168
Total diluted weighted average number of shares	**208,800,145**	**208,634,704**
Diluted EPS (RUB per share)	**183,2**	**4,7**

22 Commitments, contingencies and operating risks

22.1 Operating environment of the Group

The Company is registered in BVI, but most of the Group's operations are in Russia. Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

22.2 Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

In 2011 and 2012 some of the Company's associates and subsidiaries accrued provisions for tax risks related to their operations. It is reasonably possible that relevant governmental authorities in Russia may attempt to assess additional income and non-income taxes against those associates and subsidiaries. The extent of potential assessments and the ultimate success thereof are not currently estimable. However, should the relevant governmental authorities question the management`s approach to the taxation of the respective subsidiaries' and assocoaites' operations and prove successful in their claim, they would be entitled to recover the amounts of the tax provisions. Management of the Group and its associates will vigorously defend its positions if such claims are assessed.

The Group uses electronic payment systems to collect cash from their customers. The regulatory environment around electronic payment systems in Russia and Ukraine is evolving and may be subject to varying interpretations. Therefore, there is a risk that related arrangements of the Group may be challenged by the taxing authorities and may result in additional taxes for the Group.

The Group's management believes that its interpretation of the relevant legislation is appropriate and is in accordance with the current industry practice and that the Group's tax, currency and customs positions will be sustained. However, the interpretations of the relevant authorities could differ and the effect of additional taxes, fines and penalties on these consolidated financial statements, if the authorities were successful in enforcing their different interpretations, could be significant.

In 2011, tax authorities assessed a RUR 45 million tax claim on one of the Group's subsidiaries. The Group challenged the claim in court and in 2013 the casstion instance ruled in favour of the Group for the full amount of the claim.

22.3 Legal proceedings

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which has had, individually or in the aggregate, a material adverse impact on the Group. Management believes that the resolution of all current and potential legal matters will not have a material impact on the Group's financial position or operating results.

22.4 Competition

The development by domestic and large international internet companies of Russian language versions of the services competing with the services the Group provides could decrease Group's user base and make it less attractive to advertisers.

22 Commitments, contingencies and operating risks (continued)

22.4 Competition (continued)
Increased competition could result in a reduction in the number of users who buy Group's Community IVAS – including games – which, in turn, would result in lower revenue and net income. Similarly, the Group may be required to spend additional resources to promote or improve its services in order to compete effectively, which could require additional capital or adversely affect Group's profitability.

22.5 Private information
To become registered on the website operated by the Group, users have to input their personal data, which is then protected by the Group from access by 3rd parties. Should such data become available to 3rd parties as a result of hackers' attacks, the Group may become a party to litigations from its users. Management believes it takes all necessary steps to reduce the related risk to an acceptable level.

22.6 Intellectual property rights
The Group may be subject to infringement claims from third parties in the future resulting from the technology and intellectual property used in the provision and marketing of its services. If the Group is found liable for infringement, it may be required to pay significant damages, and if it is unable to license or develop non-infringing technology on a timely basis, it may be unable to continue offer the affected services without risk of liability. Similarly, third parties may obtain and use the Group's intellectual property without authorisation. The validity, application, enforceability and scope of protection of intellectual property rights for many Internet-related activities are uncertain and still evolving, which may make it more difficult for the Group to protect its intellectual property, which could have a material effect on its business, results of operations and financial condition. The Group and its associates have been subject to such proceedings in the past. Although none of them was individually significant, similar potential claims may potentially subject the Group to significant losses in the future, which currently cannot be reliably estimated.

22.7 Development
A failure to innovate, to provide popular products and services or to react quickly to changes in the market could affect the popularity of the Group's sites and, in turn, could affect advertising revenue. An inability to develop products and services which are compatible with new mobile devices could result in a failure to capture a significant share of an increasingly important market.

22.8 Regulation
New laws and regulations, or new interpretations of existing laws and regulations (especially in the payment processing business), could require the Group to invest in restructuring certain services or could lead to a reduction in their take-up by users, with a resulting effect on revenue and profitability.

In November 2012, new legislation came into effect introducing the Unified Register of the Domain names, Sites and IP-addresses containing information prohibited for dissemination in Russia (the "Black List"). Such information includes child pornography; information about production, distribution and sales locations of drugs; and methods of suicide. The Black List is maintained by a designated authority. Failure by any property to comply with the authority's takedown request within 24 hours will result in immediate blocking of internet access to such property's domain, web site or IP address by Russian internet providers without a court order. The Group complies with Black List legislation and none of the Group's properties have been blocked up to date. However, abusive or erroneous application of the Black List legislation in the future may potentially lead to one or more of the Group's properties being blocked, which may have a significant adverse effect on the Group's revenues and profitability.

22.9 Personnel
As competition in Russia's internet industry increases, the Group's business and operations could be adversely affected by difficulties in hiring, motivating and retaining highly-skilled people. Competition for senior managers is high. One or more could join a competitor, or set-up a competing company, with the result that operations and profitability could be affected by a loss of strategic direction, users, know-how and additional staff.

22.10 Infrastructure and capacity
If the infrastructure in Russia were not able to support increased demand, the Group's services could be interrupted or the Group's systems damaged. A limited availability of third-party providers of network and server capacity could limit the Group's ability to offer certain services or to expand. Network or power failures could result in the loss of data and in a reduction in the number of users, which could have a material effect on the Group's business, results of operations and financial condition.

22.11 Operating lease commitments – the Group as a lessee
The table below summarises minimum lease payments under non-cancellable operating lease contracts where the Group is a lessee:

	2012	2011
	Minimum lease payments	Minimum lease payments
Less than 1 year	247	193
From 2 to 5 years	187	68
More than 5 years	78	64
Total	**512**	**325**

22 Commitments, contingencies and operating risks (continued)

22.11 Operating lease commitments – the Group as a lessee (continued)

The Group mainly leases office premises. In 2012 operating lease expense in the consolidated statement of comprehensive income amounted to RUR 420 (2011 – RUR 268).

In November 2011, the Group committed to enter into a long-term lease for office space subject to certain conditions that management estimates will be fulfilled in the first nine months of 2013. The Group expects to pay an aggregate of USD 287 million in 2013-2020 under and in connection with the agreement, including payments for leasehold improvements and related professional fees.

23 Balances and transactions with related parties

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year directors and key management of the Group (see below). All related party transactions were made in accordance with contractual terms and conditions agreed between the parties.

	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
2012				
Strategic associates	258	180	158	17
Other entities*	2	–	152	–
2011				
Strategic associates	246	105	149	3
Other entities	5	–	21	–

*excluding joint not-for-profit project described in the Note 23.1 below

Sales to strategic associates consist of the following:

	2012	2011
Sales to Mamba	149	136
Sales to VK	99	48
Other	10	62
Total	**258**	**246**

Amounts owed by strategic associates consist of the following:

	2012	2011
Accounts receivable from Mamba	30	30
Accounts receivable from VK	16	2
Accounts receivable from QIWI	111	108
Other	1	9
Total	**158**	**149**

The Group's sales to, and receivables from Mamba primarily arise from a revenue sharing arrangement relating to other IVAS generated by a dating website operated by Mamba.

The Group's sales to, and receivables from VK primarily arise from the Group's social games offered via the VK social network. The arrangement with VK is entered into on terms equivalent to those that prevail in arm's length transactions.

23.1 Joint not-for-profit project

In 2012, the Group co-sponsored in a joint corporate not-for-profit project with several companies controlled by one of the Group's shareholders. The Group recognized an expense of RUR 492 million in 2012 in connection with this project. The expense was recorded under "Other operating expenses" in the statement of comprehensive income. Out of this amount, RUR 316 was payable as of December 31, 2012. The Group recognized the payable under *"Other payables, provisions and accrued expenses"* in its consolidated statement of financial position.

23.2 The ultimate parent

The Company has no ultimate parent.

23 Balances and transactions with related parties (continued)

23.3 Directors of the Company

Total cash remuneration of the members of the Board of Directors (each a “Director” and collectively, “Directors”) of the Company amounted to RUR 47 for the year ended December 31, 2012 (2011: RUR 42). No options over the shares of the Company were granted to Directors for the year ended December 31, 2012 (2011: options over 733,388 ordinary shares of the Company at the exercise price of USD 27.7 per share). During year ended December 31, 2012, Directors forfeited options over 152,566 shares (2011: nil) and exercised options over 179,332 shares of the Company (2011: nil). The corresponding share-based payment expense was RUR 47 for the year ended December 31, 2012 (2011: RUR 288).

23.4 Key management of the Group

Total cash remuneration of the key management of the Group (excluding Directors) amounted to RUR 479 for the year ended December 31, 2012 (2011: RUR 437). In addition to the cash remuneration in 2012, key executive employees of the Group were granted options to acquire 230,000 ordinary shares of the Company out of the IPO Portion of the 2010 Option Plan (2011: 1,189,954) and options to acquire 2,540,000 ordinary shares of the Company out of the 2011 Portion of the 2010 Option Plan (2011: nil). During the year ended December 31, 2012, key management of the Group (excluding Directors) forfeited IPO Portion options over 80,000 shares (2011: 250,000 forfeited and 46,000 cancelled) and 2011 Portion options over 37,500 shares (2011: nil) and exercised IPO Portion options over 837,188 shares of the Company (2011: nil). The corresponding share based payment expense amounted to RUR 1,650 for year ended December 31, 2012 (2011: RUR 1,236). Please refer to Note 26 below for the definitions of the 2010 Option Plan, the 2010 Portion and the IPO Portion.

24 Financial instruments

The carrying amounts of the Group's financial instruments approximated their fair values as of December 31, 2012 and 2011 and are presented by category of financial instruments in the table below:

	Category*	December 31, 2012	December 31, 2011
Financial assets			
Financial investments in associates	FAFVPL	1,567	768
Derivative financial assets over the equity of investees	FAFVPL	35	52
Available-for-sale equity investment	AFSFA	10,162	69,399
Long-term deposits	LR	81	234
Trade accounts receivable	LR	2,724	2,245
Loans and interest receivable	LR	62	7
Short-term time deposits	LR	991	883
Cash and cash equivalents	LR	27,690	4,015
Total financial assets		**43,312**	**77,603**
Current		31,757	7,150
Non-current		11,555	70,453
Total derivative financial assets		**35**	**52**
Current		–	–
Non-current		35	52
Financial liabilities			
Derivative and other financial liabilities over the equity of investees	FLFVPL	–	145
Trade accounts payable	FLAC	858	829
Total financial liabilities		**858**	**974**
Current		858	829
Non-current		–	145
Total derivative financial liabilities		**–**	**145**

* Financial instruments used by the Group are included in one of the following categories:
- FAFVPL – financial assets at fair value through profit or loss;
- AFSFA – available-for-sale financial assets;
- LR – loans and receivables;
- FLFVPL – financial liabilities at fair value through profit or loss; or
- FLAC – financial liabilities at amortised cost.

As of December 31, 2011, the Group’s investments in listed securities were limited to its investments in shares of Zynga, Inc. (“Zynga”) and Groupon, Inc. (“Groupon”), both of which went public late in 2011. These investments are classified as available-for-sale financial assets and are discussed in more detail under 24.2 below.

24 Financial instruments (continued)

The Group's available-for-sale investment in Facebook, Inc. ("Facebook") was reclassified from Level 3 to Level 2 due to change in valuation methodology, whereby the fair value of this investment as of December 31, 2012 was determined using observable market inputs as a result of Facebook initial public offering in May 2012.

Except as discussed in the preceding paragraph, none of the Group's investees are public companies and none of the Group's financial instruments are traded in active markets. Accordingly, fair values of the Group's financial assets and liabilities at fair value through profit or loss and a significant portion of the Group's available-for-sale financial assets are determined using valuation techniques, including discounted cash flow models, comparison to similar instruments for which observable market prices exist, option pricing models and other relevant valuation models. Such valuation techniques require management to make certain assumptions about model inputs, including credit risk and volatility. If changing one or more of those assumptions to reasonably possible alternate assumptions would change fair value significantly, the effect of those changes is disclosed below.

In June 2012, other shareholders of Headhunter exercised put options over 2.8% of Headhunter for RUR 155 payable by the Group in the fourth quarter of 2012. The Group accounted for the transaction as an acquisition of non-controlling interest in Headhunter. Accordingly, the transaction resulted in a decrease of RUR 14 in non-controlling interest and an increase of RUR 14 in Share premium. Additionally, as part of the transaction, the Group de-recognised the respective financial liability over the equity of Headhunter and recognized a payable under *"Other payables, provisions and accrued expenses"* in its consolidated statement of financial position. The payable was settled in October 2012.

Fair value of cash and cash equivalents, short-term time deposits, short-term accounts receivable, other current assets, trade accounts payable approximate their carrying amounts largely due to the short-term maturities of these instruments.

24.1 Financial investments in associates

Financial investments in associates are the Group's investments in various Internet start-ups that form the Group's venture capital portfolio and are managed exclusively on the basis of their fair values, even though the Group may have significant influence over the respective investees.

The fair values of financial investments in associates either were determined using DCF models or based on recent cash transactions or net assets value, depending on which valuation technique produced more reliable results. The DCF models use cash flow projections from financial budgets approved by senior management covering an eight-year period. The main assumptions used in the DCF models as of December 31, 2012 and 2011 are as follows:

	December 31, 2012	December 31, 2011
Terminal growth rate	5.0%	5.0%
Discount rates	30%-35%	30%-35%

The Group has recognised a gain of RUR 590 in 2012 (2011: RUR 34) due to the change in fair value of its financial investments in associates. The gains were recorded in the statement of comprehensive income under 'Net gain on venture capital investments and associated derivative financial assets and liabilities'.

24.2 Available-for-sale financial assets

In 2012 the Group fully sold shares in CED, Groupon and Zynga, and partly in Facebook. As a result, the Group recognised a gain on disposal of shares in available-for-sale investments in the amount of RUR 33,948 and an impairment loss related to available for sale investments in the amount of RUR 718 fully pertaining to its investment in Zynga.

The Group's available-for-sale equity instruments are summarised in the table below:

	Basic shareholding*		Carrying amount	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Investment in CED	n/a	15%	n/a	255
Investment in Facebook	0.60%	3.00%	10,162	53,652
Investment in Groupon	n/a	4.39%	n/a	12,927
Investment in Zynga	n/a	1.44%	n/a	2,565
Total			**10,162**	**69,399**

* Share calculated excluding the potential dilutive effect of options and other instruments convertible into shares of the investee

24 Financial instruments (continued)

24.2 Available-for-sale financial assets (continued)

The fair values of the Group's available-for-sale investments in Facebook as of December 31, 2011, were determined based on recent cash transactions. The fair values of the Group's investments in Zynga and Groupon as of December 31, 2011 as well as fair value of the Group's investment in Facebook as of December 31, 2012 were determined based on the quoted prices of the respective shares, adjusted for liquidity discounts to reflect restriction on sale of respective shares.

	December 31, 2011		December 31, 2012
	Groupon	Zynga	Facebook
Share price, USD per share	20.63	9.41	26.62
Liquidity discount	30.54%	18.59%	11.6%

The fair value of the Group's available-for-sale investment in CED as of December 31, 2011 was estimated using a DCF model based on cash flow projections from financial budgets approved by senior management covering a ten-year period. The main assumptions used in the DCF model are summarised in the table below:

	December 31, 2011
Terminal growth	2.75%
Discount rate	19.4%

24.3 Financial assets classified as loans and receivables

Detailed information on short-term receivables, cash and cash equivalents and short-term time deposits is available in Notes 12 and 13.

24.4 Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at December 31, 2012 and 2011the Group held the following financial instruments measured at fair value:

	December 31, 2012	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Financial assets at fair value through profit or loss:				
Financial investments in associates	1,567	–	–	1,567
Derivative financial assets over the equity of investees, non-current	35	–	–	35
Total financial assets at fair value through profit or loss	**1,602**	**–**	**–**	**1,602**
Available-for-sale equity investment	10,162	–	10,162	–
Total financial assets measured at fair value	**11,764**	**–**	**10,162**	**1,602**

	December 31, 2011	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Financial assets at fair value through profit or loss:	–	–	–	–
Financial investments in associates	768	–	–	768
Derivative financial assets over the equity of investees	52	–	–	52
Total financial assets at fair value through profit or loss	**820**	**–**	**–**	**820**
Available-for-sale equity investments	69,399	–	15,492	53,907
Total financial assets measured at fair value	**70,219**	**–**	**15,492**	**54,727**
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit or loss – derivative and other financial liabilities over the equity of investees	(145)	–	–	(145)
Total financial liabilities measured at fair value	**(145)**	**–**	**–**	**(145)**

24 Financial instruments (continued)

24.4 Fair value hierarchy (continued)

The balance of Level 3 measurements as of January 1, 2011 is reconciled to the balance of those measurements as of December 31, 2012 as follows:

	Balance as of January 1, 2012	Purchases	Sales	Settlement	Gains/(losses) recognized in profit and loss	Gain/(loss) recognised in other comprehensive income	Reclassification to level 2	Balance as of December 31, 2012
Financial assets measured at fair value								
Financial assets at fair value through profit or loss:								
Financial investments in associates	768	270	(61)	–	590	–	–	1,567
Derivative financial assets over the equity of investees	52	–	–	–	(17)	–	–	35
Total financial assets at fair value through profit or loss	**820**	**270**	**(61)**	–	**573**	**–**	**–**	**1,602**
Available-for-sale equity investments	53,906	–	(23,537)	–	–	2,328	(32,697)	–
Total financial assets measured at fair value	**54,726**	**270**	**(23,598)**	**–**	**573**	**2,328**	**(32,697)**	**1,602**
Financial liabilities measured at fair value								
Financial liabilities at fair value through profit or loss – derivative and other financial liabilities over the equity of investees	(145)	–	–	155	(10)	–	–	–
Total financial liabilities measured at fair value	**(145)**	**–**	**–**	**155**	**(10)**	**–**	**–**	**–**

The Group's available-for-sale investment in Facebook was reclassified from Level 3 to Level 2 following the IPOs of Facebook in 2012 and the corresponding change in valuation methodology, whereby the fair value of this investment as of December 31, 2012 was determined using observable market inputs.

24 Financial instruments (continued)

24.4 Fair value hierarchy (continued)

	Balance as of January 1, 2011	Purchases	Gains/(losses) recognized in profit and loss	Gain/(loss) recognised in other comprehensive income	Reclassification to level 2	Balance as of December 31, 2011
Financial assets measured at fair value						
Financial assets at fair value through profit or loss:						
Financial investments in associates	600	130	38	–	–	768
Derivative financial assets over the equity of investees	624	–	(572)	–	–	52
Total financial assets at fair value through profit or loss	**1,224**	**130**	**(534)**	**–**	**–**	**820**
Available-for-sale equity investments	44,299	–	–	25,100	(15,493)	53,906
Total financial assets measured at fair value	**45,523**	**130**	**(534)**	**25,100**	**(15,493)**	**54,726**
Financial liabilities measured at fair value						
Financial liabilities at fair value through profit or loss – derivative and other financial liabilities over the equity of investees	(34)	–	(111)	–	–	(145)
Total financial liabilities measured at fair value	**(34)**	**–**	**(111)**	**–**	**–**	**(145)**

The Group's available-for-sale investments in Groupon and Zynga were reclassified from Level 3 to Level 2 following the IPOs of Groupon and Zynga in 2011 and the corresponding change in valuation methodology, whereby the fair values of these investments as of December 31, 2011 were determined using observable market inputs.

The sensitivity of financial instruments at fair value through profit or loss to the main assumptions used in the respective DCF models is presented in Note 25 below.

25 Financial risk management objectives and policies

25.1 Introduction

The Group's operations include strategic operations and venture capital investments. The Group's financial risk management objectives and policies for its strategic operations and venture capital operations are different, based on significant difference in the degree of risk tolerance between strategic and venture capital operations.

Financial risk arising from the Group's strategic operations is managed through in-depth regular review of all operational segments and day-to-day management of their financial and operating activities by key management personnel. By contrast, financial risk arising from the Group's venture capital activities is managed primarily based on regular reviews of the effect of the existing and prospective investees' operating performance on their fair values, which serve as the foundation for the Group's investment and divestment decisions as part of the Group's venture capital operations.

The Group's principal financial liabilities, other than derivatives, mainly comprise trade accounts payable. The main purpose of these financial liabilities is to finance the Group's operations. The Group has short-term receivables, short-term time deposits, cash and cash equivalents and other current financial assets that arise directly from the Group's strategic and venture capital operations.

Additionally, the Group enters into derivative contracts over the equity of its strategic investees and has available-for-sale investments in strategic investees, which arise as part of the Group's strategic operations.

The Group also has a venture capital investment portfolio consisting of equity investments in Internet start-ups and derivative contracts over the equity of the Group's venture capital investees, which arise as part of the Group's venture capital operations.

The Group does not undertake any trading in financial instruments and enters in derivative contracts only over the equity of its investees and exclusively based on mid- to long term investment considerations.

The Group's senior management is responsible for identifying and controlling risks. These activities are supervised by the Board of Directors, the Group's governing body that is ultimately responsible for the Group's overall approach to risk management. The Board of Directors is developing risk management policies covering the following major aspects: identification and analysis of the risks the Group faces, setting appropriate risk limits and controls, and monitoring risks and adherence to limits. Risk management procedures and systems are contemplated to be reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and responsibilities.

The Group Audit Committee has been established to oversee, inter alia, how management monitors compliance with the Group's risk management practices and procedures when these are developed and approved by the Board of Directors. Management is currently considering different options of risk management framework, which, when completed, will be followed by detailed design phase. The development of the risk management framework is, however, at early stage of development as of now.

25.2 Liquidity and financial resources

The Group uses cash from shareholders contributions, has sufficient cash and did not have any outstanding loans as of December 31, 2012 and 2011. Trade and other payables are due on demand.

25.3 Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

Financial assets, which potentially subject the Company and its subsidiaries and associates to credit risk, consist principally of cash and cash equivalents, short-term time deposits and short-term receivables. The total of these account balances represents the Group's maximum exposure to credit risk.

The Group places its cash and cash equivalents with highly rated financial institutions, which are considered at the time of deposit to have minimal risk of default. The Group does not require collateral or other security to support the financial instruments subject to credit risk. The Group does not enter into master netting arrangements to mitigate the credit risk of financial instruments, except for barter transactions for which there is no cash settlement. Accounts receivable from the largest customer represented 7% of total trade accounts receivable of the Group as of December 31, 2012, 6% as of December 31, 2011. The Group provides credit payment terms to its customers in accordance with market practices and based on thorough review of the customer's profile and creditworthiness. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss beyond the allowance already recorded.

25.4 Capital management policy

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of share capital, share premium, retained earnings and non-controlling interests of the Group.

25 Financial risk management objectives and policies (continued)

25.5 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The market risks the Group is exposed to comprise two types of risk: currency risk and equity risk. The Group's financial instruments affected by market risk include payables, cash and cash equivalents, short-term time deposits, available-for-sale investments, financial investments in associates and derivative financial instruments.

The sensitivity analyses in sections 25.6 and 25.7 relate to the position as at December 31, 2012 and 2011 and include the impact of movement in market variables on the financial instruments of the Group.

The Group does not have any formal arrangements to mitigate interest rate risks of the Group's operations.

25.6 Foreign currency risk

Foreign exchange risk is the risk that fluctuations in exchange rates will adversely affect items in the Group's consolidated statement of comprehensive income, consolidated statement of financial position and/or cash flows. Foreign currency denominated assets and liabilities give rise to foreign exchange exposure. The potential effects of reasonably possible changes in relevant foreign exchange rates on the Group's profit before tax are summarised in the table below.

	Change in USD rate	Effect on profit before tax
2012	+12%	2,570
	-12%	(2,570)
2011	+12.5%	62
	-12.5%	(62)

	Change in EUR rate	Effect on profit before tax
2012	+12%	56
	-12%	(56)
2011	+12.5%	15
	-12.5%	(15)

The Group does not have any formal arrangements to mitigate foreign exchange risks of the Group's operations.

25.7 Equity price risk

The Group's equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group's financial instruments exposed to the equity price risk include the Group's financial investments in associates and available-for-sale equity investments. The Group's derivative financial instruments are also subject to equity price risk, inasmuch as the underlying assets represent equity instruments of the Group's investees.

The inherently high equity risk of the Group's venture capital investments and associated derivative financial instruments is mitigated by the Group through a highly selective approach to venture capital investments, regular reviews of the fair values of existing and potential investees by a team of highly qualified venture capital investment professionals and maintaining the composition of the venture capital portfolio that includes a large number of investments in start-up ventures operating in different segments of the Internet industry. Additionally, the overall impact of venture capital activities on the Group's operations is mitigated by a limited size of the venture capital investment portfolio in relation to the aggregate operations of the Group.

The equity price risk of the Group's available-for-sale equity investments and the equity price component of the risks associated with the Group's derivative financial instruments over the equity of strategic associates are managed by the Group as part of the active participation of the Company's management in the financial and operating management of the respective investees via the presence of the Company's management on the investees board of directors, inasmuch as the Group is entitled to such presence.

At the reporting date, the Group's exposure to unlisted equity securities at fair value through profit or loss, listed available-for-sale investments and derivative financial instruments was equal to the carrying amounts of the respective financial instruments as of the reporting date. A 10% decrease in the overall earnings stream of the valuations performed for the Group's unlisted investments could have a negative impact of approximately RUR 16 (2011: RUR 53) on the Group's pre-tax income. A 500 basis point increase in the discount rate used in the valuation models could result in a negative impact of RUR 29 (2011: RUR 87) on the Group's pre-tax income. The effect of a 100 basis point increase in risk-free rate on the Group's pre-tax income is not significant in all periods presented in these consolidated financial statements.

26 Share-based payments

In 2012 the Group recognised share-based expenses in the amount of RUR 2,217 (2011 – RUR 1,895).

26.1 Share-based payment arrangements of the Company

26.1.1 Option plans

During 2012 and 2011, the Company had the following outstanding option plans:

	DSTA Options	2010 Option Plan
Adoption date	December 2008	November 2010
Type of shares	Ordinary shares	Ordinary shares
Number of options reserved	15,182,000	10,706,403
Exercise price	USD 13.213445	The fair market price at the date of grant provided that the fair market price of the options granted in connection with the IPO shall be the IPO offering price of USD 27.7[1]
Exercise basis	Gross or net share basis	Prior to November 2011 – net share basis only Since November 2011 – net share basis or cash at the Group's discretion[2]
Expiration date	December 2015	December 2018
Other major terms	• The options vested immediately upon grant; • The options can be either exercised by DSTA or re-assigned by DSTA at its discretion to any employee, officer, director, consultant of the Company, DSTA, any investee of the Company where the Company holds at least 15%, or any company managing the assets of the Company.	• The options are not transferrable; • All other terms of the options under the 2010 Option Plan are to be determined by the Company's Board of Directors or Remuneration Committee.

(1) On the IPO date the Company decided to assign to 6,423,842 options (the "IPO Portion") the exercise price equal to the IPO price of USD 27.70. The IPO Portion options granted prior to December 31, 2011 vest in 4 equal tranches on January 2, 2012, December 31, 2012, 2013 and 2014, except for options issued to Directors, which vest in two equal tranches on January 2 and December 31, 2012. The IPO Portion options granted in 2012 vest in 4 equal tranches on January 2, 2013, December 31, 2013, 2014 and 2015, except for options granted in replacement of Headhunter options (see Note 26.2 below), which vest in 4 equal tranches on January 2, 2012, December 31, 2012, 2013 and 2014. On December 22, 2011, the remaining 4,282,561 options (the "2011 Portion") were assigned an exercise price of USD 25.6, which was the closing price of the Group's GDR on that date. The 2011 Portion options vest in 4 equal tranches on January 2, 2013, December 31, 2013, 2014 and 2015. In August 2012, following the payment of a special dividend of USD 3.8 per GDR, the members of the Company resolved that the exercise price of all 2010 Plan Options options be reduced by USD 3.8 per GDR (see Note 27 below).

(2) In November 2011, the terms of the 2010 Option Plan were modified to allow for cash settlement of options at the discretion of the Group.

26 Share-based payments (continued)

26.1 Share-based payment arrangements of the Company (continued)

26.1.2 Changes in outstanding options

The table below summarises the changes of outstanding options in 2012 and 2011:

	DSTA Options	2010 Option Plan IPO Portion	2010 Option Plan 2011 Portion	Total
Outstanding as of December 31, 2010	**220,000**	**4,276,832**	**–**	**4,496,832**
Exercisable as of January 1, 2011	220,000	–	–	220,000
Available for grant as of January 1, 2011	–	2,147,010	4,282,561	6,429,571
Granted during the year	–	2,038,294	–	2,038,294
Exercised during the year	155,000	–	–	155,000
Cancelled during the year	–	46,000	–	46,000
Forfeited during the year	–	314,100	–	314,100
Outstanding as of December 31, 2011	**65,000**	**5,955,026**	**–**	**6,020,026**
Exercisable as of December 31, 2011	65,000	–	–	65,000
Available for grant as of December 31, 2011	–	468,816	4,282,561	4,751,377
Granted during the year(1)	–	559,900	3,587,500	4,147,400
Exercised during the year	65,000	1,137,370	–	1,202,370
Cancelled during the year	–	–	–	–
Forfeited during the year	–	331,491	37,500	368,991
Outstanding as of December 31, 2012	**–**	**5,046,065**	**3,550,000**	**8,596,065**
Exercisable as of December 31, 2012	–	2,139,662	–	2,139,662
Available for grant as of December 31, 2012	–	240,407	732,561	972,968

(1) Includes 200,000 options granted under the IPO Portion of the 2012 Option Plan in replacement of 4,162 options over shares of Headhunter in June 2012 (see Note 26.2 below).

The weighted-average share price was USD 41.59 for options exercised in 2011 and USD 37.10 for options exercised in 2012.

The fair values of all options granted during 2012 and 2011 are summarised in the table below:

Option plan / Grant date	Number of options	Dividend yield, %	Volatility, %	Risk-free interest rate, %	Expected term, years	Share price (USD)	Fair value, total (million RUR)	Fair value per option (RUR)	Valuation method
2011 (2010 Option Plan - IPO Portion)									
March 2011	49,500	0%	50%	2.84%	N/A	32.29	26	518	Binomial
April 2011	733,388	0%	49%	3.08%	N/A	32.30	375	511	Binomial
June 2011	64,700	0%	49%	2.45%	N/A	33.30	33	517	Binomial
September 2011	871,100	0%	48%	1.45%	N/A	33.00	444	510	Binomial
October 2011	62,652	0%	48%	1.60%	N/A	34.45	35	555	Binomial
November 2011	256,954	0%	48%	1.43%	N/A	32.72	135	524	Binomial
2012 (2010 Option Plan - IPO Portion)									
March 2012	166,000	0%	49%	1.58%	N/A	38.50	105	635	Binomial
June 2012(1) (2)	254,900	0%	50%	0.96%	N/A	32.30	137	538	Binomial
October 2012	74,000	0%	50%	1.01%	N/A	32.70	41	556	Binomial
November 2012(1)	55,000	0%	50%	0.86%	N/A	30.62	28	500	Binomial
December 2012	10,000	0%	50%	0.93%	N/A	32.50	5	537	Binomial
2012 (2010 Option Plan - 2011 Portion)									
March 2012	2,455,000	0%	49%	1.58%	N/A	38.50	1,614	657	Binomial
June 2012	1,082,500	0%	50%	0.96%	N/A	32.12	606	560	Binomial
December 2012	50,000	0%	50%	0.99%	N/A	34.59	31	614	Binomial

(1) Volatility and share price for these tranches calculated as average.

(2) Includes 200,000 options granted under the IPO Portion of the 2012 Option Plan in replacement of 4,162 options over shares of Headhunter in June 2012 (see Note 26.2 below).

The expected volatility was determined by reference to peer companies' historical volatility, because the Company only became public in November 2010. The actual forfeiture rate was not taken into account, because management considers that the Group does not have sufficient history of forfeitures.

26 Share-based payments (continued)

26.2 Share-based payment arrangements of the Company's subsidiaries and strategic associates

The table below shows the summary of the Group's share in share-based payment expense of the Group's associates.

	2012	2011
Qiwi	14	–
Mamba	1	6
Total	**15**	**6**

In June 2012, the Group replaced options over 4,162 shares of Headhunter (2.91% on a fully diluted basis) with options over 200,000 ordinary shares of the Company issued under the IPO Portion of the 2010 Option Plan. The Group accounted for the replacement as a modification. The fair values of the awards as of the replacement date were determined using binomial models with the following inputs:

	Number of options	Dividend yield, %	Volatility, %	Risk-free interest rate, %	Expected term, years	Share price (USD)	Fair value, total (million RUR)	Fair value per option (RUR)
Replaced award	4,162	0%	41%	0.17%	0.51	1,381	60	14,413
Replacement award	200,000	0%	50%	0.96%	N/A	32.30	107	537

As a result of the replacement, the Group recognised RUR 30 in share-based payment expense in 2012, with the remaining RUR 17 to be recognised in 2013-2014 based on the vesting of the replacement award.

In August 2012, the exercise price of all outstanding 2010 Option Plan options was reduced by USD 3.8 per option. The change in exercise price was accounted for as a modification. The fair value of the pre-modification and post-podification options as of the modification date were determined using binomial models with the following imputs:

	Number of options	Dividend yield, %	Volatility, %	Risk-free interest rate, %	Expected term, years	Share price (USD)	Fair value, total (million RUR)	Fair value per option (RUR)
Pre-modification options	9,282,590	0%	50%	1.13%	N/A	32.00	4,445	479
Post-modification options	9,282,590	0%	50%	1.13%	N/A	32.00	4,825	520

As a result of the modification, the Group recognised RUR 196 in share-based payment expense in 2012, with the remaining RUR 184 to be recognised in 2013-2015 based on the vesting of the replacement award.

27 Special dividend paid to shareholders

On August 6, 2012 the Group announced that it will pay a special dividend on August 28, 2012 of USD3.80 per share for shareholders on the record date of August 17, 2012 representing a total payout of USD 791 million (RUR 25,748). The dividend was approved by the Board of Directors and shareholders of the Company on August 6, 2012 and fully paid on August 24 and 28, 2012 in the amount of RUR 25,174 million.

28 Events after the reporting period

28.1 Special dividend and reduction in exercise price

In February 2013, the Group announced that it will pay a special dividend on March 28, 2013 of USD 4.30 per share for shareholders on the record as of March 20, 2013 representing a total payout of RUR 27,659 (USD 897 million). The dividend was approved by the Board of Directors of the Company on February 25, 2013. On February 25, 2012 the Board of Directors and shareholders of the Company also approved a reduction of USD 4.30 in the exercise price of the 2010 Option Plan share options in connection with the special dividend payment.

28.2 Disposal of investment in a financial associate

In February 2012, the Group sold a non-controlling stake in a financial investee for a cash consideration of RUR 294. The Group had designated the investment as at fair value through profit or loss, because the investment was managed exclusively based on its fair value as part of the Group's venture capital operations

28 Events after the reporting period (continued)

28.3 Qiwi IPO

In March 2013 one of the Group strategic associates Qiwi filed form F-1 with the US Securities and Exchange Commission in consideration of a potential IPO. If the IPO happens, the Group may sell a portion of its current shareholding in Qiwi and as a result may lose significant influence in Qiwi.

28.4 Modification of certain share options

In March 2013, the terms of exercise of certain options issued under the 2010 Option Plan were modified. Specifically, any option holder granted an aggregate of 20,000 or more options of either the IPO Portion or the 2011 Portion was only allowed to exercise the respective portion options in the form of GDRs, while exercises by the optionees granted a smaller cumulative number of options can continue to be in GDRs or cash at the Company's discretion. The new terms of the 2010 Option Plan and past exercise history make it reasonable to expect cash settlement of most of the smaller option exercises, even though the Company continues to have discretion over the way of option exercise settlement. While management is still considering accounting policy alternatives and evaluating the impact of the above modification on the consolidated financial statements, the modification will result in a revision of the accounting for the respective smaller numbers of options, whereby such options can no longer be fully treated as equity-settled. The above change in accounting applies to an aggregate of 1,245,277 options outstanding as of the modification date.

Cautionary statements

Forward-looking statements

The Mail.Ru Group Limited Annual Report and Accounts for 2012 contains certain "forward-looking statements" which include all statements other than those of historical facts that relate to the Company's plans, financial position, objectives, goals, strategies, future operations and performance, together with the assumptions underlying such matters. The Company generally uses words such as "estimates", "expects", "believes", "intends", "plans", "may", "will", "should" and other similar expressions to identify forward-looking statements. Mail.Ru Group Limited has based these forward-looking statements on the current views of its management with regard to future events and performance. These views reflect management's best judgment, but involve uncertainties and are subject to certain known and unknown risks together with other important factors outside the Company's control, the occurrence of which could cause actual results to differ materially from those expressed in Mail.Ru Group Limited's forward-looking statements.

Competitive position

Statements referring to the Company's competitive position reflect the Company's beliefs and, in some cases, rely on a range of sources, including investment analysts' reports, independent market studies and the Company's internal estimates of market share based on publicly-available information regarding the financial results and performance of various market participants.

Rounding

Certain figures included in this document have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Terminology

In this document any reference to a position of Dmitry Grishin as Chief Executive Officer (CEO) means reference to his position as Chief Executive Officer (CEO), Russia. Any reference to a position of Verdi Israelian as Chief Operating Officer (COO) means reference to his position as Chief Operating Officer (COO), Russia.