@mail.ru group

Annual report 2010

Contents

Who we are

Mail.Ru Group is the largest internet company in the Russian-speaking world. The origins of the Company date back to 1998. Since its formation as a group in 2005, and particularly since the end of 2008, the Company has moved rapidly to become the leading integrated communications and entertainment platform in the Russian-speaking world.

We operate Russia's biggest email service; the country's two leading instant-messaging (IM) networks; two out of three largest social networks, and own a strategic stake in the largest social network; and its largest online games business. In November 2010 our shares, in the form of GDRs, were admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange. Trading began on 11 November 2010.

Our focus is not only on the population of Russia, but also on the Russian-speaking audience worldwide, which comprises between 250 and 300 million people.

Our significant customer base creates the foundation from which we are able to launch new services and to generate revenue from display and contextual advertising, a range of internet value-added services (IVAS), including online games and virtual gifts, and to achieve our goal of becoming the leading integrated communications and entertainment platform in the Russian-speaking internet market.

Mail.Ru Group in brief

Mail.Ru Group offers a wide range of online communications products and entertaining services for Russian speakers, worldwide.

Our business structure

Communications

Email
Mail.Ru

Instant messaging
Mail.Ru Agent

Social networks
Odnoklassniki

My World

Games

40 MMO games
Perfect World

Legend

Allods Online

Crossfire

47 Social games

Navigation

Search

Q&A

Maps

Toolbar

Verticals and other services

Jobs

News

Auto

Price comparison

Women's lifestyle

Real estate

Money

Minority investments

Strategic

vKontakte
VK.com
social network
32.55% equity interest**

QIWI
QIWI Limited
payment-processing company
21.35% equity interest

International*

facebook
Facebook Inc.
the world's largest social network
2.33%† equity interest

zynga
Zynga Game Network Inc.
the world's largest social games business
1.41%† equity interest

GROUPON
Groupon Inc.
online group discount site
4.63%† equity interest

† Fully-diluted

* As at 31 December 2010

** With an option to increase our stake to 39.99% before the end of October 2011

Communications

We focus on feature-rich services that enable users to communicate quickly and easily with one another

- We operate Russia's largest email service and its two leading IM networks
- We also operate two out of three of Russia's largest social networks
- Revenue is generated principally through online advertising and IVAS
- My World, Mail.Ru Agent and email represent an integrated core of our communication services. We are working on incorporating OK and ICQ into this core

Online games

We are Russia's leading provider of online games. Our portfolio includes 40 MMO games and 47 games for social networks

- We offer 21 internally-developed games as well as Russian versions of games which are licensed from third parties
- The games primarily operate through a free-to-play model, with gamers paying for in-game enhancements

Navigation

Our navigation sites meet the increasing demand for efficient search for, and navigation through, vast amounts of information

- They include services for search, Q&A, maps and toolbar
- They generate revenue primarily through online advertising

Verticals and other services

Our verticals and other services provide access to the maximum amount of information on a broad range of popular topics

- The most popular include news, price comparisons, real estate, children, auto and women's lifestyle
- We operate the largest online recruitment business in the Russian-speaking internet
- Revenue is generated through online advertising, listing fees and online recruitment services

How we work

Business model

The creation of an integrated communications and entertainment platform to serve the world's estimated 250-300 million Russian speakers[1], around 143 million of whom live in Russia, the rest in the former Soviet Union and other countries. The current 59.7 million internet users in Russia is projected to increase to 93.2 million by 2013[2].

Audience

We will achieve growth by:

- focusing on the rapidly-growing Russian-speaking internet market
- offering a comprehensive range of internet communication and entertainment products to our users
- increasing users' loyalty by continually improving their experience of our ecosystem
- striving constantly to be at the forefront of technological and product innovation
- continuously introducing new entertainment services to our users, including MMO and casual games, and other features

Monetisation

We will take monetisation to the next level by:

- using our leading sales force, capitalising on the growth in online advertising which, using 2010 as the base, is expected to almost double in size by 2013
- 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

People

The core members of our management team:

- have been involved with our businesses for more than ten years
- have developed with the Russian internet
- have strong industry relationships and proven records
- are experienced in integrating acquisitions

Our culture is technology and product driven

1 Source: SIL International (2002), George Weber (1997), Euromonitor from trade sources/national statistics (Aug 2010), Rosstat (2010), J'Son & Partners (Sept 2010)

2 Source: J'Son & Partners

3 Source: AKAR for 2010

Strategy

Core objective

To become the leading integrated communications and entertainment platform in the Russian-speaking internet market

Strategy

- To focus on serving Russian-speaking internet users
- To take monetisation to the next level
- To expand our mobile and other products
- To attract the best engineering talent

Corporate history

Pre-2001

Webmail service launched (1998), HeadHunter founded (2000)

2001

- Feb Mail.Ru formed from Port.ru and netBridge merger
- Oct Mail.Ru portal launched

2003

- May Mail.Ru Agent (IM service) launched
- May Search partnership with Google
- Jun Travel.Mail.Ru (travel portal launched)

2004

- Jan Mobile email service launched
- Oct Voice calls added to Mail.Ru Agent

2005

- Feb Lady.Mail.Ru (Women's lifestyle services) launched
- May Mail.Ru Group founded (as Digital Sky Technologies Ltd (DST)
- Jun Launch of Auto.Mail.Ru
- Nov Video calls added to Mail.Ru Agent
- Nov Blogging service launched

2006

- Mar Odnoklassniki (OK) social network launched
- May Mail.Ru games portal launched
- Aug Naspers Ltd, a South-African media conglomerate, acquired a stake in Mail.Ru
- Sep "Legend: Legacy of the Dragons" MMO game launched
- Oct Video portal launched
- Dec First mobile version of Mail.Ru Agent

2007

- May My World social network launched
- Jun Mail.Ru's in-house search technology launched (beta)
- Dec Mobile versions of OK and My World launched

2008

- May "Perfect World" online game launched under licence
- May Deti.Mail.Ru (childhood and maternity vertical) launched
- Dec Mail.Ru Group acquired control of Mail.Ru

2009

- Jan Web-version of Mail.Ru Agent
- Feb Mail.Ru Group acquired control of HeadHunter
- Feb "Para Pa" game launched
- Mar Mail.Ru Group acquired control of online gaming business, Astrum
- May-Sep Mail.Ru Group acquired a stake in Facebook
- Aug Money service launched
- Sep My World's API opened to third-party developers
- Oct "Allods Online" game launched
- Oct Health.Mail.Ru (health vertical launched)
- Nov Astrum merged with Mail.Ru

2010

- Jan-Apr Mail.Ru Group acquired a stake in Zynga
- Feb Mail.Ru completed acquisition of its in-house data centre
- Apr Mail.Ru Group acquired a stake in Groupon, a social e-commerce company which offers consumers discounts on products and services
- Apr OK opened its API platform to third-party developers
- Apr-May Tencent Holdings acquired a stake in Mail.Ru Group
- Jul Mail.Ru Group acquired IM service ICQ from AOL
- Aug Mail.Ru Group increased its ownership in Odnoklassniki to 100%
- Aug-Sep Mail.Ru Group increased its ownership in Mail.Ru to 100% after Naspers, Mail.Ru's management and other minority shareholders converted their Mail.Ru shares into Mail.Ru Group
- Oct Marcos Galperin, Chief Executive of Brazil's Mercadolibre, joined Mail.Ru Group as an independent non-executive director
- Nov Mail.Ru Group completed an IPO in the form of global depositary receipts (GDRs) on the London Stock Exchange (LSE)
- Nov Stake in VK increased to 32.55%

2011

- Feb Sang Hun Kim, Chief Executive of South Korea's NHN Corporation, joined Mail.Ru as an independent non-executive director
- Feb OK moved into Mail.Ru Group's Moscow headquarters
- Feb My World introduced revenue sharing with developers on its API platform (30% share to My World)

Highlights

2010 key highlights

January
We began to use our search technology in our search product

February
We completed the construction of our data centre and increased our ownership to 100%

March
"Like" feature added to My World

April
OK opened its API platform to third-party developers

We acquired a stake in Groupon, a social e-commerce company

April – May
Tencent Holdings acquired a stake in Mail.Ru Group

May
Mail.Ru won four awards at the International Games Developers' Conference, including "Best publisher of games"

June
"Cross Fire" game launched under licence

July
We acquired the instant messaging network, ICQ from AOL Inc.

We opened our tenth representative office in Khabarovsk, in Russia's far-east

We launched social plug-ins for websites. Social plug-ins enable users to see what their friends have liked, commented on, or recommended

Android version of Mail.Ru Agent launched

August
Naspers converted its stake in Mail.Ru into a stake in Mail.Ru Group, and simultaneously made a cash investment

We acquired all the remaining non-controlling interests in Mail.Ru bringing our ownership to 100%

We acquired operational control of OK, Russia's second largest social network, and increased our ownership of it to 100%

We launched a social email service, Open Mail Format (OMF) that transforms users' inboxes into central receiving and response points for email and social media

September
We integrated ICQ in Russia with our search technology

OK discontinued its registration fee and launched its internal currency, "OKs"

Mail.Ru organised the first Technology Forum in Moscow

October
Marcos Galperin, Chief Executive of Brazil's Mercadolibre, joined Mail.Ru Group as an independent non-executive director

November
We raised US$1 billion for the Company and its shareholders from an IPO, in the form of GDRs, on the LSE. Trading began on 11 November

We increased our equity stake in VK, Russia's largest social networking site, from 24.99% to 32.55%, together with an option to increase our stake to 39.99% before the end of October 2011

We won two Runet (Russian-language internet) awards: "Legend" – best online game – and OMF – best innovation

December
We introduced a stock-option programme, under which more than 200 employees received options for Mail.Ru Group shares, which will vest over four years at the strike price of US$27.7 per share (IPO)

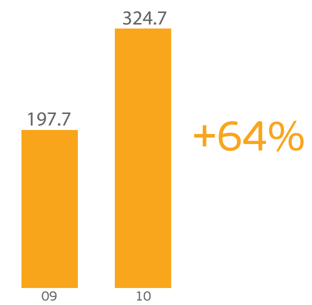
We completed the consolidation of Mail.Ru's, OK's and ICQ's advertising sales forces

We sold shares in QIWI, the payment processing company, for US$24.1 million, reducing our stake to 21.35%

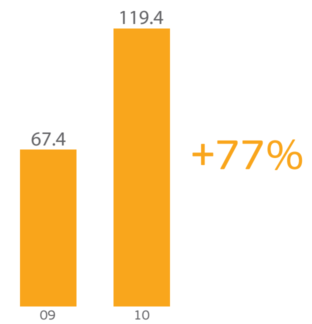
ICQ revised its arrangements with Rambler: our in-house sales force now sells ICQ's Russian advertising, while Rambler continues to distribute ICQ, but without co-branding

Financial highlights*

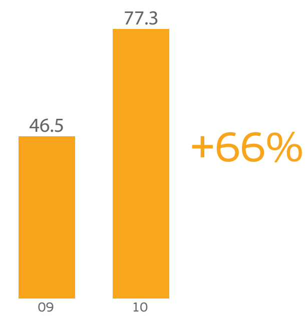
Revenue US$m



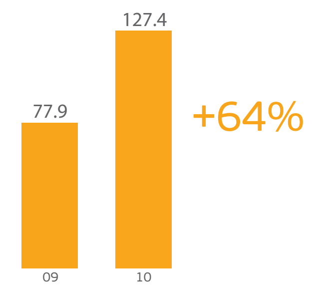
EBITDA US$m



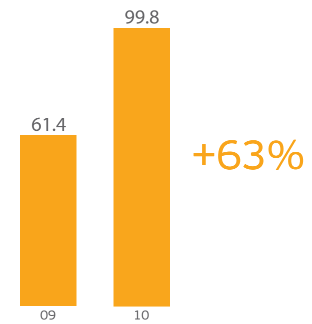
Net income US$m



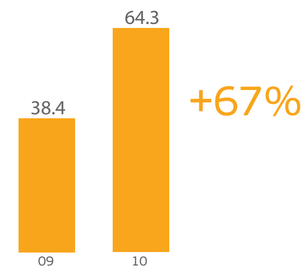
Online advertising revenue US$m



MMO revenue US$m



Community IVAS revenue US$m



* The data is presented in conformity with operating segments note and as such differs from IFRS. Please refer to Note 5 of the financial statements for further detail

Chief Executive Officer's report

Dmitry Grishin *Chief Executive Officer, Co-founder*

2010 was a memorable year for Mail.Ru Group. In addition to the IPO on the London Stock Exchange and 100% consolidation of our core properties, we continued to develop the products we offer our users: during the year, we launched new online games, a social email service and made significant changes in Odnoklassniki, Mail.Ru Agent and other products.

The most significant event was the Company's IPO, conducted in the form of GDRs on the London Stock Exchange. Trading in our shares began on 11 November. The flotation, which gave us access to the international capital markets, raised US$1,003 million for the Company and its shareholders.

Building our business

In our determination to deliver a best-in-class experience to our users, we strive to be at the forefront of technological innovation: following the introduction of open API (application programming interface) by My World in 2009, OK opened API to third-party developers in 2010, we launched social plug-ins for websites, and a social email service that transforms users' inboxes into centralised receiving and response points for email and social media. Given the strategic importance of mobile internet, we also invested considerable effort in adapting our sites for mobile access.

The year was also one of consolidation – of our shareholdings and also of our strategy across websites. After the consolidation of 100% of Odnoklassniki (OK) in late August, for example, we immediately discontinued the registration fee because we believe that joining a social network should be free. We have now nearly completed streamlining the organisational and cost structure of our business, including creating a single salesforce, moving employees into one building and combining data centre locations. The integration of our product strategy will carry on well into 2011 and, in the longer term, will continue to be one of our most important focus areas.

The market

Russia's internet market is a young and rapidly-growing sector of its economy. Already one of the largest internet markets in Europe, it still offers significant scope for expansion. Its current 59.7 million users is projected to increase to 93.2 million by 2013, and the estimated 100 to 150 million Russian speakers outside Russia – principally in countries of the former Soviet Union – create an even greater opportunity for growth.

During 2010, the time Russian internet users spend online has increased by 62%. Access to broadband at an affordable price is, however, an important factor in the future growth of the market and in making it easier for us to offer high-bandwidth products, such as online games. The government is taking a number of measures to encourage internet use, including providing broadband access across the country.

Mail.Ru Group is in a good position to capitalise on this expanding market. Our market-leading products and our determination to continuously improve user experience of them combined with our technology-driven culture give us a major competitive advantage.

Performance

The majority of our revenue was generated from online advertising, MMO games and Community IVAS. We delivered a very strong performance across our businesses: advertising continued to recover rapidly, together with the economy, and reported a 48% organic growth (excluding the effect of the ICQ acquisition), compared with 2009. MMO games, powered by overall market growth, was driven by the strong performance of "Allods" and "Perfect World" to deliver 63% growth. Our revenue from Community IVAS continued to benefit from growth in paying users across our communications properties and delivered 67% growth in 2010.

Communications

We continued to enhance our market-leading e-mail product. The average monthly audience in H2 2010 increased by 22%, compared with the average monthly audience in H2 2009. Our main focus continues to be on making e-mail faster, more convenient and increasingly more social. We introduced an innovative way to work with e-mail – Open Mail Format (OMF) – an open standard for email mark-up for message notification. Compatible with all modern mail-exchange standards and simple to implement, it enables emails from social networks and other services to be notified in a user-friendly way. OMF was quickly adopted by many sites.

Our flagship instant messaging product, Mail.Ru Agent, continued to perform exceptionally well. Its average monthly audience in H2 2010 grew by 48%, compared with H2 2009. Mail.Ru Agent continued to integrate with our e-mail, portal and the My World social network, enabling users to see notifications and status updates and improve engagement within users' social graphs. We strengthened our leadership in IM when we acquired ICQ from AOL in July 2010. Our current focus is on integrating its significant Russian-speaking user base into our family of communications products.

Our social networks, OK and My World, continued their rapid development: 2010 was a year of turnaround for OK. Immediately after we acquired control of it, in August 2010, we removed its registration fee and several other paid services (such as limits on photo uploading). On 1 September, the day after paid registration was discontinued, new daily registrations increased almost four-fold. We also significantly stepped up product development – including introducing new e-commerce applications and other features. The effect was quickly evident – engagement in H2 2010 increased significantly compared with H1 2010: there was explosive growth in new friendships, new photos uploaded and messages sent by users.

My World also continued its rapid growth and new features were introduced, including partnership with video content providers and continuous integration with Mail.Ru Agent and e-mail, enabling users to communicate without leaving Mail.Ru's ecosystem. API platforms have been a significant growth driver for both My World (launched in October 2009) and OK (launched in April 2010) with an increase in applications, engagement and the monetary turnover of the platforms.

Mobile is an increasingly important pillar of our strategy. Given growth in mobile usage – for example, 32% of monthly Mail.Ru Agent's audience and 24% of OK's monthly audience access products by mobile – we are investing considerable resources in our mobile initiative.

Games

2010 was a year in which we integrated our gaming business with our communications properties. We achieved back-end synergies, such as server hosting and office rent, and the product integration continues. We recently launched a new game portal, which offers our own and third-party games on a partnership basis, and integrated social games into the social networks and IM products. In 2010, most significant growth came from our internally-developed "Allods" client game: it enjoyed significant success in Russia and we have made several launches worldwide. Throughout 2010, "Perfect World" (licensed) and "Legend" (internally-developed) also performed well.

Navigation

Our key navigation product, search, had an eventful year and in January 2010 we introduced our internally-developed search technology on our portal. Our search market share is now at 7.1% and we use the mix of our own product and Google technology, monetised by the AdWords advertising product.

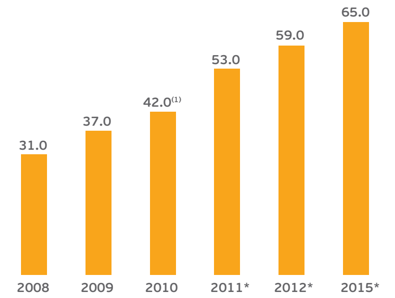
Verticals and other

Our key verticals – news, auto, women's lifestyle, jobs – also delivered a stellar performance in 2010 and cemented their leading positions in the Russian market. In particular, Headhunter achieved revenue growth of 78% as the Russian economy continued to recover.

Employees

We are extremely proud of our product and technology driven culture. In our view, innovation is the key to success in the ever-changing internet world – and an ability to attract the finest engineering talent is therefore vital to our success. Our endeavours to create the optimal working environment for our employees include aligning their interests with those of our shareholders. One of the principal reasons for our IPO was to give us the ability to create a stock-option programme which would, in turn, enable us to attract and retain the best people. In December 2010, we distributed options (which will vest over four years), to more than 200 of our top employees. We believe that this long-term incentive programme will not only help us retain our best people, but will also provide us with the ability to attract new talent from the market.

Russia: internet penetration as % of population dynamics



1 Based on July data
Sources: GKS, GroupM, JSon & Partners, ITU, FOM

In April 2011, we launched the first Russian Code Cup – a competition for programmers – which identifies and supports talented young people.

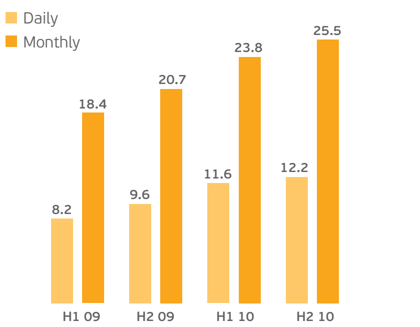
Looking ahead

Our focus in 2011 will continue to be on product integration and on constant innovation in our drive to create an easy-to-use communications and entertainment environment. We will offer new features and value-added services, particularly games, to take monetisation to the next level. We will maintain our focus on our long-term objective – to become the dominant communications and entertainment platform in the Russian-speaking internet market.

Dmitry Grishin
Chief Executive Officer, Co-founder

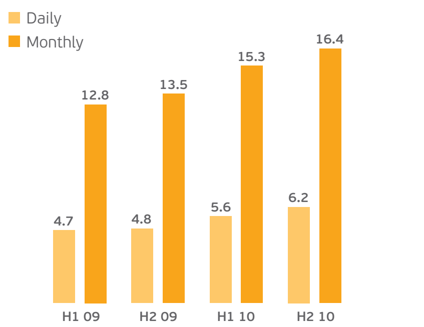
Key audience statistics

Mail.Ru portal average unique users, millons



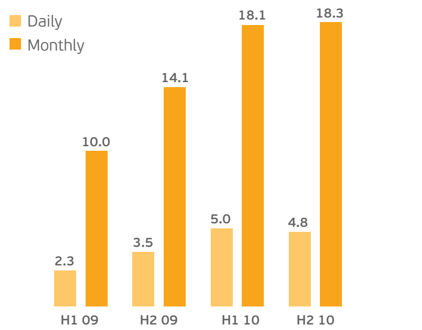
Source: TNS, Russia

OK social network*, average unique users, millons



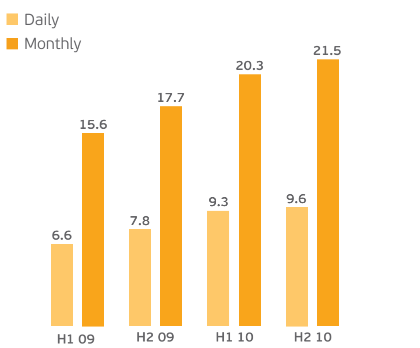
*100% control of OK acquired in H2 2010
Source: TNS, Russia

My World social network, average unique users, millons



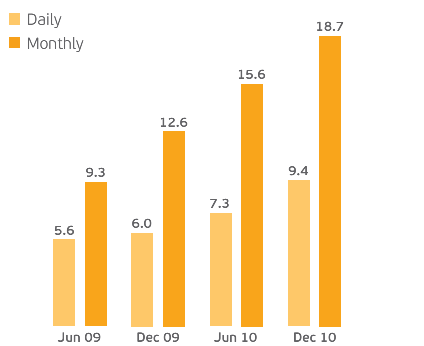
Source: TNS, Russia

Mail.Ru email, average unique users, millons



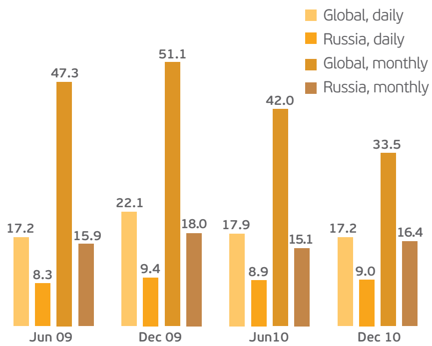
Source: TNS, Russia

Agent IM network, users, millons



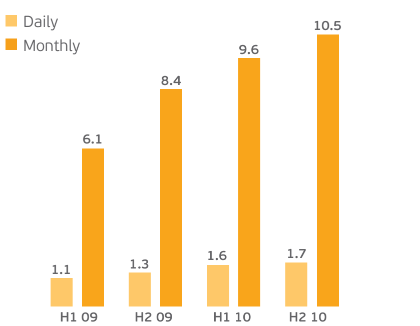
Source: Internal data, global

ICQ IM network*, users, millons



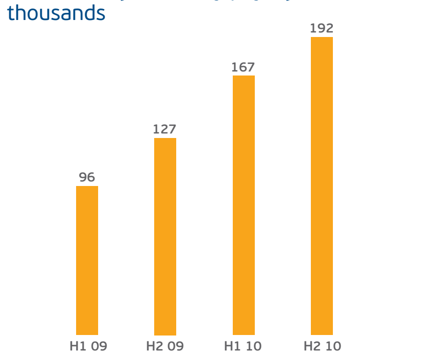
* includes unaffiliated clients
Source: Internal data

Mail.Ru search, average unique users, millons



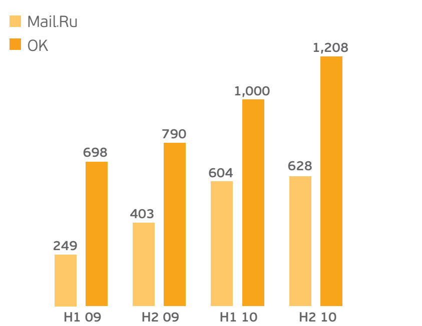
Source: TNS, Russia

MMO average monthly paying users, thousands



Source: Internal data

Community IVAS, average monthly paying users, thousands



Source: Internal data

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.

Communications

E-Mail

Mail.Ru Group provides the largest email service in the Russian-speaking internet. Launched in 1998, it was one of the first free Russian-language email services. In H2 2010, it had 21.5 million monthly unique users in Russia.

Our email service is integrated with many of the Group's other communications services, including My World, Mail.Ru Agent, virtual greeting cards, etc. Based on an internally-developed platform, it has Europe's largest capacity for data storage, is capable of processing thousands of messages a second, and is constantly being developed and improved.

Mobile users are an important audience for our email service. In 2010 we redesigned our mobile web interface and launched two versions of our mobile site: a more powerful one, m.mail.ru, for smartphones and a simplified one, tel.mail.ru, for regular mobile devices. Besides the mobile version of Mail.Ru Agent software is available for most of the popular mobile platforms – Java, Symbian, Android, iOS and Windows Mobile – which allows users to email on the go.

In 2010, we launched a number of upgrades:

- an AJAX loader to view messages decreased the interface response time by 30%;
- a new email composition interface, which includes improved rich-text editing, multiple-file uploading, resizing and rotation of photographs, and a selection of different email templates;
- email notification integrated with ICQ, giving users instant notification of new messages in their Mail.Ru email inboxes (this is also available in Mail.Ru Agent);
- an integrated anti-fraud system, which blocks users from accessing malicious links in messages.

The rise in the social web has been a major trend in recent years. In August 2010, Mail.Ru introduced Open Mail Format (OMF, http://www.openmailformat.org/), an open standard for email mark-up (the developers welcome suggestions for further development and refinement) for message notification. Compatible with all modern mail-exchange standards and simple to implement, it enables emails from social networks and other services to be notified in a user-friendly way. An extended message list, which is based on OMF and has been available to Mail.Ru users since August 2010, enables users to identify these messages and to accept, for example, friend requests direct from the list without opening the message. OMF was quickly adopted by many sites, including Mamba.ru, Afisha.ru, HeadHunter.ru, Molotok.ru.

Instant messaging

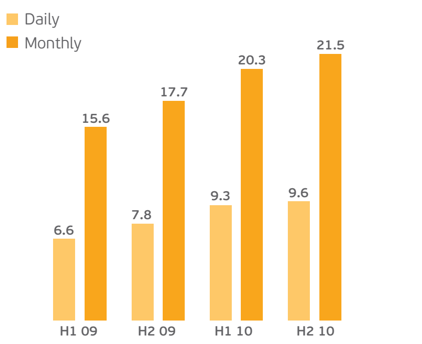
Our instant messaging (IM) services are an integral part of our communications ecosystem. We currently own two IM networks – Mail.Ru Agent (our original internally-developed product) and ICQ which we acquired from AOL in July 2010. In monthly audience terms, they are the two leading IM services in Russia and the CIS countries.

Users are able to access both networks from applications which are available for a wide range of popular hardware platforms and operating systems, including PC (Windows), Mac OS X, Android and iOS. They provide all the "must-have" features of a modern messenger: they enable users to chat in real-time, make voice and video calls (on PCs only), be notified of new emails, transfer files, and so on.

The principal concept of both services is their integration with portal web services. An application that runs permanently on users' devices, drives traffic to the web – our primary means of monetising our audience. We also achieve monetisation through paid PC-to-PSTN (public switched telephone network) calls, and a free IM-to-mobile SMS service, replies to which are paid for at premium rates. ICQ is also supported by advertisements.

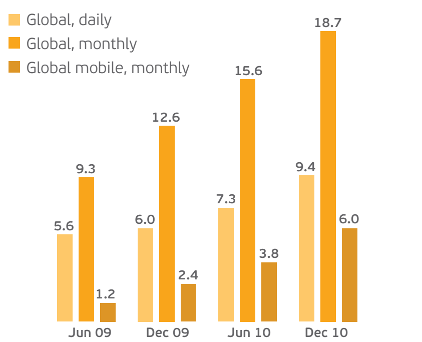
In addition, we distribute browser toolbars with both IM clients to help us increase the number of people who use our search engine and, thereby, to monetise search traffic.

Mail.Ru email, average users, millons



Source: TNS, Russia

Mail.Ru Agent, average users, millons



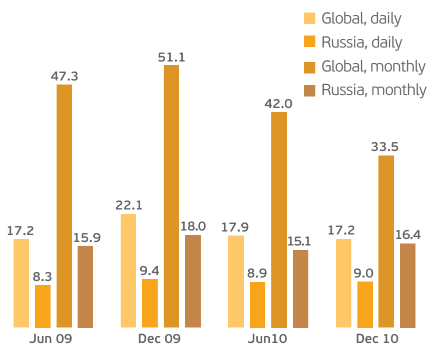
Source: Internal data

Mail.Ru Agent

Launched in 2003, Mail.Ru Agent is Russia's largest IM service. By December 2010, it had 18.7 million monthly users. It can be used on seven different desktop and mobile operating systems: PC (Windows), Mac OS X, Java 2 Micro Edition, Symbian, Android, iOS (Apple iPhone/iPad/iPod), and Windows Mobile. A web browser version is also available and is integrated with our portal's web services.

Mobile is Mail.Ru Agent's fastest-growing area. Although mobile users do not yet outnumber desktop users, their growth rate is significantly higher: between December 2009 and December 2010, mobile users have increased by 150%, while desktop users have increased by 39%. Users of Mail.Ru Agent's browser version also increased – by 80% – over the same period.

ICQ IM network*, users, millons



* includes unaffiliated clients
Source: Internal data

ICQ

ICQ was founded in 1996. One of Russia's largest IM networks, it is also a leading provider of IM services in Germany, Ukraine, Israel, the Czech Republic and Slovakia. Russia and Germany account for more than half its user base. The acquisition was subject to Committee on Foreign Investment in the United States (CFIUS) approval, which was granted in March 2011.

Some users access ICQ's network through unaffiliated client applications to communicate with those using authorised applications. While users of unaffiliated applications do not generate banner ad views or search queries, they contribute to the size of ICQ's IM community and its overall "stickiness". As a result, rather than preventing them from accessing the network, we are looking for ways to encourage them to migrate to applications we have developed.

ICQ, like Mail.Ru Agent, enables users to access its network through desktop mobile and browser-based versions of its program. We also bundle our toolbar with Mail.Ru Agent and ICQ clients.

In 2010, ICQ primarily generated revenues from search engine providers. They paid ICQ a share of the revenue from context advertising made by search queries originating from toolbar and web browsers, the search engine and home page preferences, which are selected when ICQ is installed. Google is ICQ's global search-engine partner. Yandex was the network's search partner in Russia until we terminated our agreement with them in September 2010; it is now powered by our search product.

The network also generates some of its revenue from display advertising. In major markets, display advertising is sold by local partners who also distribute a co-branded version of ICQ. Rambler was ICQ's advertising partner in Russia until January 2011, at which time our in-house sales department took over the selling of ads, and the distribution of a co-branded client application was terminated.

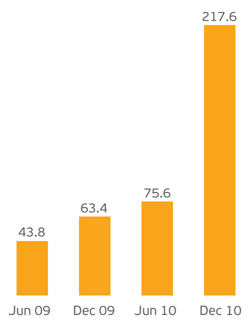
In addition, some revenue is generated by SMS service providers sharing the revenue they generate from traffic originating on ICQ.

Our strategy for further development of ICQ includes enabling third parties to incorporate it into their websites, introducing peering with Mail.Ru Agent and our other sites, and stimulating the use of its voice/video features.

Social networks

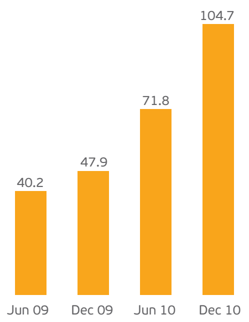
We operate two of Russia's three leading online social networks – OK and My World. They enable users to find, and communicate with friends family and colleagues. Our sites include messaging services, status updates and photo sharing, and enable users to play online games together, send each other online gifts, recommend websites and keep track of events, such as birthdays. We frequently add new products and services to maintain and increase users' engagement, and have developed versions of our sites which are optimised for use on smartphones and other mobile devices.

OK: new friendships per month, millions



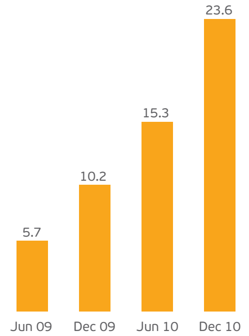
Source: Internal data

OK: new photos uploaded per month, millions



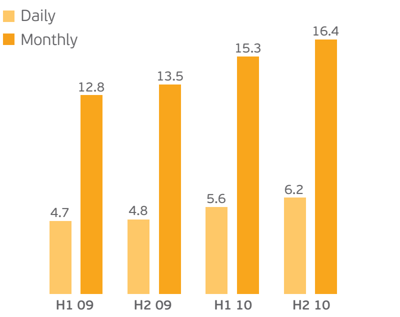
Source: Internal data

OK: monthly active users accessing by mobile %



Source: Internal data

OK social network* average unique users millions



Source: TNS, Russia
*100% control of OK acquired in H2 2010

OK

Launched in 2006, OK is now Russia's second-largest social network, based on daily unique users. We made our first investment in the company in 2007 and, in August 2010, acquired control of 100%.

As part of integrating OK into the Group, we are exploring ways of increasing the time users spend on the site by introducing peering to enable them to contact friends on another of the Group's social or IM networks without leaving OK. Also as part of the integration process, we are planning to incorporate cross-product links. Finally, we are looking at ways of improving OK's cost structure by enabling it to use the Group's programming and server hosting resources.

OK was one of the first Russian-language online social networks. In 2010, approximately 36% of its daily users were outside Russia, primarily from the countries of the former Soviet Union. The site attracts an older age group (which tends to have greater spending power) than My World and VK – only 26% of its users are under 25. This helps OK to attract advertisers and creates an appealing potential audience for our IVAS.

OK was the first social network in Russia to generate income by charging for IVAS, and these now form its principal revenue stream. The site also earns revenue from advertising, primarily from the sale of display ads, and there is an increasing demand for ads on the network.

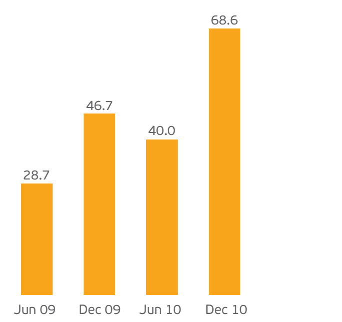
In May 2010 we opened API to third-party developers of online games and other applications, which has subsequently resulted in a steady increase in IVAS revenue each month. Unlike other social networks, OK employs a highly-selective pre-screening process before online games and applications can be added to its network. This has not only led to a high-quality choice of games for end users, but has also earned respect from the gaming companies.

Historically, OK charged a registration fee when users joined the network but, at the end of August 2010, after the acquisition of 100% of OK, we immediately discontinued the registration fee because we believe that joining a social network should be free. On 1 September, the day after paid registration was discontinued, new daily registrations increased almost four fold.

Mobile internet was a particular focus for the network during 2010. As a result of improving its mobile version to make its core functionality available, the percentage of users logging on to the network by mobile increased to 23.6% in December 2010 (December 2009: 10.2%).

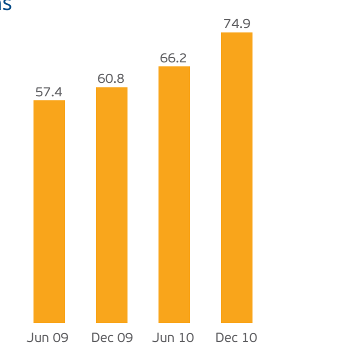
Recently, OK also began testing social e-commerce when it signed agreements with Groupon and KupiVIP (Russia's largest clothing e-retailer) and we are optimistic that these experiments will bear fruit in coming years.

My World: new friendships per month, millions



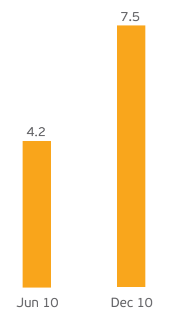
Source: Internal data

My World: new photos uploaded per month, millions



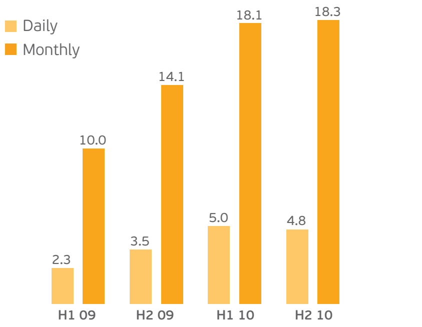
Source: Internal data

My World: monthly active users accessing by mobile %



Source: Internal data

My World social network average unique users millions



Source: TNS, Russia

My World

Launched in May 2007, My World (in Russian Moi Mir) is now Russia's third-largest social network, based on daily unique users. Approximately 34% of the network's user base is outside Russia. It derives significant benefit from its association with Mail.Ru's portal, Mail.Ru Agent and email service. For example, as part of the registration process for an email account with Mail.Ru, people are given the opportunity to activate a My World account. Users of our IM Mail.Ru Agent can publish their status updates in My World direct from a desktop and receive alerts about their friends' status and content updates.

The integration of My World with our email and IM platforms enables people to use their email address books and IM "buddies" lists to find friends on My World. Since 2010, users have also been able to import lists of friends from other social networks, such as VK, Facebook or OK.

The core features of My World social network are personal profiles, the friends and message systems, search, and the ability to share different types of content, such as microblogs (status updates), photographs and videos. The news feed is the focal point in users' communications; it enables them to interact with one another through comments and "likes".

In Russia, My World is a leading microblogging site, a success which stems from its integration with Mail.Ru Agent's IM network. This enables users to create microposts direct from their desktops or mobile applications, as well as from their profiles on the social network.

We launched photo.mail.ru in 2005 and video.mail.ru in 2006 as stand-alone sites. In 2009 both services became part of My World, enabling users to upload, view, rate and share photos and videos in their profiles. We also use video-sharing technology to offer videos on many of our vertical sites, such as Auto, Lady, News, etc.

In 2010, as a result of a number of new partnerships we added licensed content, provided by the content's owners and their partners, to video.mail.ru. Video.mail.ru, an ad-supported business model, gives users the opportunity to watch high-quality films and TV shows free of charge.

A further important initiative was the application programming interface (API) for third-party developers, which we introduced at the end of 2009. Now, My World offers around 2,000 applications, most of which are for social games and entertainment, and approximately 30% of its audience uses applications on a daily basis. Since 2010, all internet sites and services have been able to use the API to interact with Mail.Ru's sites. My World's share button and login tool are rapidly spreading across the Russian-speaking internet.

In 2010, we also established a mobile version of the site. By December, around 7.5% of our daily audience was using the mobile version, which is accessible from smartphones as well as from regular mobiles.

The network generates the majority of its revenue from display advertising and user payments, which are in two categories: paid-for IVAS (virtual presents, VIP-status, +10, etc) and paid-for applications (principally games) developed by third-parties or our own games division. Until February 2011, all income generated by third-party games was passed to the developers; now, however, 30% of income generated by all games and applications passes to Mail.Ru and is recognised as part of My World's revenue.

Online Games

We operate the largest online games business in Russia. Our portfolio includes 40 MMO games and 47 games for social networking sites. In the first half of 2010, an average of 435,000 monthly active users and 103,000 monthly paying users played our top-three MMO games, while the average total of monthly paying users for all our MMO games was 167,000. In the second half of the year, monthly active users and monthly paying users of our top-three MMO games increased to 595,000 and 111,000 respectively, and the total of monthly paying users increased to 192,000.

Principal MMO games

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, which are played in "virtual worlds" hosted by networked games servers, and in which thousands of players can connect and play the game simultaneously. Our portfolio currently includes 21 internally-developed games, such as Allods Online and Legend: Legacy of the Dragons, as well as Russian versions of games, such as Perfect World and Crossfire, licensed from third parties. Some of the MMO games we offer require players to install software on their computers (client-based), others can be played without downloading software (browser-based).

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 VK and Facebook, although our principal strategy is to focus on developing games for My World and OK.

We distribute MMO games, through our mail.ru portal and communications service products. We market these games through promotions and advertising on our own and third-party websites. In 2010, to attract more MMO gamers, we began the development of a gaming portal which will contain the largest number of online games and which we expect to become the most popular site in the Runet gaming community. Our leadership as a developer, publisher and operator of online games was confirmed by the three awards we won at 2010's KRI, the Russian conference for developers of games: Best publisher of games, Best game for social networks (Lovely Farm) and Best browser-type online game (Juggernaut).

Currently, Allods Online has been licensed – and is being operated by local partners – to the US, Europe (UK, Germany and France), Japan, Brazil, the Philippines and Taiwan. We have also launched it in Turkey through our European subsidiary. In addition, during 2010, it was licensed to Indonesia, China and South Korea (the two largest markets for free-to-play games), but is yet to be launched.

Game	Source	Type	Launched in Russia	H1 2009	H2 2009	H1 2010	H2 2010
Perfect World	Licence	Client	2008	153	206	264	336
				37	53	66	64
Legend: Legacy of the Dragons	In-house	Browser	2006	81	95	99	180
				18	18	18	19
Allods Online	In-house	Client	2010	–	63	72	79
				–	–	19	28
Total MMO games				96	127	167	192

● Average monthly active users, thousands
● Average monthly paying users, thousands

MMO games launched in 2010

Game	Business model	Type	Launch date
Battle of the Immortals	Licence	Client	December 2010
Hot Dance Party	Licence	Client	December 2010
Legend: Legacy of the Dragons (Italian)	In-house	Browser	November 2010
Empirecraft (German)	Licence	Browser	October 2010
Land of Chaos Online	Licence	Client	October 2010
Gods War Online	Licence	Client	October 2010
ZT Online	Licence	Client	September 2010
Crossfire	Licence	Client	June 2010
Jade Dynasty	Licence	Client	May 2010
Empirecraft	Licence	Browser	April 2010
Pandora Saga	Licence	Client	March 2010
Juggernaut	In-house	Browser	March 2010
Fly for Fun	Licence	Client	January 2010
Silkroad	Licence	Client	January 2010
Legend: Legacy of the Dragons (Spanish)	In-house	Browser	January 2010
Legend: Legacy of the Dragons (French)	In-house	Browser	January 2010

Note: Listed by launch date in reverse order
Source: Company data

MMO games launched in Q1 2011

Game	Business model	Type	Launch date
Juggernaut (English)	In-house	Browser	February 2011
Iris Online	Licence	Client	February 2011
Canaan Online	Licence	Browser	February 2011
Loong	Licence	Client	January 2011

Note: Listed by launch date in reverse order
Source: Company data

We continue to update our games after they are launched, and take feedback from users into account to improve their functionality and appeal. At least eight large updates, with two add-ons for each game, are released for our leading MMO games each year.

Navigation

Navigation services

Our navigation services meet the increasing demand for efficient search for, and navigation through, vast quantities of information. They include a search function for products and services – including a link to users' geographic locations – and advice from friends and experts. Sputnik toolbars enable users to look for information without leaving the web page they are on.

Search

Our internet search services, which use Russian-language search terms to help users find web pages, photos, videos, products and services, now have a 7.1% share of the Russian search market.

Searches can be made through the search box on our mail.ru website, the search field on Sputnik toolbars, or by setting our search engine as the default when installing Mail.Ru Agent or ICQ desktop applications.

To provide the best service possible, we use a combination of Google's search technology and our in-house search engine, which generates revenue through context advertising provided through Google's AdWords technology. 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 searches social and local: to make them social they reflect data – gender, age, friends, results of friends' searches – gleaned from social networks, and to make them local they are relevant to users' current locations.

Answers

We launched our answers service in 2006. This is the service where users answer other users' questions. Answers to users' questions are categorised by topic and rated by other users according to their helpfulness.

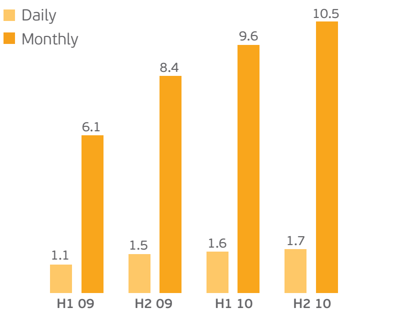
Maps

Our online maps service, which includes specific buildings/streets/points of interest and traffic information, enables users to search by address and create routes. It generates revenue from online advertisements.

Toolbar

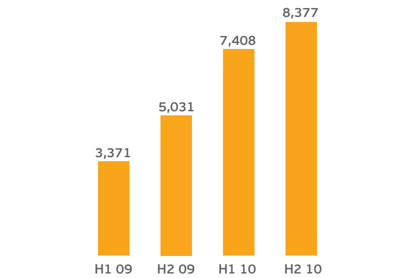
Our Sputnik toolbar, which is built-in to Explorer, Firefox and Opera web browsers, enables users to search without leaving the page they are on. It generates additional search requests which are monetised in the same way as those from our thematic, vertical, sites.

Mail.Ru search: average unique users millions



Source: TNS, Russia

Answers: average monthly unique users, thousand



Source: TNS, Russia

Average monthly unique users, thousands

Name	Content	1H 2009	2H 2009	1H 2010	2H 2010
		Verticals and other services			
HeadHunter	Job	1,476	1,664	2,127	3,262
torg.mail.ru	Price comparisons	1,226	1,744	1,908	2,906
travel.mail.ru	Travel	2,317	2,503	2,856	3,012
realty.mail.ru	Real estate	794	905	1,217	1,590
auto.mail.ru	Auto	3,678	4,465	5,987	6,961
lady.mail.ru	Women's lifestyle	2,572	3,278	5,502	5,393
afisha.mail.ru	Show business	2,900	4,406	5,177	6,613
news.mail.ru	News	6,360	8,074	10,400	11,026
hi-tech.mail.ru	Hi-tech	1,315	1,970	3,708	4,209

Source: TNS, Russia

Verticals and other services

Our verticals and other services provide access to the maximum amount of information on a broad range of popular topics with revenue generated through a combination of online advertising and listing fees.

Jobs

Our online recruitment business is the largest in Russia and the FSU countries. Its services are offered through HeadHunter (www.hh.ru) and rabota.mail.ru. It generates the majority of its revenue through subscriptions to a data base of résumés, and through paid job postings and online advertising.

Price comparison

A price comparison site, containing offers from e-retailers. It is monetised on a price-per-click basis.

Travel

Offers from travel agencies are placed on a listing-fee basis. Partner sites market tickets and hotel bookings for a commission.

Real estate

A listing fee is charged for including real estate ads in the data base.

Money

An internet payment system which is used to pay for online and offline products and services. The main advantages of money.mail.ru are that its authorisation process is common with that of Mail.Ru and that is has a large number of connected shops and services, including mobile communications, utilities, etc.

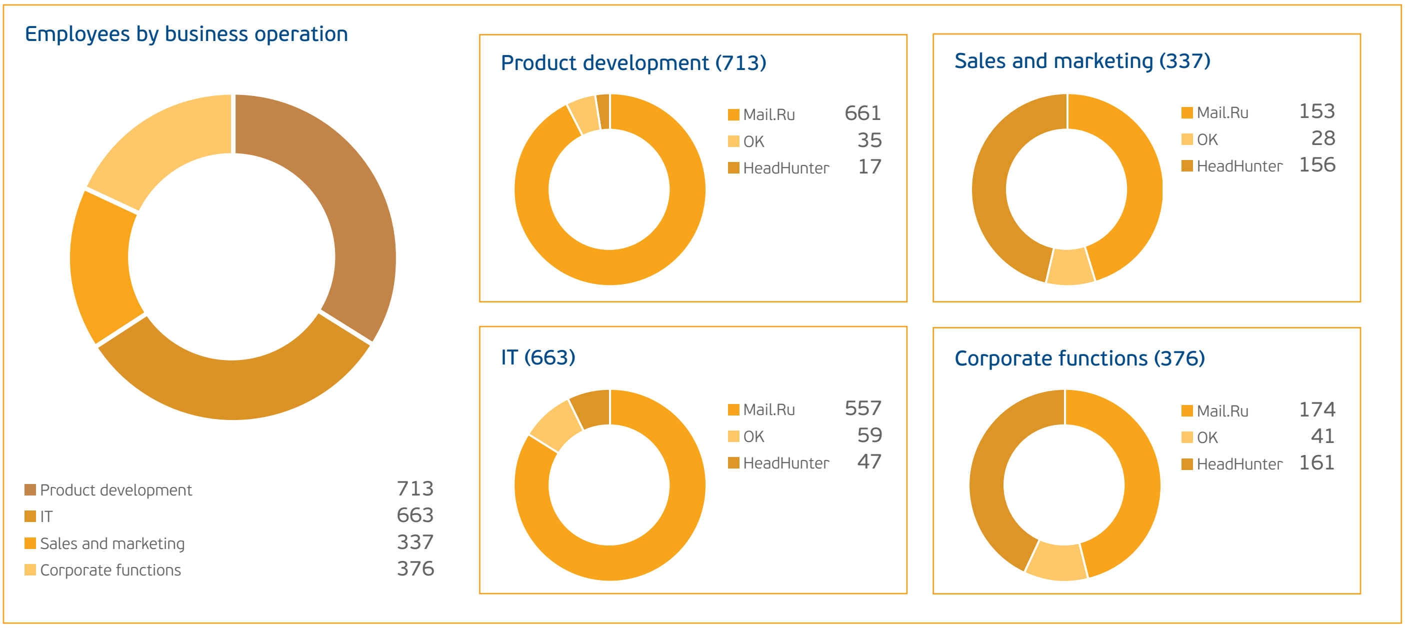
Sales and marketing

Mail.Ru Group sells display and contextual advertising through its own sales force as well as through third parties, such as online advertising networks.

At the end of 2010, Mail.Ru Group had an internal sales force for display advertising – 100 people – working from Moscow HQ and seven 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 have also opened offices in Kiev, Ukraine, and work through partners in Europe and the countries of the former Soviet Union. As part of the integration of OK and ICQ into the Group, their advertising is now sold direct by our sales force, rather than through third parties. Our largest advertising clients have generally been major automobile, consumer products, mobile telecommunications operators and financial firms.

We principally market our MMO games through the Mail.Ru portal and our social networks, OK and My World, but also place advertisements in other media.

HeadHunter markets its services through online marketing and through job-seeker and employer traffic from search engines. In addition, it increases brand awareness by organising annual marketing campaigns, including participating in HR-related exhibitions, email newsletters and print-related advertising in industry magazines. HeadHunter has an internal sales force of 111, of which 25 are based in Moscow, 54 are based in Russian regional offices and 32 in representative offices in the former Soviet Union.



Employees

At the end of 2010, the companies which form the core of the Group's consolidated operations had a total of 2,089 full-time employees. We also use temporary staff from time to time. We value our employees and believe that our culture encourages individuality, creativity and a commitment to providing excellent service to our users. We have a significant proportion of our employees with strong product and technical background who contribute to our research and development effort. Our research and development activities help the Group to develop new products and enhance existing products. During the 2010 financial year, our research and development activities have been primarily focused on MMO and social games, monetisation features and communication products.

IT Infrastructure

Our network infrastructure, which is designed to meet the requirements of our operations and to support the growth of our business, 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 centre services in Moscow, which provide space and power to host our servers. The Group owns more than 9,000 servers which have a total storage capacity of 5.5 petabytes. In 2010, their peak network traffic increased to 102 gigabit a second (from 40 gigabit a second in 2009).

Since our ability to provide products and services depends on the continuous operation of our network and IT infrastructure, 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 Russia, we protect ourselves against the loss of data caused by network or power failures, by hosting our servers in five independent data centres in different districts of Moscow, and by backing them up on a regular basis.

In 2009, to reduce our reliance on third-party providers, as well as to achieve direct and indirect cost savings, we built a data centre in which in 2010 we increased our stake to 100% and this now hosts a significant number of our servers. The remainder, including those of OK and ICQ, are hosted by third parties. As part of the integration process for OK and ICQ, however, we plan to transfer a number of their servers to our own data centre.

Our management believes that our current access to network facilities and broadband capacity is sufficient to support our current operations, and that it can expand our network facilities and broadband capacity to 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 and hardware operations and maintenance, and are also involved in integrating the networks of our recently-acquired businesses, OK and ICQ, with our existing platforms.

The Group places high priority on providing its users with consistently high-quality service and support through its technical support staff, which handles general product and service enquiries and technical support issues.

Intellectual property

The Group 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 our principal brands, and a broad portfolio of registered domain names for our various websites.

Financial review

This review reflects highlights of the Group's financial performance for the past year. Full details can be found in the annual financial statements presented on pages 38 to 109 of this annual report.

Overview of Group results

The past financial year was characterised by overall internet market growth which together with the fact that Group was either maintaining or gaining market share in several areas translated into significant growth in Group's revenues accompanied by an increase in margins resulting from the effects of scale (see "Operating segments performance").

Structure

The Group comprises three major operating segments – Mail, Odnoklassniki and HeadHunter. With the exception of HeadHunter segment, in which we have a 91.3% equity interest on a non-diluted basis, these segments are 100% owned. Mail includes the My World social network, Mail.Ru Agent and ICQ instant messaging services, e-mail, games and the Mail.Ru portal; Odnoklassniki comprises the OK social network; HeadHunter is a leading online recruitment service in Russia. In addition, we hold strategic minority investments: 32.55% in Russia's largest social network, Vkontakte; and 21.35%* in QIWI Limited, one of Russia's leading payment-processing companies. We also have strategic investments in international businesses: 2.33%* of Facebook Inc., the world's largest social network; 1.41%* of Zynga Game Network Inc., one of the world's largest social gaming businesses; and 4.63%* of Groupon Inc., a leading provider of online group discounts.

Acquisitions and disposals

During the year, we made a number of acquisitions and disposals:

- In February, in exchange for an aggregate consideration of US$10.0 million (including certain financial instruments), one of our subsidiaries increased its 50% interest in Datacentre – the company that owns one of our principal data centres – to 100% and began consolidating it from that date.
- In April, we acquired a direct interest of 13.87% in OK for US$16.6 million. In August, we acquired control of OK and its parent company Forticom Group Limited in a series of transactions for an aggregate consideration valued at US$92.7 million. In addition, as part of the consideration for the acquisition, Forticom Group Limited transferred its Polish social networking subsidiary to the seller of the non-controlling interest in Forticom. On acquisition, the carrying values of our investments in OK and Forticom were remeasured to fair value, with the resulting gain of US$186.2 million accounted for through earnings. We began consolidating OK and Forticom Group Limited in August.
- In July, we acquired 100% of ICQ, an instant messaging service, for US$187.5 million. We began consolidating it in July.
- In August and September, we acquired all the remaining non-controlling interest in Mail.Ru. As we already consolidated Mail.Ru, the principal effect of the transaction was to reduce the non-controlling interest in Mail.Ru by US$134.8 million.
- In December, we sold approximately 3.74% of QIWI Limited for a total consideration of US$24.1 million.

We also made a number of minority investments:

- In February, we acquired an additional 0.08% interest in Facebook for US$10 million. In August, we distributed the Facebook shares attributable to the Class C shareholders to those shareholders in exchange for the Class C shares which were immediately cancelled. Our current stake in Facebook, which we account for as an available-for-sale investment, amounts to 2.33% on a fully-diluted basis.
- In a series of transactions between January and April, we acquired approximately 1.61% (subsequently diluted to 1.41% on a fully-diluted basis) of Zynga, a leading developer of social games, for US$47.7 million. We account for our interest as an available-for-sale investment.
- In April, we acquired approximately 5.5% (subsequently diluted to 4.63% on a fully-diluted basis) of Groupon, a social e-commerce company, for US$75.0 million. We account for our interest as an available-for-sale investment.

*On a fully-diluted basis

- In October, we entered into an agreement to acquire 7.55% of VK's outstanding shares from existing shareholders in exchange for a cash consideration of US$104.9 million. The closing of the transaction was effected upon the closing of the Offering. The cash consideration was funded through both the issue and sale of new shares in the Offering and cash on hand. At the same time, we entered into an option agreement which allows us to acquire for cash at any time during an initial exercise period of 365 days from the closing date all or part of the shares subject to the option, which represent a further 7.5% of VK's outstanding shares on a fully-diluted basis. The exercise price for this 7.5% block of shares is US$112.5 million adjusted for certain changes in currency rates. Together with the other shareholders of VK we also invested at the same date an aggregate of US$12.5 million in cash, each proportionate to their fully-diluted stake in VK. Our share of this additional primary investment amounted to US$5.0 million.

Accounting impact of acquisitions and disposals

The acquisitions and disposals had a significant effect on our 2010 consolidated financial statements as summarised below:

	2010 US$m	2009 US$m
Net gain on acquisition of control in equity method investments and available-for-sale investments	186.2	14.8
Net gain on disposal of shares in strategic associates	16.5	113.1
(Impairment)/reversal of impairment losses related to associates	(11.2)	46.7
Net loss resulting from loss of control over subsidiaries	(0.8)	(7.1)

In addition to the effects presented in the table above, there are several other effects on the Group's earnings which result from acquisitions and disposals both in 2010 and in prior periods. These effects obscure the operational results of the Group and make it difficult to evaluate trends in our underlying business. As a result, management evaluates and manages 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 in the section "Operating segments performance" below (see also Note 5 to the financial statements for further details).

Goodwill

The Group accounts for business combinations by applying the acquisition method under IFRS 3R Business Combinations. As a result, the Group records goodwill as the fair value of the consideration transferred, including the fair value of the previously held interest, less the net recognised amount of the identifiable assets acquired and liabilities assumed, all as at the acquisition date. The significant goodwill recorded in connection with the Group's acquisitions may lead to charges in future periods if the goodwill is impaired. The total goodwill amounted to US$1,058.2 million as at December 31, 2010 and was attributed to the Mail, Odnoklassniki and HeadHunter operating segments (see Note 11 to the 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:

	2010 US$m	2009 US$m
Revenues	275.3	148.3
Cost of revenues	(64.7)	(33.1)
Gross profit	210.6	115.2
Operating loss	(10.0)	(14.0)
Profit/(loss) before income tax expense	180.0	183.0
Income tax expense	(23.7)	(17.3)
Net profit/(loss)	156.3	165.7
Attributable to:		
Equity holders of the parent	152.8	168.6
Non-controlling interest	3.5	(2.9)

Consolidated revenue

In 2010 Mail.Ru's consolidated revenue from continuing operations increased by 85.6% to US$275.3 million (2009:US$148.3 million) primarily due to acquisitions of subsidiaries and organic growth. The increase in consolidated revenue as a result of acquisitions amounted to US$40.2 million in 2010 (27.1% of 2009 revenues). The drivers of organic growth are described in the Section "Operating segments performance" below.

Consolidated gross profit

Gross profit from continuing operations increased by 82.9% to US$210.6 million (2009:US$115.2 million) and gross margin decreased to 76.5% in 2010 (2009:77.7%) primarily as a consequence of cost of revenues growing at a higher pace compared to revenues. The total increase in cost of revenues of 95.1% is due to acquisition of subsidiaries and organic growth. The increased cost of revenues resulting from acquisitions totalled US$9.4million (28.5% of 2009 cost of revenues). The effects on cost of revenues resulting from organic growth are presented in the Section "Operating segments performance" below.

Consolidated operating loss

Operating loss from continuing operations amounted to US$10.0million as compared to operating loss of US$14.0 million in 2009. The principal items affecting the operating loss apart from gross profit are SG&A expenses and D&A.

SG&A expenses increased by 65.7% primarily due to an increase in compensation expenses of US$13.8 million (33.8% vs 2009), advisory fees of US$25.8 million (99.2% vs 2009) and advertising and related expenses of US$8.9 million (93.4% vs 2009). Compensation expense grew as a consequence of increase in payroll by 80.1% partially offset by decrease in share-based payments by 40.9%. Increase in payroll is due to acquisitions of subsidiaries, reorganisation of the Group's management structure (including remuneration of the Board members) and organic growth. For description of reorganisation of the Group's management refer to Note 24 to the financial statements, the total effect of reorganisation (including the remuneration of Board members) resulted in US$1.7 million increase in payroll expenses (6.8% of 2009 payroll). The effect of acquisition of subsidiaries resulted in increase in payroll of US$4.7 (18.6% of 2009 payroll expenses), the effects of organic growth are presented in Section "Operating segments performance" below. The decrease in share-based payment expense was primarily driven by the fact that the Group has recorded a significant share-based payment expense in 2009 as a consequence of accelerated vesting of one of the Group's subsidiary's' option plans as opposed to 2010 when no such events in significant amounts occurred.

Advisory fees comprised of fees paid to DSTA and share-based payment expense in respect to options granted to DSTA employees and consultants increased as a consequence of the increase in the Group's equity value which directly affects the advisory fees (as stated in the relevant agreement) and grant of significant number of immediately vested options to employees and consultants of DSTA prior to the IPO (see Note 24 to the financial statements).

Acquisition of subsidiaries accounted for 8.8% of the growth in advertising and related expenses as compared to 2009 with the rest due to organic growth of operations (see Section "Operating segments performance" below).

D&A expenses increased as a result of acquisition of subsidiaries (including the effects of acquisition accounting in the past years) and organic growth. The total D&A resulting from the amortisation of fair value adjustments to intangible assets recognised in business combinations amounted to US$39.8 million (US$21.5 million in 2009). The effects of organic growth are presented in Section "Operating segments performance" below.

Equity accounted results

The share in net losses of associates amounted to US$9.1 million (share in net profit of US$18.0 million in 2009). The losses primarily arose in Forticom Group Limited in the amount of US$16.5 million in our share due to losses on financial instruments, which were partially offset by profits of Haslop Limited, QIWI Limited and VK.COM Limited of US$11.8 million in our share. For the operational profitability of key strategic associates refer to Section "Operating segments performance" below.

Income before tax and net income

Profit before income tax expense decreased by 1.7% to US$180.0 million (2009:US$183.0 million) primarily affected by M&A activities and related gains and charges described above.

Net profit for the year decreased by 5.7% to US$156.3 million as a result of the decrease in profit before tax and increase in income tax expense. Income tax expense increased due to increase in current tax expense by 65.7% vs 2009, of which 15.1% were due to acquisitions of subsidiaries with the remaining part driven by organic growth of profit before tax further described in Section "Operating segments performance" below.

Operating segments performance

Basis of preparation

In reviewing the operational performance of the Group and allocating resources the Group's Chief Operating Decision Maker reviews selected items of each segment's statement of comprehensive income attributable to the Group, 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 that, in management's view, obscure the core operating performance of the business. Such adjustments affect such major areas as revenue recognition, certain accruals, deferred taxation, share-based payments, business combinations, fair value adjustments and amortisation thereof, impairment and irregular items.

The segment financial data is presented on a combined basis for all key subsidiaries representing each segment added together forming the segment revenue and profit. The financial information of the key subsidiaries acquired during the reporting period 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.

Accordingly, the operating segment information presented below includes ICQ starting from 7 July 2010, while OK and Data Center are included starting from 1 January 2009.

The financial information of subsidiaries disposed of prior to the end of the reporting period is excluded from the presentation starting from the beginning of the earliest period presented.

The Group has identified the following reportable segments:

- Mail.Ru Internet NV and ICQ and their subsidiaries and associates (collectively representing "Mail.Ru" reportable segment), a portal, social network, instant messaging and online games business;
- Forticom Group Limited, Odnoklassniki Limited and their subsidiaries (collectively representing "OK" reportable segment), a social network business;
- HeadHunter Group Limited and its subsidiaries and associates (collectively representing "HeadHunter" reportable segment), an online recruitment and job search business.

Change in composition of segments in 2010

In 2010, due to the acquisitions of new businesses and non-controlling interests, integration of acquired businesses and shift of strategic focus towards consolidated operations with less focus on equity associates, resulting changes in management structure and, accordingly, related management reporting, the Group reconsidered its segment presentation.

As a result, key associates (VK and QIWI) are no longer considered operating segments as management does not review their performance for resource allocation decisions. The performance of subsidiaries Data Center (an associate of the Group in 2009 excluded from segment presentation as not considered a key strategic associate) and ICQ, both acquired in 2010, is now reviewed by the CODM together with the performance of the core operations of Mail.Ru. Nasza Klasa, Forticom's Polish subsidiary, is no longer a part of the Group and Forticom's Baltic operations, being insignificant, are managed by OK. As a result, in 2010 the Group's consolidated operations comprise the segments as presented above.

Additionally, as opposed to the presentation of operating segments in 2009, intra- and intersegment revenues are eliminated in full, as CODM reviews the performance of each segment and the combined operations of the Group on a post elimination basis in view of a significant degree of inter- and intra-segment integration.

The respective comparative information for 2009 was presented accordingly to conform to the current year segment presentation.

Principal revenue drivers

The main drivers of organic revenue growth are increases in the number of people using the Group's sites which, in turn, increase revenue from advertising and IVASs.

Seasonality

The majority of Group's 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 quarter of the year.
- IVAS revenues are generally higher during the second half of the year due to the end of the vacation period because users tend to use our sites more when not on vacation.

Analysis of 2010 results compared with 2009
2009

	Mail	OK	HH	Total segments	Corporate eliminations and other	Combined	% of revenue
Revenue							
Display advertising	44.4	13.9	2.0	60.3	–	60.3	30.5%
Context advertising	16.0	1.6	–	17.6	–	17.6	8.9%
Total online advertising	60.5	15.4	2.0	77.9	–	77.9	39.4%
MMO games	61.4	–	–	61.4	–	61.4	31.1%
Community IVAS	7.1	31.3	–	38.4	–	38.4	19.4%
Other IVAS	5.8	–	–	5.8	–	5.8	2.9%
Total IVAS	74.3	31.3	–	105.6	–	105.6	53.4%
Intersegment revenue	–	–	–	–	–	–	–
Other revenue	0.0	–	14.2	14.2	–	14.2	7.2%
Total revenue	134.8	46.7	16.2	197.7	–	197.7	100%
Operating expenses	–	–	–	–	–	–	–
Personnel expenses	37.2	5.8	8.4	51.4	–	51.4	26.0%
Office rent and maintenance	6.7	0.9	0.8	8.5	–	8.5	4.3%
Agent/partner fees	11.2	0.9	–	12.1	–	12.1	6.1%
Marketing expenses	6.1	0.2	1.9	8.2	–	8.2	4.1%
Server hosting expenses	6.5	6.4	0.3	13.2	–	13.2	6.7%
Professional services	5.7	0.1	0.5	6.3	23.7	29.9	15.1%
Other operating (income)/expenses, excluding amortisation and depreciation	3.5	2.7	0.8	6.9	–	6.9	3.5%
Total operating expenses	76.9	17.0	12.7	106.6	23.7	130.3	65.9%
EBITDA	58.0	29.6	3.4	91.0	(23.7)	67.4	34.1%
Depreciation and amortisation	6.9	2.9	1.5	11.3	–	11.3	5.7%
Share of profit (loss) of key strategic associates	–	–	–	–	7.2	7.2	3.7%
Other non-operating income (expense), net	4.1	(0.2)	–	3.9	–	3.9	2.0%
Profit before income tax	55.2	26.5	1.9	83.6	(16.4)	67.2	34.0%
Income tax expense	12.1	5.5	0.4	18.0	2.7	20.7	10.5%
Net profit	43.1	21.0	1.5	65.6	(19.1)	46.5	23.5%

Analysis of 2010 results compared with 2009
2010

	Mail	OK	HH	Total segments	Corporate eliminations and other	Combined	% of revenue
Revenue							
Display advertising	70.8	21.4	2.3	94.5	–	94.5	29.1%
Context advertising	31.0	1.9	–	32.9	–	32.9	10.1%
Total online advertising	101.8	23.3	2.3	127.4	–	127.4	39.2%
MMO games	99.8	–	–	99.8	–	99.8	30.7%
Community IVAS	18.6	45.7	–	64.3	–	64.3	19.8%
Other IVAS	5.9	–	–	5.9	–	5.9	1.8%
Total IVAS	124.3	45.7	–	169.9	–	169.9	52.3%
Intersegment revenue	0.4	–	0.3	0.7	(0.7)	–	–
Other revenue	1.3	0.0	26.2	27.5	–	27.5	8.5%
Total revenue	227.7	68.9	28.7	325.4	(0.7)	324.7	100%
Operating expenses	–	–	–	–	–	–	–
Personnel expenses	60.2	8.7	13.1	82.0	1.8	83.8	25.8%
Office rent and maintenance	8.2	0.9	1.3	10.4	0.1	10.4	3.2%
Agent/partner fees	20.6	1.3	–	22.0	(0.7)	21.3	6.5%
Marketing expenses	13.1	0.7	3.8	17.6	–	17.6	5.4%
Server hosting expenses	7.1	8.1	0.7	15.9	–	15.9	4.9%
Professional services	4.1	1.3	0.4	5.8	37.4	43.2	13.3%
Other operating (income)/expenses, excluding amortisation and depreciation	7.4	2.5	2.7	12.6	0.4	13.0	4.0%
Total operating expenses	120.8	23.5	22.0	166.3	39.0	205.3	63.2%
EBITDA	107.0	45.4	6.8	159.2	(39.7)	119.4	36.8%
Depreciation and amortisation	16.5	5.4	1.6	23.5	–	23.5	7.2%
Share of profit (loss) of key strategic associates	–	–	–	–	10.3	10.3	3.2%
Other non–operating income (expense), net	1.0	(0.4)	0.2	0.8	(0.1)	0.7	0.2%
Profit before income tax	91.5	39.5	5.4	136.4	(29.5)	106.9	32.9%
Income tax expense	19.9	7.9	1.7	29.5	0.1	29.6	9.1%
Net profit	71.6	31.6	3.7	106.9	(29.6)	77.3	23.8%

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. Our standard rates depend on a number of factors, including the page on which the banner appears, the length of the contract, the season, and the advertisement's format, size and position. In 2010, the Group generated US$94.5 million (2009:US$60.3 million) from display advertising as per operating segment note. The Mail's display advertising revenue increased by 59.3% vs 2009, OK – 54.5% both primarily as a consequence of growth of the market size (with part of the Mail's revenue growth due to acquisition of ICQ) due to shift of advertising budgets to internet space and gaining the market share as large advertisers tend to allocate their advertising budgets to large properties with significant reach like majority of our projects. The increase in Mail's display revenues net of ICQ acquisition effect was 47.9%.

Context advertising
Revenue was earned through partnerships with third parties – principally Google. When a user carries out a search on our search engine, results – together with advertisement links – are displayed based on certain parameters, including relevance to the topic. 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. In 2010, the Group earned US$32.9 million (2009:US$17.6 million) from context advertising as per operating segment note whereby Mail's context advertising revenue grew by 93.1%, OK's – 18.7%. Significant increase in Mail's context advertising revenue is due to consolidation of ICQ and organic growth, organic growth accounted for 49.0% of the increase of Mail's context advertising revenue vs 2009 and is primarily a consequence of increase in context advertising market size.

IVASs
The Group generates a significant portion of its revenue from IVASs. These include MMO games, community and other IVASs.

MMO games

Most of our IVAS revenue is generated by MMO games. Players have the opportunity to buy in-game enhancements for these free-to-play games; income is recognised net of any commissions to distributors or SMS operators. In 2010, the Group earned revenues from MMO games of US$99.8 million (2009:US$61.4 million). The MMO revenue is attributed to the Mail segment only. The increase in MMO revenues of 62.5% vs 2009 is primarily due to increase in annual average monthly MMO paying users of circa 60.5% vs 2009. MMO paying users data is presented in the table below*:

MMO average monthly paying users, thousands

	H1 2009	H2 2009	H1 2010	H2 2010
MMO games paying users, 000s	96	127	167	192

*Source: Company data. The number of paying users may contain an overlap of payers between different games which cannot be reliably estimated.

Community IVASs

Revenue is driven through payments for paid features and virtual items sold on our social networks and other services, such as dating services and social games. These are usually paid for by SMS, and revenue is recognised net of commission paid to distributors or SMS operators. Until September 2010, OK also generated revenue from one-off subscriptions to join the network. The discontinuation of these fees, which generated US$3.5 million in the first half of the year (2009:full year US$5.6 million), had a short-term effect on OK's IVAS revenue and, we believe, helped to increase its user base and consequently revenue and profitability in the long term.

Total Community IVAS revenue increased by 67.4% to reach US$64.3 (2009:US$38.4). Mail segment was a disproportionate growth driver with its Community IVAS revenues increasing by 160.6% as a consequence of increasing in annual average monthly paying users by circa 90% vs 2009 with the remaining growth concentrated in the increase of ARPPU. The growth of OK Community IVAS primarily resulted from increase in annual average monthly paying users by 48% vs 2009 while ARPPU remained relatively stable. Community IVAS monthly average paying users data is presented in the following table*:

Community IVAS, average monthly paying users, thousands

	H1 2009	H2 2009	H1 2010	H2 2010
Mail	249	403	604	628
OK	698	790	1,000	1,208

*Source: The Company data. The number of paying users can contain certain overlap of payers between different projects/ revenue streams which cannot be reliably estimated.

Other revenue

Other revenue is primarily generated through subscriptions to the résumé database on HeadHunter, the Group's online recruitment site. The increase by 84.4% of HeadHunter revenues resulted primarily from the overall economic recovery and as a consequence revival of the labor and recruiting market.

Costs and margins

The Group's principal cost items include personnel expenses, agent/partner fees, server hosting expenses and professional services.

The personnel expenses increased by 63.0% to US$83.8 million (2009:US$51.4 million). Part of the increase in personnel expenses is due to corporate reorganisation which resulted in the fact that several employees of DSTA migrated to the Group upon IPO when the agreement with DSTA was terminated and to the consolidation of ICQ. The organic growth of personnel expenses net of the reorganisation effect and net of effect of ICQ acquisition was 51.6% which demonstrates the scale effect as it was outpaced by growth in combined segment revenues of 58.0% net of effect of ICQ acquisition and was primarily resulting from increase of average salaries as the market pressure built-up in view of the economic revival accompanied by increase in headcount as the Group continued to enhance its production and development team both in Mail and OK segments, the organic increase in personnel expenses was spread among major segments as follows: Mail – 50.5%, OK – 50.4%, HeadHunter – 55.4%.

The agent/partner fees increased by 76.0% to US$21.3 million (2009:US$12.1 million) and are mainly concentrated in Mail segment. The agent/partner fees of Mail segment increased by 83.6% primarily driven by increase in licensing fees for games licensed from other countries, increase in payment channel costs and charges by distributors in the gaming area as well as inclusion of ICQ agent/partner fees in 2010 since the consolidation date.

The server hosting expenses increased by 20.4% to US$15.9 million (2009:US$13.2 million) demonstrating a considerable scale affect as compared to the revenue growth rate. The server hosting expenses grew as a consequence of increase in number of users and resulting demand for more servers and storage capacity significantly compensated by savings due to usage of own datacentre and negotiation of favourable commercial terms with the service providers.

The professional services increased by 44.4% to US$43.2 million (2009:US$29.9 million). The majority of professional services are not allocated to operating segments and primarily concentrated in headquarter. They mainly comprise of the advisory fees paid to DSTA, a related party. The increase is due to increasing value of the equity as stipulated in the relevant agreement which is a driver of the advisory fees. The advisory fees will not anymore be a separate line item affecting the Group's financial results as the agreement with DSTA was terminated upon IPO followed by migration of certain DSTA employees and functions and, accordingly, the costs (primarily represented by personnel expenses and costs associated with running the Company as a publicly traded entity) to the Group (see Note 24 to the financial statements).

The Group's combined segment EBITDA increased to 36.8% (2009:34.1%) as a result of operating leverage primarily derived from office rent and maintenance expenses, server hosting expenses and professional services partially mitigated by increase in marketing expenses and agent/partner fees. All of the Group's segments increased their EBITDA margin with the highest margin of 65.9% achieved in OK segment due to significant operating leverage effect.

*Key strategic associates**

	2009 US$m	2010 US$m	Y-o-Y %
VK.COM Limited			
Revenue*	48.4	93.8	94.0%
EBITDA	18.4	28.4	54.6%
% margin*	38.0%	30.3%	
Net income attributable to the equity holders of the parent	12.2	16.1	31.1%
Ownership %	32.55%	32.55%	
Share in net income attributable to the equity holders of the parent	4.0	5.2	
QIWI Limited			
Revenue	195.3	232.8	19.2%
EBITDA	22.5	39.7	76.5%
% margin	11.5%	17.1%	
Net income attributable to the equity holders of the parent	15.2	23.7	56.1%
Ownership %	21.35%	21.35%	
Share in net income attributable to the equity holders of the parent	3.2	5.1	
Total share of net income attributable to the equity holders of the parent	7.2	10.3	42.4%

*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 Note 5 for further details). The revenue of VK 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.

The increase in share in net income of key strategic associates by 42.4% to US$10.3 million (2009:US$7.2 million) is due to increase in net income attributable to the equity holders of the parent of QIWI Limited (“QIWI”) by 56.1% and VK.COM Limited (“VK”) by 31.1%.

The Net Income of VK increased as a result of growth in revenues of 94.0% partially compensated by decrease in margins driven by considerable investments in the team and infrastructure.

Growth of QIWI Limited Net Income was primarily driven by growth of new products and services and earnings received from one-off effect of sale of payment processing equipment in the first half of the year.

Depreciation and amortisation, income tax and net income

Depreciation and amortisation increased by 108.4% to US$23.5 million (2009:US$11.3 million) primarily driven by further investment in gaming licenses and hardware, acceleration of amortisation of certain slower performing games, which totalled to US$1.8 million in 2010, and consolidation of ICQ. The increase in depreciation and amortisation was mainly concentrated in Mail segment (increase of 140.1%).

Income tax increased by 43.0% to US$29.6 million (2009:US$20.7 million) primarily driven by increase in taxable profits by 59.1% to US$106.9 million (2009:US$67.2 million) and decrease in effective tax rate to 27.7% (2009:30.8%) as a consequence of higher withholding tax charges on dividends payments within the Group in 2009 as compared to 2010.

The increase in profit before tax was driven mainly by increase in EBITDA described above and was primarily concentrated in Mail segment.

Net income increased by 66.3% to US$77.3 million (2009:US$46.5 million) driven by increase in profit before tax partially compensated by increase in income tax expense.

Reconciliation to IFRS

	2009 US$m	2010 US$m
Combined revenue per operating segment note	197.7	324.7
Effect of operations disposed of and difference in dates of acquisition of control in subsidiaries	(52.3)	(40.3)
Other differences	2.9	(9.1)
Consolidated revenue per IFRS	148.3	275.3
Combined net income per operating segment note	46.5	77.3
Fair value adjustments on acquisitions and disposals, PPA effects and impairment/reversal of impairments effects	143.0	146.8
Share-based payments	(20.6)	(30.2)
Difference in shareholding percentages and acquisition dates of subsidiaries and associates	(10.6)	3.1
Gain/(loss) on financial instruments at fair value through profit or loss	6.4	(27.3)
Other	1.0	(13.4)
Consolidated net income per IFRS	165.7	156.3

Other revenue reconciling items primarily include dividends from venture capital investments, timing differences in revenue recognition and barter revenues.

Other Net Income reconciling items primarily include financial gains and losses, deferred income tax effects, effects on Net Income of timing differences in revenue recognition and other non-cash and/or irregular items.

*Analysis of H2 2010 results in comparison with H2 2009**

US$m	H1 2009	H2 2009	H1 2010	H2 2010	H2 Y-o-Y, %
Revenue					
Display advertising	24.0	36.2	35.8	58.7	62.1%
Context advertising	7.8	9.8	11.8	21.0	114.2%
Total online advertising	31.8	46.0	47.6	79.8	73.2%
MMO games	23.8	37.6	44.4	55.3	47.1%
Community IVAS	16.7	21.7	31.3	32.9	52.1%
Other IVAS	2.4	3.4	2.7	3.2	(6.7)%
Total IVAS	42.9	62.7	78.5	91.4	45.9%
Other revenue	6.3	7.9	11.1	16.3	106.4%
Total revenue	81.0	116.6	137.2	187.6	60.8%
EBITDA	26.1	41.2	53.7	65.7	59.4%
% margin	32.3%	35.3%	39.2%	35.0%	
Net profit	17.0	29.5	38.1	39.2	32.8%

*The operating segment data is presented based on principles used for presentation of operating segments results, i.e. excluding certain IFRS adjustments (see Note 5 for further details).

In the second half of 2010 the Group continued to demonstrate considerable growth by increasing the total revenue by 60.8% vs H2 2009 and by 36.7% vs H1 2010. The disproportionate growth was concentrated in online advertising, especially context (114.2% vs H2 2009) and other revenues primarily represented by online recruitment services. The online advertising revenue growth was driven by expanding market size and gaining market share by our properties as well as consolidation of ICQ revenues in the second half of 2010. Online recruitment revenues grew primarily as a consequence of overall revival of the labor market. Mail segment contributed most of the revenues increase in H2 2010 vs H2 2009 with the growth of 63.5% (of which 48.3% due to organic growth). Total Group's organic growth net of ICQ effect was 50.1% vs H2 2009.

EBITDA increased by 59.4% due to increase in revenues and significant operating leverage effects in the operational segments resulted in increase in EBITDA margin of operating segments (excluding headquarter expenses and ICQ acquisition effects) to 49.8% in H2 2010 vs 46.8% in H2 2009. Operating leverage and effect of ICQ acquisition was, however, significantly impacted by considerable increase in headquarter costs mainly consisting of advisory fees to DSTA by 81.3%, thus, driving the EBITDA margin slightly down to 35.0% vs 35.3% in H2 2009.

The Net Income increased by 32.8% to US$39.2 million (H2 2009:US$29.5 million) primarily as the consequence of growth in EBITDA compensated among other effects by growth in depreciation and amortisation of 128.3% in H2 2010 vs H2 2009, increase in income tax expense of 29.8% and decrease in share in net income of key strategic associates by –15.5% primarily due to decrease in QIWI's net income in H2 2010 vs H2 2009.

Financial position

Liquidity and capital resources

Throughout the year the financial position of the Group remained healthy as the total cash balance as at December 31, 2010 amounted to US$118.4 million (2009:US$147.9 million).

Mail.Ru has historically principally relied on its own cash flow and the issue of equity as sources of funding. It has generally not used debt financing for acquisitions or for operations and, at the end of the year, had no outstanding debt. Consolidated operations have been cash flow positive since 2009. In 2010, net cash provided by operating activities amounted to US$73.8 million (2009:US$23.6 million).

Cash flow	2010 US$m	2009 US$m
Net cash provided by/(used in) operating activities	73.8	23.6
Net cash used in investing activities	(513.5)	(301.5)
I.e. capital expenditure	(29.4)	(17.1)
Net cash provided by financing activities	409.0	324.6
Effect of exchange differences on cash balances	1.2	2.6

Net cash provided by operating activities more than tripled in 2010 vs 2009 as consequence of organic growth, acquisition of subsidiaries and higher cash conversion: ratio of net cash provided by operating activities to consolidated revenues grew to 26.8% in 2010 (2009:15.9%).

Capital expenditure increased by 72.0% as a consequence of acquisition of subsidiaries and organic growth driven primarily by expansion of Group's infrastructure.

Issue of equity

The majority of our acquisitions have, in the past, been financed through the issue of equity. The net proceeds of the issue of Ordinary Shares in the IPO have been used to fund a portion of the purchase price of an additional 7.5% stake in VK.com Limited with the remaining part financed by operating cash flows.

Current trading (Q1 2011 vs Q1 2010)*

Revenue	Q1 2011 US$m	Q1 2010 US$m	Total growth %	Organic growth %
Revenue				
Display advertising	25.4	13.4	89.8%	77.0%
Context advertising	12.6	5.7	120.5%	66.7%
MMO games	32.0	23.0	39.4%	39.4%
Community IVAS	28.4	16.8	68.9%	68.9%
Other**	12.1	6.6	83.4%	80.0%
Total	110.6	65.5	68.8%	61.2%

*The operating segment data is presented based on principles used for presentation of operating segments results, i.e. excluding certain IFRS adjustments (see Note 5 for further details).
**Including other IVAS.

In the first three months of 2011 the Group continued to follow a growth trajectory with the combined operating segments revenues increasing by 68.8% vs Q1 2010 (of which 61.2% resulted from organic growth). The disproportionate growth drivers were advertising revenues (increased by 99.0% out of which 73.9% were organic) and community IVAS (increased by 68.9% – all organic). The MMO games revenue increased by 39.4% and other revenue (primarily consisting of online recruitment services and other IVAS) increased by 83.4% (out of which 80.0% were organic).

*Please note that the data presented here is preliminary and not audited. Significant changes may occur as a result of audit and/or detailed review by auditors and/or management.

Management

Board of Directors

Yuri Milner, age 49
Chairman

Yuri Milner, who co-founded Mail.Ru Group in 2005, was appointed Chairman in October 2010. He previously held a number of management positions in Russia, had led investments in a number of leading internet companies, and was CEO of Mail.Ru from 2001 to 2003. He graduated from Moscow State University with an advanced degree in theoretical physics and subsequently conducted research at the Institute of Physics at the Russian Academy of Sciences. From 1990 to 1992 he studied at the Wharton Business School of the University of Pennsylvania, after which he joined the World Bank where he was involved in the development of Russia's financial sector. Yuri began investing in the internet sector in 1999. He is a director of Telecominvest and is a member of the Presidential Commission for Modernisation and Technological Development of Russia's Economy.

Gregory Finger, age 45
Director

Gregory Finger, a founding member of the Company and a director since December 2006, has been involved in many of the Company's high-profile investments. He graduated with honours in 1988 from the Moscow Institute of Chemical Engineering with a specialisation 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 – where worked with more than 15 investment funds, one of which had US$3 billion in assets under management. He began investing in the internet sector in 1999 and made New Century Holdings's first internet investment – an early investment in Mail.Ru.

Marcos Galperin, age 40
Independent Director

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

Matthew Hammond, age 36
Director, Managing Director

Matthew Hammond, who was appointed to the Board in May 2010 and Managing Director in April 2011, is Group Strategist for Metalloinvest Holdings. He manages Metalloinvest's non-core asset portfolio and advises its Board on investment strategy, M&A and foreign exchange transactions. He graduated in 1996 from Bristol University, UK, with a degree in economics and history. From 1997 to 2009, he was a technology analyst at Credit Suisse and was ranked number 1 in the Extell and Institutional Investor surveys eight times. He is a non-executive director of Nautilus Minerals Inc., Strike Resources and Puricore.

Sang Hun Kim, age 47
Independent Director

Sang Kun Him 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 Vice President of Business Management. He has served as a judge at the Seoul Central District Court. He graduated in law from Seoul National University and received a masters degree in law from Harvard Law School.

Hein Pretorius, age 39
Director

Hein Pretorius, who was appointed to the Board in August 2010, is CEO of MIH Internet Division in Europe, a subsidiary of Naspers Group, which he joined in 2000. He has more than 16 years' experience in Europe and the Far East and is widely recognised for furthering MIH's investments in the internet, technology and telecommunications industries, including in Mail.Ru. He is a graduate from Johannesburg University's School of Project Management, from Manchester Business School, and from Harvard Business School. He is also a member of the boards of Nimbuzz.com, Gadu-Gadu, Ricardo Group, and Allegro Group.

Vasileios Sgourdos, age 41
Director

Vasileios Sgourdos was appointed to the Board in October 2010. A chartered accountant, he became Group Chief Financial Officer for MIH in January 2009 and is also a director of Abril SA and 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 Thai listed 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 49
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 with responsibility, worldwide, for its M&A, corporate finance and capital-market fundraising activities. His 16 years' experience in internet, technology and pay TV businesses includes business development in Africa, the Middle East, Thailand, China, Europe, the USA and South-east Asia. He graduated from Selborne College, London, and the University of Natal.

Vladimir Streshinskiy, age 41
Director

Vladimir Streshinskiy, who was appointed to the Board in August 2008, has been CEO of OJSC "Telecominvest" since 2008. He graduated with honours from the aeromechanics and flight vehicles department of the Moscow Physics and Technology Institute in 1992. He is also a non-executive director of Metalloinvest, Telecominvest, MegaFon, PH Kommersant, MUZ TV and 7 TV.

Ivan Tavrin, age 34
Director

Ivan Tavrin was appointed to the Board in April 2011. He is the Chief Executive Officer of UTH Russia (media holding) since September 2009. In 2002 Ivan founded and became CEO of Regional Media Group. Then, in 2006, he became the President and shareholder of TV-3. In 2007 Ivan founded Media-One and in the following two years he built the largest national regional radio business, Vybery Radio, and a federal broadcasting TV platform, Media-One TV, which became part of UTH Russia through a merger in 2009. Ivan graduated from Moscow State University of International Relations in 1998 and holds a diploma in Law. Ivan is also a director of UTH Russia and FH&F Limited (Net-by-Net), a Russian broadband operator.

Management

Senior management

Dmitry Grishin, age 32
Chief Executive Officer

Dmitry Grishin, who co-founded Mail.Ru Group in 2005, was appointed Chief Executive Officer in November 2010. He joined Mail.Ru in 2000, was promoted to Technical Director in 2001 and subsequently led the business as CEO from 2003 to 2010. He graduated from Moscow State Technical University with an honours degree in computer-aided design. He is a director of Haslop Company Limited (Mamba).

Verdi Israelian, age 35
Chief Operating Officer

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

Alexander Karavaev, age 36
Chief Financial Officer

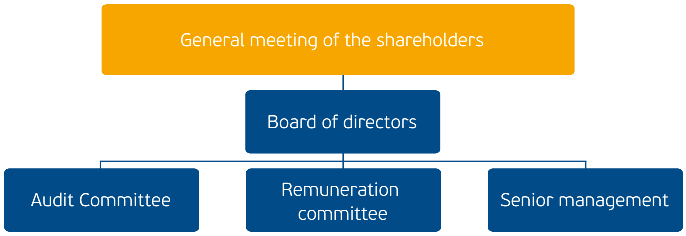
Alexander Karavaev joined an affiliate of Mail.Ru in 2008 and was appointed CFO in November 2010. From 2003 to 2007, he was Vice-president of Development of Financial Systems at SUAL, one of the world's largest aluminium producers and, in 2007, became deputy CFO and Head of Corporate Reporting at Renova, an investment company which had total assets of more than US$15 billion. He graduated from the Siberian Aerospace Academy, with an honours degree in economics.

Matthew Hammond, age 36
Director, Managing Director

Matthew Hammond, who was appointed to the Board in May 2010 and Managing Director in April 2011, is Group Strategist for Metalloinvest Holdings. He manages Metalloinvest's non-core asset portfolio and advises its Board on investment strategy, M&A and foreign exchange transactions. He graduated in 1996 from Bristol University, UK, with a degree in economics and history. From 1997 to 2009, he was a technology analyst at Credit Suisse and was ranked number 1 in the Extell and Institutional Investor surveys eight times. He is a non-executive director of Nautilus Minerals Inc., Strike Resources and Puricore.

Corporate governance

Governance structure



The Company is incorporated in the British Virgin Islands and has a branch in Dubai.

Governance structure

In accordance with the Articles of Association of the Company and applicable BVI law, the ultimate decision-making body of the Company is the shareholders' meeting. It is followed by the Board of Directors, which is responsible for the general management of the Company, including co-ordinating strategy and general supervision. The Company also has an Audit Committee and a Remuneration Committee of the Board of Directors. Senior managers are involved in the day-to-day management of the Company.

Annual General Meeting of shareholders

The shareholders' meeting is the Company's supreme governing body. Shareholders' meetings 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, each of which carries 25 votes at shareholders' meetings, and Ordinary Shares, each of which carries one vote.

The agenda for the shareholders' meetings is determined by the Board of Directors, but 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

i) no later than a week before the meeting or

ii) at the meeting itself, with the consent of shareholders who hold in aggregate more than 50% of outstanding voting shares 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	116,364,000
Ordinary (US$0.000005 par value each)	10,000,000,000	92,263,105

Both classes of shares are in registered form and in respect of Ordinary Shares, GDRs have been issued by Citibank NA, which are traded on the London Stock Exchange.

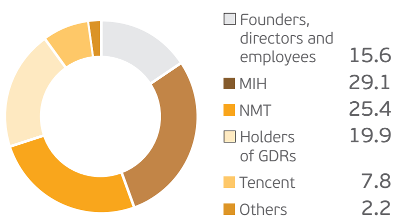
As of the date hereof, there are options for 65,000 Ordinary Shares outstanding with an exercise price of US$13.21 and fully vested; and options for 6,423,842 Ordinary Shares granted to the Mail.Ru Employee Benefit Trust with an exercise price of US$27.7, which will vest over a four-year period to 31 December 2014, provided that no options vest before January 2012. Out of the latter and as at the date hereof, options for 4,202,300 Ordinary Shares have been allocated for the benefit of certain employees and consultants of the Company and options for 786,920 Ordinary Shares have been allocated for the benefit of the members of the Board.

During the financial year 2010 the Company did not acquire any of its own shares

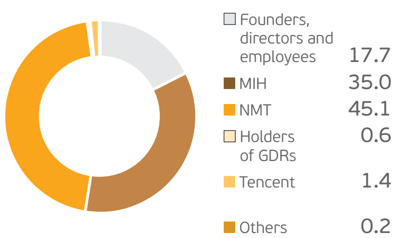
Restrictions on transfer

Ordinary Shares are freely transferable. Class A Shares are subject to restrictions on transfer and, other than in certain circumstances described in the Articles of Association, automatically convert upon transfer into Ordinary Shares 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.

Shareholder's economic interest %



Shareholder's voting interest %



Note: 116,364,000 Class A Shares and 92,263,105 Ordinary Shares outstanding

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 including 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 not 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 not less than 21 days before any Annual General Meeting at which an Elected Director is due to resign.

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

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

The Board of Directors, or any committees thereof, meet at such times and in such manner as the Directors determine to be necessary or desirable. Meetings are held in the Company's branch in Dubai, or such other place as a 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 present at the meeting. A resolution consented to in writing is approved by an absolute majority of all the Directors. For the purposes of establishing a majority, in the event of a tie the Chairman of the Board has a casting vote.

Name	Position	Date of appointment	Expiry of term
Yuri Milner	Chairman	18 October 2010	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
Hein Pretorius	Elected Director	27 August 2010	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
Alexander Karavaev	Chief Financial Officer	November 2010
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 responsible among other for considering and reviewing:

- consolidated Group annual financial statements issued in accordance with IFRS,
- semi-annual accounts for the Company and each of its consolidated subsidiaries as at and for the six months ended 30 June of each year,
- unaudited quarterly accounts for the Company and each of its consolidated subsidiaries,
- details of any material transactions or events which have an impact on certain line items of the Company's consolidated accounts,
- annual budget information for the Company and certain of its subsidiaries.

The Audit Committee meets on a regular basis, taking into account its duties to consider and review the above information.

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 senior managers of the Company, and the approval of options to be granted under the option plan.

The Remuneration Committee meets on an appropriate basis accordingly.

Members of the committee

Matthew Hammond, Chairman
Yuri Milner
Gregory Finger
Hein Pretorius

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

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 Company is working with its investees to expand their IFRS reporting teams and to improve their IFRS reporting processes, and has a newly-expanded IFRS reporting team which carries out a detailed review and verification of the Company's IFRS financial statements and those of its investees. The Company continues to enhance the reliability of its manual financial statement close process and related review of investee IFRS information, by implementing a robust multi-level management review process and allocating the additional resources represented by its IFRS reporting team.

The Company is currently establishing an automated system for preparing its financial statements. It set up an implementation team and defined the implementation scope for the system, which, it is aimed, will be operational by the time of the audit of the Group's 2011 accounts.

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.

The Company applies corporate governance standards, such as the appointment of two independent directors to its Board of Directors, the appointment of remuneration and audit committees, and periodic re-election of directors, which go beyond the requirements of national law. Management is currently considering expanding the Company's corporate governance framework including development of various policies around internal audit function, legal compliance function, 'insider' information etc. The development of the corporate governance framework is, however, at an early stage as of now. Full details of the Company's corporate governance practices can be found at http://corp.mail.ru/en/IR/CorpGovernance.

Risk management

Summary

The Group'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 Group'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 Group's investment and divestment decisions as part of its venture capital operations.

The Group'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 Group 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 26 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 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 overall objective of the financial risk management is to minimize the risks to an acceptable level.

The Group Audit Committee has been established to oversee among other things how management will monitor 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 including policies and objectives in respect of internal audit function, which, when completed, will be followed by detailed design phase. The development of the risk management framework and internal audit procedures are, 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 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. 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 Group 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 majority of the Group's 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 2010, the Group recorded a gain of US$8.9 million (2009: US$13.5 million). Similarly, because our financial statements are reported in US dollars, changes in the US$/RUB exchange rate can have a significant effect on the US$ equivalents of amounts earned or incurred in RUB. Since, however, most of our operating expenses and revenues are denominated in RUB we believe we are not exposed to significant transaction risk from currency fluctuations.

Equity price risk

The Group'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 Group'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 Group'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 Group'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 active 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 cash flow risk which is material for the assessment of its assets, liabilities, financial position and profit or loss.

Hedging
The Group has no hedging operations.

In 2010, the principal operating risks and uncertainties facing the Group were:

Operating environment of the Group
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. 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 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 of the services 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 the website operated by the Group, users have to input their personal data, which is then protected by the Group from access by third parties. Should such data become available to third 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.

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 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.

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
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.

Internal control
Significant deficiencies (as defined in ISA 265) in internal controls have been identified in the IFRS reporting process with the potential that misstatements caused by errors could have a material effect on financial reporting.

Board and Management remuneration

Committees

In 2010 and the first quarter of 2011, the Board had a Remuneration Committee responsible for, among other things, approving the remuneration of directors and senior managers of the Company, the review and approval of general policy relating to strategic compensation of the Company and its subsidiaries, and the approval of options to be granted under the Company's incentive scheme. Further information on the Remuneration Committee can be found in the corporate governance section on page •.

Interests of members of our Board of Directors and our employees

Certain members of our Board of Directors and our employees have beneficial ownership interests in our Class A Shares and Ordinary Shares. The following table includes information as to the share ownership and any options over such shares in the Company held, directly or indirectly, by each director as of the date hereof.

	Class A Shares (direct and indirect)	Ordinary Shares (direct and indirect)	Total % of Company's issued share capital represented by outstanding shares	Ordinary Shares on which options are granted
Yuri Milner[1,2]	3,097,373	3,135,867	2.99%	305,132
Gregory Finger[3]	12,000,000	–	5.75%	53,532
Marcos Galperin	–	–	–	53,532
Sang Hun Kim	–	–	–	53,532
Vladimir Streshinskiy	–	–	–	53,532
Hein Pretorius	–	–	–	53,532
Vasileios Sgourdos	–	–	–	53,532
Ivan Tavrin	–	–	–	–
Matthew Hammond	–	–	–	53,532
Mark Remon Sorour	–	–	–	53,532

The aggregate beneficial interest in the Company (excluding options granted over Ordinary Shares) held by senior managers, the Company Secretary and employees of the Company (excluding directors) as of the date hereof is 6,572,727 Ordinary Shares (direct and indirect), which equate to 3.15% of the Company's issued share capital, including Dmitry Grishin who holds 1.84%.

Incentive Scheme

In November 2010, the Board of Directors of the Company adopted a new equity-based long-term incentive scheme. Under the scheme, the Board or its Remuneration Committee is authorised to grant options to acquire Ordinary Shares to a broad base of current or former employees, consultants and directors either direct or through an employee benefit trust or vehicles controlled by such persons. As of 31 December 2010, the scheme comprised options over an aggregate of 10,706,403 Ordinary Shares. On the IPO date, the Company decided to assign 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. As of the date hereof, options for 4,202,300 of these Ordinary Shares have been allocated for the benefit of certain employees and consultants of the Company, and 786,920 have been allocated for the benefit of the members of the Board. The options referred to under "Interests of Members of our Board of Directors and our employees" are included in these options.

The options vest over a four-year period beginning on the date of grant, provided that no options will vest before January 2012.

Compensation

Directors of the Company

Total remuneration of the directors of the Company amounted to US$163 thousand in 2010 (2009: nil). In addition to the cash remuneration in 2010 one of the directors of the Company was granted options to acquire 53,532 Ordinary Shares (post-share split) at the exercise price of US$27.7. These options are described in more detail in Note 27. The corresponding share-based payment expense amounted to US$91 thousand in 2010. The rest of the options were granted in April 2011 when they were also approved (including those granted in 2010) by the Board of Directors.

Key management of the Group

Total remuneration of the key management of the Group amounted to US$2,449 thousand for the period since termination of the agreement with DSTA to 31 December 2010. In addition to the cash remuneration, as of the date hereat key management of the Group were granted options to acquire 2,960,000 Ordinary Shares of the Company (post-share split) at the exercise price of US$27.7. These options are described in more detail in Note 27. The corresponding share-based payment expense amounted to US$ 1,033 thousand in 2010.

1 Yuri Milner has an economic interest in the performance of the shares in the Company held by NMT. Gregory Finger and Mikhail Vinchel have agreed in certain circumstances to share proceeds of any sale of their shares in the Company with Yuri Milner.

2 Yuri Milner is beneficially entitled to 3,135,867 Ordinary Shares in aggregate through DST Advisors Limited and to 2,655,373 Class A shares through DST Holding Limited.

3 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"). Gregory Finger has agreed in certain circumstances to share proceeds of any sale of his shares in the Company with Yuri Milner.

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; and
- 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

Director, Managing Director

Mail.Ru Group Limited

26 April 2011

Mail.Ru Group Limited

Consolidated Financial Statements

For the year ended December 31, 2010

Contents

ERNST & YOUNG

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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, 2010 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, 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

April 26, 2011

Consolidated Statement of Financial Position

As of December 31, 2010
(in thousands of US Dollars)

	Notes	As at December 31, 2010	As at December 31, 2009
ASSETS			
Non-current assets			
Investments in strategic associates	6, 10	203,279	442,178
Goodwill	6, 7,11	1,058,182	466,484
Other intangible assets	7	447,217	243,981
Property and equipment	8	40,256	8,543
Available-for-sale financial assets	25	1,453,518	220,049
Financial assets at fair value through profit or loss	25	22,404	113,174
Deferred income tax assets	21	3,555	2,788
Other non-current assets	15	3,791	3,421
Total non-current assets		3,232,202	1,500,618
Current assets			
Trade accounts receivable	12	47,842	21,528
Loans receivable		–	1,875
Income tax receivable		1,533	24
Prepaid expenses and advances to suppliers		6,156	9,737
Financial assets at fair value through profit or loss	25	17,793	–
Other current assets	15	3,245	1,304
Short-term time deposits	13	2,232	960
Cash and cash equivalents	13	118,417	147,915
Total current assets		197,218	183,343
Total assets		3,429,420	1,683,961
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	14	1	1
Share premium		1,480,813	878,873
Retained earnings		711,144	558,367
Accumulated other comprehensive income/(loss)		1,031,420	(91,447)
Total equity attributable to equity holders of the parent		3,223,378	1,345,794
Non-controlling interests		(530)	130,846
Total equity		3,222,848	1,476,640
Non-current liabilities			
Financial liabilities at fair value through profit or loss	25	1,111	101,895
Deferred income tax liabilities	21	94,511	53,237
Total non-current liabilities		95,622	155,132
Current liabilities			
Trade accounts payable		22,521	6,920
Income tax payable		7,563	4,324
VAT and other taxes payable		17,143	9,418
Deferred revenue and customer advances		38,859	16,853
Other payables, provisions and accrued expenses	16	24,864	14,674
Total current liabilities		110,950	52,189
Total liabilities		206,572	207,321
Total equity and liabilities		3,429,420	1,683,961

The accompanying notes on pages 47-109 form an integral part of these consolidated financial statements

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2010
(in thousands of US Dollars, except per share information)

	Notes	2010	2009
Revenues	17	275,306	148,316
Cost of revenues	18	(64,669)	(33,139)
Gross profit		210,637	115,177
Net gain on venture capital investments and associated derivative financial assets and liabilities	25	2,614	1,514
Research and development expenses		(2,347)	(1,849)
Selling, general and administrative expenses	19	(160,937)	(97,140)
Impairment of intangible assets	7	(1,691)	(1,750)
Depreciation and amortisation	7,8	(58,253)	(29,949)
Operating loss		(9,977)	(13,997)
Finance income	20	1,385	1,546
Net loss on financial assets and liabilities at fair value through profit or loss over the equity of strategic investees	25	(2,283)	(3,641)
Net gain on acquisition of control in strategic associates	6	104,992	14,826
Net gain on acquisition of control in available-for-sale investments	6	81,162	–
Net gain on disposal of shares in strategic associates	6,10	16,486	113,054
Net loss on loss of control in subsidiaries	6	(754)	(7,080)
Net foreign exchange gains		8,935	13,494
(Impairment losses)/reversal of impairment losses related to strategic associates	10	(11,207)	46,748
Share of profit/(loss) of equity method investees	10	(9,084)	17,991
Gain on bargain purchase of subsidiary	6	749	–
Other gains/(losses)		(456)	78
Profit before income tax expense		179,948	183,019
Income tax expense	21	(23,682)	(17,319)
Net profit		156,266	165,700
Attributable to:			
Equity holders of the parent		152,777	168,649
Non-controlling interest		3,489	(2,949)
Other comprehensive income			
Exchange differences on translation of foreign operations:			
Differences arising during the year		(16,940)	(3,193)
Accumulated exchange differences reclassified to earnings upon disposal of foreign operations		34,035	41,511
Available-for-sale financial assets:			
Gains arising during the year		1,117,460	320
Reclassification adjustments for gains included in profit or loss		(14,553)	–
Total other comprehensive income, net of tax effect of 0		1,120,002	38,638
Total comprehensive income, net of tax		1,276,268	204,338
Attributable to:			
Equity holders of the parent		1,275,643	206,030
Non-controlling interest		625	(1,692)
Earnings per share, in US Dollars:	22		
Basic earnings for the year attributable to ordinary equity holders of the parent		0.98	1.44
Diluted earnings for the year attributable to ordinary equity holders of the parent		0.95	1.42

The accompanying notes on pages 47-109 form an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows

For the year ended December 31, 2010
(in thousands of US Dollars, except per share information)

	Notes	2010	2009
Cash flows from operating activities			
Profit before income tax		179,948	183,019
Adjustments for:			
Depreciation and amortisation	7,8	58,253	29,949
Bad debt expense	12	1,418	569
Net loss from changes in financial assets and liabilities at fair value through profit or loss over the equity of strategic associates	25	2,283	3,641
Net loss on loss of control in subsidiaries	6	754	7,080
Net gain on acquisition of control in strategic associates	6	(104,992)	(14,826)
Net gain on acquisition of control in available-for-sale investments	6	(81,162)	–
Net gain on disposal of shares in strategic associates	6	(16,486)	(113,054)
Gain on bargain purchase of subsidiary		(749)	–
Loss on disposal of property, plant and equipment		–	61
Finance income	20	(1,385)	(1,546)
Dividend income	17	(2,539)	(1,617)
Share of profit/(loss) of strategic associates	10	9,084	(17,991)
Impairment of intangible assets	7	1,691	1,750
Impairment losses/(reversal of impairment losses) related to strategic associates	10	11,207	(46,748)
Net foreign exchange gains		(8,935)	(13,494)
Share-based payment expense	27	26,066	18,500
Other non-cash items		41	55
Increase in accounts receivable		(13,275)	(5,339)
Increase in advances		(668)	(2,216)
Decrease in other assets		5,179	465
Increase in accounts payable, provisions and accrued expenses		14,230	6,859
Increase in deferred revenue		20,405	1,508
Increase in venture capital financial assets designated as at fair value through profit or loss	25	(3,981)	(2,249)
Increase/(decrease) in fair value of derivative liabilities over the equity of financial investees	25	(1,814)	572
Operating cash flows before interest and income taxes		94,573	34,948
Dividends received from financial investments		2,516	1,878
Interest received, net of related bank commissions paid		380	1,186
Income tax paid	21	(23,647)	(14,376)
Net cash provided by operating activities		73,822	23,636

The accompanying notes on pages 47-109 form an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows (continued)

For the year ended December 31, 2010
(in thousands of US Dollars, except per share information)

	Notes	2010	2009
Cash flows from investing activities:			
Cash paid for investments in strategic associates	6	(109,869)	(4,687)
Cash paid for derivative financial instruments over the equity of strategic associates	6	(18,865)	–
Cash paid for available-for-sale investments and Assets related to Class C shares	25	(149,412)	(300,592)
Cash paid for property and equipment		(16,593)	(4,816)
Cash paid for intangible assets		(12,794)	(12,270)
Cash paid for acquisitions of subsidiaries, net of cash acquired	6	(233,882)	(15,883)
Dividends received from strategic associates and investments designated as available-for-sale financial assets		5,436	4,982
Proceeds from disposal of shares in strategic associates	6	24,123	–
Proceeds from disposal of subsidiaries, net of cash disposed of	6	(252)	5,207
Disbursement of loans		(1,998)	(2,904)
Collection of loans		–	319
Acquisition of other investments		(988)	(2,447)
Proceeds from sales of other investments		1,580	31,586
Net cash used in investing activities		(513,514)	(301,505)
Cash flows from financing activities:			
Cash paid for non-controlling interests in subsidiaries	6	(29,121)	(3,478)
Proceeds from disposal of non-controlling interests in subsidiaries	6	–	79,079
Proceeds from issuance of common stock, net of share issuance costs paid	14	438,573	186,671
Proceeds from issuance of Class C shares		–	93,330
Proceeds from exercise of share options over non-controlling interests in subsidiaries		–	12,478
Proceeds from exercise of share options over the shares of the Company		3,038	–
Repayment of loans and promissory notes		–	(127)
Cash paid for treasury shares		–	(20,546)
Dividends paid by subsidiaries to non-controlling shareholders	28	(3,472)	(22,817)
Net cash provided by financing activities		409,018	324,590
Net increase/(decrease) in cash and cash equivalents		(30,674)	46,721
Effect of exchange differences on cash balances		1,176	2,557
Cash and cash equivalents at the beginning of the year		147,915	98,637
Cash and cash equivalents at the end of the year		118,417	147,915

The accompanying notes on pages 47-109 form an integral part of these consolidated financial statements

Consolidated Statement of Changes in Equity

For the year ended December 31, 2010
(in thousands of US Dollars, except per share information)

	Notes	Share capital: Number of shares issued and outstanding	Share capital: Amount	Share premium	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, 2009		53,969	1	599,285	389,718	(125,562)	863,442	86,387	949,829
Net profit for the period		–	–	–	168,649	–	168,649	(2,949)	165,700
Other comprehensive income:									
Foreign currency translation		–	–	–	–	37,061	37,061	1,257	38,318
Unrealised holding gains on available-for-sale financial assets	25	–	–	–	–	320	320	–	320
Total other comprehensive income		–	–	–	–	37,381	37,381	1,257	38,638
Total comprehensive income		–	–	–	168,649	37,381	206,030	(1,692)	204,338
Shares issued for cash		7,063	–	186,671	–	–	186,671	–	186,671
Shares issued in business combinations	6	1,614	–	24,506	–	–	24,506	–	24,506
Other equity instruments issued in business combinations	6	–	–	1,856	–	–	1,856	–	1,856
Business combinations	6	–	–	–	–	–	–	42,338	42,338
Effect of disposal of subsidiary	6	–	–	–	–	–	–	(534)	(534)
Share-based payment transactions	27	–	–	12,673	–	–	12,673	5,824	18,497
Share-based payment transactions by strategic associates	27	–	–	1,426	–	–	1,426	79	1,505
Other changes in net assets of strategic associates		–	–	(3,654)	–	–	(3,654)	–	(3,654)
Dividends by subsidiaries to non-controlling shareholders	28	–	–	–	–	–	–	(31,832)	(31,832)
Exercise of options over the shares of subsidiaries		–	–	10,940	–	–	10,940	21,292	32,232
Acquisitions of non-controlling interests in existing subsidiaries		808	–	4,282	–	–	4,282	(7,758)	(3,476)
Disposals of non-controlling interests in subsidiaries	6	–	–	63,438	–	(3,266)	60,172	18,516	78,688
Conversion of equity-settled share-based payments to cash-settled	27	–	–	(2,004)	–	–	(2,004)	(1,774)	(3,778)
Acquisition of treasury shares		(784)	–	(20,546)	–	–	(20,546)	–	(20,546)
Balance at December 31, 2009		62,670	1	878,873	558,367	(91,447)	1,345,794	130,846	1,476,640

The accompanying notes on pages 47-109 form an integral part of these consolidated financial statements

Consolidated Statement of Changes in Equity (continued)

For the year ended December 31, 2010
(in thousands of US Dollars, except per share information)

	Notes	Share capital: Number of shares issued and outstanding	Share capital: Amount	Share premium	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 December 31, 2009		62,670	1	878,873	558,367	(91,447)	1,345,794	130,846	1,476,640
Net profit for the period		–	–	–	152,777	–	152,777	3,489	156,266
Other comprehensive income:									
Foreign currency translation		–	–	–	–	19,960	19,960	(2,864)	17,096
Unrealised holding gains on available-for-sale investments	25	–	–	–	–	1,102,907	1,102,907	–	1,102,907
Total other comprehensive income:									
Total comprehensive income		–	–	–	152,777	1,122,867	1,275,644	625	1,276,269
Shares issued for cash	14, 6	9,466	–	349,992	–	–	349,992	–	349,992
Shares issued in business combinations	6	778	–	29,989	–	–	29,989	–	29,989
Exercise of options over shares of the Company (pre share split)	27	267	–	3,038	–	–	3,038	–	3,038
Acquisitions of non-controlling interests in existing subsidiaries	6	23,080	–	107,583	–	–	107,583	(134,610)	(27,027)
Share-based payment transactions	27	–	–	23,231	–	–	23,231	2,142	25,373
Exercise of options over shares of subsidiaries	27	–	–	(2,053)	–	–	(2,053)	3,553	1,500
Split of shares	14	192,425,739	–		–	–	–	–	–
Shares issued in IPO	14	3,336,000	–	92,407	–	–	92,407	–	92,407
Exercise of options over shares of the Company (post share split)	14, 27	12,663,603	–	–	–	–	–	–	–
Other changes in net assets of strategic associates	10	–	–	756	–	–	756	83	839
Share-based payment transactions by strategic associates	10	–	–	976	–	–	976	–	976
Share issuance costs accounted for as a deduction from equity		–	–	(3,979)	–	–	(3,979)	–	(3,979)
Dividends by subsidiaries to non-controlling shareholders	28	–	–	–	–	–	–	(3,169)	(3,169)
Balance at December 31, 2010		208,521,603	1	1,480,813	711,144	1,031,420	3,223,378	(530)	3,222,848

The accompanying notes on pages 47-109 form an integral part of these consolidated financial statements

Notes to Consolidated Financial Statements

For the year ended December 31, 2010
(in thousands of US dollars unless otherwise indicated)

1 Corporate information and description of business

These consolidated financial statements of Mail.Ru Group Limited (formerly Digital Sky Technologies Limited and renamed in October 2010, hereinafter "the Company") and its subsidiaries (collectively – "the Group") for the year December 31, 2010 were authorised for issue by the Board of Directors of the Company on April 25, 2010.

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 role-play games ("MMORPG") and social 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. The consolidated financial statements are presented in US Dollars ("USD") and all values are rounded to the nearest thousand (USD '000) except per share information and unless otherwise indicated.

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 Group has adopted the following new and amended IFRS and IFRIC in the consolidated financial statements for the annual period beginning on January 1, 2010:

- IFRS 2 *Share-based Payment (amended);*
- IAS 39 *Financial Instruments: Recognition and Measurement (amended);*
- IFRIC 17 *Distribution of Non-cash Assets to Owners;*
- Improvements to IFRSs (April 2009)

The principal effect of these changes in policies is discussed below.

<u>IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions</u>

The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

<u>IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items</u>

The amendment clarifies that the entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The amendment had no effect on the financial position or performance of the Group.

<u>IFRIC 17 Distribution of Non-cash Assets to Owners (effective for annual periods beginning on or after July 1, 2009)</u>

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation had no effect on the financial position or performance of the Group.

Notes to Consolidated Financial Statements (continued)

2 Basis of preparation (continued)

2.2 Application of new and amended IFRS and IFRIC (continued)

Improvements to IFRSs

In addition, the Group has early adopted the amendment with respect to un-replaced and voluntarily replaced share-based payment awards made to IFRS 3 as a result of the Annual Improvements standard issued in May 2010. The summary of the adopted amendment is as follows.

Un-replaced and voluntarily replaced share-based payment awards:

- The amendment requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses. However, if the entity replaces the acquiree's awards that expire as a consequence of the business combination, these are recognised as post-combination expenses. The amendment also specifies the accounting for share-based payment transactions that the acquirer does not exchange for its own awards: if vested — they are part of NCI and measured at their market-based measure; if unvested — they are measured at market based value as if granted at acquisition date, and allocated between NCI and post-combination expense.

The early adoption of the amendments to IFRS 3 has resulted in an increase in goodwill and a decrease in compensation expense in the amount of USD 1,088.

Reclassifications

Certain corresponding information, presented in the consolidated financial statements for the year ended December 31, 2009 has been reclassified in order to achieve comparability with the presentation used in these consolidated financial statements.

2.3 New accounting pronouncements

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

IAS 12 Income Taxes (amended) – Deferred Tax: Recovery of Underlying Assets (effective for financial years beginning on or after January 1, 2012)

The amendments provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. The Group expects that the adoption of the amended standard will not have a significant impact on its financial position or performance in the period of initial application.

IAS 24 Related Party Disclosures (revised) (effective for financial years beginning on or after January 1, 2011)

The revision clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application, introduces a partial exemption of disclosure requirements for government – related entities. The Group does not expect a significant impact of the revised standard on its results of operations and financial position in the period of initial application.

IAS 32 Financial Instruments: Presentation (amended) – Classification of Rights Issues (effective for financial years beginning on or after February 1, 2010)

The amendment alters the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Group expects that the adoption of the amended standard will not have a significant impact on its financial position or performance in the period of initial application.

IFRS 7 Financial Instruments: Disclosures (amended) – Disclosures – Transfers of Financial Assets (effective for financial years beginning on or after July 1, 2011)

The International Accounting Standards Board has amended the required disclosures relating to transfers of financial assets. The objective of the amendments is to help users of financial statements evaluate the risk exposures relating to such transfers and the effect of those risks on an entity's financial position. The Group expects that the adoption of the amended standard will not have a significant impact on its financial position or performance in the period of initial application.

Notes to Consolidated Financial Statements (continued)

2 Basis of preparation (continued)

2.3 New accounting pronouncements (continued)

IFRS 9 Financial Instruments (effective for financial years beginning on or after January 1, 2013)

The standard as issued reflects the first phase of the International Accounting Standards Boards work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities. In subsequent phases, the International Accounting Standards Board will address impairment methodology and hedge accounting. The adoption of the first phrase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets and financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for financial years beginning on or after July 1, 2010)

The new interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The amendment is deemed to have no impact on the financial statements of the Group.

Amendments to IFRIC 14/IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – *Prepayments of a Minimum Funding Requirement* (effective for financial years beginning on or after January 1, 2011)

The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to recognise a prepayment of pension contributions as an asset rather than an expense. The amendment is deemed to have no impact on the financial statement of the Group.

Improvements to IFRSs (effective for financial years beginning on or after either July 1, 2010 or January 1, 2011)

In May 2010 the International Accounting Standards Board issued "Improvements to IFRSs", primarily with a view to removing inconsistencies and clarifying wording.

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, 2010 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 to *'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'*.

Notes to Consolidated Financial Statements (continued)

3 Summary of significant accounting policies (continued)

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.

IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for 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.

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 strategic investments.

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 3.12 below as part of the Group's accounting policies with respect to financial assets.

Notes to Consolidated Financial Statements (continued)

3 Summary of significant accounting policies (continued)

3.3 Investments in associates (continued)

3.3.2 Strategic investments in associates

Strategic investments in associates are regarded by the Group as its key investments. The Group participates in the operating management of the strategic investees 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.

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 3.12.6.

If there is objective evidence that a strategic investment 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 3.14) and recognises the amount of impairment in earnings under '*Impairment losses*'. 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 equity method investment.

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 in value. 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.

Notes to Consolidated Financial Statements (continued)

3 Summary of significant accounting policies (continued)

3.4 Property and equipment (continued)

When parts of an item of property, plant 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 gains/(losses)*' 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
Electronic payment terminals	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.

3.5 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.

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, 2010 and 2009.

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.

Notes to Consolidated Financial Statements (continued)

3 Summary of significant accounting policies (continued)

3.5 Intangible assets other than goodwill (continued)

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	1.5 - 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 the 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 a unified social tax ("UST") calculated by the Group by the application of a regressive rate (from 26% to 2%) to the annual gross remuneration of each employee.

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, 2010 amounted to USD 1,733 (December 31, 2009 – nil). 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 balance sheet represents the present value of the defined benefit obligation, reduced by the fair value of plan assets. Total severance expenses (for the period from July 7, 2010 to December 31, 2010) amounted to USD 264 in 2010 (2009 – nil).

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.

Notes to Consolidated Financial Statements (continued)

3 Summary of significant accounting policies (continued)

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 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.

3.9.1.1 Revenue from online 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 MMORPGs 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 average estimated life of in-game items varies from 30 to 100 days.

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.

3.9.1.2 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.

3.9.1.3 Other 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. 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. 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.

3.9.2 Online advertising

3.9.2.1 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 third party advertising agencies, revenue is recognised net of any portion attributable to the third parties.

3.9.2.1.1 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.

Notes to Consolidated Financial Statements (continued)

3 Summary of significant accounting policies (continued)

3.9 Revenue recognition (continued)

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. In addition, when a cash transaction has been used to support an equivalent quantity and dollar amount of barter revenues, the same cash transaction is not used as evidence of fair value for any other barter transaction.

The amount of revenue and expense recognised from advertising barter transactions was USD 1,691 and USD 2,496 for the years ended December 31, 2010 and 2009, respectively.

3.9.2.2 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.

3.9.3 Dividend revenue

Dividend revenue from venture capital investments and dividend income from investments classified as available-for-sale financial assets is recognised when the Group's right to receive the payment is established. Dividend income from available-for-sale investments in included under *'Finance income'* in the statement of comprehensive income.

3.9.4 Online recruitment revenue

Online recruitment revenues primarily consist of the following:

Online recruitment services for employers. Services for employers include provision of access to résumé database and posting of job ads on the Group's websites. Revenue earned from provision of access to résumé 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.

Online recruitment services for job seekers. Services for job seekers include subscription to vacancies and professional writing of résumé. Revenue earned from subscription to vacancies is recognised over a period of subscription, which varies from seven days to six months. Revenue earned from résumé writing is recognised at the time when the résumé is delivered to a job seeker.

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.

3.9.5 Other revenues

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

3.10 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 investees 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.

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 equity is recognised in equity and not in earnings.

Notes to Consolidated Financial Statements (continued)

3 Summary of significant accounting policies (continued)

3.10 Income taxes (continued)

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.

3.11 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”).

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.

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.

3.12 Financial instruments

3.12.1 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.

Notes to Consolidated Financial Statements (continued)

3 Summary of significant accounting policies (continued)

3.12 Financial instruments (continued)

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 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 and other 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.

3.12.2 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:

3.12.2.1 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: This sub-category includes the Group's financial investments in associates, Class C shares of the Company and Assets related to Class C shares (as defined in Note 14).

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 and derivative and other liabilities 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 investees*';
- 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.

3.12.2.2 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'* in *'Selling, general and administrative expenses'*.

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

3.12.2.3 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.

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 income, or determined to be impaired, at which time the cumulative loss is recognised in the statement of comprehensive income under '*Impairment losses*' and removed from the available-for-sale reserve.

Notes to Consolidated Financial Statements (continued)

3 Summary of significant accounting policies (continued)

3.12 Financial instruments (continued)

3.12.2.4 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, 2009 and 2010.

3.12.2.5 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.

3.12.3 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.

3.12.4 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.

3.12.5 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 25.

3.12.6 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 have 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.

3.12.6.1 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.

Notes to Consolidated Financial Statements (continued)

3 Summary of significant accounting policies (continued)

3.12 Financial instruments (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'* in *'Selling, general and administrative 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 *'Selling, general and administrative 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.

3.12.6.2 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.

3.13 Foreign currency translation

The consolidated financial statements are presented in USD, which is the Group's presentation currency, and all values are rounded to the nearest thousand (USD '000) 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 the Russian Rouble ("RUR"). The Group has elected to present its financial statements in USD because such presentation is required by the shareholders of the Company.

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 USD are translated into the presentation currency of the Group (USD) 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 USD 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 USD at the closing rate. This policy also applies to acquisitions of interests in strategic associates.

Notes to Consolidated Financial Statements (continued)

3 Summary of significant accounting policies (continued)

3.13 Foreign currency translation (continued)

Upon a partial disposal of a subsidiary that includes a foreign operation, 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 foreign operation, the Group reclassifies to profit or loss only the proportionate share of the 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.

3.14 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:

3.14.1 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.

3.14.2 Strategic investments in associates

As discussed under 3.3.2, although strategic investments in associates are financial assets and their impairment indicators are assessed as described under 3.12.6, 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 equity method investment. 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.

Notes to Consolidated Financial Statements (continued)

3 Summary of significant accounting policies (continued)

3.15 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 EPS.

3.16 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.

3.17 Reclassifications in the presentation of financial statements

The Group has made certain reclassifications in the comparative period to conform to current year presentation. None of the reclassifications was individually significant.

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 owns 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 makes 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 Functional currency of the Company

Significant judgment can be required in determining the functional currency of an entity that holds investments denominated in foreign currencies.

Although the Company's fundraising currency is the USD and the Company incurs a large portion of its expenses in USD, most of the Company's strategic and financial investees are located in Russia, and their functional currency is the RUR. Accordingly, management believes that the currency of the primary economic environment in which the Company operates (the Company's functional currency) is the RUR.

Notes to Consolidated Financial Statements (continued)

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 25 and 26.

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.

Notes to Consolidated Financial Statements (continued)

4 Significant accounting judgments, estimates and assumptions (continued)

4.2 Estimates and assumptions (continued)

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

Identification of indicators of impairment of non-financial assets and strategic investments in 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 and risk-free interest rates.

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 statement of comprehensive income, 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, certain accruals, deferred taxation, share-based payments, business combinations, fair value adjustments and amortisation thereof, impairment, as well as non-recurring items.

The financial data is presented on a combined basis for all key subsidiaries and associates representing each segment added together forming the segment revenue and profit. The financial information of the key subsidiaries acquired during the reporting period 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.

Accordingly, the operating segment information presented below includes ICQ (as defined in Note 6) starting from July 7, 2010, while OK (as defined below) and Data Center (as defined in Note 6) are included starting from January 1, 2009.

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

The Group has identified the following reportable segments:

- Mail.Ru Internet NV and its subsidiaries and associates and ICQ (collectively representing “Mail.Ru” reportable segment), a portal, social network, instant messaging and online games business;
- Forticom Group Limited, Odnoklassniki Limited and their subsidiaries (collectively representing “OK” reportable segment), a social network business;
- Headhunter Group Limited and its subsidiaries and associates (collectively representing “Headhunter” reportable segment), an online recruitment and job search business;

All segments, except Headhunter, mainly derive their revenue from (a) providing Internet value-added services to individual and/or corporate customers; and (b) display and/or context advertising in the Internet. Headhunter provides online recruitment and job search services.

Notes to Consolidated Financial Statements (continued)

5 Operating segments (continued)

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.

Change in presentation of segments in 2010

In 2010, due to the acquisitions of new businesses and non-controlling interests, integration of acquired businesses and shift of strategic focus towards consolidated operations with less focus on equity associates, resulting changes in management structure and, accordingly, related management reporting, the Group reconsidered its segment presentation. As a result, key associates (VK and QIWI, as defined in Note 10) are no longer considered operating segments as management does not review their performance for resource allocation decisions. The performance of subsidiaries Data Center (an associate of the Group in 2009 excluded from segment presentation as not considered a key strategic associate) and ICQ, both acquired in 2010, is now reviewed by the CODM together with the performance of the core operations of Mail.Ru. Nasza Klasa, Forticom's Polish subsidiary, is no longer part of the Group and Forticom's Baltic operations, being insignificant, are managed by OK. As a result, in 2010 the Group's consolidated operations comprise the segments as presented above.

Additionally, as opposed to the presentation of operating segments in 2009, intra- and intersegment revenues are eliminated in full, as CODM reviews the performance of each segment and the combined operations of the Group on a post elimination basis in view of a significant degree of inter- and intra-segment integration.

The respective comparative information for 2009 was presented accordingly to conform to the current year segment presentation.

The statement of comprehensive income items for each segment for the year ended December 31, 2010, as presented to the CODM, are presented below:

	Mail	OK	HH	Total segments	Corporate, eliminations and other	Combined
Revenue						
External revenue	227,323	68,940	28,481	324,744	–	324,744
Intersegment revenue	422	–	267	689	(689)	–
Total revenue	227,745	68,940	28,748	325,433	(689)	324,744
Total operating expenses	120,755	23,536	21,991	166,282	39,018	205,300
EBITDA	106,990	45,404	6,757	159,151	(39,707)	119,444
Net profit	71,603	31,611	3,677	106,891	(29,576)	77,315

The statement of comprehensive income items for each segment for the year ended December 31, 2009, as presented to the CODM, are presented below:

	Mail	OK	HH	Total segments	Corporate, eliminations and other	Combined
Revenue						
External revenue	134,823	46,673	16,162	197,658	–	197,658
Intersegment revenue	–	–	–	–	–	–
Total revenue	134,823	46,673	16,162	197,658	–	197,658
Total operating expenses	76,851	17,034	12,739	106,624	23,669	130,293
EBITDA	57,972	29,639	3,423	91,034	(23,669)	67,365
Net profit	43,146	20,997	1,502	65,645	(19,140)	46,505

A reconciliation of total revenue, as presented to the CODM, to IFRS consolidated revenue of the Group for the years ended December 31, 2010 and 2009 is presented below:

	2010	2009
Total revenue, as presented to CODM	324,744	197,658
Adjustments to reconcile revenue as presented to CODM to consolidated revenue under IFRS:		
Effect of operations disposed of and difference in dates of acquisition of control in subsidiaries	(40,298)	(52,286)
Differences in timing of revenue recognition	(13,694)	(2,350)
Barter revenue	1,645	3,960
Dividend revenue from venture capital investments	2,539	1,617
Other	370	(283)
Consolidated revenue under IFRS	275,306	148,316

Notes to Consolidated Financial Statements (continued)

5 Operating segments (continued)

A reconciliation of net profit, as presented to the CODM, to IFRS consolidated net profit of the Group for the years ended December 31, 2010 and 2009 is presented below:

	2010	2009
Total net profit, as presented to CODM	77,315	46,505
Adjustments to reconcile net profit as presented to CODM to consolidated net profit under IFRS:		
Share-based payment expense	(30,176)	(20,639)
Differences in timing of revenue recognition	(13,694)	(2,350)
Effect of operations disposed of, difference in shareholding percentages and acquisition dates of subsidiaries and associates	3,055	(10,581)
Amortisation of fair value adjustments to intangible assets and impairment thereof	(43,840)	(24,566)
Gain/(loss) on financial instruments at fair value through profit or loss	(27,270)	6,444
Fair value adjustments related to acquisitions and disposals	201,886	120,800
Non-recurring consulting services	(8,433)	(4,626)
(Impairment losses)/reversal of impairment losses related to investments in strategic associates	(11,207)	46,748
Net foreign exchange gains	8,956	11,574
Other	(326)	(3,609)
Consolidated net profit under IFRS	156,266	165,700

6 Acquisitions and disposals of shares in subsidiaries and strategic associates

6.1 Acquisitions and disposals of 2009

6.1.1 Headhunter

Headhunter Group Limited ("Headhunter", renamed from Newton Rose Limited) is a provider of online recruitment services to corporate and individual customers. Headhunter and its subsidiaries operate a leading Russian online recruitment web site www.hh.ru and the pan-Baltic online recruitment portal www.cvkeskus.ee.

In February 2009, the Group acquired an additional 54.61% of voting shares of Headhunter, thereby increasing its ownership to 90.62%, which enabled the Group to control Headhunter. The aggregate consideration of USD 37,854 transferred by the Company included:

- cash consideration of USD 10,366; and
- ordinary shares (2.33%) of the Company fair valued at USD 24,506.

Additionally, as part of the same arrangement, the Company issued:

- A put option to sell an aggregate of 4,834 shares (approximately 3.49%) of Headhunter at variable exercise price determined as each holder's percentage shareholding in Headhunter multiplied by fifteen multiplied by Adjusted Distributable Profit (as discussed in Note 25), fair valued at USD 1,126; and
- The right to convert 8,167 shares of Headhunter into shares of the Company at the conversion rate of 0.02651 shares of the Company per one Headhunter share exercisable during the fourth quarter of 2011, fair valued at USD 1,856.

The fair value of the conversion right was determined using the binomial model with the following inputs:

Share price (USD)	410.7
Expected volatility	69.73%
Option life (years)	2.87
Expected dividends, USD per share	0 in 2009, 22.1 in 2010
Risk-free interest rate	1.17%

Notes to Consolidated Financial Statements (continued)

6 Acquisitions and disposals of shares in subsidiaries and strategic associates (continued)

6.1 Acquisitions and disposals of 2009 (continued)

The fair values of the identifiable assets and liabilities of Headhunter as at the date of acquisition were as follows:

	Fair value
Property and equipment (Note 8)	1,107
Intangible assets (Note 7)	6,992
Other investments	543
Deferred tax assets (Note 21)	562
Inventory	9
Income tax receivable	786
Trade and other receivables	2,084
Advances	427
Cash	1,113
Total assets	13,623
Deferred tax liabilities (Note 21)	693
Other long term liabilities	84
Loans	107
Deferred income	7,688
Trade and other payables	2,126
Provisions	421
Income tax payable	459
Total liabilities	11,578
Total net assets	2,045

Goodwill on the acquisition was calculated as the excess of:

(a)	the aggregate of	
i)	the consideration transferred by the Group measured at fair values:	
	Cash paid	10,366
	Shares of the Company	24,506
	Right to exchange shares of Headhunter for ordinary shares of the Company	1,856
	Written option to sell to the Company 3.49% of Headhunter	1,126
	Consideration transferred by the Group	37,854
ii)	the amount of non-controlling interest in Headhunter measured in accordance with IFRS 3R	565
iii)	the acquisition date fair value of the Group's previously held equity interest in Headhunter (36.01%)	27,333
	over	
(b)	the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3R	2,045
Goodwill (Note 11)		63,707

The Group has elected to measure the non-controlling interest in Headhunter as a proportionate share of the net assets of Headhunter.

The Group recognised a gain of USD 2,300 as a result of remeasuring to fair value the 36.01% equity interest in Headhunter held by the Group immediately prior to the business combination. The gain has been included in *'Net gain on acquisition of control in strategic associates'* in the statement of comprehensive income.

Goodwill is mainly attributable to Headhunter's presence on online recruiting market in Russia and the potential to increase it in future. None of the goodwill is expected to be deductible for income tax purposes.

The intangible assets of Headhunter mainly consist of trademarks, customer relationships and software development costs to be amortised over remaining useful lives of 8 years, 8 years and 3.1 years respectively.

Notes to Consolidated Financial Statements (continued)

6 Acquisitions and disposals of shares in subsidiaries and strategic associates (continued)

6.1 Acquisitions and disposals of 2009 (continued)

The cash flows on acquisition were as follows:

Cash paid (included in cash flows from investing activities)	10,365
Cash acquired (included in cash flows from investing activities)	(1,113)
Net cash flow on acquisition	9,252

In July 2009, the Group acquired an additional 0.68% of Headhunter, thereby increasing its ownership to 91.30%. As a consideration, the company issued 25 ordinary shares fair valued at USD 661. The carrying value of the share of non-controlling interest acquired at that date was insignificant. The difference of USD 660 between the consideration and the carrying value of the interest acquired was recognised in *'Share premium'* within equity.

6.1.2 Astrum

Astrum Online Entertainment Limited, renamed from DST Entertainment Limited and Aquaflow Limited, and its subsidiaries ("Astrum") provide online interactive entertainment services in Russia, Ukraine and certain other countries by developing, maintaining and making available to the public a wide range of online games via the Internet. As of January 1, 2009, the Group owned 68.02% of Astrum. However, the Group did not control Astrum because of restrictions set out in the shareholders' agreement of Astrum requiring at least 75% of votes on certain significant operating decisions. Accordingly, Astrum was considered an associate of the Group and the investment was accounted for by the Group under the equity method.

On March 25, 2009, the Company acquired control over Astrum via an acquisition of 4.35% from other shareholders for a cash consideration of USD 5,934 and a subscription to 0.76% newly issued shares of Astrum for a cash consideration of USD 5,001. As a result of the transactions, the Group's ownership in Astrum increased to 73.13%. As part of the arrangements, the other shareholders agreed to have the shareholders' agreement amended so as to remove the restrictions that had previously precluded the Group from controlling Astrum for the consideration of USD 1,500. Additionally, as part of the transactions, some of the call options previously issued to the Company by Astrum fair valued as at the date of the transaction at USD 2,281 were cancelled.

The fair values of the identifiable assets and liabilities of Astrum as at the date of acquisition were as follows:

	Fair value
Intangible assets (Note 7)	93,075
Property and equipment (Note 8)	532
Investments in associates (Note 10)	45,419
Deferred tax asset (Note 21)	378
Other non-current assets	182
Trade accounts receivable, net	891
Prepaid expenses	78
Cash and cash equivalents	4,656
Other current assets	1,321
Total assets	146,532
Deferred tax liabilities (Note 21)	16,257
Financial liabilities	6,510
Accounts payable	1,049
Other taxes payable	1,212
Deferred revenue	3,696
Other payables and accrued expenses	2,160
Total liabilities	30,884
Net assets	115,648

Notes to Consolidated Financial Statements (continued)

6 Acquisitions and disposals of shares in subsidiaries and strategic associates (continued)

6.1 Acquisitions and disposals of 2009 (continued)

Goodwill on the transaction was calculated as the excess of:

(a) the aggregate of	
i) the consideration transferred by the Group measured at fair values:	
Cash paid	12,434
Cancellation of purchased call options	2,281
ii) the amount of non-controlling interest in Astrum measured in accordance with IFRS 3R	30,750
iii) the acquisition date fair value of the Group's previously held equity interest in Astrum (68.02%)	119,908
over	
(b) the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3R	115,648
Goodwill (Note 11)	49,725

The Group has elected to measure the non-controlling interest in Astrum as a proportionate share of the net assets of Astrum.

The Group recognised a gain of USD 21,676 as a result of remeasuring to fair value the 68.02% equity interest in Astrum held by the Group immediately prior to the business combination. The gain has been included in *'Net gain on acquisition of control in strategic associates'* in the statement of comprehensive income.

Goodwill is mainly attributable to the growth potential of Russian entertainment and paid Internet services markets, as well as to the potential of Astrum to further enhance its position in those markets. None of the goodwill recognised is expected to be deductible for income tax purposes.

The intangible assets of Astrum mainly represent MMORPGs to be amortised over remaining useful lives of 3 to 9 years.

The cash flows on acquisition were as follows:

Cash paid (included in cash flows from investing activities)	12,434
Cash acquired (included in cash flows from investing activities)	(4,656)
Net cash flow on acquisition	7,778

6.1.3 OGH

In April 2009 the Group acquired control over Online Games Holding Limited and its subsidiary OOO Nival Online ("OGH"), an online games developer, by virtue of contract which removed the restrictions related to voting on key operating decisions that had previously precluded the Group from controlling OGH. To achieve that, the Group gave up some shares in OGH and decreased its ownership to 66.02% (from 68% that it held prior to acquisition).

The fair values of the identifiable assets and liabilities of OGH as at the date of acquisition were as follows:

	Fair value
Property and equipment (Note 8)	182
Intangible assets (Note 7)	39,955
Trade accounts receivable	394
Cash and cash equivalents	947
Other current assets	627
Other current liabilities	(4,130)
Deferred tax liability (Note 21)	(5,535)
Total net assets	32,440

Intangible assets relate to MMORPG games that are to be amortised over the period of 3 to 5 years.

Notes to Consolidated Financial Statements (continued)

6 Acquisitions and disposals of shares in subsidiaries and strategic associates (continued)

6.1 Acquisitions and disposals of 2009 (continued)

Goodwill on the transaction was calculated as the excess of:

(a) the aggregate of	
i) the consideration transferred measured at fair value	–
ii) the amount of non-controlling interest in OGH measured in accordance with IFRS 3R	11,023
iii) the acquisition date fair value of the Group's previously held equity interest in OGH of 66.02%	33,002
over	
(b) the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3 (R)	32,440
Goodwill (Note 11)	11,585

Goodwill is mainly attributable to OGH's Russian online games market share and a potential to increase that share in the foreseeable future. None of the goodwill is expected to be deductible for income tax purposes.

At the date of the acquisition, the cost of previously held equity interest in OGH was revalued to 33,002 with a loss on acquisition of control in OGH in the amount of 9,150 recorded under *'Net gain on acquisition of control in strategic associates'* in the consolidated statement of comprehensive income.

6.1.4 Port.ru

In February 2009, the Company acquired an additional 0.07% in its subsidiary Port.ru, Inc. ("Port.ru"), which operates, via its Russian subsidiaries, a leading Russian-language Internet portal, for a cash consideration of USD 541. The acquisition of the non-controlling interest was accounted for by the Group through equity. The carrying value of the non-controlling interest was USD 106. The difference of USD 435 between the consideration and the carrying value of the interest acquired was recognised under *'Share premium'* in the consolidated statement of changes in equity.

6.1.5 Port.ru/Astrum/Mail.Ru Internet NV

In November 2009, the Company and other shareholders of Astrum and Port.ru carried out a merger of the business of Astrum and Port.ru, whereby the Group effectively reduced its interest in the combined Port.ru and Astrum entity ("Mail.Ru Internet NV") to 52.99% in exchange for a cash consideration of USD 62,656, but retained control over both Port.ru and Astrum. As part of the same transaction, a non-controlling interest of 0.02% in Port.ru was converted to rights to receive cash, which resulted in a liability of USD 391 recognised by the Group. The arrangement was accounted for the Group through equity and resulted in (a) a net aggregate increase of USD 45,164 in the equity attributable to equity holders of the Company, including (i) a decrease in other comprehensive income of USD 3,422 due to re-attribution of a proportionate share of accumulated foreign currency translation adjustment to non-controlling interest and (ii) an increase of USD 48,585 in *'Share premium'*; and (b) a net aggregate increase of USD 17,102 in equity attributable to non-controlling interest.

6.1.6 OGH/Mail.Ru Internet NV

In December 2009, the Company acquired the entire outstanding non-controlling interest (33.98%) in OGH for a consideration consisting of USD 2,937 in cash and Class B shares of the Company representing approximately 1.25% in the Company. The Company immediately contributed the acquired non-controlling interest in OGH to the capital of Mail.Ru Internet NV exchange for approximately 1.02% of Mail.Ru Internet NV. As part of the same transaction, the Company simultaneously sold a 0.95% non-controlling interest in Mail.Ru Internet NV for a cash consideration of USD 16,423. The entire transaction, including the acquisition, exchange and sale of non-controlling interest was accounted for by the Group through equity and resulted in (a) a net aggregate increase of USD 19,725 in the equity attributable to equity holders of the Company, consisting of (i) an increase in other comprehensive income of USD 156 due to re-attribution of a proportionate share of accumulated foreign currency translation adjustment to non-controlling interest and (ii) an increase of USD 19,569 in *'Share premium'*; and (b) a net aggregate decrease of USD 6,239 in equity attributable to non-controlling interest.

6.1.7 Forticom/OK

Odnoklassniki Limited and its subsidiaries ("OK") operate a leading Russian social networking web site www.odnoklassniki.ru.

The Forticom group of companies ("Forticom") holds an equity method investment in OK and provides web site development and support services to OK. In addition, Forticom operated www.nasza-klasa.pl, a leading social network in Poland (until August 2010), a Lithuanian social network www.one.lt (until December 2010) and operates a Latvian social network www.one.lv.

Notes to Consolidated Financial Statements (continued)

6 Acquisitions and disposals of shares in subsidiaries and strategic associates (continued)

6.1 Acquisitions and disposals of 2009 (continued)

As of January 1, 2009, the Group held 28.47% in OK and 72.27% in Forticom and was accounting for both investments under the equity method. The Group did not control Forticom, because other shareholders had significant participating rights per the shareholders' agreement of Forticom requiring at least 85% of votes on certain significant operating decisions.

In December 2008, the Group entered into an arrangement whereby the Group agreed to transfer to Forticom 28.47% in OK in exchange for an additional 4.03% economic interest in Forticom (3.97% of voting power). The transfer of OK shares was conditional on an approval by Federal Antimonopoly Service of Russia ("FAS"), which had not been received as at December 31, 2008. The outcome of the FAS approval process being considered highly uncertain, the transaction was not accounted for until officially cleared by FAS.

In April 2009, FAS granted its approval with respect to the acquisition by the Group of ordinary shares of Forticom representing an additional 4.03% of economic interest in Forticom, the related shares were transferred and the acquisition was consummated on the terms and conditions set out in the share purchase agreement entered into in December 2008. The acquisition resulted in the Group holding 76.24% of voting rights and 75.67% of economic interests in Forticom but did not enable the Group to control Forticom because the non-controlling shareholders retained their participating rights set out in the shareholders' agreement of Forticom requiring at least 85% of votes on certain significant operating decisions. As a result of the transaction, the share of Forticom in OK increased to 64.73%, but this did not enable Forticom to control OK due to the non-controlling shareholders' veto rights set out in the shareholders' agreement of OK.

The investment in OK was fair valued at USD 129,908 as of the date of the FAS approval. Accordingly, the Group de-recognised its investment in OK as of that date and recognised an additional investment in Forticom in that amount. The management allocated USD 98,296 to the Group's share of Forticom's equity method investment in OK, USD 29,259 to goodwill as part of the equity method investment and USD 2,353 to the Group's share in other net assets of Forticom.

The Group recognised a gain of USD 113,630 in connection with the disposal of OK resulting from remeasurement of carrying value of interest in OK to fair value in April 2009. The gain has been included in *'Net gain/(loss) on disposal of shares in strategic associates'* in the statement of comprehensive income.

In January and October 2009, other shareholders of Forticom exercised options over the shares of Forticom, which resulted in a decrease of 1.21% in the Group's share of Forticom. The Group accounted for the exercise of the options as a deemed disposal.

6.1.8 All U Need

In September 2009, the Group disposed of the entire interest it held through Headhunter in an Israeli job ads aggregator www.alljobs.co.il ("All U Need") to a third party for a cash consideration of USD 5,644. The net assets of the subsidiary as of the date of disposal attributable to the Group were USD 12,045, including goodwill of USD 11,611. In addition, the currency translation reserve attributable to ALL U Need in the amount of USD 679 was reclassified to profit or loss.

As a result of the disposal the Group recognised a loss in the amount of USD 7,080 recorded under "*Net loss on loss of control in subsidiaries*" in the statement of comprehensive income.

The cash flows on disposal were as follows:

Cash consideration received	5,644
Cash and cash equivalents disposed of	(437)
Net cash inflow	5,207

6.2 Acquisitions and disposals of 2010

6.2.1 Data Center

On February 25, 2010, the Group's 53% owned subsidiary Mail.ru Internet NV acquired an additional 50% stake in Data Center M100 LLC ("Data Center") thus increasing its share to 100%. Previously the Group accounted for Data Center as an associate. The primary purpose of the acquisition of Data Center was to enhance the Group's technological independence from third parties' hosting service providers and to integrate the Group's data storage and transmission management

As part of a single arrangement, the Group signed several agreements – a purchase contract for the 50% share in Data Center; a put option contract (for the Group to sell the acquired stake back to the seller at a fixed price – see Note 25); a call option contract conditional on certain tax and legal claims to Data Center and an indemnification (see also below). The purchase price for all of the above was USD 10,038 (300 million roubles). Upon consummation of the transaction, the Group paid USD 5,030 (150 million roubles) in cash and agreed to pay the remainder of the consideration in two installments of 75 million roubles each payable in September 2010 and March 2011.

Notes to Consolidated Financial Statements (continued)

6 Acquisitions and disposals of shares in subsidiaries and strategic associates (continued)

6.2 Acquisitions and disposals of 2010 (continued)

The purchase agreement embeds an indemnification from the seller from adverse effects of potential legal, tax and accounting claims limited to USD 8,348 (250 million roubles), and a written call option to the seller to repurchase the share back at USD 10,038 (300 million roubles) should the Group claim that indemnification (at the Seller's discretion).

Management determined that the fair value of the contingent liability relating to adverse effects of potential legal, tax and accounting claims in respect of Data Center could not be reliably measured at the acquisition date due to a wide range of possible outcomes and thus the Group did not recognise this liability. Therefore, the Group did not recognise the indemnification asset in respect of the Seller's indemnification for adverse effects of potential legal, tax and accounting claims in respect of Data Center.

The Group's put option in respect of Data Center's shares does not form part of the net assets of Data Center but rather represents the Group's financial asset which was recognised separately from the business combination. Accordingly, the respective portion of consideration for the put option was excluded from the consideration transferred for the acquisition of Data Center. More details on the put option are disclosed below under 25.3.2.

The Group has finalised the acquisition accounting with respect to the acquisition of Data Center and has not recorded any adjustments to the provisional fair values of the net assets acquired.

The fair values of the identifiable assets and liabilities of Data Center as at the date of acquisition were as follows:

	Fair value
Net assets acquired:	
Property and equipment (Note 8)	11,740
Accounts receivable	23
Cash and cash equivalents	552
Other current assets	3,041
Current liabilities	(138)
Total net assets	15,218

Gain on bargain purchase on the transaction was calculated as the excess of:

(a)	the aggregate of	
i)	purchase price	10,038
ii)	less the fair value of put option	(3,126)
	the consideration transferred measured at fair values	6,912
iii)	the acquisition date fair value of the Group's previously held equity interest in the acquiree of 50%	7,557
(b)	the net of the acquisition date fair values of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3R	15,218
Gain on bargain purchase		(749)

The gain on bargain purchase was immediately recognised in the statement of comprehensive income.

The cash flows on acquisition were as follows:

Cash paid (included in cash flows from investing activities)	5,030
Cash acquired (included in cash flows from investing activities)	(552)
Net cash flow on acquisition	4,478

Additionally, in September 2010, the Group paid the second installment of the purchase price for Data Center in the amount of USD 2,471 (included in cash flows from investing activities).

Notes to Consolidated Financial Statements (continued)

6 Acquisitions and disposals of shares in subsidiaries and strategic associates (continued)

6.2 Acquisitions and disposals of 2010 (continued)

6.2.2 ICQ

In July 2010, the Group acquired 100% of ICQ LLC ("ICQ"), a leading instant messaging company, from AOL, Inc. ("AOL") for a cash consideration of USD 187,500. The acquisition was subject to Committee on Foreign Investment in the United States ("CFIUS") approval, which was granted in March 2011. Certain restrictions imposed on ICQ during the CFIUS review process did not preclude the Group from exerting control over ICQ starting from July 2010.

In accounting for the business combination, the Group has provisionally determined the amounts of ICQ's intangible assets and deferred tax liabilities. The acquisition accounting will be finalised upon completion of tax planning with respect to ICQ intellectual property rights.

The provisional fair values of the identifiable assets and liabilities of ICQ as at the date of acquisition were as follows:

	Fair value
Property and equipment (Note 8)	953
Intangible assets (Note 7)	28,520
Other non-current assets	337
Deferred tax assets (Note 21)	148
Current tax assets	276
Trade and other receivables	2,620
Prepaid expenses	17
Cash	3,346
Total assets:	36,217
Other long term liabilities	25
Deferred income	166
Trade and other payables	476
Provisions	1,760
Total liabilities:	2,427
Total net assets	33,790

Goodwill on the transaction was calculated as the excess of:

(a) the consideration transferred by the Group measured at fair values:	
Cash paid	187,500
Consideration transferred by the Group	187,500
over	
(b) the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3R	33,790
Goodwill (Note 11)	153,710

Goodwill is mainly attributable to the potential synergies of ICQ and its products with the existing operations of the Group, particularly in the area of online communication and instant messaging services. None of the goodwill is expected to be deductible for income tax purposes.

Intangible assets mainly represent ICQ's trademark and customer base and are to be amortised over the period of 5 to 10 years, as well as software to be amortised over 1.2 years.

The cash flows on acquisition were as follows:

Cash paid (included in cash flows from investing activities)	187,500
Cash acquired (included in cash flows from investing activities)	(3,346)
Net cash flow on acquisition	184,154

The group incurred USD 3,501 in transaction costs in connection with the acquisition. The costs have been included in *'Selling, general and administrative expenses'* in the statement of comprehensive income.

Notes to Consolidated Financial Statements (continued)

6 Acquisitions and disposals of shares in subsidiaries and strategic associates (continued)

6.2 Acquisitions and disposals of 2010 (continued)

6.2.3 Forticom/OK

In August 2010, the Group acquired all outstanding shares of Forticom, thus bringing its ownership to 100%, for the consideration consisting of the following:
- Cash payment of USD 25,011; and
- 778 ordinary shares of the Company (pre share split), fair valued at USD 29,989 based on a recent cash transaction.

The transaction also included the transfer by Forticom of its Polish subsidiary to the selling shareholders.

Additionally, as part of the same arrangement, in August 2010, the Group acquired 21.4% of OK for a cash consideration of USD 35,000, thereby increasing the Group's ownership in OK to 100%.

As part of the transaction, the Group issued share-based payment awards over 30 shares of the Company (pre share split) and paid USD 1,883 to employees of Forticom to settle share-based payment awards of Forticom, all added to consideration transferred as part of the business combination.

The fair values of the identifiable assets and liabilities of OK and Forticom as at the date of acquisition were as follows:

	Fair value
Intangible assets (Note 7)	206,105
Property and equipment (Note 8)	11,794
Deferred tax asset (Note 21)	881
Loans receivable	1,250
Other non-current assets	111
Trade accounts receivable, net	10,265
Tax receivable	3,030
Loans provided	2,609
Cash and cash equivalents	19,115
Other current assets	2,222
Total assets	257,382
Deferred tax liability (Note 21)	43,795
Accounts payable	5,006
Income tax payable	1,267
Other taxes payable	2,814
Loans payable	5,656
Deferred revenue	1,479
Other payables and accrued expenses	1,454
Total liabilities	61,471
Total net assets	195,911

Notes to Consolidated Financial Statements (continued)

6 Acquisitions and disposals of shares in subsidiaries and strategic associates (continued)

6.2 Acquisitions and disposals of 2010 (continued)

Goodwill on the transaction was calculated as the excess of:

(a) the aggregate of	
i) the consideration transferred by the Group measured at fair values:	
Cash paid	60,011
Shares of the Company	29,989
Options over shares of the Company issued to replace share-based payments of Forticom	800
Cash paid to settle share-based payments of Forticom	1,883
Consideration transferred by the Group	92,683
ii) the acquisition date fair value of the Group's previously held equity interest:	539,022
13.87% in OK	97,807
75.74% in Forticom	441,215
over	
(b) the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3R	195,911
Goodwill (Note 11)	435,794

Goodwill is mainly attributable to the growth potential of the Russian online advertising and IVAS markets, as well as the potential of OK to further enhance its position in those markets. None of the goodwill is expected to be deductible for income tax purposes.

Intangible assets mainly represent OK's trademark and customer base and are to be amortised over the period of 8 to 12 years.

The Group recognised a net gain of USD 104,992 as a result of remeasuring to fair value the 75.74% equity interest in Forticom held by the Group immediately prior to the business combination, including a loss of USD 32,112 resulting from reclassification to earnings of accumulated currency translation reserve. The gain has been included in *'Net gain on acquisition of control in strategic associates'* in the statement of comprehensive income. The Group also recognised a net gain of USD 81,162 as a result of remeasuring to fair value the 13.87% available-for-sale investment in OK held by the Group immediately prior to the business combination, including a loss of USD 744 resulting from reclassification to earnings of accumulated currency translation reserve. The gain has been included in *'Net gain on acquisition of control in available-for-sale investments'* in the statement of comprehensive income.

The cash flows on acquisition were as follows:

Cash paid (included in cash flows from investing activities)	61,894
Cash acquired (included in cash flows from investing activities)	(19,115)
Net cash flow on acquisition	42,779

The group incurred USD 460 in transaction costs in connection with the acquisition. The costs have been included in 'Selling, general and administrative expenses' in the statement of comprehensive income

In December 2010, the Group disposed of Forticom's Lithuanian subsidiary UAB Forticom for no consideration. The net assets of the subsidiary as of the date of disposal attributable to the Group were USD 754. As a result of the disposal the Group recognised a loss in the amount of USD 754 recorded under "Net loss on loss of control in subsidiaries" in the statement of comprehensive income.

The cash flows on disposal were as follows:

Cash consideration received	–
Cash and cash equivalents disposed of	252
Net cash outflow	252

Notes to Consolidated Financial Statements (continued)

6 Acquisitions and disposals of shares in subsidiaries and strategic associates (continued)

6.2 Acquisitions and disposals of 2010 (continued)

6.2.4 Mail.Ru Internet NV

In August - September 2010, the Group increased its ownership in Mail.Ru Internet NV to 100% in a series of transactions for a consideration consisting of (i) 20,209 Class A shares of the Company (pre share split), (ii) 2,871 ordinary (low voting) shares of the Company (pre share split) and (iii) USD 27,863 in cash. Management options over 1.23% of Mail.Ru Internet NV shares were exercised and the resulting shares were acquired by the Group as part of the transactions. The remaining management options over Mail.Ru Internet NV shares were converted into options to acquire 1,323 ordinary shares of the Company (pre share split) at an exercise price of USD 13,813.16 per share. In addition, as part of the arrangements, the Group issued 1,352 Class A shares of the Company to one of the selling parties for a cash consideration of USD 49,988.

The Group incurred transaction costs in the amount of USD 1,022 in connection with the transaction.

The acquisition of non-controlling interest, including the transaction costs, was accounted for by the Group through equity. As a result, the Group de-recognised the carrying value of the non-controlling interest in the amount of USD 134,786 . The difference of USD 105,901 between the consideration (including transaction costs) and the carrying value of the non-controlling interest acquired was recognised under 'Share premium' in the consolidated statement of changes in equity.

The conversion of options was accounted for by the Group as a modification (see Note 27 for more details).

6.2.5 Metajob

In September 2010, Headhunter acquired the remaining 49% in its 51% owned subsidiary Metajob Limited ("Metajob"), an online recruitment business, for a cash consideration of USD 300. As a result, the Group's effective share in Metajob increased to 91.3%. As part of acquisition, Headhunter's written put option over the non-controlling interest in Metajob was cancelled. The fair value of the put option was USD 2,306 as of the acquisition date. The carrying amount of the non-controlling interest in Metajob was zero as of the acquisition date.

The transaction was accounted for by the Group through equity and resulted in an increase of USD 1,830 in '*Share premium*' and an increase of USD 176 in non-controlling interest.

6.2.6 VK

In November 2010, the Group acquired an additional 7.55% of its strategic associate VK (as defined in Note 10) for a cash consideration of USD 109,869, and thus increased its shareholding in VK to 32.55%.

The Group allocated USD 92,192 to goodwill as part of the equity method investments, USD 14,901 to intangible assets as part of the equity method investment and USD 2,776 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 8 to 15 years.

As part of the same transaction, the Group also purchased a call option to acquire an additional 7.5% of VK for a cash consideration of USD 18,865. Please refer to Note 25 for more details of the option.

6.2.7 Qiwi

In December 2010, the Group sold 3.74% in its strategic associate Qiwi (as defined in Note 10) for a cash consideration of USD 24,123. As a result of the sale, the Group's interest in Qiwi decreased to 21.35%. The Group retained significant influence over Qiwi and continued to account for its investment in Qiwi under the equity method.

The Group recognised a net gain of USD 16,486 on the sale, including a loss of USD 1,179 resulting from reclassification to earnings of accumulated currency translation reserve. The gain has been included in *'Net gain on disposal of shares in strategic associates'* in the statement of comprehensive income.

Notes to Consolidated Financial Statements (continued)

6 Acquisitions and disposals of shares in subsidiaries and strategic associates (continued)

6.3 Summary of the effects of business combinations on the Group's revenue and net income

The effects of the business combinations carried out by the Group in 2009 on the Group's revenue and net income are summarised as follows:

	Revenue	Net profit
The Group, excluding entities acquired in 2009	83,671	197,902
Contributed by acquired entities:		
Headhunter, March-December	19,662	(9,410)
Astrum (excluding OGH), April-December	28,533	(25,326)
OGH, May-December	16,450	2,534
Total contributed by acquired entities	64,645	(32,202)
The Group	148,316	165,700
Effect of business combinations as if occurring on January 1, 2009		
Astrum	6,869	8,798
OGH	4,109	1,330
Total effect of business combinations as if occurring on January 1, 2009	10,978	10,128
The Group, as if all business combinations occurred on January 1, 2009	159,294	175,828

If the acquisition of Headhunter had occurred on January 1, 2009, it would not have had significant impact on the revenue or net income of the Group.

The effects of the business combinations carried out by the Group in 2010 on the Group's revenue and net income are summarised as follows:

	Revenue	Net profit
The Group, excluding entities acquired in 2010	235,112	151,368
Contributed by acquired entities:		
OK/Forticom, September-December	27,732	3,735
ICQ, July-December	12,462	1,163
Total contributed by acquired entities	40,194	4,898
The Group	275,306	156,266
Effect of OK/Forticom acquisition as if occurring on January 1, 2010	40,298	(3,495)
The Group, as if the acquisition of OK/Forticom occurred on January 1, 2010	315,604	152,771

AOL did not maintain distinct and separate accounts of ICQ necessary for the presentation of ICQ's financial statements, and accordingly, it is impractical to present the Group's revenue or net income as though the acquisition of ICQ had occurred on January 1, 2010.

6.4 Summary of selected financial statement items related to acquisitions and disposals of shares in associates and subsidiaries

6.4.1 Net gain on acquisition of control in strategic associates

Net gain on acquisition of control in strategic associates is summarised as follows:

Subsidiary	2010	2009
Astrum	–	21,676
Headhunter	–	2,300
OGH	–	(9,150)
Forticom	104,992	–
Total	104,992	14,826

Notes to Consolidated Financial Statements (continued)

6 Acquisitions and disposals of shares in subsidiaries and strategic associates (continued)

6.4 Summary of selected financial statement items related to acquisitions and disposals of shares in associates and subsidiaries (continued)

6.4.2 Net gain on disposal of shares in strategic associates

Net gain on disposal of shares in strategic associates is summarised as follows:

Associate	2010	2009
OK	–	113,630
Forticom	–	(576)
Qiwi	16,486	
Total	16,486	113,054

6.4.3 Net loss on loss of control in subsidiaries

Net loss on loss of control in subsidiaries is summarised as follows:

Subsidiary	2010	2009
All U Need	–	(7,080)
UAB Forticom	(754)	–
Total	(754)	(7,080)

6.4.4 Cash paid for non-controlling interests in subsidiaries

Cash paid for non-controlling interests in subsidiaries is summarised as follows:

Subsidiary	2010	2009
Port.ru	–	541
OGH	–	2,937
Mail.ru Internet NV, including USD 810 transaction costs paid in 2010 (USD 212 was paid in 2011)	28,673	–
Metajob	300	–
Other	148	–
Total	29,121	3,478

6.4.5 Cash paid for acquisitions of subsidiaries, net of cash acquired

Cash paid for acquisitions of subsidiaries, net of cash acquired, is summarised as follows:

Subsidiary	2010	2009
Astrum	–	7,778
Newton Rose	–	9,252
OGH	–	(947)
Data Center	6,949	–
Forticom/OK	42,779	–
ICQ	184,154	–
Other	–	(200)
Total	233,882	15,883

6.4.6 Proceeds from disposal of non-controlling interests in subsidiaries

Proceeds from disposal of non-controlling interests in subsidiaries is summarised as follows:

Subsidiary	2010	2009
Port.ru-Astrum merger, November 2009	–	62,656
Sale of NCI in Mail.Ru Internet NV, December 2009	–	16,423
Total	–	79,079

Notes to Consolidated Financial Statements (continued)

6 Acquisitions and disposals of shares in subsidiaries and strategic associates (continued)

6.4 Summary of selected financial statement items related to acquisitions and disposals of shares in associates and subsidiaries (continued)

6.4.7 Proceeds from disposal of subsidiaries, net of cash disposed of

Proceeds from disposal of subsidiaries, net of cash disposed of, is summarised as follows:

Subsidiary	2010	2009
All U Need	–	5,207
UAB Forticom	(252)	–
Total	(252)	5,207

7 Intangible assets

	Goodwill	Trademark	Customer base	Game software and software development costs	Other software, licenses and other	Total
Cost						
At January 1, 2009	346,695	78,620	23,918	–	3,327	452,560
Additions	–	2	660	8,243	4,698	13,603
Additions due to acquisition of subsidiaries (Note 6)	125,017	4,054	949	132,495	2,524	265,039
Disposals	–	–	–	(230)	(134)	(364)
Disposals due to disposals of subsidiaries (Note 6)	(11,611)	(1,112)	–	–	–	(12,723)
Translation adjustment	6,383	(1,606)	(509)	15,921	406	20,595
At December 31, 2009	466,484	79,958	25,018	156,429	10,821	738,710
Additions	–	4	–	12,330	8,461	20,795
Additions due to acquisition of subsidiaries (Note 6)	589,504	66,026	160,826	–	7,773	824,129
Disposals	–	–	–	(809)	(17)	(826)
Disposals due to disposals of subsidiaries (Note 6)	–	–	–	–	(193)	(193)
Translation adjustment	2,194	326	1,024	(1,441)	79	2,182
At December 31, 2010	1,058,182	146,314	186,868	166,509	26,924	1,584,797
Accumulated amortisation and impairment						
At January 1, 2009	–	–	–	–	–	–
Charge for the year	–	(7,746)	(3,179)	(12,228)	(2,859)	(26,012)
Disposals	–	–	–	205	108	313
Impairment	–	–	–	(1,750)	–	(1,750)
Disposals due to disposals of subsidiaries (Note 6)	–	83	–	–	–	83
Translation adjustment	–	(365)	(155)	(307)	(52)	(879)
At December 31, 2009	–	(8,028)	(3,334)	(14,080)	(2,803)	(28,245)
Charge for the year	–	(10,842)	(8,978)	(23,326)	(6,435)	(49,581)
Disposals	–	–	–	53	–	53
Impairment	–	–	–	(1,691)	–	(1,691)
Disposals due to disposals of subsidiaries (Note 6)	–	–	–	–	30	30
Translation adjustment	–	(21)	(35)	101	(9)	36
At December 31, 2010	–	(18,891)	(12,347)	(38,943)	(9,217)	(79,398)
Net book value						
At January 1, 2009	346,695	78,620	23,918	–	3,327	452,560
At December 31, 2009	466,484	71,930	21,684	142,349	8,018	710,465
At December 31, 2010	1,058,182	127,423	174,521	127,566	17,707	1,505,399

Notes to Consolidated Financial Statements (continued)

7 Intangible assets (continued)

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

Games represent separable cash-generating units 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 ten-year period, which is the horizon typically used by the Group's management for strategic planning purposes.

Based on such analysis in 2010 and 2009 the Group recorded an impairment loss in the amount of USD 1,691 and 1,750 respectively related to game software. The impairment entirely belongs to the Mail.Ru 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, 2010 and 2009. 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 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 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.

The major assumptions used in the DCF models are presented in Note 11.

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, 2009	4,579	744	–	–	400	5,723
Additions due to acquisition of subsidiaries (Note 6)	1,053	438	317	13	–	1,821
Additions	4,201	60	358	206	–	4,825
Transfers	220	–	–	(220)	–	–
Disposals	(339)	–	(2)	–	–	(341)
Disposals due to disposals of subsidiaries (Note 6)	(323)	(61)	(38)	–	–	(422)
Translation adjustment	315	44	45	2	–	406
Balance at December 31, 2009	9,706	1,225	680	1	400	12,012
Additions due to acquisition of subsidiaries (Note 6)	9,936	4,174	2,353	4,684	3,340	24,487
Additions	12,715	357	2,907	260	262	16,501
Transfers	–	4,886	–	(4,886)	–	–
Disposals	(698)	(0)	(37)	–	–	(735)
Disposals due to disposals of subsidiaries (Note 6)	(225)	(1)	(31)	–	–	(257)
Translation adjustment	(16)	(72)	451	(37)	(39)	287
At December 31, 2010	31,418	10,569	6,323	22	3,963	52,295

Notes to Consolidated Financial Statements (continued)

8 Property and equipment (continued)

	Servers and computers	Leasehold improvements	Furniture, office equipment and motor vehicles	Assets under construction	Other property and equipment	Total
Accumulated amortisation and impairment						
At January 1, 2009	–	–	–	–	–	–
Charge for the year	(3,082)	(424)	(166)	–	–	(3,672)
Disposals	234	–	–	–	–	234
Disposal of subsidiary	178	7	–	–	–	185
Translation adjustment	(190)	(7)	(19)	–	–	(216)
At December 31, 2009	(2,860)	(424)	(185)	–	–	(3,469)
Charge for the year	(6,757)	(865)	(640)	–	(410)	(8,672)
Disposals	725	–	7	–	–	732
Impairment	–	–	–	–	–	–
Disposals due to disposals of subsidiaries (Note 6)	43	1	1	–	–	45
Translation adjustment	(109)	(73)	(484)	–	(9)	(675)
At December 31, 2010	(8,958)	(1,361)	(1,301)	–	(419)	(12,039)
Net book value						
At January 1, 2009	4,579	744	–	–	400	5,723
At December 31, 2009	6,846	801	495	1	400	8,543
At December 31, 2010	22,460	9,208	5,022	22	3,544	40,256

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, 2010 and 2009 are listed below:

Subsidiary	Main Activity	Ownership,%* December 31, 2010	Ownership,%* December 31, 2009
Mail.Ru Internet N.V. (Netherlands)	Holding entity	100.0%	53.0%
Mail.Ru Coöperatief UA (Netherlands)	Holding entity	100.0%	100.0%
Port.ru Inc. (USA)	Holding entity	100.0%	53.0%
NetBridge Limited (Cyprus)	Holding entity	100.0%	53.0%
Mail.Ru, LLC (Russia)	Online portal services	100.0%	53.0%
Mail.Ru, LLC (Ukraine)	Online portal services	100.0%	53.0%
Money.Mail.Ru, LLC (Russia)	Internet payment system	99.0%	52.5%
New Trinity Investment, LLC (Russia)	Online portal services	100.0%	53.0%
Port.ru Msk, LLC (Russia)	Online portal services	100.0%	53.0%
Astrum Online Entertainment Limited (BVI) (renamed from DST Entertainment Limited and Aquaflow Limited)	Holding entity	100.0%	N/A
Benstar Limited (BVI)	Holding entity	100.0%	53.0%
Nessly Holdings Limited (Cyprus)	Holding entity	100.0%	53.0%
Mail.Ru GMBH (renamed from Astrum Online Entertainment GMBH) (Germany)	Development and support of online games	100.0%	53.0%
Astrum Nival, LLC (Russia)	Development and support of online games	100.0%	53.0%
Dark Joker, LLC (Ukraine)	Development and support of online games	100.0%	53.0%
Express Gold, LLC (Russia)	Internet payment system	75.0%	39.8%
IT Territory Nord, LLC (Russia)	Development and support of online games	100.0%	27.1%
Mail.Ru Games LLC (renamed from IT Territory, LLC) (Russia)	Development and support of online games	100.0%	53.0%
Online Games Holding Limited (BVI)	Development and support of online games	100.0%	53.0%
Time Zero, LLC (Russia)	Development and support of online games	100.0%	53.0%
Headhunter Group Limited (BVI) (renamed from Newton Rose Limited)	Holding company	91.3%	91.3%
Headhunter LLC (Russia)	Online recruiting services	91.3%	91.3%
Headhunter LLC (Ukraine)	Online recruiting services	46.6%	46.6%
Headhunter KZ LLC (Kazakhstan)	Online recruiting services	60.3%	55.7%

Notes to Consolidated Financial Statements (continued)

9 Consolidated subsidiaries (continued)

Subsidiary	Main Activity	Ownership,%* December 31, 2010	Ownership,%* December 31, 2009
Metajob LLC (Russia)	Online recruiting services	91.3%	46.6%
CV Keskus AS (Estonia)	Online recruiting services	91.3%	91.3%
Odnoklassniki LLC (Russia)	Social network	100.0%	N/A
Odnoklassniki Ltd (UK)	Holding company	100.0%	N/A
Radikal LLC (Russia)	Photo hosting	80.0%	N/A
Forticom Group Limited (BVI)	Holding company	100.0%	N/A
SIA Forticom (Latvia)	Development and support of social network	100.0%	N/A
ICQ LLC (USA)	Holding company	100.0%	N/A
ICQ Ltd (Israel)	Online messaging services company	100.0%	N/A
Data Center M100 LLC (Russia)	Hosting services	100.0%	N/A

* The ownership percentages above represent the Company's effective indirect ownership in each subsidiary. Although the effective indirect ownership in some subsidiaries is below 50%, the Group exerts control 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. Although the Company held over 50% in some of its strategic associates in 2009, it accounted for these entities under the equity method based on the provisions of the respective shareholders' agreements containing significant participating rights of other shareholders.

Investments in strategic associates at December 31, 2010 and 2009 comprised the following:

Associate	Main activity	Voting shares December 31, 2010	Voting shares December 31, 2009	Carrying value December 31, 2010	Carrying value December 31, 2009
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%	25.09%	37,156	42,246
VK.com (renamed from Doraview Limited) (BVI) and subsidiaries ("VK")	Develops and maintains, via Russian subsidiaries, social networking web sites (www.vkontakte.ru, www.vkadre.ru, www.vshtate.ru) for communication, information sharing and personnel recruiting service purposes	32.55%	24.99%	130,088	16,667
Forticom Group Limited (BVI), including subsidiaries and associates	Operates, via subsidiaries, social networks in the Baltic countries www.one.lt (until December 2010) and www.one.lv, as well as a leading social network in Poland www.nasza-klasa.pl (until August 2010) and holds a non-controlling stake in Odnoklassniki group, to which it provides development and support services	N/A	75.74%	N/A	326,306
Molotok Holdings Limited (Cyprus) and subsidiary OOO Molotok.ru (Russia) ("Molotok")	Provides online auction services to Internet customers through its www.molotok.ru web site	49.90%	49.90%	12,857	27,658
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	31.50%	31.50%	19,948	17,962
Data Center M100 LLC (Russia)	Provides hosting services	N/A	50%	N/A	7,593
Nikita Management Limited (BVI)	Holds 100% in OOO Fun Factory (Russia) engaged in online gaming services	50%	50%	3,230	3,746
Total				203,279	442,178

The above entities have the same reporting date as the Company. None of the above entities is listed on public exchange.

Notes to Consolidated Financial Statements (continued)

10 Investments in strategic associates (continued)

Movement in investments in strategic associates for the years ended December 31, 2010 and 2009 is presented below:

	2010	2009
Investments in strategic associates at January 1	442,178	359,213
Acquisition of shares in associates	109,869	175,352
Contributions to associates	–	4,658
Effect of acquisition of control in associates	(311,709)	(127,512)
Disposals of shares in associates	(6,471)	(12,568)
Share in net profits (losses) of associates	(9,084)	17,991
Share in equity-settled share-based payments of associates	976	1,501
Foreign currency translation	(6,325)	(14,578)
Dividends from associates	(5,787)	(4,972)
Share in other changes in capital of associates	839	(3,655)
(Impairment losses)/reversal of impairment of investments in associates	(11,207)	46,748
Investments in strategic associates at December 31	203,279	442,178

During 2008 the worldwide financial crisis significantly hit the global economy, including the economic segments where the Group operates. As a result the Company's management considered that there were notable indicators of the potential impairments of the carrying values of the investments in associates, including but not limited to, significant decline in market values of the companies, increasing market interest rates and considerable lack of liquidity in the market. The Company therefore performed the impairment test of the carrying values of the investments in associates that resulted in an impairment loss recognised in earnings in the amount of USD 48,123. The recoverable amounts of the investments were determined based on value in use calculations using cash flow projections from financial budgets approved by senior management covering a ten-year period, which is the horizon typically used by the Group's management for strategic planning purposes.

The reversal of impairment in 2009 relates to investment in Forticom impaired in 2008 and is fully allocated to the Forticom operating segment.

The reversal of impairment mainly resulted from the revision of macro-economic assumptions due to overall economic recovery, specifically a change in weighted average cost of capital and exchange rate of the RUR to the USD.

In 2010, the Group recorded an impairment of USD 11,207 with respect to its investment in Molotok. Molotok's performance in 2010 was below the original forecasts, which led the management to reconsider Molotok's revenue growth projections. The recoverable amount of Molotok as of December 31, 2010 was determined based on a value-in-use calculation using cash flow projections covering a five-year period. The pre-tax discount rate used in the respective DCF model as of December 31, 2010 was 23.82% (December 31, 2009 – 24.23%). The terminal growth rate used was 5.7%. 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.

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

	December 31, 2010	December 31, 2009
The Group's share of the associates':		
Total assets	146,486	342,863
Total liabilities	(95,487)	(96,891)
Net assets	50,999	245,972
Net assets attributable to non-controlling interests in associates' subsidiaries	(217)	(2,289)
Net assets attributable to equity holders of associates	50,782	243,683
Goodwill as part of equity method investments	152,497	198,495
Aggregate carrying amount of investments	203,279	442,178

	2010	2009
The Group's share of the associates':		
Revenue	90,504	95,288
Net profit/(loss)	(9,084)	17,991

Notes to Consolidated Financial Statements (continued)

11 Impairment testing of goodwill

Goodwill acquired through business combination was allocated to Mail.Ru Internet NV (arising from 2010, 2009 and 2008), OK (arising from 2010) and Headhunter (arising from 2009), groups of individual cash-generating units ("CGU") for impairment testing.

The table below shows movements in goodwill per groups of cash generating unit for each of the years ended December 31, 2010 and 2009:

	Mail.Ru	Headhunter	OK	Total
Cost at January 1, 2009	346,695	–	–	346,695
Acquisition of Astrum	49,725			49,725
Acquisition of OGH	11,585			11,585
Acquisition of Headhunter	–	63,707		63,707
Disposal of All U Need	–	(11,611)		(11,611)
Translation adjustment	(2,637)	9,020		6,383
Cost at December 31, 2009	405,368	61,116	–	466,484
Acquisition of ICQ	153,710			153,710
Acquisition of OK/Forticom	–		435,794	435,794
Translation adjustment	(14)	(467)	2,675	2,194
Cost at December 31, 2010	559,064	60,649	438,469	1,058,182

The recoverable amount of goodwill has been determined based on fair value less cost to sell as of December 31, 2010 and based on value in use calculation for the dates prior to December 31, 2010.

Fair value less cost to sell method

At December 31, 2010, fair values of the CGUs were determined based on the information in the publicly available research reports of reputable institutions, which regularly cover the Group's activities. Cost to sell was assumed to constitute an insignificant portion of the fair value.

Value in use

At December 31, 2009, value in use was determined using cash flow projections from financial budgets approved by senior management covering a ten-year period, which is the horizon typically used by the Group's management for strategic planning purposes. The ten-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 five-year period following the first five years of forecast. For the purposes of testing games-related intangible assets for impairment, the projections for each particular game were limited to the useful life of the respective game, ranging from 3 to 7 years

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, 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 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.

The major assumptions used in the DCF models at the applicable dates are presented below (together with the assumptions used in the DCF models for impairment test of games-related intangible assets):

	Mail.Ru	Headhunter	OK	Games
December 31, 2009				
Terminal growth rate	7.50%	2.50%	N/A	2.20%
Pre-tax discount rate	18.1%-24.5%	19.80%	N/A	19.30%
December 31, 2010				
Terminal growth rate	N/A	N/A	N/A	N/A
Pre-tax discount rate	N/A	N/A	N/A	21.71%

No impairment of goodwill was recognised in 2010 and 2009.

Notes to Consolidated Financial Statements (continued)

12 Accounts receivable

As of December 31, 2010 and 2009 trade receivables comprised the following:

	December 31, 2010	December 31, 2009
Trade accounts receivable, gross	49,994	22,393
Provision for impairment of trade receivables	(2,152)	(865)
Total trade receivables, net	47,842	21,528

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

Balance as of January 1, 2009	(298)
Charge for the year	(569)
Translation adjustment	2
Balance as of December 31, 2009	(865)
Charge for the year	(1,418)
Translation adjustment	131
Balance as of December 31, 2010	(2,152)

Trade receivables aged but not impaired as of December 31, 2010 and 2009 are presented below:

		Ageing of receivables (days)					
	Total	<30	30-60	60-90	90-180	180-360	>360
As of December 31, 2010							
Trade accounts receivable	47,842	29,038	11,746	3,889	2,092	847	230
As of December 31, 2009							
Trade accounts receivable	21,528	12,241	4,654	1,952	1,215	1,091	375

The accounts receivable balances as of December 31, 2010 and 2009 mainly represented the amounts due from online electronic payment systems and advertising customers.

The trade receivables are settled in RUR on a monthly 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, 2010 and 2009.

13 Cash and cash equivalents and short-term deposits

As of December 31, 2010 and 2009 cash and cash equivalents comprised of the following:

	Currency	December 31, 2010	December 31, 2009
Current accounts and cash on hand:	USD	9,388	1,759
	RUR	37,157	9,881
	EUR	1,190	17,352
	Other	2,946	333
Total current accounts and cash on hand		50,681	29,325
Deposit accounts with an original maturity of three months or less:	USD	54,478	102,436
	RUR	13,258	–
Total deposit accounts with an original maturity of three months or less		67,736	102,436
Short-term investments in money market funds	USD	–	16,154
Total cash and cash equivalents		118,417	147,915
Short-term deposit accounts with an original maturity of over three months	RUR	1,525	960
	EUR	707	–
	USD	–	–
Total short-term deposits		2,232	960
Total cash and cash equivalents and short-term deposits		120,649	148,875

Notes to Consolidated Financial Statements (continued)

14 Share capital

The charter capital of the Company consisted of 92,157,603 ordinary shares and 116,364,000 Class A shares with USD 0.000005 par value each as of December 31, 2010, 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.

The charter capital of the Company consisted of 61,887 ordinary shares, 783 Class B shares and 9,333 Class C shares with USD 0.01 par value each as at December 31, 2009 while the number of authorised shares of the Company as of the same date consisted of 5,000,000 ordinary shares, 8,374 Class B shares and 1,000,000 Class C shares.

As of December 31, 2010 and 2009 all issued shares were fully paid.

On September 1, 2010, the directors of the Company resolved to effect a 1:2,000 stock split, which was executed prior to the IPO of the Company in November 2010.

A reconciliation of the number of shares outstanding as of December 31, 2010 and 2009 is presented in the statement of changes in equity.

Rights attached to the share classes as of December 31, 2010.

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.

Rights attached to the share classes as of December 31, 2009.

In case of liquidation, the Company's assets remaining after settlement with creditors are distributed among the ordinary shareholders (including Class B shareholders) proportionately to the number of shares owned.

Each ordinary share has the following rights:
(i) the right to one vote at a meeting of members of the Company or on any resolution of members of the Company;
(ii) the right to an equal share in any dividend paid by the Company pari passu with all other shares; and
(iii) the right to an equal share in the distribution of the surplus assets of the Company pari passu with all other shares.

Each Class B share has the following rights:
(i) the right to an equal share in any dividend paid by the Company pari passu with all other shares; and
(ii) the right to an equal share in the distribution of the surplus assets of the Company pari passu with all other shares, but do not have the right to vote at a meeting of members of the Company or on any resolution of members of the Company until an IPO following which each Class B Share shall have the right to one vote at a meeting of members of the Company or on any resolution of members of the Company.

Each Class C share has the following rights:
(i) the right to participate in such assets as may be designated by the Board from time to time;
(ii) the right to be redeemed by the Company or the holder thereof in circumstances determined by the Board from time to time;
(iii) the right to any distribution of assets acquired by the Company out of the proceeds of any Class C Share issuance paid in accordance with the Act in circumstances determined by the Board from time to time, but shall not have the right to vote at a meeting of members of the Company or on any resolution of members of the Company.

As of December 31, 2009, the holders of Class C shares of the Company were entitled, on a proportionate basis, to all economic rights attaching to 2,935,542 Series E preferred shares and 1,805,685 common shares of Facebook, Inc. the operator of www.facebook.com, the world’s largest social network (“Facebook”), collectively representing, on a fully diluted basis, approximately 1.01% economic interest in Facebook (“Assets related to Class C shares”), including dividends and proceeds from sale, but were not entitled to exercise any other shareholders’ rights in Facebook, including voting and selling the Facebook shares. Class C shares of the Company were also entitled to a liquidation preference in the amount of the initial investment and accrued but unpaid dividends or proceeds from sale of Facebook shares. Class C shares of the Company were not entitled to any other shareholders’ rights.

Based on the above facts and circumstances, the management has determined that Class C shares were not an equity instrument but rather represented a financial liability with respect to 1.01% of Facebook (on a fully diluted basis). The financial liability and Assets related to Class C shares are described in more detail under 25.6 and 25.2 respectively.

Notes to Consolidated Financial Statements (continued)

14 Share capital (continued)

In April 2010, Tencent Holdings Limited represented by its subsidiary TCH Holdings Limited subscribed for 8,114 ordinary shares of the Group for a cash consideration of USD 300,004. Prior to this transaction, the Company's members decided to convert all then outstanding ordinary shares into Class A shares, and all then outstanding Class B shares into ordinary shares. Additionally, all options issued or issuable under the 2007 Option Plan (as defined in Note 27) were converted into options over ordinary shares.

The transaction was completed in two tranches in April and May 2010; as a consequence Tencent Holding Limited acquired 11.46% economic interest and 0.52% voting interest in the Group.

In August 2010, the Group distributed all Assets related to Class C shares to the respective holders of Class C shares of the Company in exchange for the Class C shares. The Class C shares were immediately cancelled.

In November 2010, the Group issued an aggregate of 3,336,000 ordinary shares as part of its IPO. The gross proceed from the IPO amounted to USD 92,407.

For details of share issuances in business combinations and as part of acquisition of non-controlling interests in subsidiaries please refer to Note 6. For the details on the options over the shares of the Company outstanding as of December 31, 2010 and 2009 please refer to Note 27.

15 Other assets

The table below represents other non-current assets:

	December 31, 2010	December 31, 2009
Long-term deposits	–	1,580
Loans receivable	2,009	915
Other non-current assets	1,782	926
	3,791	3,421

The following table represents other current assets:

	December 31, 2010	December 31, 2009
Inventory	92	111
VAT receivable	1,254	229
Interest receivable	3	5
Other current assets	1,896	959
	3,245	1,304

16 Other payables, provisions and accrued expenses

Other payables, provisions and accrued expenses consist of:

	December 31, 2010	December 31, 2009
Payables to personnel	9,157	5,478
Accrued vacations	6,827	4,546
Payables to shareholders	–	592
Payable for Data Center acquisition	2,461	–
Accrued professional consulting expenses	1,377	2,707
Other current payables and provisions	5,042	1,351
Total	24,864	14,674

17 Revenues

	2010	2009
IVAS	127,422	63,372
Online advertising	117,226	65,253
On-line recruitment services	26,432	17,492
Dividend revenue from venture capital investments	2,539	1,617
Other revenue	1,687	582
	275,306	148,316

Notes to Consolidated Financial Statements (continued)

18 Cost of revenues

	2010	2009
Royalties and commissions to agents	21,181	10,232
Payroll	33,098	14,862
Cost of servers hosting	9,906	5,257
Other costs	484	2,788
	64,669	33,139

19 Selling, general and administrative expenses

	2010	2009
Compensation expense:	54,563	40,791
Payroll	*45,340*	*25,177*
Share-based payments	*9,223*	*15,614*
Rent of premises and related utility expenses	8,527	6,192
Advertising and related expenses	18,514	9,571
Advisory fees	51,727	25,968
Other professional fees	14,952	7,552
Bank charges	573	178
Security	485	236
Other tax expenses	928	(149)
Telecommunication and internet expenses	1,327	212
Bad debt expense	1,418	569
Office maintenance expenses	797	493
IT systems and software maintenance costs	243	74
Other expenses	6,883	5,453
	160,937	97,140

For further details in respect of Advisory fees please refer to Note 24.1.

20 Finance income

	2010	2009
Interest and similar income from cash and cash equivalents, net of related bank commissions	976	1,333
Dividend income from available-for-sale investment	409	213
Total finance income	1,385	1,546

21 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 Ukraine are subject to corporate income tax at the standard rate of 25% applied to their taxable income.

Notes to Consolidated Financial Statements (continued)

21 Income tax (continued)

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 28% rate applied to their worldwide income.

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).

The reconciliation between tax expense and the product of accounting profit multiplied by BVI's domestic tax rate for the years ended December 31, 2010 and 2009 is as follows:

	2010	2009
Profit before taxation	179,948	183,019
BVI statutory income tax rate at 0%	–	–
Foreign tax rate differential	(5,655)	(1,250)
Non-deductible share option expense	(1,150)	(2,670)
Other non-deductible expenses	(6,844)	(1,248)
Unrecognised deferred tax assets	(1,192)	–
Utilisation of previously unrecognised tax loss	–	2,918
Tax accruals, penalties and interest	(374)	(990)
Tax on unremitted earnings	(8,519)	(7,274)
Tax on dividends	52	(6,805)
Total income tax expense	(23,682)	(17,319)

Deferred income tax assets and liabilities as of December 31, 2010 and 2009 were as follows:

	Consolidated statement of financial position		Consolidated statement of comprehensive income	
	December 31, 2010	December 31, 2009	2010	2009
Deferred tax liabilities arising from:				
Intangible assets book basis in excess of tax basis	(76,643)	(43,163)	7,745	1,916
Basis of investment in associate in excess of tax basis	(4,440)	(4,474)	–	–
Unremitted earnings of subsidiaries	(19,260)	(7,951)	(8,518)	(7,274)
Other	20	(200)	(13)	(196)
Total deferred tax liabilities	(100,323)	(55,788)	(786)	(5,554)
Deferred tax assets arising from:				
Tax credit carryforwards	–	623	(670)	614
Deferred compensation and accrued employee benefits	2,851	1,888	843	1,151
Accrued expenses	170	207	76	54
Revenue recognition	5,059	2,071	2,285	1,604
Unrealised intercompany profit	578	284	294	271
Other	709	266	132	143
Total deferred tax assets	9,367	5,339	2,960	3,837
Net deferred tax assets / (liabilities)	(90,956)	(50,449)	2,174	(1,717)

Notes to Consolidated Financial Statements (continued)

21 Income tax (continued)

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 recorded an allowance of USD 1,192 against its deferred tax assets as of December 31, 2010.

As of December 31, 2009 and 2010, 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 future. Additionally, as of December 31, 2010, 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 2011. Apart from the above, management of the Group estimates that tax liabilities on unremitted earnings of the Group's associates and other subsidiaries as of December 31, 2009 and 2010 was immaterial.

Changes in net deferred tax liability from January 1, 2009 to December 31, 2010 were as follows:

	2010	2009
Total deferred income tax liability, net at January 1	(50,449)	(25,429)
Effect of acquisitions (Note 6)	(42,766)	(21,545)
Translation reserve	85	(2,168)
Deferred tax benefit/(expense)	2,174	(1,717)
Effect of disposals of subsidiaries	–	410
Total deferred income tax liability, net at December 31	(90,956)	(50,449)

	2010	2009
Current income tax expense	25,856	15,602
Deferred income tax expense/(benefit)	(2,174)	1,717
Total income tax expense	23,682	17,319

22 EPS

As discussed in Note 14 above, the Company effected a 1:2,000 share split in 2010. The calculation of basic and diluted EPS has been adjusted for the share split retrospectively for all periods presented in these consolidated financial statements.

22.1 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.

	2010	2009
Net profit attributable to equity holders of the Company	152,777	168,649
Weighted average number of ordinary shares in issue	155,429,689	117,516,685
Basic EPS (USD per share)	0.98	1.44

22.2 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 27, the Company issued certain call options and conversion rights over its shares in 2010 and 2009.

All instruments potentially convertible into the shares of the Company had a dilutive effect on the earnings per share for the years ended December 31, 2010 and 2009 and, accordingly, were taken into account when calculating the diluted EPS for those years.

Notes to Consolidated Financial Statements (continued)

22 EPS (continued)

22.2 Diluted EPS (continued)

In addition to the options and conversion rights over the shares of the Company, Port.ru, Astrum, OGH, Mail.Ru Internet NV, Headhunter and Forticom have issued to the Company and/or to other parties options to acquire ordinary shares of the respective subsidiary or associate. 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.

Out of the options issued by the Group's subsidiaries and associates, options issued by Port.ru and options issued by Forticom to other shareholders of Forticom were found to have a dilutive effect in the year ended December 31, 2009, and options issued by Mail.Ru Internet NV were found to have a dilutive effect in the year ended December 31, 2010. Accordingly, the effects of their potential exercise are included in the calculation of diluted EPS.

As of January 1, 2009, 1,073,535 Port.ru options were outstanding. The Port.ru options were replaced with the same number of options (corresponding to 42,941 options post 25:1 reverse share split effected by Mail.Ru Internet NV in February 2010) over the shares of Mail.Ru Internet NV on substantially the same terms on November 30, 2009. Additionally, 496,725 new options over the shares of Mail.Ru Internet NV (19,869 post reverse share split) were issued on the same date, but their effect on the Group's EPS in 2009 was anti-dilutive. As discussed in Note 6 above, in August 2010, options over 19,952 shares were exercised and the resulting shares were acquired by the Group as part of the acquisition of non-controlling interest in Mail.Ru Internet NV. The dilutive effect of these options was accounted for in the calculation of the Group's diluted EPS as an adjustment to '*Net profit attributable to equity holders of the Company*' below. The remaining options over 42,858 shares of Mail.Ru internet NV were converted into options to acquire 1,323 shares of the Company (pre share split). The replaced options were found to have anti-dilutive effect on the Group's EPS, while the dilutive effect of the replacement options was accounted for in the calculation of the Group's diluted EPS as an adjustment to *'Weighted average number of ordinary shares in issue'* below.

Forticom had 1,964 dilutive options outstanding as at December 31, 2009. The dilutive effect of these options was accounted for in the calculation of the Group's diluted EPS as an adjustment to '*Net profit attributable to equity holders of the Company*' below.

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 was found to have a dilutive effect on the Group's EPS in 2009 and 2010. The conversion right was outstanding as of December 31, 2009 and 2010. The conversion right is described in more detail in Note 6.

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

	December 31, 2010	December 31, 2009
Net profit attributable to equity holders of the Company	152,777	168,649
Adjustment for assumed exercise of Port.ru share options	–	(933)
Adjustment for assumed exercise of Mail.Ru Internet NV share options	(40)	–
Adjustment for assumed exercise of Forticom share options	–	(273)
Effect of conversion right issued to a shareholder of Headhunter	245	(205)
Adjusted net profit attributable to equity holders of the Company	152,982	167,238
Weighted average number of ordinary shares in issue	155,429,689	117,516,685
Effect of equity-settled share based payments of the Company	5,048,958	131,431
Effect of conversion right issued to a shareholder of Headhunter	432,867	375,942
Total diluted weighted average number of shares	160,911,514	118,024,058
Diluted EPS (USD per share)	0.95	1.42

23 Commitments, contingencies and operating risks

23.1 Operating environment of the Group

The Company is registered in BVI, but most of its investees' 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. In 2010 the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. 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.

Notes to Consolidated Financial Statements (continued)

23 Commitments, contingencies and operating risks (continued)

23.2 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 2009 and 2010 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 its 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.

23.3 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.

23.4 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 the Group's user base and make it less attractive to advertisers.

Increased competition could result in a reduction in the number of users who buy the Group's 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 the Group's profitability.

23.5 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 third parties. Should such data become available to third 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.

23.6 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.

23.7 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.

Notes to Consolidated Financial Statements (continued)

23 Commitments, contingencies and operating risks (continued)

23.8 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.

23.9 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 personnel. 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.

23.10 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 a 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.

23.11 Operating lease commitments – the Group as a lessee

The table below summarises minimum lease payments under operating lease contracts where the Group is a lessee:

	2010	2009
	Minimum lease payments	Minimum lease payments
Less than 1 year	8,967	6,212
From 2 to 5 years	7,539	7,909
More than 5 years	2,380	1,337
Total	18,886	15,458

The Group mainly leases office premises. In 2010 operating lease expense included in general and administrative expenses of consolidated statement of comprehensive income amounted to USD 8,527 (2009 – USD 6,192).

24 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 other than DST Advisors Limited, 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
2010				
Shareholders of the Group	–	–	–	–
Strategic associates	5,841	1,318	3,753	73
Other entities	–	–	388	–
2009				
Shareholders of the Group	–	–	–	592
Strategic associates	3,789	–	2,732	–
Other entities	131	11	–	43

Sales to strategic associates consist of the following:

	2010	2009
Sales to Mamba	4,173	3,256
Sales to VK	1,017	–
Other	651	533
Total	5,841	3,789

Notes to Consolidated Financial Statements (continued)

24 Balances and transactions with related parties (continued)

Amounts owed by strategic associates consist of the following:

	2010	2009
Loan receivable from Molotok	1,621	–
Loan receivable from Forticom	–	1,875
Accounts receivable from Mamba	823	840
Accounts receivable from VK	440	–
Other	869	17
Total	3,753	2,732

The Group's sales to, and receivables from Mamba primarily arise from a revenue sharing arrangement relating to 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.

The Group's loan to Forticom was issued in April 2009 at 12% p.a. and was payable in one year unless repaid earlier, in which case the loan bore no interest.

The Group's loan to Molotok was issued in June 2010 and is payable in five years, subject to the Group's right to request an early repayment, in which case the loan is payable within thirty days from the date of such request.. The loan bears interest at 3.35% p.a. until December 31, 2010 and at 1-month USD LIBOR plus 3% thereafter.

24.1 Investment advisor – DST Advisors Limited – other related party

On January 1, 2007 the Company entered into an agreement with DST Advisors Limited ("DSTA"). Under the terms of the agreement DSTA was entitled to receive an advisory fee in exchange for a range of advisory and other services. Certain shareholders of the Company are also shareholders of DSTA. The fees amounted to an aggregate of 1.5% per annum of the Company's equity (calculated in accordance with the agreement mentioned above) and were payable in cash quarterly in advance. Total fees for 2010 and 2009 amounted to USD 34,885 and 23,083 respectively. The prepaid fees as of December 31, 2010 and 2009 amounted to nil and 6,475 respectively.

In addition to the fees referred to above, the Company granted to executives, employees and consultants of DSTA the options to acquire the shares of the Company during 2010 and 2009 as presented below:

	Number of options	Exercise price, USD
2010		
Options to acquire ordinary shares (pre share split)	82	11,378.83
Options to acquire ordinary shares (post share split)	592,000	5.69
2009		
Options to acquire ordinary shares	250	11,378.83

These options are described in more detail in Note 27.

All expenses related to DSTA, including the share-based payment expense, are shown under *'Advisory fees'* as part of *'Selling, general and administrative expenses'* in the statement of comprehensive income:

	2010	2009
Advisory fees	34,885	23,083
Share-based payment expense	16,842	2,885
Total	51,727	25,968

In November 2010 upon IPO of the Company the agreement with DSTA was terminated. At the same time the management function of the Group migrated to the key management of the Company and the operating entities of the Group, consisting of more than 20 executives who supervise the major business areas and activities of the Group as a whole. The remuneration of key management of the Group is presented in Note 24.4 below.

24.2 The ultimate parent

The Company has no ultimate parent.

Notes to Consolidated Financial Statements (continued)

24 Balances and transactions with related parties (continued)

24.3 Directors of the Company

Total remuneration of the members of the Board of Directors (each a "Director" and collectively, "Directors") of the Company amounted to USD 163 in 2010 (2009: nil). In addition to the cash remuneration in 2010, one of the Directors was granted options to acquire 53,532 ordinary shares of the Company (post share split) at the exercise price of USD 27.7. The Board of Directors approved the grant on April 11, 2011. However, the terms of the arrangement were communicated to the Director in 2010. These options are described in more detail in Note 27. The corresponding share-based payment expense amounted to USD 91 in 2010.

24.4 Key management of the Group

Total remuneration of the key management of the Group (excluding Directors) amounted to USD 2,449 for the period since termination of agreement with DSTA to December 31, 2010. In addition to the cash remuneration in 2010 key executive employees of the Group were granted options to acquire 3,130,000 ordinary shares of the Company (post share split) at the exercise price of USD 27.7. These options are described in more detail in Note 27. The corresponding share based payment expense amounted to USD 1,010 in 2010.

25 Financial instruments

The carrying amounts of the Group's financial instruments approximated their fair values as of December 31, 2010 and 2009 and are presented by category of financial instruments in the table below:

	Category*	December 31, 2010	December 31, 2009
Financial assets			
Assets related to Class C shares	FAFVPL	–	97,363
Financial investments in associates	FAFVPL	19,716	15,799
Derivative financial assets over the equity of investees	FAFVPL	20,481	12
Available-for-sale equity investments	AFSFA	1,453,518	220,049
Trade accounts receivable	LR	47,842	21,528
Loans and interest receivable	LR	2,009	915
Short-term time deposits	LR	2,232	960
Cash and cash equivalents	LR	118,417	147,915
Total financial assets		1,664,215	504,541
Current		186,284	170,403
Non-current		1,477,931	334,138
Total derivative financial assets		20,481	12
Current		17,793	–
Non-current		2,688	12
Financial liabilities			
Class C shares	FLFVPL	–	97,363
Derivative and other financial liabilities over the equity of investees	FLFVPL	1,111	4,532
Short-term payables and accrued expenses	FLAC	44,924	21,839
Total financial liabilities		46,035	123,734
Current		44,924	21,839
Non-current		1,111	101,895
Total derivative financial liabilities		1,111	4,532
Current		–	–
Non-current		1,111	4,532

* 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.

Notes to Consolidated Financial Statements (continued)

25 Financial instruments (continued)

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 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.

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

25.1 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 has significant influence over the respective investees.

The fair values of financial investments in associates were determined using DCF models, or based on recent cash transactions, or based on investees' 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 a ten-year period, which is the horizon typically used by the Group's management for strategic planning purposes. The main assumptions used in the DCF models as of December 31, 2010 and 2009:

	December 31, 2010	December 31, 2009
Terminal growth rate	5.0% - 5.7%	5.0%
Discount rates	25% - 35%	25% - 35%

The Group has recognised a gain of USD 2,771 in 2010 (2009: USD 2,099) due to the change in fair value of its financial investments in associates. The gain was recorded in the statement of comprehensive income under *'Net gain on venture capital investments and associated derivative financial assets and liabilities'*.

25.2 Assets related to Class C shares

In May and August 2009, as part of the acquisition of Facebook shares, the Company acquired Assets related to Class C shares with the proceeds from issuance of Class C shares in the amount of USD 93,330. Although the Group's investment in Facebook shares, other than Assets related to Class C shares, was classified as an available-for-sale financial asset, the management designated Assets related to Class C shares as a financial asset at fair value through profit or loss upon initial recognition, consistent with the designation of Class C shares as a financial liability at fair value through profit or loss (see Note 14 and Note. 25.6 for the description of Class C shares and the corresponding financial liability).

The fair value of Assets related to Class C shares as of December 31, 2009 was determined based on recent cash transaction.

In August 2010, the Group distributed all Assets related to Class C shares to the respective holders of Class C shares of the Company in exchange for the Class C shares. The Class C shares were immediately cancelled.

The Group recognised a gain of USD 70,485 from the changes in fair value of Assets related to Class C shares in 2010 and (2009 – nil). The gain was fully offset by a loss on Assets related to Class C shares in the same amount (see 25.6 below).

25.3 Derivative financial assets over the equity of investees

Derivative financial assets over the equity of the Group's investees include the following instruments:

	December 31, 2010	December 31, 2009
Purchased call options to acquire VK shares	17,793	–
Purchased call options to acquire shares in a financial investee	–	12
Purchased put options to sell Data Center shares	2,688	–
Total derivative financial assets over the equity of investees	20,481	12

Notes to Consolidated Financial Statements (continued)

25 Financial instruments (continued)

25.3 Derivative financial assets over the equity of investees (continued)

25.3.1 Purchased call option to acquire VK shares

On November 15, 2010, the Company, as a part of acquisition of 7.55% of VK shares (see Note 6), entered into a call option agreement to acquire a further 813 VK shares (representing 7.5% of the total outstanding shares) at the exercise price of USD 138,376.38 per share. The Company paid USD 18,865 for the option. The exercise price is subject to a currency adjustment to account for the change of EUR/USD foreign exchange rate during the period between November 15, 2010 and the exercise date as if half of the exercise price were denominated in EUR.

The option can be exercised in full or in part at any date within 365 days from the agreement date. The nominal option premium amounted to USD 11,250 and is to be reduced proportionately to the remaining term in case of early exercise. Subject to certain conditions the option may be extended for a further 183 days in exchange for an additional option premium of 5% of exercise price.

The fair value of the option was determined using the binomial model with the following assumptions:

	December 31, 2010	November 15, 2010
Number of periods per year	365	365
Annual dividend yield (%)	1.50%	1.50%
Expected volatility (%)	39.95%	40.30%
Risk-free interest rate (%)	0.26%	0.29%
Expected term (years)	0.87	1.00
Share price (US dollars)	138,364	138,364

The Group has recognised a loss of USD 1,278 due to the change in fair value of purchased call option over VK shares in November-December 2010. The loss was recorded in the statement of comprehensive income under *'Net loss on financial assets and liabilities at fair value through profit or loss over the equity of strategic investees'*.

25.3.2 Purchased put option to sell Data Center shares

As part of the Group's acquisition of Data Center (see Note 6.2.1), the Group acquired a contract that gives the Group an option to sell a 50% share of Data Center back to the Seller at the Group's discretion until December 31, 2014 for USD 8,348 (250 million roubles). The put option is exercisable subject to certain conditions, which the Group believes it will fulfill with a high degree of certainty. The put option was fair valued at USD 3,126 (93.61 million roubles) and USD 2,688 (81.92 million roubles) at the date of acquisition and at December 31, 2010, respectively, using the Black-Sholes-Merton option pricing formula with the following inputs:

	As at February 25, 2010	As at December 31, 2010
Share Price (in million roubles)	228	284
Exercise Price (in million roubles)	250	250
Grant date	25.02.2010	25.02.2010
Expiry date	31.12.2014	31.12.2014
Expected life in days '000	1.77	1.46
Annualised volatility	74.5%	71.83%
Annual dividend rate	0	0
Discount Rate - Bond Equivalent Yield	7.67%	6.93%
Put Option Value (in million roubles)	93.61	81.73

The Group recognised a loss in the amount of USD 391 due to the change in fair value of the put option contract in February-December 2010. The loss was recorded in the statement of comprehensive income under *'Net loss on financial assets and liabilities at fair value through profit or loss over the equity of strategic investees'*.

25.4 Available-for-sale equity instruments

The Group holds a 15% stake in OJSC Center of Economic Development ("CED"), a major provider of Internet platforms for e-commerce between businesses in Russia and other countries of the CIS. Even though the Group regards this investment as strategic and participates in the operating and financial management of CED via the Group's representation in the board of directors of CED, the Group does not have the legal ability to appoint its candidates to the board of directors of CED. Therefore, the Group does not exert significant influence over CED and, accordingly, classified the investment as an available-for-sale financial asset.

Notes to Consolidated Financial Statements (continued)

25 Financial instruments (continued)

25.4 Available-for-sale equity instruments (continued)

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

	Fully diluted shareholding		Carrying amount	
	December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Investment in CED	15%	15%	5,311	3,476
Investment in Facebook*	2.33%	2.32%	1,163,911	216,573
Investment in Groupon	4.63%	N/A	219,738	–
Investment in Zynga	1.41%	N/A	64,558	–
Total			1,453,518	220,049

*Excluding Assets related to Class C shares.

The fair values of the Group's available-for-sale investments in Facebook, Zynga and Groupon were determined based on recent cash transactions.

The fair values of the Group's available-for-sale investment in CED as of December 31, 2010 and 2009 were estimated using a DCF model based on cash flow projections from financial budgets approved by senior management covering a ten-year period, which is the horizon typically used by the Group's management for strategic planning purposes. The main assumptions used in the DCF model are summarised in the table below:

	December 31, 2010	December 31, 2009
Terminal growth	2.6%	2.5%
Discount rate	19.3%	18.1%

25.5 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.

25.6 Class C shares

As part of the acquisition of Facebook shares in May and August 2009, the Company issued an aggregate of 9,333 shares of Class C stock at USD 10,000 per share for a cash consideration of USD 93,330. Based on the facts and circumstances listed in Note 14, Class C shares were designated as a financial liability at fair value through profit or loss, as such a designation would significantly reduce a measurement inconsistency between Class C shares and assets related to Class C shares.

The fair value of Class C shares as of December 31, 2009 was determined based on recent cash transactions.

In August 2010, the Group distributed all Assets related to Class C shares to the respective holders of Class C shares of the Company in exchange for the Class C shares. The Class C shares were immediately cancelled.

The Group recognised a loss of USD 70,485 from the changes in fair value of Class C shares in 2010 (2009 – nil). The loss was fully offset by a gain on Assets related to Class C shares in the same amount (see 25.2 above).

25.7 Derivative and other financial liabilities over the equity of investees

Derivative and other financial liabilities over the equity of the Group's investees as of December 31, 2010 and 2009 are summarised as follows:

	December 31, 2010	December 31, 2009
Derivative financial liability over the equity of a financial investee	–	1,694
Written put option by Headhunter to sell shares in Metajob	–	2,546
Written put option to sell Headhunter shares	1,111	292
	1,111	4,532

In November 2008, the Company acquired 20 ordinary shares (20%) of a financial investee in exchange for a financial instrument representing an obligation to either pay cash in the amount of USD 8,000 or return the acquired shares to the seller on or before December 31, 2010.

Notes to Consolidated Financial Statements (continued)

25 Financial instruments (continued)

25.7 Derivative and other financial liabilities over the equity of investees (continued)

25.7.1 Derivative financial liability over the equity of a financial investee

The fair value of the liability as of December 31, 2009 was calculated as a difference between the fair value of the payable and the fair value of the put option to sell the shares acquired. The fair value of the put option was estimated using the Black-Scholes-Merton formula with the following assumptions:

	December 31, 2009
Dividend yield, %	0%
Expected volatility, %	61%
Risk-free interest rate, %	0.47%
Expected term, years	1.00
Share price (USD)	86,590.4

The Group recognised a loss of USD 572 due to the change in fair value of the derivative financial liability in 2009. The loss was recorded in the statement of comprehensive income under *'Net gain on venture capital investments and associated derivative financial assets and liabilities'*.

On December 31, 2010, the Group decided not to exercise the put option and the put option expired on that date. However, the transfer of the underlying shares by the Group back to the optionor was not consummated on December 31, 2010. As a result of the expiry of the put option, the derivative liability to either pay cash or transfer shares transformed into a liability to transfer shares that the Group has offset against the underlying venture capital investment. The Group has recognised a net loss of USD 157 on the financial asset and the financial liability in connection with the expiry of the option. The loss was recorded in the statement of comprehensive income under *'Net gain on venture capital investments and associated derivative financial assets and liabilities'*.

25.7.2 Written put option by Headhunter to sell shares in Metajob

As of December 31, 2009 the Group had a written put option to acquire starting from December 31, 2011 49% of Metajob at a multiple of Metajob's revenue deemed to approximate the fair market price. In September 2010 the Group acquired 49% of Metajob shares for USD 300 and the financial liability in respect the put option was de-recognised. Please refer to Note 6 for the details of the accounting for this transaction by the Group.

25.7.3 Written call options in Astrum

On November 30, 2007 Astrum issued call options to its shareholders to subscribe for 10,356 of shares at a fixed price of 1.621 per share ("Astrum Options"). Out of the 10,356 Astrum Options, 2,552 options were issued to the Group and were subsequently cancelled in March 2009 upon acquisition of control in Astrum (see Note 6.1.2).

The expiry date of Astrum Options was set at December 31, 2012. The options were initially recorded by Astrum as a financial liability because they were denominated in USD, currency different from Astrum's functional currency.

On March 25, 2009, as part of acquisition of control in Astrum by the Group the Company and other shareholders of Astrum changed the provisions of the call option effectively cancelling their share of the 3,061 option units. Out of these options 1,096 were granted to two executives of Astrum in their capacity as employees and were accounted for under requirements of IFRS 2, and the remaining 1,965 options were forfeited.

In addition to the re-allocation of 1,096 options above, Astrum issued a tranche of 6,086 units of new options to two executives on the same date.

All options mentioned above became vested and were exercised by the option holders on November 30, 2009 as part of the merger between Port.ru and Astrum (see Note 6) for USD 21,494, of which USD 9,016 were offset against dividends declared and USD 12,478 were paid in cash. Options exercised included 7,294 units accounted for as extinguishment of the financial liability at fair value of shares as of the date of exercise in the amount of 10,753 and 7,182 units accounted for as settlement of share-based payments to employees.

Notes to Consolidated Financial Statements (continued)

25 Financial instruments (continued)

25.7 Derivative and other financial liabilities over the equity of investees (continued)

Movement in the number of options and weighted average exercise prices ("WAEP") is presented below:

	Number of shares	WAEP
	2009	
Outstanding as of January 1, 2009	10,355	1.621
Granted to employees during the year	7,182	1.346
Forfeited during the year	(3,061)	1.621
Exercised during the year	(14,476)	1.485
Outstanding as of December 31, 2009	–	
Exercisable as of December 31, 2009	–	

The fair value of options granted during the year ended December 31, 2008 and on March 24, 2009 was estimated on the date of grant using the Black-Scholes-Merton formula with the following assumptions:

	March 24, 2009	November 30, 2009
Dividend yield (%)	0	0
Expected volatility (%)	77.48	73.47
Risk-free interest rate (%)	6.69	5.12
Expected term (years)	3.00	2.33
Share price per share (US dollars)	1,238	2,522

The volatility is based on historical volatility of peer companies. The share price was determined based on a DCF model as Astrum is not public.

25.7.4 Written put option to sell Headhunter shares

On February 17, 2009 as part of acquisition of control in Headhunter, the Company issued to other shareholders of Headhunter put options to sell an aggregate of 4,834 shares of Headhunter at variable exercise price determined as each holder's percentage shareholding in Headhunter multiplied by fifteen multiplied by Adjusted Distributable Profit for the year preceding the exercise. Adjusted Distributable Profit is defined to approximate the net profit of Headhunter as presented to the Group's CODM (see Note 5). The put options are exercisable only during the last quarters (October 1 through December 31) of 2011, 2012 and 2013.

The fair value of the written put options as of February 17 and December 31, 2009 and 2010 was estimated at the present value of the redemption amount.

The Group has recognised a loss of USD 836 and a gain of USD 956 due to the change in fair value of written put options in Headhunter during 2010 and 2009 respectively. The gain and loss were recorded in the statement of comprehensive income under *'Net loss on financial assets and liabilities at fair value through profit or loss over the equity of strategic investees'*.

25.8 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).

Notes to Consolidated Financial Statements (continued)

25 Financial instruments (continued)

25.8 Fair value hierarchy (continued)

As at December 31, 2010 and 2009 the Group held the following financial instruments measured at fair value:

	December 31, 2010	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	19,716	–	–	19,716
Derivative financial assets over the equity of investees	20,481	–	–	20,481
Total financial assets at fair value through profit or loss	40,197	–	–	40,197
Available-for-sale equity investments	1,453,518	–	–	1,453,518
Total financial assets measured at fair value	1,493,715	–	–	1,493,715
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	(1,111)	–	–	(1,111)
Total financial liabilities measured at fair value	(1,111)	–	–	(1,111)

	December 31, 2009	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Financial assets at fair value through profit or loss:				
Assets related to Class C shares	97,363	–	–	97,363
Financial investments in associates	15,799	–	–	15,799
Derivative financial assets over the equity of investees	12	–	–	12
Total financial assets at fair value through profit or loss	113,174	–	–	113,174
Available-for-sale equity investments	220,049	–	–	220,049
Total financial assets measured at fair value	333,223	–	–	333,223
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit or loss - Class C shares	(97,363)	–	–	(97,363)
Financial liabilities at fair value through profit or loss - derivative and other financial liabilities over the equity of investees	(4,532)	–	–	(4,532)
Total financial liabilities measured at fair value	(101,895)	–	–	(101,895)

Notes to Consolidated Financial Statements (continued)

25 Financial instruments (continued)

25.8 Fair value hierarchy (continued)

The balance of Level 3 measurements as of January 1, 2009 is reconciled to the balance of those measurements as of December 31, 2010 as follows:

	Balance as of January 1, 2009	Purchases	Acquired through business combination	Sales	Settlements	Realised gains/ (losses)	Unrealised gains/ (losses)	Gain/(loss) recognised in other comprehensive income	Translation adjustment	Balance as of December 31, 2009
Financial assets measured at fair value										
Financial assets at fair value through profit or loss:										
Assets related to Class C shares	*–*	*93,330*							*4,033*	*97,363*
Financial investments in associates	*13,290*	*1,062*	*465*	*(911)*	*–*	*(225)*	*2,325*	*–*	*(207)*	*15,799*
Derivative financial assets over the equity of investees	*1,385*	*–*	*–*	*–*	*(2,395)*	*569*	*554*	*–*	*(101)*	*12*
Total financial assets at fair value through profit or loss	14,675	94,392	465	(911)	(2,395)	344	2,879	–	3,725	113,174
Available-for-sale equity investments	3,233	207,262	–	–	–	–	–	320	9,234	220,049
Total financial assets measured at fair value	17,908	301,654	465	(911)	(2,395)	344	2,879	320	12,959	333,223
Financial liabilities measured at fair value										
Financial liabilities at fair value through profit or loss - Class C shares	–	(93,330)	–	–	–	–	–	–	(4,033)	(97,363)
Financial liabilities at fair value through profit or loss - derivative and other financial liabilities over the equity of investees	(1,126)	(1,235)	(6,510)	–	10,753	(3,186)	(2,162)	–	(1,064)	(4,532)
Total financial liabilities measured at fair value	(1,126)	(94,565)	(6,510)	–	10,753	(3,186)	(2,162)	–	(5,097)	(101,895)

Notes to Consolidated Financial Statements (continued)

25 Financial instruments (continued)

25.8 Fair value hierarchy (continued)

	Balance as of January 1, 2010	Purchases	Acquired through business combination	Acquisition of control in investees	Offsets	Sales	Settlements	Realised gains/ (losses)	Unrealised gains/ (losses)	Gain/(loss) recognised in other comprehensive income	Translation adjustment	Balance as of December 31, 2010
Financial assets measured at fair value												
Financial assets at fair value through profit or loss:												
Assets related to Class C shares	*97,363*	–	–	–	–	–	(166,020)	70,485	–	–	(1,828)	–
Financial investments in associates	*15,799*	4,000	–	–	(1,978)	(800)	–	671	2,100	–	(76)	*19,716*
Derivative financial assets over the equity of investees	*12*	18,865	3,117	–	–	–	–	–	(1,680)	–	167	*20,481*
Total financial assets at fair value through profit or loss	113,174	22,865	3,117	–	(1,978)	(800)	(166,020)	71,156	420	–	(1,737)	40,197
Available-for-sale equity investments	220,049	149,412	–	(97,807)	–	–	–	81,162	–	1,102,907	(2,205)	1,453,518
Total financial assets measured at fair value	333,223	172,277	3,117	(97,807)	(1,978)	(800)	(166,020)	152,318	420	1,102,907	(3,942)	1,493,715
Financial liabilities measured at fair value												
Financial liabilities at fair value through profit or loss – Class C shares	(97,363)	–	–	–	–	–	166,020	(70,485)	–	–	1,828	–
Financial liabilities at fair value through profit or loss - derivative and other financial liabilities over the equity of investees	(4,532)	–	–	–	1,978	–	2,289	222	(982)	–	(86)	(1,111)
Total financial liabilities measured at fair value	(101,895)	–	–	–	1,978	–	168,309	(70,263)	(982)	–	1,742	(1,111)

The gain realised on available-for-sale equity investments relates to the acquisition of control in OK (see Note 6). The sensitivity of the available-for-sale investment, and the gain realised as a result of the acquisition, to the main assumptions used in the respective DCF model as of the acquisition date is presented below:

Parameter	Increase / (decrease), basis points	Increase / (decrease) in realised gain
Pre-tax discount rate	+50/(50)	(3,695) / 3,984
Terminal growth rate	+100/(100)	4,330 / (3,618)
Revenue CAGR	+50/(50)	4,747 / (4,736)
EBITDA margin	+300/(300)	4,608 / (4,608)

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 26 below.

Notes to Consolidated Financial Statements (continued)

25 Financial instruments (continued)

25.9 Contingent contractual arrangements over the equity of certain investees

As of December 31, 2009 the Group was a party to contingent contractual arrangements over the equity of certain strategic associates and subsidiaries that qualified as financial instruments; however, the fair values of those financial instruments could not be reliably determined.

The summary of significant financial instruments described above is presented below:

- Non-controlling shareholders of Mail.Ru Internet NV were entitled to exchange all Mail.Ru Internet NV shares owned by them for shares of the Company at the ratio of respective fair values if at any time prior to an IPO of Mail.Ru Internet NV there is to be an IPO of the Group;
- The Group was entitled to acquire a 40.87% stake of Mail.Ru Internet NV from one of the significant non-controlling shareholders of Mail.Ru Internet NV triggered by change of control of this non controlling shareholder as defined by the relevant shareholders' agreement. The transaction, if triggered, was to be executed at fair market value as defined by the relevant shareholders agreement; and
- One of the significant non-controlling shareholders of Mail.Ru Internet NV was entitled to acquire all the shares of Mail.Ru Internet NV owned by the Group triggered by change of control of the Group as defined by the relevant shareholders agreement. The transaction, if triggered, was to be executed at fair market value as defined by the relevant shareholders agreement.

As of December 31, 2010 all the aforementioned arrangements were terminated.

26 Financial risk management objectives and policies

26.1 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 short-term payables and accrued expenses. 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 arrive 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 intends to develop risk management policies which will cover 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 will monitor 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 including policies and objectives in respect of internal audit function, which, when completed, will be followed by detailed design phase. The development of the risk management framework and internal audit procedures are, however, at early stage of development as of now.

26.2 Liquidity and financial resources

The Group uses cash from shareholders contributions, has sufficient cash and does not have any outstanding loans as of December 31, 2010 and 2009. Trade and other payables are due on demand.

Notes to Consolidated Financial Statements (continued)

26 Financial risk management objectives and policies (continued)

26.3 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, 2010 and 10% as of December 31, 2009. 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.

26.4 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.

26.5 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 26.6 and 26.7 relate to the position as at December 31, 2010 and 2009 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.

26.6 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.

	RUR:USD	
Change in rate 2010	10%	-10%
Increase (decrease) in profit before tax	(6,387)	6,387
Change in rate 2009	15%	-15%
Increase (decrease) in profit before tax	(18,438)	18,438

The Group does not have any formal arrangements to mitigate foreign exchange risks of the Group's operations.

26.7 Equity price risk

The Group's unlisted 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.

Notes to Consolidated Financial Statements (continued)

26 Financial risk management objectives and policies (continued)

26.7 Equity price risk (continued)

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, unlisted 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 could have a negative impact of approximately USD 1,632 (2009 – USD 5,701) 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 USD 2,664 (2009 – USD 10,187) 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.

27 Share-based payments

27.1 Share-based payment arrangements of the Company

27.1.1 Option plans

The Company had as of December 31, 2010 and 2009 the following outstanding option plans:

	2007 Option Plan	DSTA Options	Options over the Company's shares resulting from modification of option plan of the subsidiary ("Modified option plan")	2010 Option Plan
Adoption date	May 2007	December 2008	July 2010	November 2010
Type of shares	Ordinary shares	Class B shares, converted into ordinary shares in 2010	Ordinary shares	Ordinary shares
Number of options reserved	736 pre share split (1,472,000 on a post share split basis)	7,591 pre share split (15,182,000 on a post share split basis)	1,323 pre share split (2,646,000 on a post share split basis)	10,706,403 post share split
Exercise price	No less than USD 11,378.83 (pre share split basis)	USD 26,426.89 (pre share split basis)	USD 13,813.63 (pre share split basis)	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 (post share split basis)
Exercise basis	Gross share basis only	Gross or net share basis	Gross or net share basis	Net share basis only
Expiration date	May 2014	December 2015	December 2015	Not later than 5 years from the date of respective grant
Other major terms	• The options are not to be issued to any member of the Company's Managements Board, or any related party thereof; • The options have to be exercised in the event of an IPO, change in control or winding up of the Company; • The options are not transferable; • All other terms of the options under the 2007 Option Plan are to be determined by the Company's Management Board.	• 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 vested immediately upon grant	• The options are not transferable; • 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.

Notes to Consolidated Financial Statements (continued)

27 Share-based payments (continued)

27.1 Share-based payment arrangements of the Company (continued)

27.1.2 Changes of outstanding options

The table below summarises the changes of outstanding options in 2010 and 2009:

	2007 Option Plan	DSTA Options	Modified Option Plan	2010 Option Plan	Total
Outstanding as of January 1, 2009	81	7,591	–	–	7,672
Granted during the year	250				250
Outstanding as of December 31, 2009	331	7,591	–	–	7,922
Exercisable as of December 31, 2009	211	7,591	–	–	7,802
Available for grant as of December 31, 2009	405	–	–	–	405
Outstanding as of December 31, 2009	331	7,591	–	–	7,922
Granted during the year before share split	112[1]	–	1,323[2]	–	1,435
Exercised during the year before share split	267	–		–	267
Cancelled during the year before share split	3	–		–	3
Share split	345,827	15,174,409	2,644,677	–	18,164,913
Granted during the year after share split	592,000			4,276,832[3]	4,868,832
Exercised during the year after share split	938,000	14,962,000	2,646,000	–	18,546,000
Outstanding as of December 31, 2010	–	220,000	–	4,276,832	4,496,832
Exercisable as of December 31, 2010	–	220,000	–	–	220,000
Available for grant as of December 31, 2010	–	–	–	6,429,571	6,429,571

(1) Grant of 30 out of 112 options granted in 2010 formed part of acquisition of control in Forticom (see Note 6).

(2) 1,323 options were granted in exchange for cancellation of 42,858 options over the shares of Mail.Ru Internet NV as part of acquisition by the Group of substantially all non-controlling interest in Mail.Ru Internet NV (see Note 27.2). In addition to the issuance of 1,323 options the Group paid USD 1,500 to the option holder as part of modification. The excess of the fair value of the replacement award, including the cash portion, over the fair value of the replaced award in the amount of USD 3,141 was recognised under *'Selling, general and administrative expenses'* in the statement of comprehensive income.

(3) On the IPO date the Company decided to assign to the 6,423,842 options the exercise price equal to the IPO price of USD 27.70. 4,223,300 options out of these 6,423,842 were granted to the employees and consultants of the Group and 53,532 to one of the Group's Directors. The options vest over 4 years.

The weighted-average share price was USD 36,204.27 for options exercised in 2010 prior to the share split and USD 37.58 for options exercised after the share split.

The fair values of all options granted during 2010 and 2009 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 (USD '000)	Fair value per option (USD)	Valuation method
2009									
2007 Option Plan - May 2009 (pre share split)	250	0%	74%	1.00%	2.2	26,426.89	4,339	17,354.40	Black-Scholes-Merton
2010									
2007 Option Plan - July 2010 (pre share split)	112	0%	56%	1.40%	N/A	36,970.15	2,987	26,670.08	Binomial
2007 Option Plan - November 2010 (post share split)	592,000	N/A	N/A	N/A	0	27.70	13,030	22.01	Intrinsic value (immediately exercised)
Modified Option Plan - August 2010 (pre share split)	1,323	0%	53%	1.42%	N/A	36,958.81	32,197	24,336	Binomial
2010 Option Plan - December 2010* (post share split)	4,276,832	0%	53%	2.02%–3.06%	N/A	35.83	92,647	21.66	Binomial

*The data in respect of share price and fair value per option is presented as weighted average of the corresponding numbers for each grant.
The expected volatility was determined by reference to peer companies' historical volatility, because the Company only became public in November 2010.

Notes to Consolidated Financial Statements (continued)

27 Share-based payments (continued)

27.1 Share-based payment arrangements of the Company (continued)

The expense recognised by the Group with respect to the options over the shares of the Company described above amounted to USD 21,320 (2009: USD 2,885) and was included in the *'Advisory fees'* and *'Compensation expense'* as part of *'Selling, general and administrative expenses'* in the statement of comprehensive income in the amounts of USD 16,842 and USD 4,478 respectively (2009: USD 2,885 and nil).

27.2 Share-based payment arrangements of the Company's subsidiaries and strategic associates

The table below shows the summary of share-based payment expense of the Group's subsidiaries.

	2010	2009
Port.ru	4,554	7,818
Astrum	–	7,011
Headhunter	192	413
OGH	–	372
Total	4,746	15,614

The table below shows the summary of the Group's share in share-based payment expense of the Group's associates.

	2010	2009
Astrum	–	215
Headhunter	–	22
OGH	–	293
Forticom	3,107	975
	3,107	1,505

Port.ru Options

Prior to November 30, 2009 Port.ru had the following options granted for its shares:

Number of shares	Range of Exercise Prices	WAEP
498,809	3.00	
574,726	18.27	
1,073,535	3.00 – 18.27	11.17

The options were to become fully vested on December 21, 2009 and to expire on December 10, 2014.

On November 30, 2009 – within Astrum–Port.ru merger arrangements – all of the above options became fully vested and were cancelled irrespective of their initial vesting period provisions. In exchange for options, the holder of those options was granted a replacement and new options in the following three tranches for the shares in Mail.Ru Internet NV:

	Number of shares	Range of Exercise Prices
Tranche 1	498,809	3.00
Tranche 2	574,726	18.27
Tranche 3	496,725	15.64
Total	1,570,260	12.59

Tranches 1 and 2 were granted in exchange for the cancelled options. The expiry dates of the tranches were extended to July 31, 2016 with all other options' parameters unchanged.

Tranche 3 represented newly granted options. 207,000 of the options in Tranche 3 became fully vested as of the grant date with the remaining part to become vested at January 1, 2011 in 13 equal installments.

Notes to Consolidated Financial Statements (continued)

27 Share-based payments (continued)

27.2 Share-based payment arrangements of the Company's subsidiaries and strategic associates (continued)

The table below shows the fair value calculations for the modification of Port.ru options for Tranches 1 and 2 (Black-Scholes-Merton):

	Pre-modification		Post-modification	
	Tranche 1	Tranche 2	Tranche 1	Tranche 2
Stock Price (USD)	33.49	33.49	33.49	33.49
Exercise Price (USD)	3.00	18.27	3.00	18.27
Grant date	30.11.2009	30.11.2009	30.11.2009	30.11.2009
Expiry date	10.12.2014	10.12.2014	31.07.2016	31.07.2016
Expected life in years	5.03	5.03	6.67	6.67
Annualised volatility	70.91%	70.91%	70.91%	70.91%
Annual dividend rate	2.55%	2.55%	2.55%	2.55%
Discount Rate - Bond Equivalent Yield	5.394%	5.394%	5.394%	5.394%
Fair Value	27.41	21.23	26.53	21.72

The effect of the above modification was not significant.

The table below shows the fair value calculations for the newly granted options per Tranche 3 (Black-Scholes-Merton):

	Tranche 3
Stock Price (USD)	33.49
Exercise Price (USD)	15.64
Grant date	30.11.2009
Expiry date	31.07.2016
Expected life in years	6.67
Annualised volatility	70.91%
Annual dividend rate	2.55%
Discount Rate - Bond Equivalent Yield	5.394%
Call Option Value	22.33

In February 2010 reverse split of Mail.Ru Internet NV shares was executed at the ration of 1 to 25, accordingly the number of outstanding options post reverse split amounted to 62,810 (Tranche 1 – 19,952, Tranche 2- 22,989, Tranche 3 – 19,869).

In August-September 2010 as part of the acquisition of non-controlling interest in Mail.Ru Internet NV the Tranche 1 options were exercised. The total exercise price amounted to USD 1,500. The exercise of Tranche 1 options resulted in an increase in non-controlling interest of USD 3,553. Simultaneously the Tranches 2 and 3 options were converted in full into 1,323 options over the Company's shares (see Note 27.1).

The fair value calculation at the date of conversion of Tranches 2 and 3 is presented in the table below:

	Tranche 2	Tranche 3	Total
Stock Price (USD)	1,171.12	1,171.12	
Exercise Price (USD)	456.75	391.00	
Conversion date	31/08/2010	31/08/2010	
Expiry date	31/07/2016	31/07/2016	
Expected life in years	5.9	5.9	
Annualised volatility	53%	53%	
Annual dividend rate	2.6%	2.6%	
Risk free rate	1.60%	1.60%	
Call Option Value	697.97	730.33	
Total value, USD	16,046	14,511	30,557

OGH/Nival Options

In 2007-2009 OGH, the Group's subsidiary (associate prior to April 2009), granted stock options to its management. The programs assumed three grants of options with vesting dates through December 31, 2009 and expiration dates on December 31, 2011 and exercise prices of 1, 2 and 4 respectively.

Notes to Consolidated Financial Statements (continued)

27 Share-based payments (continued)

27.2 Share-based payment arrangements of the Company's subsidiaries and strategic associates (continued)

On December 31, 2009, the Group signed a resolution terminating the options agreements and replacing them with cash compensation to be paid to employees. The fair value of the award was reclassified from equity to 'Other payables, provisions and accrued expenses' line of the consolidated statement of financial position in the amount of 3,708.

The following table illustrates the number and WAEP of share options during the year:

	Number of shares	WAEP
	2009	
Outstanding at the date of the acquisition	324	1,491
Granted during the year	225	4,000
Forfeited during the year	(5)	2,400
Cancelled during the year	(544)	2,520
Outstanding as of December 31	–	
Exercisable as of December 31	–	

28 Dividends paid by subsidiaries to non-controlling shareholders

In July and October 2009, Port.ru Inc. declared dividends out of which USD 20,419 was attributable to non-controlling shareholders of Port.ru. The dividend declared was fully paid in 2009.

In November 2009 Astrum and OGH declared dividends out of which USD 10,966 was attributable to non-controlling shareholders of Astrum and OGH. The amount of USD 1,950 was paid in cash and USD 9,016 was offset against exercise of options over the shares of Astrum by the non-controlling shareholders of Astrum.

In October 2009, Headhunter declared a dividend out of which USD 751 was attributable to non-controlling shareholders of Headhunter. USD 448 of the dividend declared to the non-controlling shareholders of Headhunter was paid in 2009, and USD 303 was paid in 2010.

In August 2010, Mail.Ru Internet NV declared a dividend out of which USD 3,169 was attributable to non-controlling shareholders. The dividend declared was fully paid in 2010.

29 Events after the reporting period

29.1 Changes in Russian tax legislation

New Federal Law № 212-FZ "On insurance contributions to the pension fund of Russian Federation" dated July 24, 2009, increased Social tax rate from 26% to 34% starting January 1, 2011. The Group expects respective increase in its personnel costs as a result of this change.

29.2 Grant of options to Directors

On April 11, 2011 the Board of Directors approved the grant of a total of 786,920 options over the Company's ordinary shares to the Directors of the Company. The options vest over four years and the exercise price is USD 27.7 per share.

29.3 Issuance of loan to a shareholder

In March 2011, the Group issued a short-term loan of USD 4,000 to one of the shareholders of the Company, payable before June 30, 2011 and bearing an interest at 1% p. a.

Cautionary statements

Forward-looking statements

The Mail.Ru Group Limited Annual Report and Accounts for 2010 contains certain “forward-looking statements” which include all statements other than those of historical facts that relate to the Group’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 judgement, 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 Group’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.

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