Annual Report
2014

Contents

Who we are

Mail.Ru Group Limited (hereinafter "MGL") together with its subsidiaries (collectively –"we", "the Company" or "Mail.Ru Group") is a leading company in the Russian-speaking internet market. The Company's sites reach approximately 96% of Russian internet users on a monthly basis[1]. In terms of number of users, Russia is the largest internet market in Europe[2]. Based on total time spent, we operate the world's sixth largest internet business, according to comScore[3]. While the Russian-speaking market remains our major focus, we continue to look to leverage our R&D and our technology across the widest possible user base. As such, we have been launching products into the US, European and other markets.

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

Our products

In line with its 'communitainment' (communication plus entertainment) strategy, the Company operates an integrated communications and entertainment platform. We own Russia's leading email service and one of Russia's largest internet portals, Mail.Ru[4]; two largest Russian language social networks, VKontakte (VK) and Odnoklassniki (OK.RU)[5]; and Russia's largest online games business. The Company also includes a leading OpenStreetMap-based offline mobile maps and navigation service MAPS.ME and two instant messaging (IM) services, Mail.Ru Agent and ICQ, popular in Russia and Commonwealth of Independent States (CIS).

Leveraging our user base

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

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[1] Source: comScore, Dec 2014

[2] Source: comScore, Dec 2014

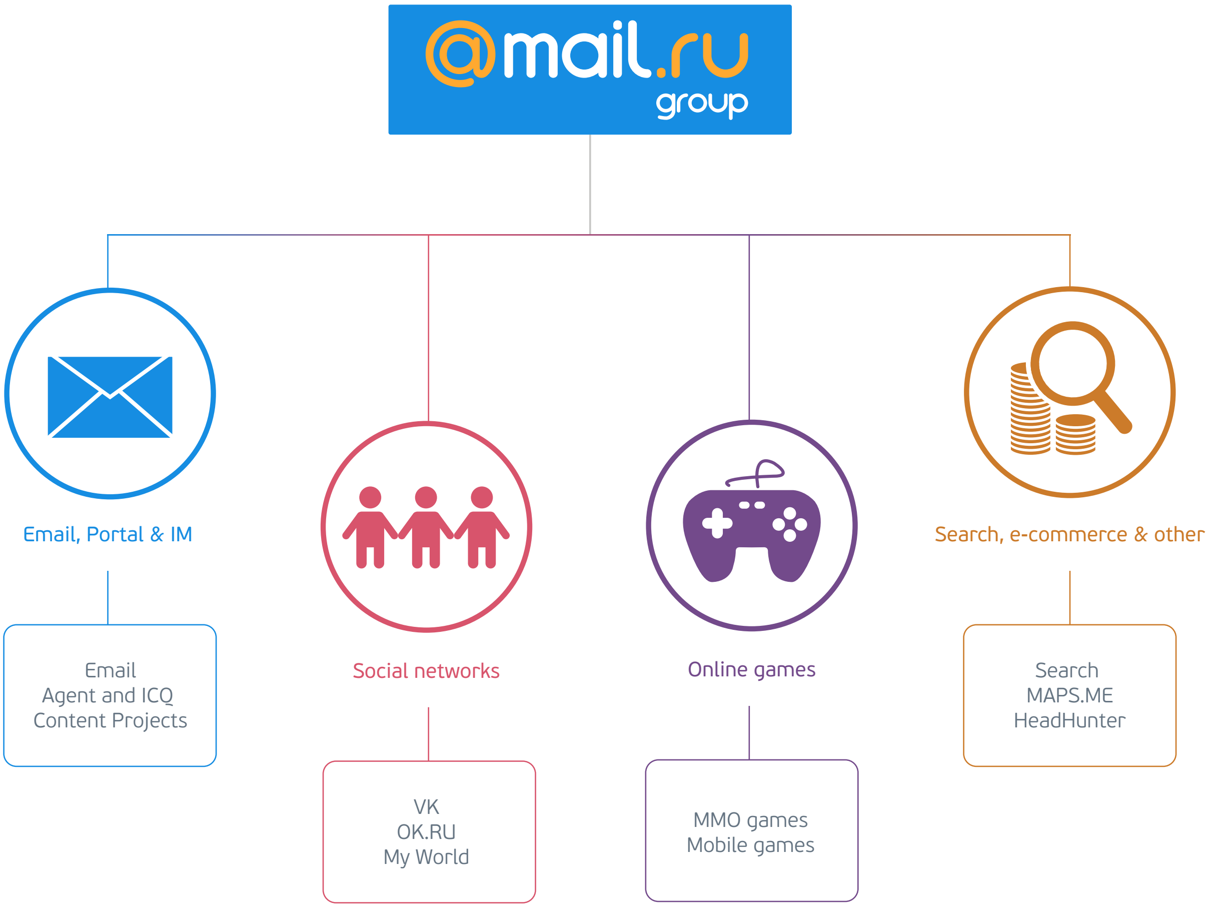
[3] Source: comScore, Dec 2014

[4] Source: TNS, all Russia, age 12-64, desktop, Dec 2014

[5] Source: comScore, Dec 2014

Mail.Ru Group in brief

Mail.Ru Group offers a variety of online communication products and entertainment services.



Mail.Ru Group in brief continued

Email, Portal & IM

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

Social networks

Two largest Russian language social networks, VK and OK.RU

Online games

Russia's leading provider of online games

Search, e-commerce & other

One of the most popular offline mobile maps services in the world (MAPS.ME); the largest online recruitment business and the third largest search engine in Russia

How we work

Our business model is based on three foundations: Products, Audience and People

Our Products

We operate an integrated communitainment platform that includes email, IM, social networks and online games

We are continuously enhancing our products

We are focusing on mobile products

Our Audience

We reach 96% of the Russian internet users and account for 38% of the total time they spend online[1]

We have steadily grown our audience: with +22% Y-o-Y growth in Dec-2014[2]

We are leading in terms of mobile usage[3] and downloads[4] in Russia

Our People

We hire the best Russian engineering talent

We are well-known and highly regarded in our industry

We support computer science education and various programming contests in Russia

Strategy

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

- Ensure best user experience on mobile
- Attract and retain the best engineering talent
- Focus on serving Russian-speaking internet users
- Expand in international markets under the My.com brand
- Focus on monetisation through various ad products and user payments
- Operate effectively with high operating margin

[1] Source: comScore, Dec 2014
[2] Source: comScore
[3] Source: TNS, cities 700k+, age 12-64, Jan 2015
[4] Source: App Annie Index, Top Apps, iOS and Google Play combined, Russia, Overall, Jan 2015

Our history

1998 — Webmail service launched

Feb 2001 — Mail.Ru formed from Port.ru and netBridge merger

Oct 2001 — Mail.Ru portal launched

May 2003 — Mail.Ru Agent launched

May 2005 — Mail.Ru Group Limited founded

Mar 2006 — Odnoklassniki (OK.RU) social network launched

Sep 2006 — MMO game, “Legend: Legacy of the Dragons” launched

Oct 2006 — VKontakte (VK) social network launched

May 2007 — My World social network launched

Jun 2007 — Mail.Ru in-house search technology launched

May 2008 — “Perfect World” online game launched under license

Feb 2009 — Mail.Ru Group acquired control of HeadHunter

Oct 2009 — “Allods Online” game launched

Our history continued

Jul 2010
Mail.Ru Group acquired IM service ICQ

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

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

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

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

Apr 2012
MMO shooter Warface launched

Jun 2013
Mobile game Jungle Heat launched

Jun 2013
Our Moscow team moves to new Headquarters building

Jul 2013
Target.Mail.Ru launches mobile ad platform

Jul 2013
Launch of Mail.Ru for Business, a free email service

Aug 2013
Launch of cloud storage service Cloud.Mail.Ru

Aug 2013
Launch of non-profit platform Dobro Mail.Ru for charity crowdfunding

Nov 2013
Launch of My.com project with focus on international markets

Highlights

2014 key highlights

January
Launch of mobile game Evolution: Battle for Utopia on iOS

ICQ for Windows updated with free video and voice calls

February
Redesign of My World

Cloud.Mail.Ru releases the first app for Windows Phone

Launch of MMORPG ArcheAge

Mail.Ru for Business launches new service for migrating corporate email from third party servers to Mail.Ru

March
ICQ apps for iOS and Android updated with new lightweight interface, video calls, group chats and stickers

VK introduces stickers

Start of 2014 Russian Code Cup

April
myMail app becomes the most downloaded alternative email client on iOS (Distimo, March 2014)

Video streaming in Cloud.Mail.Ru apps for iOS

Integration of Mail.Ru email service and Cloud.Mail.Ru – option to save files to and attach files from the cloud

My.com launches @my.com, the mobile-only email service

Mail.Ru Group acquires 12.00% of VK increasing its total stake up to 51.99%

May
Target.Mail.Ru introduces new behavioral targeting and specific targeting for mobile advertising, launches data exchange with third party DMPs

Mail.Ru for Business introduces API for partners

Calendar.Mail.Ru releases its first mobile app for iOS

June
VK completely reworks quick chats

Cloud.Mail.Ru launches internally developed online document editor that supports .doc/.docx files

Skyforge and Armored Warfare receive Best of Show and Best Multiplayer awards respectively according to Ten Ton Hammer's Best of E3 2014 Awards

July
Automatic virus scanning of files in Cloud.Mail.Ru

Mobile game Evolution: Battle for Utopia is released on Android

Mail.Ru Portal is redesigned

Launch of Mail.Ru for Education, a free service for schools and universities that allows to set up Mail.Ru-powered email service on their own domains

August
myMail app becomes the most downloaded alternative email client on iOS and Android (Distimo, June 2014)

Default HTTPS access to Mail.Ru main page

OK.RU enables users to create video channels with user-generated content

September
Mail.Ru Group increases its stake in VK up to 100%

VK launches new photo editor: new engine, increased number of photo filters, advanced tools for editing photos

OK.RU introduces audio and video messages in chat service

Afisha.Mail.Ru introduces new user-friendly interface with focus on movies and TV series and offers licensed content from major Russian online providers

New ICQ for Android updated with friend recommendations, lots of customisation capabilities, ability to send multiple photos and share ICQ profile on social networks

Online document editor available in Mail.Ru email service and Cloud.Mail.Ru now allows editing spreadsheets (.xls/.xlsx) and presentations (.ppt/.pptx)

October
VK launches mobile ads

VK releases a completely reworked app for Windows 8

OK.RU introduces a new design of chat service

New ICQ for iOS featuring interface themes, new contact list, enhanced customisation options, ability to send multiple photos and videos at once and edit chat history

Mail.Ru email service makes SSL-encrypted connection mandatory for all email clients accessing Mail.Ru servers via POP3 and SMTP protocols

Answers.Mail.Ru releases a mobile app for Android

myMail now supports Microsoft Exchange ActiveSync

New mobile strategy game Iron Desert launched on iOS and Android

November

Acquisition of MAPS.ME, a popular OpenStreetMap-based offline mobile maps and navigation service

VK app for Android is optimised for Android 5 and updated with extended community management and photo auto enhance features

Sale of Money.Mail.Ru project to QIWI

December

MAPS.ME Pro, the previously paid version of the MAPS.ME app, is available at no charge on major mobile platforms

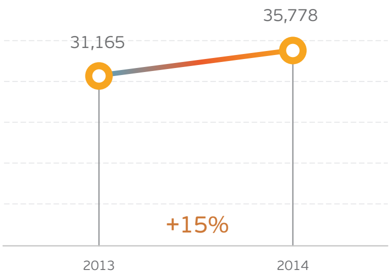
VK introduces new community promotion ad format and posts limits for communities

OK.RU launches a significantly improved newsfeed

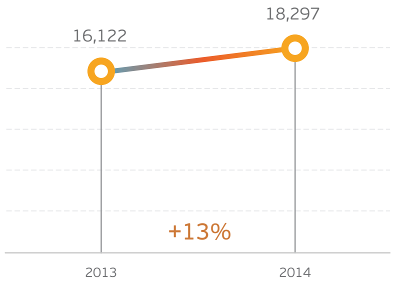
Dobro.Mail.Ru launches charitable service for businesses

Financial highlights

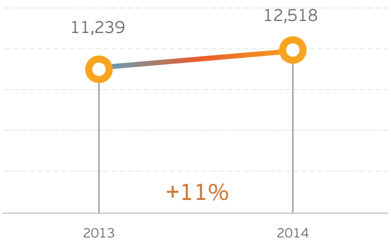
Revenue, RUR mln



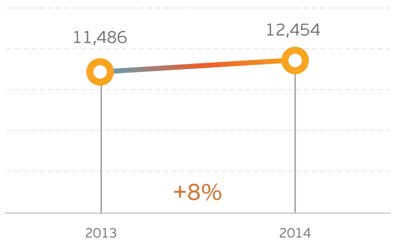
EBITDA, RUR mln



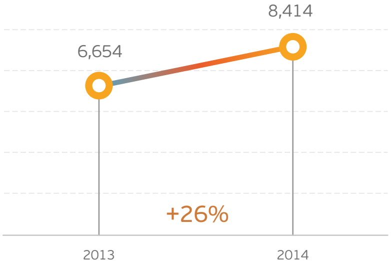
Net profit, RUR mln



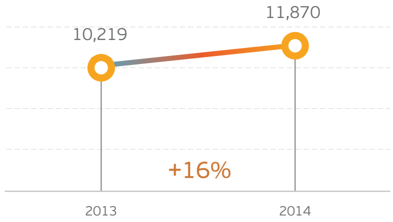
Online advertising revenue, RUR mln



MMO revenue, RUR mln



Community IVAS revenue, RUR mln



Chief Executive Officer's report

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

2014 was a year where we continued to execute on our core strategy and a year where we fully consolidated VKontakte (VK) into the Company. However 2014 was also a year of geo-political and macro-economic challenges. While the core underlying drivers of the business remained unchanged, advertising revenues were significantly impacted by the slowdown in the economy and the fall in the value of the rouble. Despite this, we started the integration of VK, we continued to improve our key products across both desktop and mobile platforms, and also continued the expansion outside of our core market under the My.com brand. These steps, along with pre-emptive cost control measures, enabled us to deliver solid growth and also to protect profitability.

Company highlights for 2014

Continued growth in the underlying market

The Russian internet market has, over the last several years, seen significant growth. In 2011 Russia became the largest internet market in Europe and has solidified its leadership ever since. By the end of 2014 the number of internet users in the country had risen to 73.8 mln[1].

Overall internet penetration is now 63%[2] and there is still scope for expansion as Russia moves closer to the average penetration seen in other developed markets. Additionally, many of the CIS countries, which form much of the wider Russian-speaking market, continue to have lower internet penetration. With a combined population of 100+ million they offer further significant potential for user growth.

Solid 2014 financial performance

Despite a challenging macro-economic backdrop, especially in H2, the Company achieved solid results for 2014. Revenue growth was 14.8% Y-o-Y to RUR 35,778 million with H2 2014 Y-o-Y revenue growth of 10.2%. This revenue and growth rates are based on a full pro-forma consolidation of VK from the beginning of 2013. VK generated revenue of RUR 4,319 million for the full year (+12.9% Y-o-Y) and RUR 2,315 million in H2 (+15.4% Y-o-Y). Ex-VK like-for-like revenue growth for FY 2014 would have been 15.0%.

Through the year our MMO games and community IVAS revenues remained broadly on budget, but advertising revenues and our HeadHunter business continued to face challenging conditions as a result of the ongoing economic and geo-political environment. This had a negative effect on our advertising revenues, and in particular the display advertising revenues. Our other revenue stream also remains sensitive to the underlying economic environment and hence grew at 5.4% in H2.

Despite the economic backdrop and rouble devaluation the Company took early actions in the year to control costs. Including VK from the beginning of the year EBITDA margins were 51.1% in FY 2014 and 51.5% in H2 2014. Ex-VK FY 2014 margin would have been 53.0%.

Product review

During the year, we continued to develop and improve our market-leading products in both the communications and the entertainment offerings. We remain focused on providing the widest offering with seamless cross-platform experience and interoperability. Mobile traffic continues to grow, and we remain focused on not only allowing users to expand their use of the Mail.Ru ecosystem through different devices, but also to help widen the user experience as far as possible in order that we can increase the time spent online.

VK acquisition

We have long maintained that the acquisition and integration of VK into Mail.Ru has a clear strategic rationale, and that this remained an ambition of the Company. 2014 was the year when we achieved this ambition. Through two separate transactions in April and September 2014 we completed the acquisition of the remaining 60.01% of VK. In April

[1] Source: Internet users of age 18+, Public Opinion Foundation (FOM), winter 2014-2015

[2] Source: Internet users of age 18+, Public Opinion Foundation (FOM), winter 2014-2015

we acquired Bullion Development Limited which was the beneficial owner of 12.00% of the company. However, as a function of the shareholders agreement we did not consolidate VK at that time. In September following the acquisition of the remaining 48.01% of VK we started the integration process. The acquisition of the 48.01% from Blesmir Development Limited and Palagon Limited was an all cash deal for a total consideration of $1.47bn. Taking into account the price paid for the other 52% of VK since the first investment in 2007 this made the total historical acquisition cost of VK $2.07bn.

As we commented at the time of the acquisition, the first priority for us was the retention of the talented programmers and engineers, and we are pleased that the team remains largely intact and keeps their focus on the product and the user experience. VK audience continues demonstrating a sustainable growth both on desktop and mobile. Total daily active users increased 19% Y-o-Y in December 2014[3], VK apps for iOS and Android combined have been the most downloaded mobile apps in Russia throughout 2014[4], while in January 2015 VK set an all-time record of 5.65mln registrations per month.

MAPS.ME acquisition

In November 2014 we completed the acquisition of MAPS.ME, an offline mobile maps and navigation service based on OpenStreetMap data.

MAPS.ME apps for iOS and Android allow users to download detailed maps for any location around the world and use them even when offline. The service pulls data provided by OpenStreetMap, the open source project dedicated to create a crowdsourced, highly detailed world map. Thanks to an advanced data compression algorithm, MAPS.ME works fast and the maps are lightweight.

In December 2014 we made the app free. This led to significant growth in downloads: in just two months the app doubled its installed base reaching 14m downloads worldwide. The app is actively used all over the world. Only 11% percent of users are from Russia, 8% of users live in the United States, 7% in Germany. Google listed MAPS.ME among the Best Android Apps in 2014.

Continued expansion into new markets

In November 2013 the My.com website went live and during 2014 we continued our expansion outside of our core market with the release of a number of mobile games under the My.com brand and focused on the ongoing promotion and growth of the myMail product.

We continue to be encouraged by the traction of myMail which was launched in November 2013 as part of the wider My.com launch. In 2014 it became the most downloaded alternative email client tool on both iOS and Android globally. The US is the largest market followed by UK, France, Germany and Brazil and by the end of 2014 we had over 2.5m MAU and over 1.0m DAU. In 2015 we have begun some monetisation experiments inside of the myMail product. The release of Skyforge, Armored Warfare and a number of mobile titles outside of Russia and the continued focus on myMail will form the basis of the 2015 growth for the My.com brand.

Corporate and outlook

Our people

Our main asset is our people and the technology-driven culture which they create. This continues to remain one of the guiding principles for us and our future success is very dependent on our ability to attract, retain and motivate the best engineers. In 2013 we made a significant upgrade to the environment our people work in when we completed the move into our new state-of-the-art headquarters. In 2014 we have continued to introduce additional facilities in our offices and believe that we now have one of the most competitive offerings for employees.

At the end of 2014 our long-term incentive programme, based around options authorised at the time of the Company's IPO in 2010 substantially came to an end. As such, the board and shareholders have approved a new long-term incentive plan based around restricted stock units equivalent to up to 5% of total shares outstanding. This programme will run until 2022 and will be key to attracting and retaining talent in the Company.

Disposal of minority investments, acquisitions and balance sheet

Over the last 4 years we have disposed of over $2bn of minority investments and then returned around $1.7bn to shareholders. Between June and September 2014 we continued with the disposal of non-core assets with the sale of about $179m of Qiwi. This reduces our stake to just over 712, 000 shares or 1.31% of the company. This stake is still available for sale and our strategy of reducing non-core holding remains unchanged.

The Company acquired the remaining 60.01% in VK in two separate acquisitions in April and September. This was funded through the Company's existing cash and with a RUB 22.2bn ($585m at the prevailing CBR rate[5]) 11.5% fixed rate 4-year loan from Gazprombank. Cash generation from operations in 2014 remained strong and the Company maintained its conservative treasury management policies. The result was that at the end of 2014 the Company had net debt position of RUR 16,987 million, or USD 302 million.

2015 outlook

Looking into 2015 our engagement with users remains very strong, and user behavior remains unchanged. International initiatives under the My.com brand are going well and VK presents a number of opportunities. However 2015 will likely see many of the same effects as H2 2014 in Russia, especially for advertising, and as a result forecasting remains problematic and we do not anticipate changes in the near term underlying environment from what we said previously.

[3] Source: LiveInternet

[4] Source: App Annie Index, Top Apps, iOS and Google Play combined, Russia, Overall, Jul 2014 – Dec 2014

[5] The official exchange rate quoted by the Central Bank of the Russian Federation

Notwithstanding this, we continue to see a number of opportunities in mobile and video advertising, and in our games business. Based on current visibility and current market conditions, we expect FY 2015 revenue growth, including both VK and HeadHunter on a pro-forma basis, to be between 7%-12%. We will continue to maintain tight cost control, however we are somewhat impacted by FX headwinds as some of our costs are USD denominated. While we have managed to offset some of the FX impact on USD based costs there is still some effect, and hence we anticipate full year EBITDA margins at between 46-47%.

Appreciation

It is important to recognise the continued contribution of our people to our success. We have commented many times that our employees and management show dedication and skill and their efforts have been key to the Company's long term future. 2014 was a year where this continued to be true. On behalf of the board I want to extend our congratulations on their achievements and thanks for their hard work.

Finally the board wishes to express its thanks for the continuous support from our shareholders who continue to believe and encourage us. While 2015 will have some challenges as a result of the macro-economic and geo-political backdrop our business remains strong and we continue to see many opportunities. As such we look to the future with confidence.

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

Operating review

Our services attract millions of users 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 and mobile applications by continuously offering new features and internet value-added services (IVAS) – including online games and virtual gifts.

Email, Portal & IM

Email

We provide the largest email service in the Russian-speaking internet. In December 2014, our service had 45.6 million monthly active users and 18.3 million daily active users in Russia alone (TNS, all Russia, age 12-64, desktop). Worldwide, our email service is the sixth largest by monthly active users (63.8 mln, comScore).

Our email service is integrated with many of the Company's other communications services. These include Cloud.Mail.Ru, Mail.Ru Agent and several others. Currently our email service delivers approximately 450 million messages a day and has a data storage capacity exceeding 28 petabytes.

Revenue is generated through display and context advertising.

In mid-2014 we updated the branding of our portal and email service. We refreshed the color scheme and introduced a new portal menu which is based on common design and navigation principles for all portal projects and ensures a unified user experience across all platforms and device sizes.

We also integrated email with our cloud storage service Cloud.Mail.Ru. Users were allowed to save files to and attach files from the cloud, as well as edit attachments (documents, spreadsheets and presentations) via online document editor in Cloud.Mail.Ru.

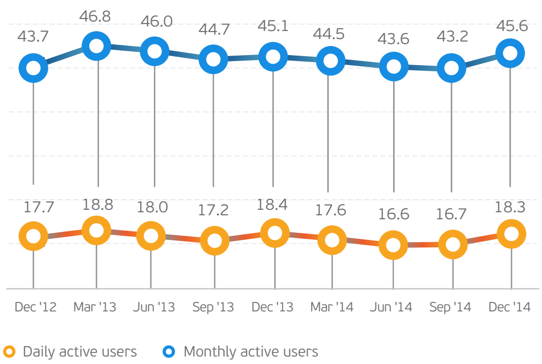
To facilitate the work with a large amount of messages we released a handy tool "Clean up your mailbox". On launch the tool analyses the entire mailbox and suggests sorting incoming messages from certain senders into folders Discounts, Social Networks and Newsletters. Before accepting changes the user can tailor filtering rules to his needs by dragging and dropping senders among these folders or completely deleting them. Upon completion the tool sorts existing messages as well as sets filters for new ones. In addition, the user is offered to create a filter if he moves several similar message in a row to a certain folder.

In the end of 2014 we introduced conversation view option that groups all replies and their original messages in threads and allows users to easily follow extended conversations. In a single thread, or conversation, most recent messages are displayed at the top, unread messages are expanded and read messages are collapsed.

Among other new features launched in 2014 that enhance users' productivity are ability to save message templates; ability to unpack and view archived files attached to emails directly in browser (on desktop and mobile web); keyboard shortcuts to navigate between messages and pages with message list, scroll through attachments, delete messages; mass actions with messages; "Archive" folder and ability to archive a message with one click instead of deleting it.

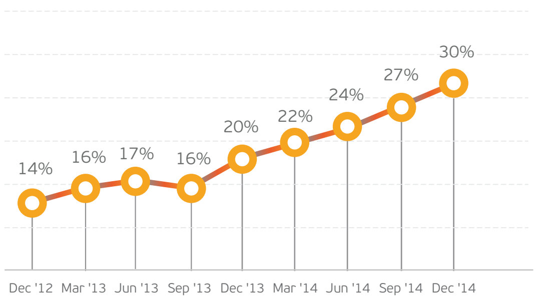
Our myMail became the most downloaded alternative email client on both iOS and Android globally. We integrated our email and cloud services and significantly improved user security.

Mail.Ru email, desktop users in Russia, mln



Source: TNS, all Russia, age 12-64, desktop

Mail.Ru email, share of monthly active users accessing via mobile devices[1]



Source: Company data

MY.COM / MYMAIL

Since mid-2014 myMail has been the most downloaded alternative email client on both iOS and Android globally. The US is the largest market followed by UK, France, Germany and Brazil and in January 2015 we had over 2.5mln MAU and over 1.0mln DAU. In 2015 we have begun some monetisation experiments inside of the myMail product.

With respect to product development, in April 2014 we opened registration of @my.com email accounts. Given email being consumed on mobile more often than on desktop, we decided to make @my.com accounts accessible via mobile devices only. By doing that we forced ourselves to focus on creating an email experience that works the way users need it to on mobile – fast and easy. Additionally, to make @my.com email more secure we decided to forgo using passwords. When user needs to sign in, we send him a unique code via SMS to the mobile number he used to register for the account.

During the year we released multiple updates for myMail apps. Both iOS and Android apps received support for Microsoft Exchange ActiveSync and offline actions with messages (actions are automatically synchronised anytime an Internet connection is available); options to edit personal data and avatars, manage folders and filters; extended notification system and ability to reply to/delete message on lock screen or in notification center/shade (supported by iOS8 and Android 5). The iOS app was optimised for iOS 8 and iPhone 6/6 plus, while the Android app was updated with Android L Material Design.

In addition, the iOS app was updated with ability to attach files from other apps, share extension to easily send images from iOS photos and other apps via email and digital signature in request to server for additional security.

Alongside with the interface development we continued to focus on email service performance. We optimised the performance of email web interface for tablets, further increased message loading speed (servers respond in less than a half a second in over 99% of cases) and launched a light version of email web interface for old browsers (IE6 and IE7). We also introduced an email zipping system that saved us about 18% of storage space.

As a provider of email services to millions of users, we recognise how important it is to protect privacy and security: secure services are instrumental in maintaining trust. On that front we introduced two-factor authentication (password + code via SMS) across most of Mail.Ru projects and mobile apps (including email service). We made SSL-encrypted connection mandatory for all email clients accessing Mail.Ru servers via POP3 and SMTP protocols. On the main page we

[1] Mobile users include users who accessed the project solely via mobile applications or mobile versions of the website as well as users who accessed the project from both mobile and desktop devices

added support for Content Security Policy (fraud prevention) and restricted access to HTTPS only. On all content project HTTPS access was set as a default.

In addition, we launched Security.Mail.Ru, a special project with tips on how to enhance security of email boxes, as well as any accounts that require login and password, and a Bug Bounty reward program for finding vulnerabilities in Mail.Ru email service, Cloud.Mail.Ru, Calendar.Mail.Ru and Mail.Ru for Business.

Mobile continued to be one of our primary focuses. We updated the interface of email mobile web version. In particular, we introduced new graphic design (new colors and icons in accordance with Mail.Ru portal rebranding, larger fonts, round avatars), quick actions on left swipe and multiple message selection by tapping an avatar.

With respect to mobile apps updates, please refer to myMail section since the development of Mail.Ru email apps closely corresponds to the development of myMail.

By the end of 2014 combined daily audience of Mail.Ru email applications reached over 4.0mln users with the majority of them using Android- and iOS-based devices. The total number of mobile daily users, including applications and web, accounted for 22.5% of the email service daily audience.

Mail.Ru for Business

In February 2014 Mail.Ru for Business launched a new service Migration. It allows businesses to move their corporate email from third-party servers to Mail.Ru yet retaining all correspondence and former email addresses. The businesses that used the Migration service will enjoy all benefits and advantages of Mail.Ru email service: easy-to-use web interface and mobile applications for all popular platforms, mailbox of unlimited size, ability to preview and edit MS Office docs online, secure anti-spam and anti-virus systems, etc.

In August 2014 we launched Mail.Ru for Education, a free service for schools and universities which allows them to set up Mail.Ru-powered email service on their own domains.

Over the last year Mail.Ru for Business partnered with several domain name registrars, including Webnames.ru, Nethouse.ru, Registrant.ru, etc. When a client purchases a domain from one of these partners, he is offered to set up Mail.Ru-powered email service on that domain without leaving the registrar's website.

In addition, we significantly extended the range of tools for administrators to help them manage corporate email service and users more effectively. In particular, we introduced domain and email aliases, deferred account deletion, ability to block users, restrict password changes, create groups (mailing list) and export the list of accounts. Among other things, we introduced synchronisation with Active Directory and DKIM signature that associates an email message with a domain name and protects from forgery.

By the end of 2014 cumulative number of domains powered by Mail.Ru reached 85 thousand.

Cloud.Mail.Ru

In June 2014 we launched an online document editor that initially supported .doc/.docx files. Few months later, in September, we expanded its functionality by adding the support for spreadsheets (.xls/.xlsx) and presentations (.ppt/.pptx). The document editor is based on internally developed technologies, while the spreadsheet and presentations editor is based on Microsoft Office Online. In November 2014 we allowed users to share folders with other people and to choose what type of access, edit or view-only, each invitee has in the shared folder. The feature is available across all platforms.

To protect our users as well as prevent the spread of viruses in the internet we introduced automatic virus scanning. We scan all files with Kaspersky Anti-Virus right after they are uploaded to the cloud.

On the mobile side, we updated Cloud.Mail.Ru apps for iOS and Android with ability to watch video (video streaming), to select folder for camera autoupload feature and to set up a PIN for additional security.

In the end of 2014 we announced that Cloud.Mail.Ru moved from beta to full release. While free online storage space for new users had been reduced from 100GB to 25GB, it still remains the largest free offer in the Russian internet. Since the service was launched in August 2013, 24 million accounts have been registered and 3.2 billion files with total size of 18.9 petabytes have been saved.

Calendar.Mail.Ru

Calendar.Mail.Ru has received multiple improvements as well. We introduced agenda and year view for calendars, option to import calendars from Google and Yandex, new interface to manage calendars, calendars with friends' birthdays from social networks; and relaunched CalDAV.

Instant messengers

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

During 2014 we updated ICQ and Mail.Ru Agent apps for iOS and Android with a new lightweight interface, extended notification settings (push notifications, quick reply on lock screen, custom sounds, etc.) and ability to send multiple photos and videos at once. We significantly improved performance of these apps, increased the speed of message sending and optimised photo/video/file sharing. iOS apps of both messengers were also optimised for iPhone 6 / 6 Plus.

On the technology side, we added synchronisation of chat history to Mail.Ru Agent mobile apps (iOS and Android). It enabled users to access chat history and resume the conversation across all major platforms (mobile or desktop). In voice and video calls on iOS apps (ICQ and Mail.Ru Agent) we implemented adaptive switching between GPRS and Wi-Fi on the fly.

In addition, we switched ICQ to our general anti-spam system of Mail.Ru and introduced SSL encryption of messages on both ICQ and Mail.Ru Agent.

Content projects

The majority of our content projects hold leading positions in their respective categories. We maintain this leadership by focusing on the quality of their content and regularly offering special projects covering major cultural, entertainment and sport events. Our editorial staff successfully competes with off-line media by attracting a large number of new advertisers, who were previously sceptical about online publishing. We have also systematically launched localised versions of our content projects, primarily in the CIS countries.

Afisha.Mail.Ru introduced new user-friendly interface with a focus on movies and TV series and continued increasing catalogue of online video by signing agreements with major Russian online providers.

Horoscopes project released its first iOS and Android apps. At the end of the year these apps were listed among the Best Android Apps of 2014 (by Google) and among the best new apps on the App Store (by Apple). Both apps are available in Russian, English and Spanish languages. In addition, a completely new web version of Horoscopes, which tailors content for each authorised user, was introduced.

During the year we also redesigned Auto.Mail.Ru, Health.Mail.Ru and Weather.Mail.Ru projects and launched new sections Apps and Household Appliances on Hi-Tech.Mail.Ru.

Social networks

We operate two largest Russian language social networks – VKontakte (VK) and Odnoklassniki (OK.RU). They enable users to find and communicate with friends, family and colleagues.Our products include newsfeed, messaging services, status updates, photos, user-generated videos and other features. Users can play games together, send each other online gifts, recommend websites and keep track of events, such as birthdays. We frequently add new products and services to maintain and increase users' engagement. Mobile applications and web versions of our sites, which are optimised for use on smartphones and other mobile devices, have also been developed. Revenue is generated principally through online advertising and internet value-added services.

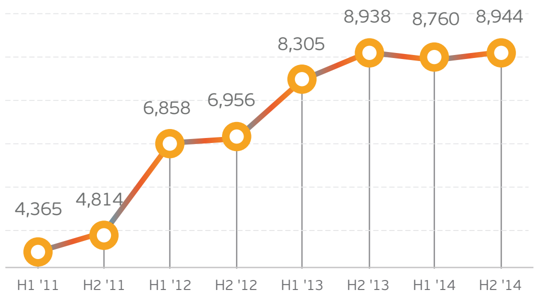
VK

VK is the largest Russian language social network. In December 2014 its global daily active audience reached 66.3 million users demonstrating 19% Y-o-Y growth (LiveInternet). The average VK user spends over 30 minutes per day on VK from desktop devices only (comScore). VK has achieved a truly dominant position not only domestically, but also across other Russian-speaking markets.

VK users all over the world on average day of 2014 sent 2bn messages, uploaded 13mln photos, clicked 600mln likes.

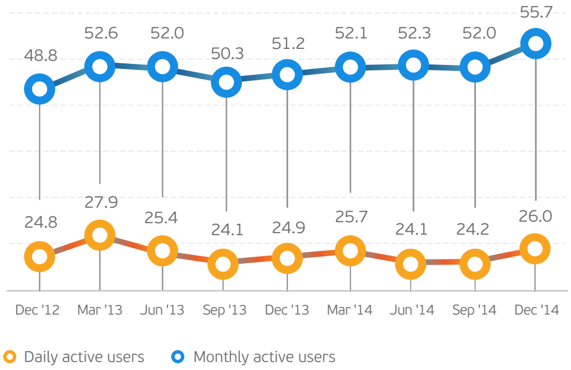
Mobile continues to be one of our primary focuses and 2014 was another successful year in terms of mobile. During the year VK released new versions of applications for all major platforms (iOS, Android, Windows Phone, Windows 8). In particular, iOS and Android apps received newly designed interface (optimised for iOS 8 and Android 5), extended community management features and photo auto enhance

Community IVAS, thousands of average monthly paying users



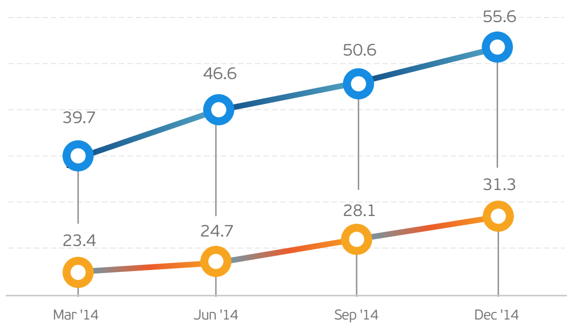
Source: Company data
Note: The numbers combine paying users of VK, OK.RU, My World, Love.Mail.Ru and our own social games on third-party networks and may include overlap

VK, desktop users in Russia, mln



Source: TNS, all Russia, age 12-64, desktop

VK, mobile users, mln[1]



Daily active users   Monthly active users

Source: Company data
Note: Data is only available since 2014

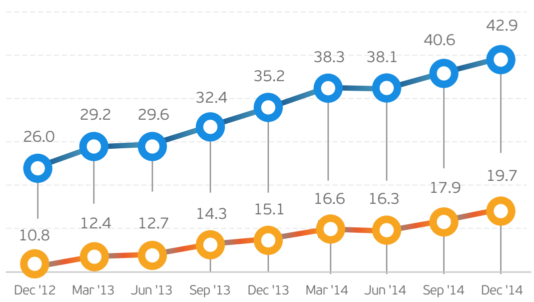
feature. Today VK apps for iOS and Android combined are the most popular mobile apps in Russia in terms of both downloads[2] and audience[3].

Watching videos has become an important activity for users in Russia and VK gives particular attention to improving video service. In 2014 we have significantly updated both frontend (interface and design) and backend (upload & storage optimsation speed). Another part of work included video content licensing, VK managed to aggregate video content from major Russian right holders including TV, video bloggers and other content providers.

Messaging functionality has undergone significant improvements giving users a much more friendly experience. This includes multichats for up to 50 people, stickers, message featuring and multiple minor improvements.

User privacy and security improvement was another important area of work in 2014. We launched 2-step verification process which offers three options to receive a code – SMS to mobile phone number linked to a user profile, reserve codes and code generating app – and provided a user-friendly interface to enable this feature. We also set HTTPS access as a default, released activity history with device type and IP and introduced suspicious activity notifications.

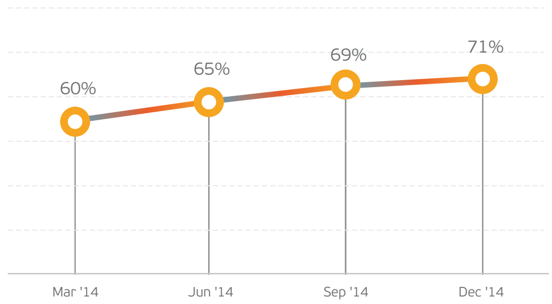
OK.RU, mobile users, mln[1]



Daily active users   Monthly active users

Source: Company data

VK, share of monthly active users accessing via mobile devices[1]



Source: Company data
Note: Data is only available since 2014

New commercial products launched in 2014 include mobile ads, community promotion ads, branded gifts and stickers. In March 2015 VK participated in the launch of the advertising platform myTarget which combined the mobile traffic of all three social networks of the Company – VK, OK.RU and My World (for more details please refer to Sales and marketing part on pages 25-26 of this annual report).

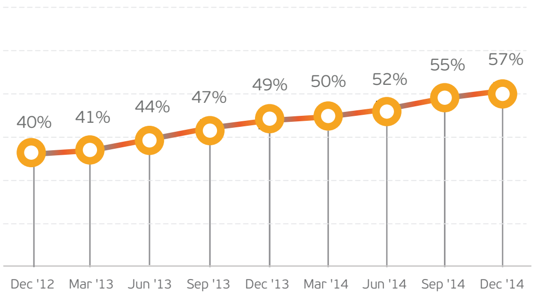
OK.RU

Over 2014, OK.RU continued to grow user engagement. Daily active users grew 9% year-on-year, reaching 45.6 million (December 2014 average, LiveInternet). In 2014, approximately 39% of OK.RU users were from outside of Russia, primarily from the countries of the former Soviet Union.

During 2014 we've been increasingly focused on enhancing and promoting video service in OK.RU. We extended collection of licensed content (mostly popular Russian TV series and shows, but movies as well) and ensured it is timely updated with latest releases; improved navigation menu making it easier for users to find videos according to their interests; launched user-generated content channels and subscriptions to channels thereby preparing the ground for videoblogging.

In addition, we introduced multiple updates to the video player. Besides the video itself the player now shows a feed with recommended similar videos as well as other videos from

OK.RU, share of monthly active users accessing via mobile devices[1]



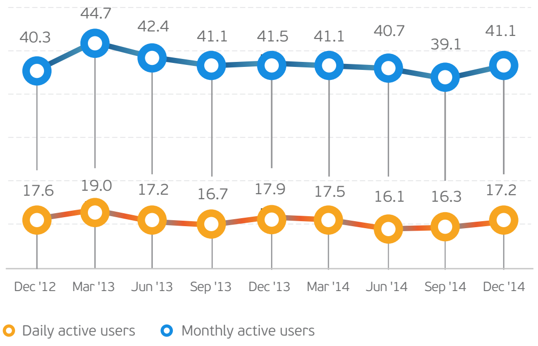
Source: Company data

[1] Mobile users include users who accessed the project solely via mobile applications or mobile versions of the website as well as users who accessed the project from both mobile and desktop devices

[2] Source: App Annie Index, Top Apps, iOS and Google Play combined, Russia, Overall, Jul 2014 – Feb 2015

[3] Source: TNS, Russian cities with population over 700 thousand, age 12-64, Jan 2015

OK.RU, desktop users in Russia, mln



Source: TNS, all Russia, age 12-64, desktop

the channel being watched. Users can also subscribe to the channel, turn on autoplay option to automatically move to the next video or embed video on a third party website.

Another achievement was the implementation of adaptive video streaming that allowed to automatically adjust video quality based on the internet connection speed. As a result, the time before video starts to play has been reduced sixfold on desktop and twelvefold on iOS and Android platforms.

All the above allowed us to increase the audience of OK.RU video service 5 times during 2014 and set a record of 210 million views per day in February 2015.

With respect to other services, we launched new photo layer for viewing and commenting on photos, enabled background photo uploading, launched facial recognition feature that allows users to tag friends right after uploading photos. The music service was updated with extended tools for editing playlists, option to upload multiple songs and suggestions in song search. We also introduced multiple enhancements to the chat service (completely redesigned interface, audio and video messages, photo and video attachments, stickers, etc.) and released a new builder of custom gifts.

Security and anti-spam systems received multiple improvements as well. Among them are validation of suspicious logins, logout from all devices, CSP and X-XSS-protection, http filters, new Moderator app for Android enabling users to moderate photos and videos from the smartphone and receive virtual gifts in return.

Mobile remains one of the key areas of our product development. In 2014 we released several updates of OK.RU apps for iOS, Android and Windows Phone bringing in an updated look of the newsfeed, improved navigation menu and completely new profile page, as well as allowing users to send audio and video messages in chat. On mobile web version we introduced music player, new interface of chat with emoticon support, new photo layer, new profile page and several new portlets (with gifts, friendships, birthdays, etc.) in the newsfeed. These steps, together with a global trend of increasing internet usage via mobile devices, supported continuing growth of the share of mobile users among OK.RU audience. In December 2014, it reached 57%, compared with 49% a year ago.

My World

In December 2014, My World had 26.3 million monthly active users and 4.2 million daily active users in Russia alone (TNS, all Russia, age 12-64, desktop). Approximately 50% of the network's user base is outside Russia.

In 2014 we introduced multiple updates to My World media services. In particular, we redesigned the video section and the video player, released a new HTML5 video uploader, launched video channels with licensed and user generated content and completely reworked the music service bringing in a new interface and music recommendations. Among other developments, we updated the layout of user and group profile pages, released new people search and added English and Kazakh language interfaces.

To encourage the gaming activity on the network we introduced a set of new mobile HTML5 games and new games catalogue, as well as an API for third-party game developers allowing them to display achievements, scores and titles of users in games.

We also remained focused on mobile. During 2014 we updated My World apps for iOS and Android with video service, notifications in sidebar menu, native sharing of content, a new games catalogue, ability to edit the user profile and use the app without registration. On the mobile web version of My World we introduced videos in newsfeed, multipost pages and new look of the games notification section.

With strong performance of Warface, successful launch of Evolution and coming international releases of Skyforge and Armored Warfare we continue to execute on our games strategy

Online games

We operate the largest online games business in Russia. Our portfolio includes the leading Russian internet MMO games such as Warface, Perfect World, Archeage and Allods Online. In 2014 the average number of monthly paying users increased 23% Y-o-Y to 644 thousand.

Historically, the bulk of our online games revenue has been generated by MMO games. These are played in “virtual worlds”, hosted by networked games servers that allow thousands of players to connect and play simultaneously. Our portfolio currently includes internally-developed games, such as Skyforge, Allods Online and Legend: Legacy of the Dragons. It also includes Russian versions of games, such as Warface, Perfect World, ArcheAge and Crossfire, licensed from third parties.

We operate the largest online game platform in Russia which is comprised of gaming portal Games.Mail.Ru and games downloader GameCenter.Mail.Ru. The latter once installed serves as a single channel for our games distribution and allows users to seamlessly download and update games even with unstable internet connection. By the end of 2014, GameCenter.Mail.Ru had about 1.8 million peak concurrent users.

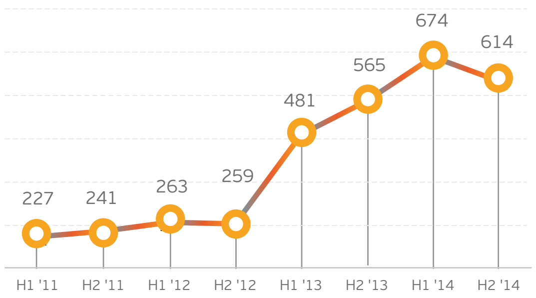
The mobile games we offer are developed internally. Most of them are available on both Apple App Store and Google Play and feature cross-platform synchronisation which allows players to switch seamlessly between mobile devices and platforms and continue their game right where they left off. Cross-platform gameplay increases user engagement and retention. We market our mobile games through mobile advertising networks and cross promotion between mobile apps of our projects and services.

The games we offer on social networks are either developed internally or by third-party developers through APIs on the networks. We operate our games on Facebook as well as on our own social networks VK, OK.RU and My World.

MMO games

Our first person shooter Warface demonstrated a strong performance in 2014 solidifying its leading position in our gaming portfolio. Despite being 3-year old Warface set another revenue record in December 2014 which indicates the game has not yet reached maturity.

MMO games, thousands of average monthly paying users



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

We continue to develop cybersport in Russia on the basis of Warface. We host Warface tournaments regularly and recent Warface Open Cup: Winter 2015 set a record for attendance and live streaming views. The final game attracted about 2.5 thousand and 276 thousand offline and online viewers respectively.

In February 2014 we launched ArcheAge, a new client-based game licensed from South Korean game developer XL Games. ArcheAge is described as a "sandpark" MMORPG, which is a hybrid of the open content style of a "sandbox" game and the more structured play experience of a "themepark" game. The project attracted strong user interest and engagement at launch, however in mid-2014 it encountered technical difficulties due to numerous hacker attacks which led to a decline in audience and revenue. In Q4 2014 the issue was largely rectified and the game managed to enter the top 3 list of our revenue generating titles.

With respect to our internally developed MMORPG Skyforge, we have recently launched the game in Russia and are running closed beta tests in North America and Europe. Russian launch took place in two stages: on March 26, 2015 early access was granted to players who had bought founder’s packs and on

MY.COM / MYGAMES

Evolution: Battle for Utopia

available for iOS and Android

Evolution is a science fiction RPG that brings together high-end graphics, solo action combat, player vs player missions and deep, engaging story- and world-building. The game is free-to-play with in-app purchases.

Iron Desert

available for iOS and Android

Iron Desert is a tactical combat game with modern warfare, powerful artillery, your own military base and dynamic battles for resources. The game is free-to-play with in-app purchases.

Jungle Heat

available for iOS, Android and Facebook

Jungle Heat is a combat strategy game. Build and fortify your military base, hire and train your troops, battle with other players, destroy their bases and seize their resources. The game is free-to-play with in-app purchases.

April 2, 2015 Skyforge became available to the general public. The overall feedback is positive and the game has become one of the most anticipated MMO games by the international gaming community.

Skyforge is a highly-stylised MMORPG featuring exciting dynamic combat inspired by console action games, where players could become mighty Gods. The game is developed by our internal studio Allods Team in collaboration with Obsidian Entertainment. It is published under our Mail.Ru Games brand in Russia and our My.com brand in North America and Europe.

Mobile games

In line with the global trend mobile games continued to become an important component of our gaming business. In 2014 we launched two mobile games, Evolution: Battle for Utopia ("Evolution") and Iron Desert, increasing our My.com game portfolio up to five games (the other three games are Jungle Heat, Poker Arena and Lucky Fields). Evolution was well received by the gaming community and listed among Best of 2014 in Google Play and Apple App Store annual ratings.

Among other developments, we released a social version of our mobile game Jungle Heat on Facebook, VK, OK.RU and My World in order to increase user engagement and provide seamless continuous game experience across mobile and desktop platforms.

For 2014 Jungle Heat and Evolution were among our top-5 revenue generating games.

Coming launches

Our game pipeline includes three MMO titles to be released under the My.com brand – Skyforge, Armored Warfare and World of Speed.

Skyforge, an internally developed title, has been launched for Russian users only, while it is currently in closed beta testing in North America and Europe. Full international release is coming later this year.

Armored Warfare is an action-based MMO featuring modern tank combat with player vs environment (PvE) or player vs player (PvP) modes, developed by the US-based game developer Obsidian Entertainment. The game is under alpha testing in North America, Europe and Russia and is expected to go into closed beta in Q2 2015.

World of Speed is a graphically stunning racing MMO with strong focus on social elements such as team play and auto clubs, developed by the UK-based game developer Slightly Mad Studios. It will potentially go into closed beta in the second half of 2015.

Major online games launches in FY2014 - 1Q2015

Game	Ownership	Type	Launch date
Archeage	Licensed	MMO (client-based)	Feb 2014
Evolution: Battle for Utopia	In-house	Mobile	Apr/Jun 2014 (iOS/Android)
Iron Desert	In-house	Mobile	Oct 2014 (iOS/Android)
Skyforge (Russia)	In-house	MMO (client-based)	Mar 2015

Search, e-commerce & other

Search

Our search service, Go.Mail.Ru, is the third largest in the Russian internet market: in December 2014 it processed 6.4%[1] of all web search queries. In addition to Russia our search has a large presence in other CIS countries. Search monetisation is provided by Yandex technology.

In 2014 we sped up search engine indexing to ensure that the most relevant and up-to-date news and facts show up in search engine result page (SERP). Much work has been done with image and video search – in terms of both user interface and search results relevance. This led to the growth of user activity on the website.

Additionally we continued to develop and improve our browser Amigo. In 2014 we introduced a browser-based app Amigo Music for listening to music from social networks and released a mobile version of Amigo for Android.

Decrease of our search market share[2] in 2014 was attributed to the change in the approach to search distribution.

E-commerce

We develop a number of online platforms for e-commerce and respective infrastructure. Revenues from these businesses are generated through a combination of online advertising and listing fees.

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

Price comparison. Our price comparison site, Torg.Mail.Ru, contains offers from e-retailers. The service is integrated with our search engine, Go.Mail.Ru, and monetised on a price-per-click basis. In June 2014 we launched a new mobile web version of Torg.Mail.Ru. Two months later we released Amigo and Chrome browser extensions with best price recommendations to online shoppers. In October 2014 a major backend update was implemented. It reduced the time to update goods information six-fold.

MAPS.ME

MAPS.ME

In November 2014, we acquired an award winning offline map service MAPS.ME, based on open-source map data. Listed among the Best Android Apps of 2014 by Google, the app provides fast, completely offline and highly detailed maps of all countries. All map data comes from OpenStreetMap where contributors from all over the world update the map on a daily basis. Thanks to this the maps are detailed and accurate.

Just before acquisition a key routing function had been implemented to the app allowing users to create routes. This feature had switched the development direction from a travel tool to an everyday navigation service.

A few weeks after acquisition we made MAPS.ME free (initially priced at $5). This led to significant growth in downloads: in just two months the app doubled its installed base reaching 14m downloads worldwide. The app is actively used all over the world. Only 11% percent of users are from Russia, 8% of users live in the United States, 7% in Germany.

In March 2015 we released an update which is considered as another step in making the app more convenient to use in everyday life. Maps now contain detailed information about points of interest: opening hours, phone number, website, cuisine type, ATM operator name, gas station operator name and more.

Currently we are focusing on further developing the navigation functionality and improving the quality of map data by supporting the OpenStreetMap community. By the end of 2015 we also plan to provide a universal access to the app code to leverage the power of open source even further.

Right after the acquisition we made MAPS.ME app free and thereby doubled its installed base up to 14m downloads in just two months

[1] Source: LiveInternet

[2] Search market share means the share in total number of search queries

Other activities

IT Infrastructure[1]

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

We locate our computer servers and networking equipment in own data center as well as in rented ones. We also have a number of relationships with third-party IT providers which provide us with a range of telecommunication services, including internet access and internet (traffic) transit.

In 2014 our peak network traffic increased to 780 gigabit per second – up from 685 gigabit per second in 2013. In Moscow we have 25,500 servers with total storage capacity of 52.5 petabytes located in six data centers. It ensures load balancing and protection against the loss of data caused by network or power failures. Additionally in 2014 we started using two international data center facilities – in Amsterdam, the Netherlands and San Jose, California, USA. They are aimed at serving North American and European users of our My.com products and currently host about 800 of our servers.

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

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

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

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

Employees

At the end of 2014, the Company had a total of 3,552 full-time employees. We also work with sub-contractors from time to time. We value our employees and believe that our culture encourages individuality, creativity and commitment to providing excellent service to our users.

A significant proportion of our employees possess a strong product and technical background, allowing them to contribute to our product development effort. These activities help the Company to develop new products and enhance existing ones. During 2014, our research and development activities have been primarily focused on communication products and online games.

In 2014, we continued to invest in our people and their development. Our regular IT championships, including Russian Code Cup programming contest, have become prominent events in Russian-speaking Internet attracting a wide range of participants: from students and novice programmers to leading experts in various information technology fields. Our student development center Technopark.Mail.Ru, founded in 2011 in collaboration with Bauman Moscow State Technical University, is gaining popularity: more than 350 students now participate in the 2-year learning program. In 2014, encouraged by this achievement and drawing on the experience of Technopark, we also launched Technosfera.Mail.Ru in collaboration with Lomonosov Moscow State University. In 2014 alone, 47 students of our education projects joined the Company.

Sales and marketing

We sell advertising inventory through a contract-based process managed by our own sales force as well as through self-service advertising platform. As of December 2014, we had 161 employees selling display and context advertising and 60 employees working on internal advertising technologies.

Our sales force is focused on attracting and retaining advertisers and providing support to them on all stages of the ad campaign. Advertising price is determined in the process of negotiations. Our internal sales force for display and context advertising works from the Moscow HQ and eleven regional offices throughout Russia. We have established regional sales offices to enable us to broaden our base of advertisers to regions outside the Moscow area, which have historically represented a smaller share of overall internet advertising in Russia. We also work through partners in Europe and CIS countries.

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

Our self-service ad platform allows advertisers to launch and manage their advertising campaigns online. Ad price is determined programmatically through an auction process which takes into account the bid on impression and estimated click-through rate. The higher the value of either metric, the more likely the given impression will be served.

After fully consolidating VK in September 2014 we started replacing our self-serve ad platform Target.Mail.Ru with an integrated ad platform that would leverage extensive personal data on users across all three social networks, VK, OK.RU and My World, to provide advertisers with the best targeted solutions in Russian-speaking internet. As a first step, in March 2015 we launched advertising platform myTarget. myTarget currently offers mobile ad inventory on VK, OK.RU and My World and desktop

[1] all data excluding VK

ad inventory on OK.RU and My World. The platform also allows third-party developers to monetise their mobile apps and websites by joining to its affiliate program (ad network).

Being the largest source of mobile traffic, myTarget enables advertisers to reach almost any mobile user of the Russian-speaking internet. Among the key features of the platform are native newsfeed ads in social networks, more than 250 types of targeting, detailed statistics available online, technology that filters bots and click fraud, automated optimisation of ad campaigns to pay less, and support for popular mobile analytics services.

Intellectual property

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

Employees by function as at the end of 2014

Financial review

This review reflects highlights of our financial performance for 2014. Full details can be found in the annual financial statements presented on pages 54 to 107 of this annual report.

Overview of consolidated results

Despite an increasingly challenging macroeconomic situation throughout 2014, it has been another successful year for the Company as we continued to execute on our strategy and achieved solid results. While online advertising and our HeadHunter business were negatively affected by the macro headwinds, MMO games and Community IVAS revenues showed strong resilience and remained our key growth drivers. In spite of the challenges from the overall macro backdrop and the rouble devaluation, we were able to maintain strong margins due to tight cost control and the operating leverage characteristics of our business, while continuing to dedicate substantial resources to driving user engagement and product development.

Structure

In 2014 we fully consolidated VK, and as a result, our core business now operates in five major reportable segments: (1) Email, Portal and IM, (2) Social Networks (ex VK), (3) Online Games, (4) VK and (5) Search, E-Commerce and Other. The Email, Portal and IM segment includes email, our instant messaging services and the Mail.Ru portal; the Social Networks (ex VK) segment includes OK.RU and My World social networks; the Online Games segment comprises our browser-based, client-based, mobile and social games. The VK segment includes the VK.com social network. The Search, E-Commerce and Other segment includes search services, e-commerce projects including HeadHunter and certain other projects. The other projects are considered insignificant for the purposes of performance review and resource allocation. Please refer to "Operating segments performance – Basis of preparation" below for more details on operating segments presentation.

We also hold 1.31% in Qiwi PLC ("Qiwi") and a number of small venture capital investments in various internet companies in Russia, Ukraine and Israel.

Acquisitions and disposals

In 2014, we acquired the remaining 60.01% in VK for an aggregate consideration of RUR 67,215 million (net of cash acquired) including RUR 67,015 million in cash and a written call option to acquire 100% of HeadHunter with a fair value of RUR 200 million. The call option subsequently expired unexercised, and we continued to consolidate and operate HeadHunter as part of our business.

We also sold 9.11% (2013: 10.95%) of economic interest in strategic associate Qiwi for an aggregate net cash consideration of RUR 6,401 million (2013: 3,912). We also gave up a non-executive director seat on Qiwi's board of directors and lost significant influence over Qiwi. Accordingly, we de-recognised the investment accounted for using the equity method and recognised the remaining 1.31% in Qiwi as an available-for-sale investment. In addition, in 2014 we acquired MAPS.ME, a mobile maps and navigation service based on OpenStreetMap data that allows users to access maps both online and offline. We also made several smaller acquisitions and disposals of minority investments in various internet companies in Russia and Israel as part of our venture capital operations.

Accounting impact of acquisitions and disposals, impairment of investments

The acquisitions and disposals of 2014 and prior years had a significant effect on our 2014 and 2013 consolidated financial statements as summarised below:

	2014 RURm	2013 RURm
Net gain on disposal of shares in available-for-sale investments	-	15,620
Net gain on disposal of shares in strategic associates and loss of significant influence	6,482	3,310
Net gain on acquisition of control over strategic associates	40,831	-

The gain on acquisition of control over strategic associates in 2014 resulted from the revaluation of the non-controlling equity investment in VK that we held prior to the acquisition of control.

The gain on disposal of shares in available-for-sale investments resulted from the disposal of our investment in Facebook in 2013. The gains on disposal of shares in strategic associates and loss of significant influence resulted from our disposal and subsequent loss of significant influence in Qiwi.

In addition to the effects presented in the table above, there are several other effects on our 2014 earnings resulting from acquisitions and disposals in prior periods. These effects make it difficult to evaluate trends in our underlying business, and accordingly, we evaluate and manage our business on the basis of management accounts that do not reflect certain adjustments required under IFRS. The management accounts data is discussed under "Operating segments performance" below (see also Note 5 to our consolidated financial statements for further details).

Goodwill

We account for business combinations by applying the acquisition method. As a result, we record goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. The significant goodwill recorded in connection with our acquisitions may lead to charges in future periods if the goodwill is impaired.

The total goodwill amounted to RUR 126,380 million as at December 31, 2014, and increased by RUR 93,411 million from December 31, 2013 mostly as a result of the VK acquisition (see also Note 6 to our consolidated financial statements for further details).

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

Consolidated results of operations in accordance with IFRS

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

	2014 RURm	2013 RURm
Total revenue	32,327	27,070
Net gain on venture capital investments and associated derivative financial assets and liabilities	(5)	148
Total operating expenses (excluding depreciation, amortisation and impairment)	(15,586)	(14,227)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	16,736	12,991
Profit before income tax expense	64,716	29,778
Income tax expense	(2,322)	(3,189)
Net profit	62,394	26,589
Attributable to:		
Equity holders of the parent	62,353	26,564
Non-controlling interest	41	25

Consolidated revenue

In 2014 our consolidated revenue increased by 19.4% to RUR 32,327 million (2013: RUR 27,070 million) due to a combination of organic growth and the consolidation of VK in Q4 2014. The effect of the VK acquisition was RUR 1,345 million or 5% of 2013 revenue. The organic growth drivers are described under “Operating segments performance” below.

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

EBITDA increased by 28.8% to RUR 16,736 million (2013: RUR 12,991 million) and EBITDA margin increased to 51.8% in 2014 (2013: 48.0%) as a result of operating expenses (excluding depreciation, amortisation and impairment) growing at a slower pace than revenues. Operating expenses grew 9.6% to RUR 15,586 million, or 48.2% of revenue (2013: RUR 12,991 million or 52.6% of revenue). The consolidation of VK contributed RUR 763 million in operating expenses in 2014 (5% of the 2013 consolidated operating expenses) and RUR 582 million in EBITDA (4% of the 2013 consolidated EBITDA). The key drivers and components of the organic growth in operating expenses are discussed in detail under “Operating segments performance” below.

In addition to those drivers, the increase in operating expenses was partially offset by a net RUR 117 million gain on share-based payments transactions in 2014, compared to a RUR 1,856 expense in 2013. The net gain is primarily the effect of a significant decrease of liabilities related to cash-settled share-based payments as a result of a decline in the Company’s GDR price, combined with lower equity-settled share-based payments expense due to graded vesting of the respective options.

Equity accounted results

The share in net profits of associates amounted to RUR 220 million (RUR 240 million in 2013). The decrease is primarily due to the loss of significant influence over Qiwi and the consolidation of VK.

Profit before income tax and net profit

Profit before income tax expense increased 117.3% to RUR 64,716 million (2013: RUR 29,778 million) primarily as a result of the effects of acquisitions and disposals of investments described above and an increase in foreign exchange gains from RUR 53 million in 2013 to RUR 4,661 million in 2014.

Net profit for the year increased 134.7% to RUR 62,394 million (2013: RUR 26,589 million) as a result of the increase in profit before tax and a 27.2% decrease in income tax expense.

The decrease in income tax expense is primarily due to a RUR 1,216 million net reversal of deferred tax on unremitted earnings of our subsidiaries (2013: net RUR 75 million expense) as a result of a significant decrease in the cash balance of the subsidiaries, as we spent most of our cash balance on VK acquisition. This effect was only partially offset by an increase in taxable income arising from our operating subsidiaries. The change in income tax expense was not correlated to the growth in profit before income tax also because most of M&A-related gains, as well as share-based payment transactions and our share in net profits of most associates, were not taxable or deductible for income tax purposes. The drivers of organic growth of profit before tax and income tax expense are further described in Section “Operating segments performance” below.

Operating segments performance

Basis of preparation

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

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

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

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

Accordingly, the financial information of VK is consolidated in segment reporting on a pro forma basis starting from January 1, 2013.

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

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

- Email, Portal and IM;
- VK (Vkontakte);
- Social Networks (ex VK);
- Online Games; and
- E-Commerce, Search and Other Services

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

The VK segment includes the Company's social network Vkontakte and earns revenues from (i) commission from application developers based on the respective applications' revenue, (ii) user payments for virtual gifts and stickers, and (iii) online advertising, including display and context advertising.

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

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

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

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

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

Principal revenue drivers

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

Seasonality

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

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

Analysis of 2014 results compared with 2013

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

*Group aggregate segment financial information**

	2014 RURm	% of revenue	2013 RURm	% of revenue	YoY, %
Group aggregate segment revenue [1]					
Online advertising	12,454	34.8%	11,486	36.9%	8.4%
MMO games	8,414	23.5%	6,654	21.4%	26.4%
Community IVAS	11,870	33.2%	10,219	32.8%	16.2%
Other revenue**	3,041	8.5%	2,806	9.0%	8.3%
Total Group aggregate segment revenue	**35,778**	**100.0%**	**31,165**	**100.0%**	**14.8%**
Group aggregate segment operating expenses					
Personnel expenses	6,577	18.4%	6,074	19.5%	8.3%
Office rent and maintenance	1,643	4.6%	1,339	4.3%	22.7%
Agent/partner fees	4,550	12.7%	3,462	11.1%	31.4%
Marketing expenses	1,164	3.3%	898	2.9%	29.6%
Server hosting expenses	2,227	6.2%	2,025	6.5%	10.0%
Professional services	349	1.0%	306	1.0%	14.0%
Other operating (income)/expenses, excluding depreciation and amortisation	971	2.7%	939	3.0%	3.4%
Total Group aggregate segment operating expenses	**17,481**	**48.9%**	**15,043**	**48.3%**	**16.2%**
Group aggregate segment EBITDA [2]	**18,297**	**51.1%**	**16,122**	**51.7%**	**13.5%**
Depreciation and amortisation [3]	2,154	6.0%	2,064	6.6%	4.4%
Other non-operating income (expense), net	(166)	-0.5%	433	1.4%	-138.4%
Profit before tax [4]	**15,977**	**44.7%**	**14,492**	**46.5%**	**10.2%**
Income tax expense [5]	3,460	9.7%	3,253	10.4%	6.3%
Group aggregate net profit [6]	**12,518**	**35.0%**	**11,239**	**36.1%**	**11.4%**

* The numbers in this table and further in the document may not exactly foot or cross-foot due to rounding.

** Including Other IVAS revenues.

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

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

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

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

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

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

Operating segments performance – 2014

RURm	Email, Portal and IM	Social Networks (ex VK)	Online Games	VK	E-commerce, Search and other	Eliminations	Group
Revenue							
External revenue	4,568	12,422	8,826	4,318	5,644	-	35,778
Intersegment revenue	31	25	-	1	328	(385)	-
Total revenue	4,599	12,447	8,826	4,319	5,972	(385)	35,778
Total operating expenses	2,358	3,433	5,862	2,716	3,497	(385)	17,481
EBITDA	2,241	9,014	2,964	1,603	2,475	-	18,297
Net profit							12,518

Operating segments performance – 2013

RURm	Email, Portal and IM	Social Networks (ex VK)	Online Games	VK	E-commerce, Search and other	Eliminations	Group
Revenue							
External revenue	4,599	10,221	7,184	3,826	5,335	-	31,165
Intersegment revenue	28	34	-	-	322	(384)	-
Total revenue	4,627	10,255	7,184	3,826	5,657	(384)	31,165
Total operating expenses	1,898	2,784	4,799	2,791	3,155	(384)	15,043
EBITDA	2,729	7,471	2,385	1,035	2,502	-	16,122
Net profit							11,239

Online advertising

Online advertising includes two major kinds of advertising technology: Display and Context.

Display advertising revenue is generated from banner and similar advertisements on our properties. Advertisements are sold either on the time that they last, or on the number of ad views. In certain cases, advertisements are sold on a "per action" basis, where our clients pay for each action performed by a user, such as an online application for a credit card. Our standard rates depend on a number of factors, including the property on which the advertisement appears, amount and the length of the contract, the season, and the advertisement's format, size and position.

Context advertising revenue is earned with our proprietary Target technology, as well as through partnerships with third parties.

From 2011, we launched Target, our proprietary self-service context advertising technology, on a number of our properties, including My World and OK.RU social networks. The advertisements are sold to advertisers through an online auction at Target. We generate revenue when users click on advertisements and are directed to advertisers' websites or mobile applications. We have been enhancing the Target product since its launch, with a mobile advertising platform launched in 2013 on our OK.RU and My World properties, as well as new user interface for campaign management, new targetings, new reports and statistics made available to advertisers. Consistent with our focus on the product, we have also been increasing Target's advertising inventory throughout 2014. VK also sells targeted advertising using a similar technology.

We also generate context advertising revenues through our search service. When a user carries out a search on our search page, results – together with advertisement links – are displayed based on certain parameters, including relevance to the topic. Until July 2013, we used Google's AdWords product for the monetisation of our search. We also used a combination of our own search engine and Goggle's search technology to carry out search queries on our search page. Starting from July 2013, our proprietary search engine has been providing 100% of our search results. We also entered into an agreement with Yandex for the monetisation of our search starting from that date.

Additionally, we sell text links to third-party advertising networks (principally Google and Yandex) which are displayed based on certain parameters. When users click on advertisements they are directed to the advertisers' websites; we receive a portion of the subsequent fee earned by the third party.

In 2014, we started to report our advertising revenues as a single line which is a better reflection of both the way that we manage the business, but also to eliminate the significant transfers between the display and contextual revenue lines.

We generated revenue of RUR 12,454 million from online advertising in 2014 (2013: RUR 11,486 million). Our advertising revenue grew 8.4% vs 2013, below Russian online advertising market, mainly because our online advertising revenues contain a larger proportion of display advertising compared to the overall online advertising market. Display was significantly affected by the increasingly difficult macroeconomic conditions throughout 2014.

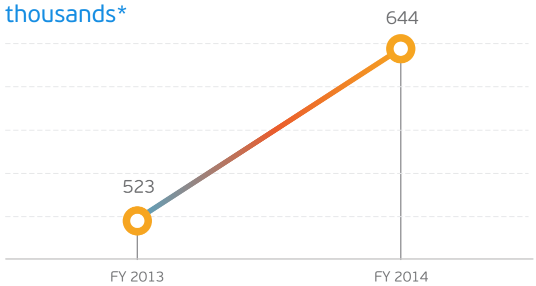
IVASs

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

MMO games

About a quarter of our revenue is generated by MMO games, including client, browser and mobile titles. Players have the opportunity to buy in-game enhancements for these free-to-play games; revenue is recognised net of any commissions of SMS operators, but gross of other revenue collection costs, including commissions paid to mobile app stores. In 2014, we generated revenues from MMO games of RUR 8,414 million (2013: RUR 6,654 million). The 26.4% increase in MMO revenues is primarily due to strong growth in annual average monthly MMO paying users. MMO paying users data is presented in the chart below*:

MMO average monthly paying users, thousands*



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

The success of our best titles, including Warface and mobile games (primarily Jungle Heat, Evolution: Battle for Utopia and Iron Desert), enabled us to significantly broaden our MMO paying user base in 2014 compared to 2013, with slightly increased ARPPU.

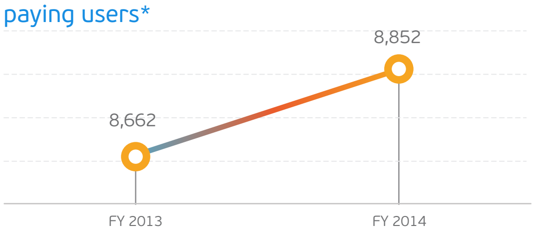
Community IVASs

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

Aggregate segment Community IVAS revenue increased by 16.2% to reach RUR 11,870 million (2013: RUR 10,219 million). The growth was achieved primarily through increase in ARPPU compared to 2013 and, to a lesser extent, through growth in the number of paying users.

Community IVAS monthly average paying users data is presented in the following chart*:

Community IVAS, thousands of average monthly paying users*



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

Other revenue

Other revenue is primarily generated through subscriptions to the résumé database on HeadHunter, our online recruitment property. The increase by 8.3% in Other revenue was achieved in spite of increased macroeconomic uncertainty affecting the labor market and was primarily driven by HeadHunter's continued leadership in online recruitment.

Costs and margins

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

Personnel expenses increased by 8.3% to RUR 6,577 million (2013: RUR 6,074 million), mainly driven by growth in average salaries. Overall, personnel expenses grew at a rate below that of the revenue growth, demonstrating operating leverage of the business and our focus on the quality, rather than number, of people that we hire.

Office rent and maintenance expenses increased by 22.7% to RUR 1,643 million (2013: RUR 1,339 million) reflecting increased average office area and, to a lesser extent, average price per square meter, mainly as a result of our Moscow team moving to a new headquarters building in June 2013.

Agent/partner fees increased by 31.4% to RUR 4,550 million (2013: RUR 3,462 million). The increase in agent/partner fees was primarily driven by growth in royalties and related fees for games licensed from third-party developers, increased revenue collection and digital distribution costs.

The increase in fees for games licensed from third-party game developers resulted from continued strong growth in revenue derived from such games, partially offset by a decrease in average royalty rate as a percentage of the respective revenues.

Revenue collection costs represent fees to payment systems for processing payments for our IVASs. These costs also include the share of our mobile products' revenue that we pay to mobile app stores (mainly Google Play and Apple's App Store). The increase in revenue collection costs was mainly due to the continued success of our mobile products, including Jungle Heat, Evolution and Iron Desert, and the corresponding growth in revenue share paid to mobile app stores. Revenue collection costs in 2014 were also affected by the growth in our IVAS revenues, as well as decreased share of cash collection via SMS, where the collection costs are netted against revenues rather than recorded as a cost line.

Digital distribution represents arrangements whereby we pay third-party websites for distributing our browsers, toolbars, main page and search service to users. The increase in these costs reflects our continued digital distribution effort.

Marketing expenses grew 29.6% to RUR 1,164 million (2013: RUR 898 million), mostly due to increased focus on the world-wide promotion of our key mobile products.

Server hosting expenses increased by 10.0% to RUR 2,227 million (2013: RUR 2,025 million), mainly as a result of growth in the number of servers.

Professional fees increased by 14.0% to RUR 349 million (2013: RUR 306 million). The increase was mainly driven by increased consulting support related to the structuring of our international operations.

Other operating expenses, excluding depreciation and amortisation, increased by only 3.4% to RUR 971 million (2013: RUR 939 million). The modest increase was primarily the result of tight cost control and realised economies of scale, offset by non-recoverable VAT expense, predominantly related to certain non-recurring intercompany transactions, and increased allowance for doubtful accounts, reflecting negative changes in the macroeconomic environment and thus a more conservative approach to calculating the allowance.

Our aggregate segment EBITDA margin slightly decreased to 51.1% (2013: 51.7%) primarily as a result of increased office rent and maintenance, agent/partner fees and marketing expenses, partially offset by operating leverage derived from personnel expenses, professional fees, server hosting expenses and other operating expenses.

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

Depreciation and amortisation (including impairment of intangible assets) increased by only 4.4% to RUR 2,154 million (2013: RUR 2,064 million), primarily as a result of decreased capital expenditure on fixed assets, as well as reflecting the launch schedule of the MMO titles for which the development costs and/or licenses had been capitalised.

Other non-operating income/(expenses) amounted to a net RUR 166 million expense (2013: net RUR 433 million income), primarily as a result of interest expenses we incurred in 2014 in the amount of RUR 767 million and related to the debt we funded the VK acquisition with. The expense was partially offset by increased interest income on cash deposits and dividend income from venture capital and available-for-sale investments, which collectively grew 25.2% as compared to 2013, primarily due to higher weighted average cash on deposits and the inclusion of dividends from Qiwi into this category subsequent to the loss of significant influence over Qiwi.

Income tax expense increased by 6.3% to RUR 3,460 million (2013: RUR 3,253 million) primarily driven by an increase in profit before income tax by 10.2% to RUR 15,977 million (2013: RUR 14,492 million) and partially offset by a decrease in effective tax rate to 21.7% (2013: 22.4%) mainly as a consequence of utilisation of previously unrecognised deferred tax on a tax loss carryforward.

Group aggregate net profit increased by 11.4% to RUR 12,518 million (2013: RUR 11,239 million) driven by an increase in profit before tax and a decrease in effective tax rate.

Reconciliation to IFRS

	2014 RURm	2013 RURm
Total revenue, as presented to the CODM	35,778	31,165
Adjustments to reconcile revenue as presented to the CODM to consolidated revenue under IFRS:		
Effect of operations disposed of and difference in dates of acquisition of control in subsidiaries	(2,935)	(3,756)
Differences in timing of revenue recognition	(735)	(578)
Barter revenue	51	76
Dividend revenue from venture capital investments	168	163
Consolidated revenue under IFRS	32,327	27,070

	2014 RURm	2013 RURm
Group aggregate segment EBITDA, as presented to the CODM	18,297	16,122
Adjustments to reconcile EBITDA as presented to the CODM to consolidated profit before income tax expenses under IFRS:		
Effect of operations disposed of and difference in dates of acquisition of control in subsidiaries	(1,016)	(1,035)
Differences in timing of revenue recognition	(735)	(578)
Net gain/(loss) on venture capital investments and associated derivative financial assets and liabilities	(5)	148
Share-based payments transactions	117	(1 856)
Dividend revenue from venture capital investments	168	163
Other	(90)	27
EBITDA	16,736	12,991
Depreciation and amortisation	(3,856)	(2,722)
Impairment of intangible assets	(408)	(18)
Share of profit of strategic associates	220	240
Finance income	408	308
Finance expenses	(767)	-
Other non-operating income/(expense)	9	(26)
Net gain on financial assets and liabilities at fair value through profit or loss over the equity of strategic associates, subsidiaries and other agreements	400	22
Net gain on disposal of shares in available-for-sale investments	-	15,620
Net gain on disposal of shares in strategic associates and loss of significant influence	6,482	3,310
Net gain on acquisition of control over strategic associates	40,831	-
Net foreign exchange gains	4,661	53
Profit before income tax expense	64,716	29,778

	2014 RURm	2013 RURm
Total net profit, as presented to the CODM	12,518	11,239
Adjustments to reconcile net profit as presented to the CODM to consolidated net profit under IFRS:		
Share-based payments transactions	117	(1,856)
Differences in timing of revenue recognition	(735)	(578)
Effect of operations disposed of, difference in shareholding percentages and acquisition dates of subsidiaries	(343)	(43)
Amortisation of fair value adjustments to intangible assets and impairment thereof	(2,707)	(1,599)
Net gain on financial instruments at fair value through profit or loss	395	170
Net gain on disposal of shares in available-for-sale investments	-	15,620
Net gain on disposal of shares in strategic associates and loss of significant influence	6,482	3,310
Net gain on acquisition of control over strategic associates	40,831	-
Net foreign exchange gains	4,661	53
Share in financial results of associates	220	240
Other	(92)	31
Tax effect of the adjustments and tax on unremitted earnings	1,047	2
Consolidated net profit under IFRS	62,394	26,589

Analysis of H2 2014 aggregate segment results in comparison with H2 2013

	H1 2013 RURm	H2 2013 RURm	H1 2014 RURm	H2 2014 RURm	H2 YoY, %
Group aggregate segment revenue					
Online advertising	5,025	6,461	5,819	6,635	2.7%
MMO games	3,025	3,629	4,074	4,340	19.6%
Community IVAS	4,845	5,374	5,734	6,136	14.2%
Other revenue*	1,336	1,471	1,492	1,549	5.3%
Total Group aggregate segment revenue	14,230	16,935	17,119	18,659	10.2%
Group aggregate segment EBITDA	7,279	8,844	8,690	9,607	8.6%
Segment EBITDA margin	51.2%	52.2%	50.8%	51.5%	
Group aggregate net profit	4,951	6,287	6,244	6,274	-0.2%

*Other revenue includes Other IVAS

Most of the revenue growth in H2 2014 was concentrated in MMO games (19.6% vs H2 2013) and Community IVAS (14.2% vs H2 2013), while Online advertising (particularly Display) and Other revenues were negatively affected by the difficult macroeconomic situation in Russia. The growth in MMO games was primarily due to an increase in paying users of our games, reflecting the continued success of our best titles including Warface and our mobile games. Community IVAS growth was achieved primarily through increase in ARPPU compared to H2 2013 and, to a lesser extent, growth in the number of paying users.

Aggregate segment EBITDA increased by 8.6% in H2 2014 vs H2 2013 due to growth in revenues partially offset by an increase in operating expenses (particularly Agent/partner fees, Marketing and Other expense lines) as a percentage of revenue.

The growth in Agent/partner fees was primarily due to increased fees for MMO games licensed from third parties and increased revenue collection costs paid to mobile stores and as such was mainly driven by the success of our best games. Marketing expenses growth was mainly driven by the increased focus on the promotion of our mobile products. Other operating expenses, excluding depreciation and amortisation, grew as a percentage of revenues mostly as a result of non-recoverable VAT expense, predominantly related to certain non-recurring intercompany transactions, and increased allowance for doubtful accounts, reflecting negative changes in the macroeconomic environment and thus a more conservative approach to calculating the allowance. These effects were partially offset by personnel, office and server hosting expenses decreasing slightly as a percentage of revenues. As a result, EBITDA margin decreased to 51.5% in H2 2014 vs 52.2% in H2 2013.

Aggregate net profit slightly decreased by 0.2% to RUR 6,274 million (H2 2013: RUR 6,287 million) primarily as a consequence of interest expense incurred in H2 2014 in connection with the loan used in financing the VK acquisition and partially offset by growth in EBITDA and a reduction in effective income tax rate.

Financial position

Liquidity and capital resources

Throughout the year our financial position changed significantly but remained healthy. In April and September 2014 we paid RUR 67,015 million (net of cash acquired) for the acquisition of VK (including RUR 22,037 million funded by a bank loan), and as a result our net debt position as at December 31, 2014 amounted to RUR 16,987 million (excluding interest payable of RUR 147 million). Our net cash position was RUR 31,303 million as of December 31, 2013.

We have historically principally relied on our own cash flow as a source of financing our operations and capital expenditures. Consolidated operations have been cash flow positive since 2009. In 2014, net cash provided by operating activities amounted to RUR 12,681 million (2013: RUR 11,730 million).

Net cash provided by operating activities increased by 8.1% in 2014 compared to 2013, largely in line with the growth in Group aggregate net profit. The ratio of net cash provided by operating activities to consolidated revenues decreased slightly to 39.2% in 2014 (2013: 43.3%).

Capital expenditure to acquire property and equipment and intangible assets decreased by 13.4% to RUR 2,650 million driven primarily by a 38.2% decrease in fixed asset expenditure, as we had covered a significant part of our 2014 infrastructure requirements with 2013 purchases and tightened controls over USD-denominated fixed asset related capital expenditure in response to the deterioration of macroeconomic situation and the devaluation of the rouble in H2 2014. The savings in infrastructure-related capital expenditures were partially offset by a 13.1% increase in intangible asset related expenditures, as we continued the development of our new MMO titles, including Skyforge, Armored Warfare and World of Speed.

Net cash provided by/(used in) investing activities in 2014 also included RUR 67,015 million paid for VK (2013: nil) and proceeds from sale of shares in associates and available-for-sale investments in the amount of RUR 6,401 million (2013: RUR 21,331 million).

Issue of equity, GDR buying programmes and special dividend

The majority of our acquisitions have, in the past, been financed through the issue of equity. The Company did not issue any equity in 2014 or 2013. However, in 2014 we received a RUR 22,037 million bank loan (net of a loan origination fee of 189 million) to finance the acquisition of VK.

In October 2011, we commenced, through Mail.Ru Employee Benefit Trust Limited, a GDR buying programme of up to USD 35 million in order to cover a part of the employee and director options of the 2010 Option Plan. The programme was completed in 2012. In 2013, the Board of Directors of the Company approved an additional GDR buying programme of up to USD 30 million, which was continued in 2014. In 2014 we acquired a total of 1,012,885 GDRs (2013: 414,261) on the market for an aggregate consideration of RUR 1,337 million (2013: RUR 481 million). Under the GDR buying programmes, we acquire GDRs representing shares of the Company and subsequently transfer the GDRs to the respective option holders upon the exercise of the options. We intend to hold the GDRs in treasury to be used over the remaining term of our employee option plan. We account for GDRs repurchased as treasury shares.

In 2013 we also paid a special dividend of USD 4.3 per GDR in the amount of RUR 27,660 million.

Management

Board of Directors

Dmitry Grishin, age 36
Co-Founder, Chief Executive Officer (Russia) and Chairman of the Board

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

Verdi Israelian, age 39
Director

Verdi joined an affiliate of Mail.Ru in 2009 and was appointed Chief Operating Officer (Russia) of Mail.Ru Group in November 2010 and Chief Financial Officer in August 2011. In June 2013 Verdi was appointed as Elected Director and stepped down as COO (Russia) and CFO. Verdi was previously co-head of the European Special Situations Group (CIS operations) at Goldman Sachs in Moscow. Before working at Goldman Sachs, Verdi was deputy head of Russia Investment Banking at Morgan Stanley. He has also worked at Arthur Andersen and Lehman Brothers. Verdi holds an MBA from the Rotterdam School of Management, Erasmus University.

Matthew Hammond, age 40
Managing Director, Chief Financial Officer

Matthew Hammond was appointed to the Board in May 2010 and became Managing Director in April 2011. In June 2013 Matthew also became Chief Financial Officer. Matthew graduated from Bristol University, UK, in 1996, with a degree in Economics and History. From 1997 to 2008, he was a technology analyst at Credit Suisse and was ranked number 1 in the Extell and Institutional Investor Survey eight times. Matthew is a non-executive director of Strike Resources and Puricore.

Vladimir Streshinsky, age 45
Director

Vladimir Streshinsky was appointed to the Board in August 2008. He presently holds the positions as follows: Director of USM Holdings Limited, General Director of USM Advisors LLC, CEO and Director of Garsdale Services Investment Limited, Chairman of the Board of Directors of LLC Management Company Metalloinvest, Member of the Boards of Directors of OJSC MegaFon, UTH Russia Limited, JSC “Kommersant”. He graduated with honors in applied mathematics from Moscow Physics and Technology Institute in 1992.

Vasily Brovko, age 28
Director

Vasily Brovko was appointed to the Board in March 2014. Vasily graduated from the Faculty of Psychology at Lomonosov Moscow State University with a degree in Public Relations in Politics. He is a founder of the center for strategic communication Apostol which is engaged in production of TV content, integrated communications (PR, social media, analytics) and software development. Since 2013 Vasily has been Head of PR department of “Russian Technologies” State Corporation.

Charles St. Leger Searle, age 51
Director

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

Vasileios Sgourdos, age 45
Director

Vasileios Sgourdos was appointed to the Board in October 2010. A chartered accountant, he became Group Chief Financial Officer for MIH which owns South African listed Naspers’ Internet and Pay TV businesses in January 2009. On April 1, 2014 he was appointed as Naspers’ Group Chief Financial Officer. He was formerly director of Abril SA, Latin America’s leading magazine publisher and serves on the Board of a number of other companies in the Naspers Group. From 2007 he was General Manager for Business Development Pay Television 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 53
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 and currently serves on the Naspers Board. This role gives Mark worldwide responsibility for the Naspers Group's M&A, corporate finance and capital-market fundraising activities. Mark’s 18 years’ experience in Internet, technology and pay TV businesses includes business development and dealmaking in Africa, the Middle East, Thailand, India, China, Europe, the USA, Latin America and South-East Asia.

Jan Buné, age 62
Independent Director

Jan Buné was appointed as Independent Director to the Board in October 2013. He has extensive experience in public accounting and business advisory in the technology, media & telecommunications sector. He was a senior audit partner at Deloitte Netherlands until May 2013. He currently serves as Commissioner at the Dutch Supervisory Authority for the Media sector, Non-Executive Director of Burgland Real Estate BV, Arbitrator at the Netherlands Arbitration Institute in Rotterdam and Independent Civil Court Witness in financial disputes. In addition he is Chairman of the Advisory Committee on governance, risk & compliance of the Royal Dutch Institute of Accountants in Amsterdam. He is also a member of the Board of Trustees of Artis Natura Magistra, the Royal Amsterdam Zoo.

Sang Hun Kim, age 51

Independent Director

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

Senior management

Dmitry Grishin, age 36

Co-Founder, Chief Executive Officer (Russia) and Chairman of the Board

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

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Vladimir Nikolsky, age 42

Chief Operating Officer (Russia)

Vladimir Nikolsky joined Mail.Ru Group as Vice President of Online Games business in 2009 and became Chief Operating Officer (Russia) in 2013. He was previously CEO of online game holding Astrum Online Entertainment (from 2007 to 2009) which subsequently became a part of Mail.Ru Group, and co-founder and CEO of online game company IT Territory (from 2004 to 2007). Vladimir graduated from Ivanovo State Power Engineering University.

Dmitry Sergeev, age 39

Deputy Chief Executive Officer (Russia)

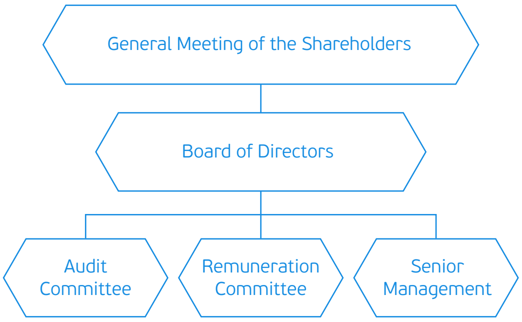
Dmitry Sergeev joined Mail.Ru Group in September 2014 when the Company fully consolidated VK and was appointed Deputy Chief Executive Officer (Russia) in October 2014. In VK Dmitry has been Chief Operating Officer since January 2014. Dmitry graduated from the Moscow State Institute of International Relations in 1998, with a degree in International Law. He worked at several investment companies, then at Alfa-Bank. From 2002 he was COO of Regional Media Group working on the consolidation of certain Russian media assets (TV, radio). From 2005 to 2006 Dmitry was a corporate development director at TV-3 television channel. In 2007 he was appointed COO of Media One Group, in 2009-2010 and 2011 he held positions of COO and CEO of UTH Holding respectively (its main assets are U Channel, Disney Channel and cable channel «MUZ-TV»). From 2012 to 2013 Dmitry was the president of Kommersant Publishing House.

Corporate governance

Mail.Ru Group Limited is incorporated in the British Virgin Islands with a principal office in the Republic of Cyprus. MGL also has a branch in Dubai, U.A.E.

Governance structure

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



Share capital structure

Authorised and issued share capital of MGL as of the date hereof:

Class of share	Authorised shares	Issued shares
Class A (US$0.000005 par value each)	10,000,000,000	11,500,100
Ordinary (US$0.000005 par value each)	10,000,000,000	208,582,082

Both classes of shares are in registered form. In respect of Ordinary Shares, Global Depositary Receipts ("GDRs") (which represent interests in such Ordinary Shares) have been issued by Citibank NA and are traded on the London Stock Exchange.

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

- options for 6,423,842 Ordinary Shares granted to the Mail.Ru Employee Benefit Trust on 11 November 2010 with the initial exercise price of US$27.70, which was then reduced by US$3.80 on 17 August 2012 and further reduced by US$4.30 on 20 March 2013 resulting in the current exercise price of US$19.6. Out of these options 3,134,202 options are currently allocated for the benefit of the Directors, employees and consultants of the Company, 3,004,427 of which are vested. Except for the options allocated for the benefit of the Directors, the options generally have a 4-year vesting schedule. Options allocated for the benefit of the Directors have a 2-year vesting schedule and are fully vested. Out of 6,423,842 options, 3,236,933 options were exercised; and

- options for 4,282,561 Ordinary Shares granted to the Mail.Ru Employee Benefit Trust on 22 December 2011 with the initial exercise price of US$25.60, which was then reduced by US$3.80 on 17 August 2012 and further reduced by US$4.30 on 20 March 2013 resulting in the current exercise price of US$17.5. Out of these options, 2,637,250 options are currently allocated for the benefit of the employees and consultants of the Company, 1,785,250 of which are vested. The options generally have a 4-year vesting schedule. Out of 4,282,561 options, 882,375 options were exercised.

In March, 2015 the Shareholders of MGL approved the issue of up to 10,977,971 Ordinary Shares, all of which have been issued to Mail.Ru Employee Benefit Trust to establish an incentive plan for employees, directors, officers and consultants of the Company, to be known as the 2015 Restricted Stock Unit Plan. The Restricted Stock Units ("RSU") will be granted at the discretion of the Remuneration Committee of MGL's Board.

During the 2014 financial year, MGL itself did not acquire any of its own shares. However, the Mail.Ru Employee Benefit Trust in accordance with 2014 GDR buying program during 2014 spent US$36.7 million to acquire 1,012,885 GDRs at an average price of US$36.2. All of the GDRs purchased during 2014 are held by the Mail.Ru Employee Benefit Trust to be used over the lifetime of the option program.

Annual General Meeting ("AGM") of shareholders

The shareholders' meeting is MGL's supreme governing body. AGMs 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 MGL.

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

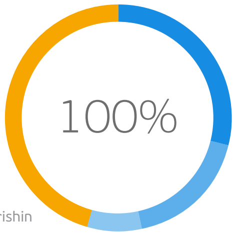
The agenda for the shareholders' meetings is determined by the Board of Directors. However, a shareholder or shareholders who hold, in aggregate, 10% or more of the outstanding voting shares of MGL may add items to the agenda in compliance with the following requirements:

i. no later than a week before the meeting;

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

Shareholders' economic interest, %

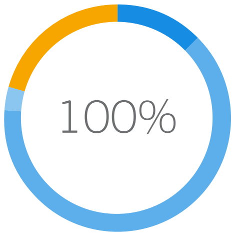
MIH	27.6
NMT	15.2
Tencent	7.4
Others incl. holders of GDRs*	49.8



* incl. 1.84% economic interest held by Dmitry Grishin
as of the date hereof

Shareholder's voting interest, %

MIH	12.5
NMT	63.8
Tencent	3.3
Others incl. holders of GDRs	20.4



as of the date hereof

Transfer and conversion of shares

Ordinary Shares are freely transferable. Class A shares are freely transferable save that a transfer of Class A Shares that would result in the proposed acquirer (other than a person who was already a member on 27 August 2010) and persons acting in concert with the acquirer holding 75% or more of the voting rights of MGL are subject to meeting mandatory offer requirements set out in the Articles.

At the request of any member holding any Class A shares, Class A shares, which are the subject of the request, are automatically converted into Ordinary shares. This is on the basis that each Class A Share automatically converts into one Ordinary Share and ranks pari passu in all respects with the existing Ordinary Shares in issue.

Voting rights

- Each Class A Share has the right to 25 votes at a meeting of the shareholders of MGL or on any resolution of the shareholders of MGL
- Each Ordinary Share has the right to 1 vote at a meeting of the shareholders of MGL or on any resolution of the shareholders of MGL

Board of Directors

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

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

The Elected Directors are appointed by a vote of the members, with each proposed candidate being put to the members for a vote, with voting on each candidate being treated as a separate vote and with each member being entitled to vote on each proposed candidate (to the effect that the eight candidates who attract the highest number of votes shall be elected as the eight Elected Directors) for a period from the date of their appointment until the second AGM 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 hold, in aggregate, not less than 5% of (a) the total number of votes attached to the issued shares; or (b) the total number of the issued shares, are entitled to nominate candidates for election by the shareholders as Elected Directors to the Board of Directors. Such nomination must be made not less than 21 days before any AGM at which any Elected Director is due to resign.

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

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

Powers of the Board of Directors

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

- The right to issue shares and other securities (except as otherwise required by MGL's Memorandum and Articles of Association)
- The approval of the annual budget and annual financial statements of MGL
- The declaration of any dividend
- The convening of any shareholders' meeting
- The appointment of MGL's auditors
- The appointment of any committee of the Board of Directors, including MGL's Audit Committee and Remuneration Committee (see below)
- The exercise of all rights of MGL in relation to ICQ LLC

Board of Directors

Name	Position	Date of appointment	Expiry of term
Dmitry Grishin	Chairman	June 7, 2013	2015 AGM
Verdi Israelian	Elected Director	June 7, 2013	2015 AGM
Matthew Hammond	Elected Director	June 7, 2013	2015 AGM
Vladimir Streshinskiy	Elected Director	June 7, 2013	2015 AGM
Charles Searle	Elected Director	June 7, 2013	2015 AGM
Mark Remon Sorour	Elected Director	June 7, 2013	2015 AGM
Vasily Brovko	Elected Director	March 31, 2014	2015 AGM
Vasileios Sgourdos	Elected Director	June 7, 2013	2015 AGM
Jan Buné	Independent Director	October 24, 2013	2015 AGM
Sang Hun Kim	Independent Director	June 7, 2013	2015 AGM

Senior management

Name	Position	Appointment
Dmitry Grishin	Chief Executive Officer, Russia	November 2010
Matthew Hammond	Managing Director; Chief Financial Officer	April 2011 June 2013
Vladimir Nikolsky	Chief Operating Officer, Russia	June 2013
Dmitry Sergeev	Deputy Chief Executive Officer, Russia	October 2014

- The approval of any proposal under which MGL or any subsidiary of MGL delegates any substantial management authority to any other entity
- The approval of transactions which are not Substantial Transactions (as defined in the Memorandum and Articles of Association)
- The appointment and removal of any Officer of MGL, or any Officers or Directors of any direct subsidiary of MGL (including, but not limited to the Managing Director (being the chief executive officer of the Company), Chief Financial Officer or Chief Operating Officer) and the determination of the scope of authority of such Officers of the Company.

The Board of Directors, or any committees thereof, meet when and how the Directors determine to be necessary or desirable.

Meetings are held in MGL's principal office or wherever the majority of the Directors agree.

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

Committees of the Board of Directors

MGL has an Audit Committee and a Remuneration Committee.

Audit Committee

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

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

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

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

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

Members of the Committee
Jan Buné, Chairman
Sang Hun Kim
Vasileios Sgourdos

Remuneration Committee

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

The Remuneration Committee meets on as and when appropriate basis.

Members of the Committee
Vladimir Streshinskiy, Chairman
Charles Searle
Sang Hun Kim
Dmitry Grishin

Internal control system in relation to the financial reporting process

Internal control is exercised by the Board of Directors, executive and regulatory bodies, officers and other employees of the Company. Their aim is to secure the achievement of goals set by the MGL in the following areas:

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

The following functions are performed by the Internal Audit Department:

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

Risk management system

Mail.Ru Group is subject to certain risks that affect our ability to operate, serve our clients, and protect our assets. Controlling these risks through a formal program is necessary for the well-being of Mail.Ru Group. The Company is committed to identifying and managing risk, in line with international best corporate governance practice.

The existing risk management system operates as follows:

- The board of directors has a responsibility to ensure that it has dealt with the governance of risk comprehensively;
- The CEO is accountable to the Board for the enterprise-wide management of risk;
- Management is responsible for risk in accordance with approved plans and policies;
- The Risk committee assists the management in carrying out its responsibility for the governance of risk, that is the committee advises on, formulates, implements and executes an adequate internal control framework and manages the risk management system and monitors the Company's risk profile;
- The Audit committee assists the Board in its responsibility for overseeing financial reporting risks and internal financial controls, including fraud and IT risks as they relate to financial reporting, adequacy and effectiveness of risk management;
- Internal audit provides assurance on the adequacy and effectiveness of the risk management process across the Company.

The Risk committee comprises principal operating managers of the Company (heads of principal business units) appointed by the CEO or his Deputy. The chair of the Risk committee is appointed by the CEO. Members of the Risk committee, taken as a whole, must comprise individuals with risk management skills and experience.

Corporate governance code

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

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

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

Policies and other details of MGL's corporate governance practices can be found at http://corp.mail.ru/en/investors/management/.

Risk management

Summary

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

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

The Company's principal financial liabilities, other than derivatives, comprise a 4-year bank loan used for financing the VK acquisition, short-term payables and accrued expenses. The main purpose of these liabilities, other than the loan, is to finance the Company's operations. The Company has short-term receivables, short-term time deposits, cash and cash equivalents, and other current financial assets that are created by its strategic and venture capital operations.

We present below the major aspects of our financial risk management policies and objectives (see Note 25 to the financial statements for further details), as well as principal operating risks and uncertainties faced by the Company.

Financial risk management structure

The Company has developed risk management policy which covers the following major aspects: identification and analysis of the risks the Company faces, setting appropriate risk controls, monitoring risks and ensuring that major risks are properly reported, adequately managed and mitigated. Risk management procedures and systems are contemplated to be reviewed regularly. The Company, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment. The overall objective of the financial risk management is to minimise the risks to an acceptable level.

The Company's Audit Committee has been established to oversee, among other things, how management monitors compliance with the Company's risk management practices and procedures. Management finalised its assessment of the principal strategic and business risks that the Company faces and is currently in the process of developing mitigation plans.

Further information on Risk management system can be found in the Corporate governance section on page 44.

Liquidity and financial resources

Credit risk

Financial assets, which potentially subject MGL 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 Company's maximum exposure to credit risk.

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

Capital management policy

For the purposes of our capital management, capital includes issued capital, share premium and other equity reserves attributable to the equity holders of the parent. The primary objective of our capital management is to maximise the shareholder value. The Company manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants.

Market risk

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

Foreign currency risk

The functional currency of MGL and majority of its subsidiaries and associates is the Russian rouble. The Company has, however, monetary assets and liabilities which are denominated in other currencies, and changes in exchange rates can result in gains or losses. In 2014, the Company recorded a gain of RUR 4,661 million (2013: a gain of RUR 53 million).

The Company incurs significant costs in currency other than RUR (mainly USD and EUR) – principally to purchase hardware from vendors and acquire certain services, including online game development services by third parties – and earns a majority of its revenues in RUR. There is a risk that volatile exchange rates would increase the costs significantly which would lead to a decrease in net profits, increased demand in cash funds in RUR, threaten our ability to repay the loan on time or disrupt timely financing of our operations and capital expenditures. There is also a risk of inflation in RUR denominated expenses, such as payroll, due to growth in inflation rate and RUR devaluation.

Equity price risk

The Company's 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 inherently high equity risk of the Company's venture capital investments 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. Additionally, the overall impact of venture capital activities on our operations is mitigated by a limited size of the financial investment portfolio in relation to our aggregate operations.

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

Cash flow risk and risk of breach of covenants related to the loan

The Company does not, in relation to its use of financial instruments, believe it has a cash flow risk which is material for the assessment of its assets, liabilities, financial position and performance. In 2014, the Company received a bank loan to finance the acquisition of VK. The loan is for 4 years, payable in quarterly instalments, bears a fixed interest rate and subjects the Company to certain financial and non-financial covenants. Approximately 27% of the Company's debt outstanding as of December 31, 2014 will mature in 2015. The management assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. However, there is a risk that the Company may fail to comply with the covenants which may lead to a default on the loan.

Hedging

The Company has no hedging operations.

Business risks

Technological changes

The Internet industry is characterised by constant and rapid change in technology, consumer preferences, the nature of services offered and business models. If we are unable to respond effectively to change and to continue to offer attractive and innovative products to our users, the popularity of our websites and services may decline, which could adversely affect our business in a number of ways, including through lower revenues from advertising and IVAS.

Mobile technology development

Users tend to use mobile devices to access Internet services more and more every year. Mobile devices monetisation may not catch up with desktop monetisation rates. There is a risk that the Company might suffer revenue decline due to further development of the mobile Internet.

Underlying markets

If penetration rates for Internet, spending on advertising and IVAS in Russia, do not increase, our ability to increase revenue could be materially and adversely affected.

Third party suppliers

We purchase our servers and some other computer hardware from several Russian companies, most of which import equipment into Russia, and in some cases directly from manufacturers outside of Russia. If these companies are prevented from importing the servers and such other computer hardware into Russia, or are unable to supply the servers and such other computer hardware to us for any other reason, our business and results of operations could be materially and adversely affected. We also rely on third parties to provide a number of important services in connection with the business, and any disruption to the provision of these services to us could negatively affect the Company's results of operations and business prospects.

Competition

The development of products, which compete with the services provided by the Company, by domestic and large international internet companies could decrease the Company'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 Company's Community IVAS – including games – which, in turn, would result in lower revenue and net income. Similarly, the Company 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 Company's profitability.

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 Company'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.

Delays in launch of new game titles

We might face delays in the launch of new game titles due to insufficient staffing and/or failures from third party developers. Delays in launch time may disappoint users and lead to loss of potential audience and revenue and/or result in higher-than-expected development spend.

Unsuccessful game titles

There is a risk of failure of any of the major new MMO titles to gain traction with users, which would lead to underperformance of the online games business and lower-than-expected revenues. Mobile games might also be unsuccessful as they may fail to achieve the required profitability targets due to high cost of marketing and revenue share payable to mobile platforms.

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. Our performance and future success depend on the talents and efforts of a large number of highly skilled individuals within the Company. We will need to continue to identify, hire, develop, motivate and retain highly skilled personnel for all areas of our organisation, including those with programming skills on rare languages. Competition in the Internet industry, and in particular in Russia, for suitably qualified employees is high. As competition in the Internet industry in Russia increases, and in particular if larger multinational internet companies focus their attention on the Russian-speaking market, it may be more difficult for us to motivate, retain and hire highly skilled personnel. If we do not succeed in retaining or motivating existing personnel or attracting additional highly skilled personnel, our business and results of operations may be materially and adversely affected.

Our future success depends heavily upon the continuing services of our senior management team and a failure to retain those personnel could have a material adverse effect on our business.

In addition, even if sufficient numbers of highly skilled personnel can be retained, salaries may rise significantly due to competition within the Internet industry in Russia, increasing our costs, which could have a material adverse effect on our business, results of operations and financial condition.

Infrastructure and capacity

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

Private information

To become registered on the website operated by the Company, users have to input their personal data, which is then protected by the Company from access by third parties. Should such data become available to third parties as a result of hackers' attacks, the Company 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 Company 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 Company 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 offering the affected services without risk of liability.

Similarly, third parties may obtain and use the Company'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 Company to protect its intellectual property, which could have a material effect on its business, results of operations and financial condition. The Company 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 Company to significant losses in the future, which currently cannot be reliably estimated.

Political, economic and social risks

Political instability in Russia

Political instability or changes in government or in economic policy could adversely affect our business and the value of investments in the GDRs.

Economic and military conflicts

The involvement of the Russian Federation in any economic and military conflicts, including conflicts relating to Ukraine and Crimea, could negatively affect the Company's results of operations and business prospects.

Economic instability in Russia

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

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

Inflation
High rates of inflation could increase our costs, and there can be no assurance that we will be able to maintain or increase our margins.

Legislative and legal risks
Regulation
The Internet and its associated technologies are subject to government regulation. In addition, new laws and regulations, or new interpretations of existing laws and regulations, may be adopted with respect to the Internet or other online services we provide.

For example, in July 2014, a new law requiring databases involved in processing personal data of Russian citizens to be stored in Russia and setting out sanctions for non-compliance with such requirement (including blocking of web-sites) was adopted. The law will come into force in September 2015.

Additionally, on August 1, 2013, Federal Law No. 187-FZ dated July 2, 2013 "On Amendments to Certain Legislative Acts of the Russian Federation Related to Protection of Intellectual Property Rights in Information and Telecommunication Networks" (the "Anti-Piracy Law") came into force. The amendments related to the protection of IP rights with regards to films, including motion pictures and television movies. The Anti-Piracy Law also describes the procedures for access restriction and the obtaining of a court ruling by a copyright holder, including a preliminary injunction. Starting the 1st of May 2015 the Anti-Piracy Law will be extended to all copyrighted materials (other than photos). Moreover, the new amendments set out a procedure for permanent blocking in certain circumstances of a web-site allowing repeated infringements.

Further, a Law No. 97-FZ came into force on August 1, 2014 ("Law on Bloggers"). This law among other introduces requirements to the sites and/or services that enable users to publish and share information to, amongst others, notify the authorities about the commencement of such activities, store the data on receipt, transfer, processing of the users' information in the Russian Federation for the period of 6 months, share the information on users' actions with the authorised governmental body upon a relevant request, and be in line with certain technical requirements set by authorities. Access to web-sited non-complying with the requirements could be blocked. In addition, owners of web-sites and internet pages with more than 3,000 daily users are required to be identified, registered with a special register and comply with certain requirements in respect of the materials published on web-sites and internet pages under their control.

The law on amending the Federal Law "On Information, Information Technologies and Protection of Information" (the "Anti-extremism Law") came into force on February 1, 2014. According to the Anti-Extremism law, the Prosecutor General of Russia (or his deputies) may apply to an authorised authority to block websites on which the Prosecutor finds any prohibited information concerning appeals to mass riots, extremist activities or participation in mass (public) actions held in infringement of the established order.

Still, since November 2012 the legislation introducing the Unified Register of Domain names, Sites and IP-addresses containing information prohibited for dissemination in Russia (the "Black List") is in effect. Such information includes child pornography; information about production, distribution and sales locations of drugs; methods of suicide; information prohibited by anti-gambling legislation; and information on minors that became victims of crimes, allowing identifying the minors.

Our failure or the failure of our third party providers to accurately comply with the laws and regulations could create liability for us, result in adverse publicity, or could otherwise have a material adverse effect on our business, results of operations and financial condition, including blocking of our properties.

Legal proceedings
The Company 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 Company. Management believes that the resolution of all current and potential legal matters will not have a material impact on the Company's financial position or operating results.

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 Company 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.

The Company's management believes that its interpretation of the relevant legislation is appropriate and is in accordance with the current industry practice and that the Company'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.

The Russian transfer pricing legislation, which came into force on January 1, 2012, allows the Russian tax authorities to apply transfer pricing adjustments and impose additional income tax liabilities in respect of all "controlled" transactions if the transaction price differs from the market level of prices. The list of "controlled" transactions includes transactions performed with related parties and certain types of cross-border transactions. For domestic transactions the transfer pricing rules apply only if the amount of all the transactions with each related party exceeds RUR 1,000 million in 2014 (RUR 2,000 million in 2013). In cases where a domestic transaction resulted in an accrual of additional tax liabilities for one party, another party could correspondingly adjust its profit tax liabilities based on a special notification issued by an authorised body in due course. The current Russian transfer pricing rules have considerably increased the compliance burden for taxpayers compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. These rules are applicable not only to the transactions which took place in 2013 and 2014 but also to the prior transactions with related parties if related income and expenses were recognised in 2013 and 2014. Special transfer pricing rules apply to transactions with securities and derivatives. Because of the lack of clarity in current Russian transfer pricing legislation and the absence of court precedent, the Russian tax authorities may challenge the level of prices applied by the Company under "controlled" transactions and accrue additional tax liabilities unless the Company is able to demonstrate the use of market prices with respect to the "controlled" transactions, and that there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation.

Board and Management remuneration

The Remuneration Committee is responsible for approving the remuneration of the Directors and senior managers of the Company. It is also charged with reviewing and approving general policy relating to strategic compensation of the Company and the approval of grants under the incentive schemes.

Further information on the Remuneration Committee can be found in the Corporate governance section on page 44.

Interests of members of our Board of Directors and our employees

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

The aggregate beneficial interest in MGL (excluding options granted over Ordinary Shares) held by senior managers and employees of the Company (including Dmitry Grishin and Matthew Hammond) as of the date hereof is about 2.16%.

Incentive scheme

In November 2010, the Board of Directors of MGL adopted an 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 employees, consultants and Directors. This can be direct or through an employee benefit trust or vehicles controlled by such persons.

By the end of 2014, the 2010 Option Plan comprised options over an aggregate of 10,706,403 Ordinary Shares. On the IPO date, MGL assigned options for 6,423,842 Ordinary Shares to the Mail.Ru Employee Benefit Trust with an exercise price equal to the IPO price of US$27.70, which was reduced by $3.80 on 17 August 2012 and then by $4.30 on 20 March 2013 resulting in the exercise price of US$19.6. As of the date hereof, 3,134,202 of these options remain allocated for the benefit of the Directors, certain employees and consultants of the Company, 3,004,427 of which are vested. Except for the options allocated for the benefit of the Directors, the options have generally a 4-year vesting schedule. Options allocated for the benefit of the Directors have a 2-year vesting schedule and are fully vested.

Subsequently, in December 2011 MGL assigned options for 4,282,561 Ordinary Shares to the Mail.Ru Employee Benefit Trust with an exercise price equal to the then current market price of US$25.6, which was reduced by $3.80 on 17 August 2012 and then by $4.30 on 20 March 2013 resulting in the exercise price of US$17.5. As of the date hereof, 2,637,250 of these options remain allocated for the benefit of certain employees and consultants of the Company, 1,785,250 of which are vested. The options have generally a 4-year vesting schedule.

In March, 2015 the Shareholders of MGL approved the issue of up to 10,977,971 Ordinary Shares to Mail.Ru Employee Benefit Trust to establish an incentive plan for employees, directors, offices and consultants of MGL, to be known as the 2015 Restricted Stock Unit Plan. The Restricted Stock Units ("RSU") will be granted at the discretion of the Remuneration Committee of MGL's Board.

Compensation

Directors of MGL

In 2014, the total cash remuneration of the members of the Board of Directors (each a "Director" and collectively, "Directors") of MGL amounted to RUR 55 million. It was RUR 45 million for 2013. In addition to the cash remuneration, Directors of MGL were granted options to acquire Ordinary Shares at the exercise price of US$27.7 (subsequently reduced to US$19.6), of which 250,160 remain unexercised and fully vested. None of the options were granted to Directors in 2014 or 2013. During year ended December 31, 2014, Directors did not forfeit or exercise any options over the shares of MGL. The share-based payment expense recognised by the Company with respect to Directors' options was a negative RUR 215 million in 2014 and a positive RUR 57 million in 2013.

	Class A shares (direct and indirect)	Ordinary shares/GDRs (direct and indirect)	Total % of MGL's issued share capital represented by outstanding shares	Outstanding options or Ordinary shares on which options are granted
Dmitry Grishin	-	4,045,792	1.84%	1,750,000
Verdi Israelian	-	100,000	0.04%	429,500
Vasily Brovko	-	-	-	-
Matthew Hammond	-	-	-	114,240
Sang Hun Kim	-	-	-	36,032
Charles Searle*	-	-	-	-
Vasileios Sgourdos*	-	-	-	-
Mark Remon Sorour*	-	-	-	-
Vladimir Streshinskiy	-	-	-	53,532
Jan Buné	-	-	-	-

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

Key Management of the Company

Total cash remuneration of the key management of the Company amounted to RUR 459 million in 2014 (including remuneration of Matthew Hammond and Dmitry Grishin as senior managers of the Company). In addition to the cash remuneration in 2014, key management of the Company were granted options to acquire 23,000 Ordinary Shares at the exercise price of US$19.6 per share. During the year ended December 31, 2014, key management of the Company (excluding Directors) forfeited options over 7,500 shares and exercised options over 572,738 shares of MGL. The corresponding share-based payment expense amounted to RUR 552 million in 2014.

Responsibility statement

We confirm that, to the best of our knowledge:

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

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

By order of the Board

Matthew Hammond
Managing Director, Chief Financial Officer
Mail.Ru Group Limited

22 April 2015

Mail.ru Group Limited

Consolidated Financial Statements

For the year ended December 31, 2014

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улучшаем мир

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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, 2014 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, 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

April 22, 2015

Consolidated Statement of Financial Position

As of December 31, 2014
(in millions of Russian Roubles)

	Notes	As at December 31, 2014	As at December 31, 2013
ASSETS			
Non-current assets			
Investments in strategic associates	6, 10	666	8,289
Goodwill	7, 11	126,380	32,969
Other intangible assets	7	35,804	10,056
Property and equipment	8	3,517	2,518
Available-for-sale financial assets	23	809	–
Financial assets at fair value through profit or loss	23	1,547	1,330
Deferred income tax assets	19	784	263
Other non-current assets	15	751	924
Total non-current assets		170,258	56,349
Current assets			
Trade accounts receivable	12	3,672	2,957
Prepaid income tax		503	68
Prepaid expenses and advances to suppliers		897	751
Financial assets at fair value through profit or loss	23	70	66
Other current assets	15	304	404
Short-term time deposits	13	490	315
Cash and cash equivalents	13	4,585	30,987
Total current assets		10,521	35,548
Total assets		180,779	91,897
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	14	–	–
Share premium		46,644	46,283
Treasury shares	14	(1,301)	(472)
Retained earnings		97,665	35,312
Accumulated other comprehensive income/(loss)		(259)	65
Total equity attributable to equity holders of the parent		142,749	81,188
Non-controlling interests		16	6
Total equity		142,765	81,194
Non-current liabilities			
Deferred revenue and customer advances		702	386
Other non-current liabilities		96	–
Deferred income tax liabilities	19	5,739	2,408
Long-term interest-bearing loans	27	16,205	–
Total non-current liabilities		22,742	2,794
Current liabilities			
Trade accounts payable		2,081	1,292
Income tax payable		169	363
VAT and other taxes payable		1,531	1,368
Deferred revenue and customer advances		3,525	2,615
Short-term portion of long-term interest-bearing loans	27	5,857	–
Other payables, provisions and accrued expenses	16	2,109	2,271
Total current liabilities		15,272	7,909
Total liabilities		38,014	10,703
Total equity and liabilities		180,779	91,897

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2014
(in millions of Russian Roubles)

	Notes	2014	2013
Online advertising		10,816	9,316
MMO games		7,628	6,254
Community IVAS		10,680	8,534
Other revenue	17	3,203	2,966
Total revenue		32,327	27,070
Net (loss)/gain on venture capital investments and associated derivative financial assets and liabilities	23	(5)	148
Personnel expenses		(6,008)	(7,189)
Office rent and maintenance		(1,591)	(1,262)
Agent/partner fees		(4,171)	(2,975)
Marketing expenses		(1,188)	(894)
Server hosting expenses		(1,320)	(866)
Professional services		(369)	(257)
Other operating expenses		(939)	(784)
Total operating expenses		(15,586)	(14,227)
EBITDA		16,736	12,991
Depreciation and amortisation		(3,856)	(2,722)
Impairment of intangible assets	7	(408)	(18)
Share of profit of strategic associates	10	220	240
Finance income	18	408	308
Finance expenses		(767)	–
Other non-operating income/(expense)		9	(26)
Net gain on financial assets and liabilities at fair value through profit or loss over the equity of strategic associates, subsidiaries and other agreements	23	400	22
Net gain on disposal of shares in available-for-sale investments	23	–	15,620
Net gain on disposal of shares in strategic associates and loss of significant influence	6	6,482	3,310
Net gain on acquisition of control over strategic associates	6	40,831	–
Net foreign exchange gains		4,661	53
Profit before income tax expense		64,716	29,778
Income tax expense	19	(2,322)	(3,189)
Net profit		62,394	26,589
Attributable to:			
Equity holders of the parent		62,353	26,564
Non-controlling interest		41	25
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operations:			
Differences arising during the period		(184)	(13)
Available-for-sale financial assets:			
Gains/(losses) arising during the period		(137)	7,188
Income tax effect		–	–
Reclassification adjustments for gains included in profit or loss		–	(15,620)
Income tax effect		–	–
Total other comprehensive loss, net of tax effect of 0		(321)	(8,445)
Total comprehensive income, net of tax		62,073	18,144
Attributable to:			
Equity holders of the parent		62,032	18,116
Non-controlling interest		41	28
Earnings per share, in RUR:			
Basic earnings for the year attributable to ordinary equity holders of the parent	20	299.4	127.3
Diluted earnings for the year attributable to ordinary equity holders of the parent	20	294.2	126.4

Consolidated Statement of Cash Flows

For the year ended December 31, 2014
(in millions of Russian Roubles)

	Notes	2014	2013
Cash flows from operating activities:			
Profit before income tax expense		64,716	29,778
Adjustments for:			
Depreciation and amortisation		3,856	2,722
Bad debt expense	12	180	127
Net gain on financial assets and liabilities at fair value through profit or loss over the equity of strategic associates, subsidiaries and other agreements	23	(400)	(22)
Net gain on disposal of shares in strategic associates and loss of significant influence	6	(6,482)	(3,310)
Net gain on acquisition of control over strategic associates		(40,831)	–
Net gain on disposal of shares in available-for-sale investments		–	(15,620)
Loss on disposal of property and equipment and intangible assets		26	20
Finance income	18	(408)	(308)
Finance expenses		767	–
Dividend revenue from venture capital investments	17	(168)	(163)
Share of profit of strategic associates		(220)	(240)
Impairment of intangible assets	7	408	18
Net foreign exchange gains		(4,661)	(53)
Share based payment expense		(117)	1,856
Other non-cash items		(15)	21
Increase in accounts receivable		(446)	(328)
Increase in prepaid expenses and advances to suppliers		(101)	(164)
Increase/(Decrease) in other assets		112	(136)
Increase in accounts payable, provisions and accrued expenses		397	138
Increase/(Decrease) in other non-current assets		181	(73)
Increase in deferred revenue and customers advances		1,121	744
Decrease/(Increase) in financial assets at fair value through profit or loss		(10)	229
Operating cash flows before interest and income taxes		17,905	15,236
Dividends received from financial investments		198	139
Interest received		452	301
Interest paid		(595)	–
Income tax paid		(5,279)	(3,946)
Net cash provided by operating activities		12,681	11,730
Cash flows from investing activities:			
Cash paid for property and equipment		(978)	(1,582)
Cash paid for intangible assets		(1,672)	(1,478)
Dividends received from strategic associates	10	226	327
Proceeds from disposal of shares in available-for-sale investments		–	17,419
Proceeds from disposal of shares in strategic associates		6,401	3,912
Issuance of loans		(24)	(19)
Cash paid for acquisitions of subsidiaries, net of cash acquired	6	(54,585)	–
Cash paid for investments in strategic associates	6	(12,430)	–
Cash paid for other acquisitions		(284)	–
Collection of short-term and long term deposits		295	1,198
Acquisition of short-term and long term deposits		(470)	(435)
Net cash provided by/(used in) investing activities		(63,521)	19,342
Cash flows from financing activities:			
Cash paid for non-controlling interests in subsidiaries		(5)	–
Loan received, net of origination fee	27	22,037	–
Proceeds from issuance of common stock, net of share issuance costs paid		–	4
Cash paid for treasury shares	14	(1,337)	(481)
Dividends paid to shareholders			(27,660)
Dividends paid by subsidiaries to non-controlling shareholders		(38)	(26)
Net cash provided by/(used in) financing activities		20,655	(28,163)
Net increase/(decrease) in cash and cash equivalents		(30,183)	2,909
Effect of exchange differences on cash balances		3,781	388
Cash and cash equivalents at the beginning of the period		30,987	27,690
Cash and cash equivalents at the end of the period		4,585	30,987

Consolidated Statement of Changes in Equity

For the year ended December 31, 2013
(in millions of Russian Roubles)

		Share capital								
	Notes	Number of shares issued and outstanding	Amount	Share premium	Treasury shares	Retained earnings	Accumulated other comprehensive income (net of tax effect of 0)	Total equity attributable to equity holders of the parent	Non-controlling interests	Total equity
Balance at January 1, 2013		208,488,527	–	46,216	(611)	35,993	8,513	90,111	4	90,115
Profit for the period		–	–	–	–	26,564	–	26,564	25	26,589
Other comprehensive income/(loss):										
Foreign currency translation		–	–	–	–	–	(16)	(16)	3	(13)
Net change in cumulative holding gains on available-for-sale investments		–	–	–	–	–	(8,432)	(8,432)	–	(8,432)
Total other comprehensive income/(loss)		–	–	–	–	–	(8,448)	(8,448)	3	(8,445)
Total comprehensive income/(loss)		–	–	–	–	26,564	(8,448)	18,116	28	18,144
Share-based payment transactions	25	–	–	1,498	–	–	–	1,498	–	1,498
Exercise of options over the shares of the Company		635,926	–	(769)	620	–	–	(149)	–	(149)
Acquisition of treasury shares	14	(414,261)	–	–	(481)	–	–	(481)	–	(481)
Share-based payment transactions by strategic associates	10	–	–	43	–	–	–	43	–	43
Change in share-based payment settlement method	25	–	–	(712)	–	–	–	(712)	–	(712)
Dividends by subsidiaries to non-controlling shareholders		–	–	–	–	–	–	–	(26)	(26)
Dividends to shareholders	26	–	–	–	–	(27,245)	–	(27,245)	–	(27,245)
Other changes in net assets of strategic associates	10	–	–	7	–	–	–	7	–	7
Balance at December 31, 2013		208,710,192	–	46,283	(472)	35,312	65	81,188	6	81,194

Consolidated Statement of Changes in Equity

For the year ended December 31, 2014
(in millions of Russian Roubles)

		Share capital								
	Notes	Number of shares issued and outstanding	Amount	Share premium	Treasury shares	Retained earnings	Accumulated other comprehensive income (net of tax effect of 0)	Total equity attributable to equity holders of the parent	Non-controlling interests	Total equity
Balance at January 1, 2014		208,710,192	–	46,283	(472)	35,312	65	81,188	6	81,194
Profit for the period		–	–	–	–	62,353	–	62,353	40	62,393
Other comprehensive loss:										
Foreign currency translation		–	–	–	–	–	(184)	(184)	–	(184)
Net change in cumulative holding gains on available-for-sale investments		–	–	–	–	–	(137)	(137)	–	(137)
Total other comprehensive loss		–	–	–	–	–	(321)	(321)	–	(321)
Total comprehensive income/(loss)		–	–	–	–	62,353	(321)	62,032	40	62,072
Share-based payment transactions	25	–	–	665	–	–	–	665	–	665
Exercise of options over the shares of the Company		418,825	–	(502)	508	–	–	6	–	6
Acquisitions of non-controlling interests in existing subsidiaries				(13)				(13)	8	(5)
Acquisition of treasury shares	14	(1,012,885)	–	–	(1,337)	–	–	(1,337)	–	(1,337)
Share-based payment transactions by strategic associates	10	–	–	27	–	–	–	27	–	27
Dividends by subsidiaries to non-controlling shareholders		–	–	–	–	–	–	–	(38)	(38)
Other changes in net assets of strategic associates	10	–	–	184	–	–	(3)	181	–	181
Balance at December 31, 2014		208,116,132	–	46,644	(1,301)	97,665	(259)	142,749	16	142,765

Notes to Consolidated Financial Statements

For the year ended December 31, 2014
(in millions of Russian Roubles)

1 Corporate information and description of business

These consolidated financial statements of Mail.ru Group Limited (hereinafter "the Company") and its subsidiaries (collectively – "the Group") for the year ended December 31, 2014 were authorised for issue by the directors of the Company on April 22, 2015.

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, online marketplaces, massively multiplayer online games ("MMO games"), social and mobile games. The Group and its associates have leading positions in the CIS states where they are present, including Russia, Ukraine and Kazakhstan.

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

2 Basis of preparation

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

2.1 Statement of compliance

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

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

2.2 Application of new and amended IFRS and IFRIC

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations effective as of January 1, 2014:

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36
These amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. These amendments did not have a material impact on the Group's consolidated financial statements; however, they resulted in additional disclosures.

IAS 32 Offsetting Financial Assets and Financial Liabilities
These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the Group.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact on the Group as the Group does not have any derivatives designated as hedging instruments.

IFRIC 21 Levies
IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. These amendments have no impact on the Group.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements*. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact to the Group, since the Company does not qualify as an investment entity under IFRS 10.

2 Basis of preparation (continued)

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

Annual Improvements to IFRSs 2010–2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards. The amendments applied by the Group in 2014 include:

IFRS 13 Fair Value Measurement.

The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at January 1, 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group.

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

This amendment to IFRS 2 has no impact on the Group.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable). This amendment to IFRS 3 has no impact on the Group.

Annual Improvements to IFRSs 2011–2013 Cycle

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at January 1, 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Group, since the Group is an existing IFRS preparer.

2.3 New accounting pronouncements

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective. Management of the Group has not completed the assessment of the impact of Standards and Interpretations not yet effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Notes to Consolidated Financial Statements (continued)

2 Basis of preparation (continued)

2.3 New accounting pronouncements (continued)

Annual improvements 2010-2012 Cycle
These improvements are effective for annual periods beginning on or after July 1, 2014 and are not expected to have a material impact on the Group. They include:

IFRS 8 Operating Segments
The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures
The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle
These improvements are effective for annual periods beginning on or after July 1, 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations
The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

IFRS 13 Fair Value Measurement
The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

Annual improvements 2012-2014 Cycle
These improvements are effective on or after January 1, 2016 and are not expected to have a material impact on the Group. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – changes in methods of disposal
Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

IFRS 7 Financial Instruments: Disclosures – servicing contracts
IFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognised in its entirety. The IASB was asked whether servicing contracts constitute continuing involvement for the purposes of applying these disclosure requirements. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The amendment is to be applied so that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

2 Basis of preparation (continued)

2.3 New accounting pronouncements (continued)

IFRS 7 Financial Instruments: Disclosures – applicability of the offsetting disclosures to condensed interim financial statements
In December 2011, IFRS 7 was amended to add guidance on offsetting of financial assets and financial liabilities. In the effective date and transition for that amendment IFRS 7 states that "[A]n entity shall apply those amendments for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods. The interim disclosure standard, IAS 34, does not reflect this requirement, however, and it is not clear whether those disclosures are required in the condensed interim financial report.
The amendment removes the phrase "and interim periods within those annual periods", clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report.

IAS 34 Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'
The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report). The IASB specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete.

Reclassifications
Certain corresponding information presented in the consolidated financial statements for the year ended December 31, 2013 has been reclassified in order to achieve comparability with the presentation used in these consolidated financial statements. All reclassification adjustments were insignificant, individually and in the aggregate.

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, 2014 and for the year then ended.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:
- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

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.

3 Summary of significant accounting policies (continued)

3.1 Principles of consolidation (continued)

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to a parent. Non-controlling interests at the end of the reporting period represent the non-controlling 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 aquisition.

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 present 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'*.

If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interests;
- derecognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss; and
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

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, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed and included in operating expenses.

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 vested share-based payment awards of the acquiree that are replaced in the business combination.

If control 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.

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

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

Notes to Consolidated Financial Statements (continued)

3 Summary of significant accounting policies (continued)

3.2 Business combinations and goodwill (continued)

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

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

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

3.3 Investments in associates

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

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

3.3.1 Financial investments in associates

Financial investments, or venture capital investments, are the Group's investments in start-up Internet ventures and smaller Internet companies. 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 and Joint Ventures*, 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 profit or loss in the period of the change. Accounting policies of the Group with respect to financial investments in associates are discussed in more detail under 3.13 below as part of the Group's accounting policies with respect to financial assets.

3.3.2 Investments in strategic associates

The Group participates in the operating management of its strategic associates and intends to stay involved in their operations from 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 and other comprehensive income 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 3.13.6.

3 Summary of significant accounting policies (continued)

3.3 Investments in associates (continued)

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

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

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

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

3.4 Property and equipment

3.4.1 Property and equipment

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

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

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

Gains and losses on disposal of an item of property and equipment are recognised net under '*Other non-operating income/(expense)'* 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	2-5
Furniture	7
Office IT equipment	2-3
Leasehold improvements	Lesser of useful life or life of lease

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

3 Summary of significant accounting policies (continued)

3.5 Intangible assets other than goodwill

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

3.5.1 Software development costs

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

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

Research and development costs recognised as an expense in the statement of comprehensive income during 2014 amounted to RUR 146 (2013: RUR 199).

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, 2014 and 2013.

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

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

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

	Estimated Useful Life (in Years)
Patents and trademarks	7-20
Capitalised software costs	3
Domain names	10
Games	3-9
Customer base	3-15
Licenses	3-5
Software	1-4

3.6 Cash and cash equivalents

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

3.7 Employee benefits

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

Under provisions of Russian legislation, social contributions are made through social insurance payments calculated by the Group by the application of a 30% rate to the portion of the annual gross remuneration of each employee not exceeding RUR 624 thousand and a rate of 10% to the portion exceeding this threshold.

3 Summary of significant accounting policies (continued)

3.8 Provisions

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

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

3.9 Revenue recognition

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

3.9.1 Online advertising

3.9.1.1 Display advertising

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

3.9.1.2 Barter transactions

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

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

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

The amount of revenue recognised in 2014 from advertising barter transactions was RUR 51 (2013– RUR 82) and the related expense was RUR 39 (2013 – RUR 70).

3.9.1.3 Context advertising

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

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

Context advertising also includes revenue relates to the placement of target advertising, media advertising and advertising through integrations in applications, advertising thought offers on the Group’s websites and in applications, advertising via networks comprising advertising banners placement on other sites and advertising on the Group's site communities pages. The revenue from advertising in applications, on the web pages of communities and via networks is recognised on a gross basis with commissions to advertising agencies where the Group acts as a principal in these arrangements.

3 Summary of significant accounting policies (continued)

3.9 Revenue recognition (continued)

3.9.2 Internet value-added services (“IVAS”)

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

3.9.2.1 Revenue from MMO games

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

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

3.9.2.2 Community IVAS

The Group derives other IVAS revenues through certain communication products, where users pay a fee for the paid content and online services, mainly through social networking web sites and through the commission from third party developers of the various applications placed on social networking web sites, including games, based on the respective applications’ revenue. The fees for such services are collected from customers using various payment channels, including bank cards, online payment systems and mobile operators and from the applications developers. The mobile network operators collect fees for such services from their customers, usually through mobile short message services (“SMS”), and pass such fees to the Group. Revenues from third party applications and developers on the Group’s platforms are recognised net of commission to mobile operators and any portion attributable to the developer of the application. Revenues from services including games developed by the Group and operated on third party platforms are reported gross as the services are provided 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.

3.9.3 Other revenue

3.9.3.1 Online recruitment revenue

Online recruitment revenues primarily consist of the following:

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

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

3.9.3.2 Listing fees

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

3 Summary of significant accounting policies (continued)

3.9 Revenue recognition (continued)

3.9.3 Other revenue (continued)

3.9.3.3 Dividend revenue

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

3.9.3.4 Other revenues

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

3.10 Finance income

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

3.11 Income taxes

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

The Group is also subject to taxation in Russia, the Netherlands, the United States of America and some other jurisdictions its subsidiaries operate in (see also Note 19).

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

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

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

3.12 Share-based payment transactions

Employees (including senior executives) of the Group and its associates (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") or a cash equivalent thereof ("cash-settled share-based payments").

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

3 Summary of significant accounting policies (continued)

3.12 Share-based payment transactions (continued)

3.12.1 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 (Note 20).

3.12.2 Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using a binomial model, further details of which are provided in Note 25. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is re-measured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognised in *'Personnel expense'*.

3.12.3 Accounting for the change in form of settlement of share-based payments

As a result of modification of share-based payment awards from equity-settled to cash-settled the Group recognises a share-based payment expense which comprises as a minimum the following elements:

- the grant date fair value of the original equity-settled award; plus
- any incremental fair value arising from the modification of that award; plus
- any remeasurement of the liability between its fair value at modification date and the amount finally settled.

At the date of modification a liability is recognised based on the fair value of the cash-settled award as at that date and the extent to which the vesting period has expired, with a corresponding increase in equity. The total fair value of the cash-settled award is remeasured through profit or loss on an ongoing basis between the date of modification and the date of settlement.

3.13 Financial instruments

3.13.1 Initial recognition and measurement

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

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

Notes to Consolidated Financial Statements (continued)

3 Summary of significant accounting policies (continued)

3.13 Financial instruments (continued)

3.13.1 Initial recognition and measurement (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 listed and non-listed equity instruments, financial investments in associates (as defined under 3.3.1), and derivative financial assets, mainly over equity instruments of the Group's investees. The Group's financial liabilities include trade and other payables, loans and borrowings, and derivative financial liabilities, mainly over equity instruments of the Group's associates and subsidiaries. None of the derivative financial instruments held by the Group were designated as effective hedging instruments.

3.13.2 Subsequent measurement

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

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

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

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

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

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

3.13.2.2 Loans and receivables

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

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

3.13.2.3 Available-for-sale investments

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

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 related to available- for-sale investments'* and removed from the available-for-sale reserve. The Group elected the trade date accounting approach for recognition and de-recognition of regular way purchases and sales of financial assets. The Group elected the weighted average formula approach for determining the cost at disposal of available-for-sale financial assets.

Notes to Consolidated Financial Statements (continued)

3 Summary of significant accounting policies (continued)

3.13 Financial instruments (continued)

3.13.2 Subsequent measurement (continued)

3.13.2.4 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 fees or costs that are an integral part of the EIR. The EIR amortisation is included in '*Finance expenses* in the statement of comprehensive income.

3.13.3 De-recognition

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

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

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

3.13.4 Offsetting of financial instruments

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

3.13.5 Fair value of financial instruments

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 23.

3.13.6 Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that 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.

3.13.6.1 Financial assets carried at amortised cost

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

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 *'Other operating 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.

3 Summary of significant accounting policies (continued)

3.13 Financial instruments (continued)

3.13.6 Impairment of financial assets (continued)

3.13.6.1 Financial assets carried at amortised cost (continued)

Provisions are made based upon a specific review of all significant outstanding invoices. For those invoices not specifically reviewed, provisions are provided at differing rates, based upon the age of the receivable. In determining these percentages, the Group analyses its historical collection experience and current economic trends. If the historical data the Group uses to calculate the allowance provided for doubtful accounts does not reflect the future ability to collect outstanding receivables, additional provisions for doubtful accounts may be needed and the future results of operations could be materially affected.

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

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

3.13.6.2 Available-for-sale financial assets

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

3.14 Foreign currency translation

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

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

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

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

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

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

3 Summary of significant accounting policies (continued)

3.14 Foreign currency translation (continued)

currency different from the Group's presentation currency, the entire accumulated foreign currency translation adjustment related to the investment in the associate is reclassified to profit or loss.

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

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

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

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

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

3.15.1 Goodwill

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

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

3.15.2 Investments in strategic associates

As discussed under 3.3.2, although investments in strategic associates are financial assets and their impairment indicators are assessed as described under 3.13, those investments are tested for impairment in a manner similar to non-financial assets. Whenever application of the requirements in IAS 39 indicates that the investment may be impaired, the entire carrying amount of the investment is tested for impairment by comparing its recoverable amount (the higher of value in use and fair value less costs to sell) with its carrying amount. In determining the value in use of the investment, the Group 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 investment in associate is impaired, the impairment is not allocated to the underlying assets or goodwill recognised in the financial statements of the associate. Such impairment is only allocated to the additional goodwill and fair value adjustments to intangible assets of the associate recognised by the Group as part of the respective strategic associates. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in earnings.

3 Summary of significant accounting policies (continued)

3.16 Earnings per share

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

Diluted EPS is determined by adjusting the profit or loss attributable to shareholders and the weighted average number of 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. Additionally, certain subsidiaries and associates of the Group have issued instruments to other parties that are convertible into ordinary shares of the respective subsidiary or associate. If these instruments have a dilutive effect on the basic EPS of the Group, they are included in the calculation of diluted earnings per share.

3.17 Segment reporting

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

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

4 Significant accounting judgments, estimates and assumptions

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

4.1 Judgments

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

4.1.1 Consolidation and accounting for associates

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

4.1.2 Consolidation of a structured entity

In November 2010, the Company established, as settlor, an employee benefit trust (the “Trust”) under a Trust Deed dated November 11, 2010 (“Trust Deed”), the trustee of which is Mail.ru Employee Benefit Trustees Limited (the “Trustee”). The purpose of the Trust consists in holding trust funds for present and former employees and consultants and related persons. The Trustee manages employee stock options under the 2010 Option Plan (as defined in Note 25). Starting from October 2011, the Trustee was also instructed by the Company to acquire GDRs representing shares of the Company on the stock market and transfer those GDRs to employees in settlement of the 2010 Option Plan options as the options are exercised by the employees. The Group does not hold any equity interest in the Trust; however, under the Trust Deed, the Group has the power to appoint and remove the Trustee at its sole discretion. The operations of the Trust are restricted per the Trust Deed to the activities described above and are solely used by the Group. Based on these facts and circumstances, management concluded that the Group controls the Trustee and, therefore, consolidates the Trustee in its financial statements.

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

Starting from November 2011, the Group has wide discretion over the manner of settlement of options issued under the 2010 Option Plan (as defined in Note 25) and determines the accounting treatment of the options based on whether the Group has a present obligation to settle in cash. In March 2013, the terms of exercise of certain options were modified. Specifically, any option holder granted an aggregate of 20,000 or more options at either the IPO Portion (i.e. options with an exercise price of USD 23.9 per share at the time of the modification, subsequently reduced to

4 Significant accounting judgments, estimates and assumptions (continued)

4.1 Judgments (continued)

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

USD 19.6 per share – see Note 25 below) or the 2011 Portion (i.e. options with an exercise price of USD 21.8 per share at the time of the modification, subsequently reduced to USD 17.5 per share – see Note 25 below) was only allowed to exercise the respective portion options in the form of GDRs, while exercises by the optionees granted a smaller cumulative number of options can continue to be in GDRs or cash at the Group's discretion. The new terms of the option plan and past exercise history make it reasonable to expect cash settlement of most of the smaller option exercises, even though the Group continues to have discretion over the way of option exercise settlement. Further, in September 2013, certain Directors of the Company exercised their options and were allowed to receive cash in settlement thereof, and the Group expects that future exercises of Directors' options (as defined in Note 25) will predominantly be settled in cash. Accordingly, the Group determined that as of December 31, 2014, the present obligation to settle the respective options in cash was RUR 318 (2013 – RUR 882).

4.2 Estimates and assumptions

Significant estimates and assumptions reflected in the Group'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 goodwill and other intangible assets;
- fair value of assets and liabilities in business combinations;
- share-based payments; and
- deferred tax on undistributed earnings.

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 put options over equity instruments of investees and certain other derivatives. 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 23 and 24.

4 Significant accounting judgments, estimates and assumptions (continued)

4.2 Estimates and assumptions (continued)

4.2.3 Useful life of intangible assets

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

4.2.4 Software development costs

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

4.2.5 Impairment of goodwill and other intangible assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm’s length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from management forecast. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Notes 7 and 11.

4.2.6 Fair value of assets and liabilities in business combinations

At the acquisition date the Group 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.

4.2.7 Share-based payments

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

4.2.8 Deferred taxes on undistributed earnings

Deferred tax is recognised based on estimated dividends distributions of Company’s subsidiaries taking into account limitation of cash and cash equivalents available at the reporting date.

4.3 Changes in estimates

4.3.1 Revenue deferral in certain online games

In 2014, the Group changed its estimates with respect to useful live of certain MMO games used in calculation of deferred revenue from 5.5 to 8.5 years. The changes resulted from reassessment by management of the games’ remaining useful lives based on relevant recent operational statistics. The changes in estimates were recorded prospectively starting from December 31, 2014 and resulted in a decrease in revenue and an increase in deferred revenue estimated at RUR 106.

4 Significant accounting judgments, estimates and assumptions (continued)

4.3.2 Deferred taxes on undistributed earnings

The Group consistently estimates the lesser of the undistributed earnings or the amount of cash available for distributions by its subsidiaries to determine the amount of tax on undistributed earnings. In 2014 the Group`s subsidiaries' cash available for distribution significantly decreased as a result of business combinations (Note 6). The Group revised the estimate of possible distribution and reversed approximately RUR 1,114 of deferred taxes on unremitted earnings accrued in prior years.

5 Operating segments

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

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

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

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

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

The Group has identified the following reportable segments based on the types of products and services offered:

- Email, Portal and IM;
- VK (Vkontakte);
- Social Networks (excluding VK);
- Online Games; and
- E-Commerce, Search and Other Services.

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

The VK segment includes the Group's social network Vkontakte (VK.com) and earns revenues from (i) commission from application developers based on the respective applications' revenue, and (ii) online advertising, including display and context advertising.

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

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

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

5 Operating segments (continued)

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

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

The Group's share of profits of strategic associates is not included in the financial information reviewed by the CODM.

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

The income statement items for each segment for the year ended December 31, 2014, as presented to the CODM, are presented below:

	Email, Portal and IM	Social Networks (ex VK)	Online Games	VK	E-commerce, Search and other	Eliminations	Group
Revenue							
External revenue	4,568	12,422	8,826	4,318	5,644	–	35,778
Intersegment revenue	31	25	–	1	328	(385)	–
Total revenue	4,599	12,447	8,826	4,319	5,972	(385)	35,778
Total operating expenses	2,358	3,433	5,862	2,716	3,497	(385)	17,481
EBITDA	2,241	9,014	2,964	1,603	2,475	–	18,297
Net profit							12,518

The income statement items for each segment for the year ended December 31, 2013, as presented to the CODM, are presented below:

	Email, Portal and IM	Social Networks (ex VK)	Online Games	VK	E-commerce, Search and other	Eliminations	Group
Revenue							
External revenue	4,599	10,221	7,184	3,826	5,335	–	31,165
Intersegment revenue	28	34	–	–	322	(384)	–
Total revenue	4,627	10,255	7,184	3,826	5,657	(384)	31,165
Total operating expenses	1,898	2,784	4,799	2,791	3,155	(384)	15,043
EBITDA	2,729	7,471	2,385	1,035	2,502	–	16,122
Net profit							11,239

A reconciliation of total revenue, as currently presented to the CODM, to IFRS consolidated revenue of the Group for the years ended December 31, 2014 and 2013 is presented below:

	2014	2013
Total revenue, as presented to the CODM	35,778	31,165
Adjustments to reconcile revenue as presented to the CODM to consolidated revenue under IFRS:		
Effect of operations disposed of and difference in dates of acquisition of control in subsidiaries	(2,935)	(3,756)
Differences in timing of revenue recognition	(735)	(578)
Barter revenue	51	76
Dividend revenue from venture capital investments	168	163
Consolidated revenue under IFRS	32,327	27,070

5 Operating segments (continued)

A reconciliation of EBITDA, as currently presented to the CODM, to IFRS consolidated profit before income tax expense of the Group for the years ended December 31, 2014 and 2013 is presented below:

	2014	2013
Group aggregate segment EBITDA, as presented to the CODM	18,297	16,122
Adjustments to reconcile EBITDA as presented to the CODM to consolidated profit before income tax expenses under IFRS:		
Effect of operations disposed of and difference in dates of acquisition of control in subsidiaries	(1,016)	(1,035)
Differences in timing of revenue recognition	(735)	(578)
Net gain/(loss) on venture capital investments and associated derivative financial assets and liabilities	(5)	148
Share-based payments transactions	117	(1,856)
Dividend revenue from venture capital investments	168	163
Other	(90)	27
EBITDA	16,736	12,991
Depreciation and amortisation	(3,856)	(2,722)
Impairment of intangible assets	(408)	(18)
Share of profit of strategic associates	220	240
Finance income	408	308
Finance expenses	(767)	–
Other non-operating income/(expense)	9	(26)
Net gain on financial assets and liabilities at fair value through profit or loss over the equity of strategic associates, subsidiaries and other agreements	400	22
Net gain on disposal of shares in available-for-sale investments	–	15,620
Net gain on disposal of shares in strategic associates and loss of significant influence	6,482	3,310
Net gain on acquisition of control over strategic associates	40,831	–
Net foreign exchange gains	4,661	53
Profit before income tax expense	64,716	29,778

A reconciliation of net profit, as currently presented to the CODM, to IFRS consolidated net profit of the Group for the years ended December 31, 2014 and 2013 is presented below:

	2014	2013
Total net profit, as presented to the CODM	12,518	11,239
Adjustments to reconcile net profit as presented to the CODM to consolidated net profit under IFRS:		
Share-based payments transactions	117	(1,856)
Differences in timing of revenue recognition	(735)	(578)
Effect of operations disposed of, difference in shareholding percentages and acquisition dates of subsidiaries and associates	(343)	(43)
Amortisation of fair value adjustments to intangible assets and impairment thereof	(2,707)	(1,599)
Net gain on financial instruments at fair value through profit or loss	395	170
Net gain on disposal of shares in available-for-sale investments	–	15,620
Net gain on disposal of shares in strategic associates and loss of significant influence	6,482	3,310
Net gain on acquisition of control over strategic associates	40,831	–
Net foreign exchange gains	4,661	53
Share in financial results of associates	220	240
Other	(92)	31
Tax effect of the adjustments and tax on unremitted earnings	1,047	2
Consolidated net profit under IFRS	62,394	26,589

6 Acquisitions and disposals of shares in strategic associates

6.1 VK

In April 2014 the Group acquired 12.00% of economic interest in strategic associate VK.Com Limited (“VK”) for an aggregate consideration of RUR 12,630 including RUR 12,430 in cash and a written call option to acquire 100% of Headhunter with a fair value of RUR 200 (Note 23). As a result of the acquisition the Group increased its economic interest in VK to 51.99%, but did not acquire control over VK as the Group did not receive enough representation on the board of directors required for approval of major operational decisions and thus continued to account for the investment using the equity method. The Group allocated RUR 9,908 to goodwill as part of the equity method investment, RUR 3,159 to intangible assets as part of the equity method investment and RUR 437 to the acquired share in net liabilities of VK.

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

6.1 VK (continued)

The acquisition of the remaining 48.01% of VK not previously owned by the Group was closed on September 16, 2014. As a result the Group obtained control over VK. The acquisition of the 48.01% was fully paid in cash in the aggregate amount of RUR 55,840. The Group funded the acquisition with its existing cash and loan (Note 27).

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

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

	Fair value
Property and equipment (Note 8)	1,040
Intangible assets (Note 7)	26,362
Trade accounts receivable	499
Prepaid expenses and advances to suppliers	36
Other current assets	45
Cash and cash equivalents	1,255
Total assets	29,237
Deferred income tax liabilities (Note 19)	5,157
Deferred revenue and customer advances	225
Trade accounts payable	631
Income tax payable	27
VAT and other taxes payable	101
Other payables, provisions and accrued expenses	137
Total liabilities	6,278
Total net assets	22,959

Goodwill on the transaction was calculated as the excess of:

(a) the consideration transferred by the Group measured at fair values:	
[1] Cash paid	55,840
[2] the acquisition date fair value of the Group's previously held equity interest	60,469
Consideration transferred by the Group	116,309

over

(b) the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3	22,959
Goodwill (Note 11)	93,350

Goodwill is mainly attributable to the potential of VK to further enhance its leadership position in the Russian social networking market, as well as the prospects of more effective monetisation and potential synergies with the Group's other operations. Goodwill is not expected to be deductible for income tax purposes.

Intangible assets mainly include VK's trademark and customer base and are amortised over the period of 4 to 10 years.

The Group recognised a net gain of RUR 40,831 as a result of remeasuring to fair value the 51.99% equity interest in VK held by the Group immediately prior to the business combination. The gain has been included in "*Net gain on acquisition of control over strategic associates*" in the statement of comprehensive income.

The cash flows on acquisition were as follows:

Cash paid (included in cash flows from investing activities)	55,840
Cash acquired (included in cash flows from investing activities)	(1,255)
Net cash flow on acquisition	54,585

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

6.1 VK (continued)

The effects of the VK acqusition on the Group's revenue and net income for 2014 are presented below:

	Revenue	Net profit
The Group, excluding VK	30,982	61,923
Contributed by VK	1,345	471
The Group	32,327	62,394
Effect of VK acquisition as if occuring on January 1, 2014 (from January 1 to September 15, 2014)	2,987	425
The Group, as if the acquisition of VK occurred on January 1, 2014	35,314	62,819

6.2 Qiwi

In 2014 the Group sold 9.11% (2013: 10.95%) of economic interest in strategic associate Qiwi plc ("Qiwi") for an aggregate net cash consideration of RUR 6,401 (2013: 3,912). As a result of the disposal the Group recognised a gain in the amount of RUR 6,482 under "*Net gain on disposal of shares in strategic associates and loss of significant influence*" in the consolidated statement of comprehensive income (2013: 3,310). After partial disposal of the investment the Group retained a 1.31% economic interest and lost the power to participate in the financial and operating policy decisions with respect to Qiwi. Accordingly the Group derecognised its share in Qiwi as associate accounted for using the equity method and recognised its remaining investment as available-for-sale. Included in the above gain is revaluation, in the amount of RUR 824, of the retained economic investment to its fair value of RUR 946.

7 Intangible assets

	Goodwill	Trademark	Customer base	Game software and software development costs	Other software, licenses and other	Total
Cost						
At January 1, 2013	32,969	4,455	5,492	5,985	1,499	50,400
Additions	–	10	–	1,370	193	1,573
Disposals	–	(4)	–	(200)	(134)	(338)
Translation adjustment	–	7	2	12	10	31
At December 31, 2013	32,969	4,468	5,494	7,167	1,568	51,666
Additions	–	8	1	1,405	222	1,636
Disposals	–	(1)	–	(358)	(103)	(462)
Additions due to acquisition of subsidiaries (Note 6)	93,411	9,401	16,269	–	951	120,032
Translation adjustment	–	20	1	709	108	838
At December 31, 2014	126,380	13,896	21,765	8,923	2,746	173,710
Accumulated amortisation and impairment						
At January 1, 2013	–	(1,535)	(1,404)	(2,938)	(987)	(6,864)
Charge for the year	–	(487)	(526)	(729)	(320)	(2,062)
Disposals	–	1	–	194	132	327
Impairment	–	–	–	(12)	(6)	(18)
Translation adjustment	–	(3)	–	(7)	(14)	(24)
At December 31, 2013	–	(2,024)	(1,930)	(3,492)	(1,195)	(8,641)
Charge for the year	–	(728)	(1,129)	(653)	(294)	(2,804)
Disposals	–	1	–	352	102	455
Impairment	–	–	–	(408)	–	(408)
Translation adjustment	–	(19)	(1)	(19)	(89)	(128)
At December 31, 2014	–	(2,770)	(3,060)	(4,220)	(1,476)	(11,526)
Net book value						
At January 1, 2013	32,969	2,920	4,088	3,047	512	43,536
At December 31, 2013	32,969	2,444	3,564	3,675	373	43,025
At December 31, 2014	126,380	11,126	18,705	4,703	1,270	162,184

7 Intangible assets (continued)

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

Games represent separable CGUs and the analysis of impairment was performed at the level of each game, where either impairment was previously recognised or current operating performance was below the original forecasts. The analysis included the comparison of the value in use determined based on discounted future cash flows to the carrying amount. The value in use calculation uses cash flow projections from financial budgets approved by senior management covering a period limited to the useful life of the respective game, ranging from 3 to 8 years.

Based on such analysis in 2014 the Group recorded an impairment loss in the amount of RUR 408 related to game software with a recoverable amount of RUR 585. The impairment entirely belongs to the Online Games operating segment.

The principal factors leading to the impairment loss recorded by the Group were reductions in the projected future cash flows of certain online games related to lower-than-expected actual cash inflows. The revision of the expected profitability of the games affected the future cash flow projections as of December 31, 2014. 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, remaining useful life, the amount and timing of expected future cash flows. 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 pre-tax discount rates used in the DCF models as of December 31, 2014 was 27.6%.

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

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

8 Property and equipment

	Servers and computers	Leasehold improvements	Furniture, office equipment and motor vehicles	Assets under construction	Other property and equipment	Total
Cost						
At January 1, 2013	2,030	358	93	395	147	3,023
Additions	–	–	–	1,601	–	1,601
Transfers	1,004	–	91	(1,128)	33	–
Disposals	(35)	(67)	(5)	–	(4)	(111)
Translation adjustment	4	–	2	–	–	6
At December 31, 2013	3,003	291	181	868	176	4,519
Additions				963		963
Transfers	1,069	212	54	(1,350)	15	–
Disposals	(82)	(2)	(15)	(12)	(19)	(130)
Additions due to acquisition of subsidiaries (Note 6)	951	18	11	60	–	1,040
Translation adjustment	88	4	31	10	(1)	132
At December 31, 2014	5,029	523	262	539	171	6,524
Accumulated depreciation and impairment						
At January 1, 2013	(1,160)	(129)	(54)	–	(61)	(1,404)
Charge for the year	(605)	(32)	(31)	–	(24)	(692)
Disposals	27	64	3	–	4	98
Translation adjustment	(2)	–	(1)	–	–	(3)
At December 31, 2013	(1,740)	(97)	(83)	–	(81)	(2,001)
Charge for the year	(928)	(35)	(38)	–	(53)	(1,054)
Disposals	81	–	14	–	16	111
Translation adjustment	(43)	(3)	(19)	–	2	(63)
At December 31, 2014	(2,630)	(135)	(126)	–	(116)	(3,007)
Net book value						
At January 1, 2013	870	229	39	395	86	1,619
At December 31, 2013	1,263	194	98	868	95	2,518
At December 31, 2014	2,399	388	136	539	55	3,517

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, 2014 and 2013 are listed below:

		Ownership,%*	
Subsidiary	Main Activity	December 31, 2014	December 31, 2013
Mail.Ru Internet N.V. (Netherlands)	Holding entity	100.0%	100.0%
Mail Coöperatief UA (Netherlands)	Holding entity	100.0%	100.0%
MRGroup Investments Limited (Cyprus)	Holding entity	100.0%	100.0%
Port.ru, Company (USA)	Holding entity	100.0%	100.0%
NetBridge Limited (Cyprus)	Holding entity	100.0%	100.0%
Mail.Ru, LLC (Russia)	Online portal and communication services	100.0%	100.0%
Mail.ru Ukraine, LLC (Ukraine)	Online portal and communication services	100.0%	100.0%
NBCO Money.Mail.Ru, LLC (Russia)	Internet payment system	100.0%	100.0%
Mail.Ru Development LLC (Russia)	Research and development of online products	100.0%	100.0%
Astrum Online Entertainment Limited (BVI)	Holding entity	100.0%	100.0%
Benstar Limited (BVI)	Support of online games	100.0%	100.0%
Nessly Holdings Limited (Cyprus)	Holding entity	100.0%	100.0%
Mail.Ru Games GMBH (Germany)	Development and support of online games	100.0%	100.0%
Dark Joker - Games, LLC (Ukraine)	Development and support of online games	100.0%	100.0%
Mail.Ru Games LLC (Russia)	Development and support of online games	100.0%	100.0%
Online Games Holding Limited (BVI)	Holding entity	100.0%	100.0%
Headhunter Group Limited (BVI)	Holding company	100.0%	100.0%
Headhunter LLC (Russia)	Online recruiting services	100.0%	100.0%
Headhunter.KZ LLC (Kazakhstan)	Online recruiting services	66.0%	66.0%
Metajob Ltd (BVI)	Online recruiting services	100.0%	100.0%
CV Keskus OU (Estonia)	Online recruiting services	100.0%	100.0%
Headhunter FSU Limited (Cyprus)	Holding company	100.0%	100.0%
OU Forticom (Estonia)	Holding company	100.0%	100.0%
Internet company Mail.Ru LLC	Holding company	100.0%	100.0%
Odnoklassniki LLC (Russia)	Social network	100.0%	100.0%
Odnoklassniki Ltd (UK)	Holding company	100.0%	100.0%
Radikal-Internet LLC (Russia)	Photo hosting	80.0%	80.0%
Forticom Group Limited (BVI)	Holding company	100.0%	100.0%
SIA Forticom (Latvia)	Development and support of social network	100.0%	100.0%
ICQ LLC (USA)	Holding company	100.0%	100.0%
ICQ Ltd (Israel)	Online messaging services company	100.0%	100.0%
Data Center M100 LLC (Russia)	Hosting services	100.0%	100.0%
My.Com BV (renamed from MRG Hosting B.V.)	Development and support of online games and communication services	100.0%	100.0%
Mail.ru Internet Holdings B.V.	Holding company	100.0%	100.0%
MGL Partnership C.V.	Holding company	100.0%	100.0%
Mail.ru Aggregates B.V.	Holding company	100.0%	100.0%
Mail.ru Foreign Holdings B.V.	Holding company	100.0%	100.0%
Mail.ru Holdings B.V.	Holding company	100.0%	100.0%
MY.COM US, Inc.	Support of online games and communication services	100.0%	100.0%
Bullion Development Ltd (BVI)	Holding company	100.0%	n/a
VK.COM Limited (BVI)	Holding company	100.0%	n/a
VK.COM Holdings ltd (Cyprus)	Holding company	100.0%	n/a
Vkontakte LLC (Russia)	Social network	100.0%	n/a
Vkontakte LLC (Ukraine)	Social network	100.0%	n/a

* The ownership percentages above represent the Company's effective indirect ownership in each subsidiary. There are no differences between economic and voting rigths which the Group holds in subsidiaries.

10 Investments in associates

10.1 Investments in strategic associates accounted for using the equity method

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

Investments in strategic associates at December 31, 2014 and 2013 comprised the following:

		Voting shares		Carrying value	
Associate	Main activity	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Qiwi plc (renamed from Qiwi Limited) (Cyprus) and subsidiaries ("QIWI")	Operation of electronic online payment systems in Russia, in the CIS and other countries	n/a	10.4%	–	585
VK.Com Limited (BVI) and subsidiaries ("VK")	Social network	n/a	39.99%	–	6,995
Molotok Holdings Limited (Cyprus) and subsidiary OOO E-Commerce Group (Russia) ("Molotok")	Provides online auction services to Internet customers through its www.molotok.ru web site	49.90%	49.90%	–	21
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	31.19%	31.19%	586	606
Nikita Management Limited (BVI) ("Nikita")	Holds 100% in OOO Fun Factory (Russia) engaged in online gaming services	50%	50%	80	82
Total				666	8,289

The above entities have the same reporting date as the Company. None of the entities were listed on a public exchange as of December 31, 2014.

In 2014 the Group received dividends from Mamba in the amount of RUR 64 (2013 – 53) and from Qiwi in the amount of RUR 162 (2013 – 274).

While certain indicators of impairment were identified for one of the Group's associates as of December 31, 2014 and 2013, the recoverable amount of the investment based on multiples analysis was higher than its carrying value and accordingly, no impairment was recorded in 2014 and 2013.

The unrecognised share of losses of associate, both for the reporting period and cumulatively as of December 31, 2014 is RUR 213.

Movement in investments in strategic associates for year ended December 31, 2013 and 2014 is presented below:

	2014	2013
Investments in strategic associates at January 1	8,289	8,945
Acquisition of shares in associates	12,630	–
Disposals of shares in associates	(820)	(619)
Effect of acquisition of control in associates	(19,638)	–
Share in net profits of associates	220	240
Share in equity-settled share-based payments of associates	27	43
Dividends from associates	(226)	(327)
Share in other changes in capital of associates	184	7
Investments in strategic associates at December 31	666	8,289

The following table illustrates summarised financial information of the Group's strategic associates disposed of during 2014:

	December 31, 2013	
	Qiwi	VK
Current assets	16,342	1,028
Non-current assets	4,388	3,001
Current liabilities	(17,753)	(985)
Non-current liabilities	(220)	(305)
Total equity of associate	(2,757)	(2,739)
Non-controlling interests	(95)	–
Equity attributable to equity holders of the associate	(2,852)	(2,739)
Proportion of the Group's ownership	298	1,095
Goodwill	287	5,900
Carrying amount of the investment	585	6,995

	2013	
	Qiwi	VK
Revenue	11,666	3,825
Profit/(Loss) from continuing operations	1,866	(137)
Other comprehensive income	10	–
Total comprehensive income/(loss)	1,876	(137)
Group's share of profit/(loss) for the year	283	(55)

The following table illustrates summarised financial information of the Group's share in investees accounted for under the equity method as of December 31, 2014 (Molotok, Mamba and Nikita):

	2014	2013
Revenue	386	474
Profit/(Loss) from continuing operations	(202)	7
Other comprehensive income	11	5
Total comprehensive income/(loss)	(191)	11

10 Investments in associates (continued)

10.2 Investmens in associates accounted for at fair value through profit or loss

Investments in significant financial associates at December 31, 2014 and 2013 comprised the following

Name of entity	Place of business / country of incorporation	Nature of the relationship	Proportion of ownership interest December 31, 2014	Proportion of ownership interest December 31, 2013
Compubyte Limited	BVI	The company provides a unique website builder that allows you to easily create your own unique and fully-functional website, for free.	n/a	26.20%
Internest-Holding LLC	Russia	The company provides online advertising services on the territory of the Russian Federation.	20.00%	20.00%
Advintech Limited	Cyprus	The company provides a mechanism for purchasing external links to an advertised site which allows its promotion to top positions in search queries.	18.40%	18.40%
NN Holding Limited	BVI	Development and support of online games	10.80%	10.80%

In 2014 the Group received dividends from associates accounted for at fair value through profit or loss in the aggregate amount of RUR 198 (2013 – 139).

11 Impairment testing of goodwill

The table below shows movements in goodwill per groups of CGUs, corresponding to the Group`s operating segments for each of the years ended December 31, 2014 and 2013:

	Email, Portal and IM	Social Networks (ex VK)	Online Games	Search	E-commerce and Other	VK	Total
Cost at January 1, 2013	8,192	18,474	1,952	2,496	1,855	–	32,969
Cost at December 31, 2013	8,192	18,474	1,952	2,496	1,855	–	32,969
Additions	–	–	–	–	61	93,350	93,411
Cost at December 31, 2014	8,192	18,474	1,952	2,496	1,916	93,350	126,380

The Group has provisionally allocated the amount of goodwill arising from VK acquisition to the VK segment. The allocation will be finalised upon completion of tax planning and valuation with respect to VK`s intellectual property rights.

The recoverable amount of goodwill has been determined based on value in use calculations as of December 31, 2014 and 2013.

Value in use
At December 31, 2014, value in use was determined using cash flow projections from financial budgets approved by senior management covering an eight-year period. The eight-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 three-year period following the first five years of forecast. The Group used the cash flow projections based on financial forecasts over a period longer than five years as it is confident that these projections are reliable and accurate.

The major assumptions used in the DCF models at December 31, 2014 are presented below:

	Email, Portal and IM	Social Networks (ex VK)	Online Games	Search	E-commerce and Other
Terminal growth rate	5.00%	5.00%	5.00%	5.00%	5.00%
Pre-tax discount rate	21.3%	21.3%	21.4%	21.4%	21.2%

Determining value in use requires the exercise of significant judgment, including judgment about appropriate discount rates, terminal growth rates, the amount and timing of expected future cash flows. 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. Terminal growth rates approximate expected nominal GDP growth rates beyond the forecast period.

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

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

11 Impairment testing of goodwill (continued)

An increase in pre-tax discount rate to 22.1% and a decrease in terminal growth rate to 3.2% in the Email, Portal and IM segment would result in impairment as of December 31, 2014. The recoverable amount of the Email, Portal and IM segment exceeds carrying amount by RUR 409. Reasonably possible changes in any valuation parameters would not result in impairment of goodwill of any other CGU.

No impairment of goodwill was recognised in 2014 and 2013.

12 Trade accounts receivable

As of December 31, 2014 and 2013 trade receivables comprised the following:

	December 31, 2014	December 31, 2013
Trade accounts receivable, gross	4,061	3,166
Provision for impairment of trade receivables	(389)	(209)
Total trade receivables, net	3,672	2,957

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

Balance as of January 1, 2013	(82)
Charge for the year	(127)
Balance as of December 31, 2013	(209)
Charge for the year	(180)
Balance as of December 31, 2014	(389)

Trade receivables not impaired as of December 31, 2014 and 2013 are presented below:

		Ageing of receivables (days)			
	Total	<90	90-180	180-360	>360
As of December 31, 2014					
Trade accounts receivable	3,672	3,370	298	2	2
As of December 31, 2013					
Trade accounts receivable	2,957	2,796	139	6	16

The accounts receivable balances as of December 31, 2014 and 2013 mainly represented amounts due from online electronic payment systems and advertising customers.

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

Management considers that the carrying amount of the receivable balances approximated their fair value as of December 31, 2014 and 2013.

13 Cash and cash equivalents and short-term deposits

As of December 31, 2014 and 2013 cash and cash equivalents consisted of the following:

	Currency	December 31, 2014	December 31, 2013
Current accounts and cash on hand:	USD	686	1,475
	RUR	1,039	1,753
	EUR	236	208
	Other	68	75
Total current accounts and cash on hand		2,029	3,511
Deposit accounts with an original maturity of three months or less:	USD	759	21,164
	RUR	1,780	6,280
	Other	17	32
Total deposit accounts with an original maturity of three months or less		2,556	27,476
Total cash and cash equivalents		4,585	30,987
Short-term deposit accounts with an original maturity of over three months	RUR	490	315
Total short-term deposits		490	315
Total cash and cash equivalents and short-term deposits		5,075	31,302

14 Share capital

14.1 Charter capital and share issues

The charter capital of the Company consisted of 197,604,111 ordinary shares and 11,500,100 Class A shares with USD 0.000005 par value each as of December 31, 2014, while the number of authorised shares of the Company as of the same date consisted of 10,000,000,000 ordinary shares and 10,000,000,000 Class A shares. GDRs representing 988,079 shares of the Company were held in treasury by the Group as of December 31, 2014.

The charter capital of the Company consisted of 128,574,211 ordinary shares and 80,530,000 Class A shares with USD 0.000005 par value each as of December 31, 2013, while the number of authorised shares of the Company as of the same date consisted of 10,000,000,000 ordinary shares and 10,000,000,000 Class A shares. GDRs representing 394,019 shares of the Company were held in treasury by the Group as of December 31, 2013.

As of December 31, 2014 and 2013 all issued shares were fully paid.

Rights attached to the share classes as of December 31, 2014 and 2013
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.

Each Class A share has the right to twenty five votes and each ordinary share has the right to one vote at a meeting of members of the Company or on any resolution of members of the Company.

For additional details on the options over the shares of the Company outstanding as of December 31, 2014 and 2013, refer to Note 25.

14.2 GDR buying programme

Starting from October 2011, the Trustee commenced a GDR buying programme in order to cover a part of the employee and director options of the 2010 Option Plan. Under the GDR buying programme, the Trustee acquires GDRs representing shares of the Company and will subsequently transfer the GDRs to the respective option holders upon the exercise of the options. The Trustee intends to hold the GDRs to be used over the next four years. The Trustee has a discretion to offer shares (GDRs) or cash to its employees and directors in settlement of options, and it was not and is not intended to make cash settlement a prevailing practice, except for certain categories of the options (see Notes 4.1.3 and 25).

During 2014 the Trustee acquired a total of 1,012,885 GDRs (2013: 414,261) on the market for an aggregate consideration of RUR 1,337 (2013: 481). The Group accounts for GDRs repurchased as treasury shares.

15 Other assets

The table below represents other non-current assets:

	December 31, 2014	December 31, 2013
Long-term deposit and advance under office lease contract	730	910
Other non-current assets	21	14
Total other non-current assets	751	924

The following table represents other current assets:

	December 31, 2014	December 31, 2013
Inventory	46	35
VAT receivable	155	225
Interest receivable	16	62
Other current assets	87	82
Total other current assets	304	404

Notes to Consolidated Financial Statements (continued)

16 Other payables, provisions and accrued expenses

Other payables, provisions and accrued expenses consist of:

	December 31, 2014	December 31, 2013
Payables to personnel	923	1,470
Accrued vacations	561	437
Accrued professional consulting expenses	42	54
Advance received under fit-out contract	6	72
Interest payable	147	0
Payables under lease contract	117	72
Other current payables and provisions	313	166
Total other payables, provisions and accrued expenses	2,109	2,271

17 Other revenues

	2014	2013
Online recruitment services	2,784	2,504
Listing fees	95	124
Dividend revenue from venture capital investments	168	163
Other	156	175
Total Other revenue	3,203	2,966

18 Finance income

	2014	2013
Interest and similar income from cash and cash equivalents	396	308
Dividend income from available-for-sale investment	12	–
Total	408	308

19 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

Starting January 2013 the Group's subsidiaries and associates incorporated in Cyprus are subject to a 12.5% corporate income tax applied to their worldwide income. Capital gains derived from 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.

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 23.25% rate applied to their worldwide income. The income tax rate was reduced in 2011 from 24.5%, effective January 1, 2013.

United States of America

The Group's subsidiaries incorporated in the USA are subject to federal corporate income tax at standard rates of up to 35% applied to their taxable income.

19 Income tax (continued)

Estonia

The Group'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, 2014 and 2013 is as follows:

	2014	2013
Profit before income tax expense	64,716	29,778
BVI statutory income tax rate at 0%	–	–
Foreign tax rate differential	(3,367)	(2,922)
Tax on dividends	(101)	(82)
Adjustments in respect of current income tax of previous year	(4)	9
Tax on unremitted earnings	1,216	(75)
Utilisation of previously unrecognised tax loss	56	–
Unrecognised deferred tax assets	–	(17)
Non-deductible expenses	(122)	(102)
Total income tax expense	(2,322)	(3,189)

Deferred income tax assets and liabilities as of December 31, 2014 and 2013 are summarised below:

	Consolidated statement of financial position		Consolidated statement of comprehensive income	
	December 31, 2014	December 31, 2013	2014	2013
Deferred tax liabilities arising from:				
Intangible assets book basis in excess of tax basis	(6,151)	(1,401)	516	323
Basis of investment in associate in excess of tax basis	(135)	(135)	–	–
Unremitted earnings of subsidiaries	(343)	(1,558)	1,216	(75)
Other	(166)	(147)	(22)	1
Total deferred tax liabilities	(6,795)	(3,241)	1,710	249
Deferred tax assets arising from:				
Tax credit carryforwards	71	–	62	–
Deferred compensation and accrued employee benefits	183	174	(24)	30
Accrued expenses	68	39	(7)	20
Revenue recognition	1,352	769	544	454
Unrealised intercompany profit	63	48	15	28
Other	103	66	28	18
Total deferred tax assets	1,840	1,096	618	550
Net deferred tax assets / (liabilities)	(4,955)	(2,145)	2,328	799

As of December 31, 2014 and 2013, deferred tax liability was provided for withholding and other taxes on unremitted retained earnings of Mail.Ru Coöperatief UA subsidiaries, because in 2009 those subsidiaries started to pay dividends to their shareholders and the Group expects this practice to continue in the future. The temporary differences associated with investments in subsidiaries for which a deferred tax liability has not been recognised, aggregate to RUR 42,682 (2013: RUR 6,719). In 2014 the Group spent a major part of its cash balance for VK acquisition (Note 6), which significantly affected deferred tax on unremitted earnings (Note 4.3).

Changes in net deferred tax liability from January 1, 2013 to December 31, 2014 were as follows:

	2014	2013
Total deferred income tax liability, net at January 1	(2,145)	(2,946)
Translation reserve	19	2
Deferred tax benefit	2,328	799
Effect of acquisition of control in strategic associates	(5,157)	–
Total deferred income tax liability, net at December 31	(4,955)	(2,145)

Notes to Consolidated Financial Statements (continued)

19 Income tax (continued)

	2014	2013
Current income tax expense	4,650	3,988
Deferred income tax benefit	(2,328)	(799)
Total income tax expense	2,322	3,189

20 EPS

20.1 Basic EPS

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

	2014	2013
Net profit attributable to equity holders of the Company	62,353	26,564
Weighted average number of ordinary and class A shares issued and outstanding	208,259,629	208,684,921
Basic EPS (RUB per share)	299.4	127.3

20.2 Diluted EPS

Diluted EPS is calculated by adjusting the weighted average number of ordinary and Class A shares outstanding by the assumption of the conversion of all potential dilutive ordinary shares arising from share options 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. Net profit attributable to shareholders of the Company (numerator) is adjusted for the gain from cash settled options. The effect of potential exercise of cash-settled options was anti-dilutive for 2013 and accordingly, the Group excluded these options from diluted EPS calculation.

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

	2014	2013
Net profit attributable to equity holders of the Company	62,353	26,564
Adjustment for the gains from cash setlled share based payments of the Company	(537)	–
Adjusted net profit attributable to equity holders of the Company	61,816	26,564
Weighted average number of ordinary and class A shares issued and outstanding	208,259,629	208,684,921
Effect of equity-settled share based payments of the Company	1,862,226	1,393,860
Total diluted weighted average number of shares	210,121,885	210,078,781
Diluted EPS (RUB per share)	294.2	126.4

21 Commitments, contingencies and operating risks

21.1 Operating environment of the Group

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

In 2014, the Russian economy was negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian Rouble, as well as sanctions imposed on Russia by several countries. In December 2014, the Rouble interest rates increased significantly after the Central Bank of Russia raised its key rate to 17%.The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group’s future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances.

21 Commitments, contingencies and operating risks (continued)

21.2 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.

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.

The Russian transfer pricing legislation, which came into force on January 1, 2012, allows the Russian tax authorities to apply transfer pricing adjustments and impose additional income tax liabilities in respect of all “controlled” transactions if the transaction price differs from the market level of prices. The list of “controlled” transactions includes transactions performed with related parties and certain types of cross-border transactions. For domestic transactions the transfer pricing rules apply only if the amount of all the transactions with each related party exceeds RUR 1,000 in 2014 (RUR 2,000 in 2013). In cases where a domestic transaction resulted in an accrual of additional tax liabilities for one party, another party could correspondingly adjust its profit tax liabilities based on a special notification issued by an authorised body in due course. The current Russian transfer pricing rules have considerably increased the compliance burden for taxpayers compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. These rules are applicable not only to the transactions which took place in 2013 and 2014 but also to the prior transactions with related parties if related income and expenses were recognised in 2013 and 2014. Special transfer pricing rules apply to transactions with securities and derivatives. Because of the lack of clarity in current Russian transfer pricing legislation and the absence of court precedent, the Russian tax authorities may challenge the level of prices applied by the Group under “controlled” transactions and accrue additional tax liabilities unless the Group is able to demonstrate the use of market prices with respect to the “controlled” transactions, and that there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation.

21.3 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 adverse impact on the Group’s financial position or operating results.

21.4 Competition

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

Increased competition could also result in a reduction in the number of users who buy the Group’s Community IVAS 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.

21.5 Private information

To become registered on a website operated by the Group, users have to input their personal data, which is then protected by the 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 litigation from its users. Management believes it takes all necessary steps to reduce the related risk to an acceptable level.

21.6 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 offering 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 and could have a material effect on its business, results of operations and financial condition. The Group has been subject to such proceedings. Although none of them was individually significant, similar potential claims may subject the Group to significant losses in the future, which currently cannot be reliably estimated.

21 Commitments, contingencies and operating risks (continued)

21.7 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 the Group`s revenue. An inability to develop competitive 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.

21.8 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.

On August 1, 2013 Federal Law No. 187-FZ dated July 2, 2013 "On Amendments to Certain Legislative Acts of the Russian Federation Related to Protection of Intellectual Property Rights in Information and Telecommunication Networks" (the "Anti-Piracy Law") came into force. The amendments relate to the protection of IP rights to films, including motion pictures and television movies. The said Law contains the definition of an "information agent" and describes special aspects of responsibility of an "information agent" for IP rights infringement in information and telecommunication networks; describes access restriction procedure and order of obtaining a court ruling by a right holder, including order of obtaining a preliminary injunction. Starting the May 1, 2015 the Anti-Piracy Law will be extended to all copyrighted materials (other than photos). Moreover, the new amendments set out a procedure for permanent blocking in certain circumstances of a web-site allowing repeated infringements.

The law on amending the Federal Law "On Information, Information Technologies and Protection of Information" (the "Anti-extremism Law") came into force on February 1, 2014. According to the Anti-Extremism law, the Prosecutor General of Russia (or his deputies) may apply to Roscomnadzor to block websites on which the Prosecutor finds any prohibited information concerning appeals to mass riots, extremist activities or participation in mass (public) actions held in infringement of the established order. The website may be blocked without the need for any court order or a mandatory preliminary notification to the site. Access is granted anew after the prohibited information is removed and Roscomnadzor is notified. The Group's failure or the failure of Group's third party providers, to accurately comply with the Anti-extremism Law or takedown requests could create liability for the Group, result in adverse publicity, or could otherwise have a material adverse effect on Group's business, results of operations and financial condition.

A Law No. 97-FZ came into force on August 1, 2014 ("Law on Bloggers"). This law among other introduces requirements to the sites and/or services that enable users to publish and share information to, amongst others, notify the authorities about the commencement of such activities, store the data on receipt, transfer, processing of the users' information in the Russian Federation for the period of 6 months, share the information on users' actions with the authorized governmental body upon a relevant request, and be in line with certain technical requirements set by authorities. Access to web-sited non-complying with the requirements could be blocked. In addition, owners of web-sites and internet pages with more than 3,000 daily users are required to be identified, registered with a special register and comply with certain requirements in respect of the materials published on web-sites and internet pages under their control.

The Group complies with the new laws and none of the Group's properties have been blocked up to date.

21.9 Personnel

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

21.10 Infrastructure and capacity

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

21 Commitments, contingencies and operating risks (continued)

21.11 Operating lease commitments – the Group as a lessee

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

	2014	2013
	Minimum lease payments	Minimum lease payments
Less than 1 year	1,710	933
From 2 to 5 years	6,145	4,136
More than 5 years	–	310
Total	7,855	5,379

The Group mainly leases office premises. In 2014 operating lease expense in the consolidated statement of comprehensive income amounted to RUR 1,369 (2013 – RUR 1,119). The minimum lease payments denominated in currency other than RUR are calculated based on exchange rate of Central Bank of Russia as of December 31, 2014 and 2013 respectively.

22 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, excluding Directors and key management of the Group (see Notes 22.2 and 22.3). 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
2014				
Strategic associates	256	120	127	5
Other entities	–	37	–	3
2013				
Strategic associates	163	176	72	4
Other entities	11	27	2	4

22.1 The ultimate controlling party

Starting from June 7, 2013, the Group was ultimately controlled by Mr Alisher Usmanov. The Group did not have an ultimate controlling party prior to that date. In August 2014, Mr Alisher Usmanov lost control over the Group as a result of a decrease in voting power in USM Holdings Ltd. ("USM") to 48%. Thenceforth, USM has been the ultimate controlling party of the Group through ownership in New Media and Technology Investment L.P and Ardoe Finance Limited, the shareholders of the Group.

22.2 Directors of the Company

Total cash remuneration of the members of the Board of Directors (each a “Director” and collectively, “Directors”) of the Company amounted to RUR 55 for the year ended December 31, 2014 (2013: RUR 45). No options over the shares of the Company were granted to Directors in 2014 or 2013. During the year ended December 31, 2014, Directors did not forfeit any options (2013: nil) and did not exercise any options (2013: 204,862). The corresponding share-based payment expense was a negative RUR 215 for the year ended December 31, 2014 (2013: a positive RUR 57).

22.3 Key management of the Group

Total cash remuneration of the key management of the Group (excluding Directors) amounted to RUR 459 for the year ended December 31, 2014 (2013: 459). In addition to the cash remuneration for the year ended December 31, 2014, key executive employees of the Group were granted options to acquire 23,000 ordinary shares of the Company at the exercise price of USD 19.6 per share (2013: 301,000 options at the exercise price of USD 19.6 per share and options to acquire 60,000 ordinary shares of the Company at the exercise price of USD 17.5 per share). During the year ended December 31, 2014, key management of the Group (excluding Directors) forfeited options over 7,500 shares (2013: nil) and exercised options over 572,738 shares of the Company (2013: 1,387,538). The corresponding share-based payment expense amounted to RUR 552 for year ended December 31, 2014 (2013: RUR 1,262).

23 Financial instruments

The carrying amounts of the Group's financial instruments approximated their fair values as of December 31, 2014 and December 31, 2013 and are presented by category of financial instruments in the table below:

	Category*	December 31, 2014	December 31, 2013
Financial assets			
Financial investments in associates	FAFVPL	1,350	1,293
Derivative financial assets over the equity of investees	FAFVPL	–	20
Convertible note	FAFVPL	–	46
Financial derivatives under lease and hosting contracts	FAFVPL	267	37
Available-for-sale equity investment	AFSFA	809	–
Long-term deposits	LR	1	1
Trade accounts receivable	LR	3,672	2,957
Loans and interest receivable	LR	61	87
Short-term time deposits	LR	490	315
Cash and cash equivalents	LR	4,585	30,987
Total financial assets		11,235	35,743
Current		8,871	34,412
Non-current		2,364	1,331
Total derivative financial assets		197	103
Current		–	66
Non-current		197	37
Financial liabilities			
Long-term interest-bearing loans	FLAC	22,209	–
Other non-current liabilities	FLFVPL	10	–
Trade accounts payable	FLAC	2,081	1,292
Total financial liabilities		24,300	1,292
Current		8,085	1,292
Non-current		16,215	–

* 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.

Except for the Group's available-for-sale investment in Qiwi as of December 31, 2014 none of the Group's financial 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 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, trade accounts payable approximate their carrying amounts largely due to the short-term maturities of these instruments.

23.1 Financial investments in associates

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

The fair values of financial investments in associates either were determined using DCF models or based on recent cash transactions or net assets value, depending on which valuation technique produced more reliable results. The DCF models use cash flow projections from financial budgets approved by senior management covering an seven-year period. The main assumptions used in the DCF models as of December 31, 2014 and 2013 are as follows:

	December 31, 2014	December 31, 2013
Terminal growth rate	3.0-5.0%	5.0%
Discount rates	23%-30%	30%-35%

23 Financial instruments (continued)

23.4 Fair value hierarchy (continued)

The balance of Level 3 measurements as of January 1, 2013 is reconciled to the balance of those measurements as of December 31, 2014 as follows:

	Balance as of January 1, 2013	Purchases	Sales	Gains/(losses) recognized in profit and loss	Balance as of December 31, 2013
Financial assets measured at fair value					
Financial assets at fair value through profit or loss:					
Financial investments in associates	1,567	12	(434)	148	1,293
Financial derivatives under lease contract	–	–	–	37	37
Convertible note	–	46	–	–	46
Derivative financial assets over the equity of investees	35	–	–	(15)	20
Total financial assets at fair value through profit or loss	1,602	58	(434)	170	1,396

	Balance as of January 1, 2014	Reclassification	Purchases	Issue of option as part of consideration for VK	Sales	Gains/(losses) recognized in profit and loss	Balance as of December 31, 2014
Financial assets measured at fair value							
Financial assets at fair value through profit or loss:							
Financial investments in associates	1,293	46	81	–	(65)	(5)	1,350
Financial derivatives under lease and hosting contracts	37	–	–	–	–	230	267
Convertible note	46	(46)	–	–	–	–	(0)
Derivative financial assets over the equity of investees	20	–	–	–	–	(20)	–
Total financial assets at fair value through profit or loss	1,396	–	81	–	(65)	205	1,617
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	–	–	–	(200)	–	190	(10)
Total financial liabilities measured at fair value	–	–	–	(200)	–	190	(10)

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 24.7 below.

In March 2014 the Group issued a three months call option over 100% of Headhunter as a part of consideration for VK additional stake acquisition (Note 6) with a fair value of RUR 200. In June 2014 the option expired unexercised. The Group de-recognised the respective financial liability and recognized a gain under “Net gain on financial assets and liabilities at fair value through profit or loss over the equity of strategic associates, subsidiaries and other agreements” in its consolidated statement of comprehensive income. The Group retained control over Headhunter considering non-substantive nature of the option.

23 Financial instruments (continued)

23.1 Financial investments in associates (continued)

Sensitivity analysis of significant unobservable inputs used for financial investments valuation is presented in Note 24.7.

The Group recognised a loss of RUR 5 in 2014 (2013: gain RUR 148) due to the change in fair value of its financial investments in associates. The gains and losses were recorded in the statement of comprehensive income under *'Net (loss)/gain on venture capital investments and associated derivative financial assets and liabilities*'.

23.2 Available-for-sale financial assets

In 2013 the Group fully sold shares in Facebook Inc. As a result, the Group recognised a gain on disposal of shares in available-for-sale investments in the amount of RUR 15,620.

The Group did not have any available-for-sale investments as of December 31, 2013. The Group's available-for-sale equity instruments as of December 31, 2014 are summarised in the table below:

	Economic shareholding*	Carrying amount
	December 31, 2014	December 31, 2014
Investment in Qiwi	1.31%	809
Total		809

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

The fair value of the Group's investment in Qiwi as of December 31, 2014 was determined based on the quoted price of the Qiwi shares.

23.3 Financial assets classified as loans and receivables

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

23.4 Fair value hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at December 31, 2014 and 2013 the Group held the following financial instruments measured at fair value:

	December 31, 2014	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Financial assets at fair value through profit or loss:				
Financial investments in associates	1,350	–	–	1,350
Financial derivatives under lease and hosting contracts	267	–	–	267
Total financial assets at fair value through profit or loss	1,617	–	–	1,617
Available-for-sale equity investment	809	809	–	–
Total financial assets measured at fair value	2,426	809	–	1,617
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	(10)	–	–	(10)
Total financial liabilities measured at fair value	(10)	–	–	(10)

	December 31, 2013	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Financial assets at fair value through profit or loss:				
Financial investments in associates	1,293	–	–	1,293
Financial derivatives under lease contract	37	–	–	37
Convertible note	46	–	–	46
Derivative financial assets over the equity of investees, non-current	20	–	–	20
Total financial assets at fair value through profit or loss	1,396	–	–	1,396

24 Financial risk management objectives and policies

24.1 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 an interest-bearing bank loan and trade accounts payable. The main purposes of these financial liabilities are to finance the Group's operations and, in the case of the loan, a business acquisition. The Group has short-term receivables, short-term time deposits, cash and cash equivalents and other current financial assets that arise directly from the Group's strategic and venture capital operations. The Group believes that the interest rate risk which related to fluctuation of market interest rate has been largely mitigated through the use of a fixed interest rate on the loan, applicable for the entire period of the loan

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 smaller Internet companies 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 over the equity of its investees exclusively based on mid- to long term investment considerations

The Group's senior management is responsible for identifying and controlling risks. These activities are supervised by the Board of Directors, the Group's governing body that is ultimately responsible for the Group's overall approach to risk management. The Board of Directors is developing risk management policies covering the following major aspects: identification and analysis of the risks the Group faces, setting appropriate risk limits and controls, and monitoring risks and adherence to limits. Risk management procedures and systems are contemplated to be reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and responsibilities.

The Group's Audit Committee has been established to oversee, inter alia, how management monitors compliance with the Group's risk management practices and procedures when these are approved by the Board of Directors.

24.2 Liquidity and financial resources

The Group monitors its risk of a shortage of funds using a liquidity planning tool.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of operating cash flows, bank overdrafts, bank loans (Note 27). Approximately 27% of the Group's debt will mature in less than one year at December 31, 2014, based on the carrying value of borrowings reflected in the financial statements. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Other financial liabilities of the Group are mostly represented by trade payables with maturity less than one year.

24.3 Credit risk

Credit risk is the risk that a 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 two largest customers collectively represented 16% of total trade accounts receivable of the Group as of December 31, 2014 and 20% as of December 31, 2013. 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.

Notes to Consolidated Financial Statements (continued)

24 Financial risk management objectives and policies (continued)

24.4 Capital management policy

For the purpose of the Group's capital management, capital includes issued capital, share premium and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the shareholder value. The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants it is subject to under the loan agreement (see Note 27).

24.5 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 24.6 and 24.7 relate to the position as at December 31, 2014 and 2013 and include the impact of movement in market variables on the financial instruments of the Group.

24.6 Foreign currency risk

The following tables demonstrate the sensitivity to a reasonably possible change in USD and EUR exchange rates, with all other variables held constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities. The Group's exposure to foreign currency changes for all other currencies is not material.

	Change in USD rate	Effect on profit before tax
2014	42%	770
	-42%	(770)
2013	+12%	2,586
	-12%	(2,586)

	Change in EUR rate	Effect on profit before tax
2014	34%	97
	-34%	(97)
2013	+12%	36
	-12%	(36)

24.7 Equity price risk

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

The inherently high equity risk of the Group's venture capital investments and associated derivative financial instruments is mitigated by the Group through a highly selective approach to venture capital investments, regular reviews of the fair values of existing and potential investees by a team of highly qualified venture capital investment professionals and maintaining the composition of the venture capital portfolio that includes relatively a large number of investments in start-up ventures operating in different segments of the Internet industry. Additionally, the overall impact of venture capital activities on the Group's operations is mitigated by a limited size of the venture capital investment portfolio in relation to the aggregate operations of the Group.

The equity price risk of the Group's 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 participation of the Group's management in the financial and operating management of the respective investees via the presence of the Group's management on the investees boards 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 and derivative financial instruments was equal to the carrying amounts of the respective financial instruments as of the reporting date. A 10% decrease in the overall earnings stream of the valuations performed for the Group's unlisted investments could have a negative impact of approximately RUR 75 (2013: RUR 10) on the Group's pre-tax income. A 500 basis point increase in the discount rate used in the valuation models could result in a negative impact of RUR 130 (2013: RUR 16) on the Group's pre-tax income. A 5% increase in significant unobservable inputs used in recent cash transaction models for valuations of some unlisted Group's investments could have a positive impact of approximately RUR 28 (2013: RUR 45) 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.

Notes to Consolidated Financial Statements (continued)

25 Share-based payments

25.1 Share-based payment arrangements of the Company

25.1.1 Option plans

During 2014 and 2013, the Company had the following outstanding option plans:

	2010 Option Plan
Adoption date	November 2010
Type of shares	Ordinary shares
Number of options reserved	10,706,403
Exercise price	The fair market price at the date of grant provided that the fair market price of the options granted in connection with the IPO shall be the IPO offering price of USD 27.7[(1) (2)]
Exercise basis	Prior to November 2011 – net share basis only
	Since November 2011 – net share basis or cash at the Group's discretion[(3)]
Expiration date	December 2018
Other major terms	• The options are not transferrable; • All other terms of the options under the 2010 Option Plan are to be determined by the Company's Board of Directors or Remuneration Committee.

(1) On the IPO date the Company decided to assign to 6,423,842 options (the "IPO Portion") the exercise price equal to the IPO price of USD 27.70. The IPO Portion options granted prior to December 31, 2011 vest in 4 equal tranches on January 2, 2012, December 31, 2012, 2013 and 2014, except for options issued to Directors of the Company in their capacity as Directors (the "Directors' options"), which vest in two equal tranches on January 2 and December 31, 2012. On December 22, 2011, the remaining 4,282,561 options (the "2011 Portion") were assigned an exercise price of USD 25.6, which was the closing price of the Group's GDR on that date. The vesting terms of the options granted in 2014 are summarised in the table below.

(2) In August 2012, following the payment of a special dividend of USD 3.8 per GDR, the exercise price of all 2010 Plan Options options was reduced by USD 3.8 per GDR. In March 2013, following the payment of a special dividend of USD 4.3 per GDR, the exercise price of all 2010 Plan Options options was reduced by USD 4.3 per GDR.

(3) In November 2011, the terms of the 2010 Option Plan were modified to allow for cash settlement of options at the discretion of the Group. In March 2013, the terms of exercise of certain options were modified (see Note 25.1.4 below).

	Number of options granted		
Options grant year	IPO portion	2011 portion	Vesting terms
2012 – options granted in replacement of Headhunter options (see Note 25.2 below)	200,000		vest in four equal tranches on January 2, 2012, December 31, 2012, 2013 and 2014
2012 – all other grants	359,900	3,587,500	vest in four equal tranches on January 2, 2013, December 31, 2013, 2014 and 2015
2013	217,000		vest in two equal tranches on December 31, 2013 and 2014
2013	14,000		vest in in four equal tranches on January 2, 2013, December 31, 2013, 2014 and 2015
2013	103,000	156,500	vest in in four equal tranches on January 2, 2014, December 31, 2014, 2015 and 2016
2013		20,000	vest in in four equal tranches on January 2, 2015, December 31, 2015, 2016 and 2017
2014		20,000	vest in in four equal tranches on January 2, 2015, December 31, 2015, 2016 and 2017
2014	5,000		vest in in four equal tranches on January 2, 2015, December 31, 2015, 2016 and 2017
2014	23,000		vest in in four equal tranches on December 31, 2015, 2016, 2017 and 2018

Notes to Consolidated Financial Statements (continued)

25 Share-based payments (continued)

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

25.1.2 Changes in outstanding options

The table below summarises the the number and weighted average exercise prices (WAEP) of and movements in share options in 2013 and 2014:

	2010 Option Plan					
	IPO Portion		2011 Portion		Total	
	Number of options	WAEP	Number of options	WAEP	Number of options	WAEP
Outstanding as of January 1, 2013	5,046,065	23.90	3,550,000	21.50	8,596,065	22.91
Exercisable as of December 31, 2012	2,139,662	23.90			2,139,662	23.90
Available for grant as of December 31, 2012	240,407	23.90	732,561	21.50	972,968	22.09
Granted during the year	334,000	19.78	176,500	17.50	510,500	18.99
Exercised during the year	1,567,825	20.75	530,125	19.23	2,097,950	20.37
Forfeited during the year	97,450	19.60	99,375	17.50	196,825	18.54
Outstanding as of December 31, 2013	3,714,790	19.60	3,097,000	17.50	6,811,790	18.65
Exercisable as of December 31, 2013	1,498,040	19.60	1,073,500	17.50	2,571,540	18.72
Available for grant as of December 31, 2013[(1)]	3,857	19.60	655,436	17.50	659,293	17.51
Granted during the year	28,000	19.60	20,000	17.50	48,000	18.73
Exercised during the year	531,738	19.60	352,250	17.50	883,988	18.76
Cancelled during the year	10,400	19.60	0		10,400	19.60
Forfeited during the year	44,200	19.60	40,000	17.50	84,200	18.60
Outstanding as of December 31, 2014	3,156,452	19.60	2,724,750	17.50	5,881,202	18.63
Exercisable as of December 31, 2014	3,003,177	19.60	1,775,250	17.50	4,778,427	18.82
Available for grant as of December 31, 2014[(1)]	30,457	19.60	675,436	17.50	705,893	17.59

(1) Since no separate pools exist for equity-settled and cash-settled options, the options are available for grant of both cash-settled and equity-settled awards.

The weighted-average share price was USD 38.18 for options exercised in 2013 and USD 37.07 for options exercised in 2014.

25.1.3 Valuations of share-based payments

The valuations of all equity-settled options granted during 2013 and 2014 are summarised in the table below:

Option plan/Grant date	Number of options	Dividend yield %	Volatility, %	Risk-free interest rate, %	Expected term, years	Share price (USD)	Fair value, total (million RUR)	Fair value per option (RUR)	Valuation method
2013 (2010 Option Plan – IPO Portion)[(1)]	301 000	0%	52%	0.97%	N/A	28.39	133	442	Binomial
2013 (2010 Option Plan – 2011 portion)[(1)]	156 500	0%	52%	1.42%	N/A	32.78	91	584	Binomial
2014 (2010 Option Plan – IPO Portion)	23 000	0%	56%	1.61%	N/A	22.80	11	460	Binomial
2014 (2010 Option Plan – 2011 portion)	20 000	0%	45%	1.46%	N/A	41.50	17	844	Binomial

(1) Valuation model imputs for these tranches are calculated as average.

The valuations of all cash-settled options as of December 31, 2014 are summarised in the table below:

Option plan/Grant date	Number of options	Dividend yield %	Volatility, %	Risk-free interest rate, %	Expected term, years	Share price (USD)	Fair value, total (million RUR)	Fair value per option (RUR)	Valuation method
2010 Option Plan – IPO Portion[(1)]	715 212	0%	55%	1,59%	N/A	16,30	229	320	Binomial
2010 Option Plan – 2011 Portion[(1)]	285 750	0%	55%	1,59%	N/A	16,30	89	312	Binomial

The forfeiture rate used in all valuation models in 2014 is 4.3%. It is based on historical data and current expectations and is not necessarily indicative of forfeiture patterns that may occur.

25 Share-based payments (continued)

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

25.1.4.1 Change in settlement method

In March 2013, the terms of exercise of certain options were modified. Specifically, any option holder granted an aggregate of 20,000 or more options at either the IPO Portion (i.e. options with an exercise price of USD 23.9 per share at the time of the modification, subsequently reduced to USD 19.6 per share – see Note 25.1.4.2 below) or the 2011 Portion (i.e. options with an exercise price of USD 21.8 per share at the time of the modification, subsequently reduced to USD 17.5 per share – see Note 25.1.4.2 below) was only allowed to exercise the respective portion options in the form of GDRs, while exercises by the optionees granted a smaller cumulative number of options can continue to be in GDRs or cash at the Group's discretion. The new terms of the option plan and past exercise history make it reasonable to expect cash settlement of most of the smaller option exercises, even though the Group continues to have discretion over the way of option exercise settlement. The modification resulted in a revision of the accounting for the respective smaller numbers of options and was accounted for as a change of settlement method from equity-settled to cash-settled. The above change in accounting affected an aggregate of 1,086,777 options outstanding as of the modification date.

As a result of the modification, the Group recorded a share-based payment liability of RUR 399 as of the modification date with a corresponding reduction in Share premium.

In September 2013, certain Directors of the Company exercised their options and were allowed to receive cash in settlement thereof, and the Group expects that future exercises of Directors' options will predominantly be settled in cash. As a result of the modification, the Group recorded a share-based payment liability of RUR 313 as of the modification date with a corresponding reduction in Share premium.

Incremental fair values of both modifications were nil.

As of December 31, 2014, the liability was RUR 318 (2013 – 882) and is included in payables to employees under "Other payables, provisions and accrued expenses" in the consolidated statement of financial position.

25.1.4.2 Changes in exercise price

In March 2013, the exercise price of all outstanding options was reduced by USD 4.3 per option in connection with the payment of a special dividend (Note 26). The change in exercise price was accounted for as a modification. The fair value of the pre-modification and post-podification options as of the modification date were determined using binomial models as summarised in the table below:

	Number of equity-settled options	Volatility, %	Risk-free interest rate, %	Expected term, years	Forfeiture rate %	Share price (USD)	Fair value, total (million RUR)	Fair value per option (RUR)
Pre-modification options	6,807,134	52%	1.00%	N/A	5.3%	28.65	2,829	416
Post-modification options	6,807,134	52%	1.00%	N/A	5.3%	28.65	3,128	459

As a result of the modification, the Group recognised RUR 57 in equity-settled share-based payment expense in 2014 (2013 – 224).

25.2 Share-based payment expense

The Group recognised a net negative RUR 117 in share-based payment expenses in the year ended December 31, 2014 (2013: a positive RUR 1,856), including a positive RUR 643 (2013: 1,502) related to equity-settled share-based payments. The expense was included under *"Personnel expenses"* in the consolidated statement of comprehensive income.

26 Special dividend paid to shareholders

In March 2013, the Group paid a special dividend of USD 4.30 per share to shareholders as of the record date of March 20, 2013 representing a total payout of RUR 27,660 (USD 897 million). The dividend was approved by the Board of Directors of the Company on February 25, 2013. On February 25, 2013 the Board of Directors and shareholders of the Company also approved a reduction of USD 4.30 in the exercise price of the 2010 Option Plan share options in connection with the special dividend payment (Note 25.1.4.2).

27 Interest-bearing loan

In September 2014 the Group funded the VK acquisition with a 11.5% fixed rate loan in the total amount of RUB 22,037 (net of a loan origination fee of RUR 189) with a maturity date of September 10, 2018 (Note 6.1). Credit agreement contains restrictive financial and non-financial covenants that the Group as the borrower is obliged to fulfill. Restrictive covenants include maintaining certain financial ratios. As of December 31, 2014 the Group complies with all restrictive covenants contained in loan agreement.

27 Interest-bearing loan (continued)

The principal amount is repayable as follows:

	RUR
2015	5,927
2016	5,927
2017	5,927
2018	4,445
Total	22,226

The interest is paid on a quarterly basis.

28 Events after the reporting period

28.1 Long-term incentive programme

In February 2015, the Board of Directors of the Company approved a new long-term incentive plan based around restricted stock units (RSU) equivalent to up to 5% of total shares outstanding. The RSUs have a 4-year vesting and the programme will expire at the end of 2022. Additionally the Board of Directors approved extending the expiration date of the existing unexercised options for current employees to 2022 from 2018. The provisional effect of the extension of expiration date of the existing options on the 2015 earnings is an expense estimated at RUR 687.

Cautionary statements

Forward-looking statements

The Mail.Ru Group Limited Annual Report and Accounts for 2014 contains certain “forward-looking statements” which include all statements other than those of historical facts that relate to the Company’s plans, financial position, objectives, goals, strategies, future operations and performance, together with the assumptions underlying such matters. Mail.Ru Group Limited generally uses words such as “estimates”, “expects”, “believes”, “intends”, “plans”, “may”, “will”, “should” and other similar expressions to identify forward-looking statements. Mail.Ru Group Limited has based these forward-looking statements on the current views of its management with regard to future events and performance. These views reflect management’s best judgment, but involve uncertainties and are subject to certain known and unknown risks together with other important factors outside the Company’s control, the occurrence of which could cause actual results to differ materially from those expressed in Mail.Ru Group Limited forward-looking statements.

Competitive position

Statements referring to the Company’s competitive position reflect the Company’s beliefs and, in some cases, rely on a range of sources, including investment analysts’ reports, independent market studies and the Company’s internal estimates of market share based on publicly-available information regarding the financial results and performance of various market participants.

Rounding

Certain figures included in this document have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Terminology

In this document any reference to a position of Dmitry Grishin as Chief Executive Officer (CEO) means reference to his position as Chief Executive Officer (CEO), Russia. Any reference to a position of Vladimir Nikolsky as Chief Operating Officer (COO) means reference to his position as Chief Operating Officer (COO), Russia. Any reference to a position of Dmitry Sergeev as Deputy Chief Executive Officer means reference to his position as Deputy Chief Executive Officer, Russia.