Mail.Ru Group Limited

Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2011

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Report on review of interim condensed consolidated financial statements

To the Shareholders of Mail.Ru Group Limited

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Mail.Ru Group Limited and its subsidiaries ('the Group'), comprising an interim consolidated statement of financial position as at June 30, 2011 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young LLC

October 21, 2011

Interim Consolidated Statement of Financial Position

As of June 30, 2011
(in thousands of US Dollars)

	Notes	As at June 30, 2011	As at December 31, 2010
ASSETS			
Non-current assets			
Investments in strategic associates	6	218,034	203,279
Goodwill	2.1, 5	1,174,278	1,081,762
Other intangible assets	5, 7	449,016	439,317
Property and equipment	8	43,473	40,256
Available-for-sale financial assets	18	1,906,648	1,453,518
Financial assets at fair value through profit or loss	18	28,587	22,404
Deferred income tax assets		5,254	3,555
Other non-current assets		3,601	3,791
Total non-current assets		3,828,891	3,247,882
Current assets			
Trade accounts receivable		51,754	47,842
Prepaid income tax		4,113	1,533
Prepaid expenses and advances to suppliers		6,592	6,156
Financial assets at fair value through profit or loss	18	9,248	17,793
Other current assets	9	5,285	3,245
Short-term time deposits		9,914	2,232
Cash and cash equivalents		192,266	118,417
Total current assets		279,172	197,218
Total assets		4,108,063	3,445,100
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital		1	1
Share premium	2.1	1,524,031	1,495,018
Retained earnings	2.1	716,108	712,303
Accumulated other comprehensive income		1,637,015	1,031,517
Total equity attributable to equity holders of the parent		3,877,155	3,238,839
Non-controlling interests	2.1	(393)	(310)
Total equity		3,876,762	3,238,529
Non-current liabilities			
Financial liabilities at fair value through profit or loss	18	1,867	1,111
Deferred income tax liabilities		99,554	94,511
Total non-current liabilities		101,421	95,622
Current liabilities			
Trade accounts payable		23,964	22,520
Income tax payable		7,063	7,563
VAT and other taxes payable		20,549	17,143
Deferred revenue and customer advances		47,405	38,859
Other payables, provisions and accrued expenses	10	30,899	24,864
Total current liabilities		129,880	110,949
Total liabilities		231,301	206,571
Total equity and liabilities		4,108,063	3,445,100

Interim Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2011
(in thousands of US Dollars, except per share information)

	Notes	June 30, 2011 Unaudited	For the six months ended June 30, 2010 Unaudited
Revenues	11	227,298	108,710
Cost of revenues	12	(56,589)	(25,661)
Gross profit		170,709	83,049
Net gain/(loss) on venture capital investments and associated derivative financial assets and liabilities		967	1,579
Research and development expenses	13	(2,850)	(1,321)
Selling, general and administrative expenses	14	(81,752)	(53,143)
Impairment of intangible assets	7	(3,234)	
Depreciation and amortisation		(44,504)	(22,369)
Operating income		39,336	7,795
Finance income		1,461	413
Net loss on financial assets and liabilities at fair value through profit or loss over the equity of strategic investees and subsidiaries		(9,830)	(741)
Net foreign exchange gains/(losses)		(4,196)	10,744
Impairment losses related to strategic associates	6	(6,059)	–
Share of profit/(loss) of strategic associates		2,133	(12,352)
Gain on bargain purchase of subsidiary		–	749
Other expenses		(674)	(1,099)
Profit before income tax expense		22,171	5,509
Income tax expense	15	(17,978)	(8,555)
Net profit/(loss)		4,193	(3,046)
Attributable to:			
Equity holders of the parent		3,805	(7,246)
Non-controlling interest		388	4,200
Other comprehensive income			
Exchange differences on translation of foreign operations		282,956	(63,640)
Unrealised holding gains on available-for-sale financial assets		322,523	172,435
Total other comprehensive income, net of tax effect of 0		605,479	108,795
Total comprehensive income, net of tax		609,672	105,749
Attributable to:			
Equity holders of the parent		609,356	111,914
Non-controlling interest		316	(6,165)
Earnings per share, in US Dollars:			
Basic earnings for the year attributable to ordinary equity holders of the parent		0.02	–0.06
Diluted earnings for the year attributable to ordinary equity holders of the parent		0.02	–0.06

Interim Consolidated Statement of Cash Flows

For the six months ended June 30, 2011
(in thousands of US Dollars, except per share information)

		For the six months ended	
	Notes	June 30, 2011 Unaudited	June 30, 2010 Unaudited
Cash flows from operating activities			
Profit before income tax		22,171	5,509
Adjustments for:			
Depreciation and amortisation		44,504	22,369
Bad debt expense		(1,022)	1,176
Net loss on financial assets and liabilities at fair value through profit or loss over the equity of strategic investees and subsidiaries		9,830	741
Impairment losses related to strategic associates	6	6,059	–
Loss on disposal of property, plant and equipment		–	108
Finance income		(1,461)	(413)
Dividend revenue from venture capital investments		(1,449)	(1,240)
Share of (profit)/loss of strategic associates		(2,133)	12,352
Gain on bargain purchase of subsidiary		–	(749)
Impairment losses related to intangible assets	7	3,234	–
Net foreign exchange (gains)/losses		4,196	(10,744)
Share based payment expense	12, 13, 14	28,518	4,145
Other non-cash items		734	–
(Increase)/decrease in accounts receivable		852	(3,805)
Increase/(decrease) in advances received		593	(2,676)
(Increase)/decrease in other assets		(1,540)	(2,091)
Increase in accounts payable, provisions and accrued expenses		8,197	6,902
Increase in deferred revenue		4,236	993
Increase in venture capital financial assets designated as at fair value through profit or loss		(4,185)	(5,641)
Increase in derivative financial liabilities over the equity of venture capital financial assets designated as at fair value through profit or loss		–	146
Operating cash flows before interest and income taxes		121,334	27,082
Dividends received from financial investments		1,414	1,302
Interest received, net of related bank commissions paid		1,181	171
Income tax paid		(24,583)	(8,975)
Net cash provided by operating activities		99,346	19,580
Cash flows from investing activities:			
Cash paid for available-for-sale investments and assets related to Class C shares		–	(149,412)
Cash paid for property and equipment		(8,537)	(7,441)
Cash paid for intangible assets		(12,585)	(8,178)
Cash paid for acquisitions of subsidiaries, net of cash acquired		(2,724)	(4,478)
Dividends received from investments designated as available-for-sale financial assets		262	–
Dividends received from strategic associates		345	1,259
Issuance of loans		(4,702)	(1,526)
Collection of loans		4,380	–
Acquisition of short-term deposits		(7,348)	(3,807)
Proceeds from sales of short-term investments		–	1,580
Acquisition of long-term deposits		(1,572)	(202)
Net cash used in investing activities		(32,481)	(172,205)
Cash flows from financing activities:			
Proceeds from issuance of common stock, net of share issuance costs paid		(151)	300,002
Proceeds from exercise of share options over the shares of the Company		–	171
Dividends paid by subsidiaries to non-controlling shareholders		(399)	(303)
Net cash provided by/(used in) financing activities		(550)	299,870
Net increase in cash and cash equivalents		66,315	147,245
Effect of exchange differences on cash balances		7,534	(2,906)
Cash and cash equivalents at the beginning of the period		118,417	147,915
Cash and cash equivalents at the end of the period		192,266	292,254

Interim Consolidated Statement of Changes in Equity

For the six months ended June 30, 2011
(in thousands of US Dollars, except per share information)

	Notes	Share capital: Number of shares issued and outstanding	Share capital: Amount	Share premium	Retained earnings	Accumulated other comprehensive income (net of tax effect of 0)	Total equity attributable to equity holders of the parent	Non-controlling interests	Total equity
Balance at January 1, 2011		208,521,603	1	1,495,018	712,303	1,031,517	3,238,839	(310)	3,238,529
Profit/(loss) for the period		–	–	–	3,805	–	3,805	388	4,193
Other comprehensive income:									
Foreign currency translation		–	–	–	–	283,028	283,028	(72)	282,956
Unrealised holding gains on available-for-sale financial assets	18	–	–	–	–	322,523	322,523		322,523
Total other comprehensive income			–	–	–	605,551	605,551	(72)	605,479
Total comprehensive income			–	–	3,805	605,551	609,356	316	609,672
Share-based payment transactions		–	–	29,201	–	–	29,201	–	29,201
Dividends by subsidiaries to non-controlling shareholders		–	–	–	–	–	–	(399)	(399)
Exercise of options over the shares of the Company		105,502	–	–	–	–	–	–	–
Other changes in equity		–	–	(693)	–	–	(693)	–	(693)
Other changes in net assets of strategic associates		–	–	505	–	(53)	452	–	452
Balance at June 30, 2011		208,627,105	1	1,524,031	716,108	1,637,015	3,877,155	(393)	3,876,762

Interim Consolidated Statement of Changes in Equity (continued)

For the six months ended June 30, 2011
(in thousands of US Dollars, except per share information)

		Share capital							
	Notes	Number of shares issued and outstanding	Amount	Share premium	Retained earnings	Accumulated other comprehensive income (net of tax effect of 0)	Total equity attributable to equity holders of the parent	Non-controlling interests	Total equity
Balance at January 1, 2010		62,670	1	878,650	558,590	(91,447)	1,345,794	145,844	1,491,638
Profit/(loss) for the period		–	–	–	(7,246)	–	(7,246)	4,200	(3,046)
Other comprehensive income:									
Foreign currency translation		–	–	–	–	(53,275)	(53,275)	(10,365)	(63,640)
Unrealised holding gains on available-for-sale financial assets		–	–	–	–	172,435	172,435	–	172,435
Total other comprehensive income			–	–	–	119,160	119,160	(10,365)	108,795
Total comprehensive income			–	–	(7,246)	119,160	111,914	(6,165)	105,749
Shares issued for cash		8,114	0	300,002	–	–	300,002	–	300,002
Share-based payment transactions		–	–	2,322	–	–	2,322	1,823	4,145
Share-based payment transactions by strategic associates		–	–	1,898	–	–	1,898	–	1,898
Exercise of options over the shares of the Company		15	–	171	–	–	171	–	171
Other changes in net assets of strategic associates		–	–	105	–	–	105	–	105
Balance at June 30, 2010		70,799	1	1,183,148	551,344	27,713	1,762,206	141,502	1,903,708

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended June 30, 2010
(in thousands of US Dollars, except per share information)

1 Corporate information and description of business

These interim condensed consolidated financial statements of Mail.Ru Group Limited (formerly Digital Sky Technologies Limited and renamed in October 2010, hereinafter "the Company") and its subsidiaries (collectively – "the Group") for the six months ended June 30, 2011 were authorised for issue by the directors of the Company on September 21, 2011.

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

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

2 Basis of preparation

The interim condensed consolidated financial statements for the six months ended June 30, 2011 have been prepared in accordance with IAS 34.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at December 31, 2010.

2.1 Application of new and amended IFRS and IFRIC

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2010, except for the adoption of new standards and interpretations as of January 1, 2011, listed below:

IAS 24 Related Party Transactions

The IASB has issued an amendment to IAS 24 that clarifies the definition of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarify in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 Financial Instruments: Presentation

The amendment modifies the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity`s non-derivative equity instruments, to acquire a fixed number of the entity`s own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group.

IFRIC 14 Prepayments of a Minimum Funding Requirement

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset. The Group is not subject to minimum funding requirements. The amendment to the interpretation therefore had no effect on the financial position or performance of the Group.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

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

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to IFRSs, primarily aimed at removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to the Group's accounting policies. The principal effect of these changes on financial statement is discussed below.

IFRS 3 *Business Combinations*: The measurement options available for non-controlling interest (NCI) have been amended. Only components of NCI constituting a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation shall be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

2 Basis of preparation (continued)

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

As a result of the accounting policy change, the following adjustments were made to the financial statements:

As of January 1, 2010:

Increase in goodwill: USD 14,998
Increase in non-controlling interest: USD 14,998
Decrease in share premium: USD 223
Increase in retained earnings: USD 223

As of and for the six months ended June 30, 2010:

Increase in goodwill: USD 14,541
Increase in non-controlling interest: USD 14,541
Decrease in share premium: USD 296
Increase in retained earnings: USD 296
Net decrease in profit after tax: USD 73

As of and for the year ended December 31, 2010:

Increase in Goodwill: USD 14,883
Increase in non-controlling interest: USD 220
Increase in share premium: USD 14,205
Increase in retained earnings: USD 370
Net increase in other comprehensive income: USD 89

The related effect on earnings per share for 2010 and the six months ended June 30, 2010 was immaterial.

IFRS 7 *Financial Instruments — Disclosures*: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The adoption did not have any impact on the financial position or performance of the Group.

IAS 1 *Presentation of Financial Statements*: The amendment clarifies that an option to present an analysis of each component of other comprehensive income may be included either in the statement of changes in equity or in the notes to the financial statements. The adoption did not have any impact on the financial position or performance of the Group.

IAS 34 *Interim Financial Statements*: The amendment requires additional disclosures for fair values and changes in classification of financial assets, as well as changes to contingent assets and liabilities in interim condensed financial statements. The adoption did not have any impact on the financial position or performance of the Group.

IFRS 3 *Business Combinations*: Clarifies that the amendments to IFRS 7 *Financial Instruments: Disclosures*, IAS 32 *Financial Instruments: Presentation* and IAS 39 Financial *Instruments: Recognition and Measurement*, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008). The adoption did not have any impact on the financial position or performance of the Group.

IAS 27 *Consolidated and Separate Financial Statements*: Clarify that the consequential amendments from IAS 27 made to IAS 21 the *Effect of Changes in Foreign Exchange Rates*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures* apply prospectively for annual periods beginning on or after July 1, 2009 or earlier when IAS 27 is applied earlier. The adoption did not have any impact on the financial position or performance of the Group.

Improvements to IFRSs: The adoption did not have any impact on the financial position or performance of the Group.

2.2 Change in estimate – deferred tax on unremitted earnings of a subsidiary

In the six months ended June 30, 2011, the Group has taken steps to change the tax jurisdiction of one of its subsidiaries, and has obtained the consent of the relevant authorities as of the date of these financial statements. The change in tax jurisdiction resulted in a reduction of 5 per cent in the estimated income tax rate applied to the unremitted earnings of the subsidiary. The change in estimate was applied prospectively starting from date of the respective change. As a result of the change in estimate the Group decreased deferred tax liabilities and recognised a tax benefit in the amount of USD 1,986.

3 Seasonality of operations

Due to the seasonal nature of the advertising and MMORPG, higher revenues and operating profits are usually expected in the second half of the year than in the first six months. Higher sales during the second half of the year are mainly attributed to the increased demand for online games due to the end of the vacation period and to the fact that a large portion of advertising budgets is spent in the last quarter of the year.

4 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 Chief Operating Decision Maker (CODM), reviews selected items of each segment's statement of comprehensive income, assuming 100% ownership in all of the Group's key operating subsidiaries, based on management reporting.

Management reporting is different from IFRS, because it does not include certain IFRS adjustments which are not analysed by the CODM in assessing the core operating performance of the business. Such adjustments affect such major areas as revenue recognition, certain accruals, deferred taxation, share-based payments, business combinations, fair value adjustments and amortisation thereof, impairment, as well as non-recurring items, net of related tax effect.

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

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

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

The Group has identified the following reportable segments:

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

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

The Group measures the performance of its operating segments through a measure of earnings before interest, tax, depreciation and amortisation (EBITDA). EBITDA is calculated as revenue less operating expenses excluding depreciation and amortisation and impairment of intangible assets.

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 interim condensed 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.

Changes in presentation of operating segments

In 2011, in reviewing the operational performance of the Group and allocating resources, the Group's CODM started to consider dividends received from financial investees and available-for-sale investments, and changes were made to the Group's management reporting. Accordingly, the Group has included such dividends in the presentation of operating segments under "Corporate, eliminations and other". The effect on the Group's segment net profit for the six months ended June 30, 2011 is USD1 319 (2010: USD 1 054) of additional income. The change in presentation did not have any effect on the Group's segment revenue or EBITDA.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

4 Operating segments (continued)

Additionally, when reviewing the Group's share of the results of its key associates for the six months ended June 30, 2011, the Group's CODM has considered the increase in the Group's stake in VK as a result of the exercise by the Group of its option to acquire an additional 7.44% in VK in July 2011 (see also Note 19), and the Group's management reporting was amended to include 39.99% of VK's net profit in the Group's segment net profit. Accordingly, the Group has amended the presentation of operating segments by including the effect of the increased stake in VK under "Corporate, eliminations and other". The effect of the VK ownership increase from 32.55% to 39.99% on the Group's segment net profit for the six months ended June 30, 2011 is USD 661 (2010: USD 550). The change in presentation did not have any effect on the Group's segment revenue or EBITDA.

The respective comparative information for the six months ended June 30, 2010 was presented accordingly to conform to the segment presentation for the six months ended June 30, 2011.

The statement of comprehensive income items for each segment for the six months ended June 30, 2011, as presented to the CODM, are presented below:

	Mail	OK	HH	Total segments	Corporate, eliminations and other	Combined
Revenue						
External revenue	148,998	57,253	21,917	228,168	–	228,168
Intersegment revenue	1,149	–	151	1,300	(1,300)	–
Total revenue	150,147	57,253	22,068	229,468	(1,300)	228,168
Total operating expenses	78,977	15,372	15,379	109,728	1,904	111,632
EBITDA	71,170	41,881	6,689	119,740	(3,204)	116,536
Net profit*	47,130	31,498	4,402	83,030	2,855	85,885

* net profit by segments does not include foreign exchange gains and losses but includes the related current income tax benefit in the amount of USD 1,176

The statement of comprehensive income items for each segment for the six months ended June 30, 2010, as presented to the CODM, are presented below:

	Mail	OK	HH	Total segments	Corporate, eliminations and other	Combined
Revenue						
External revenue	94,230	30,887	12,076	137,193	–	137,193
Intersegment revenue	–	–	–	–	–	–
Total revenue	94,230	30,887	12,076	137,193	–	137,193
Total operating expenses	50,324	9,854	9,024	69,202	14,252	83,454
EBITDA	43,906	21,033	3,052	67,991	(14,252)	53,739
Net profit*	30,249	14,277	1,711	46,237	(6,548)	39,689

* net profit by segments does not include foreign exchange gains and losses but includes the related current income tax benefit in the amount of USD 108

A reconciliation of total revenue, as presented to the CODM, to IFRS consolidated revenue of the Group for the six months ended June 30, 2011 and 2010 is presented below:

	2011	2010
Total revenue, as presented to CODM	228,168	137,193
Adjustments to reconcile revenue as presented to CODM to consolidated net profit under IFRS:		
Effect of operations disposed of and difference in dates of acquisition of control in subsidiaries	–	(41,634)
Differences in timing of revenue recognition	(3,412)	(190)
Barter revenue	1,098	1,123
Dividend revenue from venture capital investments	1,449	1,240
Operations disposed of	–	10,798
Other	(5)	180
Consolidated revenue under IFRS	227,298	108,710

4 Operating segments (continued)

A reconciliation of net profit, as presented to the CODM, to IFRS consolidated net profit of the Group the six months ended June 30, 2010 and 2010 is presented below:

	2011	2010
Total net profit, as presented to CODM	85,885	39,689
Adjustments to reconcile net profit as presented to CODM to consolidated net profit under IFRS:		
Share-based payment expense	(28,518)	(6,252)
Differences in timing of revenue recognition	(3,412)	(190)
Effect of operations disposed of, difference in shareholding percentages and acquisition dates of subsidiaries and associates	(661)	3,340
Amortisation of fair value adjustments to intangible assets and impairment thereof	(30,676)	(21,424)
Gain/(loss) on financial instruments at fair value through profit or loss	(8,733)	(25,787)
Non-recurring consulting services	(61)	(1,842)
Impairment of investments in strategic associates	(6,059)	–
Net foreign exchange gains (losses)	(4,196)	12,015
Share in financial results of non-core associates	(2,068)	(802)
Differences in deferred taxation	3,708	1,196
Other	(1,016)	(2,989)
Consolidated net profit under IFRS	4,193	(3,046)

5 Business combinations

In July 2010, the Group acquired 100% of ICQ LLC ("ICQ"), a leading instant messaging company, from AOL, Inc. ("AOL") for a cash consideration of USD 187,500.

In accounting for the business combination, the Group had previously provisionally determined the amounts of ICQ's intangible assets and deferred tax liabilities subject to the completion of tax planning with respect to ICQ intellectual property rights. At the date of the preparation of these financial statements, the tax planning and acquisition accounting have been finalised. Accordingly, the Group has recalculated the fair values of the identifiable intangible assets of ICQ and related deferred tax liabilities.

The fair values of the identifiable assets and liabilities of ICQ as at the date of acquisition, as determined in the final acquisition accounting, were as follows:

	Fair value
Property and equipment	953
Intangible assets	20,017
Other non-current assets	337
Deferred tax assets	148
Current tax assets	276
Trade and other receivables	2,620
Prepaid expenses	17
Cash	3,346
Total assets:	27,714
Other long term liabilities	25
Deferred income	166
Trade and other payables	476
Provisions	1,760
Total liabilities:	2,427
Total net assets	25,287

Goodwill on the transaction was calculated as the excess of:

(a) the consideration transferred by the Group measured at fair values:	
Cash paid	187,500
Consideration transferred by the Group	187,500
over	
(b) the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with IFRS 3R	25,287
Goodwill (Note 11)	162,213

5 Business combinations (continued)

As a result of finalisation of acquisition accounting, the following adjustments were made to the financial statements as of December 31, 2010:

Decrease in intangible assets: USD 7,900
Increase in goodwill: USD 8,696
Increase in retained earnings: USD 796

6 Impairment of investments in associates

For the period six months ended June 30, 2011, the Group recorded an impairment of USD 6,059 with respect to its investment in Molotok Holdings Limited ("Molotok"), the Group's associate that provides online auction services to Internet customers through its www.molotok.ru web site. Molotok's performance in first half 2011 was below management's forecasts, which led the management to reconsider Molotok's revenue growth projections. The recoverable amount of Molotok as of June 30, 2011 was determined based on a value-in-use calculation using cash flow projections covering a ten-year period. The pre-tax discount rate used in the respective DCF model as of June 30, 2011 was 22.34% (December 31, 2010 – 23.82%). The terminal growth rate used was 5.0% (December 31, 2010 – 5.7%). Apart from discount and terminal growth rates, the cash flow projections are most sensitive to revenue compound annual growth rates ("CAGR") and EBITDA margin. The impairment of Molotok was not allocated to any of the Group's reportable segments, as the financial information related to Molotok is not reviewed by the Group's CODM in analysing the operational performance of the Group and allocating resources and, accordingly, is not included in the presentation of the Group's operating segments.

7 Intangible assets

During the six months ended June 30, 2011, the Group capitalised software development costs and otherwise acquired intangible assets with a cost of USD 13,118 (2010: USD 9,510). The Group did not acquire any intangible assets or goodwill through business combinations in the six months ended June 30, 2011 or in the six months ended June 30, 2010.

Assets with a net book value of USD 0 were disposed of by the Group during the six months ended June 30, 2011 (2010: USD 108), resulting in a net loss on disposal of USD 0 (2010: USD 108).

In the six months ended June 30, 2011, the Group recognised USD 3,234 (2010: 0) of impairment losses with respect to online game software. The impairment entirely belongs to the Mail.Ru operating segment and explained by underperformance of related games.

The average pre-tax discount rate used in the respective DCF models as of June 30, 2011 was 24.04% (December 31, 2010: 21.71%).

8 Property and equipment

During the six months ended June 30, 2011, the Group acquired property and equipment with a cost of USD 8,287 (2010: USD 7,438), excluding property and equipment acquired through business combinations, which amounted to USD 0 in the six months ended June 30, 2011 and USD 11,740 in the six months ended June 30, 2010.

9 Other current assets

Other current assets consist of the following:

	As at June 30, 2011 Unaudited	As at December 31, 2010 Audited
VAT receivable	1,684	1,254
Other current assets	3,601	1,991
Total	5,285	3,245

Notes to the Interim Condensed Consolidated Financial Statements (continued)

10 Other payables, provisions and accrued expenses

Other payables, provisions and accrued expenses consist of the following:

	As at June 30, 2011 Unaudited	As at December 31, 2010 Audited
Accrued compensation	16,739	9,157
Accrued vacations	9,787	6,827
Accrued professional consulting expenses	2,136	1,377
Payable for acquisition of Data Center M100 LLC	–	2,461
Other current payables and provisions	2,237	5,042
Total	30,899	24,864

11 Revenues

	Six months ended June 30	
	2011	2010
Internet value added services	118,995	55,993
Online advertising	85,282	38,592
Online recruitment services	19,993	11,429
Dividend revenue from venture capital investments	1,449	1,240
Other revenue	1,579	1,456
Total	227,298	108,710

In the six months ended June 30, 2011, the Group recorded significant revenues of internet value added services from applications operated by 3rd parties on its social network platforms. The Group recognises related share of revenues collected from the social network platforms' users by 3rd parties based on revenue-sharing arrangements with such 3rd parties.

12 Cost of revenues

	Six months ended June 30	
	2011	2010
Royalties and commissions to agents	15,648	8,211
Payroll	28,221	13,224
Share-based payment expense	3,751	–
Cost of servers hosting	8,358	4,011
Other costs	611	215
Total	56,589	25,661

13 Research and development expenses

	Six months ended June 30	
	2011	2010
Payroll	2,134	1,321
Share-based payment expense	716	–
Total	2,850	1,321

14 Selling, general and administrative expenses

	Six months ended June 30	
	2011	2010
Payroll	31,198	17,690
Share-based payment expense	24,051	3,674
Rent of premises and related utility expenses	4,438	3,551
Advertising and related expenses	11,917	5,690
Advisory fees	–	13,323
Other professional fees	3,328	3,576
Other expenses	6,820	5,639
Total	81,752	53,143

For further details in respect of Advisory fees please refer to Note 17.1.

15 Income tax

The major components of income tax expense in the interim consolidated income statement are as follows:

	Six months ended June 30 2011	2010
Current income tax expense	23,458	9,196
Adjustments in respect of current income tax of previous year	(909)	–
Deferred income tax benefit	(4,571)	(641)
Total income tax expense	17,978	8,555

Reconciliation between tax expense and the product of accounting profit multiplied by BVI's domestic tax rate for the six months ended June 30, 2011 and 2010 is as follows:

	Six months ended June 30 2011	2010
Profit before income tax expense	22,171	5,509
Income tax expense computed at statutory tax rate of 0%	–	–
Foreign tax rate differential	(11,027)	(3,590)
Adjustments in respect of current income tax of previous year	(909)	–
Non-deductible share base compensation expenses	–	(931)
Tax on dividends	(295)	(77)
Tax on unremitted earnings	(2,645)	(2,881)
Non-deductible expenses	(3,102)	(1,076)
Total income tax expense	(17,978)	(8,555)

16 Commitments, contingencies and operating risks

16.1 Operating environment of the Group

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

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In the six months ended June 30, 2011, the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects.

16.2 Taxation

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

In the six months ended June 30, 2011, some of the Company's associates and subsidiaries accrued provisions for tax risks related to their operations. It is reasonably possible that relevant governmental authorities in Russia may attempt to assess additional income and non-income taxes against those associates and subsidiaries. The extent of potential assessments and the ultimate success thereof are not currently estimable. However, should the relevant governmental authorities question the management approach to the taxation of its operations and prove successful in their claim, they would be entitled to recover the amounts of the tax provisions. Management of the Group and its associates will vigorously defend their positions if such claims are assessed.

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

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

16 Commitments, contingencies and operating risks (continued)

16.3 Legal proceedings

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

16.4 Competition

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

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

16.5 Private information

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

16.6 Intellectual property rights

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

16.7 Development

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

16.8 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.

16.9 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.

16.10 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.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

17 Balances and transactions with related parties

The following table provides the total amount of transactions which have been entered into with related parties during the six month periods ending June 30, 2011 and June 30, 2010 as well as balances with related parties as of June 30, 2011 and December 31, 2010, other than DST Advisors Limited ("DSTA"), directors and key management of the Group (see below). All related party transactions were made in accordance with contractual terms and conditions agreed between the parties.

	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
2011				
Strategic associates	3,435	1,123	2,714	6
Other related parties	–	–	–	–
2010				
Strategic associates	1,948	58	3,753	73
Other related parties	–	18	388	–

The Group's sales to, and receivables from Haslop Company Limited ("Mamba") primarily arise from a revenue sharing arrangement relating to IVAS generated by a dating website operated by Mamba.

The Group's purchase from, and payables to Qiwi Limited ("Qiwi") primarily arise from the revenue collection services. The arrangement with Qiwi is entered into on terms equivalent to those that prevail in arm's length transactions.

17.1 Investment advisor – DSTA – other related party

On January 1, 2007 the Company entered into an agreement with DSTA. Under the terms of the agreement DSTA was entitled to receive an advisory fee in exchange for a range of advisory and other services. Certain shareholders of the Company are also shareholders of DSTA. The fees amounted to an aggregate of 1.5% per annum of the Company's equity (calculated in accordance with the agreement mentioned above) and were payable in cash quarterly in advance.

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

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

	Six months ended June 30, 2010
Advisory fees	12,852
Share-based payments	471
Total	**13,323**

17.2 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 USD 668 for the six months ended June 30, 2011 (2010: nil). In addition to the cash remuneration in 2011, Directors were granted options to acquire 733,388 ordinary shares of the Company at the exercise price of USD 27.7 (in addition to options over 53,532 shares of the Company granted late in 2010). The Board of Directors approved the grant on April 11, 2011. The corresponding share-based payment expense amounted to USD 2,852 for the six months ended June 30, 2011 (2010: nil).

17.3 Key management of the Group

Total cash remuneration of the key management of the Group (excluding Directors) amounted to USD 7,597 for the six months ended June 30, 2011 (2010: nil). In addition to the cash remuneration in 2011, key executive employees of the Group were granted options to acquire 35,000 ordinary shares of the Company at the exercise price of USD 27.7 (in addition to options over 3,130,000 shares of the Company granted late in 2010, out of which options over 55,000 were forfeited in the six months ended June 30, 2011). The corresponding share based payment expense amounted to USD 20,018 for the six months ended June 30, 2011 (2010: nil).

17.4 The ultimate parent

The Company has no ultimate parent.

18 Financial instruments

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 June 30, 2011 and December 31, 2010 the Group held the following financial instruments measured at fair value:

	December 31, 2010	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Financial assets at fair value through profit or loss:				
Financial investments in associates	19,716	–	–	19,716
Derivative financial assets over the equity of investees	20,481	–	–	20,481
Total financial assets at fair value through profit or loss	40,197	–	–	40,197
Available-for-sale equity investments	1,453,518	–	–	1,453,518
Total financial assets measured at fair value	1,493,715	–	–	1,493,715
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit or loss - derivative financial liabilities over the equity of investees	(1,111)	–	–	(1,111)
Total financial liabilities measured at fair value	(1,111)	–	–	(1,111)

	June 30, 2011	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Financial assets at fair value through profit or loss:				
Financial investments in associates	25,803	–	–	25,803
Derivative financial assets over the equity of investees	12,032	–	–	12,032
Total financial assets at fair value through profit or loss	37,835	–	–	37,835
Available-for-sale equity investments	1,906,648	–	–	1,906,648
Total financial assets measured at fair value	1,944,483	–	–	1,944,483
Financial liabilities measured at fair value				
Financial liabilities at fair value through profit or loss - derivative financial liabilities over the equity of investees	(1,867)	–	–	(1,867)
Total financial liabilities measured at fair value	(1,867)	–	–	(1,867)

The balance of available-for-sale equity investments as of December 31, 2010 is reconciled to the balance of those investments as of June 30, 2011 as follows:

	Fully diluted shareholding as of December 31, 2010	Balance as of December 31, 2010	Unrealised gains/ (losses) recognised in other comprehensive income	Translation adjustment	Balance as of June 30, 2011	Fully diluted shareholding as of June 30, 2011
Facebook	2.33%	1,163,911	214,529	103,730	1,482,170	2.28%
CED	15.00%	5,311	1,632	486	7,429	15.00%
Groupon	4.63%	219,738	31,911	19,417	271,066	4.44%
Zynga	1.41%	64,558	74,451	6,974	145,983	1.3%
Total available-for-sale equity investments		1,453,518	322,523	130,607	1,906,648	

18 Financial instruments (continued)

The balance of other Level 3 measurements as of December 31, 2010 is reconciled to the balance of those measurements as of June 30, 2011 as follows:

	Balance as of December 31, 2010	Purchases	Gain/(loss) recognised in earnings	Translation adjustment	Balance as of June 30, 2011
Financial investments in associates	19,716	3,177	1,097	1,813	25,803
Derivative financial assets over the equity of investees	20,481	–	(10,004)	1,555	12,032
Total financial assets measured at fair value	40,197	3,177	(8,907)	3,368	37,835
Financial liabilities at fair value through profit or loss - derivative financial liabilities over the equity of investees	(1,111)	–	(649)	(107)	(1,867)
Total financial liabilities measured at fair value	(1,111)	–	(649)	(107)	(1,867)

18.1 VK option

The Group has recognised a loss of USD 9 874 due to the change in fair value of purchased call option over VK shares in the six months ended June 30, 2011. The loss was recorded in the statement of comprehensive income under 'Net loss on financial assets and liabilities at fair value through profit or loss over the equity of strategic investees'.

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

	June 30, 2011	December 31, 2010
Number of periods per year	138	365
Annual dividend yield (%)	1.36%	1.50%
Expected volatility (%)	38.09%	39.95%
Risk-free interest rate (%)	0.07%	0.26%
Expected term (years)	0.38	0.87
Share price (US dollars)	138,364	138,364

19 Events after the reporting period

19.1 VK option execution

In July 2011 the Company exercised its option to acquire a further stake of 7.44% in VKontakte for USD 111.7 million. The option is as described in the Company's prospectus and as also mentioned in its completion of transaction announcement on November 16, 2010. The completion of this transaction brings the Group's total equity stake in VKontakte to 39.99%.

19.2 GDR buying programme

In October 2011, the Directors resolved that the Group undertake a GDR buying programme of up to USD 35 million until the end of 2011 in order to cover a part of the employee and director options of the IPO incentive plan. Under the GDR buying programme, the Group will acquire GDRs representing shares of the Company and will subsequently transfer the GDRs to the respective option holders upon the exercise of the options. The Group intends to hold the GDRs in treasury to be used over the next 4 years.

19.3 Execution of conversion right

The shareholders' agreement of the Group's subsidiary Headhunter Group Limited ("Headhunter") provides one of the non-controlling shareholders of Headhunter with the ability to exchange his 5.89% of share capital of Headhunter to 432,867 ordinary shares of the Company in the last three months of 2011. In October 2011, the non-controlling shareholder executed its conversion right and as a result, the Group's shareholding in Headhunter increased to 97.20%.