@mail.ru group

Annual Report

2013

Contents

Who we are

Mail.ru Group Limited (hereinafter "MGL") together with its subsidiaries (collectively – "we" or "the Company") is a leading company in the high-growth Russian-speaking internet market. In terms of number of users, Russia is the largest internet market in Europe[1]. The Company's sites reach approximately 94% of Russian internet users on a monthly basis[2]. Based on total time spent, we operate the world's fifth largest internet business, according to comScore[3].

In November 2010, Mail.Ru Group 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 product portfolio

In line with its 'communitainment' (communication plus entertainment) strategy, our Company is moving rapidly to build an integrated communications and entertainment platform. We own Russia's leading email service and Russia's largest internet portal, Mail.Ru[4]. We operate two of the three largest Russian language social networks, Odnoklassniki (OK) and Moi Mir (My World)[5]. We lead the interactive entertainment market with Russia's largest online games business. Our portfolio also includes Mail.Ru Agent and ICQ – two instant messaging (IM) services 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 display and contextual advertising as well as a range of internet value-added services (IVAS). These include online games, virtual gifts and other features.

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

1 Source: comScore, Dec 2013

2 Source: comScore, Dec 2013

3 Source: comScore, Dec 2013

4 Source: TNS, all Russia, age 12-64, desktop, Dec 2013

5 Source: TNS, all Russia, age 12-64, desktop, Dec 2013

Mail.Ru Group in brief

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

Email & portal
Email
Main Page
Content Projects

Social networks
Odnoklassniki
My World

Instant messaging
Agent
ICQ

Online games
MMO games
Social games
Mobile games

Search & e-commerce
Search
Headhunter
Price comparison

Non-consolidated investments

VK
VK.Com Limited
Social network
51.99%* equity interest

QIWI
QIWI PLC
Payment processing company
10.42%* equity interest

* as of the date hereof

Email & portal

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

Social networks

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

Instant messaging

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

Online games

Russia's leading provider of online games

Search & e-commerce

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

How we work

Our business model

We are operating an integrated communications and entertainment platform that aims to serve the 272 million Russian speakers worldwide[1]. Of our target audience, approximately 143 million live in Russia[2]. The rest are primarily based in the former Soviet Union, while some are located around the world.

There are currently 69 million internet users in Russia[3]. By the end of 2017, this is projected to increase to 85 million[4].

Our audience

We will achieve growth by:

- Consolidating our leading position in the expanding Russian-speaking internet market
- Offering our users a comprehensive range of online communication and entertainment products, including online games
- Focusing on mobile products and mobile user experience
- Ensuring we remain at the forefront of technological and product innovation
- Pursuing international expansion

Monetisation

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

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

Our people

Most of the core members of our management team have:

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

Strategy

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

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

1 Source: M. Paul Lewis, Gary F. Simons, and Charles D. Fennig (eds.), 2013. Ethnologue: Languages of the world (17th edition)

2 Source: Russian Federal State Statistics Service

3 Source: Public Opinion Foundation (FOM), winter 2013-2014

4 Source: Public Opinion Foundation (FOM), winter 2013-2014, the estimate is the average of optimistic and pessimistic cases

Corporate history

Pre-2001
Webmail service launched in 1998
Headhunter founded in 2000

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

Oct 2001
Mail.Ru portal launched

May 2003
Mail.Ru Agent launched

May 2003
Search partnership established with Google

Jan 2004
Mobile email service introduced

Oct 2004
Voice calls added to Mail.Ru Agent

May 2005
Mail.Ru Group founded

Jun 2005
Auto.Mail.Ru launched

Nov 2005
Video calls added to Mail.Ru Agent

Mar 2006
Odnoklassniki (OK) social network launched

May 2006
Mail.Ru Games portal introduced

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

May 2007
My World social network started operation

Jun 2007
Mail.Ru in-house search technology launched

Jun-Jul 2007
Mail.Ru Group acquired 24.99% stake in VK

Dec 2007
Mobile versions of OK and My World released

Corporate history continued

May 2008 — "Perfect world" online game launched under license

Feb 2009 — Mail.Ru Group acquired control of Headhunter

Aug 2009 — Payment system Money.Mail.Ru launched

Oct 2009 — "Allods online" game launched

Nov 2009 — Gaming company Astrum merged with Mail.Ru

Jul 2010 — Mail.Ru Group acquired IM service ICQ

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

Nov 2010 — Stake in VK increased to 32.55%

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

Jul 2011 — Stake in VK increased to 39.99%

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

Mar 2012 — Mail.Ru email service launched mobile application for iOS

Apr 2012 — MMO shooter Warface launched

Apr 2012 — Mail.Ru Agent for Android introduced voice calls

Jul 2012 — Mail.Ru email service launched mobile application for Android

Oct 2012 — Mail.Ru email service introduced multiple accounts sign-in

Oct 2012 — Launch of web browser Amigo integrated with main social networks

Highlights

2013 key highlights

January
Warface sets a PCU record of 145,000 players simultaneously online

Browser-based MMO Pirate Code is launched

Odnoklassniki's new status update box allows to post multimedia content

ICQ updates Windows 8 app with voice and video calls

February
Odnoklassniki introduces Azerbaijani and Uzbek language interfaces

My World updates news feed: individual photos are larger while multiple photos are arranged in a collage

Mail.Ru email service implements DMARC anti-spam technology

March
Mail.Ru email service releases the app for iPad and redesigns the app for iPhone

Odnoklassniki launches music recommendation service "My Radio"

Mail.Ru Agent updates Android app and web client with video calls

Afisha.Mail.Ru allows watching movies and TV-series online

The Company pays a special dividend of USD 897m (USD 4.3 per GDR) on 28 March 2013

April
Mail.Ru email import service starts working via IMAP protocol

Odnoklassniki introduces Armenian language interface

My World updates photo viewer with new layout, improved usability and performance

The Company holds Technology Forum

May
My World reveals the first mobile apps for iOS and Android – with large photos in newsfeed, native music and messaging

Obsidian Entertainment joins our internal studio Allods Team to develop SkyForge

The Company invests $1.5 million in Israeli-based visual search company Cortica Ltd.

The Company sells 3.3 mln shares on Qiwi IPO reducing its stake to 15.04%

June
Mobile game Jungle Heat is released on Google Play

My World updates video player with new layout, improved usability and video recommendations

Our Moscow team moves to new Headquarters building

Mail.Ru Group holds the 2013 Annual General Meeting

July
Our proprietary search engine handles all search queries since July 1st; search monetization is provided by Yandex

Target.Mail.Ru launches mobile ad platform

New email app for iOS allows users to manage multiple Mail.Ru accounts

Mail.Ru for Business, a free email service for third-party domains powered by Mail.Ru, is launched

Odnoklassniki introduces achievements to increase user engagement

Mail.Ru Agent releases the first app for Windows 8 and updates iOS app with video calls

August
Launch of Cloud.Mail.Ru with 100GB of free cloud storage and file syncing clients for Windows, Mac, iOS and Android

Odnoklassniki updates iOS app with native photos, native discussions and sidebar navigation

My World introduces music and video recommendation services

Mail.Ru Agent introduces stickers in iOS and Android apps

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

The Company disposes of its remaining 14.2 mln Facebook shares in the period of July-August 2013

September
Two mobile games launched: Jungle Heat on Apple App Store and Lucky Fields on Google Play

Mail.Ru email service updates Android app with new interface, user avatars, quick action menu on swipe and attachments preview

Calendar.Mail.ru releases mobile app for Android

2013 Russian Code Cup finals – over 3,500 participants, 50 finalists from seven countries and three overall winners

Highlights continued

October

The Company celebrates its 15th anniversary

Mail.Ru email service releases new versions of iOS and Android apps featuring support for third-party email accounts with flexible push-notifications

Odnoklassniki updates video player with get video URL, like/unlike, related videos and video ad

The Company sells 2.4 mln shares on Qiwi SPO reducing its stake to 10.42%

November

Launch of my.com project that focuses on international markets and provides a suite of communication and entertainment mobile apps – myMail, myChat and myGames

Odnoklassniki updates Android app featuring left-side navigation menu, news feed on the main page, native photo albums and photos with tag support

Odnoklassniki launches free online cinema with popular Russian and foreign TV-series and films. The service is based on the existing video platform

December

Mail.Ru email service introduces new web interface

New Year’s special offer from Cloud.Mail.Ru – get free 1Tb of cloud storage forever

Warface sets a PCU record of over 170,000 players simultaneously online

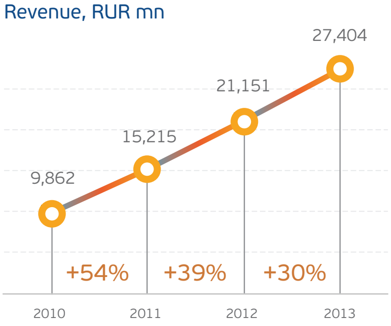
MMORPG ArcheAge is launched in closed beta

Mobile game Lucky Fields is released on Apple App Store

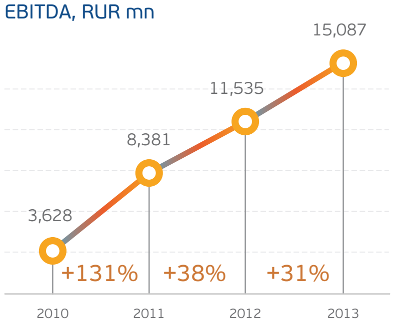
Hi-Tech.Mail.Ru launches new project “Apps” related to mobile applications and games

Financial highlights*

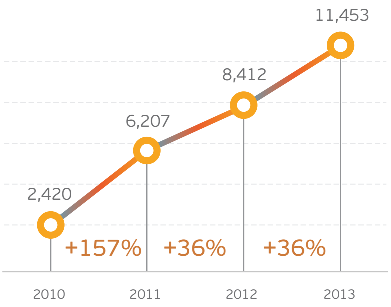
Revenue, RUR mn



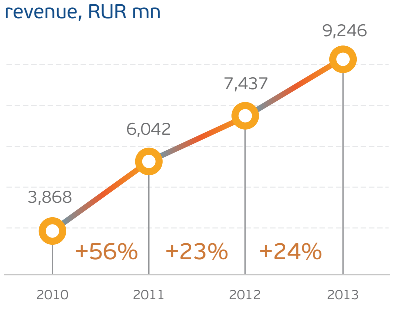
EBITDA, RUR mn



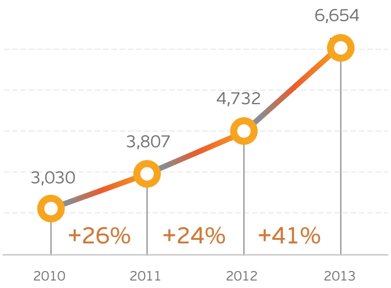
Net profit, RUR mn



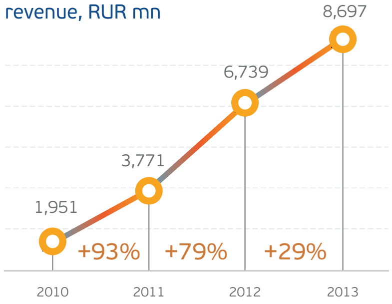
Online advertising revenue, RUR mn



MMO revenue, RUR mn



Community IVAS revenue, RUR mn



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

Chief Executive Officer's report

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

While 2013 was a year with a mixed macroeconomic background, for Mail.Ru Group it was another exciting and successful year. The core underlying drivers of business remained unchanged: the growth in internet penetration in the Russian speaking environment, the shift of advertising budgets online and the increase in the direct monetization of the user base. These, along with a continued improvement of our key products across both desktop and mobile platforms, the start of an expansion outside of our core market under the my.com brand, and focus on execution meant we were pleased to deliver another year of strong growth combined with robust margins.

Company highlights for 2013

Continued growth in the underlying market

Over the last several years the Russian internet market has seen significant growth. In 2011 Russia became the largest internet market in Europe and has solidified its leadership ever since. By the end of 2013 the number of internet users in the country had risen to 69mln[1]. However, overall internet penetration is still only 59%[2] and as such there is still significant scope for expansion as Russia moves closer to the average penetration seen in other developed markets. Additionally, the CIS countries which form much of the wider Russian-speaking market continue to have even lower internet penetration. With a combined population of 100+ million they offer further significant potential for user growth. We continue to expand our presence in these markets and now have about 40% of users outside of Russia[3].

Driven by the continued investment of telecom operators in fixed-line and wireless broadband networks the amount of time that the Russian internet users spend online continues to grow and the ways through which Internet penetrates into users' daily lives expands further. During 2013, time spent online rose by 29% to 33.6 hours per month[4] which is some of the highest in any market.

Strong 2013 financial performance

With the drivers of our business remaining strong and our continued innovation of the product and notwithstanding a mixed macroeconomic environment we continued to execute well. Compared to FY 2012, Group aggregate segment revenue grew 29.6% to RUR 27.4bn and Group aggregate segment EBITDA grew 30.8% to RUR 15.1bn

Overall advertising revenue demonstrated 24.3% y-o-y growth with context ad being the main driver. This was supported by a continued focus on the Target product, and our solid market share in search. In addition, in H2 contextual advertising also benefited from our monetization agreement with Yandex.

Throughout the year we continued to execute on our games strategy. Driven by the increasing traction of Warface and a series of successful launches MMO revenue demonstrated a remarkable increase of 40.6% y-o-y.

Community IVAS remained an important contributor to our revenues in FY 2013 delivering 29.1% y-o-y growth. The main driver of this growth is the continued increase of paying users reaching 7.6 million per month in H2 2013.

While we continued to invest in the business, and notwithstanding the costs of the move to our new building the operating leverage and a tight cost control allowed us to deliver strong FY 2013 EBITDA margin of 55.1%.

Product review

Email & portal

During the year, we continued to develop and improve our market-leading email service. In particular, we released a new web interface that brings cleaner and simpler experience and puts focus on efficient work with a large amount of messages. We introduced support for multiple Mail.Ru, Gmail, Hotmail, Yahoo! and any other IMAP- and POP3-enabled email accounts, thereby allowing users to work with all their mailboxes via Mail.Ru email web interface or mobile apps for iOS and Android. We also updated mobile apps for iOS, Android, Windows Phone and Windows 8 with new design, faster and smoother performance.

In addition, we launched Mail.Ru for Business, a free service that allows users to set up Mail.Ru powered email on their

1 Source: Public Opinion Foundation (FOM), winter 2013-2014

2 Source: Public Opinion Foundation (FOM), winter 2013-2014

3 Source: comScore

4 Source: comScore

own domains, and cloud storage service Cloud.Mail.Ru with 100GB of free online storage space and file syncing applications for desktop (Windows, Mac, Linux) and mobile (iOS, Android, Windows Phone) devices for all Mail.Ru account holders.

Social networks

We continued to focus on the user experience inside of our social networks, OK and My World. OK experienced a further growth in user engagement with daily active users reaching 41.8mln (December 2013 average, LiveInternet).

In 2013 we significantly improved rich media services in OK. We introduced better tools for viewing and managing photos; totally reworked video platform with new back-end, design and services; and launched "My Radio" music service allowing users to create personalized radio stations. On mobile side, we introduced the notification center, people tagging in statuses, polls, video upload, multichat and achievements across all mobile apps. 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 audience. In December 2013, it reached 49%, compared with 40% a year ago.

Instant messaging (IM)

During 2013 we continued the focus on mobile product development. We introduced stickers in Mail.Ru Agent for iOS and Android and added support for video calls in most of our mobile apps as well as in Mail.Ru Agent web client. Now users of our IM networks can video chat with each other across all platforms: desktop, mobile and web.

Online games

Our strategy for the games business remains unchanged as "less quantity, more quality". As evidenced by the 40.6% growth we continued to execute on this strategy through 2013. Warface remains an important component of this and continues to see increasing traction in terms of both users (reaching over 170k PCU by the end of the year) and revenues, and during 2013 has been our top revenue generating game. The start of MMORPG ArcheAge closed beta test in December 2013 was well received and the initial signs for the game are very promising with the highest level of interest in a game launch that we have ever had.

In addition Jungle Heat, which was released under the my.com brand in June 2013, has seen strong initial success and in H2 became a material revenue contributor inside of our top 5 games. The US remains the largest market, followed by France and Germany and near 90% of the revenues are outside of Russia. Since June 2013 the game has had over 12.0m downloads.

Search

Through 2013 our Russian search market share remained broadly constant at around 8.5% (Liveinternet). In July we started using internally developed search engine to handle all the queries made by Go.Mail.Ru users and entered into a long term agreement with Yandex for monetization of search traffic.

Expansion into new markets

We also started our expansion outside of our core market with the release of a number of mobile games under the my.com brand and also the launch of the myMail and myChat products when the my.com website went live in November 2013.

myMail is a mobile email app that lets users manage all email accounts in one place, myChat is mobile messaging app for free text/photo/video messages, group chat, voice and video calls. Current collection of the my.com games comprises Jungle Heat, Poker Arena, Lucky Fields and Evolution.

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 our Company and our future success is very dependent on our ability to attract, retain and motivate the best engineers in the market. The environment that our people work in is clearly vital to that and in 2013 we completed the move into our new state-of-the-art headquarters. It provides a significantly larger and more attractive workspace to allow us to continue to lead in the competitive Russian market.

Disposal of minority investments and balance sheet

In 2013 we continued with the disposal of minority investments and in the July-August period disposed of the remaining 14.2m Facebook shares. Additionally in May and October we sold 5.7m shares of Qiwi reducing our stake to 10.42%. With the sale of some of the minority investments we were pleased to make significant returns to shareholders in the form of the $4.30 per share March 2013 special dividend announced with our full year 2012 results. In total therefore we have returned around $1.7bn to shareholders since 2011. At the end of the year we had a strong balance sheet with nearly $1bn in cash.

2014 outlook

2014 will be another important year in our development. Competition in the Russian-speaking internet remains fierce but our Company is well positioned in its key areas. The underlying structural drivers of our business remain strong and unchanged. At this time we look into 2014 with confidence and we expect to see FY 2014 Group aggregate segment revenue growth of between 22-24%. We expect that this revenue growth will be broadly based with advertising, games and IVAS all seeing revenue growth rates at, or around, overall growth.

Additionally, even taking into account costs associated with the expansion of my.com, the operating leverage in our business remains unchanged. We would therefore expect FY 2014 Group aggregate segment EBITDA margin of between 53-54%

Appreciation

IIt is important to recognize the contribution of our people to our success. Over the past year our employees and management have continued to show dedication and skill and their efforts have allowed the Company to have another successful year. On behalf of the board I want to extend our congratulations on their achievements and thanks for their hard work. Additionally the board wishes to express its thanks for the continuous support from our shareholders who continue to believe and encourage us as the Company goes from strength to strength in 2014.

Dmitry Grishin

Co-founder, CEO and Chairman of the Board

Operating review

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

Email & portal

Email

We provide the largest email service in the Russian-speaking internet. In December 2013, our service had 45.1 million monthly active users and 18.4 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 (46.0 mln, comScore). We only trail Gmail, Yahoo!, Outlook, QQ Mail and 163.com.

Our email service is integrated with many of the Company's other communications services. These include Mail.Ru Agent, My World and several others. Currently our email service delivers approximately 400 million messages a day and has a data storage capacity exceeding twenty petabytes.

Revenue is generated through display and context advertising.

In 2013 we released a new web interface of our email service that brings cleaner and simpler experience and puts focus on efficient work with a large amount of messages. In the message list view all important action buttons are locked at the top of the screen as user scrolls the page; flag as important, mark as read and reply status icons near each message are larger and more visible; right click on the message brings up context menu with quick actions, such as delete, move to folder, mark as unread, report spam, etc.

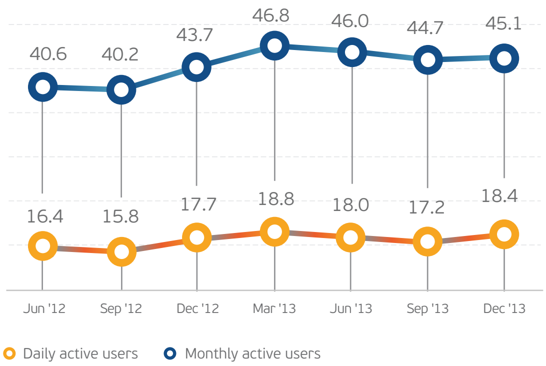
Interface of email compose window received multiple improvements as well. Among them are a new look of recipients' addresses and frequently used contacts showing up when clicking on "Send to" field. In a single message window we introduced a preview of images and documents, as well as "flag as important" and "mark as unread" buttons.

To increase engagement of those who just started using Mail.Ru email service we released new user tutorial. The new user is offered to setup messages import from other email accounts/services, add avatar and signature and choose interface theme.

Given a majority of internet users having more than one email account, in 2013 we introduced support for multiple accounts registered on Mail.Ru, Gmail, Yahoo!, Outlook and any other IMAP- or POP3-enabled email service. The feature allows user to work with all his mailboxes via Mail.Ru email web service (both desktop and mobile), as well as iOS and Android mobile apps. In case of adding a third-party email account, the whole correspondence, folder structure, flags and read/unread statuses are fully synchronized with the original mailbox, user receives instant notifications of incoming messages.

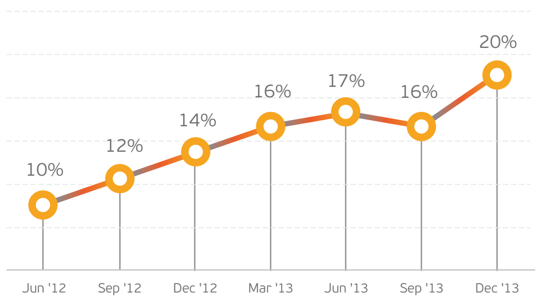
We released new email web interface, new services Mail.Ru for Business and Cloud.Mail.Ru, and mobile email client myMail under the my.com brand

Mail.Ru email, Russian desktop users, mln



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

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



Source: Company data

Alongside with the interface development we continued to focus on email service performance. As a result of server-side optimization we achieved 3-fold increase in speed of single message loading and sending; 25% increase in speed of message list loading; 5-fold increase in speed of email search; and reduced number of server-side errors during the search.

As a provider of email services to millions of users, we recognize how important it is to protect privacy and security: secure services are instrumental in maintaining trust. In 2013 we allowed users to see a log of activities in mailbox and implemented protection against various brute-force attacks. With respect to antispam system, we added an option to unsubscribe from newsletters right in Mail.Ru email service interface, implemented DMARC technology which protects mass senders from being imitated by phishers and fraudsters, and deepened the analysis of mass-senders activities (online monitoring of abnormal changes in key metrics).

Mobile continued to be one of our primary focuses. Email mobile apps for iOS, Android, Windows Phone and Windows 8 were updated with new design, faster and smoother performance. In particular, both iOS and Android apps were optimized for tablets.

As mentioned above, in iOS and Android apps we introduced support for multiple Mail.Ru, Gmail, Yahoo! and any other IMAP- and POP3-enabled email accounts. Users of these apps were enabled to easily switch between several accounts, configure push notifications for each account, run search within entire mailbox and have a single address book across all accounts. Additionally, in iOS and Android apps we added a quick action menu appearing on right-to-left swipe on a message in the message list.

In mobile web version of our email service we implemented SSL support for all mobile devices and allowed users to edit avatars and user profiles and change passwords. We also released a new mobile web version for non-touch smartphones and Opera Mini browser.

By the end of 2013 combined daily audience of our email applications reached over 2.1 mln 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 17.5% of the email service daily audience.

Mail.Ru for Business

In July 2013 we launched Mail.Ru for Business, a free service that allows users to set up an email on their own domains. The service is primarily aimed at small and medium enterprises, but can be used by individuals as well.

MY.COM / MYMAIL

myMail is a free email client app launched under the my.com brand in November 2013. It supports nearly all IMAP/POP3 email services, including Gmail, Outlook, Yahoo, AOL, iCLoud, etc.

The app features slick design, user and service avatars, quick actions on swipe from right to left and customizable server settings (IMAP, POP3, SMTP). The app is based on cloud technology that allows to: support and configure push notifications for all email services; run search within entire mailbox; have a single address book across all email accounts.

myMail is available on Apple App Store and Google Play.

Users of email accounts powered by Mail.Ru for Business enjoy all benefits and advantages of Mail.Ru email service: easy-to-use web-interface, mailbox of unlimited size, online preview of Microsoft Office docs, calendar, Mail.Ru Agent messenger with voice and video calls, SMS notifications, IMAP-based email import from other email services, etc. Email accounts are protected by anti-spam and anti-virus systems.

Another major advantage of Mail.Ru for Business service is an access to email via Mail.Ru mobile applications available for all popular mobile platforms (iOS, Android, Windows Phone). Users get full synchronization with email web interface, access to both email and phone address books and instant push-notification with flexible settings.

Cloud.Mail.Ru

In August 2013 we launched a cloud storage service Cloud.Mail.Ru. The service offers 100GB of free online storage space and file syncing applications for desktop (Windows, Mac, Linux) and mobile (iOS, Android, Windows Phone) devices for all Mail.Ru account holders. Users can store documents, photos, music, video and other files in the cloud and share them with friends by sending public link to any file or folder.

Cloud.Mail.Ru desktop apps offer flexible synchronization settings (on, off, pause, selective sync) and context menu integration, while mobile apps features automatic upload of photos and videos from the phone gallery to the cloud, convenient photo viewer, ability to watch video/listen to music even if it hasn't been fully loaded, constant access to the cloud while on the go.

To celebrate New Year 2014 we were offering 1TB of free cloud storage forever to any new or existing holder of Mail.Ru account. The special offer was valid from December 20, 2013 to January 20, 2014.

Calendar.Mail.Ru

We continued to improve our calendar product that we launched in 2012. In 2013 we introduced Agenda view, public calendars with interesting information and events (such as public holidays, movie premieres, sport events, this day in history), ability to create repeated events and add SMS notifications. We also released mobile app for Android, mobile web version and extension for Google Chrome browser.

Content projects

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

On Afisha.Mail.Ru we launched sections for watching movies, TV series and TV shows online. After signing agreements with several content providers, the catalogue of online video reached over 4,000 movies and 500 TV series. On Lady.Mail.Ru we introduced fashion guide service as well as section with videos about fashion, beauty, fitness and cooking. Finally Hi-Tech.Mail.Ru revealed a new section "Apps" with mobile apps news, reviews and stats.

Along with improving web versions of the content projects, we've been focusing on development of their mobile applications. During 2013 we launched Auto.Mail.Ru apps for iOS and Android, Love.Mail.Ru app for Android, and Sport.Mail.Ru app for Windows Phone. We redesigned News.Mail.Ru apps for iOS and Android (the former was optimized for iOS 7) and tailored them for tablets. In addition, we released mobile web versions optimized for touch-phones of the following project: Auto.Mail.Ru, Sport.Mail.Ru, Hi-Tech.Mail.Ru, Love.Mail.Ru, Kids.Mail.Ru.

Social networks

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

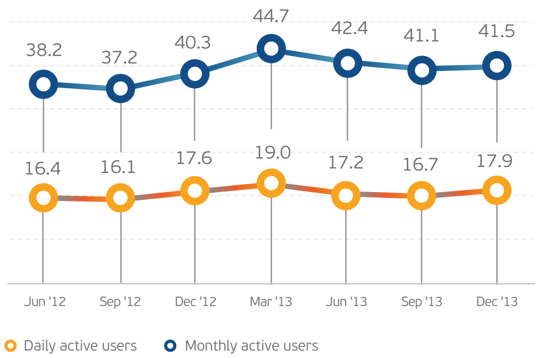
Odnoklassniki

Over 2013 Odnoklassniki continued to grow user engagement. Daily active users grew 20% year-on-year, reaching 41.8 million (December 2013 average, LiveInternet). The gap between OK and the market leader, VK, was 25% in December 2013 (as a percentage of VK daily audience) . In 2013, approximately 39% of Odnoklassniki users were from outside of Russia, primarily from the countries of the former Soviet Union.

We continued to add new services in line with our strategic goal to create the best tools for communication and entertainment. We introduced multiple enhancements to newsfeed. Newsfeed filters allow users to select types of news they want to read – statuses, photos or games updates.

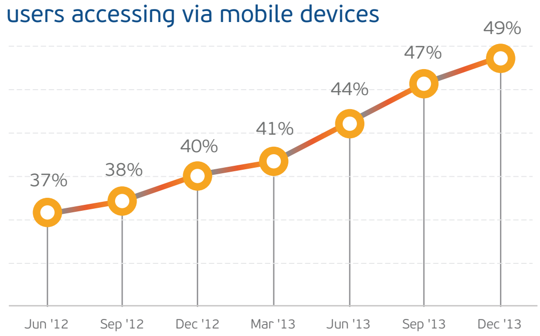
In 2013 we significantly improved our rich media services. Now users have better tools for viewing and managing photos in Odnoklassniki: they enjoy large photos, full-screen

Odnoklassniki, Russian desktop users, mln



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

Odnoklassniki, percentage of monthly active users accessing via mobile devices



Source: Company data

1 Source: LiveInternet

mode, new uploader and they can move, delete and set photos as main with quick actions. We totally reworked our video service, now it features new back-end, design and services. We launched "My Radio" music service allowing users to create personalized radio stations to fit their musical preferences. Odnoklassniki music service also features a faster music uploader and revamped design. Further, we introduced a system of achievements rewarding our most engaged users for different activities.

We continued to hone our search and security algorithms. Revamped search is faster, features new design with better usability and additional search criteria like age, schools and locations.

Mobile continues to be one of our primary focuses and 2013 was another successful year in terms of mobile. During the year we released new versions of Odnoklassniki applications and mobile versions for the major platforms (iOS, Android, Windows Phone, Symbian). We introduced notifications center, people tagging in statuses, polls, mobile video upload, multichats and achievements across all mobile platforms. Also, we introduced new share box and ability to share posts and photos from groups. These steps, together with a global trend of increasing internet usage via mobile devices, supported continuing growth of the share of mobile users among Odnoklassniki audience. In December 2013, it reached 49%, compared with 40% a year ago.

My World

Launched in May 2007, My World is now Russia's third-largest social network. In December 2013, My World had 30.3 million monthly active users and 5.1 million daily active users in Russia alone (TNS, all Russia, age 12-64, desktop). Approximately 45% of the network's user base is outside Russia.

The network benefits from its association with Mail.Ru's portal, Mail.Ru Agent, and email service. As part of the registration process for an email account with Mail.Ru, there is an option to activate a My World account. Furthermore, users of our IM Mail.Ru Agent can publish their My World status updates directly from the IM client and can receive alerts regarding their friends' status and content updates.

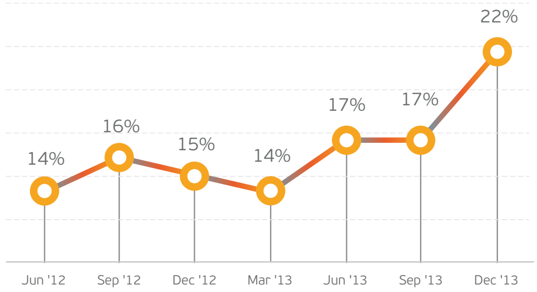
In 2013 we launched groups and enabled users to add multimedia content (photo, music, video) to their status updates. We introduced recommendations to our music and video services. We updated video player with a new design and released its HTML5-based version that can be embedded on third-party websites.

In addition we considerably reworked our photoviewer putting focus on its usability and performance. Photos are now automatically displayed at the highest resolution possible; scrolling through images is considerably faster; comments and engagement buttons are located on the right side rather than below images and thus encourage sharings and conversations between users.

In the beginning of 2014 we released a completely new desktop version of My World. It was developed in conformity with modern trends in design and usability to enhance user experience and simplify information perception. We changed the structure of left-side menu, introduced new layout of the newsfeed, improved the navigation between pages, as well as increased the overall speed of the website.

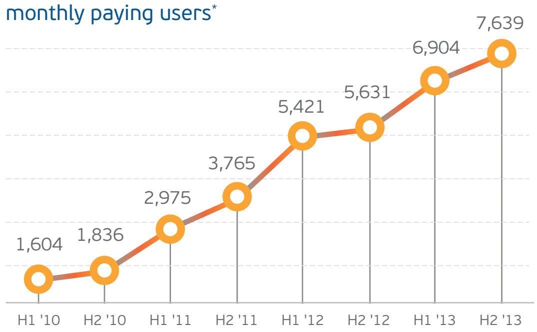
We also remained focused on mobile. Over 2013 we released multiple updates to our iOS and Android applications. In particular we introduced: large photos in the newsfeed, native chat, native music, group support, advanced people search, and built-in HTML5 games. While on mobile web version of My World we added photo section, gifts, music and video support.

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



Source: Company data

Community IVAS, thousands of average monthly paying users*



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

We introduced video calls and stickers on Mail.Ru Agent and ICQ mobile apps and released mobile messaging app myMail under the my.com brand

Instant messaging

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

Since the acquisition of ICQ we've made significant steps in integrating both messengers. In 2011 we introduced server-based interoperability that enabled users of Mail.Ru Agent to add ICQ users, and vice versa, without creating an extra account.

continue to introduce new features and enhance messengers' quality and performance across all platforms.

Mobile

During 2013 the video calls feature, which previously had been only available on desktop apps, was added to most of our mobile apps[1] as well as to Mail.Ru Agent web client. Now users of our IM networks can video chat with each other across all platforms: desktop, mobile and web.

MY.COM / MYCHAT

myChat is a mobile messaging app launched under the my.com brand in November 2013. The app features lightweight design; text, photo and video messages; voice and video calls; stickers and smileys; group chats; and easy login via phone number. The app is completely free with no ads and no in-app purchases.

myChat is available on Apple App Store and Google Play.

In 2012 instead of relying on third-party solutions we moved both messengers to our in-house voice and video engine, based on a considerably reworked open source of WebRTC project. Finally, we relocated ICQ development to Moscow and now both messengers are developed by the same team.

Users can access both IM networks from applications available on a range of popular operating systems, including Windows, Mac OS, iOS, Android, Symbian and Windows Phone. They provide all the "must-have" features of a modern messenger: one-on-one and group chats, voice and video calls, file sharing, notifications from email services and social networks and so on. In December 2013 Mail.Ru Agent and ICQ had 18.8 million and 11.0 million monthly active users respectively, 53% and 50% of them were using IM service via mobile devices.

Our strategic goal is to create the most convenient tool for communication with friends and acquaintances regardless of whether the user is at the desk or on the go. Therefore we

In order to make communication more visual and emotional we introduced stickers in Mail.Ru Agent for iOS and Android. Users can now avoid conveying complex emotions in writing by expressing themselves with cute tiny images. A large collection of free and paid stickers ensures that the user will find a perfect one for any situation; new stickers arrive on a regular basis.

In November 2013 we released a new messenger under the my.com brand – myChat. It's a simple and fast app for iOS and Android with a lightweight design and wide range of features to keep in touch: one-on-one and group chats; photo/video/file sharing; voice and video calls; stickers and smileys. myChat user interface became the basis for the next versions of Mail.Ru Agent and ICQ mobile apps we are going to release in 2014.

Among other things, we released the first Mail.Ru Agent app for Windows 8 featuring group chats, photo/video/file sharing, voice and video calls, and introduced the Ukrainian language interface in Mail.Ru Agent for iOS and Android.

1 In 2013 video calls were introduced in Mail.Ru Agent for iOS, Android, Windows Phone and Windows 8, and ICQ for Windows Phone and Windows 8

Desktop

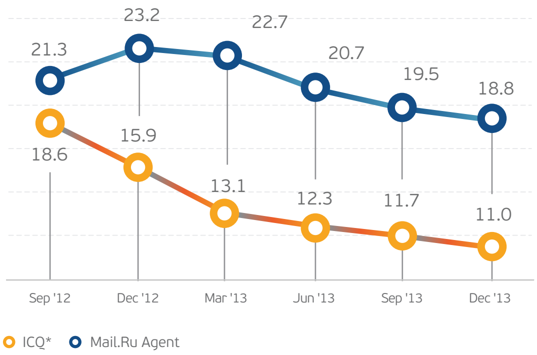
We continued to develop and improve desktop apps of both messengers.

In Mail.Ru Agent for Windows we introduced a new interface with horizontal navigation bar at the top to easily switch between key features. We also allowed users to preview image and video links directly in chat window and share files within group, as well as with offline contacts. On the technology side, we introduced synchronization of chat history. The synchronization allows users to access chat history and resume the conversation from any PC with Mail.Ru Agent installed.

Mail.Ru Agent for Mac OS was updated as well. We introduced the ability to share photos, videos and other files, improved voice and video calls quality and optimized the app performance.

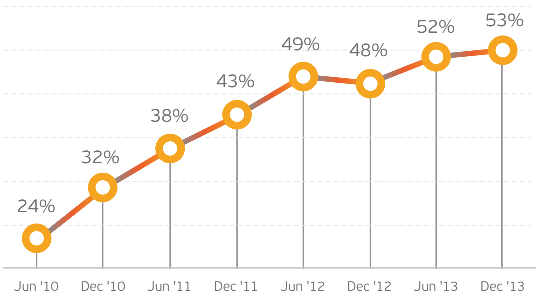
Finally, we released a new version of ICQ for Mac OS. It features a new interface, voice and video calls, instant messaging with friends from popular social networks (Facebook, Odnoklassniki, VK).

Instant messengers, monthly active users, mln



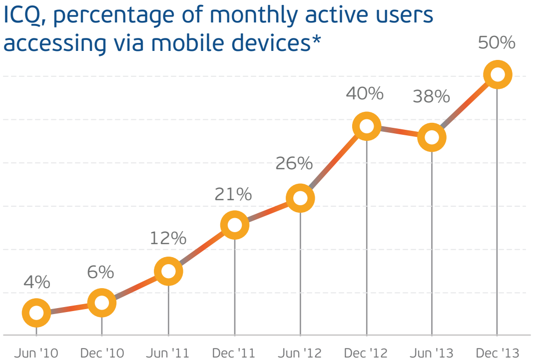
Source: Company data
* ICQ audience includes users of unauthorized clients

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



Source: Company data

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



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

With solid performance of Warface and successful launches of mobile game Jungle Heat and closed beta of MMORPG ArcheAge we continued to execute on our games strategy

Online games

We operate the largest online games business in Russia. Our portfolio titles include the leading Russian internet MMO games such as Warface, Perfect World, Allods Online and Legend: Legacy of the Dragons. In 2013 the average number of monthly paying users doubled year-over-year to 523 thousand.

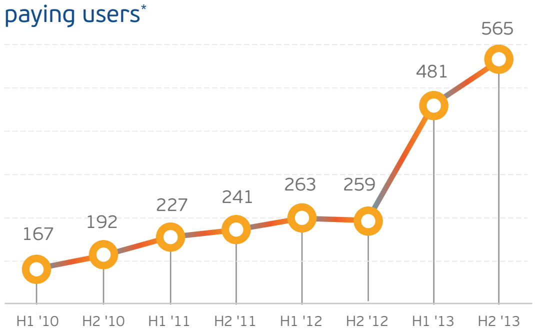
We use a ''free-to-play'' model for our games, with users having the option to buy certain virtual in-game items as they become available. Players can usually get these items free of charge – by, for example, spending more time playing the game. But if they want them immediately, in the majority of cases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

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

We market our MMO games through advertising on TV channels and our own websites and distribute them through our gaming portal Games.Mail.Ru and games downloader GameCenter.Mail.Ru. The latter once installed serves as a single channel for our games distribution and allows users to seamlessly download and update games even with unstable internet connection. By the end of 2013, GameCenter.Mail.Ru reached about 2 million peak concurrent users.

In contrast to MMO games, mobile and social games have less complex, more casual gameplay, are less time consuming and appeals to larger audience. They are also usually cheaper to develop and maintain.

MMO games, thousands of average monthly paying users*



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

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 synchronization 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 develop games for VK and Facebook, but our principal strategy is to focus on developing games for My World and Odnoklassniki.

MMO games

In 2013 we continued to execute on our games strategy: to focus on quality rather than quantity. Our free-to-play MMO first person shooter Warface remained an important component of this and continued to gain traction in terms of both revenues and users. As a result, Warface has become our top revenue generating game in 2013 and its peak concurrent users reached over 170,000 by the end of the year.

MY.COM / MYGAMES

Jungle Heat

available for iOS and Android

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.

Poker Arena

available for iOS and Android

Poker Arena is a social poker game. It is a classic Texas Hold'Em, rendered with amazing graphics and user-friendly interface. Moreover, it's the first poker game that provides PvE mode in a quest genre. The game is free-to-play with in-app purchases.

Lucky Fields

available for iOS and Android

Lucky Fields is a farm simulation game. Build a farm of your dream: create new varieties of plants and animals, run your own factories and workshops, and make a fortune. The game is free-to-play with in-app purchases.

In December 2013 we started the closed beta test (CBT) of one of the most anticipated by Russian gaming community MMORPG ArcheAge. The test attracted strong user interest and engagement becoming the most impressive and successful CBT launches in the history of our online games business.

In 2013 we also released two browser-based games in economic and military strategy genre: Pirate Code (in January) and War of Thrones (in October). They were launched in partnership with game developer Plarium by porting its already existing social games to the web platform. While not being among our top revenue generating titles, both games perform considerably well.

Additionally in December 2013 we announced a partnership program allowing third-party game developers to publish their web- and client-based online games on Games.Mail.Ru portal and GameCenter.Mail.Ru downloader. Under the terms of this program we provide game distribution, player authorization, payment processing, and game statistics in exchange for 50% revenue share.

Mobile games

In 2013 we started our international expansion by releasing three mobile games under the my.com brand: Jungle Heat, Poker Arena and Lucky Fields. Jungle Heat has seen strong initial success and in H2 became a material revenue contributor with the US as the largest market, and near 90% of the revenues outside of Russia. Since its launch in June 2013 the game has had over 12m downloads.

Coming launches

At Game Developers Conference 2014 we announced four new games to be released in 2014 under the my.com brand: World of Speed, Armored Warfare, SkyForge and Evolution. The first three titles are MMO games for PC and the forth one is mobile game for iOS. All of them will be free-to-play.

World of Speed is a graphically stunning racing MMO with strong focus on social elements such as team play and auto clubs. The game is developed by the UK-based game developer Slightly Mad Studios and will be published by my.com.

Armored Warfare is an action-based MMO featuring modern tank combat with player vs environment (PvE) or player vs player (PvP) modes. The game is developed by the US-based game developer Obsidian Entertainment and will be published by my.com.

Skyforge is a highly-stylized MMORPG featuring exciting dynamic combat inspired by console action games, where players develop from immortal warriors protecting their homeworld into powerful gods dominating the battlefield as invincible giants. The game is developed by our internal studio Allods Team in collaboration with Obsidian Entertainment and will be published by my.com.

Evolution is a mobile game in science fiction RPG genre that brings together high-end graphics, solo action combat, player vs player missions and deep, engaging story- and world-building. The game is developed internally and will be published by my.com.

Major online games launches in 2013

Game	Business model	Type	Launch date
Pirate code	Partnership	MMO (web-based)	Jan 2013
Jungle Heat	In-house	Mobile (Android/iOS)	Jun/Sep 2013
Poker Arena	In-house	Mobile (Android/iOS)	Aug/Aug 2013
Lucky Fields	In-house	Mobile (Android/iOS)	Sep/Dec 2013
War of Thrones	Partnership	MMO (web-based)	Oct 2013

Search and e-commerce

Search

Our search service, Go.Mail.Ru, is the third largest in the Russian Internet market: in December 2013 it processed 8.6% of all web search queries. In addition to Russia our search has a large presence in other CIS countries.

In July 2013 we started using internally developed search engine to handle all the queries made by Go.Mail.Ru users and entered into a long term agreement with Yandex for monetization of search traffic. Previously we had been using a combination of Google's search technology and our in-house search engine with revenues being generated through context advertising via Google's AdWords product.

In 2013 we increased search index volume from 5 to 10 billion documents to optimize search engine speed and performance and released local versions of Go.Mail.Ru for Ukrainian and Kazakh internet users.

We also continued to focus on user experience in search. We refined autocomplete algorithm that predicts and suggests queries in order to help users search faster and easier. Additionally, we introduced new type of search result: users might now see a separate section on search results page that provides relevant information regarding the query. Such sections may contain relevant user profiles from social networks, map with relevant companies marked, or relevant sport events with live score and standings.

On top of that we launched search application for Windows 8 and released considerably reworked version of web-browser Amigo featuring integration with main social networks (Odnoklassniki, My World, VK, Facebook, and Twitter).

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.Ru and Rabota.Mail.Ru – two integrated services under common management. Online recruitment generates the majority of its revenue from subscriptions to a database of resumes, paid job postings and online advertising.

Price comparison. Our price comparison site, Torg.Mail.Ru, contains offers from e-retailers. The service is integrated with our search engine, Go.Mail.Ru, and monetized on a price-per-click basis. During 2013 we introduced price comparison for various types of goods, including watches, shoes, cosmetics and perfumes, suitcases and handbags, bijouterie, etc. We redesigned product list and product detail pages and added video to product description. Finally, we integrated social login option which allows users to login to our price comparison service with their existing accounts on Odnoklassniki, VK, Facebook, Twitter and Google+.

Money. Money.Mail.Ru is an internet payment system which is used to pay for online and offline products and services. Its main advantages are its common authorization process with Mail.Ru and its large number of connected shops and services – including mobile communications and utilities. In 2013 we achieved compliance with PCI DSS, a widely accepted set of policies and procedures intended to optimize the security of credit, debit and cash card transactions and protect cardholders against misuse of their personal information. We introduced eMoney-to-cash and eMoney-to-card services and released new version of mobile app featuring eWallet registration with mobile phone number. In addition we launched a service which allows to check and pay off various tax liabilities.

Our proprietary search engine now processes all the queries made by Go.Mail.Ru users

1 Source: LiveInternet

Other activities

IT Infrastructure

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

We have a number of relationships with third-party IT outsourcers. They provide us with telecommunications services – including internet access – and with data center services, which provide space and power to host our servers. We own over 24,700 servers, with a total storage capacity of 33.6 petabytes. Almost all our servers are hosted in Moscow. In 2013 peak network traffic increased to 685 gigabit per second – up from 460 gigabit per second in 2012.

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

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

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

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

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

Employees

At the end of 2013, the Company had a total of 3,046 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 the 2013 financial year, our research and development activities have been primarily focused on communication products and online games.

In June 2013 our Moscow team moved to new headquarters building. It provides a significantly larger and more attractive workspace and serves as an advantage in competing for the best talent in highly competitive Russian market.

In 2013, we continued to invest in our people and their development. Our regular Russian Code Cup programming contest and Technology Forum have become prominent events in Russian-speaking internet attracting a wide range of participants: from students and novice programmers to leading experts in various information technology fields. Our student development center Technopark.Mail.Ru, founded in 2011 in collaboration with Bauman Moscow State Technical University, is gaining popularity. Over 140 students now participate in 2-year learning program and there are already 6 applicants per place for 2014 enrollment. 59 students have successfully completed internships so far and started working for 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 Target.Mail.Ru (“Target”).

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. As of December 2013, we had an internal sales force for display and context advertising of 137 people working from the Moscow HQ and the ten regional offices throughout Russia. We have established regional sales offices to enable us to broaden our base of advertisers to regions outside the Moscow area, which have historically represented a smaller share of overall internet advertising in Russia. We also have offices in Kiev, Ukraine, and work through partners in Europe and CIS countries.

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

Our self-service ad platform Target.Mail.Ru 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.

In 2013 we continued to replace part of contract-based display inventory with Target.Mail.Ru as we believe it to be more efficient way of using this inventory. Within Target project we launched mobile adverting platform on Odnoklassniki and My World; we significantly increased the number of targeting options (from to 9 to 27), introduced cross-device targeting and refined reach forecasting tools; we updated user interface for ad campaign management, offered new reports and statistics and streamlined client support procedures for ad agencies. At the end of 2013 Target had nearly 5,700 active clients.

Intellectual property

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

Financial review

This review reflects highlights of our financial performance for 2013. Full details can be found in the annual financial statements presented on pages 49 to 102 of this annual report.

Overview of consolidated results

2013 has been another successful year for the Company as we continued to meet or exceed our key performance indicators and execute strongly across all lines of our business. As a result, we saw significant growth in our revenues, with context advertising, MMO games and Community IVAS being the key drivers. While we continued to dedicate substantial resources to driving user engagement and product development, we were able to maintain strong margins due to the operating leverage characteristics of our business.

Structure

Our core business operates in four major reportable segments: (1) Email, Portal and IM, (2) Social Networks, (3) Online Games and (4) Search, E-Commerce and Other. The Email, Portal and IM segment includes email, our instant messaging services and the Mail.ru portal; the Social Networks segment includes OK and My World social networks; the Online Games segment comprises our browser-based, client-based, mobile and social games. The Search, E-Commerce and Other 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.

In addition to our core business operations, we hold non-consolidated investments: 51.99% in Russia's largest social network VK.Com Limited ("VK"); and 10.42% in Qiwi PLC ("Qiwi"), one of Russia's leading payment-processing companies. We also hold a number of small venture capital investments in various Internet companies in Russia, Ukraine and Israel.

Acquisitions and disposals

In 2013, we sold 10.95% of economic interest in strategic associate Qiwi for an aggregate net cash consideration of RUR 3,912, but retained significant influence over Qiwi. We also completed the disposal of our minority investment in Facebook for an aggregate net cash consideration of RUR 17,419. In addition, we 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 2013 and prior years and impairment of investments had a significant effect on our 2013 and 2012 consolidated financial statements as summarised below:

	2013 mRUR	2012 mRUR
Net loss on financial assets and liabilities at fair value through profit or loss over the equity of strategic associates and subsidiaries	(15)	(27)
Net gain on disposal of shares in available-for-sale investments	15,620	33,948
Net gain on disposal of shares in strategic associates	3,310	-
Impairment losses related to available-for-sale investments	-	(718)

The net gain on disposal of shares in available-for-sale investments resulted from the disposal of our investment in Facebook in 2013 and sales of our investments in Groupon, Zynga, Facebook and CED in 2012. The impairment losses related to available-for-sale investments in 2012 are entirely related to our investment in Zynga.

In addition to the effects presented in the table above, there are several other effects on our 2013 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 and strategic associates on the basis of management accounts that do not reflect certain adjustments required under IFRS. The management accounts data is discussed under "Operating segments performance" below (see also Note 5 to the financial statements for further details).

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 32,969 million as at December 31, 2013, unchanged from December 31, 2012.

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

Consolidated results of operations in accordance with IFRS

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

	2013 RURm	2012 RURm
Total revenue	27,070	20,905
Net gain on venture capital investments and associated derivative financial assets and liabilities	148	590
Total operating expenses (excluding depreciation, amortisation and impairment)	(14,227)	(11,889)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	12,991	9,606
Profit before income tax expense	29,778	41,289
Income tax expense	(3,189)	(3,013)
Net profit	26,589	38,276
Attributable to:		
Equity holders of the parent	26,564	38,257
Non-controlling interest	25	19

Consolidated revenue

In 2013 our consolidated revenue increased by 29.5% to RUR 27,070 million (2012: RUR 20,905 million). The primary drivers of the growth are described under "Operating segments performance" below.

The growth in consolidated revenue was also affected by a 32.6% increase in the online gaming and social network revenue deferral adjustment and 45.5% growth in dividend revenue from venture capital investments. The revenue deferral adjustment grew largely in line with our MMO and Community IVAS revenue. The growth in dividend revenue from venture capital investments is mainly due to increased cash generation by the financial investees.

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

EBITDA increased by 35.2% to RUR 12,991 million (2012: RUR 9,606 million) and EBITDA margin increased to 48.0% in 2013 (2012: 46.0%) as a result of operating expenses (excluding depreciation, amortisation and impairment) growing at a slower pace than revenues, partially offset by a 74.9% decrease in net gain on venture capital investments and associated derivative financial assets and liabilities. Operating expenses grew 19.7% to RUR 14,227 million, or 52.6% of revenue (2012: RUR 11,889 million, or 56.9% of revenue). The key drivers and components of the increase in operating expenses are discussed in detail under "Operating segments performance" below.

In addition to those drivers, the increase in operating expenses was partially offset by a 16.3% decrease in share-based payments expense from RUR 2,217 million in 2012 to RUR 1,856 million in 2013. The decrease is primarily the effect of graded vesting of the options issued to our top management and key engineering talent, as approximately one-fourth of the options issued in 2012 vested on January 2, 2013 and approximately half of the options issued prior to 2012 vested in 2012.

The decrease in net gain on venture capital investments and associated derivative financial assets and liabilities reflects slower growth in the value of our financial investments in 2013 compared to 2012 and is partially due to our disposal of several financial investments in 2013.

Equity accounted results

The share in net profits of associates amounted to RUR 240 million (RUR 112 million in 2012). The aggregate profits in Qiwi, Nikita Management Limited ("Nikita") and Haslop Company Limited ("Mamba") in the amount of RUR 339 million in our share were partially offset by our share in losses of VK and Molotok Holdings Limited ("Molotok) of RUR 99 million in the aggregate. For the operational profitability of key strategic associates refer to Section "Operating segments performance" below.

Profit before income tax and net profit

Profit before income tax expense decreased 27.9% to RUR 29,778 million (2012: RUR 41,289 million) primarily as a result of the effects of acquisitions, disposals and impairment of investments (including aggregate net gains of RUR 18,930 on disposal of shares in strategic associates and available-for-sale investments in 2013 and a RUR 33,948 net gain on disposal of available-for-sale investments in 2012) and a 93.1% decrease in foreign exchange gains from RUR 764 million in 2012 to RUR 53 million in 2013, partially offset by increased EBITDA and share of net profits of associates.

Net profit for the year decreased 30.5% to RUR 26,589 million (2012: RUR 38,276 million) as a result of the decrease in profit before tax and a 5.8% increase in income tax expense. The increase in income tax expense is primarily due to an increase in taxable income arising from our operating subsidiaries and is not correlated to the decline in profit before income tax because most of M&A-related gains and losses, as well as share-based payment expense and our share in net profits of most associates, were incurred in tax-free jurisdictions. The drivers of organic growth of profit before tax and income tax expense are further described in Section "Operating segments performance" below.

Operating segments performance

Basis of preparation

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

Management reporting is different from IFRS, because it does not include certain IFRS adjustments that 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 expense, impairment of investments, business combinations, fair value adjustments, amortisation and impairment thereof, net foreign exchange gains and losses, share in financial results of non-core associates, as well as irregular non-recurring items that occur from time to time and are evaluated for adjustment as and when they occur. The tax effect of these adjustments is also excluded from management reporting. See Note 5 to our consolidated financial statements for more information.

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

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

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

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

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

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

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

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

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

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

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

Principal revenue drivers

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

Seasonality

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

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

Analysis of 2013 results compared with 2012

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**	2013 RURm	% of revenue	2012 RURm	% of revenue	YoY, %
Group aggregate segment revenue (1)					
Display advertising	5,416	19.8%	5,006	23.7%	8.2%
Context advertising	3,830	14.0%	2,431	11.5%	57.5%
Total online advertising	**9,246**	**33.7%**	**7,437**	**35.2%**	**24.3%**
MMO games	6,654	24.3%	4,732	22.4%	40.6%
Community IVAS	8,697	31.7%	6,739	31.9%	29.1%
Total IVAS	**15,351**	**56.0%**	**11,471**	**54.2%**	**33.8%**
Other revenue**	2,807	10.2%	2,243	10.6%	25.1%
Total Group aggregate segment revenue	**27,404**	**100.0%**	**21,151**	**100.0%**	**29.6%**
Group aggregate segment operating expenses					
Personnel expenses	5,332	19.5%	4,506	21.3%	18.3%
Office rent and maintenance	1,262	4.6%	489	2.3%	158.1%
Agent/partner fees	2,968	10.8%	1,971	9.3%	50.6%
Marketing expenses	842	3.1%	702	3.3%	19.9%
Server hosting expenses	866	3.2%	633	3.0%	36.8%
Professional services	274	1.0%	257	1.2%	6.6%
Other operating (income)/expenses, excluding depreciation and amortisation	773	2.8%	1,058	5.0%	-26.9%
Total Group aggregate segment operating expenses	**12,317**	**44.9%**	**9,616**	**45.5%**	**28.1%**
Group aggregate segment EBITDA (2)	**15,087**	**55.1%**	**11,535**	**54.5%**	**30.8%**
Depreciation and amortisation (3)	1,141	4.2%	1,133	5.4%	0.7%
Share of profit (loss) of key strategic associates (4)	258	0.9%	151	0.7%	71.2%
Other non-operating income (expense), net	442	1.6%	431	2.0%	2.6%
Profit before income tax (5)	**14,646**	**53.4%**	**10,984**	**51.9%**	**33.3%**
Income tax expense (6)	3,193	11.7%	2,572	12.2%	24.1%
Group aggregate net profit (7)	**11,453**	**41.8%**	**8,412**	**39.8%**	**36.2%**

* 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 Group share of net profit from associates includes our share of net profit from VK and Qiwi as calculated based on the ownership percentage as of the date hereof (i.e. 51.99% and 10.42%, respectively). Group share of net profit from associates as presented herein differs in significant respects from Group share of net profit from associates as would be recorded under IFRS due to: (i) difference in the ownership percentages as under IFRS the actual ownership would be used for each reporting period and (ii) differences in net profit of associates as the numbers presented herein are prepared based on principles used for the segment financial information of our consolidated operations, i.e. do not include certain adjustments which would be required under IFRS. Group share of net profit from associates for 2012 has been retrospectively adjusted for the reduction in our shareholding in Qiwi in 2013. Group share of net profit from associates for 2013 and 2012 has also been retrospectively adjusted for the increase in our shareholding in VK in 2014.

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

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

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

Operating segments performance – 2013

	Email, Portal and IM	Social Networks	Online Games	E-commerce, Search and other	Eliminations	Group
Revenue						
External revenue	4,599	10,221	7,249	5,335	-	27,404
Intersegment revenue	28	34	-	322	(384)	-
Total revenue	**4,627**	**10,255**	**7,249**	**5,657**	**(384)**	**27,404**
Total operating expenses	1,898	2,784	4,864	3,155	(384)	12,317
EBITDA	**2,729**	**7,471**	**2,385**	**2,502**	**-**	**15,087**
EBITDA margin	59.0%	72.9%	32.9%	44.2%		55.1%
Net profit						**11,453**
Net profit margin						41.8%

Operating segments performance – 2012

	Email, Portal and IM	Social Networks	Online Games	E-commerce, Search and other	Eliminations	Group
Revenue						
External revenue	4,052	7,856	5,329	3,914	-	21,151
Intersegment revenue	33	22	-	265	(320)	-
Total revenue	**4,085**	**7,878**	**5,329**	**4,179**	**(320)**	**21,151**
Total operating expenses	1,569	2,147	3,764	2,456	(320)	9,616
EBITDA	**2,516**	**5,731**	**1,565**	**1,723**	**-**	**11,535**
EBITDA margin	61.6%	72.7%	29.4%	41.2%		54.5%
Net profit						**8,412**
Net profit margin						39.8%

Display advertising

Display advertising revenue is generated from banner, and similar, advertisements on our websites. Advertisements are sold either on the time that they last, or on the number of page views. In certain cases, advertisements are sold on a "per action" basis, where our clients pay for each action performed by a user, such as an online application for a credit card. Our standard rates depend on a number of factors, including the page on which the banner appears, amount and the length of the contract, the season, and the advertisement's format, size and position. In 2013, we generated revenue of RUR 5,416 million (2012: RUR 5,006 million) from display advertising. Our display advertising revenue increased by 8.2% vs 2012, slightly below display advertising market, as we continued to shift advertising inventory to our Target.Mail.Ru ("Target") self-service context advertising platform throughout 2013, which we consider to be a more efficient use of the inventory.

Context advertising

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

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

From 2011, we launched Target, our proprietary self-service context advertising technology, on a number of our properties, including My World and OK social networks. The advertisements are sold to advertisers through an online auction at Target. We generate revenue when users click on advertisements and are directed to advertisers' websites. We have been enhancing the Target product since its launch, with a mobile advertising platform launched in 2013 on our OK 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 2013.

In 2013, we earned revenue of RUR 3,830 million (2012: RUR 2,431 million) from context advertising representing growth of 57.5%. The strong growth in our context advertising revenue, ahead of the market, was supported by a continued focus on the Target product, and our solid market share in search. In addition, in H2 2013 contextual advertising also benefited from our monetisation agreement with Yandex.

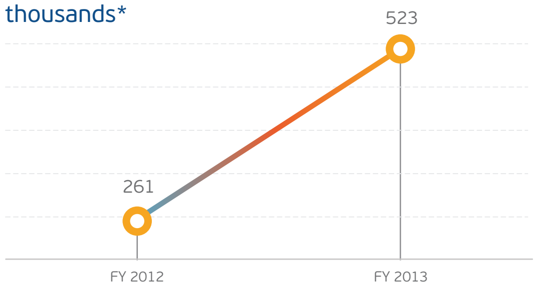
IVASs

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

MMO games

Over 40% of our IVAS revenue is generated by MMO games. Players have the opportunity to buy in-game enhancements for these free-to-play games; revenue is recognised net of any commissions to distributors or SMS operators. In 2013, we generated revenues from MMO games of RUR 6,654 million (2012: RUR 4,732 million). The 40.6% increase in MMO revenues is primarily due to strong growth in annual average monthly MMO paying users, which doubled in 2013 compared to 2012. 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 new titles, including Warface and Jungle Heat, enabled us to significantly broaden our MMO paying user base in 2013 compared to 2012, but also resulted in decreased ARPPU.

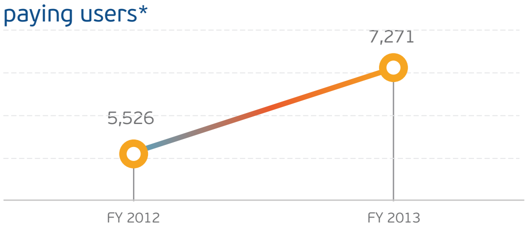
Community IVASs

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, revenue sharing with developers through our Application Programming Interface ("API"), revenue from our own social games and revenue from dating services. A significant portion of these payments are paid for via SMS, and revenue is recognised net of commission paid to distributors or SMS operators.

Aggregate segment Community IVAS revenue increased by 29.1% to reach RUR 8,697 million (2012: RUR 6,739 million). The growth was achieved primarily through increase in annual average monthly paying users by approximately 32% compared to 2012, driven by overall growth in user engagement.

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 Odnoklassniki, My World, love.mail.ru and our own social games on third-party networks and include overlap

Other revenue

Other revenue is primarily generated through subscriptions to the résumé database on HeadHunter, our online recruitment site. The increase by 25.1% 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 expenses, agent/partner fees, marketing expenses, server hosting expenses, professional services and other operating expenses, excluding depreciation and amortisation.

Personnel expenses increased by 18.3% to RUR 5,332 million (2012: RUR 4,506 million). The increase was partially driven by a 7% headcount growth, with the rest of the personnel expenses increase attributed to growth in average salaries. Overall, personnel expenses grew at a rate below that of the revenue growth, demonstrating operating leverage of the business and our focus on the quality, rather than number, of people that we hire.

Office rent and maintenance expenses increased by 158.1% to RUR 1,262 million (2012: RUR 489 million) reflecting the increased 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 50.6% to RUR 2,968 million (2012: RUR 1,971 million). The increase in agent/partner fees was primarily driven by growth in fees for games licensed from other developers, increased revenue collection costs and digital distribution costs.

The increase in fees for games licensed from other game developers resulted from growing share of online games revenue derived from games developed by third parties.

Revenue collection costs represent fees to payment systems for processing payments for our IVASs. These costs also include the share of our mobile products' revenue that we pay to mobile stores (mainly Google Play and Apple's App Store). The increase in revenue collection costs resulted from growth in our IVAS revenues, as well as decreased share of cash collection via SMS, where the collection costs are netted against revenues rather than recorded as a cost line. Revenue collection costs in 2013 were also affected by the success of our mobile products, including Jungle Heat, and the corresponding revenue share paid to mobile stores.

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 19.9% to RUR 842 million (2012: RUR 702 million), below our revenue growth rate, as we continued to focus on the efficiency of our marketing spend, including TV commercials of our games, promotion of our mobile products and key PR initiatives.

Server hosting expenses increased by 36.8% to RUR 866 million (2012: RUR 633 million) as a result of growth in the number of servers, partially offset by decreased cost per server, as we continued to invest in infrastructure to support the growth of our operations and user base.

Professional fees increased by only 6.6% to RUR 274 million (2012: RUR 257 million). The modest increase was broadly based across various professional services, as we continued to exercise tight cost control and realise economies of scale.

Other operating expenses, excluding depreciation and amortisation decreased by 26.9% to RUR 773 million (2012: RUR 1,058 million). These expenses include a variety of items not included in the other expense lines. The decrease primarily resulted from the implementation of certain one-off not-for-profit corporate projects in 2012.

Our aggregate segment EBITDA margin increased slightly to 55.1% (2012: 54.5%) primarily as a result of operating leverage derived from personnel expenses, professional fees and marketing expenses; and lower other operating expenses, partially offset by increased office rent and maintenance, agent/partner fees and server hosting expenses.

Key strategic associates[1]

The increase in share in net income of key strategic associates by 71.2% to RUR 258 million (2012: RUR 151 million) is due to an increase in net profit attributable to the equity holders of the parent of Qiwi by 68.9% and an increase in net profit attributable to the equity holders of the parent of VK by 93.1%. Qiwi's revenue grew by 30.9%, primarily driven by continued success of its Visa Qiwi Wallet product. Qiwi's margins continued to improve in 2013, as the higher-margin Visa Qiwi Wallet segment grew significantly faster than the Qiwi Distribution business. VK's revenues grew by 13.7% mainly driven by new online advertising products launched in 2012-2013, but margins remained low.

1. The operating segment data in respect of key strategic associates is presented based on principles used for presentation of operating segments results, i.e. excluding certain IFRS adjustments (see "Basis of preparation" above and Note 5 to our consolidated financial statements for further details). Group share of net profit from associates for 2012 has been retrospectively adjusted for the reduction in our shareholding in Qiwi in 2013. Group share of net profit from associates for 2013 and 2012 has also been retrospectively adjusted for the increase in our shareholding in VK in 2014.

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

Depreciation and amortisation (including impairment of intangible assets) increased by only 0.7% to RUR 1,141 million (2012: RUR 1,133 million) primarily as a result of decreased amortisation of intangible assets, as less expenses were capitalised for products and product enhancements launched in 2013 than in 2012. This effect was partially offset by increased depreciation primarily due to continued investment in server equipment and network infrastructure.

Other non-operating income increased by 2.6% to RUR 442 million (2012: RUR 431 million), as interest income on cash deposits and dividend income from venture capital and available-for-sale investments were little changed from 2012.

Income tax expense increased by 24.1% to RUR 3,193 million (2012: RUR 2,572 million) primarily driven by an increase in profit before income tax by 33.3% to RUR 14,646 million (2012: RUR 10,984 million) and partially offset by a decrease in effective tax rate to 21.8% (2012: 23.4%) mainly as a consequence of lower tax charges on intragroup dividend payments and lower non-deductible expenses in 2013 as compared to 2012.

Group aggregate net profit increased by 36.2% to RUR 11,453 million (2012: RUR 8,412 million) driven by an increase in profit before tax and a decrease in effective tax rate.

Reconciliation to IFRS

	2013	2012
Total revenue, as presented to the CODM	27,404	21,151
Adjustments to reconcile revenue as presented to the CODM to consolidated revenue under IFRS:		
Differences in timing of revenue recognition	(578)	(436)
Barter revenue	81	78
Dividend revenue from venture capital investments	163	112
Consolidated revenue under IFRS	27,070	20,905

	2013	2012
Total net profit, as presented to the CODM	11,453	8,412
Adjustments to reconcile net profit as presented to the CODM to consolidated net profit under IFRS:		
Share-based payment expenses	(1,856)	(2,217)
Differences in timing of revenue recognition	(578)	(436)
Effect of operations disposed of, difference in shareholding percentages and acquisition dates of subsidiaries and associates	(6)	140
Amortisation of fair value adjustments to intangible assets and impairment thereof	(1,700)	(1,721)
Gain on financial instruments at fair value through profit or loss	170	563
Net gain on disposal of shares in available-for-sale investments	15,620	33,948
Net gain on disposal of shares in strategic associates	3,310	-
Impairment of available-for-sale investments	-	(718)
Net foreign exchange gains	53	764
Share in financial results of non-core associates	12	27
Other	109	(45)
Tax effect of the adjustments and tax on unremitted earnings	2	(441)
Consolidated net profit under IFRS	26,589	38,276

	2013	2012
Group aggregate segment EBITDA, as presented to the CODM	15,087	11,535
Adjustments to reconcile EBITDA as presented to the CODM to consolidated profit before income tax expenses under IFRS:		
Differences in timing of revenue recognition	(578)	(436)
Net gain on venture capital investments and associated derivative financial assets and liabilities	148	590
Share-based payment expenses	(1,856)	(2,217)
Dividend revenue from venture capital investments	163	112
Other	27	22
EBITDA	12,991	9,606
Depreciation and amortisation	(2,722)	(2,703)
Impairment of intangible assets	(18)	(11)
Share of profit of strategic associates	240	112
Finance income	308	325
Other non-operating income/(expense)	(26)	(7)
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss over the equity of strategic associates, subsidiaries and other agreements	22	(27)
Net gain on disposal of shares in available-for-sale investments	15,620	33,948
Net gain on disposal of shares in strategic associates	3,310	–
Net foreign exchange gains	53	764
Impairment of available-for-sale investments	–	(718)
Profit before income tax expense	29,778	41,289

Analysis of H2 2013 aggregate segment results in comparison with H2 2012

	H1 2012 RURm	H2 2012 RURm	H1 2013 RURm	H2 2013 RURm	H2 YoY, %
Group aggregate segment revenue					
Display advertising	2,188	2,818	2,444	2,972	5.5%
Context advertising	1,083	1,348	1,589	2,241	66.3%
Total online advertising	3,271	4,166	4,032	5,214	25.2%
MMO games	2,171	2,561	3,025	3,629	41.7%
Community IVAS	3,220	3,519	4,050	4,647	32.1%
Total IVAS	5,391	6,080	7,074	8,277	36.1%
Other revenue*	1,031	1,212	1,336	1,471	21.4%
Total Group aggregate segment revenue	9,693	11,458	12,442	14,962	30.6%
Group aggregate segment EBITDA	5,318	6,217	6,707	8,380	34.8%
Segment EBITDA margin	54.9%	54.3%	53.9%	56.0%	
Group aggregate net profit	3,958	4,454	5,027	6,427	44.3%

*Other revenue includes Other IVAS

While in H2 2013 we continued to replace Display inventory with Target on some of our properties resulting in slower growth in Display advertising and in spite of increased macroeconomic uncertainty affecting our Headhunter business, we continued to demonstrate considerable growth in all revenue lines except Display and increased aggregate segment revenue by 30.6% vs H2 2012 and by 20.3% vs H1 2013. Most of the growth was concentrated in context advertising (66.3% vs H2 2012) and MMO games (41.7% vs H2 2012). The context advertising revenue growth was mainly driven by a combination of (1) expanding market size as we maintained a solid share in search; (2) continued success of our Target product, which also benefited from inventory reallocation from Display; and (3) the positive effect of the search monetisation contract with Yandex. The growth in MMO games was primarily due to an increase in paying users of our games, reflecting the success of our new titles including Warface and Jungle Heat.

Aggregate segment EBITDA increased by 34.8% in H2 2013 vs H2 2012 due to growth in revenues and a decrease in operating expenses as a percentage of revenue. Personnel and Other expenses decreased most as a percentage of revenue in H2 2013 compared to H2 2012, mostly due to low growth in headcount in H2 2013 and a large one-off expense incurred in H2 2012 in connection with a not-for-profit corporate project. These effects were partially offset by Agent/partner fees and Office rent and maintenance growing as a percentage of revenue in H2 2013 compared to H2 2012. 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 new games. Office rent and maintenance increased mostly due to our Moscow team moving to a new office building in June 2013. As a result, EBITDA margin increased to 56.0% in H2 2013 vs 54.3% in H2 2012.

Aggregate net profit increased by 44.3% to RUR 6,427 million (H2 2012: RUR 4,454 million) primarily as a consequence of growth in EBITDA, decreased amortisation and a reduction in effective income tax rate.

Financial position

Liquidity and capital resources

Throughout the year our financial position remained healthy. Cash and bank deposits as at December 31, 2013 amounted to RUR 31,303 million (2012: RUR 28,762 million).

We have historically principally relied on our own cash flow and the issue of equity as sources of funding. We have generally not used debt financing for acquisitions or for operations and, at the end of 2013, had no outstanding debt. Consolidated operations have been cash flow positive since 2009. In 2013, net cash provided by operating activities amounted to RUR 11,730 million (2012: RUR 8,620 million).

Net cash provided by operating activities increased by 36.1% in 2013 compared to 2012, largely in line with the growth in Group aggregate net profit. The ratio of net cash provided by operating activities to consolidated revenues slightly increased to 43.3% in 2013 (2012: 41.2%).

Capital expenditure to acquire property and intangible assets increased by 56.8% to RUR 3,060 million driven primarily by expansion of our infrastructure and development of new games.

Cash provided by investing activities in 2013 also included RUR 21,331 million of proceeds from sale of shares in associates and available-for-sale investments (2012: RUR 42,260 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 2013 or 2012.

In October 2011, we commenced, through Mail.ru Employee Benefit Trustees Limited (the "Trustee"), 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 completed in December 2013. 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 term of our employee option plan.

In 2013 we acquired a total of 414,261 GDRs (2012: 288,051) on the market for an aggregate consideration of RUR 481 million (2012: RUR 297 million). We account for GDRs repurchased as treasury shares.

In 2013 we also paid a special dividend of USD 4.3 USD per GDR in the amount of RUR 27,660 million (2012: 3.80 per GDR in the amount of RUR 25,174 million).

Management

Board of Directors

Dmitry Grishin, age 35
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 38
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 39
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 44
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, Member of the Boards of Directors of OJSC MegaFon, LLC Management Company Metalloinvest, UTH Russia Limited, CJSC Kommersant Publishing House, NMT Capital Partners Limited and Telecominvest LLC. He graduated with honors in applied mathematics from Moscow Physics and Technology Institute in 1992.

Vasily Brovko, age 27
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 50
Director

Charles Searle is currently Chief Executive Officer of Naspers Internet Listed Assets. He serves on the boards of a number of companies that are associated companies with Naspers, 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 44
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 52
Director

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

Jan Bune, age 61
Independent Director

Jan Buné was appointed to the Board in October 2013. He has extensive experience in public accounting and business advisory in the technology, media and telecommunications sector and the financial services sector. He was a senior audit partner at Deloitte Netherlands until May 2013. He currently serves on the board of a number of organizations, including the Dutch Supervisory Authority for the Media sector. In addition he is chairman of the advisory committee on governance, risk and compliance of the Dutch Institute of Accountants. He is also a member of the board of trustees of Artis Natura Magistra, the Royal Amsterdam zoo.

Sang Hun Kim, age 50
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 35
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.

Vladimir Nikolsky, age 41
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.

Matthew Hammond, age 39
Managing Director, Chief Financial Officer

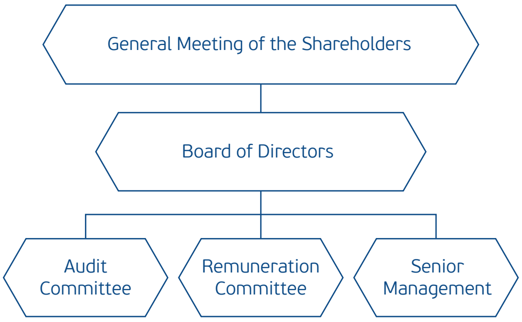
Matthew Hammond was appointed to the Board in May 2010 and became Managing Director in April 2011. In June 2013 Matthew also became Chief Financial Officer. Matthew graduated from Bristol University, UK, in 1996, with a degree in Economics and History. From 1997 to 2008, he was a technology analyst at 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.

Corporate governance

Mail.ru Group Limited ("MGL") is incorporated in the British Virgin Islands with the principal office in Dubai.

Governance structure

In accordance with the 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

– Options for 4,282,561 Ordinary Shares granted to the Mail.Ru Employee Benefit Trust on 22 December 2011 with an exercise price of US$25.60, which was reduced by $3.80 on 17 August 2012 and then by $4.30 on 20 March 2013 resulting in the exercise price of US$17.5. Out of these options, 2,732,250 options are currently allocated for the benefit of the employees and consultants of the Company, 904,875 of which are vested. The options generally have a 4-year vesting schedule. Out of 4,282,561 options, 882,375 options were exercised.

During the 2013 financial year, MGL itself did not acquire any of its own shares. However, the Mail.Ru Employee Benefit Trust in accordance with 2013 GDR buying program during 2013 spent US$14.6 million on 414,261 GDRs at an average price of US$35.28. All of the GDRs purchased during 2013 are held by the Mail.Ru Employee Benefit Trust to be used over the lifetime of the option program.

Annual General Meeting of shareholders

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

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

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

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

– options for 6,423,842 Ordinary Shares granted to the Mail.Ru Employee Benefit Trust on 11 November 2010 with an exercise price of US$27.70, which was reduced by $3.80 on 17 August 2012 and then by $4.30 on 20 March 2013 resulting in the exercise price of US$19.6. Out of these options 3,186,077 options are currently allocated for the benefit of the Directors, employees and consultants of the Company, 1,609,599 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 3,214,408 options were exercised; and

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 stipulations:

i. no later than a week before the meeting

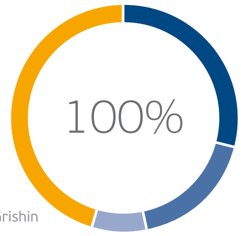
ii. at the meeting itself, with the consent of shareholders who hold, in aggregate, morethan 50% of outstanding voting shares of MGL

Restrictions on transfer

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

Shareholders' economic interest, %

MIH	29.0
NMT	17.9
Tencent	7.8
Holders of GDRs*	45.3



* incl. 1.93% economic interest held by Dmitry Grishin
as of the date hereof

Shareholder's voting interest, %

MIH	35.0
NMT	58.1
Tencent	1.0
Holders of GDRs	5.9

as of the date hereof

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

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

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

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

Powers of the Board of Directors

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

- The right to issue shares and other securities (except as otherwise required by 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
- 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 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 any managing director, Chief Executive Officer, Chief Financial Officer or Chief Operating Officer)
- The determination of the scope of authority of the Chief Executive Officer, and the adoption of any guidelines for the exercise of such authority, as adopted by the Board of Directors from time to time

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

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

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
Vladimir Nikolsky	Chief Operating Officer, Russia	June 2013
Matthew Hammond	Managing Director, Chief Financial Officer	April 2011 June 2013

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 MGL's integrated reporting including its financial statements;

– MGL's compliance with key applicable legal and regulatory requirements as relating to financial reporting;

– the quality and independence of MGL's external auditors;

– the performance of MGL'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 Mail.Ru's management, including the CFO

- Reviewing the performance of the external auditors and evaluating the lead partner and discharging and replacing, in consultation with the Board, the external auditor or lead audit partner when circumstances warrant

- Presenting the Committee's conclusions in respect of the external auditors to the Board

- Evaluating and providing commentary on the external auditors' audit plans and scope of findings, identifying issues and reports, and approving non-audit services performed by the external auditor

Members of the committee
Vaselios Sgourdos, Chairman
Sang Hun Kim
Jan Buné

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 an appropriate basis accordingly.

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

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

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

The following functions are performed by the Internal Audit Department:

- Carrying out internal audits, reviews and other engagements with respect to 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 the MGL and its subsidiaries and associates on appropriate corrective action plans flowing from internal audits.

In 2011, the Company successfully established an automated system for preparing its financial statements. In 2012, the Company further improved the IFRS reporting process and enhanced controls over financial reporting and as a result, effectively remediated the significant deficiencies (as defined in ISA 265) in internal controls that had been identified in prior years. No significant deficiencies were identified in 2013.

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 reelection 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, and the Trading Policy for Directors, Senior Managers and Employees. These are all followed by MGL 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 in-depth regular reviews of all operational segments and day-to-day management of their financial and operating activities by key management personnel. In contrast, management of the financial risk arising from its venture capital activities is primarily based on regular reviews of the effect of the existing and prospective investees' operating performance on their fair values, which serve as the foundation for the Company's investment and divestment decisions as part of its venture capital operations.

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

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

Financial risk management structure

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

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

Liquidity and financial resources

Credit risk

Financial assets, which potentially subject 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 maximize the shareholder value

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 2013, the Company recorded a gain of RUR 53 million (2012: a gain of RUR 764 million). Since, however, most of our operating expenses and revenues are denominated in roubles we believe we are not exposed to a significant transaction risk from currency fluctuations.

Equity price risk

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

The inherently high equity risk of the Company's venture capital investments and associated derivative financial instruments is mitigated through a highly selective approach to venture capital investments, regular reviews of the fair value of existing and potential investees – by a team of highly qualified venture capital investment professionals – and maintaining the composition of the venture capital portfolio that includes a large number of investments in start-up ventures which operate in different segments of the internet industry. 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

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

Hedging

The Company has no hedging operations.

Business risks

Underlying markets

If penetration rates for Internet, spending on advertising and IVAS in Russia, does 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 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. Also we 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 by domestic and large international internet companies of Russian language versions of the services competing with the services the Company provides 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.

Personnel

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

Infrastructure and capacity

If the infrastructure in Russia were not able to support increased demand, 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 3rd parties. Should such data become available to 3rd 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 offer 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 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

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" came into force (the "Anti-Piracy Law"). 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 copyright holder, including order of obtaining a preliminary injunction. According to the definition given by the law, certain operating subsidiaries of MGL are considered "information agents".

In addition, the law On Amending the Federal Law "On Information, Information Technologies and Protection of Information" came into force on February 1, 2014 (the "Anti-extremism Law"). According to the law Prosecutor General of Russia (or his deputies) may apply to Roscomnadzor to block websites if the Prosecutor founds any prohibited information concerning appeals to mass riots, extremist activities or participation in mass (public) actions held with infringement of the established order. Blocking is processed without any court decision and without mandatory preliminary notification of the site. Access is granted anew after prohibited information is removed and Roscomnadzor is notified.

Further, since November 2012, legislation introducing the Unified Register of the Domain names, Sites and IP-addresses containing information prohibited for dissemination in Russia (the "Black List Law") is in effect. Such information includes child pornography; information about production, distribution and sales locations of drugs; and methods of suicide. Failure by any property to comply with the authority's takedown request within 24 hours will result in immediate blocking of internet access to such property's domain, web site or IP address by Russian internet providers without a court order.

The Company complies with the Black List, Anti-extremism and Anti-Piracy Laws and none of the Company's properties have been blocked up to date. However, abusive or erroneous application of the named laws in the future or our failure to comply with such laws may potentially lead to one or more of the Company's properties being blocked, which may have a significant adverse effect on the Company's revenues and profitability.

The Company may be subject to data retention regulation. In case of adoption, internet service providers will be required to collect and to store for a period of six months users' data (including data on users' activities) and to provide, once duly requested, investigation authorities with such data. In order to meet the requirements, the Company may need to incur significant costs to expand its infrastructure.

New laws and regulations, or new interpretations of existing laws and regulations might effect the Company's business.

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.

In 2012 and 2013 some of MGL's associates and subsidiaries accrued provisions for tax risks related to their operations. It is reasonably possible that relevant governmental authorities 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. Management of the Company and its associates will vigorously defend its positions if such claims are assessed.

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.

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 options to be granted under the incentive scheme.

Further information on the Remuneration Committee can be found in the corporate governance section on page 42.

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 2.3%.

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 authorized to grant options to acquire Ordinary Shares to a broad base of employees, consultants and Directors. This can be direct or through an employee benefit trust or vehicles controlled by such persons.

By the end of 2013, 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, 3,186,077 of these options remain allocated for the benefit of the Directors, certain employees and consultants of the Company, 1,609,599 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, 2,732,250 of these options remain allocated for the benefit of certain employees and consultants of the Company, 904,875 of which are vested. The options have generally a 4-year vesting schedule.

Compensation

Directors of MGL

In 2013, the total cash remuneration of the members of the Board of Directors (each a "Director" and collectively, "Directors") of MGL amounted to RUR 45 million. It was RUR 47 million for 2012. 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 2013 and 2012. During year ended December 31, 2013, Directors did not forfeited any options and exercised options over 204,862 shares of MGL. The share-based payment expense recognized by the Company with respect to Directors' options was RUR 57 million in 2013 and RUR 47 million in 2012.

Key Management of the Company

Total cash remuneration of the key management of the Company amounted to RUR 459 million in 2013 (including remuneration of Matthew Hammond and Dmitry Grishin as senior managers of the Company). In addition to the cash remuneration in 2013, key management of the Company (including Matthew Hammond and Dmitry Grishin as senior managers of the Company) were granted options to acquire 301,000 Ordinary Shares at the exercise price of US$19.6 and options to acquire 60,000 Ordinary Shares at the exercise price of US$17.5 per share. During the year ended December 31, 2013, key management of the Company (excluding Directors) did not forfeit any options and exercised options over 1,387,538 shares of MGL. The corresponding share-based payment expense amounted to RUR 1,262 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	1.93%	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.

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

24 April 2014

Mail.ru Group Limited

Consolidated Financial Statements

For the year ended December 31, 2013

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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, 2013 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, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

April 23, 2014

Consolidated Statement of Financial Position

As of December 31, 2013
(in millions of Russian Roubles)

	Notes	As at December 31, 2013	As at December 31, 2012
ASSETS			
Non-current assets			
Investments in strategic associates	6, 10	8,289	8,945
Goodwill	7, 11	32,969	32,969
Other intangible assets	7	10,056	10,567
Property and equipment	8	2,518	1,619
Available-for-sale financial assets	24	–	10,162
Financial assets at fair value through profit or loss	24	1,330	1,311
Deferred income tax assets	20	263	29
Other non-current assets	15	924	1,110
Total non-current assets		56,349	66,712
Current assets			
Trade accounts receivable	12	2,957	2,724
Prepaid income tax		68	94
Prepaid expenses and advances to suppliers		751	397
Financial assets at fair value through profit or loss	24	66	291
Other current assets	15	404	224
Short-term time deposits	13	315	991
Cash and cash equivalents	13	30,987	27,690
Total current assets		35,548	32,411
Total assets		91,897	99,123
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	14	–	–
Share premium		46,283	46,216
Treasury shares	14	(472)	(611)
Retained earnings		35,312	35,993
Accumulated other comprehensive income		65	8,513
Total equity attributable to equity holders of the parent		81,188	90,111
Non-controlling interests		6	4
Total equity		81,194	90,115
Non-current liabilities			
Deferred income tax liabilities	20	2,408	2,975
Total non-current liabilities		2,408	2,975
Current liabilities			
Trade accounts payable		1,292	858
Income tax payable		363	348
VAT and other taxes payable		1,368	974
Deferred revenue and customer advances		3,001	2,253
Other payables, provisions and accrued expenses	16	2,271	1,600
Total current liabilities		8,295	6,033
Total liabilities		10,703	9,008
Total equity and liabilities		91,897	99,123

Consolidated Statement of Comprehensive Income

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

	Notes	2013	2012
Display advertising		5,486	5,071
Context advertising		3,830	2,431
Total online advertising		9,316	7,502
MMO games		6,254	4,590
Community IVAS		8,534	6,464
Total IVAS		14,788	11,054
Other revenue	17	2,966	2,349
Total revenue		27,070	20,905
Net gain on venture capital investments and associated derivative financial assets and liabilities	24	148	590
Personnel expenses		(7,189)	(6,723)
Office rent and maintenance		(1,262)	(489)
Agent/partner fees		(2,975)	(1,979)
Marketing expenses		(894)	(751)
Server hosting expenses		(866)	(633)
Professional services		(257)	(244)
Other operating expenses, excluding depreciation, amortisation and impairment	18	(784)	(1,070)
Total operating expenses		(14,227)	(11,889)
EBITDA		12,991	9,606
Depreciation and amortisation		(2,722)	(2,703)
Impairment of intangible assets	7	(18)	(11)
Share of profit of strategic associates	10	240	112
Finance income	19	308	325
Other non-operating expense		(26)	(7)
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss over the equity of strategic associates, subsidiaries and other agreements	24	22	(27)
Net gain on disposal of shares in available-for-sale investments	24	15,620	33,948
Net gain on disposal of shares in strategic associates	6	3,310	–
Net foreign exchange gains		53	764
Impairment losses related to available-for-sale investments	24	–	(718)
Profit before income tax expense		29,778	41,289
Income tax expense	20	(3,189)	(3,013)
Net profit		26,589	38,276
Attributable to:			
Equity holders of the parent		26,564	38,257
Non-controlling interest		25	19
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operations:			
Differences arising during the period		(13)	(1)
Available-for-sale financial assets:			
Gains/(losses) arising during the period		7,188	(16,448)
Income tax effect		–	(98)
Reclassification adjustments for gains included in profit or loss		(15,620)	(33,948)
Income tax effect		–	98
Total other comprehensive loss, net of tax effect of 0		(8,445)	(50,397)
Total comprehensive income (loss), net of tax		18,144	(12,121)
Attributable to:			
Equity holders of the parent		18,116	(12,140)
Non-controlling interest		28	19
Earnings per share, in RUR:			
Basic earnings for the year attributable to ordinary equity holders of the parent	21	127.3	183.6
Diluted earnings for the year attributable to ordinary equity holders of the parent	21	126.4	183.2

Consolidated Statement of Cash Flows

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

	Notes	2013	2012
Cash flows from operating activities:			
Profit before income tax		29,778	41,289
Adjustments for:			
Depreciation and amortisation		2,722	2,703
Bad debt expense	12	127	25
Net (gain)/loss on financial assets and liabilities at fair value through profit or loss over the equity of strategic associates, subsidiaries and other agreements	24	(22)	27
Net gain on disposal of shares in strategic associates	6	(3,310)	–
Net gain on disposal of shares in available-for-sale investments	24	(15,620)	(33,948)
Loss on disposal of property and equipment and intangible assets		20	2
Finance income	19	(308)	(325)
Dividend revenue from venture capital investments	17	(163)	(112)
Share of profit of strategic associates	10	(240)	(112)
Impairment of intangible assets	7	18	11
Impairment losses related to available-for-sale investments	24	–	718
Net foreign exchange gains		(53)	(764)
Share-based payment expense	26	1,856	2,217
Other non-cash items		21	19
Increase in accounts receivable		(328)	(512)
Increase in prepaid expenses and advances to suppliers		(164)	(350)
Increase in other assets		(136)	(69)
Increase in accounts payable, provisions and accrued expenses		138	751
Increase in other non-current assets		(73)	(587)
Increase in deferred revenue and customers advances		744	526
Decrease/(Increase) in financial assets at fair value through profit or loss	24	229	(799)
Operating cash flows before interest and income taxes		15,236	10,710
Dividends received from financial investments		139	130
Interest received		301	227
Income tax paid		(3,946)	(2,447)
Net cash provided by operating activities		11,730	8,620
Cash flows from investing activities:			
Cash paid for property and equipment		(1,582)	(994)
Cash paid for intangible assets		(1,478)	(957)
Dividends received from strategic associates	10	327	349
Proceeds from disposal of shares in available-for-sale investments		17,419	42,260
Proceeds from disposal of shares in strategic associates	6	3,912	–
Issuance of loans		(19)	(3)
Collection of loans		–	3
Collection of short-term and long-term deposits		1,198	198
Acquisition of short-term and long-term deposits		(435)	(154)
Net cash provided by investing activities		19,342	40,702
Cash flows from financing activities:			
Cash paid for non-controlling interests in subsidiaries	24	–	(155)
Proceeds from issuance of common stock, net of share issuance costs paid		4	–
Cash paid for treasury shares	14	(481)	(297)
Dividends paid to shareholders	27	(27,660)	(25,174)
Dividends paid by subsidiaries to non-controlling shareholders		(26)	(11)
Net cash used in financing activities		(28,163)	(25,637)
Net increase in cash and cash equivalents		2,909	23,685
Effect of exchange differences on cash balances		388	(10)
Cash and cash equivalents at the beginning of the period		27,690	4,015
Cash and cash equivalents at the end of the period		30,987	27,690

Consolidated Statement of Changes in Equity

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

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

Consolidated Statement of Changes in Equity

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

	Notes	Share capital: Number of shares issued and outstanding	Share capital: 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:										
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	26	–	–	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	26	–	–	43	–	–	–	43	–	43
Change in share-based payment settlement method	26	–	–	(712)	–	–	–	(712)	–	(712)
Dividends by subsidiaries to non-controlling shareholders		–	–	–	–	–	–	–	(26)	(26)
Dividends to shareholders	27	–	–	–	–	(27,245)	–	(27,245)	–	(27,245)
Other changes in net assets of strategic associates		–	–	7	–	–	–	7	–	7
Balance at December 31, 2013		208,710,192	–	46,283	(472)	35,312	65	81,188	6	81,194

Notes to Consolidated Financial Statements

For the year ended December 31, 2013
(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, 2013 were authorised for issue by the directors of the Company on April 23, 2014.

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

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

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

2 Basis of preparation

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

2.1 Statement of compliance

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

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

2.2 Application of new and amended IFRS and IFRIC

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations effective as of January 1, 2013:

- IAS 1 *Presentation of Financial Statements*
- IAS 19 *Employee Benefits* (Revised 2011)
- IFRS 10 *Consolidated Financial Statements*
- IFRS 11 *Joint Arrangements*
- IFRS 12 *Disclosure of Interests in Other Entities*
- IFRS 13 *Fair Value Measurement*

The adoption of the standards or interpretations is described below:

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1
The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affected presentation only and had no impact on the Group’s financial position or performance.

IAS 1 Clarification of the Requirement for Comparative Information (amendment).
The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements. An opening statement of financial position (known as the “third balance sheet”) must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes have a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. The amendment had no impact on the Group’s financial position or performance.

2 Basis of preparation (continued)

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

IAS 19 Employee Benefits (revised 2011) (IAS 19R)
IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as quantitative sensitivity disclosures. There was no material impact on the Group's consolidated financial statements.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements
IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it 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. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures
IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. IFRS 11 had no impact on the consolidated financial statements the Group.

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The Group has made such disclosures.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.

Reclassifications
Certain corresponding information presented in the consolidated financial statements for the year ended December 31, 2012 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.

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.

IFRS 9 Financial Instruments
IFRS 9, as issued, reflects two of the three phases of the IASB project on replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities and hedge accounting. The standard has no mandatory effective date and may be applied voluntarily. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect when the remaining part of the standard containing guidance on impairment of financial assets is issued.

IAS 36 Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets
These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. 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 are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided IFRS 13 is also applied. The Group does not expect the amendments to have a material impact on its future financial statements.

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 are effective for annual periods beginning on or after January 1, 2014. The Group does not expect the amendments to have a material impact on its future financial statements.

2 Basis of preparation (continued)

2.3 New accounting pronouncements (continued)

IAS 19 Employee Benefits entitled Defined Benefit Plans: Employee Contributions
These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service. These amendments are effective for annual periods beginning on or after July 1, 2014. The Group does not expect the amendments to have a material impact on its future financial statements.

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 are effective for annual periods beginning on or after January 1, 2014. The Group does not expect the amendments to have a material impact on its future financial statements.

IFRS 14 Regulatory Deferral Accounts
IFRS 14 allows rate-regulated entities to continue recognising regulatory deferral accounts in connection with their first-time adoption of IFRS. Existing IFRS preparers are prohibited from adopting this standard. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate regulation and the effects of that rate regulation on its financial statements. These amendments are effective for annual periods beginning on or after January 1, 2016 with earlier application permitted. The Group does not expect the amendments to have a material impact on its future financial statements.

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. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Group does not expect the amendments to have a material impact on its future financial statements.

Management of the Group has not completed the assessment of the impact of Standards and Interpretations not yet effective as of December 31, 2013 on the Group's accounting policies.

Annual Improvements to IFRSs 2010–2012 Cycle
Annual Improvements to IFRSs 2010–2012 Cycle is a collection of amendments to IFRSs in response to eight issues addressed during the 2010–2012 cycle for annual improvements to IFRSs. It includes the following amendments:

- IFRS 2 *Share-based Payment:* Definition of vesting condition
- IFRS 3 *Business Combinations:* Accounting for contingent consideration in a business combination
- IFRS 8 *Operating Segments:* Aggregation of operating segments
- IFRS 8 *Operating Segments:* Reconciliation of the total of the reportable segments' assets to the entity's assets
- IFRS 13 *Fair Value Measurement:* Short-term receivables and payables
- IAS 16 *Property, Plant and Equipment:* Revaluation method – proportionate restatement of accumulated depreciation
- IAS 24 *Related Party Disclosures:* Key management personnel
- IAS 38 *Intangible Assets:* Revaluation method – proportionate restatement of accumulated amortisation

Annual Improvements to IFRSs 2011–2013 Cycle
Annual Improvements to IFRSs 2011–2013 Cycle is a collection of amendments to IFRSs in response to four issues addressed during the 2011–2013 cycle. It includes the following amendments:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards:* Meaning of 'effective IFRSs'
- IFRS 3 *Business Combinations:* Scope exceptions for joint ventures
- IFRS 13 *Fair Value Measurement:* Scope of paragraph 52 (portfolio exception)
- IAS 40 *Investment Property:* Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property

Notes to Consolidated Financial Statements (continued)

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, 2013 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.
- 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.

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.
- Reclassifies the parent's share of components previously recognised in OCI 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 Summary of significant accounting policies (continued)

3.2 Business combinations and goodwill

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

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 Summary of significant accounting policies (continued)

3.3 Investments in associates (continued)

3.3.1 Financial investments in associates

Financial investments, or venture capital investments, are the Group's investments in start-up Internet ventures. They form the Group's venture capital portfolio and are monitored and managed exclusively on the basis of their fair values. The Group's involvement in the operating management of the investees is limited, and the possibility of the Group maintaining a specific financial investment in its investment portfolio in the long run is remote. Financial investments are carried in the statement of financial position at fair value even though the Group may exert significant influence over those companies. This treatment is permitted by IAS 28 *Investments in Associates 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.

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 Summary of significant accounting policies (continued)

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.

3.5 Intangible assets other than goodwill

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

3.5.1 Software development costs

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

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

Research and development costs recognised as an expense in the statement of comprehensive income during 2013 amounted to RUR 199 (2012: RUR 108).

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 Summary of significant accounting policies (continued)

3.5 Intangible assets other than goodwill (continued)

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, 2013 and 2012.

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	1-3

3.6 Cash and cash equivalents

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

3.7 Employee benefits

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

Under provisions of 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 568 thousand and a rate of 10% to the portion exceeding this threshold.

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 Summary of significant accounting policies (continued)

3.9 Revenue recognition (continued)

3.9.1 Online advertising

3.9.1.1 Display advertising

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

3.9.1.2 Barter transactions

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

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

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

The amount of revenue recognised in 2013 from advertising barter transactions was RUR 82 (2012– RUR 78) and the related expense was RUR 70 (2012 – RUR 69).

3.9.1.3 Context advertising

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

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

3.9.2 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 Summary of significant accounting policies (continued)

3.9 Revenue recognition (continued)

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.

3.9.3.3 Dividend revenue

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

3.9.3.4 Other revenues

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

3.10 Finance income

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

3 Summary of significant accounting policies (continued)

3.11 Income taxes

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

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

Current income tax

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

Deferred income tax

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

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

3.12 Share-based payment transactions

Employees (including senior executives) of the Group and its associates (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.

3.12.1 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.

3 Summary of significant accounting policies (continued)

3.12 Share-based payment transactions (continued)

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

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (Note 21).

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 26. 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.

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

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

3.13.2 Subsequent measurement

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

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

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

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

3 Summary of significant accounting policies (continued)

3.13 Financial instruments (continued)

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

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

- The changes in the fair value of financial investments in associates and those derivative financial assets and liabilities where the underlying asset is represented by equity instruments of a financial investee, are recorded under *'Net gain/(loss) on venture capital investments and associated derivative financial assets and liabilities'* and are included in the Group's operating income; and
- The changes in the fair value of derivative financial assets where the underlying asset is represented by equity instruments of a strategic associate (as defined in 3.3.2) or a subsidiary are recorded under *'Net gain/(loss) on financial assets and liabilities at fair value through profit or loss over the equity of strategic associates and subsidiaries 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 operating income, or determined to be impaired, at which time the cumulative loss is recognised in the statement of comprehensive income under '*Impairment losses related to availabl- for-sales investments'* and removed from the available-for-sale reserve. The Group elected the trade date accounting approach for recognition and de-recognition of regular way purchases and sales of financial assets. The Group elected the weighted average formula approach for determining the cost at disposal of available-for-sale financial assets.

3.13.2.4 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 costs'* in the statement of comprehensive income.

3.13.3 De-recognition

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

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

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

3 Summary of significant accounting policies (continued)

3.13 Financial instruments (continued)

3.13.4 Offsetting of financial instruments

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

3.13.5 Fair value of financial instruments

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

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

3.13.6 Impairment of financial assets

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

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 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 Summary of significant accounting policies (continued)

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

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.

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

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

Starting from November 2011, the Group has wide discretion over the manner of settlement of options issued under the 2010 Option Plan (as defined in Note 26) and determines the accounting treatment of the options based on whether the Group has a present obligation to settle in cash. 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 26 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 26 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 26) will predominantly be settled in cash. Accordingly, the Group determined that as of December 31, 2013, the present obligation to settle the respective options in cash was 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 intangible assets, goodwill and investments in associates;
- 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 Significant accounting judgments, estimates and assumptions (continued)

4.2 Estimates and assumptions (continued)

4.2.1 Revenue recognition – in-game items life span

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

4.2.2 Fair value of financial instruments

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

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

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

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

4.2.3 Useful life of intangible assets

The 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 investments in strategic associates

Identification of indicators of impairment of investments in strategic associates involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. The Group assesses whether impairment indicators are present based on criteria stated in IAS 39, in particular such factor as measurable decrease in the estimated future cash flows from strategic associates. Calculation of the recoverable amount level requires that management estimates be applied. Calculation of the value in use involves methods which are based on the valuation of expected discounted future cash flows and require the Group to assess these cash flows on an asset level or cash-generating unit level, as applicable, as well as to choose an appropriate discount rate for the purpose of calculating the present value of cash flows. These estimates, including the methodologies used, may have a material impact on the fair value and ultimately the amount of any asset impairment.

4.2.6 Fair value of assets and liabilities in business combinations

At the acquisition date the 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 Significant accounting judgments, estimates and assumptions

4.2 Estimates and assumptions (continued)

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.

4.3 Changes in estimates

4.3.1 Revenue deferral in certain online games

In 2013, 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 January 1, 2013 and resulted in a decrease in revenue and an increase in deferred revenue estimated at RUR 148.

4.3.2 Deferred taxes on distribution of 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.
In 2013 the Group revised its practices of distribution of earnings by certain subsidiaries and implemented certain changes in its legal structure. As a result of these revisions, in 2013 the Group reversed approximately RUR 353 million 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, impairment of investments, business combinations, fair value adjustments, amortisation and impairment thereof, net foreign exchange gains and losses, share in financial results of non-core associates, as well as irregular non-recurring items that occur from time to time and are evaluated for adjustment as and when they occur. The tax effect of these adjustments is also excluded from management reporting.

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

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

The financial information of subsidiaries disposed of prior to the date of these consolidated financial statements is excluded from the segment presentation starting from the beginning of the earliest period presented.
The Group has identified the following reportable segments based on the types of products and services offered:

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

5 Operating segments (continued)

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

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

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

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

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

The Group's share of profits of strategic associates is not attributed to any operating segment and not included in the calculation of EBITDA. The Group's share of profits of key strategic associates (Qiwi PLC and VK.Com Limited) is included in Net profit reviewed by the CODM and is based on the ownership percentages as of the date of the financial statements. The Group's CODM has considered the increase in the Group's stake in VK.Com Limited as a result of Bullion Development Limited acquisition in April 2014 (see also Note 28.3), and the Group's management reporting was amended to include 51.99% of VK's net profit in the Group's segment net profit. The effect of the VK ownership increase from 39.99% to 51.99% on the Group's segment net profit for the year ended December 31, 2013 is RUR 6 (2012: RUR 3). The change in presentation did not have any effect on the Group's segment revenue or EBITDA. The net profit of key strategic associates is calculated using accounting principles used for the segment financial information of the Group's consolidated operations. The Group's share of profits of non-core strategic associates (Nikita Management Limited, Molotok Holdings Limited and Haslop Company Limited) is not included in the financial information reviewed by the CODM.

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

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

	Email, Portal and IM	Social Networks	Online Games	E-Commerce, Search and Other Services	Eliminations	Group
Revenue						
External revenue	4,599	10,221	7,249	5,335	–	27,404
Intersegment revenue	28	34	–	322	(384)	–
Total revenue	4,627	10,255	7,249	5,657	(384)	27,404
Total operating expenses	1,898	2,784	4,864	3,155	(384)	12,317
EBITDA	2,729	7,471	2,385	2,502	–	15,087
Net profit						11,453

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

	Email, Portal and IM	Social Networks	Online Games	E-Commerce, Search and Other Services	Eliminations	Group
Revenue						
External revenue	4,052	7,856	5,329	3,914	–	21,151
Intersegment revenue	33	22	–	265	(320)	–
Total revenue	4,085	7,878	5,329	4,179	(320)	21,151
Total operating expenses	1,569	2,147	3,764	2,456	(320)	9,616
EBITDA	2,516	5,731	1,565	1,723	–	11,535
Net profit						8,412

5 Operating segments (continued)

A reconciliation of total revenue, as currently presented to the CODM, to IFRS consolidated revenue of the Group for the years ended December 31, 2013 and 2012 is presented below:

	2013	2012
Total revenue, as presented to the CODM	27,404	21,151
Adjustments to reconcile revenue as presented to the CODM to consolidated revenue under IFRS:		
Differences in timing of revenue recognition	(578)	(436)
Barter revenue	81	78
Dividend revenue from venture capital investments	163	112
Consolidated revenue under IFRS	27,070	20,905

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, 2013 and 2012 is presented below:

	2013	2012
Group aggregate segment EBITDA, as presented to the CODM	15,087	11,535
Adjustments to reconcile EBITDA as presented to the CODM to consolidated profit before income tax expense under IFRS:		
Differences in timing of revenue recognition	(578)	(436)
Net gain on venture capital investments and associated derivative financial assets and liabilities	148	590
Share-based payment expense	(1,856)	(2,217)
Dividend revenue from venture capital investments	163	112
Other	27	22
EBITDA	12,991	9,606
Depreciation and amortisation	(2,722)	(2,703)
Impairment of intangible assets	(18)	(11)
Share of profit of strategic associates	240	112
Finance income	308	325
Other non-operating expense	(26)	(7)
Net gain/(loss) on financial assets and liabilities at fair value through profit or loss over the equity of strategic associates, subsidiaries and other agreements	22	(27)
Net gain on disposal of shares in available-for-sale investments	15,620	33,948
Net gain on disposal of shares in strategic associates	3,310	–
Net foreign exchange gains	53	764
Impairment ofavailable-for-sale investments	–	(718)
Profit before income tax expense	29,778	41,289

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, 2013 and 2012 is presented below:

	2013	2012
Total net profit, as presented to the CODM	11,453	8,412
Adjustments to reconcile net profit as presented to the CODM to consolidated net profit under IFRS:		
Share-based payments expenses	(1,856)	(2,217)
Differences in timing of revenue recognition	(578)	(436)
Effect of operations disposed of, difference in shareholding percentages and acquisition dates of subsidiaries and associates	(6)	140
Amortisation of fair value adjustments to intangible assets and impairment thereof	(1,700)	(1,721)
Gain on financial instruments at fair value through profit or loss	170	563
Net gain on disposal of shares in available-for-sale investments	15,620	33,948
Net gain on disposal of shares in strategic associates	3,310	–
Impairment of available-for-sale investments	–	(718)
Net foreign exchange gains	53	764
Share in financial results of non-core associates	12	27
Other	109	(45)
Tax effect of the adjustments and tax on unremitted earnings	2	(441)
Consolidated net profit under IFRS	26,589	38,276

Notes to Consolidated Financial Statements (continued)

6 Disposals of shares in strategic associates

In May and September 2013 the Group sold 10.95% of the economic interest in its strategic associate Qiwi PLC ("Qiwi") for an aggregate net cash consideration of RUR 3,912. As a result of disposal the Group recognised a gain in the amount of RUR 3,310 under "Net gain on disposal of shares in strategic associates" in the consolidated statement of comprehensive income. After partial disposal of the investment the Group retained a 10.4% interest and power to participate in the financial and operating policy decisions through its representation in Qiwi's Board of Directors until the next shareholder`s meeting in June 2014. Accordingly the Group retained significant influence over Qiwi and continued to account for the remaining investment using the equity method.

7 Intangible assets

	Goodwill	Trademark	Customer base	Game software and software development costs	Other software, licenses and other	Total
Cost						
At January 1, 2012	32,969	4,381	5,494	5,426	1,194	49,464
Additions	–	78	–	564	315	957
Disposals	–	(1)	–	(1)	–	(2)
Translation adjustment	–	(3)	(2)	(4)	(10)	(19)
At December 31, 2012	32,969	4,455	5,492	5,985	1,499	50,400
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
Accumulated amortisation and impairment						
At January 1, 2012	–	(1,055)	(899)	(2,167)	(591)	(4,712)
Charge for the year	–	(481)	(505)	(763)	(400)	(2,149)
Disposals	–	–	–	–	–	–
Impairment	–	–	–	(11)	–	(11)
Translation adjustment	–	1	–	3	4	8
At December 31, 2012	–	(1,535)	(1,404)	(2,938)	(987)	(6,864)
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)
Net book value						
At December 31, 2011	32,969	3,326	4,595	3,259	603	44,752
At December 31, 2012	32,969	2,920	4,088	3,047	512	43,536
At December 31, 2013	32,969	2,444	3,564	3,675	373	43,025

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

Games represent separable CGU`s and the analysis of impairment was performed at the level of each game, where either impairment was previously recognised or current operating performance was below the original forecasts. The analysis included the comparison of actual revenue against forecast. While certain indicators of impairment were identified as of December 31, 2013, the recoverable amount of the assets based on margin analysis was higher than its carrying value and accordingly, no impairment was recorded in 2013. But due to a management decision to close certain games the Group recognised an impairment loss in the amount of RUR 18 in 2013 (2012: 11).

8 Property and equipment

	Servers and computers	Leasehold improvements	Furniture, office equipment and motor vehicles	Assets under construction	Other property and equipment	Total
Cost						
At January 1, 2012	1,415	329	74	58	132	2,008
Additions	572	29	22	393	9	1,025
Transfers	50	–	–	(56)	6	–
Disposals	(5)	–	–	–	–	(5)
Translation adjustment	(2)	–	(3)	–	–	(5)
At December 31, 2012	2,030	358	93	395	147	3,023
Additions	669	–	93	808	31	1,601
Transfers	334	–	–	(334)	–	–
Disposals	(35)	(67)	(5)	–	(4)	(111)
Translation adjustment	4	–	2	–	–	6
At December 31, 2013	3,002	291	183	869	174	4,519
Accumulated depreciation and impairment						
At January 1, 2012	(697)	(82)	(32)	–	(38)	(849)
Charge for the year	(468)	(47)	(23)	–	(23)	(561)
Disposals	4	–	–	–	–	4
Translation adjustment	1	–	1	–	–	2
At December 31, 2012	(1,160)	(129)	(54)	–	(61)	(1,404)
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)
Net book value						
At January 1, 2012	718	247	42	58	94	1,159
At December 31, 2012	870	229	39	395	86	1,619
At December 31, 2013	1,262	194	100	869	93	2,518

Notes to Consolidated Financial Statements (continued)

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, 2013 and 2012 are listed below:

		Ownership,%*	
Subsidiary	Main Activity	December 31, 2013	December 31, 2012
Mail.Ru Internet N.V. (Netherlands)	Holding entity	100.0%	100.0%
Mail.Ru 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 services	100.0%	100.0%
Mail.ru Ukraine, LLC (Ukraine)	Online portal services	100.0%	100.0%
NBCO Money.Mail.Ru, LLC (Russia)	Internet payment system	100.0%	100.0%
Mail.Ru Development LLC	Reserch and development of online products	100.0%	100.0%
Astrum Online Entertainment Limited (BVI) (renamed from DST Entertainment Limited)	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 LLC (Ukraine)	Online recruiting services	51.0%	51.0%
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%
100 Rabot Tut LLC (Belarus)	Online recruiting services	50.0%	50.0%
OU Forticom (Estonia)	Holding company	100.0%	100.0%
Internet company Mail.ru LLC (Russia)	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%
MRG Hosting B.V. (Nethelands)	Hosting services	100.0%	100.0%
Mail.ru Internet Holdings B.V. (Nethelands)	Holding company	100.0%	n/a
MGL Partnership C.V. (Nethelands)	Holding company	100.0%	n/a
Mail.ru Aggregates B.V. (Nethelands)	Holding company	100.0%	n/a
Mail.ru Foreign Holdings B.V. (Nethelands)	Holding company	100.0%	n/a
Mail.ru Holdings B.V. (Nethelands)	Holding company	100.0%	n/a
MY.COM US, Inc. (USA)	Support of online games and portal services	100.0%	n/a
Sternen Holdings Limited (BVI)	Holding company	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 using 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, 2013 and 2012 comprised the following:

		Voting shares		Carrying value	
Associate	Main activity	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Qiwi PLC (renamed from Qiwi Limited and previously OE Investments Limited) (Cyprus) and subsidiaries (“QIWI”)	Operation of electronic online payment systems in Russia, in the CIS and other countries	10.4%	21.35%	585	1,150
VK.Com Limited (renamed from Doraview Limited) (BVI) and subsidiaries (“VK”)	Develops and maintains, via Russian subsidiaries, social networking web sites (www.vk.com, www.vkadre.ru, www.vshtate.ru) for communication, information sharing and personnel recruiting service purposes	39.99%	39.99%	6,995	7,049
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	66
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%	31.34%	606	605
Nikita Management Limited (BVI)	Holds 100% in OOO Fun Factory (Russia) engaged in online gaming services	50%	50%	82	75
Total				8,289	8,945

The above entities have the same reporting date as the Company. The fair value of the investment in Qiwi was RUR 9,954 as of December 31, 2013 (classified as Level 1 of the fair value hierarchy). None of the other entities were listed on a public exchange as of December 31, 2013.

In 2013 the Group received dividends from Mamba in the amount of RUR 53 (2012 – 122) and from Qiwi in the amount of RUR 274 (2012 – 185).

While certain indicators of impairment were identified for one of the Group’s associates as of December 31, 2013 and 2012, the recoverable amount of the investment based on multiples analysis was higher than its carrying value and accordingly, no impairment was recorded in 2013 and 2012.

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

Qiwi	As at December 31, 2013	As at December 31, 2012
Current assets	16,342	15,607
Non-current assets	4,388	3,200
Current liabilities	(17,753)	(16,085)
Non-current liabilities	(220)	(146)
Total equity of associate	(2,757)	(2,576)
Non-controlling interests	(95)	(44)
Equity attributable to equity holders of the associate	(2,852)	(2,620)
Proportion of the Group’s ownership	298	561
Goodwill	287	589
Carrying amount of the investment	585	1,150

Notes to Consolidated Financial Statements (continued)

10 Investments in associates (continued)

10.1 Investments in strategic associates using equity method (continued)

	2013	2012
Revenue	11,666	8,911
Profit from continuing operations	1,866	1,001
Post-tax loss from discontinued operations	–	(168)
Other comprehensive income	10	2
Total comprehensive income	1,876	835
Group's share of profit for the year	283	170

VK	As at December 31, 2013	As at December 31, 2012
Current assets	1,028	670
Non-current assets	3,001	3,273
Current liabilities	(985)	(716)
Non-current liabilities	(305)	(354)
Total equity of associate	(2,739)	(2,873)
Equity attributable to equity holders of the associate	(2,739)	(2,873)
Proportion of the Group's ownership	1,095	1,149
Goodwill	5,900	5,900
Carrying amount of the investment	6,995	7,049

	2013	2012
Revenue	3,825	3,338
Loss from continuing operations	(137)	(210)
Total comprehensive loss	(137)	(210)
Group's share of loss for the year	(55)	(84)

The Group's share of the other individually insignificant associates	2013	2012
Revenue	474	456
Profit from continuing operations	7	26
Other comprehensive income	5	–
Total comprehensive income	12	26
Group's share of profit for the year	12	26

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, 2013 and 2012 comprised the following

Name of entity	Place of business / country of incorporation	Nature of the relationship	Proportion of ownership interest December 31, 2013	Proportion of ownership interest December 31, 2012
Compubyte Limited	BVI	The company provides unique website builder that allows you to easily create your own unique and fully-functional website, for free.	26.20%	26.20%
Internest-Holding LLC	Russia	The company provides online advertising services on the territory of 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 places in search queries.	18.40%	26.70%
NN Holding Limited	BVI	Development and support of online games	10.80%	13.86%

In 2013 the Group received dividends from associates accounted for at fair value through profit or loss in the aggregate amount of RUR 139 (2012 – 130).

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, 2013 and 2012:

	Email, Portal and IM	Social Networks	Online Games	Search	E-Commerce and Other	Total
Cost at January 1, 2012	8,192	18,474	1,952	2,496	1,855	32,969
Cost at December 31, 2012	8,192	18,474	1,952	2,496	1,855	32,969
Cost at December 31, 2013	8,192	18,474	1,952	2,496	1,855	32,969

The recoverable amount of goodwill has been determined based on value in use calculation as of December 31, 2013 and 2012.

Value in use

At December 31, 2013, value in use was determined using cash flow projections from financial budgets approved by senior management covering a 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, 2013 are presented below:

	Email, Portal and IM	Social Networks	Online Games	Search	E-Commerce and Other
Terminal growth rate	5.00%	5.00%	5.00%	5.00%	5.00%
Pre-tax discount rate	16.25%	16.21%	16.71%	16.11%	16.13%

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.

No impairment of goodwill was recognised in 2013 and 2012, and reasonably possible changes in any valuation parameters would not result in impairment of goodwill.

12 Trade accounts receivable

As of December 31, 2013 and 2012 trade receivables comprised the following:

	December 31, 2013	December 31, 2012
Trade accounts receivable, gross	3,166	2,806
Provision for impairment of trade receivables	(209)	(82)
Total trade receivables, net	2,957	2,724

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

Balance as of January 1, 2012	(57)
Charge for the year	(25)
Balance as of December 31, 2012	(82)
Charge for the year	(127)
Balance as of December 31, 2013	(209)

Trade receivables not impaired as of December 31, 2013 and 2012 are presented below:

		Ageing of receivables (days)			
	Total	<90	90-180	180-360	>360
As of December 31, 2013					
Trade accounts receivable	2,957	2,796	139	6	16
As of December 31, 2012					
Trade accounts receivable	2,724	2,464	236	11	13

The accounts receivable balances as of December 31, 2013 and 2012 mainly represented by amounts due from online electronic payment systems and advertising customers.

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

Management considers that the carrying amount of the receivable balances approximated their fair value as of December 31, 2013 and 2012.

13 Cash and cash equivalents and short-term deposits

As of December 31, 2013 and 2012 cash and cash equivalents comprised of the following:

	Currency	December 31, 2013	December 31, 2012
Current accounts and cash on hand:	USD	1,475	1,906
	RUR	1,753	1,476
	EUR	208	128
	Other	75	67
Total current accounts and cash on hand		3,511	3,577
Deposit accounts with an original maturity of three months or less:	USD	21,164	19,589
	RUR	6,280	4,521
	Other	32	3
Total deposit accounts with an original maturity of three months or less		27,476	24,113
Total cash and cash equivalents		30,987	27,690
Short-term deposit accounts with an original maturity of over three months	RUR	315	730
	USD	–	230
	Other	–	31
Total short-term deposits		315	991
Total cash and cash equivalents and short-term deposits		31,302	28,681

14 Share capital

14.1 Charter capital and share issues

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.

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

As of December 31, 2013 and 2012 all issued shares were fully paid.

Rights attached to the share classes as of December 31, 2013 and 2012

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

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

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

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

For additional details on the options over the shares of the Company outstanding as of December 31, 2013 and 2012, refer to Note 26.

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 26).

During 2013 the Trustee acquired a total of 414,261 GDRs (2012: 288,051) on the market for an aggregate consideration of RUR 481 (2012: 297). The Group accounts for GDRs repurchased as treasury shares.

15 Other assets

The table below represents other non-current assets:

	December 31, 2013	December 31, 2012
Long-term deposits	1	81
Long-term deposit and advance under office lease contract	910	837
Advances for royalties	–	185
Other non-current assets	13	7
Total other non-current assets	**924**	**1,110**

The following table represents other current assets:

	December 31, 2013	December 31, 2012
Inventory	35	34
VAT receivable	225	99
Interest receivable	62	56
Other current assets	82	35
Total other current assets	**404**	**224**

Notes to Consolidated Financial Statements (continued)

16 Other payables, provisions and accrued expenses

Other payables, provisions and accrued expenses consist of:

	Note	December 31, 2013	December 31, 2012
Payables to personnel		1,470	540
Accrued vacations		437	360
Accrued professional consulting expenses		54	81
Advance received under office fit-out contract		72	208
Other current payables and provisions	23.1	238	411
Total other payables, provisions and accrued expenses		2,271	1,600

17 Other revenues

	2013	2012
Online recruitment services	2,504	1,919
Listing fees	124	143
Dividend revenue from venture capital investments	163	112
Other	175	175
Total other revenue	2,966	2,349

18 Other operating expenses

	Note	2013	2012
Joint not-for-profit project	23.1	–	492
Other expenses		784	578
Total other operating expenses		784	1,070

19 Finance income

	2013	2012
Interest and similar income from cash and cash equivalents	308	283
Dividend income from available-for-sale investment	–	42
Total	308	325

20 Income tax

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

The Russian Federation

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

Cyprus

Starting January 2013 the Group's subsidiaries and associates incorporated in Cyprus are subject to a 12.5% (2012: 10%) 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.

Germany

The Group's subsidiaries and associates incorporated in Germany are subject to corporate income tax at the standard rate of 32,3% applied to their taxable income.

20 Income tax (continued)

Ukraine

The Group's subsidiaries and associates incorporated in Ukraine are subject to corporate income tax at the standard rate of 19% applied to their taxable income. The income tax rate was reduced in 2013 from 21%, effective January 1, 2013.

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.

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, 2013 and 2012 is as follows:

	2013	2012
Profit before income tax expense	29,778	41,289
BVI statutory income tax rate at 0%	–	–
Foreign tax rate differential	(2,922)	(2,065)
Tax on dividends	(82)	(188)
Adjustments in respect of current income tax of previous year	9	(3)
Tax on unremitted earnings	(74)	(636)
Unrecognised deferred tax assets	(17)	(25)
Tax risks reversal	–	36
Non-deductible expenses	(103)	(132)
Total income tax expense	(3,189)	(3,013)

Deferred income tax assets and liabilities as of December 31, 2013 and 2012:

	Consolidated statement of financial position		Consolidated statement of comprehensive income	
	December 31, 2013	December 31, 2012	2013	2012
Deferred tax liabilities arising from:				
Intangible assets book basis in excess of tax basis	(1,401)	(1,724)	323	302
Basis of investment in associate in excess of tax basis	(135)	(135)	–	–
Unremitted earnings of subsidiaries	(1,558)	(1,484)	(74)	(636)
Other	(147)	(148)	1	(130)
Total deferred tax liabilities	(3,241)	(3,491)	250	(464)
Deferred tax assets arising from:				
Tax credit carryforwards	–	–	–	(7)
Deferred compensation and accrued employee benefits	174	144	30	69
Accrued expenses	39	19	20	8
Revenue recognition	769	315	454	67
Unrealised intercompany profit	48	20	28	(5)
Other	66	47	19	8
Total deferred tax assets	1,096	545	551	140
Net deferred tax assets / (liabilities)	(2,145)	(2,946)	801	(324)

20 Income tax (continued)

Management's assessment of the realisation of deferred tax assets is based upon the weight of all available evidence, including factors such as the recent earnings history and expected future taxable income. The Group has not recognised deferred tax asset of RUR 17 in 2013 (2012 – RUR 25).

As of December 31, 2013 and 2012, deferred tax liability has been provided for withholding andother 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 6,719 (2012: RUR 2,125).

Changes in net deferred tax liability from January 1, 2012 to December 31, 2013 were as follows:

	2013	2012
Total deferred income tax liability, net at January 1	(2,946)	(2,624)
Translation reserve	–	2
Deferred tax benefit/(expense)	801	(324)
Total deferred income tax liability, net at December 31	(2,145)	(2,946)

	2013	2012
Current income tax expense	3,990	2,689
Deferred income tax expense/(benefit)	(801)	324
Total income tax expense	3,189	3,013

21 EPS

21.1 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.

	2013	2012
Net profit attributable to equity holders of the Company	26,564	38,257
Weighted average number of shares in issue	208,684,921	208,399,372
Basic EPS (RUB per share)	127.3	183.6

21.2 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 and awarded shares granted by the Company (collectively forming the denominator for computing the diluted EPS).

For share options, a calculation is done to determine the number of shares that would have been issued assuming the exercise of the share options. The above number is added to the denominator as an issue of ordinary shares for no consideration. No adjustment is made to the net profit attributable to ordinary shareholders of the Company (numerator). The effect of potential exercise of cash-settled options were anti-dilutive for 2013 and the Company excluded these options from dilutive EPS calculation.

Some instruments potentially convertible into the shares of the Company had a dilutive effect on the earnings per share for the years ended December 31, 2013 and 2012 and, accordingly, were taken into account when calculating the diluted EPS for those years.

In addition to the options over the shares of the Company, Headhunter and Mamba issued options to acquire ordinary shares of the respective subsidiary or associate which were assessed in calculating the Group's diluted EPS for 2013 or 2012. In calculating the dilution effect of these instruments, the effect of the exercise of the options on the earnings attributable to equity holders of the Company (numerator) was assessed. Some options were considered anti-dilutive if either the average market price of the underlying shares was below the exercise price of the options or if the effect of their assumed exercise decreased the Group's diluted EPS.

21 EPS (continued)

21.2 Diluted EPS (continued)

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

	2013	2012
Net profit attributable to equity holders of the Company	26,564	38,257
Adjustment for assumed exercise of Mamba share options	(1)	(1)
Adjusted net profit attributable to equity holders of the Company	26,563	38,256
Weighted average number of shares in issue	208,684,921	208,399,372
Effect of equity-settled share based payments of the Company	1,393,860	400,773
Total diluted weighted average number of shares	210,078,781	208,800,145
Diluted EPS (RUB per share)	126.4	183.2

22 Commitments, contingencies and operating risks

22.1 Operating environment of the Group

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

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

22.2 Taxation

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

In 2012 and 2013 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 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. Management of the Group and its associates will vigorously defend its positions if such claims are assessed.

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.

22.3 Legal proceedings

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

22.4 Competition

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

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

22.5 Private information

To become registered on the website operated by the Group, users have to input their personal data, which is then protected by the Group from access by 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.

22 Commitments, contingencies and operating risks (continued)

22.6 Intellectual property rights

The Group may be subject to infringement claims from third parties in the future resulting from the technology and intellectual property used in the provision and marketing of its services. If the Group is found liable for infringement, it may be required to pay significant damages, and if it is unable to license or develop non-infringing technology on a timely basis, it may be unable to continue offerig 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 and its associates have been subject to such proceedings in the past. Although none of them was individually significant, similar potential claims may potentially subject the Group to significant losses in the future, which currently cannot be reliably estimated.

22.7 Development

A failure to innovate, to provide popular products and services or to react quickly to changes in the market could affect the popularity of the Group's sites and, in turn, could affect advertising revenue. An inability to develop 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.

22.8 Regulation

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

In November 2012, new legislation came into effect introducing the Unified Register of the Domain names, Sites and IP-addresses containing information prohibited for dissemination in Russia (the "Black List"). Such information includes child pornography; information about production, distribution and sales locations of drugs; and methods of suicide. The Black List is maintained by a designated authority. Failure by any property to comply with the authority's takedown request within 24 hours will result in immediate blocking of internet access to such property's domain, web site or IP address by Russian internet providers without a court order.

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" 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. According to the definition given by the law, certain operating subsidiaries of the Company are considered "information agents". The claims on protection of the IP rights on films, including motion pictures and television movies in the information and telecommunication networks shall be considered before the Moscow City Court.

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

22.9 Personnel

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

22.10 Infrastructure and capacity

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

22.11 Operating lease commitments – the Group as a lessee

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

	2013 Minimum lease payments	2012 Minimum lease payments
Less than 1 year	1,004	247
From 2 to 5 years	4,402	187
More than 5 years	1,143	78
Total	6,549	512

22 Commitments, contingencies and operating risks (continued)

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

The Group mainly leases office premises. In 2013 operating lease expense in the consolidated statement of comprehensive income amounted to RUR 1,119 (2012 – RUR 420).

23 Balances and transactions with related parties

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year, excluding Directors and key management of the Group (see Notes 23.3 and 23.4). 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
2013				
Strategic associates	163	176	72	4
Other entities	11	27	2	4
2012				
Strategic associates	159	180	158	17
Other entities*	2	0	152	0

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

Sales to strategic associates consist of the following:

	2013	2012
Sales to Mamba	156	149
Other	7	10
Total	163	159

Amounts owed by strategic associates consist of the following:

	2013	2012
Accounts receivable from Mamba	32	30
Accounts receivable from QIWI	29	111
Accounts receivable from VK	8	16
Other	3	1
Total	72	158

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

The Group's receivables from VK primarily arise from the Group's social games offered via the VK social network. The arrangement with VK is entered into on terms equivalent to those that prevail in arm's length transactions. Total revenue earned by the Group through the VK platform was RUR 136 (2012: 99), total commission due to VK was RUR 65 (2012: 45) and is included in "Purchases from related parties" in the table above.

23.1 Joint not-for-profit project

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

23.2 The ultimate controlling party

Starting from June 7, 2013, the Group is ultimately controlled by Mr Alisher Usmanov. The Group did not have an ultimate controlling party prior to that date.

23 Balances and transactions with related parties (continued)

23.3 Directors of the Company

Total cash remuneration of the members of the Board of Directors (each a “Director” and collectively, “Directors”) of the Company amounted to RUR 45 for the year ended December 31, 2013 (2012: RUR 47). No options over the shares of the Company were granted to Directors in 2013 or 2012. During year ended December 31, 2013, Directors did not forfeit any options (2012: 152,566) and exercised options over 204,862 shares of the Company (2012: 179,332). The corresponding share-based payment expense was RUR 57 for the year ended December 31, 2013 (2012: RUR 47).

23.4 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, 2013 (2012: 479). In addition to the cash remuneration for the year ended December 31, 2013, key executive employees of the Group were granted options to acquire 301,000 ordinary shares of the Company at the exercise price of USD 19.6 per share (2012: 230,000 options at the exercise price of USD 27.7 per share[1]) and options to acquire 60,000 ordinary shares of the Company at the exercise price of USD 17.5 per share (2012: 2,540,000 options at the exercise price of USD 25.6 per share[1]). During the year ended December 31, 2013, key management of the Group (excluding Directors) did not forfeit any options (2012: 117,500) and exercised options over 1,387,538 shares of the Company (2012: 837,188). The corresponding share based payment expense amounted to RUR 1,262 for year ended December 31, 2013 (2012: RUR 1,650)

24 Financial instruments

The Group's financial instruments as of December 31, 2013 and 2012 are presented by category in the table below:

	Category*	December 31, 2013	December 31, 2012
Financial assets			
Financial investments in associates	FAFVPL	1,293	1,567
Derivative financial assets over the equity of investees	FAFVPL	20	35
Convertible note	FAFVPL	46	–
Financial derivatives under lease contract	FAFVPL	37	–
Available-for-sale equity investment	AFSFA	–	10,162
Long-term deposits	LR	1	81
Trade accounts receivable	LR	2,957	2,724
Loans and interest receivable	LR	87	62
Short-term time deposits	LR	315	991
Cash and cash equivalents	LR	30,987	27,690
Total financial assets		35,743	43,312
Current		34,404	31,758
Non-current		1,339	11,554
Total derivative financial assets		103	35
Current		66	–
Non-current		37	35
Financial liabilities			
Trade accounts payable	FLAC	1,292	858
Total financial liabilities		1,292	858
Current		1,292	858
Non-current		–	–

* 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.

[1] In connection with payments of special dividends in August 2012 and March 2013, the exercise price of all options outstanding as of the respective dates was reduced by USD 3.8 and USD 4.3 per share, respectively. See also Notes 26.1.4.1 and 27.

24 Financial instruments (continued)

Except for the Group's available-for-saleinvestment in Facebook, Inc. ("Facebook") as of December 31, 2012 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.

24.1 Financial investments in associates

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

The fair values of financial investments in associates either were determined using DCF models or based on recent cash transactions or net assets value, depending on which valuation technique produced more reliable results. The DCF models use cash flow projections from financial budgets approved by senior management covering an eight-year period. The main assumptions used in the DCF models as of December 31, 2013 and 2012 are as follows:

	December 31, 2013	December 31, 2012
Terminal growth rate	5.0%	5.0%
Discount rates	30%-35%	30%-35%

Sensitivity analysis of significant unobservable inputs used for financial investments valuation is presented in Note 25.7.

The Group recognised a gain of RUR 148 in 2013 (2012: RUR 590) due to the change in fair value of its financial investments in associates. The gains were recorded in the statement of comprehensive income under *'Net gain on venture capital investments and associated derivative financial assets and liabilities*'.

24.2 Available-for-sale financial assets

In 2012-2013 the Group fully sold shares in OJSC Center of Economic Development ("CED"), Groupon, Inc ("Groupon"), Zynga, Inc ("Zynga") and Facebook. As a result, the Group recognised a gain on disposal of shares in available-for-sale investments in the amount of RUR 15,620 (2012: RUR 33,948) and an impairment loss in 2012 in the amount of RUR 718 entirely pertaining to its investment in Zynga.

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, 2012 are summarised in the table below:

	Basic shareholding*	Carrying amount
	December 31, 2012	December 31, 2012
Investment in Facebook	0.60%	10,162
Total		10,162

* 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 Facebook as of December 31, 2012 was determined based on the quoted price of the Facebook shares, adjusted for a liquidity discount to reflect restriction on sale of the shares.

	December 31, 2012
	Facebook
Share price, USD per share	26.62
Liquidity discount	11.6%

24.3 Financial assets classified as loans and receivables

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

Notes to Consolidated Financial Statements (continued)

24 Financial instruments (continued)

24.4 Fair value hierarchy

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

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

As at December 31, 2013 and 2012 the Group held the following financial instruments measured at fair value:

	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
Derivative financial assets over the equity of investees	20			20
Convertible note	46			46
Financial derivatives under lease contract	37			37
Total financial assets at fair value through profit or loss	1,396	–	–	1,396

	December 31, 2012	Level 1	Level 2	Level 3
Financial assets measured at fair value				
Financial assets at fair value through profit or loss:				
Financial investments in associates	1,567			1,567
Derivative financial assets over the equity of investees, non-current	35			35
Total financial assets at fair value through profit or loss	1,602	–	–	1,602
Available-for-sale equity investment	10,162		10,162	
Total financial assets measured at fair value	11,764	–	10,162	1,602

24 Financial instruments (continued)

24.4 Fair value hierarchy (continued)

The balance of Level 3 measurements as of January 1, 2012 is reconciled to the balance of those measurements as of December 31, 2013 as follows:

	Balance as of January 1, 2013	Purchases	Sales	Gains/(losses) recognised 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, 2012	Purchases	Sales	Settlement	Gains/(losses) recognised in profit and loss	Gain/(loss) recognised in other comprehensive income	Reclassification to level 2	Balance as of December 31, 2012
Financial assets measured at fair value								
Financial assets at fair value through profit or loss:								
Financial investments in associates	768	270	(61)	–	590	–	–	1,567
Derivative financial assets over the equity of investees	52	–	–	–	(17)	–	–	35
Total financial assets at fair value through profit or loss	820	270	(61)	–	573	–	–	1,602
Available-for-sale equity investments	53,906	–	(23,537)	–	–	2,328	(32,697)	–
Total financial assets measured at fair value	54,726	270	(23,598)	–	573	2,328	(32,697)	1,602
Financial liabilities measured at fair value								
Financial liabilities at fair value through profit or loss – derivative and other financial liabilities over the equity of investees	(145)	–	–	155	(10)	–	–	–
Total financial liabilities measured at fair value	(145)	–	–	155	(10)	–	–	–

The Group's available-for-sale investment in Facebook was reclassified from Level 3 to Level 2 following the IPOs of Facebook in 2012 and the corresponding change in valuation methodology, whereby the fair value of this investment as of December 31, 2012 was determined using observable market inputs.

The sensitivity of financial instruments at fair value through profit or loss to the main assumptions used in the respective DCF models is presented in Note 25.7 below.

25 Financial risk management objectives and policies

25.1 Introduction

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

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

The Group's principal financial liabilities, other than derivatives, mainly comprise trade accounts payable. The main purpose of these financial liabilities is to finance the Group's operations. The Group has short-term receivables, short-term time deposits, cash and cash equivalents and other current financial assets that arise directly from the Group's strategic and venture capital operations.

Additionally, the Group enters into derivative contracts over the equity of its strategic investees and has available-for-sale investments in strategic investees, which arise as part of the Group's strategic operations.

The Group also has a venture capital investment portfolio consisting of equity investments in Internet start-ups and derivative contracts over the equity of the Group's venture capital investees, which arise as part of the Group's venture capital operations.

The Group does not undertake any trading in financial instruments and enters in derivative contracts only over the equity of its investees and exclusively based on mid- to long term investment considerations.

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

The Group'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 developed and approved by the Board of Directors. Management is currently considering different options of risk management framework, which, when completed, will be followed by detailed design phase. The development of the risk management framework is, however, at early stage of development as of now.

25.2 Liquidity and financial resources

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial assets. The Group`s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring losses or risking damage to the Group`s reputation.

The Group has sufficient cash and did not have any outstanding loans as of December 31, 2013 and 2012. Trade and other payables are due on demand.

25.3 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 largest customer represented 13% of total trade accounts receivable of the Group as of December 31, 2013 and 7% as of December 31, 2012. The Group provides credit payment terms to its customers in accordance with market practices and based on thorough review of the customer's profile and creditworthiness. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss beyond the allowance already recorded.

25 Financial risk management objectives and policies (continued)

25.4 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.

25.5 Market risk

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

The sensitivity analyses in sections 25.6 and 25.7 relate to the position as at December 31, 2013 and 2012 and include the impact of movement in market variables on the financial instruments of the Group.

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

25.6 Foreign currency risk

Foreign exchange risk is the risk that fluctuations in exchange rates will adversely affect items in the Group's consolidated statement of comprehensive income, consolidated statement of financial position and/or cash flows. Foreign currency denominated assets and liabilities give rise to foreign exchange exposure. The potential effects of reasonably possible changes in relevant foreign exchange rates on the Group's profit before tax are summarised in the table below.

	Change in USD rate	Effect on profit before tax
2013	+12%	2,586
	-12%	(2,586)
2012	+12%	2,570
	-12%	(2,570)

	Change in EUR rate	Effect on profit before tax
2013	+12%	36
	-12%	(36)
2012	+12%	56
	-12%	(56)

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

25.7 Equity price risk

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

The inherently high equity risk of the Group's venture capital investments and associated derivative financial instruments is mitigated by the Group through a highly selective approach to venture capital investments, regular reviews of the fair values of existing and potential investees by a team of highly qualified venture capital investment professionals and maintaining the composition of the venture capital portfolio that includes a large number of investments in start-up ventures operating in different segments of the Internet industry. Additionally, the overall impact of venture capital activities on the Group's operations is mitigated by a limited size of the venture capital investment portfolio in relation to the aggregate operations of the Group.

The equity price risk of the Group's available-for-sale equity investments and the equity price component of the risks associated with the Group's derivative financial instruments over the equity of strategic associates are managed by the Group as part of the active participation of the 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. The main assumptions used for discounted cash flows technique are terminal growth rate and discount rate. A 10% decrease in terminal growth rate of the valuations performed for the Group's unlisted investments could have a negative impact of approximately RUR 25 (2012: RUR 16) 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 38 (2012: RUR 29) 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 44 (2012: RUR 40) on the Group's pre-tax income.

26 Share-based payments

26.1 Share-based payment arrangements of the Company

26.1.1 Option plans

During 2013 and 2012, the Company had the following outstanding option plans:

	DSTA Options	2010 Option Plan
Adoption date	December 2008	November 2010
Type of shares	Ordinary shares	Ordinary shares
Number of options reserved	15,182,000	10,706,403
Exercise price	USD 13.213445	The fair market price at the date of grant provided that the fair market price of the options granted in connection with the IPO shall be the IPO offering price of USD 27.7[(1)] [(2)]
Exercise basis	Gross or net share basis	Prior to November 2011 – net share basis only Since November 2011 – net share basis or cash at the Group's discretion[(3)]
Expiration date	December 2015	December 2018
Other major terms	• The options vested immediately upon grant; • The options can be either exercised by DSTA or re-assigned by DSTA at its discretion to any employee, officer, director, consultant of the Company, DSTA, any investee of the Company where the Company holds at least 15%, or any company managing the assets of the Company.	• The options are not transferrable; • All other terms of the options under the 2010 Option Plan are to be determined by the Company's Board of Directors or Remuneration Committee.

(1) On the IPO date the Company decided to assign to 6,423,842 options (the "IPO Portion") the exercise price equal to the IPO price of USD 27.70. The IPO Portion options granted prior to December 31, 2011 vest in 4 equal tranches on January 2, 2012, December 31, 2012, 2013 and 2014, except for options issued to Directors 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 2012 and 2013 are summarised in the table below.

	Number of options granted		
Grant year	IPO portion	2011 portion	Vesting terms
2012 - options granted in replacement of Headhunter options (see Note 26.2 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 four equal tranches on January 2, 2013, December 31, 2013, 2014 and 2015
2013	103,000	156,500	vest in four equal tranches on January 2, 2014, December 31, 2014, 2015 and 2016
2013		20,000	vest in four equal tranches on January 2, 2015, December 31, 2015, 2016 and 2017

(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 26.1.4.2 below).

26 Share-based payments (continued)

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

26.1.2 Changes in outstanding options

The table below summarises the the number and weighted average exercise prices (WAEP) of and movements in share options in 2012 and 2013:

	2010 Option Plan							
	DSTA Options		IPO Portion		2011 Portion		Total	
	Number of options	WAEP	Number of options	WAEP	Number of options	WAEP	Number of options	WAEP
Outstanding as of Janaury 1, 2012	**65,000**	**13.21**	**5,955,026**	**27.70**			**6,020,026**	**27.54**
Exercisable as of January 1, 2012	65,000	13.21					65,000	13.21
Available for grant as of January 1, 2012			468,816	27.70	4,282,561	25.60	4,751,377	25.81
Granted during the year[1]			559,900	26.76	3,587,500	25.55	4,147,400	25.71
Exercised during the year	65,000	13.21	1,137,370	25.14			1,202,370	24.49
Forfeited during the year			331,491	26.92	37,500	21.80	368,991	26.40
Outstanding as of December 31, 2012	**0**		**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	**0**		**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[2]			3,857	19.60	655,436	17.50	659,293	17.51

[1] Includes 200,000 options granted under the IPO Portion of the 2012 Option Plan in replacement of 4,162 options over shares of Headhunter in June 2012 (see Note 26.2 below).
[2] 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 37.10 for options exercised in 2012 and USD 36.18 for options exercised in 2013.

26.1.3 Valuations of share-based payments

The valuations of all equity-settled options granted during 2012 and 2013 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
2012 (2010 Option Plan - IPO Portion)									
March 2012	166,000	0%	49%	1.58%	N/A	38.50	105	635	Binomial
June 2012[1][2]	254,900	0%	50%	0.96%	N/A	32.30	137	538	Binomial
October 2012	74,000	0%	50%	1.01%	N/A	32.70	41	556	Binomial
November 2012	55,000	0%	50%	0.86%	N/A	30.62	28	500	Binomial
December 2012	10,000	0%	50%	0.93%	N/A	32.50	5	537	Binomial
2012 (2010 Option Plan - 2011 Portion)									
March 2012	2,455,000	0%	49%	1.58%	N/A	38.50	1,614	657	Binomial
June 2012	1,082,500	0%	50%	0.96%	N/A	32.12	606	560	Binomial
December 2012	50,000	0%	50%	0.99%	N/A	34.59	31	614	Binomial
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)[1]	156,500	0%	52%	1.42%	N/A	32.78	91	583	Binomial

[1] Valuation model imputs for these tranches are calculated as average.
[2] Includes 200,000 options granted under the IPO Portion of the 2012 Option Plan in replacement of 4,162 options over shares of Headhunter in June 2012 (see Note 26.2 below).

26 Share-based payments (continued)

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

The valuations of all cash-settled options as of December 31, 2013 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)	812,062	0%	47%	1.73%	N/A	44.60	720,733	888	Binomial
2010 Option Plan - 2011 Portion (1)	359,500	0%	47%	1.73%	N/A	44.60	328,152	913	Binomial

The expected volatility used in the valuation models was determined by reference to peer companies' historical volatility, because the Company only became public in November 2010. The actual forfeiture rate was not taken into account in 2012, because management considered that the Group did not have sufficient history of forfeitures. The forfeiture rate used in all valuation models in 2013 is 5.3%. It is based on historical data and current expectations and is not necessarily indicative of forfeiture patterns that may occur.

26.1.4 Modifications

26.1.4.1 Changes in exercise price

In August 2012, the exercise price of all outstanding 2010 Option Plan options was reduced by USD 3.8 per option. The change in exercise price was accounted for as a modification. The fair value of the pre-modification and post-podification options as of the modification date were determined using binomial models as summarised in the table below:

	Number of options	Dividend yield, %	Volatility, %	Risk-free interest rate, %	Expected term, years	Share price (USD)	Fair value, total (million RUR)	Fair value per option (RUR)
Pre-modification options	9,282,590	0%	50%	1.13%	N/A	32.00	4,445	479
Post-modification options	9,282,590	0%	50%	1.13%	N/A	32.00	4,825	520

As a result of the modification, the Group recognised RUR 196 in share-based payment expense in 2012 and RUR 110 in 2013.

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 27). 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 224 in equity-settled share-based payment expense in 2013.

26.1.4.2 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 26.1.4.1 above) 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 26.1.4.1 above) 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 are nil.

As of December 31, 2013, the liability was RUR 882 and is included in payables to employees under "Other payables, provisions and accrued expenses" in the consolidated statement of financial position.

26 Share-based payments (continued)

26.2 Share-based payment arrangements of the Company’s subsidiaries and strategic associates

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

	2013	2012
Qiwi	42	14
Mamba	1	1
Total	43	15

In June 2012, the Group replaced options over 4,162 shares of Headhunter (2.91% on a fully diluted basis) with options over 200,000 ordinary shares of the Company issued under the IPO Portion of the 2010 Option Plan. The Group accounted for the replacement as a modification. The fair values of the awards as of the replacement date were determined using binomial models with the following inputs:

	Number of options	Dividend yield, %	Volatility, %	Risk-free interest rate, %	Expected term, years	Share price (USD)	Fair value, total (million RUR)	Fair value per option (RUR)
Replaced award	4,162	0%	41%	0.17%	0.51	1,381	60	14,413
Replacement award	200,000	0%	50%	0.96%	N/A	32.30	107	537

As a result of the replacement, the Group recognised RUR 22 in share-based payment expense in 2013 and RUR 30 in 2012, including the effect of subsequent modifications of the replacement award as part of modifications of equity-settled share-based payments of the Company (see 26.1.4.1 above).

26.3 Share-based payment expense

The Group recognised an aggregate of RUR 1,856 in share-based payment expense in the year ended December 31, 2013 (2012: RUR 2,217), including RUR 1,502 (2012: 2,217) related to equity-settled share-based payments. The expense was included under *“Personnel expenses”* in the consolidated statement of comprehensive income.

27 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 26.1.4.1).

28 Events after the reporting period

28.1 Change in regulation

The law On Amending the Federal Law “On Information, Information Technologies and Protection of Information” came into force on February 1, 2014. According to the law Prosecutor General of Russia (or his deputies) may apply to Roscomnadzor to block websites if the Prosecutor finds any prohibited information concerning appeals to mass riots, extremist activities or participation in mass (public) actions held with infringement of the established order. Blocking is processed without any court decision and without mandatory preliminary notification of the site. Access is granted anew after prohibited information is removed and Roscomnadzor is notified.

28.2 GDR buying programme

In February 2014 the Board of Directors of the Company authorised USD 45 million to be transferred to the Trust to be used for a further GDR buying programme to be undertaken through 2014. All the GDR's bought will be held by the Trust to be used over the lifetime of the option programme.

28.3 Acquisition of Bullion Development Limited

In April 2014 the Group acquired 100% of Bullion Development Limited (Bullion), the beneficial owner of 11.9996% ofVK. As a result of the acquisition the Group increased its economic interest in VK to 51.99%, but did not acquire control over VK. The Group acquired Bullion from an entity beneficially owned by Mr Ivan Tavrin, CEO of OJSC Megafon (“Megafon”). Megafon is ultimately controlled by the same shareholder as the Group. The acquisition of Bullion is for cash and also gives Mr Tavrin a call option to acquire the HeadHunter business from the Group expiring on June 14, 2014. For the year ended December 31, 2013 HeadHunter generated RUB 2,774 million in revenue and RUB 910 million in net

28 Events after the reporting period (continued)

28.3 Acquisition of Bullion Development Limited (continued)

profit (2012: RUB 2,139 in revenue and RUR 625 in net profit). The acquisition of Bullion was unanimously approved by the Board of Directors of the Company, including its independent directors.

Subsequent to the Group's acquisition of Bullion, the Group became a defendant in a number of claims from other shareholders of VK relating to the conduct of the affairs of VK. The financial impact of these claims cannot be estimated at this time as they do not contain any specific damages, but the Group does not expect any reasonably possible outcome of the claims to have a material effect on the Group's consolidated financial statements.

28.4 Disposal of investment in a financial associate

In February 2014, the Group sold a non-controlling stake in a financial investee for a cash consideration of RUR 64. The Group had designated the investment as at fair value through profit or loss, because the investment was managed exclusively based on its fair value as part of the Group's venture capital operations.

Cautionary statements

Forward-looking statements

The Mail.ru Group Limited Annual Report and Accounts for 2013 contains certain "forward-looking statements" which include all statements other than those of historical facts that relate to the Company's plans, financial position, objectives, goals, strategies, future operations and performance, together with the assumptions underlying such matters. The Company generally uses words such as "estimates", "expects", "believes", "intends", "plans", "may", "will", "should" and other similar expressions to identify forward-looking statements. Mail.ru Group Limited has based these forward-looking statements on the current views of its management with regard to future events and performance. These views reflect management's best judgment, but involve uncertainties and are subject to certain known and unknown risks together with other important factors outside the Company's control, the occurrence of which could cause actual results to differ materially from those expressed in Mail.ru Group Limited's forward-looking statements.

Competitive position

Statements referring to the Company's competitive position reflect the Company's beliefs and, in some cases, rely on a range of sources, including investment analysts' reports, independent market studies and the Company's internal estimates of market share based on publicly-available information regarding the financial results and performance of various market participants.

Rounding

Certain figures included in this document have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Terminology

In this document any reference to a position of Dmitry Grishin as Chief Executive Officer (CEO) means reference to his position as Chief Executive Officer (CEO), Russia. Any reference to a position of Vladimir Nikolsky as Chief Operating Officer (COO) means reference to his position as Chief Operating Officer (COO), Russia.